NISOURCE INC/DE
Form 10-K
February 22, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-16189
NiSource Inc.
(Exact name of registrant as specified in its charter)

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

(877) 647-5990
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of the registrant's common stock, par value $0.01 per share (the "Common Stock") held by non-affiliates was approximately $8,497,589,485 based upon the June 30, 2016, closing price of $26.52 on the New York Stock Exchange.

There were 323,445,821 shares of Common Stock outstanding as of February 14, 2017.

Documents Incorporated by Reference

Part III of this report incorporates by reference specific portions of the Registrant's Notice of Annual Meeting and Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 9, 2017.

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DEFINED TERMS

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

NiSource Subsidiaries, Affiliates and Former Subsidiaries	
Capital Markets	NiSource Capital Markets, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
Columbia	Columbia Energy Group
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Company	NiSource Inc. and its subsidiaries, unless otherwise indicated by the context
CPG	Columbia Pipeline Group, Inc.
CPPL	Columbia Pipeline Partners LP
CPRC	Columbia Gas of Pennsylvania Receivables Corporation
NARC	NIPSCO Accounts Receivable Corporation
NIPSCO	Northern Indiana Public Service Company
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corporation
Abbreviations	
AFUDC	Allowance for funds used during construction
AOCI	Accumulated Other Comprehensive Income
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BNS	Bank of Nova Scotia
Board	Board of Directors
BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.
CAA	Clean Air Act
CAP	Compliance Assurance Process
CCGT	Combined Cycle Gas Turbine
CCRs	Coal Combustion Residuals
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
CO2	Carbon Dioxide
Columbia OpCo	CPG OpCo LP
CPP	Clean Power Plan
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery

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DEFINED TERMS

ECT	Environmental Cost Tracker
EERM	Environmental Expense Recovery Mechanism
EFV	Excess flow valve
EGUs	Electric utility steam generating unit
ELG	Effluence limitations guidelines
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
GCA	Gas cost adjustment
GCR	Gas cost recovery
GHG	Greenhouse gases
GSEP	Gas System Enhancement Program
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IPO	Initial Public Offering
IRP	Infrastructure Replacement Program
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIFO	Last-in, first-out
MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator
Mizuho	Mizuho Corporate Bank Ltd.
MMDth	Million dekatherms
MPSC	Maryland Public Service Commission
mw	Megawatts
mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NOL	Net Operating Loss
NYMEX	The New York Mercantile Exchange
NYSE	The New York Stock Exchange
OPEB	Other Postretirement and Postemployment Benefits
PATH	Protecting Americans from Tax Hikes Act of 2015
PCB	Polychlorinated biphenyls
PHMSA	U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration
PNC	PNC Bank N.A.
ppb	Parts per billion
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RCRA	Resource Conservation and Recovery Act

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DEFINED TERMS

RDAF	Revenue decoupling adjustment factor
ROE	Return on Equity
RTO	Regional Transmission Organization
Separation	The separation of NiSource's natural gas pipeline, midstream and storage business from NiSource's natural gas and electric utility business accomplished through the pro rata distribution by NiSource to holders of its outstanding common stock of all the outstanding shares of common stock of CPG. The separation was completed on July 1, 2015.
SEC	Securities and Exchange Commission
Sugar Creek	Sugar Creek electric generating plant
TDSIC	Transmission, Distribution and Storage System Improvement Charge
TUAs	Transmission Upgrade Agreements
VIE	Variable Interest Entity
VSCC	Virginia State Corporation Commission

Note regarding forward-looking statements

This Annual Report on Form 10-K contains “forward-looking statements,” within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource’s plans, strategies, objectives, expected performance, expenditures, recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially.

Factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed in this Annual Report on Form 10-K include, among other things, NiSource’s debt obligations; any changes in NiSource’s credit rating; NiSource’s ability to execute its growth strategy; changes in general economic, capital and commodity market conditions; pension funding obligations; economic regulation and the impact of regulatory rate reviews; NiSource's ability to obtain expected financial or regulatory outcomes; any damage to NiSource's reputation; compliance with environmental laws and the costs of associated liabilities; fluctuations in demand from residential and commercial customers; economic conditions of certain industries; the success of NIPSCO's electric generation strategy; the price of energy commodities and related transportation costs; the reliability of customers and suppliers to fulfill their payment and contractual obligations; potential impairments of goodwill or definite-lived intangible assets; changes in taxation and accounting principles; potential incidents and other operating risks associated with our business; the impact of an aging infrastructure; the impact of climate change; potential cyber-attacks; construction risks and natural gas costs and supply risks; extreme weather conditions; the attraction and retention of a qualified workforce; advances in technology; the ability of NiSource's subsidiaries to generate cash; uncertainties related to the expected benefits of the Separation and other matters set forth in Item 1A, “Risk Factors” of this report, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each business segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements. NiSource undertakes no obligation to, and expressly disclaims any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events or changes to the future results over time or otherwise, except as required by law.

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ITEM 1. BUSINESS
NISOURCE INC.

NiSource Inc. is an energy holding company under the Public Utility Holding Company Act of 2005 whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 3.9 million customers in seven states. NiSource is the successor to an Indiana corporation organized in 1987 under the name of NIPSCO Industries, Inc., which changed its name to NiSource on April 14, 1999.

NiSource is one of the nation's largest natural gas distribution companies, as measured by number of customers. NiSource's principal subsidiaries include NiSource Gas Distribution Group, Inc., a natural gas distribution holding company, and NIPSCO, a gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated businesses.

On July 1, 2015, NiSource completed the Separation of CPG from NiSource. CPG's operations consisted of all of NiSource's Columbia Pipeline Group Operations segment prior to the Separation. Following the Separation, NiSource retained no ownership interest in CPG.

NiSource's reportable segments are: Gas Distribution Operations and Electric Operations. The following is a summary of the business for each reporting segment. Refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 22, "Segments of Business," in the Notes to Consolidated Financial Statements for additional information for each segment.

Gas Distribution Operations

NiSource's natural gas distribution operations serve approximately 3.4 million customers in seven states and operate approximately 59,000 miles of pipeline. Through its wholly-owned subsidiary NiSource Gas Distribution Group, Inc., NiSource owns six distribution subsidiaries that provide natural gas to approximately 2.6 million residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland and Massachusetts. Additionally, NiSource also distributes natural gas to approximately 820,000 customers in northern Indiana through its wholly-owned subsidiary NIPSCO.

Electric Operations

NiSource generates, transmits and distributes electricity through its subsidiary NIPSCO to approximately 466,000 customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. NIPSCO owns and operates three coal-fired electric generating stations. The three operating facilities have a net capability of 2,540 mw. NIPSCO also owns and operates Sugar Creek, a CCGT plant with net capability of 535 mw, three gas-fired generating units located at NIPSCO's coal-fired electric generating stations with a net capability of 196 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 3,281 mw. NIPSCO's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,805 circuit miles. NIPSCO is interconnected with five neighboring electric utilities. During the year ended December 31, 2016, NIPSCO generated 66.4% and purchased 33.6% of its electric requirements.

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

Business Strategy

NiSource focuses its business strategy on its core, rate-regulated asset-based businesses with most of its operating income generated from the rate-regulated businesses. NiSource's utilities continue to move forward on core infrastructure and environmental investment programs supported by complementary regulatory and customer initiatives across all seven states in which it operates. NiSource's goal is to develop strategies that benefit all stakeholders as it addresses changing customer conservation patterns, develops more contemporary pricing structures, and embarks on long-term investment programs. These strategies are intended to improve reliability and safety, enhance customer services and reduce emissions while generating sustainable returns.

Competition and Changes in the Regulatory Environment

The regulatory frameworks applicable to NiSource's operations, at both the state and federal levels, continue to evolve. These changes have had and will continue to have an impact on NiSource's operations, structure and profitability. Management continually seeks new ways to be more competitive and profitable in this environment.

The Gas Distribution Operations companies have pursued non-traditional revenue sources within the evolving natural gas marketplace. These efforts include the sale of products and services upstream of the companies' service territory, the sale of products and services in the companies' service territories, and gas supply cost incentive mechanisms for service to their core

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markets. The upstream products are made up of transactions that occur between an individual Gas Distribution Operations company and a buyer for the sales of unbundled or rebundled gas supply and capacity. The on-system services are offered by NiSource to customers and include products such as the transportation and balancing of gas on the Gas Distribution Operations company system. The incentive mechanisms give the Gas Distribution Operations companies an opportunity to share in the savings created from such situations as gas purchase prices paid below an agreed upon benchmark and their ability to reduce pipeline capacity charges with their customers.

Increased efficiency of natural gas appliances and improvements in home building codes and standards has contributed to a long-term trend of declining average use per customer. Usage for the year ended December 31, 2016 decreased from the same period last year primarily due to warmer weather in the Company's operating area compared to the prior year. While historically rate design at the distribution level has been structured such that a large portion of cost recovery is based upon throughput rather than in a fixed charge, operating costs are largely incurred on a fixed basis and do not fluctuate due to changes in customer usage. As a result, Gas Distribution Operations have pursued changes in rate design to more effectively match recoveries with costs incurred. Each of the states in which Gas Distribution Operations operate has different requirements regarding the procedure for establishing changes to rate design. Columbia of Ohio restructured its rate design through a base rate proceeding and has adopted a “de-coupled” rate design which more closely links the recovery of fixed costs with fixed charges. Columbia of Massachusetts received regulatory approval of a decoupling mechanism which adjusts revenues to an approved benchmark level through a volumetric adjustment factor. Columbia of Maryland and Columbia of Virginia have received regulatory approval to implement a revenue normalization adjustment for certain customer classes, a decoupling mechanism whereby monthly revenues that exceed or fall short of approved levels are reconciled in subsequent months. In a prior base rate proceeding, Columbia of Pennsylvania implemented a pilot residential weather normalization adjustment. Columbia of Kentucky has had approval for a weather normalization adjustment for many years. In a prior base rate proceeding, NIPSCO implemented a higher fixed customer charge for residential and small customer classes moving toward full straight fixed variable rate design.

Natural Gas Competition. Open access to natural gas supplies over interstate pipelines and the deregulation of the commodity price of gas has led to tremendous change in the energy markets. LDC customers and marketers can purchase gas directly from producers and marketers as an open, competitive market for gas supplies has emerged. This separation or “unbundling” of the transportation and other services offered by pipelines and LDCs allows customers to purchase the commodity independent of services provided by the pipelines and LDCs. The LDCs continue to purchase gas and recover the associated costs from their customers. NiSource’s Gas Distribution Operations’ subsidiaries are involved in programs that provide customers the opportunity to purchase their natural gas requirements from third parties and use the NiSource Gas Distribution Operations’ subsidiaries for transportation services.

Gas Distribution Operations competes with investor-owned, municipal, and cooperative electric utilities throughout its service areas as well as other regulated and unregulated natural gas intra and interstate pipelines and other alternate fuels, such as propane and fuel oil. Gas Distribution Operations continues to be a strong competitor in the energy market as a result of strong customer preference for natural gas. Competition with providers of electricity has traditionally been the strongest in the residential and commercial markets of Kentucky, southern Ohio, central Pennsylvania and western Virginia due to comparatively low electric rates. Natural gas competes with fuel oil and propane in the Massachusetts market mainly due to the installed base of fuel oil and propane-based heating which has comprised a declining percentage of the overall market over the last few years. However, fuel oil and propane are more viable in today’s oil market.

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

Financing Subsidiary

NiSource Finance is a 100% owned, consolidated finance subsidiary of NiSource that engages in financing activities to raise funds for the business operations of NiSource and its subsidiaries. NiSource Finance was incorporated in March 2000 under the laws of the state of Indiana. Prior to 2000, the function of NiSource Finance was performed by Capital Markets. NiSource Finance obligations are fully and unconditionally guaranteed by NiSource.

Seasonality

A significant portion of NiSource's operations is subject to seasonal fluctuations in sales. During the heating season, which is primarily from November through March, net revenues from gas sales are more significant, and during the cooling season, which is primarily June through September, net revenues from electric sales are more significant, than in other months.

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NISOURCE INC.

Other Relevant Business Information

NiSource's customer base is broadly diversified, with no single customer accounting for a significant portion of revenues.

As of December 31, 2016, NiSource had 8,007 employees of whom 3,175 were subject to collective bargaining agreements.

For a listing of certain subsidiaries of NiSource refer to Exhibit 21.

NiSource electronically files various reports with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, as well as our proxy statements for our annual meetings of stockholders. The public may read and copy any materials that NiSource files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. NiSource makes all SEC filings available without charge to the public on its web site at http://www.nisource.com.

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ITEM 1A. RISK FACTORS
NISOURCE INC.

NiSource's operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect the Company's business, financial condition, results of operations, cash flows, and the trading price of the Company's common stock.

NiSource has substantial indebtedness which could adversely affect its financial condition.

NiSource had total consolidated indebtedness of $7,909.3 million outstanding as of December 31, 2016. The Company's substantial indebtedness could have important consequences. For example, it could:

- limit the Company's ability to borrow additional funds or increase the cost of borrowing additional funds;
- reduce the availability of cash flow from operations to fund working capital, capital expenditures and other general corporate purposes;
- limit the Company's flexibility in planning for, or reacting to, changes in the business and the industries in which it operates;
- lead parties with whom NiSource does business to require additional credit support, such as letters of credit, in order for NiSource to transact such business;
- place NiSource at a competitive disadvantage compared to competitors that are less leveraged;
- increase vulnerability to general adverse economic and industry conditions; and
- limit the ability of the Company to execute on its growth strategy, which is dependent upon access to capital to fund its substantial investment program.

Some of NiSource's debt obligations contain financial covenants related to debt-to-capital ratios and cross-default provisions. NiSource's failure to comply with any of these covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of outstanding debt obligations.

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

The credit rating agencies periodically review the Company's ratings, taking into account factors such as our capital structure and earnings profile. In 2016, Moody's affirmed the NiSource senior unsecured rating of Baa2 and its commercial paper rating of P-2, with stable outlooks. Moody's also affirmed NIPSCO's Baa1 rating and Columbia of Massachusetts's Baa2 rating, with stable outlooks. In 2016, Standard & Poor's affirmed the BBB+ senior unsecured ratings of NiSource and its subsidiaries and affirmed NiSource's commercial paper rating of A-2, with stable outlooks. In 2016, Fitch upgraded the long-term issuer default ratings of NiSource and NIPSCO to BBB and affirmed the commercial paper rating of F3, with stable outlooks.

The Company is committed to maintaining investment grade credit ratings, however, there is no assurance we will be able to do so in the future. The Company's credit ratings could be lowered or withdrawn entirely by a rating agency if, in its judgment, the circumstances warrant. Any negative rating action could adversely affect our ability to access capital at rates and on terms that are attractive. A negative rating action could also adversely impact our business relationships with suppliers and operating partners.

Certain NiSource subsidiaries have agreements that contain "ratings triggers" that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are below investment grade. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. As of December 31, 2016, the collateral requirement that would be required in the event of a downgrade below the ratings trigger levels would amount to approximately $35.4 million. In addition to agreements with ratings triggers, there are other agreements that contain "adequate assurance" or "material adverse change" provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business.

NiSource may not be able to execute its business plan or growth strategy, including utility infrastructure investments.

Business or regulatory conditions may result in NiSource not being able to execute its business plan or growth strategy, including identified, planned and other utility infrastructure investments. NiSource's customer and regulatory initiatives may not achieve planned results. Utility infrastructure investments may not materialize, may cease to be achievable or economically viable and may not be successfully completed. Natural gas may cease to be viewed as an economically and ecologically attractive fuel. Any of these developments could adversely affect our results of operations and growth prospects.

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ITEM 1A. RISK FACTORS
NISOURCE INC.

Adverse economic and market conditions or increases in interest rates could reduce net revenue growth, increase costs, decrease future net income and cash flows and impact capital resources and liquidity needs.

While the national economy is experiencing modest growth, NiSource cannot predict how robust future growth will be or whether or not it will be sustained. Deteriorating or sluggish economic conditions in NiSource's operating jurisdictions could adversely impact NiSource's ability to grow its customer base and collect revenues from customers, which could reduce net revenue growth and increase operating costs.

The Company relies on access to the capital markets to finance its liquidity and long-term capital requirements. Market turmoil could adversely affect our ability to raise additional capital or refinance debt. Reduced access to capital markets and/or increased borrowing costs could reduce future net income and cash flows. Refer to Note 14, "Long-Term Debt," in the Notes to Consolidated Financial Statements for information related to outstanding long-term debt and maturities of that debt.

Capital market performance and other factors may decrease the value of benefit plan assets, which then could require significant additional funding and impact earnings.

The performance of the capital markets affects the value of the assets that are held in trust to satisfy future obligations under defined benefit pension and other postretirement benefit plans. NiSource has significant obligations in these areas and holds significant assets in these trusts. These assets are subject to market fluctuations and may yield uncertain returns, which fall below NiSource's projected rates of return. A decline in the market value of assets may increase the funding requirements of the obligations under the defined benefit pension and other postretirement benefit plans. Additionally, changes in interest rates affect the liabilities under these benefit plans; as interest rates decrease, the liabilities increase, which could potentially increase funding requirements. Further, the funding requirements of the obligations related to these benefits plans may increase due to changes in governmental regulations and participant demographics, including increased numbers of retirements or changes in life expectancy assumptions. Ultimately, significant funding requirements and increased pension or other postretirement benefit plan expense could negatively impact NiSource's results of operations and financial position.

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

Most of NiSource's net revenues are subject to economic regulation at either the federal or state level. As such, the net revenues generated by those regulated companies are subject to regulatory review by the applicable federal or state authority. These rate reviews determine the rates charged to customers and directly impact revenues. NiSource's financial results are dependent on frequent regulatory proceedings in order to ensure timely recovery of costs. Additionally, the costs of complying with future changes in environmental laws and regulations are expected to be significant, and their recovery through rates will be contingent on regulatory approval.

As a result of efforts to introduce market-based competition in certain markets where the regulated businesses conduct operations, NiSource may compete with independent marketers for customers. This competition exposes NiSource to the risk that certain stranded costs may not be recoverable and may affect results of NiSource's growth strategy and financial position.

Failure to adapt to advances in technology could make NiSource less competitive.

A key element of NiSource's business model is that generating power at central station power plants achieves economies of scale and produces power at a competitive cost. Research and development activities are ongoing for new technologies that produce power or reduce power consumption. These technologies include renewable energy, customer-oriented generation, energy storage, and energy efficiency. Advances in technology or changes in laws or regulations could reduce the cost of these or other alternative methods of producing power to a level that is competitive with that of most central station power electric production or result in smaller-scale, more fuel efficient, and/or more cost effective distributed generation. This could cause our market share to erode and the value of our generating facilities to decline. In addition, a failure by NiSource to effectively adapt to changes in technology could harm NiSource's ability to remain competitive in the marketplace for its products, services and processes.

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ITEM 1A. RISK FACTORS
NISOURCE INC.

NiSource is exposed to significant reputational risks, which make it vulnerable to a loss of cost recovery, increased litigation and negative public perception.
As a utility company, NiSource is subject to adverse publicity focused on the reliability of our services and the speed with which NiSource is able to respond effectively to electric outages, natural gas leaks and similar interruptions caused by storm damage or other unanticipated events, as well as our own or third parties' actions or failure to act. If customers, legislators, or regulators have or develop a negative opinion of NiSource, this could result in less favorable legislative and regulatory outcomes or increased regulatory oversight, increased litigation and negative public perception. The imposition of any of the foregoing could have a material adverse effect on the business, results of operations, cash flow and financial condition of NiSource.
NiSource's businesses are regulated under numerous environmental laws. The cost of compliance with these laws, and changes to or additions to, or reinterpretations of the laws, could be significant. Liability from the failure to comply with existing or changed laws could have a material adverse effect on the business, results of operations, cash flows, and the financial condition of NiSource.
NiSource's businesses are subject to extensive federal, state and local environmental laws and rules that regulate, among other things, air emissions, water usage and discharges, and waste products such as coal combustion residuals. Compliance with these legal obligations requires NiSource to make expenditures for installation of pollution control equipment, remediation, environmental monitoring, emissions fees, and permits at many of NiSource's facilities. These expenditures are significant, and NiSource expects that they will continue to be significant in the future. Furthermore, if NiSource fails to comply with environmental laws and regulations or is found to have caused damage to the environment or persons, even if caused by factors beyond NiSource's control, that failure or harm may result in the assessment of civil or criminal penalties and damages against NiSource and injunctions to remedy the failure or harm.
Existing environmental laws and regulations may be revised and new laws and regulations seeking to increase environmental regulation of the energy industry may be adopted or become applicable to NiSource. Revised or additional laws and regulations may result in significant additional expense and operating restrictions on NiSource's facilities or increased compliance costs, which may not be fully recoverable from customers through regulated rates and could, therefore, impact NiSource's financial position, financial results, and cash flow. Moreover, such costs could materially affect the continued economic viability of one or more of NiSource's facilities.
An area of significant uncertainty and risk are the laws concerning emission of GHG. Because NiSource operates fossil fuel facilities, emissions of GHGs are an expected and unavoidable aspect of the business. While NiSource continues to reduce GHG emissions through efficiency programs, leak detection, and other programs, GHG emissions cannot be eliminated. Revised or additional future GHG legislation and/or regulation could materially impact NiSource's financial position, financial results, and cash flows.
Even in instances where legal and regulatory requirements are already known or anticipated, the original cost estimates for environmental capital projects, remediation of past harm, or the costs of operating pollution reduction strategies or equipment can differ materially from the amount ultimately expended. The actual future expenditures depend on many factors, including the nature and extent of impact, the method of cleanup, the cost of raw materials, contractor costs, and the availability of cost recovery. Changes in costs and the ability to recover under regulatory mechanisms could affect NiSource's financial position, financial results and cash flows.
A significant portion of the gas and electricity NiSource sells is used by residential and commercial customers for heating and air conditioning. Accordingly, fluctuations in weather, gas and electricity commodity costs and economic conditions impact demand of our customers and our operating results.
Energy sales are sensitive to variations in weather. Forecasts of energy sales are based on normal weather, which represents a long-term historical average. Significant variations from normal weather could have, and have had, a material impact on energy sales. Additionally, residential usage, and to some degree commercial usage, is sensitive to fluctuations in commodity costs for gas and electricity, whereby usage declines with increased costs, thus affecting NiSource's financial results. Lastly, residential and commercial customers' usage is sensitive to economic conditions

and factors such as unemployment, consumption and consumer confidence. Therefore, prevailing economic conditions may affect NiSource's financial results.

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

Business operations throughout NiSource's service territories have been and may continue to be adversely affected by economic events at the national and local level where it operates. In particular, sales to large industrial customers, such as those in the steel,

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ITEM 1A. RISK FACTORS
NISOURCE INC.

oil refining, industrial gas and related industries, may be impacted by economic downturns. The U.S. manufacturing industry continues to adjust to changing market conditions including international competition, increasing costs, and fluctuating demand for its products.

The implementation of NIPSCO's electric generation strategy, including the retirement of its coal generation units, may not achieve intended results.

On November 1, 2016, NIPSCO submitted its Integrated Resource Plan with the IURC setting forth its short- and long-term electric generation plans in an effort to maintain affordability while providing reliable, flexible and cleaner sources of power. However, there are inherent risks and uncertainties, including changes in market conditions, environmental regulations, commodity costs and customer expectations, which may impede NIPSCO's ability to achieve these intended results. In addition, the Integrated Resource Plan included an intention to retire the Bailly coal generation units (Units 7 and 8) as soon as mid-2018 and two units (Units 17 and 18) at the R.M. Schahfer Generating Station by the end of 2023. The MISO subsequently approved NIPSCO's plan to retire the two Bailly coal generation units by May 31, 2018. NIPSCO's electric generation strategy could require significant future capital expenditures, operating costs and charges to earnings that may negatively impact NiSource's financial position, financial results and cash flows.

Fluctuations in the price of energy commodities or their related transportation costs may have a negative impact on NiSource's financial results.

NiSource's electric generating fleet is dependent on coal and natural gas for fuel, and its gas distribution operations purchase and resell much of the natural gas they deliver. These energy commodities are vulnerable to price fluctuations and fluctuations in associated transportation costs. From time to time, NiSource has used hedging in order to offset fluctuations in commodity supply prices. NiSource relies on regulatory recovery mechanisms in the various jurisdictions in order to fully recover the commodity costs incurred in operations. However, while NiSource has historically been successful in recovery of costs related to such commodity prices, there can be no assurance that such costs will be fully recovered through rates in a timely manner.

NiSource is exposed to risk that customers will not remit payment for delivered energy or services, and that suppliers or counterparties will not perform under various financial or operating agreements.

NiSource's extension of credit is governed by a Corporate Credit Risk Policy, involves considerable judgment and is based on an evaluation of a customer or counterparty's financial condition, credit history and other factors. NiSource monitors its credit risk exposure by obtaining credit reports and updated financial information for customers and suppliers, and by evaluating the financial status of its banking partners and other counterparties by reference to market-based metrics such as credit default swap pricing levels, and to traditional credit ratings provided by the major credit rating agencies. Adverse economic conditions could result in an increase in defaults by customers, suppliers and counterparties.

NiSource has significant goodwill and definite-lived intangible assets. An impairment of goodwill or definite-lived intangible assets could result in a significant charge to earnings and negatively impact NiSource's compliance with certain covenants under financing agreements.

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

75%. As of December 31, 2016, the ratio was 66%.

Changes in taxation and the ability to quantify such changes could adversely affect NiSource’s financial results. NiSource is subject to taxation by the various taxing authorities at the Federal, state and local levels where it does business. Legislation or regulation which could affect NiSource’s tax burden could be enacted by any of these governmental authorities. For example, the Trump Administration has recently called for substantial change to fiscal and tax policies, which may include comprehensive tax reform. NiSource cannot predict the timing or extent of such tax-related developments which could have a negative impact on the financial results. Separately, a challenge by a taxing authority, NiSource’s ability to utilize tax benefits

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ITEM 1A. RISK FACTORS
NISOURCE INC.

such as carryforwards or tax credits, or a deviation from other tax-related assumptions may cause actual financial results to deviate from previous estimates. Additionally, NiSource uses its best judgment in attempting to quantify and reserve for these tax obligations.

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

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

Distribution of natural gas, and the generation, transmission and distribution of electricity involve numerous risks that may result in incidents and other operating risks and costs.

NiSource's gas distribution activities, as well as generation, transmission, and distribution of electricity, involve a variety of inherent hazards and operating risks, such as gas leaks, downed power lines, incidents, including third-party damages, large scale outages, and mechanical problems, which could cause substantial financial losses. In addition, these risks could result in serious injury or loss of life to employees and the general public, significant damage to property, environmental pollution, impairment of its operations, adverse regulatory rulings and reputational harm, which in turn could lead to substantial losses to NiSource. The location of pipeline facilities, or generation, transmission, substation and distribution facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from such events. The occurrence of such events could adversely affect NiSource's financial position and results of operations. In accordance with customary industry practice, NiSource maintains insurance against some, but not all, of these risks and losses.

Aging infrastructure may lead to disruptions in operations and increased capital expenditures and maintenance costs, all of which could negatively impact NiSource’s financial results.

NiSource has risks associated with aging infrastructure assets. The age of these assets may result in a need for replacement, a higher level of maintenance costs and unscheduled outages despite efforts by NiSource to properly maintain or upgrade these assets through inspection, scheduled maintenance and capital investment. The failure to operate these assets as desired could result in incidents and in NiSource’s inability to meet firm service obligations, adversely impacting revenues, and could also result in increased capital expenditures and maintenance costs, which, if not fully recovered from customers, could negatively impact NiSource's financial results.

The impacts of climate change, natural disasters, acts of terrorism or other catastrophic events may disrupt operations and reduce the ability to service customers.

A disruption or failure of natural gas distribution systems, or within electric generation, transmission or distribution systems, in the event of a major hurricane, tornado, terrorist attack or other catastrophic event could cause delays in completing sales, providing services, or performing other critical functions. NiSource has experienced disruptions in the past from hurricanes and tornadoes and other events of this nature. The occurrence of such events could adversely affect NiSource's financial position and results of operations. In accordance with customary industry practice, NiSource maintains insurance against some, but not all, of these risks and losses. There is also a concern that climate change may exacerbate the risks to physical infrastructure. Such risks include heat stresses to power lines, storms that damage infrastructure, lake and sea level changes that damage the manner in which services are currently provided, droughts or other stresses on water used to supply services, and other extreme weather conditions. Climate change and the costs that may be associated with its impacts have the potential to affect NiSource’s business in many ways, including increasing the cost NiSource incurs in providing its products and services, impacting the demand for and consumption of its products and services (due to change in both costs and weather patterns), and affecting the economic health of the regions in which NiSource operates.

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

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

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ITEM 1A. RISK FACTORS
NISOURCE INC.

Additionally, NiSource's information systems experience ongoing, often sophisticated, cyber-attacks by a variety of sources with the apparent aim to breach NiSource's cyber-defenses. Although NiSource attempts to maintain adequate defenses to these attacks and works through industry groups and trade associations to identify common threats and assess NiSource's countermeasures, a security breach of NiSource's information systems could (i) impact the reliability of NiSource's generation, transmission and distribution systems and potentially negatively impact NiSource's compliance with certain mandatory reliability standards, (ii) subject NiSource to harm associated with theft or inappropriate release of certain types of information such as system operating information or information, personal or otherwise, relating to NiSource's customers or employees, and/or (iii) impact NiSource's ability to manage NiSource's businesses.

NiSource's capital projects and programs subject the Company to construction risks and natural gas costs and supply risks.

NiSource is engaged in intrastate natural gas pipeline modernization programs to maintain system integrity and enhance service reliability and flexibility. NIPSCO also is currently engaged in a number of capital projects, including environmental improvements to its electric generating stations, as well as the construction of new transmission facilities. As NiSource undertakes these projects and programs, it may not be able to complete them on schedule or at the anticipated costs. Additionally, NiSource may construct or purchase some of these projects and programs to capture anticipated future growth in natural gas production, which may not materialize, and may cause the construction to occur over an extended period of time. NiSource also may not receive material increases in revenue and cash flows until after the completion of the projects and programs.

Sustained extreme weather conditions may negatively impact NiSource’s operations.

NiSource conducts its operations across a wide geographic area subject to varied and potentially extreme weather conditions, which may from time to time persist for sustained periods of time. Despite preventative maintenance efforts, persistent weather related stress on NiSource’s infrastructure may reveal weaknesses in its systems not previously known to the Company or otherwise present various operational challenges across all business segments. Further, adverse weather may affect NiSource’s ability to conduct operations in a manner that satisfies customer expectations or contractual obligations, including by causing service disruptions.

Failure to attract and retain an appropriately qualified workforce could harm NiSource’s results of operations.

NiSource operates in an industry that requires many of its employees to possess unique technical skill sets. Events such as an aging workforce without appropriate replacements, the mismatch of skill sets to future needs, or the unavailability of contract resources may lead to operating challenges or increased costs. These operating challenges include lack of resources, loss of knowledge, and a lengthy time period associated with skill development. In addition, current and prospective employees may determine that they do not wish to work for NiSource due to market, economic, employment and other conditions. Failure to hire and retain qualified employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, may adversely affect NiSource’s ability to manage and operate its business. If NiSource is unable to successfully attract and retain an appropriately qualified workforce, its results of operations could be adversely affected.

NiSource is a holding company and is dependent on cash generated by subsidiaries to meet its debt obligations and pay dividends on its common stock.

NiSource is a holding company and conducts its operations primarily through its subsidiaries. Substantially all of NiSource’s consolidated assets are held by its subsidiaries. Accordingly, NiSource’s ability to meet its debt obligations or pay dividends on its common stock is largely dependent upon cash generated by these subsidiaries. In the event a major subsidiary is not able to pay dividends or transfer cash flows to NiSource, NiSource's ability to service its debt obligations or pay dividends could be negatively affected.

Following the Separation, all of the entities formerly included in NiSource's Columbia Pipeline Group Operations segment have been separated from NiSource and are held by a separate company (CPG). The related assets are no longer held by subsidiaries of NiSource, which may negatively affect NiSource's ability to service its debt obligations or pay dividends.

The Separation may result in significant tax liabilities.

The Separation was conditioned on the receipt by NiSource of a legal opinion to the effect that the distribution of CPG shares to NiSource stockholders is expected to qualify as tax-free under Section 355 of the U.S. Internal Revenue Code. Even though NiSource has received such an opinion, the IRS could determine on audit that the distribution is taxable. Both NiSource and its stockholders could incur significant U.S. Federal income tax liabilities if taxing authorities conclude the distribution is taxable.

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ITEM 1B. UNRESOLVED STAFF COMMENTS
NISOURCE INC.

None.

ITEM 2. PROPERTIES

Discussed below are the principal properties held by NiSource and its subsidiaries as of December 31, 2016.

Gas Distribution Operations
Refer to Item 1, "Business - Gas Distribution Operations" of this report for further information on Gas Distribution Operations properties.

Electric Operations
Refer to Item 1, "Business - Electric Operations" of this report for further information on Electric Operations properties.

Corporate and Other Operations
NiSource owns the Southlake Complex, its 325,000 square foot headquarters building located in Merrillville, Indiana, and other residential and development property.

Character of Ownership
The principal properties of NiSource and its subsidiaries are owned free from encumbrances, subject to minor exceptions, none of which are of such a nature as to impair substantially the usefulness of such properties. Many of NiSource's subsidiary offices in various communities served are occupied under leases. All properties are subject to routine liens for taxes, assessments and undetermined charges (if any) incidental to construction. It is NiSource’s practice to regularly pay such amounts, as and when due, unless contested in good faith. In general, the electric lines, gas pipelines and related facilities are located on land not owned by NiSource and its subsidiaries, but are covered by necessary consents of various governmental authorities or by appropriate rights obtained from owners of private property. NiSource does not, however, generally have specific easements from the owners of the property adjacent to public highways over, upon or under which its electric lines and gas distribution pipelines are located. At the time each of the principal properties was purchased a title search was made. In general, no examination of titles as to rights-of-way for electric lines, gas pipelines or related facilities was made, other than examination, in certain cases, to verify the grantors’ ownership and the lien status thereof.

ITEM 3. LEGAL PROCEEDINGS

The Company is party to certain claims and legal proceedings arising in the ordinary course of business, none of which is deemed to be individually material at this time. Due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on the Company’s results of operations, financial position or liquidity. If one or more of such matters were decided against the Company, the effects could be material to the Company’s results of operations in the period in which the Company would be required to record or adjust the related liability and could also be material to the Company’s cash flows in the periods the Company would be required to pay such liability.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT
NISOURCE INC.

The following is a list of the Executive Officers of the Registrant, including their names, ages, offices held and other recent business experience, as of February 1, 2017.

Name	Age	Office(s) Held in Past 5 Years
Joseph Hamrock	53	President and Chief Executive Officer of NiSource since July 1, 2015. Executive Vice President and Group Chief Executive Officer of NiSource from May 2012 to July 2015. President and Chief Operating Officer of American Electric Power Company (electric utility company) - Ohio from January 2008 to May 2012.
Donald E. Brown	45	Executive Vice President and Chief Financial Officer of NiSource since July 2015 (also Treasurer from July 2015 to June 2016). Executive Vice President, Finance Department of NiSource from March 2015 to July 2015. Vice President and Chief Financial Officer of UGI Utilities, a division of UGI Corporation (gas and electric utility company) from 2010 to March 2015.
Carrie J. Hightman	59	Executive Vice President and Chief Legal Officer of NiSource since December 2007.
Carl W. Levander	55	Executive Vice President, Regulatory Policy and Corporate Affairs of NiSource since May 11, 2016. Executive Vice President and Chief Regulatory Officer of NiSource from July 2015 to May 2016. President of Columbia of Virginia from January 2006 to July 2015.
Violet G. Sistovaris	55	Executive Vice President and President, NIPSCO since October 3, 2016. Executive Vice President, NIPSCO from July 2015 to October 2016. Senior Vice President and Chief Information Officer of NiSource from May 2014 to June 2015. Senior Vice President and Chief Information Officer of NiSource Corporate Services Company from August 2008 to June 2015.
Jim L. Stanley	61	Executive Vice President and Chief Operating Officer of NiSource since July 1, 2015. Executive Vice President & Group Chief Executive Officer of NiSource from October 2012 to July 2015. Senior Vice President, Duke Energy (electric power holding company) from June 2010 to September 2012.
Pablo A. Vegas	43	Executive Vice President and President, Columbia Gas Group since May 3, 2016. President and Chief Operating Officer of American Electric Power Company from May 2012 to May 2016. Vice President and Chief Information Officer of American Electric Power Company from July 2010 to May 2012.
Joseph W. Mulpas	45	Vice President and Chief Accounting Officer of NiSource since May 2014.

		Assistant Controller, FirstEnergy Corp. (diversified energy corporation) from November 2012 to March 2014.
		Vice President, Controller and Chief Accounting Officer, Maxum Petroleum Inc. (energy logistics company) from August 2012 to October 2012.
		Vice President, Controller and Chief Accounting Officer of DPL Inc. and its subsidiary, The Dayton Power and Light Company (electric utility company) from May 2009 to June 2012.
Teresa M. Smith	53	Vice President of Human Resources for NiSource Corporate Services Company since January 2010.
Suzanne K. Surface	52	Vice President, Audit of NiSource since July 1, 2015.
		Vice President of Regulatory Strategy and Support of NiSource from July 2009 to June 2015.

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PART II
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES
NISOURCE INC.

NiSource's common stock is listed and traded on the New York Stock Exchange under the symbol "NI." The table below indicates the high and low sales prices of NiSource's common stock, and dividends per share declared, during the periods indicated.

	2016			2015		
	High	Low	Dividend Per Share	High	Low	Dividend Per Share
First Quarter	$23.74	$19.05	$ 0.155	$45.10	$40.89	$ 0.260
Second Quarter	26.53	21.97	0.155	49.16	42.25	0.260
Third Quarter	26.94	23.20	0.165	45.71(1)	16.04(1)	0.155(2)
Fourth Quarter	24.06	21.17	0.165	20.13(1)	18.33(1)	0.155(2)
			$ 0.640			$ 0.830

(1) On July 1, 2015, NiSource completed the Separation through a special pro rata stock dividend, distributing one share of CPG common stock for every one share of NiSource common stock held by any NiSource stockholder on June 19, 2015, the record date. On July 1, 2015, the last trading day before the Separation became effective, the closing price of our common stock trading "regular way" (with an entitlement to CPG shares distributed in the Separation) was $45.45. On July 2, 2015, the first day of trading after the Separation, the opening price of our common stock was $17.61 per share.
(2)On July 2, 2015, following the Separation, NiSource's Board declared a dividend of $0.155 per share of common stock and CPG's Board declared a dividend of $0.125 per share of CPG common stock. The amount of dividends paid by NiSource in the third and fourth quarter of 2015 is that of NiSource only, and does not include the dividend declared by CPG during the same period.

Holders of shares of NiSource's common stock are entitled to receive dividends if, and when declared by NiSource's Board out of funds legally available. The policy of the Board has been to declare cash dividends on a quarterly basis payable on or about the 20th day of February, May, August, and November. At its January 27, 2017, meeting, the Board declared a quarterly common dividend of $0.175 per share, payable on February 17, 2017 to holders of record on February 10, 2017.

Although the Board currently intends to continue the payment of regular quarterly cash dividends on common shares, the timing and amount of future dividends will depend on the earnings of NiSource's subsidiaries, their financial condition, cash requirements, regulatory restrictions, any restrictions in financing agreements and other factors deemed relevant by the Board. There can be no assurance that we will continue to pay such dividends or the amount of such dividends.

As of February 14, 2017, NiSource had 22,485 common stockholders of record and 323,445,821 shares outstanding.

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PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NISOURCE INC.

The graph below compares the cumulative total shareholder return of NiSource’s common stock for the last five years with the cumulative total return for the same period of the S&P 500 and the Dow Jones Utility indices. On July 1, 2015, NiSource completed the Separation. Following the Separation, NiSource retained no ownership interest in CPG. The Separation is treated as a special dividend for purposes of calculating the total shareholder return, with the then-current market value of the distributed shares being deemed to have been reinvested on the Separation date in shares of NiSource common stock. A vertical line is included on the graph below to identify the periods before and after the Separation.

The foregoing performance graph is being furnished as part of this annual report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by NiSource under the Securities Act or the Exchange Act.

The weighted average total return for NiSource common stock and the two indices is calculated from an assumed initial investment of $100 and assumes dividend reinvestment, including the impact of the distribution of CPG common stock in the Separation.

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ITEM 6. SELECTED FINANCIAL DATA
NISOURCE INC.

The selected data presented below as of and for the five years ended December 31, 2016, are derived from the Consolidated Financial Statements of NiSource. The data should be read together with the Consolidated Financial Statements including the related notes thereto included in Item 8 of this Form 10-K.

Year Ended December 31, (dollars in millions except per share data)	2016	2015	2014	2013	2012
Statement of Income Data:					
Gross Revenues					
Gas Distribution	$1,850.9	$2,081.9	$2,597.8	$2,226.3	$1,959.8
Gas Transportation	964.6	969.8	987.4	820.0	692.4
Electric	1,660.8	1,572.9	1,672.0	1,563.4	1,507.7
Other	16.2	27.2	15.2	15.7	18.1
Total Gross Revenues	4,492.5	4,651.8	5,272.4	4,625.4	4,178.0
Net Revenues (Gross Revenues less Cost of Sales, excluding depreciation and amortization)	3,102.3	3,008.1	2,899.5	2,662.4	2,513.9
Operating Income	858.2	799.9	789.1	698.1	638.6
Income from Continuing Operations	328.1	198.6	256.2	221.0	171.0
Balance Sheet Data:					
Total Assets	18,691.9	17,492.5	24,589.8	22,473.6	21,620.2
Capitalization					
Common stockholders' equity	4,071.2	3,843.5	6,175.3	5,886.6	5,554.3
Long-term debt, excluding amounts due within one year	6,058.2	5,948.5	8,151.5	7,588.2	6,813.7
Total Capitalization	$10,129.4	$9,792.0	$14,326.8	$13,474.8	$12,368.0
Per Share Data:					
Basic Earnings Per Share from Continuing Operations ($)	$1.02	$0.63	$0.81	$0.71	$0.59
Diluted Earnings Per Share from Continuing Operations ($)	$1.01	$0.63	$0.81	$0.71	$0.57
Other Data:					
Dividends declared per share ($)	$0.64	$0.83	$1.02	$0.98	$0.94
Shares outstanding at the end of the year (in thousands)	323,160	319,110	316,037	313,676	310,281
Number of common stockholders	22,272	30,190	25,233	26,965	28,823
Capital expenditures	$1,490.4	$1,367.5	$1,339.6	$1,248.5	$1,095.5
Number of employees	8,007	7,596	8,982	8,477	8,286

- On July 1, 2015, NiSource completed the Separation. The results of operations of the former Columbia Pipeline Group Operations segment have been classified as discontinued operations for all periods presented. See Note 3, "Discontinued Operations," in the Notes to the Consolidated Financial Statements for further information.
- Prior to the Separation, CPG closed its placement of $2,750.0 million in aggregate principal amount of its senior notes. Using the proceeds from this offering, CPG made cash payments to NiSource representing the settlement of inter-company borrowings and the payment of a one-time special dividend. In May 2015, using proceeds from the cash payments from CPG, NiSource Finance settled its two bank term loans in the amount of $1,075.0 million and executed a tender offer for $750.0 million consisting of a combination of its 5.25% notes due 2017, 6.40% notes due 2018 and 4.45% notes due 2021. In conjunction with the debt retired, NiSource Finance recorded a $97.2 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums.

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

CONSOLIDATED REVIEW

This Management's Discussion and Analysis of Financial Condition and Results of Operations (Management's Discussion) analyzes the financial condition, results of operations and cash flows of NiSource and its subsidiaries. It also includes management's analysis of past financial results and potential factors that may affect future results, potential future risks and approaches that may be used to manage those risks.

Management's Discussion is designed to provide an understanding of our operations and financial performance and should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes to Consolidated Financial Statements in this annual report.

Executive Summary

NiSource is an energy holding company under the Public Utility Holding Company Act of 2005 whose subsidiaries are fully regulated natural gas and electric utility companies serving customers in seven states. NiSource generates substantially all of its operating income through these rate-regulated businesses which are summarized for financial reporting purposes into two primary reportable segments: Gas Distribution Operations and Electric Operations. Refer to the Business section under Item 1 of this report and Note 22, "Segments of Business," in the Notes to Consolidated Financial Statements for further discussion of our regulated utility business segments.

NiSource's goal is to develop strategies that benefit all stakeholders as it addresses changing customer conservation patterns, develops more contemporary pricing structures and embarks on long-term investment programs. These strategies are intended to improve reliability and safety, enhance customer services and reduce emissions while generating sustainable returns. Additionally, NiSource continues to pursue regulatory and legislative initiatives that will allow residential customers not currently on NiSource's system to obtain gas service in a cost effective manner.

Summary of Consolidated Financial Results

On a consolidated basis, NiSource reported higher income from continuing operations of $328.1 million or $1.02 per basic share for the twelve months ended December 31, 2016 compared to $198.6 million or $0.63 per basic share for the same period in 2015. The increase in income from continuing operations during 2016 was due primarily to increased operating income, as discussed below, along with a $97.2 million loss on early extinguishment of long-term debt recorded as a result of the debt restructuring that occurred in 2015 as part of the Separation.

For the twelve months ended December 31, 2016, NiSource reported operating income of $858.2 million compared to $799.9 million for the same period in 2015. The higher operating income was primarily due to increased net revenues from regulatory and service programs and increased rates from incremental capital spend on electric transmission projects at NIPSCO, partially offset by lower net revenues due to warmer than normal weather. Operating expenses increased due to higher outside service costs, primarily due to generation-related maintenance, increased depreciation expense, plant retirement costs and higher employee and administrative expenses, partially offset by decreased property taxes and lower environmental expenses.

These factors and other impacts to the financial results are discussed in more detail within the following discussions of "Results of Operations," "Results and Discussion of Segment Operations" and "Liquidity and Capital Resources."

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

Capital Investment. In 2016, NiSource invested approximately $1.5 billion in capital expenditures across its gas and electric utilities. These expenditures were primarily aimed at furthering the safety and reliability of our gas distribution system, construction of new electric transmission assets and maintaining NiSource's existing electric generation fleet. NiSource continues to execute on an estimated $30 billion in total projected long-term regulated utility infrastructure investments and expects to invest approximately $1.6 billion to $1.7 billion in capital during 2017 to continue to modernize and improve its system across all seven states.

Liquidity. NiSource believes that through income generated from operating activities, amounts available under its short-term revolving credit facility, commercial paper program, accounts receivable securitization facilities, long-term debt agreements and NiSource's ability to access the capital markets, there is adequate capital available to fund its operating activities and capital expenditures in 2017 and beyond. At December 31, 2016 and 2015, NiSource had approximately $683.7 million and $1,179.4 million, respectively, of net liquidity available, consisting of cash and available capacity under credit facilities.

Regulatory Developments

In 2016, NiSource continued to move forward on core infrastructure and environmental investment programs supported by complementary regulatory and customer initiatives across all seven states of its operating area. The discussion below summarizes significant regulatory developments that transpired during 2016:

Gas Distribution Operations.

- On April 20, 2016, the PUCO approved Columbia of Ohio's annual IRP rider. The rider provides for continued support of Columbia of Ohio's well-established pipeline replacement program. This order authorized approximately $21 million in increased annual revenue related to 2015 infrastructure investments of approximately $185 million.
- On September 28, 2016, Columbia of Virginia implemented updated interim base rates subject to refund. The new rates are part of its base rate case which remains pending before the VSCC. On January 17, 2017, Columbia of Virginia presented to the VSCC a stipulation and proposed recommendation representing a settlement by all parties to the proceeding that included a base revenue increase of $28.5 million. On February 8, 2017, the Hearing Examiner in the case filed a report recommending approval of the stipulation and proposed recommendation. A VSCC decision is expected in the first half of 2017.
- On October 27, 2016, the Pennsylvania PUC approved a joint settlement agreement in Columbia of Pennsylvania's base rate case. The settlement includes an annual revenue increase of $35.0 million and incentives to expand gas service to commercial customers. New rates went into effect on December 19, 2016.
- On October 20, 2016, a settlement was reached with the Kentucky PSC on Columbia of Kentucky's base rate case. The settlement includes a revenue increase of $13.4 million and will allow for continued system modernization and pipeline safety investments to improve overall system safety and reliability. On December 22, 2016, the Kentucky PSC issued an order modifying the stipulation resulting in an annual revenue increase of $13.1 million. Columbia of Kentucky accepted this modification, and rates went into effect on December 27, 2016.
- NIPSCO continues to execute on its seven-year, $824 million gas infrastructure modernization program to further improve system reliability and safety. In August, NIPSCO filed its semi-annual tracker update covering $67 million of investments made in the first half of 2016. On December 28, 2016, the IURC issued an order approving the tracker update. New rates became effective January 1, 2017.

Electric Operations.

- New rates became effective October 1, 2016 under NIPSCO's electric base rate case settlement, which was approved by the IURC on July 18, 2016. The settlement provides a platform for NIPSCO's continued electric infrastructure investments and service improvements for customers, and increases NIPSCO's annual base rate revenues by $72.5 million.
- NIPSCO is focused on executing its seven-year electric infrastructure modernization program, which includes enhancements to electric transmission and distribution infrastructure designed to improve system safety and

reliability. On July 12, 2016, the IURC approved NIPSCO's settlement related to the program. The order included approval to recover approximately $1.25 billion of investments made through 2022. Per an IURC order received on January 25, 2017, NIPSCO began recovering on $45.5 million of these investments with the first billing cycle of February 2017.

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

- In December 2016, NIPSCO announced plans to retire two coal-fired units at its Bailly Generation station earlier than previously estimated. This decision was based on an analysis of current economic and legislative conditions including the decreasing cost of natural gas relative to coal and the increased cost of compliance with current and future environmental regulations.

Refer to Note 8, "Regulatory Matters" and Note 18-E, "Other Matters," in the Notes to Consolidated Financial Statements for a complete discussion of key regulatory developments that transpired during 2016.

Results of Operations

Year Ended December 31, (in millions, except per share amounts)	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Total Net Revenues	$3,102.3	$3,008.1	$2,899.5	$94.2	$108.6
Total Operating Expenses	2,244.1	2,208.2	2,110.4	35.9	97.8
Operating Income	858.2	799.9	789.1	58.3	10.8
Total Other Income (Deductions)	(348.0)	(460.0)	(366.1)	112.0	(93.9)
Income Taxes	182.1	141.3	166.8	40.8	(25.5)
Income from Continuing Operations	328.1	198.6	256.2	129.5	(57.6)
Basic Earnings Per Share from Continuing Operations	$1.02	$0.63	$0.81	$0.39	$(0.18)
Basic Average Common Shares Outstanding	321.8	317.7	315.1	4.1	2.6

Operating Income

Substantially all of NiSource's operating income is generated by the Gas Distribution Operations and Electric Operations segments, the results of which are discussed in further detail within "Results and Discussion of Segment Operations."

Other Income (Deductions)

Other income (deductions) in 2016 reduced income $348.0 million compared to a reduction of $460.0 million in 2015. This change is primarily due to a loss on early extinguishment of long-term debt of $97.2 million in 2015 and decreased interest expense of $30.7 million primarily resulting from maturities of long-term debt. These changes were partially offset by a 2016 charge resulting from a tax notice impacting NIPSCO's TUAs. Refer to Note 18-E, "Other Matters," in the Notes to the Consolidated Financial Statements for further information on NIPSCO's TUAs.

Other income (deductions) in 2015 reduced income $460.0 million compared to a reduction of $366.1 million in 2014. The increase in deductions is primarily due to a loss on early extinguishment of long-term debt of $97.2 million.

Income Taxes

Refer to Note 10, "Income Taxes," in the Notes to the Consolidated Financial Statements for further information on Income Taxes.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource's operations are divided into two primary reportable segments: Gas Distribution Operations and Electric Operations.

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

NISOURCE INC.
Gas Distribution Operations

Year Ended December 31, (in millions)	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Net Revenues					
Sales revenues	$2,830.6	$3,069.1	$3,593.9	$(238.5)	$(524.8)
Less: Cost of gas sold (excluding depreciation and amortization)	895.4	1,155.5	1,762.7	(260.1)	(607.2)
Net Revenues	1,935.2	1,913.6	1,831.2	21.6	82.4
Operating Expenses					
Operation and maintenance	937.2	945.3	900.3	(8.1)	45.0
Depreciation and amortization	252.9	232.6	217.6	20.3	15.0
(Gain) Loss on sale of assets and impairments, net	—	0.8	(0.2)	(0.8)	1.0
Other taxes	171.1	179.1	176.5	(8.0)	2.6
Total Operating Expenses	1,361.2	1,357.8	1,294.2	3.4	63.6
Operating Income	$574.0	$555.8	$537.0	$18.2	$18.8
Revenues					
Residential	$1,823.4	$2,055.2	$2,286.3	$(231.8)	$(231.1)
Commercial	588.1	691.4	800.6	(103.3)	(109.2)
Industrial	194.3	217.6	231.3	(23.3)	(13.7)
Off-System sales	94.4	87.3	199.4	7.1	(112.1)
Other	130.4	17.6	76.3	112.8	(58.7)
Total	$2,830.6	$3,069.1	$3,593.9	$(238.5)	$(524.8)
Sales and Transportation (MMDth)					
Residential sales	248.9	262.0	295.2	(13.1)	(33.2)
Commercial sales	165.6	171.5	189.6	(5.9)	(18.1)
Industrial sales	517.7	522.7	512.9	(5.0)	9.8
Off-System sales	39.6	32.7	44.9	6.9	(12.2)
Other	(0.1)	(0.2)	(0.1)	0.1	(0.1)
Total	971.7	988.7	1,042.5	(17.0)	(53.8)
Heating Degree Days	5,148	5,459	6,176	(311)	(717)
Normal Heating Degree Days	5,642	5,610	5,610	32	—
% Colder (Warmer) than Normal	(9)%	(3)%	10%		
Gas Distribution Customers					
Residential	3,141,722	3,113,324	3,098,052	28,398	15,272
Commercial	279,556	277,239	277,057	2,317	182
Industrial	6,240	6,465	6,681	(225)	(216)
Other	14	13	15	1	(2)
Total	3,427,532	3,397,041	3,381,805	30,491	15,236

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

NISOURCE INC.
Gas Distribution Operations (continued)

NiSource analyzes its operating results using net revenues. Net revenues are calculated as gross revenues less the associated cost of sales (excluding depreciation and amortization). Cost of sales at the Gas Distribution Operations segment is principally comprised of the cost of natural gas used while providing transportation and distribution services to its customers.

NiSource believes net revenues are a better measure to analyze profitability than gross revenues because the majority of the cost of sales are tracked costs that are passed through directly to the customer resulting in an equal and offsetting amount reflected in gross revenues.

Comparability of line item operating results may also be impacted by regulatory, tax and depreciation trackers (other than those for cost of sales) that allow for the recovery in rates of certain costs such as bad debt expense. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on income from continuing operations.

2016 vs. 2015 Operating Income

For 2016, Gas Distribution Operations reported operating income of $574.0 million, an increase of $18.2 million from the comparable 2015 period.

Net revenues for 2016 were $1,935.2 million, an increase of $21.6 million from the same period in 2015. The change in net revenues was primarily driven by:

- New rates from base-rate proceedings and infrastructure replacement programs of $95.1 million.
- The effects of increased customer count of $9.6 million.

Partially offset by:

- Lower regulatory, tax and depreciation trackers, which are offset in expense, of $52.8 million.
- The effects of warmer weather of $12.4 million.
- Decreased commercial, industrial and residential usage of $8.8 million.
- Lower forfeited discount and late payment collections of $3.9 million.

Operating expenses were $3.4 million higher in 2016 compared to 2015. This change was primarily driven by:

- Increased employee and administrative expenses of $26.1 million.
- Higher depreciation of $19.8 million due to increased capital expenditures placed in service.
- Increased outside service costs of $13.4 million.
- Higher rental expense of $2.6 million.

Partially offset by:

- Lower regulatory, tax and depreciation trackers, which are offset in net revenues, of $52.8 million.
- Decreased gross receipts taxes of $2.8 million.

2015 vs. 2014 Operating Income

For 2015, Gas Distribution Operations reported operating income of $555.8 million, an increase of $18.8 million from the comparable 2014 period.

Net revenues for 2015 were $1,913.6 million, an increase of $82.4 million from the same period in 2014. The change in net revenues was primarily driven by:

- New rates from base-rate proceedings and infrastructure replacement programs of $88.7 million.
- Increased rent billed to affiliates, offset in expense, of $8.4 million.
- Higher regulatory and tax trackers, which are offset in expense, of $7.5 million.

Partially offset by:

- The effects of warmer weather of $30.6 million.

Operating expenses were $63.6 million higher in 2015 compared to 2014. This change was primarily driven by:

- Increased employee and administrative expenses of $16.3 million.

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

NISOURCE INC.
Gas Distribution Operations (continued)

- Higher depreciation of $15.0 million due to increased capital expenditures placed into service.
- Increased property taxes of $9.1 million due to increased capital expenditures placed in service.
- Higher outside service costs of $7.7 million.
- Increased regulatory and tax trackers, which are offset in net revenues, of $7.5 million.

Weather

In general, NiSource calculates the weather-related revenue variance based on changing customer demand driven by weather variance from normal heating degree days. NiSource's composite heating degree days reported do not directly correlate to the weather-related dollar impact on the results of Gas Distribution Operations. Heating degree days experienced during different times of the year or in different operating locations may have more or less impact on volume and dollars depending on when and where they occur. When the detailed results are combined for reporting, there may be weather-related dollar impacts on operations when there is not an apparent or significant change in the aggregated NiSource composite heating degree day comparison.

Weather in the Gas Distribution Operations service territories for 2016 was about 9% warmer than normal and about 6% warmer than 2015, decreasing net revenues $12.4 million for the year ended December 31, 2016 compared to 2015.

Weather in the Gas Distribution Operations service territories for 2015 was about 3% warmer than normal and about 12% warmer than 2014, decreasing net revenues $30.6 million for the year ended December 31, 2015 compared to 2014.

Throughput

Total volumes sold and transported for the year ended December 31, 2016 were 971.7 MMDth, compared to 988.7 MMDth for 2015. This decrease is primarily attributable to warmer weather experienced in 2016 compared to 2015.

Total volumes sold and transported for the year ended December 31, 2015 were 988.7 MMDth, compared to 1,042.5 MMDth for 2014. This decrease is primarily attributable to warmer weather and lower off-system sales opportunities experienced in 2015 compared to 2014.

Economic Conditions

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

At NIPSCO, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased gas costs from prior periods per regulatory order. These amounts are primarily reflected in the "Other" gross revenues statistic provided at the beginning of this segment discussion. The adjustments to other gross revenues for the twelve months ended December 31, 2016, 2015 and 2014 were a revenue increase of $43.3 million, a revenue decrease of $68.0 million and a revenue increase of $34.2 million, respectively.

Certain Gas Distribution Operations companies continue to offer choice opportunities, where customers can choose to purchase gas from a third-party supplier, through regulatory initiatives in their respective jurisdictions. These programs serve to further reduce NiSource's exposure to gas prices.

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

NISOURCE INC.
Electric Operations

Year Ended December 31, (in millions)	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Net Revenues					
Sales revenues	$1,661.6	$1,574.4	$1,673.4	$87.2	$(99.0)
Less: Cost of sales (excluding depreciation and amortization)	495.0	488.4	609.7	6.6	(121.3)
Net Revenues	1,166.6	1,086.0	1,063.7	80.6	22.3
Operating Expenses					
Operation and maintenance	538.8	490.1	474.9	48.7	15.2
Depreciation and amortization	274.5	267.7	244.4	6.8	23.3
(Gain) Loss on sale of assets, net	—	—	(0.1)	—	0.1
Other taxes	61.9	63.8	61.8	(1.9)	2.0
Total Operating Expenses	875.2	821.6	781.0	53.6	40.6
Operating Income	$291.4	$264.4	$282.7	$27.0	$(18.3)
Revenues					
Residential	$457.4	$427.1	$438.2	$30.3	$(11.1)
Commercial	456.6	445.4	449.4	11.2	(4.0)
Industrial	631.6	646.3	723.6	(14.7)	(77.3)
Wholesale	11.6	16.4	32.2	(4.8)	(15.8)
Other	104.4	39.2	30.0	65.2	9.2
Total	$1,661.6	$1,574.4	$1,673.4	$87.2	$(99.0)
Sales (Gigawatt Hours)					
Residential	3,514.8	3,309.9	3,384.2	204.9	(74.3)
Commercial	3,878.7	3,866.8	3,864.2	11.9	2.6
Industrial	9,281.8	9,249.1	10,114.2	32.7	(865.1)
Wholesale	19.0	194.8	675.5	(175.8)	(480.7)
Other	136.9	137.7	148.2	(0.8)	(10.5)
Total	16,831.2	16,758.3	18,186.3	72.9	(1,428.0)
Cooling Degree Days	988	762	663	226	99
Normal Cooling Degree Days	806	806	806	—	—
% Warmer (Cooler) than Normal	23%	(5)%	(18)%		
Electric Customers					
Residential	407,268	404,889	403,272	2,379	1,617
Commercial	55,605	55,053	54,635	552	418
Industrial	2,313	2,343	2,352	(30)	(9)
Wholesale	744	743	751	1	(8)
Other	2	6	5	(4)	1
Total	465,932	463,034	461,015	2,898	2,019

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

NISOURCE INC.
Electric Operations (continued)

NiSource analyzes its operating results using net revenues. Net revenues are calculated as gross revenues less the associated cost of sales (excluding depreciation and amortization). Cost of sales at the Electric Operations segment is principally comprised of the cost of coal, related handling costs, and natural gas purchased for the internal generation of electricity at NIPSCO and the cost of power purchased from third-party generators of electricity.

NiSource believes net revenues are a better measure to analyze profitability than gross revenues because the majority of the cost of sales are tracked costs that are passed through directly to the customer resulting in an equal and offsetting amount reflected in gross revenues.

Comparability of line item operating results may also be impacted by regulatory and depreciation trackers (other than those for cost of sales) that allow for the recovery in rates of certain costs such as bad debt expense. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on income from continuing operations.

2016 vs. 2015 Operating Income

For 2016, Electric Operations reported operating income of $291.4 million, an increase of $27.0 million from the comparable 2015 period.

Net revenues for 2016 were $1,166.6 million, an increase of $80.6 million from the same period in 2015. The change in net revenues was primarily driven by:

- New rates from base-rate proceedings of $36.3 million.
- Increased regulatory and depreciation trackers, which are offset in expense, of $30.2 million.
- Increased rates from incremental capital spend on electric transmission projects of $17.8 million.
- The effects of warmer weather of $15.6 million.

Partially offset by:

- The absence of regulatory-deferred MISO cost amortization of $10.2 million.
- Increased fuel handling costs of $7.8 million.

Operating expenses were $53.6 million higher in 2016 than 2015. This change was primarily driven by:

- Increased regulatory and depreciation trackers, which are offset in net revenues, of $30.2 million.
- Higher outside service costs of $24.4 million, primarily due to generation-related maintenance.
- Plant retirement costs of $22.1 million.

Partially offset by:

- Lower environmental costs of $10.7 million.
- Decreased amortization expense of $9.6 million.

2015 vs. 2014 Operating Income

For 2015, Electric Operations reported operating income of $264.4 million, a decrease of $18.3 million from the comparable 2014 period.

Net revenues for 2015 were $1,086.0 million, an increase of $22.3 million from the same period in 2014. The change in net revenues was primarily driven by:

- Higher regulatory and depreciation trackers, which are offset in expense, of $19.8 million.
- Increased rates from incremental capital spend on electric transmission projects and environmental investments of $19.1 million.

Partially offset by:

- Lower industrial usage of $13.8 million.

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

NISOURCE INC.
Electric Operations (continued)

Operating expenses were $40.6 million higher in 2015 compared to 2014. This change was primarily driven by:
- Higher regulatory and depreciation trackers, which are offset in net revenues, of $19.8 million.
- Increased depreciation of $10.6 million.
- Higher environmental costs of $10.4 million.

Weather
In general, NiSource calculates the weather-related revenue variance based on changing customer demand driven by weather variance from normal cooling degree days. NiSource's composite cooling degree days reported do not directly correlate to the weather-related dollar impact on the results of Electric Operations. Cooling degree days experienced during different times of the year may have more or less impact on volume and dollars depending on when they occur. When the detailed results are combined for reporting, there may be weather-related dollar impacts on operations when there is not an apparent or significant change in the aggregated NiSource composite cooling degree day comparison.
Weather in the Electric Operations' territories for the twelve months ended December 31, 2016 was 23% warmer than normal and 30% warmer than the same period in 2015, leading to an increase in net revenues of approximately $15.6 million for the twelve months ended December 31, 2016 compared to 2015.
Weather in the Electric Operations' territories for the twelve months ended December 31, 2015 was 5% cooler than normal and 15% warmer than the same period in 2014, increasing net revenues approximately $0.7 million for the twelve months ended December 31, 2015 compared to 2014.

Sales
Electric Operations sales were 16,831.2 gwh for the year ended 2016, an increase of 72.9 gwh compared to 2015, a 0.4% increase.
Electric Operations sales were 16,758.3 gwh for the year ended 2015, a decrease of 1,428.0 gwh compared to 2014. The 7.9% decrease is primarily attributable to a decrease in industrial usage, which was caused by a reduction in steel production due to the high levels of imports that have impacted the domestic steel market since the start of 2015.

Economic Conditions
NIPSCO has a state-approved recovery mechanism that provides a means for full recovery of prudently incurred fuel costs. Fuel costs are treated as pass-through costs and have no impact on the net revenues recorded in the period. The fuel costs included in revenues are matched with the fuel cost expense recorded in the period and the difference is recorded on the Consolidated Balance Sheets as under-recovered or over-recovered fuel cost to be included in future customer billings.
At NIPSCO, sales revenues and customer billings are adjusted for amounts related to under and over-recovered purchased fuel costs from prior periods per regulatory order. These amounts are primarily reflected in the "Other" gross revenues statistic provided at the beginning of this segment discussion. The adjustments to other gross revenues for the twelve months ended December 31, 2016, 2015 and 2014 were a revenue increase of $33.1 million, and a revenue decrease of $11.6 million and $25.5 million, respectively.
NIPSCO's performance remains closely linked to the performance of the steel industry. NIPSCO's mwh sales to steel-related industries accounted for approximately 52.3% and 54.2% of the total industrial mwh sales for the years ended December 31, 2016 and 2015, respectively.

Electric Supply
NIPSCO 2016 Integrated Resource Plan. Environmental, regulatory and economic factors, including low natural gas prices and aging coal-fired units, have led NIPSCO to consider modifying its current electric generation supply mix to include less coal-fired generation. Due to enacted CCR and ELG legislation, NIPSCO would expect to incur over $1 billion in operating, maintenance, environmental and other costs over the next seven years if the current fleet of coal-fired generating units remain operational.

On November 1, 2016, NIPSCO submitted its 2016 Integrated Resource Plan with the IURC. The plan evaluates demand-side and supply-side resource alternatives to reliably and cost effectively meet NIPSCO customers' future energy requirements over the next twenty years. The 2016 Integrated Resource Plan indicates that the most viable option for customers and NIPSCO involves the retirement of Bailly Generating Station (Units 7 and 8) as soon as mid-2018 and two units (Units 17 and 18) at the R.M. Schahfer Generating Station by the end of 2023. It is projected over the long term that the cost to customers to retire these units at these dates will be lower than maintaining and upgrading them for continuing generation.

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

NISOURCE INC.
Electric Operations (continued)

NiSource and NIPSCO committed to the retirement of the Bailly Generating Station units in connection with the filing of the 2016 Integrated Resource Plan. However, retirement of these units is subject to the approval of the MISO, which is responsible for coordinating, controlling and monitoring the use of the electric transmission system by utilities, generators and marketers across parts of 15 U.S. states and the Canadian province of Manitoba. In the fourth quarter of 2016, the MISO approved NIPSCO's plan to retire the Bailly Generating Station units by May 31, 2018.
In connection with the MISO's approval of NIPSCO's planned retirement of the Bailly Generating Station units, NiSource recorded $22.1 million of plant retirement-related charges in the fourth quarter of 2016. These charges were comprised of contract termination charges related to NIPSCO's capital lease with Pure Air, voluntary employee severance benefits and write downs of certain materials and supplies inventory balances. Refer to Note 5, “Property, Plant and Equipment,” and Note 18-E, "Other Matters," in the Notes to Consolidated Financial Statements for information.

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

Liquidity and Capital Resources
Operating Activities
Net cash from operating activities from continuing operations for the year ended December 31, 2016 was $804.1 million, a decrease of $359.3 million from 2015. This decrease was driven by a combination of changes in weather, gas prices and the related approved rates for recovery, which significantly impacted regulatory assets, regulatory liabilities and working capital between the two periods. During 2015, natural gas prices were declining faster than the gas cost adjustments being collected from customers, resulting in an associated source of cash from working capital. During 2016, these over-collected gas costs from 2015 were returned to customers, resulting in a use of working capital.
Net cash from operating activities from continuing operations for the year ended December 31, 2015 was $1,163.4 million, an increase of $402.2 million from 2014. The increase in net cash from operating activities from continuing operations was primarily due to the change in regulatory assets/liabilities, as well as the change in inventories as a result of lower gas prices and warmer weather in 2015 compared to 2014.
Pension and Other Postretirement Plan Funding. In 2016, NiSource contributed $3.3 million to its pension plans and $25.5 million to its postretirement medical and life plans. In 2017, NiSource expects to make contributions of approximately $9.1 million to its pension plans and approximately $25.3 million to its postretirement medical and life plans. At December 31, 2016, NiSource's pension and other postretirement benefit plans were underfunded by $414.9 million and $297.6 million, respectively.
Income Taxes. As of December 31, 2016, NiSource has a recorded deferred tax asset of $600.9 million related to a Federal NOL carryforward. As a result of being in an NOL position, NiSource was not required to make any cash payments for Federal income tax purposes during the years ended December 31, 2016 and 2015. This NOL carryforward starts to expire in 2030, however NiSource expects to fully utilize the carryforward benefit prior to its expiration.
Investing Activities
The table below reflects capital expenditures and certain other investing activities by segment for 2016, 2015 and 2014.

(in millions)	2016	2015	2014
Gas Distribution Operations			
System Growth and Tracker	$835.0	$729.6	$656.0
Maintenance	219.4	187.4	204.3
Total Gas Distribution Operations	1,054.4	917.0	860.3
Electric Operations			
System Growth and Tracker	314.1	274.8	310.0
Maintenance	106.5	125.5	128.8
Total Electric Operations	420.6	400.3	438.8
Corporate and Other Operations - Maintenance	15.4	50.2	40.5
Total(1)	$1,490.4	$1,367.5	$1,339.6

(1) Amounts differ from those presented on the Statements of Consolidated Cash Flows primarily due to the inclusion of capital expenditures included in current liabilities and AFUDC Equity.
For 2017, NiSource projects to invest approximately $1.6 billion to $1.7 billion in its capital program. This projected increase over 2016 spend is driven by generation maintenance at the Electric Operations segment and additional system growth and tracker opportunities at the Gas Distribution Operations and Electric Operations segments.
For 2016, the capital expenditures and certain other investing activities were $1,490.4 million, which was $122.9 million higher than the 2015 capital program. This increased spending is mainly due to modernization projects and segment growth at the Gas Distribution Operations segment.

For 2015, capital expenditures and certain other investing activities were $1,367.5 million, which is $27.9 million higher than the 2014 capital program. This increased spending is mainly due to increased TDSIC spend in the Gas Distribution Operations segment, partially offset by lower tracker program spend at the Electric Operations segment.

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

Financing Activities
Short-term Debt. Refer to Note 15, "Short-Term Borrowings," in the Notes to Consolidated Financial Statements for information on short-term debt.
Long-term Debt. Refer to Note 14, "Long-Term Debt," in the Notes to Consolidated Financial Statements for information on long-term debt.
Net Available Liquidity. As of December 31, 2016, an aggregate of $683.7 million of net liquidity was available, including cash and credit available under the revolving credit facility and accounts receivable securitization programs.
The following table displays NiSource's liquidity position as of December 31, 2016 and 2015:

Year Ended December 31, (in millions)	2016	2015
Current Liquidity		
Revolving Credit Facility	$1,850.0	$1,500.0
Accounts Receivable Program[1]	310.0	246.0
Less:		
Drawn on Revolving Credit Facility	—	—
Commercial Paper	1,178.0	321.4
Accounts Receivable Program Utilized	310.0	246.0
Letters of Credit Outstanding Under Credit Facility	14.7	14.7
Add:		
Cash and Cash Equivalents	26.4	15.5
Net Available Liquidity	$683.7	$1,179.4

[1]Represents the lesser of the seasonal limit or maximum borrowings supportable by the underlying receivables.
The change in net available liquidity between 2016 and 2015 was driven by low utilization of short-term debt in the prior year as a result of cash proceeds received from CPG in the Separation in 2015.
Debt Covenants. NiSource is subject to financial covenants under its revolving credit facility and term loan agreement, which require NiSource to maintain a debt to capitalization ratio that does not exceed 70%. A similar covenant in a 2005 private placement note purchase agreement requires NiSource to maintain a debt to capitalization ratio that does not exceed 75%. As of December 31, 2016, the ratio was 66%.
Sale of Trade Accounts Receivables. Refer to Note 17, "Transfers of Financial Assets," in the Notes to Consolidated Financial Statements for information on the sale of trade accounts receivable.
Credit Ratings. The credit rating agencies periodically review the Company's ratings, taking into account factors such as its capital structure and earnings profile. In June 2016, Moody's affirmed the NiSource senior unsecured rating of Baa2 and its commercial paper rating of P-2, with stable outlooks. Moody's also affirmed NIPSCO's Baa1 rating and Columbia of Massachusetts's Baa2 rating, with stable outlooks. In August 2016, Standard & Poor's affirmed the BBB+ senior unsecured rating of NiSource and its subsidiaries and its commercial paper rating of A-2, with stable outlooks. In June 2016, Fitch upgraded the long-term issuer default ratings of NiSource and NIPSCO to BBB and affirmed the commercial paper rating of F3, with stable outlooks.
Certain NiSource subsidiaries have agreements that contain "ratings triggers" that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are below investment grade. These agreements are primarily for insurance purposes and for the physical purchase or sale of power. As of December 31, 2016, the collateral requirement that would be required in the event of a downgrade below the ratings trigger levels would amount to approximately $35.4 million. In addition to agreements with ratings triggers, there are other agreements that contain "adequate assurance" or "material adverse change" provisions that could necessitate additional credit support such as letters of credit and cash collateral to transact business.
Equity. NiSource has a shelf registration statement on file with the SEC that authorizes NiSource to issue an indeterminate amount of common stock and preferred stock, as well as other securities. The authorized capital stock of

NiSource consists of 420,000,000 shares, $0.01 par value, of which 400,000,000 are common stock and 20,000,000 are preferred stock. As of December 31, 2016, 323,159,672 shares of common stock were outstanding. NiSource has no preferred stock outstanding as of December 31, 2016.

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

Contractual Obligations. NiSource has certain contractual obligations requiring payments at specified periods. The obligations include long-term debt, lease obligations, energy commodity contracts and obligations for various services including pipeline capacity and IBM outsourcing. The total contractual obligations in existence at December 31, 2016 and their maturities were:

(in millions)	Total	2017	2018	2019	2020	2021	After
Long-term debt [1]	$6,305.5	$349.9	$476.0	$1,041.0	$550.0	$63.6	$3,825.0
Capital leases [2]	250.0	22.7	18.5	14.2	13.5	13.4	167.7
Interest payments on long-term debt	4,611.2	337.9	305.3	265.2	244.9	214.9	3,243.0
Operating leases[3]	54.6	15.4	9.4	7.5	4.8	4.1	13.4
Energy commodity contracts[4]	312.1	108.5	67.7	67.3	68.0	0.6	—
Service obligations:							
Pipeline service obligations	2,002.1	532.7	382.7	293.1	176.0	139.2	478.4
IBM service obligations	325.0	84.1	81.2	80.0	79.7	—	—
Other service obligations	77.7	58.1	17.4	1.9	0.3	—	—
Other liabilities	34.4	34.4	—	—	—	—	—
Total contractual obligations	$13,972.6	$1,543.7	$1,358.2	$1,770.2	$1,137.2	$435.8	$7,727.5

(1) Long-term debt balance excludes unamortized issuance costs and discounts of $41.6 million.
(2) Capital lease payments shown above are inclusive of interest totaling $92.6 million.
(3) Operating lease balances do not include amounts for fleet leases that can be renewed beyond the initial lease term. The Company anticipates renewing the leases beyond the initial term, but the anticipated payments associated with the renewals do not meet the definition of expected minimum lease payments and therefore are not included above. Expected payments are $31.1 million in 2017, $32.9 million in 2018, $26.1 million in 2019, $17.5 million in 2020, $8.0 million in 2021 and $2.0 million thereafter.
(4)In January 2017, NIPSCO signed new coal contract commitments of $24.2 million and $10.1 million for 2017 and 2018, respectively. These contracts are not included above.

NiSource calculated estimated interest payments for long-term debt as follows: for the fixed-rate debt, interest is calculated based on the stated coupon and payment dates; for variable-rate debt, interest rates used are those that are in place as of December 31, 2016. For 2017, NiSource projects that it will be required to make interest payments of approximately $356 million, which includes $337.9 million of interest payments related to its long-term debt outstanding as of December 31, 2016. At December 31, 2016, NiSource also had $1,488.0 million in short-term borrowings outstanding.

NiSource's expected payments included within "Other liabilities" in the table of contractual commitments above contains employer contributions to pension and other postretirement benefits plans expected to be made in 2017. Plan contributions beyond 2017 are dependent upon a number of factors, including actual returns on plan assets, which cannot be reliably estimated at this time. In 2017, NiSource expects to make contributions of approximately $9.1 million to its pension plans and approximately $25.3 million to its postretirement medical and life plans. Refer to Note 11, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for more information.

NiSource cannot reasonably estimate the settlement amounts or timing of cash flows related to long-term obligations classified as "Total Other Liabilities" on the Consolidated Balance Sheets, other than those described above.

NiSource also has obligations associated with income, property, gross receipts, franchise, payroll, sales and use, and various other taxes and expects to make tax payments of approximately $214.7 million in 2017, which are not included in the table above.

Refer to Note 18-A, "Contractual Obligations," in the Notes to Consolidated Financial Statements for further information.

Off-Balance Sheet Arrangements

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

Refer to Note 18, “Other Commitments and Contingencies,” in the Notes to Consolidated Financial Statements for additional information about NiSource’s off-balance sheet arrangements.

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

Market Risk Disclosures
Risk is an inherent part of NiSource’s businesses. The extent to which NiSource properly and effectively identifies, assesses, monitors and manages each of the various types of risk involved in its businesses is critical to its profitability. NiSource seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal market risks that are involved in NiSource’s businesses: commodity price risk, interest rate risk and credit risk. Risk management at NiSource is a multi-faceted process with oversight by the Risk Management Committee that requires constant communication, judgment and knowledge of specialized products and markets. NiSource’s senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. These may include but are not limited to market, operational, financial, compliance and strategic risk types. In recognition of the increasingly varied and complex nature of the energy business, NiSource’s risk management process, policies and procedures continue to evolve and are subject to ongoing review and modification.
Commodity Price Risk
NiSource is exposed to commodity price risk as a result of its subsidiaries’ operations involving natural gas and power. To manage this market risk, NiSource’s subsidiaries use derivatives, including commodity futures contracts, swaps, forwards and options. NiSource does not participate in speculative energy trading activity.
Commodity price risk resulting from derivative activities at NiSource’s rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the ratemaking process, including gains or losses on these derivative instruments. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional ratemaking process and may be more exposed to commodity price risk.
NiSource subsidiaries are required to make cash margin deposits with their brokers to cover actual and potential losses in the value of outstanding exchange traded derivative contracts. The amount of these deposits, which are reflected in NiSource’s restricted cash balance, may fluctuate significantly during periods of high volatility in the energy commodity markets.
Refer to Note 9, "Risk Management Activities," in the Notes to the Consolidated Financial Statements for further information on NiSource's commodity price risk assets and liabilities as of December 31, 2016 and 2015.
Interest Rate Risk
NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under its revolving credit agreement, commercial paper program and accounts receivable programs, which have interest rates that are indexed to short-term market interest rates. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates, an increase (or decrease) in short-term interest rates of 100 basis points (1%) would have increased (or decreased) interest expense by $11.7 million and $8.2 million for the years 2016 and 2015, respectively. NiSource and its subsidiaries manage interest rate risk on long-term debt through forward starting interest rate swaps that hedge the interest rate risk related to forecasted issuances. NiSource is also exposed to interest rate risk as a result of changes in benchmark rates that can influence the interest rates of future debt issuances.
Refer to Note 9, "Risk Management Activities," in the Notes to Consolidated Financial Statements for further information on NiSource's interest rate risk assets and liabilities as of December 31, 2016 and 2015.
Credit Risk
Due to the nature of the industry, credit risk is embedded in many of NiSource’s business activities. NiSource’s extension of credit is governed by a Corporate Credit Risk Policy. In addition, Risk Management Committee guidelines are in place which document management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation efforts. Exposures to credit risks are monitored by the risk management function which is independent of commercial operations. Credit risk arises due to the possibility that a customer, supplier or

counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative-related contracts, credit risk arises when counterparties are obligated to deliver or purchase defined commodity units of gas or power to NiSource at a future date per execution of contractual terms and conditions. Exposure to credit risk is measured in terms of both current obligations and the market value of forward positions net of any posted collateral such as cash and letters of credit.

NiSource closely monitors the financial status of its banking credit providers. NiSource evaluates the financial status of its banking partners through the use of market-based metrics such as credit default swap pricing levels, and also through traditional credit ratings provided by major credit rating agencies.

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

Fair Value Measurement

NiSource measures certain financial assets and liabilities at fair value. The level of the fair value hierarchy disclosed is based on the lowest level of input that is significant to the fair value measurement. NiSource's financial assets and liabilities include price risk management assets and liabilities and available-for-sale securities.

NiSource's risk management assets and liabilities can generally be grouped into commodity purchase contracts, used to economically hedge against future changes in the price of coal or natural gas, and interest rate swaps, used to economically hedge against future changes in benchmark interest rates.

For commodity purchase contracts, exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. These financial assets and liabilities are secured with cash on deposit with the exchange; therefore nonperformance risk has not been incorporated into these valuations. Certain non-exchange-traded derivatives are valued using broker or over-the-counter, on-line exchanges. In such cases, these non-exchange-traded derivatives are classified within Level 2. Non-exchange-based derivative instruments may include futures, swaps, forwards, and options. In certain instances, NiSource may utilize models to measure fair value. Valuation models utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Credit risk is considered in the fair value calculation of derivative instruments that are not exchange-traded. Credit exposures are adjusted to reflect collateral agreements which reduce exposures.

NiSource's interest rate swaps are designated as cash flow hedges. Each period the swap instruments will be measured assuming a hypothetical settlement at that point in time. Upon termination of the swap instruments, NiSource will pay or receive a settlement based on the current market value. Credit risk is considered in the fair value calculation of each interest rate swap. As they are based on observable data and valuations of similar instruments, the interest rate swaps are categorized in Level 2 in the fair value hierarchy.

Available-for-sale securities are investments pledged as collateral for trust accounts related to NiSource's wholly-owned insurance company. Available-for-sale securities are included within "Other investments" in the Consolidated Balance Sheets. NiSource values U.S. Treasury, corporate and mortgage-backed securities using a matrix pricing model that incorporates market-based information. These securities trade less frequently and are classified within Level 2. Total unrealized gains and losses from available-for-sale securities are included in other comprehensive income (loss).

Refer to Note 16, "Fair Value," in the Notes to the Consolidated Financial Statements for additional information on NiSource's fair value measurements.

Other Information

Critical Accounting Policies

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

Basis of Accounting for Rate-Regulated Subsidiaries. ASC Topic 980, Regulated Operations, provides that rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the Consolidated Balance Sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. The total amounts of regulatory assets and liabilities reflected on the Consolidated Balance Sheets were $1,885.4 million and $1,381.8 million at December 31, 2016, and $1,806.7 million and $1,581.8 million at December 31, 2015, respectively. For additional information, refer to Note 8, "Regulatory Matters," in the Notes to Consolidated Financial Statements.

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

Certain of the regulatory assets reflected on NiSource's Consolidated Balance Sheets require specific regulatory action in order to be included in future service rates. Although recovery of these amounts is not guaranteed, NiSource believes that these costs meet the requirements for deferral as regulatory assets. Regulatory assets requiring specific regulatory action amounted to $323.5 million at December 31, 2016. If NiSource determined that the amounts included as regulatory assets were not recoverable, a charge to income would immediately be required to the extent of the unrecoverable amounts.

Pension and Postretirement Benefits. NiSource has defined benefit plans for both pension and other postretirement benefits. The calculation of the net obligations and annual expense related to the plans requires a significant degree of judgment regarding the discount rates to be used in bringing the liabilities to present value, expected long-term returns on plan assets, healthcare trend rates, and mortality rates, among other assumptions. Due to the size of the plans and the long-term nature of the associated liabilities, changes in the assumptions used in the actuarial estimates could have material impacts on the measurement of the net obligations and annual expense recognition. Differences between actuarial assumptions and actual plan results are deferred into AOCI or a regulatory balance sheet account, depending on the jurisdiction of the NiSource entity. These deferred gains or losses are then amortized into the income statement when the accumulated differences exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. This is known in GAAP as the "corridor" method.

The discount rates, expected long-term rates of return on plan assets, health care cost trend rates and mortality rates are critical assumptions. Methods used to develop these assumptions are described below. While a third party actuarial firm assists with the development of many of these assumptions, NiSource is ultimately responsible for selecting the final assumptions.

The discount rate is utilized principally in calculating the actuarial present value of pension and other postretirement benefit obligations and net periodic pension and other postretirement benefit plan costs. NiSource's discount rates for both pension and other postretirement benefits are determined using an AA-rated above median yield curve with cash flows matching the expected duration of benefit payments to be made to plan participants.

The expected long-term rate of return on plan assets is a component utilized in calculating annual pension and other postretirement benefit plan costs. NiSource estimates the expected return on plan assets by evaluating expected bond returns, equity risk premiums, target asset allocations, the effects of active plan management, the impact of periodic plan asset rebalancing and historical performance. NiSource also considers the guidance from its investment advisors in making a final determination of its expected rate of return on assets.

For measurement of 2017 net periodic benefit cost, NiSource selected an expected pre-tax long-term rate of return of 7.25% for its pension and other postretirement benefit plan assets.

NiSource estimates the assumed health care cost trend rate, which is used in determining our other postretirement benefit net expense, based upon our actual health care cost experience, the effects of recently enacted legislation, third-party actuarial surveys and general economic conditions.

NiSource has historically utilized the Society of Actuaries' most recently published mortality data in developing a best estimate of mortality as part of the calculation of the pension and other postretirement benefit obligations.

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

The following tables illustrate the effects of changes in these actuarial assumptions while holding all other assumptions constant:

	Impact on December 31, 2016 Projected Benefit Obligation Increase/(Decrease)	
Change in Assumptions (in millions)	Pension Benefits	Other Postretirement Benefits
+50 basis points change in discount rate	$ (95.9)	$ (27.4)
-50 basis points change in discount rate	105.3	30.1
+50 basis points change in health care trend rates		13.6
-50 basis points change in health care trend rates		(11.9)

	Impact on 2016 Expense Increase/(Decrease)	
Change in Assumptions (in millions)	Pension Benefits	Other Postretirement Benefits
+50 basis points change in discount rate	$ (3.5)	$ (1.2)
-50 basis points change in discount rate	4.0	1.1
+50 basis points change in expected long-term rate of return on plan assets	(8.3)	(1.1)
-50 basis points change in expected long-term rate of return on plan assets	8.3	1.1
+50 basis points change in health care trend rates		0.6
-50 basis points change in health care trend rates		(0.6)

Beginning January 1, 2017, NiSource will change the method used to estimate the service and interest components of net periodic benefit cost for pension and other postretirement benefits. This change, compared to the previous method, is expected to result in a decrease in the actuarially-determined service and interest cost components. Historically, NiSource estimated service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. For fiscal 2017 and beyond, NiSource elected to utilize a full yield curve approach to estimate these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. NiSource believes the new approach provides a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rates on the yield curve. The benefit obligations measured under this approach are unchanged. NiSource will account for this change as a change in accounting estimate and accordingly will account for this prospectively. For further discussion of NiSource's pension and other postretirement benefits, see Note 11, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements.

Goodwill. NiSource's goodwill assets at December 31, 2016 were $1,690.7 million, most of which resulted from the acquisition of Columbia on November 1, 2000. The Separation prompted changes in the way NiSource's chief operating decision maker manages the business where, going forward, financial accountability is largely at the individual state operating company level. This change in management approach triggered an assessment of NiSource's goodwill reporting units. Through this assessment, NiSource concluded each of the six state operating companies within the former Columbia Distribution Operations reporting unit are now operating segments. NiSource further concluded these operating segments represent goodwill reporting units as they do not contain components whose discrete financial information is regularly reviewed by segment management.

Goodwill previously allocated to the Columbia Distribution Operations reporting unit was reallocated to the six new reporting units on a relative fair value basis. NiSource’s remaining reporting unit, NIPSCO Gas Operations, was not impacted by the changes in reporting structure as it was historically, and continues to be, reviewed by the chief operating decision maker at a state operating company level.

As required by GAAP, NiSource tests for impairment of goodwill on an annual basis and on an interim basis when events or circumstances indicate that a potential impairment may exist. NiSource’s annual goodwill test takes place in the second quarter of each year and was most recently finalized as of May 1, 2016.

NiSource completed a quantitative ("step 1") fair value measurement of its reporting units during the May 1, 2016 goodwill test. Consistent with NiSource’s historical impairment testing of goodwill, fair value of the reporting units was determined based on a weighting of income and market approaches. These approaches require significant judgments including appropriate long-term

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growth rates and discount rates for the income approach and appropriate multiples of earnings for peer companies and control premiums for the market approach.

The discount rates were derived using peer company data compiled with the assistance of a third party valuation services firm. The discount rates used are subject to change based on changes in tax rates at both the state and federal level, debt and equity ratios at each reporting unit and general economic conditions.

The long-term growth rate was derived by evaluating historic growth rates, new business and investment opportunities beyond the near term horizon. The long-term growth rate is subject to change depending on inflationary impacts to the U.S. economy and the individual business environments in which each reporting unit operates.

The May 1, 2016 test indicated the fair value of each of the reporting units that carry or are allocated goodwill exceeded their carrying values, indicating that no impairment existed under the step 1 annual impairment test. If the estimates of free cash flow used in this step 1 analysis had been 10% lower, the resulting fair values would have still been greater than the carrying value for each of the reporting units tested, holding all other assumptions constant.

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

Recently Issued Accounting Pronouncements

Refer to Note 2, "Recent Accounting Pronouncements," in the Notes to Consolidated Financial Statements.

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

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
NISOURCE INC.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of NiSource Inc.
Merrillville, Indiana

We have audited the accompanying consolidated balance sheets of NiSource Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of NiSource Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, on July 1, 2015 the Company completed the spin-off of its subsidiary Columbia Pipeline Group, Inc.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control -Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
February 22, 2017

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of NiSource Inc.
Merrillville, Indiana

We have audited the internal control over financial reporting of NiSource Inc. and subsidiaries (the "Company") as of December 31, 2016, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
February 22, 2017

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)
NISOURCE INC.
STATEMENTS OF CONSOLIDATED INCOME

Year Ended December 31, (in millions, except per share amounts)	2016	2015	2014
Net Revenues			
Gas Distribution	$1,850.9	$2,081.9	$2,597.8
Gas Transportation	964.6	969.8	987.4
Electric	1,660.8	1,572.9	1,672.0
Other	16.2	27.2	15.2
Gross Revenues	4,492.5	4,651.8	5,272.4
Cost of Sales (excluding depreciation and amortization)	1,390.2	1,643.7	2,372.9
Total Net Revenues	3,102.3	3,008.1	2,899.5
Operating Expenses			
Operation and maintenance	1,453.7	1,426.1	1,367.3
Depreciation and amortization	547.1	524.4	486.9
Gain (Loss) on sale of assets and impairments, net	(1.0)	1.6	3.0
Other taxes	244.3	256.1	253.2
Total Operating Expenses	2,244.1	2,208.2	2,110.4
Operating Income	858.2	799.9	789.1
Other Income (Deductions)			
Interest expense, net	(349.5)	(380.2)	(379.5)
Other, net	1.5	17.4	13.4
Loss on early extinguishment of long-term debt	—	(97.2)	—
Total Other Deductions	(348.0)	(460.0)	(366.1)
Income from Continuing Operations before Income Taxes	510.2	339.9	423.0
Income Taxes	182.1	141.3	166.8
Income from Continuing Operations	328.1	198.6	256.2
Income from Discontinued Operations - net of taxes	3.4	103.5	273.8
Net Income	$331.5	$302.1	$530.0
Less: Net income attributable to noncontrolling interest	—	15.6	—
Net Income attributable to NiSource	$331.5	$286.5	$530.0
Amounts attributable to NiSource:			
Income from continuing operations	$328.1	$198.6	$256.2
Income from discontinued operations	3.4	87.9	273.8
Net Income attributable to NiSource	$331.5	$286.5	$530.0
Basic Earnings Per Share			
Continuing operations	$1.02	$0.63	$0.81
Discontinued operations	0.01	0.27	0.87
Basic Earnings Per Share	$1.03	$0.90	$1.68
Diluted Earnings Per Share			
Continuing operations	$1.01	$0.63	$0.81
Discontinued operations	0.01	0.27	0.86
Diluted Earnings Per Share	$1.02	$0.90	$1.67
Basic Average Common Shares Outstanding	321.8	317.7	315.1
Diluted Average Common Shares	323.5	319.8	316.6

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

Year Ended December 31, (in millions, net of taxes)	2016	2015	2014
Net Income	$331.5	$302.1	$530.0
Other comprehensive income (loss):			
Net unrealized gain (loss) on available-for-sale securities[1]	(0.1)	(0.8)	0.6
Net unrealized gain (loss) on cash flow hedges[2]	8.6	(7.8)	2.2
Unrecognized pension and OPEB benefit (costs)[3]	1.5	(2.4)	(9.8)
Total other comprehensive income (loss)	10.0	(11.0)	(7.0)
Total Comprehensive Income	$341.5	$291.1	$523.0
Less: Comprehensive income attributable to noncontrolling interest	—	15.6	—
Comprehensive Income attributable to NiSource	$341.5	$275.5	$523.0

[1] Net unrealized gain (loss) on available-for-sale securities, net of $0.1 million tax benefit, $0.4 million tax benefit and $0.3 million tax expense in 2016, 2015 and 2014, respectively.
[2] Net unrealized gain (loss) on derivatives qualifying as cash flow hedges, net of $5.6 million tax expense, $4.8 million tax benefit and $1.5 million tax expense in 2016, 2015 and 2014, respectively.
[3] Unrecognized pension and OPEB benefit (costs), net of $0.1 million tax expense, $4.6 million tax benefit and $2.5 million tax benefit in 2016, 2015 and 2014, respectively.
The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

(in millions)	December 31, 2016	December 31, 2015
ASSETS		
Property, Plant and Equipment		
Utility plant	$ 19,368.0	$ 18,946.9
Accumulated depreciation and amortization	(6,613.7)	(6,853.4)
Net utility plant	12,754.3	12,093.5
Other property, at cost, less accumulated depreciation	313.7	18.0
Net Property, Plant and Equipment	13,068.0	12,111.5
Investments and Other Assets		
Unconsolidated affiliates	6.6	6.9
Other investments	193.3	187.7
Total Investments and Other Assets	199.9	194.6
Current Assets		
Cash and cash equivalents	26.4	15.5
Restricted cash	9.6	29.7
Accounts receivable (less reserve of $23.3 and $20.3, respectively)	847.0	660.0
Gas inventory	279.9	343.5
Materials and supplies, at average cost	101.7	86.8
Electric production fuel, at average cost	112.8	106.3
Exchange gas receivable	5.4	21.0
Regulatory assets	248.7	206.9
Prepayments and other	130.6	107.5
Total Current Assets	1,762.1	1,577.2
Other Assets		
Regulatory assets	1,636.7	1,599.8
Goodwill	1,690.7	1,690.7
Intangible assets	242.7	253.7
Deferred charges and other	91.8	65.0
Total Other Assets	3,661.9	3,609.2
Total Assets	$ 18,691.9	$ 17,492.5

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)	December 31, 2016	December 31, 2015
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders' Equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 323,159,672 and 319,110,083 shares outstanding, respectively	$ 3.3	$ 3.2
Treasury stock	(88.7)	(79.3)
Additional paid-in capital	5,153.9	5,078.0
Retained deficit	(972.2)	(1,123.3)
Accumulated other comprehensive loss	(25.1)	(35.1)
Total Common Stockholders' Equity	4,071.2	3,843.5
Long-term debt, excluding amounts due within one year	6,058.2	5,948.5
Total Capitalization	10,129.4	9,792.0
Current Liabilities		
Current portion of long-term debt	363.1	433.7
Short-term borrowings	1,488.0	567.4
Accounts payable	539.4	433.4
Customer deposits and credits	264.1	316.3
Taxes accrued	195.4	183.5
Interest accrued	120.3	129.0
Exchange gas payable	83.7	62.3
Regulatory liabilities	116.7	231.4
Legal and environmental	37.4	37.6
Accrued compensation and employee benefits	161.4	141.3
Other accruals	82.7	121.6
Total Current Liabilities	3,452.2	2,657.5
Other Liabilities		
Risk management liabilities	44.5	22.6
Deferred income taxes	2,528.0	2,365.3
Deferred investment tax credits	13.4	14.8
Accrued insurance liabilities	82.8	87.2
Accrued liability for postretirement and postemployment benefits	713.4	759.7
Regulatory liabilities	1,265.1	1,350.4
Asset retirement obligations	262.6	254.0
Other noncurrent liabilities	200.5	189.0
Total Other Liabilities	5,110.3	5,043.0
Commitments and Contingencies (Refer to Note 18, "Other Commitments and Contingencies")	—	—
Total Capitalization and Liabilities	$ 18,691.9	$ 17,492.5

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NISOURCE INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS

Year Ended December 31, (in millions)	2016	2015	2014
Operating Activities			
Net Income	$331.5	$302.1	$530.0
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:			
Loss on early extinguishment of debt	—	97.2	—
Depreciation and amortization	547.1	524.4	486.9
Deferred income taxes and investment tax credits	182.3	135.3	161.4
Stock compensation expense and 401(k) profit sharing contribution	46.5	50.7	66.0
Income from discontinued operations - net of taxes	(3.4)	(103.5)	(273.8)
Amortization of discount/premium on debt	7.6	8.7	10.0
AFUDC equity	(11.6)	(11.5)	(10.7)
Other adjustments	(3.8)	13.1	6.3
Changes in Assets and Liabilities:			
Accounts receivable	(188.0)	262.2	(42.8)
Inventories	38.9	46.9	(115.9)
Accounts payable	108.8	(190.5)	29.9
Customer deposits and credits	(52.3)	35.5	