FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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NISOURCE INC/DE

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2006

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)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

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

Indicate the number of shares outstanding of each of the issuer' s classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 272,799,710 shares outstanding at July 31, 2006.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED JUNE 30, 2006

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DEFINED TERMS

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

NiSource Subsidiaries and Affiliates	
Bay State	Bay State Gas Company
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Atlantic Trading	Columbia Atlantic Trading Corporation
Columbia Deep Water	Columbia Deep Water Service Company
Columbia Energy Services	Columbia Energy Services Corporation
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission Corporation
CORC	Columbia of Ohio Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Lake Erie Land	Lake Erie Land Company
Millennium	Millennium Pipeline Company, L.P.
NDC Douglas Properties	NDC Douglas Properties, Inc.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corp.
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
Northern Utilities	Northern Utilities, Inc.
NRC	NIPSCO Receivables Corporation
PEI	PEI Holdings, Inc.
TPC	EnergyUSA-TPC Corp.
Transcom	Columbia Transmission Communications Corporation
Whiting Clean Energy	Whiting Clean Energy, Inc.
Whiting Leasing	Whiting Leasing LLC

Abbreviations	
APB No. 25	Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
Day 1	Began October 1, 2003 and refers to Northern Indiana turning over operational control of the interchange facilities and its own transmission assets like many other Midwestern electric utilities to MISO
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and transmission service,

managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets

DEFINED TERMS (continued)

DOT	United States Department of Transportation
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EER	Environmental Expense Recovery
EERM	Environmental Expense Recovery Mechanism
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FIN 48	FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
Massachusetts DTE	Massachusetts Department of Telecommunications and Energy
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYDOS	New York' s Department of State
NYMEX	New York Mercantile Exchange
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
PCB	Polychlorinated biphenyls
PIP	Percentage of Income Payment Plan
PPS	Price Protection Service
PRB	Powder River Basin
Private Power	Private Power, LLC
PUCO	Public Utilities Commission of Ohio
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 87	Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions"
SFAS No. 88	Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"
SFAS No. 106	Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"

DEFINED TERMS (continued)

SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"
SFAS No. 132R	Statement of Financial Accounting Standards No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits − An Amendment of FASB Statements No. 87, 88, and 10"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SFAS No. 154	Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections"
SIP	State Implementation Plan
SO2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors
VNG	Virginia Natural Gas, Inc.
VSCC	Commonwealth of Virginia State Corporate Commission

PART I

ITEM 1. FINANCIAL STATEMENTS

NiSource Inc.

Statements of Consolidated Income (unaudited)

(in millions, except per share amounts*)*	Three Months Ended June 30, **2006**	2005	Six Months Ended June 30, **2006**	2005
Net Revenues				
Gas Distribution	**$605.3**	$659.3	**$2,603.5**	$2,487.6
Gas Transportation and Storage	**220.5**	213.0	**541.1**	541.9
Electric	**301.9**	282.1	**607.6**	564.7
Other	**184.2**	201.2	**532.1**	443.9
Gross Revenues	**1,311.9**	1,355.6	**4,284.3**	4,038.1
Cost of Sales	**670.4**	701.7	**2,662.1**	2,371.9
Total Net Revenues	**641.5**	653.9	**1,622.2**	1,666.2
Operating Expenses				
Operation and maintenance	**307.0**	316.9	**679.4**	654.1
Depreciation and amortization	**138.1**	136.1	**274.9**	271.0
Impairment and loss on sale of assets	**4.2**	21.0	**5.1**	20.4
Other taxes	**60.6**	60.1	**163.6**	163.2
Total Operating Expenses	**509.9**	534.1	**1,123.0**	1,108.7
Operating Income	**131.6**	119.8	**499.2**	557.5
Other Income (Deductions)				
Interest expense, net	**(93.3)**	(101.5)	**(188.7)**	(205.5)
Dividend requirements on preferred stock of subsidiaries	**–**	(1.1)	**(1.1)**	(2.2)
Other, net	**(2.7)**	3.6	**(6.1)**	3.1
Loss on early redemption of preferred stock	**(0.7)**	–	**(0.7)**	–
Total Other Income (Deductions)	**(96.7)**	(99.0)	**(196.6)**	(204.6)
Income From Continuing Operations Before Income Taxes	**34.9**	20.8	**302.6**	352.9
Income Taxes	**13.4**	12.5	**108.2**	135.9
Income From Continuing Operations	**21.5**	8.3	**194.4**	217.0
Loss from Discontinued Operations – net of taxes	**(0.7)**	(12.0)	**(1.1)**	(14.2)
Gain on Disposition of Discontinued Operations – net of taxes	**0.2**	42.7	**0.2**	42.5
Change in Accounting – net of taxes	**–**	–	**0.4**	–
Net Income	**$21.0**	$39.0	**$193.9**	$245.3
Basic Earnings Per Share ($)				
Continuing operations	**0.08**	0.03	**0.71**	0.80
Discontinued operations	**–**	0.12	**–**	0.11
Basic Earnings Per Share	**0.08**	0.15	**0.71**	0.91
Diluted Earnings Per Share ($)				
Continuing operations	**0.08**	0.03	**0.71**	0.80
Discontinued operations	**–**	0.11	**–**	0.10
Diluted Earnings Per Share	**0.08**	0.14	**0.71**	0.90
Dividends Declared Per Common Share ($)	**0.23**	0.23	**0.46**	0.46

Basic Average Common Shares Outstanding (millions)	**272.4**	271.2	**272.4**	270.8
Diluted Average Common Shares (millions)	**273.2**	273.1	**273.1**	272.6

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Consolidated Balance Sheets (unaudited)

(in millions)	**June 30, 2006**	December 31, 2005
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$16,857.9**	$ 16,684.4
Accumulated depreciation and amortization	**(7,710.6)**	(7,556.8)
Net utility plant	**9,147.3**	9,127.6
Other property, at cost, less accumulated depreciation	**354.7**	426.7
Net Property, Plant and Equipment	**9,502.0**	9,554.3
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**57.3**	34.6
Unconsolidated affiliates	**80.7**	75.0
Other investments	**100.1**	114.2
Total Investments	**238.1**	223.8
Current Assets		
Cash and cash equivalents	**57.9**	69.4
Restricted cash	**71.7**	33.9
Accounts receivable (less reserve of $69.4 and $67.9, respectively)	**472.1**	1,254.6
Gas inventory	**244.1**	526.9
Underrecovered gas and fuel costs	**81.2**	421.8
Materials and supplies, at average cost	**84.9**	72.0
Electric production fuel, at average cost	**48.3**	24.9
Price risk management assets	**144.5**	183.1
Exchange gas receivable	**780.6**	169.8
Regulatory assets	**233.2**	195.0
Prepayments and other	**70.5**	109.3
Total Current Assets	**2,289.0**	3,060.7
Other Assets		
Price risk management assets	**107.0**	192.9
Regulatory assets	**594.2**	586.3
Goodwill	**3,677.3**	3,677.3
Intangible assets	**489.4**	495.8
Deferred charges and other	**191.7**	167.4
Total Other Assets	**5,059.6**	5,119.7
Total Assets	**$17,088.7**	$ 17,958.5

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Consolidated Balance Sheets (unaudited) (continued)

(in millions, except share amounts)	**June 30, 2006**	December 31, 2005
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock − $0.01 par value, 400,000,000 shares authorized; 272,711,758 and 272,622,905 shares issued and outstanding, respectively	**$2.7**	$ 2.7
Additional paid-in-capital, net of deferred stock compensation	**3,972.8**	3,969.4
Retained earnings	**987.4**	981.6
Accumulated other comprehensive loss and other common stock equity	**(91.2)**	(20.7)
Total common stock equity	**4,871.7**	4,933.0
Preferred stocks−Series without mandatory redemption provisions	**–**	81.1
Long-term debt, excluding amounts due within one year	**5,163.5**	5,271.2
Total Capitalization	**10,035.2**	10,285.3
Current Liabilities		
Current portion of long-term debt	**441.8**	440.7
Short-term borrowings	**420.0**	898.0
Accounts payable	**329.8**	866.7
Dividends declared on common and preferred stocks	**62.8**	1.1
Customer deposits	**104.5**	101.9
Taxes accrued	**238.8**	217.5
Interest accrued	**90.1**	86.2
Overrecovered gas and fuel costs	**143.2**	25.8
Price risk management liabilities	**98.3**	72.3
Exchange gas payable	**854.3**	425.2
Deferred revenue	**37.9**	51.3
Regulatory liabilities	**35.6**	46.3
Accrued liability for postretirement and postemployment benefits	**61.0**	61.1
Other accruals	**319.3**	549.1
Total Current Liabilities	**3,237.4**	3,843.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	**64.6**	22.2
Deferred income taxes	**1,497.6**	1,591.9
Deferred investment tax credits	**65.8**	69.9
Deferred credits	**91.3**	81.1
Deferred revenue	**41.4**	60.4
Accrued liability for postretirement and postemployment benefits	**505.0**	511.0
Liabilities of discontinued operations and liabilities held for sale	**10.0**	–
Regulatory liabilities and other removal costs	**1,237.2**	1,196.2
Asset retirement obligations	**123.5**	119.8
Other noncurrent liabilities	**179.7**	177.5
Total Other Liabilities and Deferred Credits	**3,816.1**	3,830.0
Commitments and Contingencies	**–**	–
Total Capitalization and Liabilities	**$17,088.7**	$ 17,958.5

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Statements of Consolidated Cash Flows (unaudited)

Six Months Ended June 30, *(in millions)*	**2006**	2005
Operating Activities		
Net income	**$193.9**	$245.3
Adjustments to reconcile net income to net cash from continuing operations:		
Loss on early redemption of preferred stock	**0.7**	–
Depreciation and amortization	**274.9**	271.0
Net changes in price risk management assets and liabilities	**16.7**	(9.0)
Deferred income taxes and investment tax credits	**(108.3)**	(81.6)
Deferred revenue	**(32.5)**	(12.4)
Stock compensation expense	**3.1**	4.7
Gain on sale of assets	**(0.8)**	(1.4)
Loss on impairment of assets	**5.9**	21.8
Cumulative effect of change in accounting principle, net of taxes	**(0.4)**	–
Income from unconsolidated affiliates	**(2.4)**	(2.8)
Gain on sale of discontinued operations	**(0.2)**	(42.5)
Loss from discontinued operations	**1.1**	14.2
Amortization of discount/premium on debt	**3.9**	9.7
Other adjustments	**(4.2)**	(0.4)
Changes in assets and liabilities:		
Accounts receivable	**793.8**	405.2
Inventories	**259.6**	241.7
Accounts payable	**(547.2)**	(250.0)
Customer deposits	**2.5**	0.5
Taxes accrued	**12.9**	38.5
Interest accrued	**3.9**	(0.9)
(Under) Overrecovered gas and fuel costs	**458.1**	247.0
Exchange gas receivable/payable	**(172.8)**	(61.8)
Other accruals	**(155.7)**	(71.4)
Prepayments and other current assets	**37.5**	5.1
Regulatory assets/liabilities	**(25.5)**	(27.6)
Postretirement and postemployment benefits	**1.1**	15.8
Deferred credits	**(7.7)**	(8.3)
Deferred charges and other noncurrent assets	**(8.4)**	(3.1)
Other noncurrent liabilities	**16.5**	6.6
Net Operating Activities from Continuing Operations	**1,020.0**	953.9
Net Operating Activities from or (used for) Discontinued Operations	**0.7**	(16.2)
Net Cash Flows from Operating Activities	**1,020.7**	937.7
Investing Activities		
Capital expenditures	**(267.6)**	(243.1)
Proceeds from disposition of assets	**7.6**	7.4
Restricted cash	**(43.5)**	24.6
Other investing activities	**3.1**	(14.9)
Net Cash Flows used for Investing Activities	**(300.4)**	(226.0)
Financing Activities		
Retirement of long-term debt	**(42.5)**	(81.0)
Change in short-term debt	**(478.0)**	(307.6)
Retirement of preferred shares	**(81.1)**	–
Issuance of common stock	**2.1**	32.1
Acquisition of treasury stock	**(5.9)**	(1.6)
Dividends paid – common shares	**(126.4)**	(124.9)
Net Cash Flows used for Financing Activities	**(731.8)**	(483.0)
Increase (Decrease) in cash and cash equivalents	**(11.5)**	228.7

Cash and cash equivalents at beginning of year	**69.4**	29.5
Cash and cash equivalents at end of period	**$57.9**	$258.2
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	**$185.1**	$200.8
Interest capitalized	**4.2**	0.4
Cash paid for income taxes	**166.0**	92.8

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Statements of Consolidated Comprehensive Income (Loss) (unaudited)

(in millions, net of taxes)	Three Months Ended June 30, **2006**	2005	Six Months Ended June 30, **2006**	2005
Net Income	**$21.0**	$39.0	**$193.9**	$245.3
Other comprehensive income (loss)				
Net unrealized gains (losses) on cash flow hedges	**(14.5)**	(38.2)	**(65.5)**	16.2
Net gain (loss) on available for sale securities	**1.2**	(1.0)	**0.9**	0.5
Total other comprehensive income (loss)	**(13.3)**	(39.2)	**(64.6)**	16.7
Total Comprehensive Income (Loss)	**$7.7**	$(0.2)	**$129.3**	$262.0

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.

Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying unaudited consolidated financial statements for NiSource reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with generally accepted accounting principles in the United States of America.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource' s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors. Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

2. Recent Accounting Pronouncements

SFAS No. 123 (revised 2004) − Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource' s consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. Upon adoption of SFAS No. 123R in the first quarter of 2006, NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the outstanding share-based awards will continue to be accounted for substantially as they were prior to the adoption of SFAS No. 123R. For 2006, NiSource' s Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of June 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $20.4 million, which will be amortized over the weighted-average remaining requisite service period of 2.7 years. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for 2005.

(in millions, except per share data)		Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net Income			
As reported		$39.0	$245.3
Add:	Stock-based employee compensation expense included in reported net income, net of related tax effects	1.9	2.9
Less:	Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	1.9	9.1
Pro forma		$39.0	$239.1
Earnings per share ($)			
Basic	− as reported	0.15	0.91
	− pro forma	0.15	0.88
Diluted	− as reported	0.14	0.90
	− pro forma	0.14	0.88

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

SFAS No. 154 − Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource' s consolidated financial statements as a result of the adoption of SFAS No. 154.

FIN 48 − Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets this 50% threshold, it is to be based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of FIN 48 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. This Interpretation is effective for fiscal years beginning after December 15, 2006.

3. Stock Options and Awards

Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource' s Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123.

NiSource currently issues long-term incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 (1994 Plan). The 1994 Plan, as amended and restated, permits the following types of grants, separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights, performance units, contingent stock awards and dividend equivalents payable on grants of options, performance units and contingent stock awards. Under the plan, each option has a maximum term of ten years from the date of grant. NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, NiSource awarded stock options that vested immediately, but included a one-year exercise restriction. Stock appreciation rights may be granted only in tandem with stock options on a one-for-one basis and are payable in cash, common stock, or a combination thereof. In addition, NiSource currently has non-qualified option grants outstanding and vested which were granted under a 1988 long-term incentive plan.

At the annual meeting of stockholders held on May 10, 2005, NiSource' s stockholders approved proposed amendments to the 1994 Plan. The amendments (i) increased the maximum number of shares of NiSource common stock that may be subject to awards from 21 million to 43 million and (ii) extended the period during which awards could be granted to May 10, 2015 and extended the term of the plan until all the awards have been satisfied by either issuance of stock or the payment of cash. At June 30, 2006, there were 26,105,574 shares reserved for future awards under the amended and restated 1994 Plan.

NiSource has granted restricted stock awards, which are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant and will vest over periods from one year or more. If a participant' s employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. However, awards may vest upon death, disability, or upon a change of control or retirement. There were 10,000 restricted shares outstanding at June 30, 2006, which were not a part of the time accelerated restricted stock award plan described below.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

NiSource awarded restricted shares and restricted stock units that contain provisions for time-accelerated vesting to key executives under the 1994 Plan. Most of these awards were issued in January 2003 and January 2004. These awards of restricted stock or restricted stock units generally vest over a period of six years or, in the case of restricted stock units at age 62 if an employee would become age 62 within six years, but not less than three years. If certain predetermined criteria involving measures of total shareholder return are met, as measured at the end of the third year after the grant date, the awards vest at the end of the third year. At June 30, 2006, NiSource had 824,495 awards outstanding which contain the time-accelerated provisions. The total shareholder return measures established for the 2003 awards were not met as of December 31, 2005, therefore these grants will not have an accelerated vesting period. The measures for the 2004 awards were not met as of June 30, 2006, therefore these grants will not have an accelerated vesting period.

For 2006, NiSource' s Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares.

The Amended and Restated Non-employee Director Stock Incentive Plan, which was approved by the Board and stockholders at the 2003 annual meeting, provides for the issuance of up to 500,000 shares of common stock to non-employee directors. The Plan provides for awards of common stock, which vest in 20% increments per year, with full vesting after five years. The Plan permits the granting of restricted stock units and allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director' s death or disability, or a change in control of NiSource. If a director' s service on the Board is terminated for any reason other than retirement at or after age 70, death or disability, any shares of common stock not vested as of the date of termination are forfeited. As of June 30, 2006, 89,860 restricted shares and 104,303 restricted stock units had been issued under the Plan.

Option grants are granted with an exercise price equal to the average of the high and low market price on the day of the grant. Stock option transactions for the first half of 2006 were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at January 1, 2006	**9,948,383**	**22.59**
Granted	–	N/A
Exercised	(84,908)	19.84
Cancelled	(587,180)	23.60
Outstanding at June 30, 2006	**9,276,295**	**22.55**
Exercisable at June 30, 2006	**9,276,295**	**22.55**

The following table summarizes information on stock options outstanding and exercisable at June 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share ($)	Number Outstanding	Weighted Average Exercise Price Per Share ($)	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price Per Share ($)
17.53 - 20.45	1,441,793	19.57	5.6	1,441,793	19.57
20.46 - 23.38	5,709,566	22.09	6.9	5,709,566	22.09
23.39 - 26.30	1,788,186	25.19	4.0	1,788,186	25.19
26.31 - 29.22	336,750	29.22	1.9	336,750	29.22
	9,276,295	22.55	6.0	9,276,295	22.55

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

There were no stock appreciation rights outstanding at June 30, 2006.

No options were granted during the six months ended June 30, 2006. The fair value of each option granted during the six months ended June 30, 2005 was estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.1%. The weighted average fair value of the options granted during the six months ended June 30, 2005 was $3.34. The following assumptions were used:

	June 30, 2005
Expected Life (yrs.)	**4.2**
Interest Rate	**3.5 - 3.6 %**
Volatility	**22.6 %**

NiSource recognized compensation cost of $3.1 million and $4.7 million in the first six months of 2006 and 2005, respectively, as well as related tax benefits of $1.1 million and $1.8 million, respectively. There were no modifications to awards as a result of the adoption of SFAS 123R.

As of June 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $20.4 million, which will be amortized over the weighted-average remaining requisite service period of 2.7 years.

4. Income Taxes

NiSource' s interim effective tax rates reflect the estimated annual effective tax rate for 2006 and 2005, respectively, adjusted for tax expense associated with certain discrete items. The effective tax rates for the quarter and six months ended June 30, 2006 were 38.4% and 35.8%, respectively. The effective tax rates differ from the federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and other permanent book/tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.

5. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans. The numerator in calculating both basic and diluted EPS for each period is reported net income. The computation of diluted average common shares follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2006**	2005	**2006**	2005
Denominator				
Basic average common shares outstanding	**272,399**	271,172	**272,371**	270,752
Dilutive potential common shares				
Nonqualified stock options	**81**	429	**63**	402
Shares contingently issuable under employee stock plans	**560**	884	**560**	884
Shares restricted under employee stock plans	**126**	622	**114**	590
Diluted Average Common Shares	**273,166**	273,107	**273,108**	272,628

6. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. As of June 30, 2006, 861 employees were terminated as a result of the agreement with IBM, of which 554 became employees of IBM. During the second quarter of 2006, 41 employees were terminated, none of which became

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

employees of IBM. Adjustments to the restructuring liability were recorded mainly for changes in estimated expenses related to the outsourcing initiative. Adjustments in the estimated liability are reflected in "Operation and maintenance" expense.

In the fourth quarter of 2005, NiSource announced a plan to reduce its executive ranks by approximately 15% to 20% of the top-level executive group. As of June 30, 2006, the employment of 9 employees terminated as a result of the executive initiative, of whom 4 and 9 were terminated during the quarter and six months ended June 30, 2006, respectively. In part, this reduction has come through anticipated attrition and consolidation of basic positions.

In previous years, NiSource implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource' s restructuring initiatives focused on creating operating efficiencies in the Gas Distribution and the Electric Operations segments and included the closure of the Mitchell Station in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees. In connection with these earlier restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions were identified for elimination. As of June 30, 2006, 1,566 employees were terminated, of whom no employees were terminated during the quarter and six months ended June 30, 2006. Of the $8.3 million remaining restructuring liability from the Columbia merger and related initiatives, $8.1 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at December 31, 2005	Benefits Paid	Adjustments	Balance at June 30, 2006
Outsourcing initiative	$ 11.5	$ (6.5)	$ (2.1)	$ 2.9
Executive initiative	2.9	(1.7)	–	1.2
Columbia merger and related initiatives	10.1	(1.8)	–	8.3
Total	$ 24.5	$ (10.0)	$ (2.1)	$ 12.4

7. Discontinued Operations and Assets Held for Sale

The assets of discontinued operations and assets held for sale included net property, plant, and equipment of $57.3 million and $34.6 million at June 30, 2006 and December 31, 2005, respectively.

NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. One of these investments was disposed of in the first quarter of 2006 and four other investments will be sold or disposed of during 2006 and 2007. An impairment loss of $2.3 million was recorded in the second quarter of 2006, due to the current book value exceeding the estimated fair value of these investments. NiSource has accounted for the investments to be sold, valued at $10.2 million as of June 30, 2006 after impairment, as assets held for sale. Mortgage notes and other accrued liabilities related to these investments of $10.0 million are accounted for as liabilities held for sale.

NiSource Corporate Services is in the process of selling its Marble Cliff facility. An impairment loss of $2.5 million was recognized in the first quarter of 2006 due to the current book value exceeding the estimated fair value of the facility. NiSource has accounted for this facility, valued at $12.7 million as of June 30, 2006 after impairment, as assets held for sale. Additionally, in the second quarter of 2006 NiSource Corporate Services made a decision to sell a corporate aircraft with an approximate fair value of $9.6 million, which is accounted for as assets held for sale. An impairment loss of $0.9 million was recognized in the second quarter of 2006 based on the estimated market value of the aircraft.

NiSource Development Company is in the process of selling its Northern Indiana headquarters facility. NiSource has accounted for this facility, with a net book value of $1.8 million as of June 30, 2006, as assets held for sale.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

As part of PEI' s sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel Gary Works exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the settlement of this obligation. In the second quarter of 2006, NiSource paid Private Power a sum of approximately $8.0 million to settle this obligation.

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The Sand Creek Golf Club assets were included in assets of discontinued operations at March 31, 2006. In June 2006, the assets of the Sand Creek Golf Club valued at $11.9 million and additional properties, were sold to a private real estate development group. An after-tax loss of $0.2 million was recorded in June 2006. As a result of the June transaction with the private developer, at June 30, 2006, $4.3 million of assets, representing an estimate of future property to be sold during the next twelve months, are reflected as assets held for sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.7 million, as assets held for sale. Based on discussion with the potential buyer, NiSource does not believe that it is likely to sell certain assets formerly held by Transcom that were valued at $6.1 million. These assets were written down to zero in June 2005.

Results from discontinued operations from NDC Douglas Properties low income housing investments, the golf course assets of Lake Erie Land and adjustments for NiSource' s former exploration and production subsidiary, CER, and water utilities are provided in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2006**	2005	**2006**	2005
Revenues from Discontinued Operations	**$1.8**	$2.1	**$3.1**	$3.8
Loss from discontinued operations	**(1.1)**	(18.1)	**(1.8)**	(21.8)
Income tax benefit	**(0.4)**	(6.1)	**(0.7)**	(7.6)
Net Loss from Discontinued Operations	**$(0.7)**	$(12.0)	**$(1.1)**	$(14.2)

8. Regulatory Matters

Gas Distribution Operations Related Matters

Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of June 2006, approximately 678 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that provides for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On May 31, 2006, the PUCO approved Columbia of Ohio' s application to increase its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $37.0 million. As of June 30, 2006, Columbia of Ohio has $41.0 million of uncollected accounts receivable pending future recovery.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/ Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio' s deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio' s Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the 45-day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio' s application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006. By Entry on Rehearing dated May 3, 2006, the PUCO denied consumer groups' second applications for rehearing.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia' s current rates, charges and terms and conditions of service. The Preliminary Order initially required Columbia of Virginia to file the schedules typically required for a general rate case application on or before February 3, 2006. By Order dated January 4, 2006, the VSCC granted a Columbia of Virginia Motion to extend the filing of schedules until May 1, 2006 and issued a further Order on April 21, 2006 extending the time to file certain of the schedules until May 8, 2006. The required schedules were filed on May 1, 2006 and May 8, 2006. The VSCC issued an Order for Notice and Hearing on May 19, 2006. Columbia of Virginia filed testimony in support of its filings on May 19, 2006, June 1, 2006 and June 16, 2006. A hearing in these matters is scheduled to commence on November 29, 2006.

In accordance with the IURC' s 1999 Order that permits Northern Indiana to utilize a flexible GCA mechanism to recover its pipeline demand costs annually and changes in commodity gas costs monthly, Northern Indiana filed GCA7, covering the period November 1, 2005 through October 31, 2006 on August 29, 2005. The IURC approved Northern Indiana' s GCA 7 on July 26, 2006.

On July 13, 2005, Northern Indiana and other parties filed a joint Stipulation and Settlement Agreement with the IURC resolving all terms of a new gas ARP program. The IURC approved the Settlement on January 31, 2006. The new ARP is effective May 1, 2006 through April 30, 2010. The new ARP continues key products and services including Northern Indiana' s Choice program for customers. The ARP also continues the GCIM and adds a new incentive mechanism that shares savings of reduced transportation costs between the company and customers. Northern Indiana and the settling parties also agreed to a moratorium on base rates with the ability to address certain defined issues during the term of this agreement.

On May 16, 2006, Northern Indiana filed a petition to simplify its residential rate structure, stabilize revenue streams and provide the company incentives to encourage energy efficiency measures. A hearing on the cause is set for the fourth quarter of 2006 with full resolution anticipated in the first quarter 2007.

Gas Transmission and Storage Operations Related Matters

On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT' s Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded.

On July 20, 2006, the FERC issued a declaratory order in response to a petition filed by Tennessee Gas Pipeline. The petition related to a Tennessee Gas Pipeline request to establish an interconnection with the Columbia Gulf operated portion of the Blue Water Pipeline system. Columbia Gulf has a long-standing practice of providing interconnections with other interstate pipelines only as long as there is an interconnection agreement in place that governs the rules of the interconnection. Among other things, these agreements help protect the integrity of Columbia Gulf' s system and the reliability of service to its customers. The Commission ruled that Tennessee Gas Pipeline' s interconnection request should be governed by the existing Blue Water Pipeline operating agreement between Columbia Gulf and Tennessee Gas Pipeline.

In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if there should be any action taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. Columbia Gulf has acted in good faith throughout the proceeding and is disappointed with FERC' s referral of this matter to the Office of Enforcement. However, Columbia Gulf is cooperating with the Office of Enforcement while Columbia Gulf considers whether to seek rehearing of the declaratory order issued by the FERC in this matter.

Electric Operations Related Matters

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The credits will continue beyond the minimum period at the same annual level and per the same methodology, until the IURC enters a basic rate order that approves revised Northern Indiana' s electric rates subsequent to the minimum period. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $22.9 million and $29.2 million were recognized for electric customers for the first half of 2006 and 2005, respectively.

As part of Northern Indiana' s use of the MISO' s transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO' s management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana' s rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana' s rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. Pending a clarifying order on these charges, a reserve was established for the charges, net of credits. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness for the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The IURC approved Northern Indiana' s FAC-69 and FAC-70 filings, in January 2006 and April 2006, respectively, but noted in both orders that this particular category of charges was approved "subject to refund" and subject to final orders. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. As a result, a refund of $9.4 million will be required for charges related to the period April 1, 2005 through December 8, 2005. Northern Indiana had provided for a reserve of $8.7 million through December 2005. The actual amount of the refund was slightly more than the amount of the reserve, due to adjustments and MISO resettlements. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed. As a result of the ruling, amounts permitted to be recovered through the FAC totaled approximately $1.7 million for the first six months of

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

2006. The Day 2 non-fuel category includes costs recorded as non-recoverable in net revenues, which amounted to $10.5 million for the first half of 2006. These costs began in April 2005 and totaled $5.4 million for the year 2005. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $2.5 million for the first half of 2006 and were $5.1 million for the year 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding.

On April 25, 2006, the FERC issued an order on the MISO' s Transmission and Energy Markets Tariff, stating that MISO had violated the tariff by not assessing revenue sufficiency guarantee charges on virtual bids and offers. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. On January 18, 2006, the IURC issued a final order dismissing, without prejudice, this cause and the related settlement agreement finding that the agreement entered into between the City of Gary and Northern Indiana lacks essential terms necessary for it to be a valid and enforceable contract under Indiana law. Northern Indiana, with input from a broad based stakeholder group, is evaluating the appropriate course of action for the Mitchell Station facility in light of Northwest Indiana' s need for that property and the substantial costs associated with restarting the facility.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana' s retail electric load requirements and charges imposed on Northern Indiana by MISO. A hearing in this matter was held in December 2004. Northern Indiana will withdraw this petition if the final order from the IURC in cause 42824 approves recovery of intermediate dispatchable power costs incurred in August to December 2005 (described below).

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy' s generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County' s Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC' s Order of August 31, 2005 denying its Petition for Reconsideration. On March 9, 2006, LaPorte' s appeal of the IURC' s interim order was dismissed. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable.

Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement on August 19, 2005 for purposes of partially settling cause 42824 (described above). The OUCC and the Industrial Group agreed to support Northern Indiana' s recovery of intermediate dispatchable power, through its FAC for the period August 9, 2005 through November 30, 2005. Additional settlement provisions include Northern Indiana' s agreement to file an electric base rate case on or before July 1, 2008.

On May 23, 2006, Northern Indiana, Whiting Clean Energy, TPC and Intervenor Board of Commissioners of LaPorte County, Indiana filed a proposed settlement agreement in cause 42824 (described above) requesting IURC approval. The settlement requires Northern Indiana to refund $2.0 million (less attorneys fees) associated with the

ITEM 1. FINANCIAL STATEMENTS (continued)

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Notes to Consolidated Financial Statements (continued) (unaudited)

intermediate dispatchable power purchases. Northern Indiana recorded a reserve for this amount in the second quarter of 2006. IURC approval is pending.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery.

Northern Indiana filed FAC-68 on August 15, 2005. This filing included a projected amount of intermediate dispatchable power costs for October to December 2005, consistent with the Interim Order in 42824. The IURC approved this filing on October 26, 2005.

Northern Indiana filed FAC-69 on November 3, 2005. This filing included a reconciliation of actual intermediate dispatchable power purchases for August and September 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-69 factor was issued January 11, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-71 on June 26, 2006. This filing included $8.6 million of the required refund of MISO related costs for the period April 1, 2005 through December 8, 2005, consistent with the IURC' s May 4, 2006 order (see above). On July 21, 2006, the IURC issued an order approving the FAC-71 rates and creating a sub-docket to review the treatment of purchased power and related costs within the FAC proceeding.

FAC-72, scheduled for filing in the third quarter of 2006, will include a refund for the remaining $0.8 million of MISO-related costs.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM' s NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC' s November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana' s latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $12.9 million for the six months ended June 30, 2006, and $64.6 million from inception to date, while EERM revenues were $6.2 million for the six months ended June 30, 2006, and $14.9 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana' s ECR-7 filing. ECR-8 is scheduled to be filed in August 2006.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana' s service quality was not reasonably adequate. While concluding that Northern Indiana' s service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC' s order in this matter to the Indiana Court of Appeals. These appeals are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings. On March 15, 2006, the Court of Appeals denied Jupiter' s motion for remand. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges

ITEM 1. FINANCIAL STATEMENTS (continued)

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service problems and seeks additional relief. On May 19, 2006, Jupiter also filed a complaint in state court against Northern Indiana seeking recovery of damages based on the same alleged service problems. Northern Indiana has moved to stay this state court action pending resolution of the IURC proceedings.

9. Risk Management and Energy Trading Activities

NiSource uses commodity-based derivative financial instruments primarily to manage commodity price risk and interest rate risk exposure in its business as well as for commercial and industrial sales and some trading. NiSource accounts for its derivatives under SFAS No. 133. Under SFAS No. 133, if certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction.

NiSource' s derivatives on the Consolidated Balance Sheets at June 30, 2006 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$137.6	$6.9	$144.5
Other assets	107.0	–	107.0
Total price risk management assets	$244.6	$6.9	$251.5
Price risk management liabilities			
Current liabilities	$(76.9)	$(21.4)	$(98.3)
Other liabilities	(64.2)	(0.4)	(64.6)
Total price risk management liabilities	$(141.1)	$(21.8)	$(162.9)

NiSource' s derivatives on the Consolidated Balance Sheets at December 31, 2005 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$152.6	$30.5	$183.1
Other assets	185.5	7.4	192.9
Total price risk management assets	$338.1	$37.9	$376.0
Price risk management liabilities			
Current liabilities	$(63.4)	$(8.9)	$(72.3)
Other liabilities	(22.2)	–	(22.2)
Total price risk management liabilities	$(85.6)	$(8.9)	$(94.5)

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

The hedging activity for the quarter and six months ended June 30, 2006 and 2005 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, net of taxes)	**2006**	2005	**2006**	2005
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$99.7**	$148.1	**$150.7**	$93.7
Unrealized hedging gains (losses) arising during the period on derivatives qualifying as cash flow hedges	**(13.1)**	(26.7)	**(64.8)**	25.8
Reclassification adjustment for net gain included in net income	**(1.4)**	(11.5)	**(0.7)**	(9.6)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$85.2**	$109.9	**$85.2**	$109.9

During the second quarter of 2006 and 2005, zero and $0.1 million, net of taxes respectively, were recognized in earnings due to the change in time value of certain derivative instruments. Additionally, all derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the second quarter of 2006 and 2005, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income statement recognition of amounts currently classified in other comprehensive income of approximately $41.3 million, net of taxes.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, Columbia of Pennsylvania, Columbia of Kentucky, Columbia of Maryland and Columbia of Virginia use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana PPS, which allows non-jurisdictional customers the opportunity to lock in their gas cost. These derivative programs are accounted for as cash flow hedges.

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that match the anticipated delivery needs of the program. This derivative program is accounted for as a cash flow hedge.

As part of the new MISO Day 2 initiative, Northern Indiana was allocated FTRs. These rights protect Northern Indiana against congestion losses due to the new MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism the related gains and losses associated with these transactions are recorded as a regulatory asset or liability, in accordance with SFAS No. 71. Additionally, Northern Indiana also uses derivative contracts to minimize risk associated with power price volatility. These derivative programs must be marked to fair value, but because these

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

derivatives are used within the framework of their cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of there derivatives.

For regulatory incentive purposes, Northern Indiana enters into purchase contracts at first of the month prices that give counterparties the daily option to either sell an additional package of gas at first of the month prices or recall the original volume to be delivered. Northern Indiana charges a fee for this option. The changes in the fair value of these options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. However, in accordance with SFAS No. 71, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania, Columbia of Virginia and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings.

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the gas supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These commodity swap derivatives are accounted for as cash flow hedges.

Commodity price risk programs included in price risk assets and liabilities:

	June 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	$4.6	$(14.6)	$35.7	$–
PPS program derivatives	0.6	(2.7)	1.8	(2.5)
DependaBill program derivatives	–	(0.6)	1.6	–
MISO FTR program derivatives	–	(0.1)	2.2	(0.4)
Power price volatility program derivatives	–	(1.3)	–	–
Regulatory incentive program derivatives	0.5	(4.3)	–	(8.5)
Forward purchase agreements derivatives	176.8	–	266.7	–

Interest Rate Risk Activities. Contemporaneously with the pricing of the 5.25% and 5.45% notes issued September 16, 2005, NiSource Finance settled $900 million of forward starting interest rate swap agreements with six counterparties. NiSource paid an aggregate settlement payment of $35.5 million which is being amortized as an increase to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88% respectively.

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource Finance will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013 at mid-market.

As a result of the fixed-to-variable interest rate swap transactions referenced above, $1,160 million of NiSource Finance' s existing long-term debt is now subject to fluctuations in interest rates. These interest rate swaps are designated as fair value hedges. The effectiveness of the interest rate swaps in offsetting the exposure to changes in the debt' s fair value is measured using the short-cut method pursuant to SFAS No. 133. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness from prior years.

Interest rate risk activities programs included in price risk management assets and liabilities:

	June 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Interest rate swap derivatives	$–	$(57.4)	$–	$(12.2)

Marketing and Trading Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales. In the second quarter of 2006, TPC, on behalf of Whiting Clean Energy, has also entered into power and gas derivative contracts to manage price risk associated with operating Whiting Clean Energy. These power and gas trading derivatives relating to the expected operation of Whiting Clean Energy are not being accounted for as hedges.

Marketing and trading programs included in price risk management assets and liabilities:

	June 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas marketing program derivatives	$67.2	$(80.4)	$68.0	$(70.9)
Gas trading program derivatives	0.8	(0.8)	–	–
Power trading program derivatives	1.0	(0.7)	–	–

10. Goodwill Assets

NiSource' s goodwill assets at June 30, 2006 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill balances at June 30, 2006 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.

In the quarter ended June 30, 2006, NiSource performed its annual impairment test of goodwill associated with the purchases of Columbia, Northern Indiana Fuel and Light and Kokomo Gas. The results of the June 30, 2006 impairment test indicated that no impairment charge was required. For the purpose of testing for impairment the goodwill recorded in the acquisition of Columbia, the related subsidiaries were aggregated into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission and Storage Operations segment. NiSource uses the discounted cash flow method to estimate the fair value of its reporting units for the purposes of this test.

The results of the June 30, 2005 impairment test indicated that no impairment charge was required for the goodwill related to the purchase of Columbia or Northern Indiana Fuel and Light, and that an impairment charge of $10.9 million was required for goodwill related to the purchase of Kokomo Gas. This impairment charge was recorded in June 2005 and is reflected in operating expenses as an "Impairment and loss (gain) on sale of assets" on the

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

Statements of Consolidated Income. Factors contributing to this charge were increased income that reduced the "regulatory earnings bank" and limitations on future operating income growth.

11. Pension and Other Postretirement Benefits

NiSource uses September 30 as its measurement date for its pension and other postretirement benefit plans. NiSource expects to make contributions of $7.1 million to its pension plans and $54.2 million to its other postretirement benefit plans in 2006.

The following tables provide the components of the plans' net periodic benefits cost for the second quarter and six months ended June 30, 2006 and 2005:

	Pension Benefits		Other Benefits	
Three Months Ended June 30, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$10.6**	$10.4	**$2.4**	$2.3
Interest cost	**31.3**	32.0	**10.1**	10.5
Expected return on assets	**(43.9)**	(41.1)	**(4.6)**	(4.0)
Amortization of transitional obligation	**–**	–	**2.0**	2.5
Amortization of prior service cost	**1.5**	2.6	**0.1**	0.2
Recognized actuarial loss	**4.6**	4.3	**1.5**	1.0
Net Periodic Benefits Cost	**$4.1**	$8.2	**$11.5**	$12.5

	Pension Benefits		Other Benefits	
Six Months Ended June 30, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$21.3**	$20.8	**$4.7**	$4.6
Interest cost	**62.5**	64.0	**20.2**	20.9
Expected return on assets	**(87.8)**	(82.2)	**(9.2)**	(8.0)
Amortization of transitional obligation	**–**	–	**4.0**	4.9
Amortization of prior service cost	**3.0**	5.2	**0.2**	0.4
Recognized actuarial loss	**9.2**	8.6	**3.1**	1.9
Settlement loss	**–**	0.4	**–**	–
Net Periodic Benefits Cost	**$8.2**	$16.8	**$23.0**	$24.7

12. Asset Retirement Obligations

NiSource has accounted for retirement obligations on its assets since January 1, 2003 with the adoption of SFAS No. 143. In the fourth quarter 2005, NiSource adopted the provisions of FIN 47, which broadened the scope of SFAS No. 143 to include contingent asset retirement obligations and it also provided additional guidance for the measurement of the asset retirement liabilities. This accounting standard and the related interpretation requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost, thereby increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted, and the capitalized cost is depreciated over the useful life of the related asset. The rate-regulated subsidiaries defer the difference between the amount recognized for depreciation and accretion and the amount collected in rates as required pursuant to SFAS No. 71 for those amounts it has collected in rates or expects to collect in future rates.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

Changes in NiSource' s liability for asset retirement obligations for the first half of 2006 are presented in the table below:

Six Months Ended June 30, *(in millions)*	2006
Beginning Balance	**$119.8**
Accretion	**3.7**
Ending Balance	**$123.5**

NiSource has recognized asset retirement obligations associated with various obligations including costs to remove and dispose of certain construction materials located within many of NiSource' s facilities, certain costs to retire pipeline, removal costs for certain underground storage tanks, removal of certain pipelines known to contain PCB contamination, closure costs for certain sites including ash ponds, solid waste management units and a landfill, obligation to return leased rail cars to specified conditions and the removal costs of certain facilities and off-shore platforms, as well as some other nominal asset retirement obligations. NiSource recognizes that there are obligations to incur significant costs to retire wells associated with gas storage operations, however, these assets are land assets with indeterminable lives. Additionally, NiSource has a significant obligation associated with the decommissioning of its two hydro facilities located in Indiana. However, these assets have an indeterminate life and no asset retirement obligation has been recorded.

Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries, did not meet the definition of an asset retirement obligation pursuant to SFAS No. 143 and FIN 47. The amount of the other costs of removal reflected as a component of NiSource' s accumulated depreciation and amortization was approximately $1.2 billion and $1.1 billion at June 30, 2006 and December 31, 2005, respectively, based on rates for estimated removal costs embedded in composite depreciation rates. Upon the adoption of SFAS No. 143 on January 31, 2003, NiSource reclassified its cost of removal from accumulated depreciation to regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

For the three months ended June 30, 2006, NiSource accrued $1.9 million of accretion, of which $0.2 million was expensed and $1.7 million was recorded as a regulatory asset. For the six months ended June 30, 2006, NiSource accrued $3.7 million of accretion, of which $0.5 million was expensed and $3.2 million was recorded as a regulatory asset. For the three and six months ended June 30, 2005, NiSource accrued $0.1 million and $0.2 million of accretion, respectively, of which the majority of it was expensed. NiSource anticipates that the depreciation and accretion amounts to be recognized in 2006 associated with its asset retirement obligation assets and liabilities will be $2.8 million and $7.5 million, respectively, and will primarily be recorded as a regulatory asset or liability pursuant to SFAS No. 71.

13. Redemption of Preferred Stock

On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

14. Other Commitments and Contingencies

A. Guarantees and Indemnities. 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. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at June 30, 2006 and the years in which they expire were:

(in millions)	Total	2006	2007	2008	2009	2010	After
Guarantees of subsidaries debt	$4,967.1	$253.3	$32.5	$8.8	$464.1	$1,002.2	$3,206.2
Guarantees supporting commodity transactions of subsidiaries	751.4	234.4	258.8	37.5	41.1	–	179.6
Lines of credit	420.0	420.0	–	–	–	–	–
Letters of credit	91.7	7.8	19.5	64.4	–	–	–
Other guarantees	154.9	–	1.0	7.6	3.9	–	142.4
Total commercial commitments	$6,385.1	$915.5	$311.8	$118.3	$509.1	$1,002.2	$3,528.2

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $5.0 billion of debt for various wholly owned subsidiaries including Whiting Leasing, NiSource Finance, and through a support agreement, Capital Markets, which is reflected on NiSource' s Consolidated Balance Sheets. The subsidiaries are required to comply with certain financial covenants under the debt indenture and in the event of default, NiSource would be obligated to pay the debt' s principal and related interest. NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $751.4 million of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a five-year revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. On July 7, 2006, NiSource Finance amended the $1.25 billion five-year revolving credit facility, increasing the aggregate commitment level to $1.5 billion and extending the termination date to July 2011. During November 2005, NiSource Finance also entered into a $300 million nine-month revolving credit agreement with Dresdner Kleinwort Wasserstein LLC that expires September 5, 2006. At June 30, 2006, NiSource had $120.0 million outstanding under the five-year revolving credit facility, and $300.0 million outstanding under the nine-month credit facility. Through the five-year revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $91.7 million for the benefit of third parties.

Other Guarantees or Obligations. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of the Hardy Storage project, which is accounted for by NiSource as an equity investment. Under the financing agreement, Columbia Transmission issued a guarantee securing payment for 50% of any amounts issued in connection with Hardy Storage up until such time as the project is placed in service and operated within certain specified parameters, which is expected to be in the second quarter of 2008. As of June 30, 2006, Hardy Storage borrowed $38.0 million under the financing agreement, for which Columbia Transmission recorded an accrued liability of approximately $1.0 million related to the fair value of its guarantee securing payment for 50% the $38.0 million borrowed. Hardy Storage borrowed an additional $11.3 million and $5.3 million in July 2006 and August 2006, respectively, for which Columbia Transmission recorded an additional liability of approximately $0.4 million for its respective guarantee related to these amounts.

After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. As part of PEI' s sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the settlement of this obligation.

NiSource has purchase and sales agreement guarantees totaling $82.5 million, which guarantee performance of the seller' s covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

B. Other Legal Proceedings. In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource' s consolidated financial position.

C. Environmental Matters.

General. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

As of June 30, 2006, a reserve of approximately $67 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management' s understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

Gas Distribution Operations.
At a property in the City of Staunton Virginia the current property owner has been issued notice by the EPA that they need to evaluate potential impacts associated with a gasoline station and a former manufactured gas plant. The property owner is seeking contribution from Columbia of Virginia. Columbia of Virginia is currently assessing its liability in relation to the property.

Gas Transmission and Storage Operations.
On January 17, 2006, the EPA published in the Federal Register a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. These actions could require further reductions in NOx emissions from various emission sources in and near nonattainment areas, including reductions from pipeline Transmission and Storage Operations.

On July 5, 2006, Columbia Gulf submitted the NOx SIP Call Compliance Plan to the State of Kentucky pending approval. This Plan would reduce NOx emissions by 950 tons per ozone season starting May 1, 2007. Currently Columbia Gulf anticipates installation of approximately $6 million to $8 million in NOx controls to achieve these reductions. The effects of other recent EPA actions on Transmission and Storage Operations cannot be determined at this time.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

Columbia Transmission discovered and notified the State of West Virginia of compliance issues associated with turbine operations at two of its facilities. Columbia Transmission is currently finalizing resolution of this issue.

On June 29, 2006, Columbia Transmission entered into a Consent Agreement with Region III EPA related to the management of coal tar based pipe wrap. The Consent Agreement requires that Columbia Transmission, and its contractor, pay a civil penalty totaling $180,000.

Electric Operations.
Air. On January 17, 2006, the EPA published in the Federal Register a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. Northern Indiana will continue to closely monitor developments in this area that could impact the emission control requirements for coal-fired boilers including Northern Indiana' s electric generating stations.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern States, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. On March 15, 2006, the EPA signed three related rulemakings providing final regulatory decisions on implementing the CAIR. The EPA, in one of the rulings, denied several petitions for reconsideration of various aspects of the CAIR, including requests by Northern Indiana to reconsider SO2 and NOx allocations. The main rulemaking established federal implementation plans, or FIPs, for power plants to ensure that the emissions reductions required by the CAIR are achieved on schedule and provide criteria, whereby SIPs that meet a majority of the federal requirements or abbreviated SIPs could be approved if submitted by the states within six months of the September 2006 deadline. As an affected state, Indiana initiated state rule making in June 2005, for creating rules detailing how it will implement the federal rule and meet the emission caps. Indiana structured, and preliminarily adopted in June 2006, a draft rule to meet the EPA abbreviated CAIR SIP requirements and should therefore be eligible for a six-month extension of the submittal deadline. Accordingly, Indiana anticipates that the state CAIR rule will be finalized by March of 2007. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On May 31, 2006, the EPA took final action on petitions to reconsider two actions regarding the air pollutant Mercury: 1) Its determination that regulation of electric utility steam generating units under section 112 of the Clean Air Act was neither necessary nor appropriate (the section 112 rule); and 2) The Clean Air Mercury Rule. Following the promulgation of the final section 112 rule, EPA received two petitions for reconsideration. In response to the two petitions, the EPA agreed to reconsider certain aspects of the final section 112 rule. After considering the petitions and the information that was submitted during the public comment period, the EPA determined that its original rule was correct. Indiana is developing a rule to implement the EPA Clean Air Mercury Rule. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On June 29, 2006, the IDEM held a public hearing to satisfy the public notice requirements for its proposed petition to the EPA to redesignate the Indiana counties of Lake and Porter to attainment of the 8-hour ozone NAAQS. The petition included EPA required technical and procedural information, as well as optional technical information, supporting the IDEM' s redesignation request, as well as state plans to maintain the NAAQS upon the EPA redesignation, if granted. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignation to attainment, new source review rules would change from nonattainment new source review rules to prevention of significant deterioration while measures responsible for existing emission reductions would continue. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the outcome or timing of the approval of the petition.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

Water. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana' s three electric generating stations located on Lake Michigan. The State of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. All issues in subsequent litigation related to the EPA' s actions have been resolved with the exception of the EPA' s disapproval of the IDEM method for testing whole effluent toxicity. The water discharge permit for Michigan City Generating Station has been issued and became effective on April 1, 2006. Engineering studies have begun to determine specific compliance costs for this facility. The permit for the Bailly Generating Station was issued on June 26, 2006, and will become effective on August 1, 2006. Pending review and analysis of this permit, the cost of complying with the permit requirements cannot be estimated at this time.

15. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss, which is included in "Common stock equity," on the Consolidated Balance Sheets.

(in millions)	**June 30, 2006**	December 31, 2005
Other comprehensive income (loss), before taxes:		
Unrealized gains on securities	**$2.0**	$ 0.3
Tax (expense) on unrealized gains on securities	**(1.0)**	(0.3)
Unrealized gains on cash flow hedges	**126.8**	228.5
Tax (expense) on unrealized gains on cash flow hedges	**(41.6)**	(77.8)
Minimum pension liability adjustment	**(260.1)**	(260.1)
Tax benefit on minimum pension liability adjustment	**103.8**	103.8
Total Accumulated Other Comprehensive Loss, net of taxes	**$(70.1)**	$ (5.6)

16. Business Segment Information

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

NiSource' s operations are divided into four primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana, Massachusetts, Maine and New Hampshire. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 21 counties in the northern part of Indiana. The Other Operations segment primarily includes gas and power marketing, and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

The following table provides information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Segment revenues include intersegment sales to affiliated subsidiaries, which are eliminated in consolidation. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment.

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

(in millions)	Three Months Ended June 30, **2006**	2005	Six Months Ended June 30, **2006**	2005
REVENUES				
Gas Distribution Operations				
Unaffiliated	**694.1**	748.8	**2,874.4**	2,766.9
Intersegment	**3.0**	0.5	**7.4**	(0.3)
Total	**697.1**	749.3	**2,881.8**	2,766.6
Gas Transmission and Storage Operations				
Unaffiliated	**146.9**	137.9	**305.4**	296.1
Intersegment	**52.3**	57.9	**125.4**	129.4
Total	**199.2**	195.8	**430.8**	425.5
Electric Operations				
Unaffiliated	**302.5**	281.8	**609.0**	563.6
Intersegment	**0.4**	0.4	**0.8**	1.3
Total	**302.9**	282.2	**609.8**	564.9
Other Operations				
Unaffiliated	**168.1**	186.8	**495.5**	410.6
Intersegment	**4.9**	4.8	**18.9**	9.8
Total	**173.0**	191.6	**514.4**	420.4
Adjustments and eliminations	**(60.3)**	(63.3)	**(152.5)**	(139.3)
Consolidated Revenues	**$1,311.9**	$1,355.6	**$4,284.3**	$4,038.1
Operating Income (Loss)				
Gas Distribution Operations	**(6.0)**	5.7	**200.0**	280.6
Gas Transmission and Storage Operations	**79.0**	76.8	**189.3**	186.3
Electric Operations	**63.3**	61.0	**131.4**	126.4
Other Operations	**(4.7)**	(8.5)	**(14.8)**	(13.7)
Corporate	**–**	(15.2)	**(6.7)**	(22.1)
Consolidated Operating Income	**$131.6**	$119.8	**$499.2**	$557.5

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NiSource Inc.

Note regarding forward-looking statements

The Management' s Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource' s plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, NiSource may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of NiSource, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially.

Realization of NiSource' s objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource' s businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, the effectiveness of NiSource' s outsourcing initiative, actual operating experience of NiSource' s assets, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counterparty credit risk, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

The following Management' s Discussion and Analysis should be read in conjunction with NiSource' s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company' s operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated.

For the six months ended June 30, 2006, income from continuing operations was $194.4 million, or $0.71 per share. This compares to income from continuing operations of $217.0 million, or $0.80 per share, for the year-ago period. The difference was primarily due to lower net revenues due to the mild winter weather and declines in residential usage by natural gas utility customers. Weather was 14% warmer than normal and 15% warmer than a year ago. Weather reduced net revenues in NiSource' s Gas Distribution Operations business segment by approximately $63 million during the first half of 2006. Gas Distribution Operations net revenues were also reduced by approximately $16 million due to residential usage declines. Residential usage declines are likely to continue to adversely impact the operating results of Gas Distribution Operations. Offsetting these revenue declines within Gas Distribution Operations were net revenue increases within Gas Transmission and Storage Operations and Electric Operations.

Excluding increases in expenses that are recovered through regulatory trackers, which are offset in net revenues (see discussion below), operating expenses decreased by approximately $18 million. This decrease was due primarily to lower restructuring and transition costs associated with the IBM agreement and lower asset impairment charges recorded this year. Partially offsetting these decreases were operating expense increases in the Gas Transmission and Storage Operations Segment primarily due to higher pipeline integrity and employee administrative expenses and higher depreciation charges.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

NiSource is recognizing interest expense savings due to the refinancing of $2.4 billion in long-term debt during 2005. Interest expense was reduced by $16.8 million for the six months ended June 30, 2006, compared with the year-ago period.

NiSource continues to focus on its four-point platform for long-term, sustainable growth. This plan is centered on its portfolio of low-risk, regulated assets: commercial and regulatory initiatives; commercial growth and expansion of the gas transmission and storage business; financial management of the balance sheet; and expense management. Following are updates related to these initiatives.

Commercial and Regulatory Initiatives

Sales of Shorter-Term Transportation and Storage Services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $30 million of shorter-term business for 2006, $19.2 million of which was recorded during the first six months ended June 30, 2006. Columbia Gulf' s mainline throughput increased by 3.0% over 2005 due to the increased utilization of these services.

Regulatory Trackers. Comparability of Gas Distribution Operations line item operating results are impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. Approximately $29.8 million of the increase in operating expenses for the Gas Distribution Operations segment consisted of expenses that were subject to a tracker and offset by a corresponding increase to net revenues reflecting recovery of certain costs.

NiSource remains focused on the effects of customer conservation and is taking steps to address this issue, particularly through regulatory initiatives. NiSource anticipates making filings in various jurisdictions this year and next year, either through broader rate proceedings or specific mechanisms such as rate design, decoupling or other initiatives developed to moderate the impact of conservation.

Bay State Rate Case. On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. On November 30, 2005, Bay State received approval from the Massachusetts DTE to increase its rates by $11.1 million. The Massachusetts DTE also approved Bay State' s request for a performance based rate plan but denied the request for cost recovery of a steel infrastructure replacement program.

Commercial Growth and Expansion of the Gas Transmission and Storage Business

Hardy Storage. Construction of the Hardy Storage project in West Virginia has begun and on June 29, 2006, the project financing closed at which time the first tranche of $38 million of interim notes were issued at 5.95%. Subsequently, Hardy Storage borrowed an additional $11.3 million and $5.3 million under an associated revolving facility during July 2006 and August 2006, respectively.

Millennium Pipeline. Millennium Pipeline, as well as companion upstream and downstream projects, are proceeding with the regulatory approval process even as the project' s projected in-service date recently was extended to November 1, 2008, or earlier if feasible. Pending regulatory approvals, the project' s partners expect to begin construction activities during 2007. Millennium is anchored by long-term agreements with Consolidated Edison and KeySpan. Columbia and Central Hudson also hold long-term agreements on Millennium. The redistribution of equity among partners in the Millennium Pipeline is now complete, with NiSource subsidiary Columbia Transmission holding a 47.5% equity stake.

Eastern Market Expansion. Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has several binding customer agreements continues with pre-filing activities.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Financial Management of the Balance Sheet

Interest Expense Savings. Interest expense, net was $188.7 million for the six months ended June 30, 2006, a decrease of $16.8 million compared to the first six months of 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. This improvement was partially offset by lower interest income and higher costs related to the sale of accounts receivable which both contributed to the $9.2 million change in other income (deductions).

Expense Management

Operating Expenses. Operating expenses for the first six months of 2006 were $1,123.0 million, an increase of $14.3 million from the 2005 period. Excluding expenses that are recovered through regulatory trackers and corresponding increases in net revenues, operating expenses decreased by approximately $18 million. This decrease was due primarily to lower restructuring and transition costs associated with the IBM agreement and lower asset impairment charges recorded this year. Partially offsetting these decreases were operating expense increases in the Gas Transmission and Storage Operations Segment primarily due to higher pipeline integrity and employee administrative expenses and higher depreciation charges.

NiSource renewed both of the onshore property and casualty insurance programs on July 1, 2006. As a result of the demand for limited insurance capacity for offshore exposures, particularly the Gulf of Mexico, the offshore property program was renewed on June 1, 2006. NiSource sustained an increase of approximately $8 million in property insurance costs directly attributable to the increase in insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico. Casualty premiums remained relatively flat compared to the previous year. Such increases and restrictions in coverage for Gulf of Mexico windstorm exposures were driven by the overall poor underwriting experience of the insurance industry over the past few years, resulting from the unprecedented losses sustained from hurricanes such as Ivan, Katrina and Rita.

2006 Outlook

NiSource had disclosed in its quarterly report ending March 31, 2006 an expectation of income from continuing operations for 2006 to be between $1.33 to $1.43 basic EPS. This expectation considered the unfavorable weather impact of 9 cents per share that occurred during the first quarter 2006. NiSource now believes that attaining this guidance will be unlikely, primarily as a result of increased customer attrition and reduced customer usage of natural gas. NiSource' s initial earnings guidance included an assumption that usage declines would return to historic levels of 0.5% to 1%, as compared to its current view that the decline could approximate 5%. Customer attrition has also increased significantly from historic levels of about 0.5% to approximately 1.2%. The projected impact of these issues is a reduction in net revenues of nearly $40 million, or 10 cents per share, compared with the levels underlying NiSource' s initial earnings guidance for the year. In addition, lower net interest savings are projected to increase interest expense and decrease other income by $12 million, or 3 cents per share, compared with the initial 2006 earnings guidance. NiSource has elected to not provide a reforecast of earnings for 2006 at this time.

Results of Operations
Quarter Ended June 30, 2006

Net Income

NiSource reported net income of $21.0 million, or $0.08 per share, for the three months ended June 30, 2006, compared to net income of $39.0 million, or $0.15 per share, for the three months ended June 30, 2005. Operating income was $131.6 million, an increase of $11.8 million from the same period in 2005. All per share amounts are basic EPS. Basic average shares of common stock outstanding at June 30, 2006 were 272.4 million compared to 271.2 million at June 30, 2005.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. Approximately $7 million of the increase in operating expenses was offset by a corresponding increase to net revenues reflecting recovery of these costs.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the three months ended June 30, 2006, were $641.5 million, a $12.4 million decrease from the same period last year. Excluding the impact of $7 million of trackers discussed above, net revenues decreased by approximately $19 million. The decrease in net revenues was primarily due to weather adversely affecting Gas Distribution Operations by approximately $17 million and Electric Operations by approximately $8 million. Gas Transmission and Storage Operations realized a net revenue increase of $5.9 million from the same period in 2005 due primarily to $14.7 million in increased sales of shorter-term transportation and storage services, which were partially offset by an $8.9 million benefit in the comparable quarter last year realized for a third-party buyout of a bankruptcy claim relating to the rejection of a shipper' s long-term contract.

Expenses

Operating expenses for the second quarter 2006 were $509.9 million, a decrease of $24.2 million from the 2005 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses decreased approximately $31 million. This decrease was primarily due to impacts in the second quarter of 2005 which included $20.9 million of restructuring and transition charges associated with the IBM outsourcing initiative, a $10.9 million goodwill impairment loss related to Kokomo Gas and a $10.9 million charge for obsolete software systems. During the second quarter of 2006, NiSource recorded $3.3 million of asset impairment charges and $2.9 million of transition costs related to the IBM outsourcing initiative. In addition, operating expenses increased within the Gas Transmission and Storage Operations Segment by $3.7 million due primarily to higher pipeline integrity expenses and by $3.4 million in the Electric Operations Segment due to primarily higher generation and maintenance expenses.

Other Income (Deductions)

Interest expense, net was $93.3 million for the quarter, a decrease of $8.2 million compared to the second quarter 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $2.7 million for the current quarter compared to income of $3.6 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Income Taxes

Income tax expense for the second quarter of 2006 was $13.4 million, an increase of $0.9 million compared to the second quarter of 2005 due primarily to higher pretax income partially offset by a significantly lower effective tax rate. The effective tax rate for the quarter ended June 30, 2006 was 38.4% compared to 60.1% for the comparable period last year, which was impacted by the non-deductible goodwill impairment charge recorded in the second quarter of 2005 and additional tax recorded as a result of changes in Ohio income tax laws enacted on June 30, 2005. Excluding the impact of the goodwill impairment charge, the effective tax rate for the second quarter of 2005 was 39.4%.

Results of Operations
Six Months Ended June 30, 2006

Net Income

NiSource reported net income of $193.9 million, or $0.71 per share, for the six months ended June 30, 2006, compared to $245.3 million, or $0.91 per share, for the first six months of 2005. Operating income was $499.2 million, a decrease of $58.3 million from the same period in 2005. NiSource' s net income reflects the $28.3 million gain on discontinued operations recorded in the first half of 2005, which is the result of changes to reserves for contingencies related to the previous sale of discontinued assets partially offset by an impairment charge for certain discontinued assets. Basic average shares of common stock outstanding for the six months ended June 30, 2006 were 272.4 million compared to 270.8 million at June 30, 2005.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. Approximately $32 million of the increase in operating expenses was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the six months ended June 30, 2006, were $1,622.2 million, a $44.0 million decrease from the same period last year. Excluding the impact of $32 million of trackers discussed above, net revenues decreased by approximately $76 million, primarily due to weather adversely affecting Gas Distribution Operations by approximately $63 million and Electric Operations by approximately $10 million. Increased subscriptions for demand services and sales of shorter-term transportation and storage services in Gas Transmission and Storage Operations amounting to approximately $17 million was offset by a decline within Gas Distribution Operations caused by reductions in residential usage of approximately $16 million. Electric Operations positive impacts to net revenues included a reduction in customer credits of $6.3 million, increased environmental cost recovery trackers of $3.8 million, and $3.7 million of lower MISO costs, which included the impact of a favorable regulatory ruling on the recoverability of certain MISO charges. The comparable quarter last year benefited by $8.9 million related to a third-party buyout of a bankruptcy claim relating to the rejection of a shipper' s long-term contract.

Expenses

Operating expenses for the first six months of 2006 were $1,123.0 million, an increase of $14.3 million from the 2005 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses decreased approximately $18 million. The decrease was primarily due to impacts in the second quarter of 2005 which included $20.9 million of restructuring and transition charges associated with the IBM outsourcing initiative, a $10.9 million charge for obsolete software systems and a $10.9 million impairment charge related to goodwill at Kokomo Gas. Operating expense increases in the first half of 2006 included transition and other restructuring charges associated with the IBM agreement of $9.4 million and asset impairment charges of $5.8 million. In addition, operating expenses increased within the Gas Transmission and Storage Operations Segment by $4.9 million due primarily to higher pipeline integrity expenses.

Other Income (Deductions)

Interest expense, net was $188.7 million for the first six months of 2006 compared to $205.5 million for the first six months of last year. This decrease of $16.8 million was mainly due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $6.1 million for the first half of 2006 compared to income of $3.1 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Income Taxes

Income tax expense for the first six months of 2006 was $108.2 million, a decrease of $27.7 million compared to the 2005 period, due primarily to lower pre-tax income and a lower effective tax rate. The effective tax rate for the six months ended June 30, 2006 was 35.8% compared to 38.5% for the comparable period last year. This 2.7% decrease reflects reductions in deferred state income tax liabilities recorded in the first quarter of 2006 and the impact of the non-deductible goodwill impairment charge and increased taxes related to Ohio income tax law changes recorded in the second quarter of 2005, offset by additional tax expense associated with the reduction in low income housing credits.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource' s operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas. The recent increase in the price of natural gas has resulted in an increase in working capital requirements to fund the cost of gas placed in storage, the cost of gas flowing directly to our customers and the related increase in accounts receivable. While the previous credit agreements were projected to adequately meet these needs, on July 7, 2006, NiSource Finance amended its $1.25 billion credit facility increasing its aggregate commitment level to $1.5 billion to help maintain a reasonable cushion of short-term liquidity.

Operating Activities

Net cash from operating activities for the six months ended June 30, 2006 was $1,020.7 million, an increase of $83.0 million from the six months ended June 30, 2005. This increase was primarily due to a significant reduction in outstanding accounts receivable and the collection of under-recovered gas cost partially offset by the impact in 2006 of reduced accounts payable balances. High gas cost in December 2005 resulted in unusually large balances in accounts receivable, accounts payable and under-recovered gas cost. A federal tax refund in the first quarter of 2005 compared to a tax payment in the first quarter of 2006 also decreased net cash from operating activities period over period.

Investing Activities

Capital expenditures of $267.6 million in the first six months of 2006 were $24.5 million higher than the comparable 2005 period. The spending for the first six months primarily reflected on-going system improvements and upgrades to maintain service and reliability. Capital spending is expected to increase in 2006 compared to last year, mainly for increased integrity-management improvements in the pipeline segment and expenditures to replace key components within electric generation in addition to new business projects. The program is expected to be funded primarily via cash from operations.

Financing Activities

On July 29, 2003, NiSource filed a shelf registration statement with the SEC to periodically sell up to $2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource' s pre-existing shelf capacity, provided an aggregate $2.8 billion of total issuance capacity. As of June 30, 2006, NiSource' s shelf capacity was $850 million.

Cumulative Preferred Stock. On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

Long-term Debt. During May 2006, NiSource redeemed $25.0 million of Capital Markets medium-term notes, with an average interest rate of 7.50%.

During April 2006, NiSource redeemed $15.0 million of Capital Markets medium-term notes, with an average interest rate of 7.75%.

During June 2005, Northern Indiana redeemed $39.3 million of its medium-term notes and Bay State redeemed $10.0 million of its medium-term notes with an average interest rate of 6.79% and 6.58%, respectively.

During April 2005, NiSource redeemed $30.0 million of Capital Markets medium-term notes, with an average interest rate of 7.67%.

Credit Facilities. During July 2006, NiSource Finance amended its $1.25 billion five-year revolving credit facility increasing the aggregate commitment level to $1.5 billion and extending the termination date to July 2011. The amended facility will help maintain a reasonable cushion of short-term liquidity in anticipation of continuing volatile natural gas prices. During November 2005, NiSource Finance entered into a new $300 million nine-month revolving credit agreement with Dresdner Kleinwort Wasserstein LLC that expires September 5, 2006.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

NiSource Finance had outstanding credit facility advances of $420.0 million at June 30, 2006, at a weighted average interest rate of 5.44%, and advances of $898.0 million at December 31, 2005, at a weighted average interest rate of 4.95%. As of June 30, 2006 and December 31, 2005, NiSource Finance had $91.7 million and $101.6 million of stand-by letters of credit outstanding, respectively. At June 30, 2006, $63.6 million of the $91.7 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource Finance obtained during February 2004. Of the remaining $28.1 million of stand-by letters of credit outstanding at June 30, 2006, $24.7 million resided under NiSource Finance' s five-year credit facility and $3.4 million resided under an uncommitted arrangement with another financial institution. As of June 30, 2006, $1,105.3 million of credit was available under both credit facilities.

Sale of Trade Accounts Receivables. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, under the terms of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The agreement, which had a scheduled expiration date of May 12, 2006, was extended for another year to May 11, 2007. The agreement was further amended on July 1, 2006 increasing the program limit from $300 million to $350 million and extending the expiration date to June 29, 2007. As of June 30, 2006, $175 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement under the term of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. NRC' s agreement with the commercial paper conduit has a scheduled expiration date of December 22, 2006, and can be renewed if mutually agreed to by both parties. As of June 30, 2006, NRC had sold $200 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana' s debt rating falls below BBB- or Baa3 at Standard and Poor' s and Moody' s, respectively.

Under the agreement, Northern Indiana acts as administrative agent, performing record keeping and cash collection functions for the accounts receivable sold. Northern Indiana receives a fee, which provides adequate compensation, for such services.

Market Risk Disclosures

Through its various business activities, NiSource is exposed to both non-trading and trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, commodity market risk and credit risk of its subsidiaries. The risk resulting from trading activities consists primarily of commodity market and credit risks. NiSource' s risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps.

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

Non-Trading Risks

Commodity price risk resulting from non-trading activities at NiSource' s rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $5.5 million and $11.6 million for the quarter and six months ended June 30, 2006, respectively.

Credit Risk

Due to the nature of the industry, credit risk is a factor in many of NiSource' s business activities. NiSource' s extension of credit is governed by a Corporate Credit Risk Policy. Written guidelines approved by NiSource' s Risk Management Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. Exposures to credit risks are monitored by the Corporate Credit Risk function which is independent of all commercial and trading operations. Credit risk arises because of 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 contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. Because many of NiSource' s exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analysis of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks

The transactions associated with NiSource' s power and natural gas trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity and natural gas. TPC, on behalf of Whiting Clean Energy, has entered into power and gas derivative contracts in the second quarter of 2006 to manage price risk associated with operating Whiting Clean Energy. These power and gas trading derivatives relating to the expected operation of Whiting Clean Energy are not being accounted for as hedges, and where these contracts require settlement by physical delivery they are often net settled in accordance with industry standards. TPC' s other power trading activities were all settled as of December 31, 2005.

Fair value represents the amount at which willing parties would transact an arms-length transaction. Fair value is determined by applying a current price to the associated contract volume for a commodity. The current price is derived from one of three sources including actively quoted markets such as the NYMEX, other external sources including electronic exchanges and over-the-counter broker-dealer markets, as well as financial models such as the Black-Scholes option pricing model.

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was zero, during the second quarter of 2006. The daily market exposure for the gas marketing and trading portfolios on an average, high and low basis was $0.2 million, $0.3 million and $0.1 million during the second quarter of 2006, respectively. Prospectively, management has set the VaR limit at $0.8 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk. The VaR limit for power trading was $2.5 million, however, this limit was reduced to zero in the third quarter of 2005 with the settlement of all power trading contracts. Power and gas derivative contracts entered into to manage price risk associated with Whiting Clean Energy are limited to quantities surrounding the physical generation capacity of Whiting Clean Energy and the gas requirements to operate the facility.

Refer to Note 9, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource' s risk management.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $751.4 million of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $82.5 million, which guarantee performance of the seller' s covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 9, "Risk Management and Energy Trading Activities," and Note 14-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource' s off balance sheet arrangements.

Other Information

Recently Adopted Accounting Pronouncements

SFAS No. 123 (revised 2004) − Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource' s consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of income taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource' s Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of June 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $20.4 million, which will be amortized over the weighted-average remaining requisite service period of 2.7 years.

SFAS No. 154 − Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource' s consolidated financial statements as a result of the adoption of SFAS No. 154.

FIN 47 − Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005. NiSource

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.

has adopted FIN 47 in the fourth quarter 2005. Refer to Note 12, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information.

Recently Issued Accounting Pronouncements

FIN 48 − Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets this 50% threshold, it is to be based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of FIN 48 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. This Interpretation is effective for fiscal years beginning after December 15, 2006.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. On March 31, 2006, the FASB issued an Exposure Draft, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of SFAS No. 87, 88, 106, and 132R. This proposed Statement seeks to improve existing reporting for defined benefit postretirement plans by requiring employer business entities to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of the plan assets and the benefit obligation, among other changes. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at December 31, 2005, the impact of the proposed Statement, should it have been in effect at December 31, 2005, would have reduced Total Other Assets by approximately $69 million, increased Total Other Liabilities and Deferred Credits by approximately $171 million and decreased total common stock equity by approximately $240 million. The proposed rules will not have an impact on the Statement of Consolidated Income at adoption and all impacts are non-cash. Upon adoption of the proposed rules, NiSource would be required to change its measurement date for its pension and postretirement benefit plans from September, 30 to December, 31. The FASB is currently deliberating on the proposed rules based on comment letters received and other factors. The release of a final interpretation is scheduled for September of 2006, with an effective date for fiscal years ending after December 15, 2006.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource' s operations are divided into four primary business segments; Gas Distribution Operations, Gas Transmission and Storage Operations, Electric Operations, and Other Operations.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Gas Distribution Operations

(in millions)	Three Months Ended June 30, **2006**	2005	Six Months Ended June 30, **2006**	2005
Net Revenues				
Sales Revenues	**$697.1**	$749.3	**$2,881.8**	$2,766.6
Less: Cost of gas sold	**452.2**	480.2	**2,076.4**	1,899.4
Net Revenues	**244.9**	269.1	**805.4**	867.2
Operating Expenses				
Operation and maintenance	**163.3**	169.3	**391.8**	368.0
Depreciation and amortization	**58.3**	56.3	**115.6**	112.1
Impairment and gain on sale of assets	–	10.5	–	10.5
Other taxes	**29.3**	27.3	**98.0**	96.0
Total Operating Expenses	**250.9**	263.4	**605.4**	586.6
Operating Income (Loss)	**$(6.0)**	$5.7	**$200.0**	$280.6
Revenues ($ in Millions)				
Residential	**373.4**	455.0	**1,855.8**	1,798.8
Commercial	**134.3**	162.3	**686.9**	653.0
Industrial	**63.3**	64.5	**178.7**	174.5
Off System	**142.8**	69.2	**238.1**	120.3
Other	**(16.7)**	(1.7)	**(77.7)**	20.0
Total	**697.1**	749.3	**2,881.8**	2,766.6
Sales and Transportation (MMDth)				
Residential	**30.3**	38.1	**146.9**	180.1
Commercial	**25.3**	28.0	**94.3**	106.7
Industrial	**83.3**	86.7	**181.4**	197.1
Off System	**19.1**	9.2	**29.9**	16.3
Other	**0.2**	0.1	**0.5**	0.5
Total	**158.2**	162.1	**453.0**	500.7
Heating Degree Days	**410**	486	**2,683**	3,159
Normal Heating Degree Days	**482**	483	**3,107**	3,110
% Colder (Warmer) than Normal	**(15)%**	1 %	**(14)%**	2 %
Customers				
Residential			**3,019,568**	3,007,696
Commercial			**285,138**	287,547
Industrial			**8,262**	8,413
Other			**72**	61
Total			**3,313,040**	3,303,717

NiSource' s natural gas distribution operations serve approximately 3.3 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with over 71% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Gas Distribution Operations (continued)

Restructuring
Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $1.5 million and $2.4 million for the second quarter and first six months of 2006, respectively, and the restructuring liability remaining at June 30, 2006 was $6.5 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

Regulatory Matters
Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of June 2006, approximately 678 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that provides for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On May 31, 2006, the PUCO approved Columbia of Ohio' s application to increase its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $37.0 million. As of June 30, 2006, Columbia of Ohio has $41.0 million of uncollected accounts receivable pending future recovery.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/ Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio' s deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio' s Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the 45-day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio' s application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006. By Entry on Rehearing dated May 3, 2006, the PUCO denied consumer groups' second applications for rehearing.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia' s current rates, charges and terms and conditions of service. The Preliminary Order initially required Columbia of Virginia to file the schedules typically required for a general rate case application on or before February 3, 2006. By Order dated January 4, 2006, the VSCC granted a Columbia of Virginia Motion to extend the filing of schedules until May 1, 2006 and issued a further Order on April 21, 2006 extending the time to file certain of the schedules until May 8, 2006. The required schedules were filed on May 1, 2006 and May 8, 2006. The VSCC issued an Order for Notice and Hearing on May 19, 2006. Columbia of Virginia filed testimony in support of its filings on May 19, 2006, June 1, 2006 and June 16, 2006. A hearing in these matters is scheduled to commence on November 29, 2006.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Gas Distribution Operations (continued)

In accordance with the IURC' s 1999 Order that permits Northern Indiana to utilize a flexible GCA mechanism to recover its pipeline demand costs annually and changes in commodity gas costs monthly, Northern Indiana filed GCA7, covering the period November 1, 2005 through October 31, 2006 on August 29, 2005. The IURC approved Northern Indiana' s GCA 7 on July 26, 2006.

On July 13, 2005, Northern Indiana and other parties filed a joint Stipulation and Settlement Agreement with the IURC resolving all terms of a new gas ARP program. The IURC approved the Settlement on January 31, 2006. The new ARP is effective May 1, 2006 through April 30, 2010. The new ARP continues key products and services including Northern Indiana' s Choice program for customers. The ARP also continues the GCIM and adds a new incentive mechanism that shares savings of reduced transportation costs between the company and customers. Northern Indiana and the settling parties also agreed to a moratorium on base rates with the ability to address certain defined issues during the term of this agreement.

On May 16, 2006, Northern Indiana filed a petition to simplify its residential rate structure, stabilize revenue streams and provide the company incentives to encourage energy efficiency measures. A hearing on the cause is set for the fourth quarter of 2006 with full resolution anticipated in the first quarter 2007.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of June 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 14-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Distribution Operations.

Weather
In general, NiSource calculates the weather related revenue variance based on changing customer demand driven by weather variance from normal heating degree-days. Normal is evaluated using heating degree days across the NiSource distribution region. While the temperature base for measuring heating degree-days (i.e. the estimated average daily temperature at which heating load begins) varies slightly across the region, the NiSource composite measurement is based on 62 degrees.

Weather in the Gas Distribution Operation' s territories for the second quarter of 2006 was 16% warmer than the comparable quarter in 2005, and 15% warmer than normal overall.

For the first six months of 2006, weather was 15% warmer than the comparable 2005 period and 14% warmer than normal.

Throughput
Total volumes sold and transported of 158.2 MMDth for the second quarter of 2006, decreased 3.9 MMDth from the same period last year. This decrease in volume was experienced across residential, commercial, and industrial markets and was attributable mainly to the milder weather and decreased residential customer usage compared to the same period last year. Decreases in commercial and industrial customers also contributed to this decrease in gas volume.

For the six month period ended June 30, 2006, total volumes sold and transported were 453.0 MMDth, a decrease of 47.7 MMDth from the same period in 2005. This decrease was primarily reflecting decreased residential, commercial, and industrial sales, which was attributable mainly to the milder weather, and decreased residential customer usage, partially offset by increased off-system sales and transportation sales in the first half of 2006 compared to the first half of 2005.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Gas Distribution Operations (continued)

Net Revenues

Net revenues for the three months ended June 30, 2006 were $244.9 million, a decrease of $24.2 million from the same period in 2005 due primarily to the impact of warmer weather amounting to approximately $17 million for the quarter, the impact of a $5.9 million gas cost adjustment recognized in the comparable period last year and approximately $5 million due to residential usage declines. These decreases in net revenues were partially offset by increased off-system sales. The increase in off-system revenues resulted from short-term market opportunities, which are shared with customers under various regulatory mechanisms. Regulatory trackers, which are offset in operating expense, increased $5.0 million compared to the second quarter of 2005.

For the six month period ended June 30, 2006, net revenues were $805.4 million, a $61.8 million decrease from the same period in 2005. This decrease in net revenues was due primarily to the impact of warmer weather amounting to approximately $63 million and a decline in residential usage of approximately $16 million, a $3.6 million decline in transportation revenue due to reduced throughput, and the unfavorable impact of $2.5 million of gas cost adjustments in the comparable periods. These decreases in net revenues were partially offset by a $29.8 million increase in revenues from regulatory trackers, which are offset in operating expense.

Operating Income

For the second quarter of 2006, Gas Distribution Operations reported an operating loss of $6.0 million compared to operating income of $5.7 million for the same period in 2005. The decrease in operating income was mainly attributable to reduced net revenues described above. The comparable quarter last year was impacted by an $11.2 million restructuring charge and a $10.9 million goodwill impairment loss related to Kokomo Gas. Operating expenses were impacted by increases in accrued sales taxes in the second quarter of 2006 due to the reversal of a $5.8 million sales tax reserve in the comparable quarter last year and increased depreciation.

Operating income for the first six months of 2005 totaled $200.0 million, an $80.6 million decrease compared to the same period in 2005, largely attributable to reduced net revenues described above and transition costs associated with the IBM agreement amounting to $8.6 million. The comparable period last year was impacted by an $11.2 million restructuring charge and a $10.9 million goodwill impairment loss related to Kokomo Gas. Operating expenses were impacted by accrued sales taxes in the second quarter of 2006 due to the reversal of a $5.8 million sales tax reserve in the comparable quarter last year and increased depreciation.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Gas Transmission and Storage Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2006**	2005	**2006**	2005
Operating Revenues				
Transportation revenues	**$152.8**	$150.2	**$337.0**	$328.6
Storage revenues	**43.8**	44.0	**88.2**	89.2
Other revenues	**2.6**	1.6	**5.6**	7.7
Total Operating Revenues	**199.2**	195.8	**430.8**	425.5
Less: Cost of gas sold	**3.9**	6.4	**9.3**	11.9
Net Revenues	**195.3**	189.4	**421.5**	413.6
Operating Expenses				
Operation and maintenance	**73.8**	69.8	**146.1**	141.2
Depreciation and amortization	**28.6**	28.6	**57.3**	56.7
Loss on sale of assets	**0.5**	–	**0.5**	–
Other taxes	**13.4**	14.2	**28.3**	29.4
Total Operating Expenses	**116.3**	112.6	**232.2**	227.3
Operating Income	**$79.0**	$76.8	**$189.3**	$186.3
Throughput (MMDth)				
Columbia Transmission				
Market Area	**170.0**	168.5	**498.5**	564.1
Columbia Gulf				
Mainline	**128.0**	143.0	**289.6**	281.7
Short-haul	**30.8**	23.4	**47.4**	41.6
Columbia Pipeline Deep Water	**2.2**	3.2	**5.1**	6.7
Crossroads Gas Pipeline	**9.0**	10.0	**20.0**	22.0
Granite State Pipeline	**4.5**	5.7	**16.1**	19.6
Intrasegment eliminations	**(122.4)**	(141.6)	**(278.7)**	(280.2)
Total	**222.1**	212.2	**598.0**	655.5

NiSource' s Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline, Granite State Gas and Central Kentucky Transmission. In total NiSource owns a pipeline network of approximately 16 thousand miles extending from offshore in the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in 19 northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the NiSource Gas Transmission and Storage Operations segment operates one of the nation' s largest underground natural gas storage systems.

Restructuring

Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.6 million and $1.1 million for the second quarter and first six months of 2006, respectively, and the restructuring liability remaining at June 30, 2006 was $2.3 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

Regulatory Matters

On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT' s Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. It is anticipated that operating expenses will increase

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Gas Transmission and Storage Operations (continued)

approximately $7 - $12 million in future years related to this guidance and the expenditures NiSource expects to incur to comply with the DOT' s Integrity Management Rule.

On July 20, 2006, the FERC issued a declaratory order in response to a petition filed by Tennessee Gas Pipeline. The petition related to a Tennessee Gas Pipeline request to establish an interconnection with the Columbia Gulf operated portion of the Blue Water Pipeline system. Columbia Gulf has a long-standing practice of providing interconnections with other interstate pipelines only as long as there is an interconnection agreement in place that governs the rules of the interconnection. Among other things, these agreements help protect the integrity of Columbia Gulf' s system and the reliability of service to its customers. The Commission ruled that Tennessee Gas Pipeline' s interconnection request should be governed by the existing Blue Water Pipeline operating agreement between Columbia Gulf and Tennessee Gas Pipeline.

In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if there should be any action taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. Columbia Gulf has acted in good faith throughout the proceeding and is disappointed with FERC' s referral of this matter to the Office of Enforcement. However, Columbia Gulf is cooperating with the Office of Enforcement while Columbia Gulf considers whether to seek rehearing of the declaratory order issued by the FERC in this matter.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of June 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 14-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Transmission and Storage Operations.

Tax Matters
On July 28, 2006, the Ohio Board of Tax Appeals issued a favorable decision in the matter of Columbia Gas Transmission Corporation vs. Thomas M. Zaino, Tax Commissioner of Ohio. The Board ruled that Columbia Transmission' s Ohio operations fall within the statutory definition of both a "natural gas company" and a "pipeline company" and that Columbia Transmission' s property is to be assessed at the significantly lower "natural gas company" assessment ratio beginning with the 2001 tax year. The Ohio Tax Commissioner appealed the decision to the Ohio Supreme Court on July 31, 2006. The final outcome of the case and its impact on the financial statements are uncertain at this time.

Proposed Millennium Pipeline Project
Millennium has proposed a pipeline project, in which Columbia Transmission is participating and will serve as operator, which will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. The project is currently being marketed in two phases. Phase 1 of the project is to begin at a proposed interconnect with Empire, an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse, New York. Empire would construct a lateral pipeline southward to connect with Millennium near Corning, New York. Millennium would extend eastward to an interconnect with Algonquin Gas Transmission at Ramapo, New York. As currently planned, Phase 2 would cross the Hudson River, linking to the New York City metropolitan market.

The FERC issued an order in September 2002 in which it granted final certificate authority for the original Millennium project, but specified that Millennium could not begin construction until certain environmental and other conditions were met. One such condition, impacting what is now being marketed as Phase 2 of the project, was compliance with the Coastal Zone Management Act, which is administered by the NYDOS. NYDOS determined that the Hudson River crossing plan was not consistent with the Coastal Zone Management Act. Millennium' s appeal of that decision to the United States Department of Commerce was denied. Millennium filed an appeal of the United States Department of Commerce ruling relating to the project' s Hudson River crossing plan in the United States Federal District Court on February 13, 2004. On March 31, 2006, the United States Federal District Court denied Millennium' s appeal. On May 3, 2006 Millennium filed with FERC requesting it vacate portions of the Millennium certificate that relate to the Phase 2 facilities and any conditions relating to Phase 2. This

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Gas Transmission and Storage Operations (continued)

reflects Millennium' s decision not to appeal the United States Federal District Court ruling. Phase 2 options are still being studied.

On August 1, 2005, Millennium submitted a certificate amendment filing to the FERC. This amended filing requests authorization from the FERC to construct the project in phases, details construction and development plans for Phase 1 of the project, and includes executed precedent agreements for service on Phase 1 of the project. On May 3, 2006, Millennium made a second amended certificate filing to the FERC. This filing reflected the new partnership agreements and reconfigured ownership levels as discussed below. It also reflected the change in contributed assets from Columbia to Millennium and other project updates. The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, Iroquois, and Islander East collectively referred to as the "Companion Pipelines." Due to the timing of receipt of the necessary regulatory approvals for Millennium and the Companion Pipelines, the targeted in-service date for Phase 1 has been extended to November of 2008. Provided the necessary approvals are received in a timely manner, Millennium plans to begin construction in Spring 2007.

In March 2006, Columbia Atlantic Trading, a NiSource subsidiary, sold its 21.0% interest in the Millennium partnership to KeySpan Millennium (owned by KeySpan Corp.) and DTE Millennium (owned by DTE Energy Co.) through an equity redistribution and a re-writing of the partnership agreements. The Millennium partnership is now currently made up of the following companies: Columbia Transmission (47.5%), DTE Millennium (26.25%), KeySpan Millennium (26.25%). Columbia Transmission will be the operator.

Hardy Storage Project
In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States. Hardy Storage was then formed by Columbia Transmission and Piedmont to develop a natural gas storage field from a depleted natural gas production field in West Virginia. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is planned to begin service in the second quarter of 2007, and is expected to be able to deliver 176 MMDth per day of firm storage service on behalf of the subscribing customers. Columbia Transmission and Piedmont each have a 50% equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received a favorable order on November 1, 2005. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of Hardy Storage. Under the financing agreement, Columbia Transmission issued guarantees securing payment for amounts issued in connection with Hardy Storage up until such time as the project is placed in service and satisfies certain performance criteria. Additional information on this guarantee is provided in Note 14-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements. Construction began in the first quarter of 2006 and Hardy Storage is expected to be placed in service in the second quarter of 2007.

Other Growth Projects
Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has several binding customer agreements continues with pre-filing activities.

Sales of Shorter-Term Transportation and Storage Services
Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $30 million of shorter-term business for 2006, $19.2 million of which was recorded during the six moths ended June 30, 2006. Columbia Gulf' s mainline throughput increased by 3.0% over 2005 due to the increased utilization of these services.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Gas Transmission and Storage Operations (continued)

Throughput
Throughput for the Gas Transmission and Storage Operations segment totaled 222.1 MMDth for the second quarter 2006, compared to 212.2 MMDth for the same period in 2005. The increase of 9.9 MMDth is due to increased sales of shorter-term transportation and storage services described above partially offset by warmer weather and lower offshore natural gas production.

Throughput for the six months ended June 30, 2006 was 598.0 MMDth, a decrease of 57.5 MMDth from the same period in 2005, due to warmer weather in the first six months of 2006 than for the comparable period in 2005, and a continued overall decline of offshore natural gas production, and other non-weather factors.

Net Revenues
Net revenues were $195.3 million for the second quarter 2006, an increase of $5.9 million from the same period in 2005, primarily due to increased sales of shorter-term transportation and storage services of approximately $15 million. Seasonal price fluctuations in the national energy market continued to create opportunities for customers to utilize existing short-term tariff services. The comparable period last year benefited from a third-party buyout of a bankruptcy claim relating to the rejection of a shipper' s long-term contract, which amounted to $8.9 million.

Net revenues were $421.5 million for the first six months of 2006 compared to $413.6 million for the first six months of 2005. The increase in net revenues was mainly due to increased subscriptions for demand services and sales of shorter-term transportation and storage services amounting to approximately $17 million. The comparable period last year benefited from a third-party buyout of a bankruptcy claim discussed above.

Operating Income
Operating income was $79.0 million for the second quarter 2006 compared to $76.8 million in the second quarter 2005. Increases in net revenues described above were partially offset by increased operating expenses of $3.7 million. Operation and maintenance expenses increased as a result of increased pipeline integrity expenses of $2.2 million and higher employee and administrative costs of $1.2 million.

For the first six months of 2006, operating income of $189.3 million increased $3.0 million compared to the first six months of 2005 primarily due to increased net revenues described above. Operating expenses increased by $4.9 million as a result of higher employee and administrative costs of $2.9 million and increased pipeline integrity related costs of $2.2 million.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Electric Operations

(in millions)	Three Months Ended June 30, **2006**	2005	Six Months Ended June 30, **2006**	2005
Net Revenues				
Sales revenues	**$302.9**	$282.2	**$609.8**	$564.9
Less: Cost of sales	**111.3**	92.6	**228.6**	188.6
Net Revenues	**191.6**	189.6	**381.2**	376.3
Operating Expenses				
Operation and maintenance	**66.4**	69.0	**126.9**	130.1
Depreciation and amortization	**46.9**	46.2	**93.0**	91.7
Gain on sale of assets	–	(0.4)	–	(0.4)
Other taxes	**15.0**	13.8	**29.9**	28.5
Total Operating Expenses	**128.3**	128.6	**249.8**	249.9
Operating Income	**$63.3**	$61.0	**$131.4**	$126.4
Revenues ($ in millions)				
Residential	**79.1**	77.3	**160.0**	150.7
Commercial	**90.6**	85.7	**173.0**	158.9
Industrial	**129.9**	104.6	**255.4**	217.0
Wholesale	**9.6**	6.3	**15.1**	13.8
Other	**(6.3)**	8.3	**6.3**	24.5
Total	**302.9**	282.2	**609.8**	564.9
Sales (Gigawatt Hours)				
Residential	**722.0**	768.0	**1,483.1**	1,535.0
Commercial	**949.5**	988.1	**1,843.5**	1,882.3
Industrial	**2,383.5**	2,185.2	**4,820.9**	4,513.5
Wholesale	**195.9**	195.9	**348.0**	357.1
Other	**11.8**	15.9	**40.4**	48.5
Total	**4,262.7**	4,153.1	**8,535.9**	8,336.4
Cooling Degree Days	**190**	280	**190**	280
Normal Cooling Degree Days	**227**	227	**227**	227
% Warmer (Colder) than Normal	**(16 %)**	23 %	**(16 %)**	23 %
Electric Customers				
Residential			**395,005**	392,788
Commercial			**51,522**	50,697
Industrial			**2,505**	2,519
Wholesale			**11**	15
Other			**762**	769
Total			**449,805**	446,788

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 450 thousand customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Electric Operations (continued)

Market Conditions
The regulatory frameworks applicable to Electric Operations continue to be affected by fundamental changes that will impact Electric Operations' structure and profitability. Notwithstanding those changes, competition within the industry will create opportunities to compete for new customers and revenues. Management has taken steps to improve operating efficiencies in this changing environment.

The U.S. Steel Industry continues to adjust to changing market conditions including international competition, increased energy costs, and fluctuating demand for their products. The industry has responded with plant consolidation and rationalization to reduce costs and improve their position in the market place. Increased use of advanced technology by U.S. steel producers has lowered production costs and increased productivity, reducing the labor differential between international producers and those in the United States. Steel demand and pricing for the second half of 2006 are anticipated to remain steady. Steel inventory levels have remained relatively constant and are anticipated to remain so for the rest of 2006. Electric sales to the steel industry in the first half of 2006 were up 8.9% as compared to 2005.

In 2005, Northern Indiana coal deliveries from the PRB area were limited to 80 - 85% of contracted amounts as a result of maintenance problems on track owned jointly by the Union Pacific Railroad Company and Burlington Northern Santa Fe Railway Company. Northern Indiana met the expected electricity demand through the end of 2005 by changing the fuel blend, which reduced its need for PRB coal. Northern Indiana has been blending this fuel for a number of years. In the second quarter of 2006, track maintenance resumed, but Northern Indiana did not experience an impact on coal deliveries.

Regulatory Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The credits will continue beyond the minimum period at the same annual level and per the same methodology, until the IURC enters a basic rate order that approves revised Northern Indiana' s electric rates subsequent to the minimum period. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $22.9 million and $29.2 million were recognized for electric customers for the first half of 2006 and 2005, respectively.

As part of Northern Indiana' s use of the MISO' s transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO' s management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana' s rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana' s rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. Pending a clarifying order on these charges, a reserve was established for the charges, net of credits. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness for the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The IURC approved Northern Indiana' s FAC-69 and FAC-70 filings, in January 2006 and April 2006, respectively, but noted in both orders that this particular category of charges was approved "subject to refund" and subject to final orders. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. As a result, a refund of $9.4 million will be required for charges related to the period April 1, 2005 through December 8, 2005. Northern Indiana had provided for a reserve of $8.7 million through December 2005. The actual amount of the refund was slightly more than the amount of the reserve, due to adjustments and MISO

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Electric Operations (continued)

resettlements. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed. As a result of the ruling, amounts permitted to be recovered through the FAC totaled approximately $1.7 million for the first six months of 2006. The Day 2 non-fuel category includes costs recorded as non-recoverable in net revenues, which amounted to $10.5 million for the first half of 2006. These costs began in April 2005 and totaled $5.4 million for the year 2005. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $2.5 million for the first half of 2006 and were $5.1 million for the year 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding.

On April 25, 2006, the FERC issued an order on the MISO' s Transmission and Energy Markets Tariff, stating that MISO had violated the tariff by not assessing revenue sufficiency guarantee charges on virtual bids and offers. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. On January 18, 2006, the IURC issued a final order dismissing, without prejudice, this cause and the related settlement agreement finding that the agreement entered into between the City of Gary and Northern Indiana lacks essential terms necessary for it to be a valid and enforceable contract under Indiana law. Northern Indiana, with input from a broad based stakeholder group, is evaluating the appropriate course of action for the Mitchell Station facility in light of Northwest Indiana' s need for that property and the substantial costs associated with restarting the facility.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana' s retail electric load requirements and charges imposed on Northern Indiana by MISO. A hearing in this matter was held in December 2004. Northern Indiana will withdraw this petition if the final order from the IURC in cause 42824 approves recovery of intermediate dispatchable power costs incurred in August to December 2005 (described below).

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy' s generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County' s Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC' s Order of August 31, 2005 denying its Petition for Reconsideration. On March 9, 2006, LaPorte' s appeal of the IURC' s interim order was dismissed. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable.

Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement on August 19, 2005 for purposes of partially settling cause 42824 (described above). The OUCC and the Industrial Group agreed to support Northern Indiana' s recovery of intermediate dispatchable power, through its FAC for the period August 9, 2005 through November 30, 2005. Additional settlement provisions include Northern Indiana' s agreement to file an electric base rate case on or before July 1, 2008.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Electric Operations (continued)

On May 23, 2006, Northern Indiana, Whiting Clean Energy, TPC and Intervenor Board of Commissioners of LaPorte County, Indiana filed a proposed settlement agreement in cause 42824 (described above) requesting IURC approval. The settlement requires Northern Indiana to refund $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases. Northern Indiana recorded a reserve for this amount in the second quarter of 2006. IURC approval is pending.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery.

Northern Indiana filed FAC-68 on August 15, 2005. This filing included a projected amount of intermediate dispatchable power costs for October to December 2005, consistent with the Interim Order in 42824. The IURC approved this filing on October 26, 2005.

Northern Indiana filed FAC-69 on November 3, 2005. This filing included a reconciliation of actual intermediate dispatchable power purchases for August and September 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-69 factor was issued January 11, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-71 on June 26, 2006. This filing included $8.6 million of the required refund of MISO related costs for the period April 1, 2005 through December 8, 2005, consistent with the IURC' s May 4, 2006 order (see above). On July 21, 2006, the IURC issued an order approving the FAC-71 rates and creating a sub-docket to review the treatment of purchased power and related costs within the FAC proceeding.

FAC-72, scheduled for filing in the third quarter of 2006, will include a refund for the remaining $0.8 million of MISO-related costs.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM' s NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC' s November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana' s latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $12.9 million for the six months ended June 30, 2006, and $64.6 million from inception to date, while EERM revenues were $6.2 million for the six months ended June 30, 2006, and $14.9 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana' s ECR-7 filing. ECR-8 is scheduled to be filed in August 2006.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana' s service quality was not reasonably adequate. While concluding that Northern Indiana' s service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC' s order in this matter to the Indiana Court of Appeals. These appeals are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Electric Operations (continued)

required backup line and the special fast switching equipment with growth plans announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings. On March 15, 2006, the Court of Appeals denied Jupiter' s motion for remand. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. On May 19, 2006, Jupiter also filed a complaint in state court against Northern Indiana seeking recovery of damages based on the same alleged service problems. Northern Indiana has moved to stay this state court action pending resolution of the IURC proceedings.

Environmental Matters
Currently, various environmental matters impact the Electric Operations segment. As of June 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 14-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

Sales
Electric Operations sales quantities for the second quarter of 2006 were 4,262.7 gwh, an increase of 109.6 gwh compared to the 2005 period, as a result of increased industrial usage, particularly in the steel sector. This increased usage was partially offset by slight declines due to milder weather.

Electric sales for the first six months of 2006 was 8,535.9 gwh, an increase of 199.5 gwh compared to the 2005 period, as a result of increased industrial sales described above. Residential and commercial sales quantities decreased due to cooler weather.

Net Revenues
In the second quarter of 2006, electric net revenues of $191.6 million increased by $2.0 million from the comparable 2005 period. This improvement was primarily a result of a $5.8 million of lower MISO costs, including the impact of a favorable regulatory ruling on the recoverability of certain MISO charges, a reduction in customer credits of $2.7 million, due to the timing of the credits, increased environmental tracker revenues of $1.3 million (partially offset in expense) and increased numbers of residential and commercial customers. These increases in net revenues were partially offset by the impact of unfavorable weather of approximately $8 million.

In the first six months of 2006, electric net revenues were $381.2 million, an increase of $4.9 million from the comparable 2005 period primarily due to a reduction in customer credits of $6.3 million, due to the timing of the credits, increased environmental tracker revenues of $3.8 million (partially offset in expense), $3.7 million of lower MISO costs, including the impact of a favorable regulatory ruling on the recoverability of certain MISO charges, and an increase due to greater residential and commercial customers. These increases in net revenues were partially offset by the impact of unfavorable weather of approximately $10 million.

Operating Income
Operating income for the second quarter of 2006 was $63.3 million, an increase of $2.3 million from the same period in 2005. The increase in operating income was due to the changes in net revenue mentioned above. Operating expenses remained relatively flat with a slight increase in other taxes compared to the same period in 2005 offset by lower employee and administrative expenses.

Operating income for the first six months of 2006 was $131.4 million, an increase of $5.0 million from the same period in 2005. The increase in operating income was due to the changes in net revenue mentioned above. Operation and maintenance expense decreased $3.2 million as lower employee and administrative expense of $6.4 million was partially offset by higher electric generation and maintenance expense of $3.1 million.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Other Operations

Three Months Ended March 31, *(in millions)*	Three Months Ended June 30, **2006**	Three Months Ended June 30, 2005	Six Months Ended June 30, **2006**	Six Months Ended June 30, 2005
Net Revenues				
Products and services revenue	**$173.0**	$191.6	**$514.4**	$420.4
Less: Cost of products purchased	**162.8**	185.3	**498.9**	409.4
Net Revenues	**10.2**	6.3	**15.5**	11.0
Operating Expenses				
Operation and maintenance	**9.2**	9.7	**21.2**	15.7
Depreciation and amortization	**2.8**	2.7	**5.7**	5.4
Impairment and gain on sale of assets	**1.5**	–	**(0.1)**	(0.6)
Other taxes	**1.4**	2.4	**3.5**	4.2
Total Operating Expenses	**14.9**	14.8	**30.3**	24.7
Operating Loss	**$(4.7)**	$(8.5)	**$(14.8)**	$(13.7)

The Other Operations segment participates in energy-related services including gas marketing, power trading and ventures focused on distributed power generation technologies, fuel cells and storage systems. PEI operates the Whiting Clean Energy project, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Additionally, the Other Operations segment is involved in real estate and other businesses.

Lake Erie Land Company, Inc.
In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The Sand Creek Golf Club assets were included in assets of discontinued operations at March 31, 2006. In June 2006, the assets of the Sand Creek Golf Club valued at $11.9 million and additional properties, were sold to a private real estate development group. An after-tax loss of $0.2 million was recorded in June 2006. As a result of the June transaction with the private developer, at June 30, 2006, $4.3 million of assets, representing an estimate of future property to be sold during the next twelve-months, are reflected as assets held for sale.

NDC Douglas Properties
NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. One of these investments was disposed of in the first quarter of 2006 and four other investments will be sold or disposed of during 2006 and 2007. An impairment loss of $2.3 million was recorded in the second quarter of 2006, due to the current book value exceeding the estimated fair value of these investments. NiSource has accounted for the investments to be sold, valued at $10.2 million as of June 30, 2006 after impairment, as assets held for sale. Mortgage notes and other accrued liabilities related to these investments of $10.0 million are accounted for as liabilities held for sale.

PEI Holdings, Inc.
Whiting Clean Energy. PEI' s Whiting Clean Energy project at BP' s Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, under which the contractor paid for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is continuing to pursue recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

For the first six months of 2006, the PEI holding companies' consolidated after-tax loss was approximately $17.1 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP' s oil refinery. During the first quarter of 2005, Whiting

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Other Operations (continued)

Clean Energy completed renegotiation of the terms of its agreement with BP' s oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP' s need for steam, while reducing the power plant' s required run time for the next three years.

In the first quarter of 2005, Northern Indiana selected TPC from bidders responding to a Request for Proposals issued in October 2004 to provide, pending regulatory approval, 230 mw of intermediate dispatchable power, utilizing the generation facilities of Whiting Clean Energy. The FERC accepted a tariff covering the sale of such intermediate dispatchable power.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy' s generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County' s Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC' s Order of August 31, 2005 denying its Petition for Reconsideration. On March 9, 2006, LaPorte' s appeal of the IURC' s interim order was dismissed. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable.

Net Revenues
Net revenues of $10.2 million for the second quarter of 2006 increased by $3.9 million from the second quarter of 2005, as a result of higher revenues from the Whiting Clean Energy facility of $3.2 and increased commercial and industrial gas marketing revenues.

For the first six months of 2006, net revenues were $15.5 million, a $4.5 million increase compared to the same period in 2005. The increase was mainly due to higher revenues from the Whiting Clean Energy facility of $3.8 million and increased commercial and industrial gas marketing revenues.

Operating Loss
Other Operations reported an operating loss of $4.7 million for the second quarter of 2006, versus an operating loss of $8.5 million for the comparable 2005 period. The decrease in the operating loss primarily resulted from decreased losses at the Whiting Clean Energy facility, increased commercial and industrial gas marketing revenues and lower accrued property taxes. An impairment charge of $1.2 million was taken for a certain NDC Douglas property that will be disposed of during 2006 and a $0.3 million loss was realized on the sale of the Sand Creek Golf Club property.

For the first six months of 2006, the operating loss was $14.8 million compared to an operating loss of $13.7 million for the comparable 2005 period. Decreased operating losses at the Whiting Clean Energy facility and increased commercial and industrial gas marketing revenues described above were offset by increased scheduled maintenance for Whiting Clean Energy of $4.5 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NiSource Inc.

For a discussion regarding quantitative and qualitative disclosures about market risk see "Management' s Discussion and Analysis of Financial Condition and Results of Operations − Market Risk Disclosures."

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NiSource' s chief executive officer and its principal financial officer, after evaluating the effectiveness of NiSource' s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report, NiSource' s disclosure controls and procedures were adequate and effective.

Changes in Internal Controls

There was no change in NiSource' s internal control over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, NiSource' s internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

NiSource Inc.

1. Virginia Natural Gas, Inc. v. Columbia Gas Transmission Corporation, Federal Energy Regulatory Commission

On January 13, 2004, VNG filed with the FERC a "Complaint Seeking Compliance with the Natural Gas Act and with Regulations and Certificate Orders of the Federal Energy Regulatory Commission and Seeking Remedies" in Docket No. RP04-139. VNG alleged various violations during the winter of 2002-2003 by Columbia Transmission of its firm service obligations to VNG. VNG sought monetary damages and remedies (exceeding $37 million), and also sought certain prospective remedies. On July 29, 2004, the FERC issued an order in which it refused to grant VNG any monetary damages and said such claims are best determined by a court of law. The FERC also agreed with Columbia Transmission that Columbia Transmission had not abandoned its obligation to provide service and that it had not inappropriately continued interruptible service to the detriment of firm service. However, the FERC did find that Columbia Transmission had failed to exercise sufficient due diligence in its modifications to or its operation of vaporization equipment at its Chesapeake LNG facility and that Columbia Transmission had failed to deliver gas to VNG at 250 pounds per square inch gauge (psig) as called for by the agreement between VNG and Columbia Transmission. The FERC declined VNG' s request to award damages in this case and, as noted above, stated that any claim for damages could best be determined by a court of law. Both Columbia Transmission and VNG have appealed the FERC' s decision to the United States Court of Appeals for the D.C. Circuit. On May 12, 2006, the United States Court of Appeals for the D.C. Circuit issued an order on Columbia Transmission' s and VNG' s petitions for review of FERC' s decision. The Court upheld FERC' s holdings that the events at Columbia' s Chesapeake LNG facility in February and March of 2003 did not constitute a force majeure event, and upheld the FERC' s decision that Columbia had not unlawfully abandoned service to VNG. The Court also remanded the case to FERC directing FERC to articulate the basis for its authority to award damages (if any).

2. Vivian K. Kershaw et al. v. Columbia Natural Resources, Inc., et al., Chautauqua County Court, New York

Plaintiffs filed a complaint in 2000 against CNR a former subsidiary, Columbia Transmission, Columbia and CER. The complaint alleges that plaintiffs own an interest in oil and gas leases in New York and that the defendants have underpaid royalties on those leases by, among other things, failing to base royalties on the price at which natural gas is sold to the end-user and by improperly deducting post-production costs. Plaintiffs seek the alleged royalty underpayment and punitive damages. The complaint also seeks class action status on behalf of all royalty owners in oil and gas leases owned by the defendants. Discovery is currently stayed while the parties seek to determine if the matter can be settled.

3. United States of America ex rel. Jack J. Grynberg v. Columbia Gas Transmission Corporation, et al., U.S. District Court, E.D. Louisiana

The plaintiff filed a complaint in 1997, under the False Claims Act, on behalf of the United States of America, against approximately seventy pipelines, including Columbia Gulf and Columbia Transmission. The plaintiff claimed that the defendants had submitted false royalty reports to the government (or caused others to do so) by mis-measuring the volume and heating content of natural gas produced on Federal land and Indian lands. The Plaintiff' s original complaint was dismissed without prejudice for misjoinder of parties and for failing to plead fraud with specificity. The plaintiff then filed over sixty-five new False Claims Act complaints against over 330 defendants in numerous Federal courts. One of those complaints was filed in the Federal District Court for the Eastern District of Louisiana against Columbia and thirteen affiliated entities (collectively, the "Columbia defendants").

Plaintiff' s second complaint, filed in 1997, repeats the mis-measurement claims previously made and adds valuation claims alleging that the defendants have undervalued natural gas for royalty purposes in various ways, including sales to affiliated entities at artificially low prices. Most of the Grynberg cases were transferred to Federal court in Wyoming in 1999.

ITEM 1. LEGAL PROCEEDINGS (continued)

NiSource Inc.

The defendants, including the Columbia defendants, have filed motions to dismiss for lack of subject matter jurisdiction in this case. Oral argument on the motions to dismiss was held on March 17 and 18, 2005 before a Special Master. On May 13, 2005, the Special Master issued his report and recommendations and recommended dismissal of the action against the Columbia defendants. The decision of the Special Master has been briefed and argued by the parties and presented to the Federal District Court Judge for a final ruling, which is expected in the third quarter of 2006.

4. Tawney, et al. v. Columbia Natural Resources, Inc., Roane County, WV Circuit Court

The Plaintiffs, who are royalty owners, filed a lawsuit in early 2003 against CNR alleging that CNR underpaid royalties by improperly deducting post-production costs and not paying a fair value for the gas produced from their leases. Plaintiffs seek the alleged royalty underpayment and punitive damages claiming that CNR fraudulently concealed the deduction of post-production charges. The court has certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from CNR (and its predecessors or successors) on lands lying within the boundary of the state of West Virginia. All claims by the government of the United States are excluded from the class. CNR appealed the decision certifying the class and the West Virginia Supreme Court of Appeals denied the appeal. Although NiSource sold CNR in 2003, NiSource remains obligated to manage this litigation and also remains at least partly liable for any damages awarded to the plaintiffs. In December 2004, the court granted plaintiffs' motion to add NiSource and Columbia as defendants. The trial was originally scheduled for the first quarter of 2006, but was continued indefinitely, pending review by the West Virginia Supreme Court on the deductibility of post production expenses. On June 15, 2006, the West Virginia Supreme Court ruled against the defendants on this issue but the trial court has not established a new trial date.

5. EPA Settlement.

On June 29, 2006, Columbia Transmission entered into a Consent Agreement with Region III EPA related to the management of coal tar based pipe wrap. The Consent Agreement requires that Columbia Transmission, and its contractor, pay a civil penalty totaling $180,000.

ITEM 1A. RISK FACTORS

No material changes from the risk factors disclosed in NiSource' s 2005 Form 10-K filed on March 10, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 10, 2006, NiSource held its annual meeting of stockholders. On March 14, 2006, there were 272,646,698 shares of common stock outstanding and entitled to vote in person or by proxy at the meeting.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (continued)

NiSource Inc.

The number of votes received by and the number of votes withheld from each nominee for Director are set forth in that report below:

	Number of votes FOR	Number of votes WITHHELD
Gary L. Neale	215,537,076	9,978,967
Robert J. Welsh	204,303,246	21,212,797
Roger A. Young	206,071,689	19,444,354

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the ratification of Deloitte & Touche LLP as the Corporation' s independent public accountants for the year 2006, are set forth in the report below:

Number of votes FOR	Number of votes AGAINST	Number of votes ABSTAINED
208,640,572	15,039,573	1,835,898

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the proposal to amend the Corporation' s Certificate of Incorporation to declassify the board of directors and to provide for annual election of all directors is set forth below:

Number of votes FOR	Number of votes AGAINST	Number of votes ABSTAINED
219,589,357	3,359,800	2,566,886

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the stockholder proposal relating to the election of directors by a majority vote, are set forth below:

Number of votes FOR	Number of votes AGAINST	Number of votes ABSTAINED
123,455,695	60,900,758	3,242,890

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

NiSource Inc.

(3.1) Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Current Report on Form 8-K filed on May 16, 2006).

(3.2) Amended and Restated By-laws (incorporated by reference to Exhibit 3.2 to the NiSource Inc. Current Report on Form 8-K filed on May 16, 2006).

(10.1) Letter Agreement dated August 10, 2005 between Mr. Robert D. Campbell and NiSource Corporate Services. *

(10.2) Amended and Restated Revolving Credit Agreement among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the lender parties thereto as Lenders, Credit Suisse as Syndication Agent, JPMorgan Chase Bank, N.A., The Bank Of Tokyo-Mitsubishi UFJ, Ltd., Chicago Branch and Citicorp USA, Inc., as Co-Documentation Agents and Barclays Bank PLC, as Administrative Agent and LC Bank dated July 7, 2006. *

(31.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(31.2) Certification of Michael W. O' Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(32.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

(32.2) Certification of Michael W. O' Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

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* Exhibit filed herewith.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, NiSource hereby agrees to furnish the SEC, upon request, any instrument defining the rights of holders of long-term debt of NiSource not filed as an exhibit herein. No such instrument authorizes long-term debt securities in excess of 10% of the total assets of NiSource and its subsidiaries on a consolidated basis.

SIGNATURE

NiSource Inc.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NiSource Inc.
(Registrant)

Date: August 3, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller
(Principal Accounting Officer
and Duly Authorized Officer)

EXHIBIT 10.1

August 10, 2005

CONFIDENTIAL

Mr. Robert D. Campbell
5 South Maple Street
Mt. Prospect, IL 60056

Dear Rob:

On behalf of NiSource Corporate Services Company ("Company"), I am pleased to offer you employment as the Senior Vice-President, Human Resources for the Company, beginning September 1, 2005, conditioned upon approval by the Board of Directors. This letter does not constitute an offer of a contract of guaranteed employment; if you accept this offer, you will be an employee at will. The terms of the offer are as follows:

Position: You will report to the President and CEO of the Company.

Initial Term: The initial term of your employment will be for 3 years, until August 30, 2008, renewable upon agreement of the parties.

Base Salary: Your annual base salary will be $270,000, payable monthly. Adjustments to base salary may be made periodically.

Short Term Incentive: Your annual incentive under the NiSource Inc. 2005 Annual Incentive Plan will be at 50% target. You are guaranteed payment of no less than your target bonus for 2005 (prorated for the period of employment), 2006, 2007 and pro rata through August 30, 2008, one-half of which will be paid in monthly installments and the other half will be paid at the normal incentive payment time. Additional payment is possible in March 2006, 2007, 2008 and 2009, depending on Company performance as defined in the plans which are in effect in those respective years. In each case, the payment is dependent upon your status as an employee in good standing.

Long Term Incentive: You will also have the opportunity to participate in a long-term incentive compensation program under the NiSource Inc. 1994 Long Term Incentive Plan, as amended (LTIP) on the same basis as other senior vice-presidents of the Company. Upon employment, you will receive two step-in grants of restricted stock: one valued at $100,000 to vest under the 2003 TARSAP and the second valued at $100,000 to vest under the 2004 TARSAP. Details of the LTIP and of the vesting schedule for each grant will be delivered to you upon your acceptance of employment.

Vacation: You will receive four weeks of paid vacation per year, beginning with 2006, with a prorated amount for 2005.

Other Fringe Benefits: You will receive the same fringe benefits as other NiSource Corporate Services employees.

NiSource Policies: You are expected to familiarize yourself with and observe all Company policies. During the course of your employment with the Company, you will have access to confidential and proprietary information of the Company. You agree to maintain the confidentiality of such information, both during and after your employment.

Severance: If your employment is involuntarily terminated without cause prior to September 1, 2007, you will receive a severance payment equal to your salary for the balance of months remaining in your Initial Term; that is, the amount of severance due will be reduced by one month on the first of each month beginning October 1, 2005. In addition, you will receive a lump sum payment equivalent to 130% of the COBRA continuation coverage premiums due for the severance period in lieu of any continued medical, dental, vision and other welfare benefits offered by the Company. After September 1, 2007, you will be eligible for the then current NiSource Executive Severance Plan or twelve months of severance, whichever is greater.

Dispute Resolution: Should there be any dispute as to the meaning or application of this letter, both parties agree to submit the dispute to binding arbitration under the standard employment rules of the American Arbitration Association. This letter shall be construed in accordance with the laws of the State of Indiana.

I hope that you accept the Company' s offer of employment. To acknowledge your acceptance of this offer, please sign and return one copy of this letter to me. I' m delighted with your interest in working with us at NiSource and look forward to a mutually beneficial relationship. Please call me if you have any questions.

Sincerely,
/s/ Robert C. Skaggs
Robert C. Skaggs

/s/Robert D. Campbell
Name

8/12/05
Date

EXHIBIT 10.2

EXECUTION COPY

AMENDED AND RESTATED
REVOLVING CREDIT AGREEMENT

among

NISOURCE FINANCE CORP.,
as Borrower,

NISOURCE INC.,
as Guarantor,

THE LENDERS PARTY HERETO,

CREDIT SUISSE
as Syndication Agent,

JPMORGAN CHASE BANK, N.A.,
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., CHICAGO BRANCH
and
CITICORP USA, INC.,
as Co-Documentation Agents

BARCLAYS BANK PLC,
as Administrative Agent and LC Bank,

BARCLAYS CAPITAL
and
CREDIT SUISSE
Lead Arrangers

BARCLAYS CAPITAL
Sole Book Runner

Dated as of July 7, 2006

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SCHEDULE 6.01(e)	Existing Agreements

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT, dated as of July 7, 2006 (this "***Agreement***"), among **NISOURCE FINANCE CORP.**, an Indiana corporation, as Borrower (the "***Borrower***"), **NISOURCE INC.**, a Delaware corporation ("***NiSource***"), as Guarantor (the "***Guarantor***"), the Lead Arrangers and other Lenders from time to time party hereto, the Co-Documentation Agents party hereto, **CREDIT SUISSE**, as Syndication Agent and **BARCLAYS BANK PLC**, as issuer of any Letters of Credit provided for hereunder (in such capacity, the ***"LC Bank"***) and as administrative agent for the Lenders hereunder (in such capacity, the "***Administrative Agent***").

WITNESSETH:

WHEREAS, the Borrower, the Guarantor, the LC Bank, the Administrative Agent and certain Lenders parties hereto as of the date hereof are parties to that certain Revolving Credit Agreement dated as of March 11, 2005 (as amended, supplemented or otherwise modified prior to the date hereof, the ***"Existing Credit Agreement"***), and the Borrower has requested that the Guarantor, the Lenders, the LC Bank and the Administrative Agent agree to enter into this Agreement to amend and restate the Existing Credit Agreement, and such Persons have agreed to enter into this Agreement on the terms and conditions stated herein. Further, each Departing Lender has agreed to execute and deliver a Departing Lender Signature Page, pursuant to which such Departing Lender shall cease to be a party to the Existing Credit Agreement, such Departing Lender' s "Commitment" under (and as defined in) the Existing Credit Agreement shall be terminated and such Departing Lender shall not be a Lender hereunder (provided that the indemnities and other obligations of the Borrower contained in Section 11.03 of the Existing Credit Agreement (and the Guarantor' s obligations in respect thereof pursuant to Article X of the Existing Credit Agreement) in favor of such Departing Lender shall survive the termination of such Departing Lender' s "Commitment" under the Existing Credit Agreement).

NOW, **THEREFORE**, the parties hereto hereby agree that the Existing Credit Agreement is hereby amended and restated in its entirety as of the date hereof as follows:

ARTICLE I
DEFINITIONS

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"***ABR***", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"***Administrative Questionnaire***" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"***Affiliate***" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"***Aggregate Commitments***" means the aggregate amount of the Commitments of all Lenders, as in effect from time to time. As of the date hereof, the Aggregate Commitments equal $1,500,000,000.

"***Alternate Base Rate***" means, for any day, a rate *per annum* equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"***Applicable Percentage***" means, with respect to any Lender, the percentage of the Aggregate Commitments represented by such Lender' s Commitment. If the Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments.

"***Applicable Rate***" means, for any day, with respect to any ABR Loan or Eurodollar Revolving Loan, or with respect to the Facility Fees, the LC Risk Participation Fee and the Utilization Margin payable hereunder, as the case may be, the applicable rate *per annum* determined pursuant to the Pricing Grid.

"***Arrangers***" means each of Barclays and Credit Suisse.

"***Assignment and Acceptance***" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 11.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"***Availability Period***" means the period from and including the Effective Date to but excluding the Termination Date.

"***Barclays***" means Barclays Bank PLC, an English banking corporation.

"***Beneficiary***" has the meaning set forth in Section 10.01.

"***Board***" means the Board of Governors of the Federal Reserve System of the United States of America.

"***Borrower***" means NiSource Finance Corp., Inc. an Indiana corporation.

"***Borrowing***" means Loans of the same Type and Class, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"***Borrowing Request***" means a request by the Borrower for a Revolving Borrowing in accordance with Section 2.02.

"***Business Day***" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; *provided* that, when used in connection with a Eurodollar Loan, the term "***Business Day***" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"***Capital Lease***" means, as to any Person, any lease of real or personal property in respect of which the obligations of the lessee are required, in accordance with GAAP, to be capitalized on the balance sheet of such Person.

"***Capital Stock***" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person other than a corporation (including, but not limited to, all common stock and preferred stock and partnership, membership and joint venture interests in a Person), and any and all warrants, rights or options to purchase any of the foregoing.

"***Cash Account***" has the meaning set forth in Section 8.01.

"***CERCLA***" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act, 42, U.S.C. Section 9601 et seq., as amended.

"***Change of Control***" means (a) any "person" or "group" within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended, shall become the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of more than 50% of the then outstanding voting Capital Stock of the Guarantor, (b) Continuing Directors shall cease to constitute at least a majority of the directors constituting the Board of Directors of the Guarantor, (c) a consolidation or merger of the Guarantor shall occur after which the holders of the outstanding voting Capital Stock of the Guarantor immediately prior thereto hold less than 50% of the outstanding voting Capital Stock of the surviving entity; (d) more than 50% of the outstanding voting Capital Stock of the Guarantor shall be transferred to an entity of which the Guarantor owns less than 50% of the outstanding voting Capital Stock; (e) there shall occur a sale of all or substantially all of the assets of the Guarantor; or (f) the Borrower, NIPSCO or Columbia shall cease to be a Wholly-Owned Subsidiary of the Guarantor (except to the extent otherwise permitted under clauses (i), (ii), (iii) or (iv) of Section 6.01(b)).

"***Change in Law***" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender' s holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"***Class***", when used in reference to any Loan or Borrowing, refers to whether such Loan is, or the Loans comprising such Borrowing are, Revolving Loans or Swingline Loans.

"***Code***" means the Internal Revenue Code of 1986, as amended from time to time.

"***Columbia***" means Columbia Energy Group, a Delaware corporation.

"***Commitment***" means, with respect to each Lender, the commitment of such Lender to make Revolving Loans hereunder and to participate in Letters of Credit issued hereunder as set forth herein, as such commitment may be (a) reduced from time to time or terminated pursuant to Section 2.07 or Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 11.04. The initial amount of each Lender' s Commitment is (x) the amount set forth on Schedule 2.01 opposite such Lender' s name; or (y) the amount set forth in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable.

"***Consolidated Capitalization***" means the sum of (a) Consolidated Debt, (b) consolidated common equity of the Guarantor and its Consolidated Subsidiaries determined in accordance with GAAP, and (c) the aggregate liquidation preference of preferred stocks (other than preferred stocks subject to mandatory redemption or repurchase) of the Guarantor and its Consolidated Subsidiaries upon involuntary liquidation.

"***Consolidated Debt***" means, at any time, the Indebtedness of the Guarantor and its Consolidated Subsidiaries that would be classified as debt on a balance sheet of the Guarantor determined on a consolidated basis in accordance with GAAP.

"***Consolidated Subsidiary***" means, on any date, each Subsidiary of the Guarantor the accounts of which, in accordance with GAAP, would be consolidated with those of the Guarantor in its consolidated financial statements if such statements were prepared as of such date.

"***Contingent Guaranty***" means a direct or contingent liability in respect of a Project Financing (whether incurred by assumption, guaranty, endorsement or otherwise) that either (a) is limited to guarantying performance of the completion of the Project that is financed by such Project Financing or (b) is contingent upon, or the obligation to pay or perform under which is contingent upon, the occurrence of any event other than failure of the primary obligor to pay upon final maturity (whether by acceleration or otherwise).

"***Continuing Directors***" means (a) all members of the board of directors of the Guarantor who have held office continually since the Effective Date, and (b) all members of the board of directors of the Guarantor who were elected as directors after the Effective Date and whose nomination for election was approved by a vote of at least 50% of the Continuing Directors.

"***Contractual Obligation***" means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"***Control***" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "***Controlling***" and "***Controlled***" have meanings correlative thereto.

"***Credit Documents***" means (a) this Agreement, any promissory notes executed pursuant to Section 2.10, and any Assignment and Acceptances, (b) any certificates, opinions and other documents required to be delivered pursuant to Section 3.01, and (c) any other documents delivered by a Credit Party pursuant to or in connection with any one or more of the foregoing.

"***Credit Party***" means each of the Borrower and the Guarantor; and "***Credit Parties***" means the Borrower and the Guarantor, collectively.

"***Debt for Borrowed Money***" means, as to any Person, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all Capital Lease obligations of such Person, and (d) all obligations of such Person under synthetic leases, tax retention operating leases, off-balance sheet loans or other off-balance sheet financing products that, for tax purposes, are considered indebtedness for borrowed money of the lessee but are classified as operating leases under GAAP.

"***Debt to Capitalization Ratio***" means, at any time, the ratio of Consolidated Debt to Consolidated Capitalization.

"***Default***" means any event or condition that constitutes an Event of Default or that, upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"***Departing Lender***" means each lender under the Existing Credit Agreement that executes and delivers to the Administrative Agent a Departing Lender Signature Page.

"***Departing Lender Signature Page***" means each signature page to this Agreement on which it is indicated that the Departing Lender executing the same shall cease to be a party to the Existing Credit Agreement on the Effective Date.

"***Dollars***" or "***$***" refers to lawful money of the United States of America.

"***Effective Date***" means the date on which this Agreement has been executed and delivered by each of the Borrower, the Guarantor, the Syndication Agent, the Co-Documentation Agents, the initial Lenders and the Swingline Lender, the LC Bank and the Administrative Agent.

"***Environmental Laws***" means any and all foreign, federal, state, local or municipal laws (including, without limitation, common laws), rules, orders, regulations, statutes, ordinances, codes, decrees, judgments, awards, writs, injunctions, requirements of any Governmental Authority or other requirements of law regulating, relating to or imposing liability or standards of conduct concerning, pollution, waste, industrial hygiene, occupational safety or health, the presence, transport, manufacture, generation, use, handling, treatment, distribution, storage, disposal or release of Hazardous Substances, or protection of human health, plant life or animal life, natural resources or the environment, as now or at any time hereafter in effect.

"***Environmental Liability***" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Guarantor or any of its Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"***ERISA***" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"***ERISA Affiliate***" means any Person who, for purposes of Title IV of ERISA, is a member of the Guarantor' s controlled group, or under common control with the Guarantor, within the meaning of Section 414 of the Code and the regulations promulgated and rulings issued thereunder.

"***ERISA Event***" means (a) a reportable event, within the meaning of Section 4043 of ERISA, unless the 30-day notice requirement with respect thereto has been waived by the PBGC, (b) the provision by the administrator of any Plan of a notice of intent to terminate such Plan, pursuant to Section 4041(a)(2) and 4041(c) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA), (c) the withdrawal by the Guarantor or an ERISA Affiliate from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA, (d) the failure by the Guarantor or any ERISA Affiliate to make a payment to a Plan required under Section 302(f)(1) of ERISA, which Section imposes a lien for failure to make required payments, (e) the adoption of an amendment to a Plan requiring the provision of security to such Plan, pursuant to Section 307 of ERISA, or (f) the institution by the PBGC of proceedings to terminate a Plan, pursuant to Section 4042 of ERISA, or the occurrence of any event or condition which may reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, a Plan.

"***Eurocurrency Liabilities***" has the meaning assigned to that term in Regulation D of the Board, as in effect from time to time.

"***Eurodollar***", when used in reference to any Loan or Borrowing, refers to whether such Loan is, or the Loans comprising such Borrowing are, bearing interest at a rate determined by reference to the LIBO Rate.

"***Eurodollar Rate Reserve Percentage***" of any Lender for the Interest Period for any Eurodollar Loan means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"***Event of Default***" has the meaning assigned to such term in Article VIII.

"***Excluded Taxes***" means, with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income or net earnings by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located and (b) in case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.19(d)), any withholding tax that (i) is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement, except to the extent that such Foreign Lender' s assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.17(a) or (ii) is attributable to such Foreign Lender' s failure to comply with Section 2.17 (e) when legally able to do so.

"***Existing Credit Agreement***" is defined in the recitals hereto.

"***Exposure***" means, with respect to any Lender at any time, such Lender' s Outstanding Loans *plus* such Lender' s Applicable Percentage of the aggregate LC Outstandings at such time *plus* such Lender' s Applicable Percentage of the aggregate Unreimbursed LC Disbursements at such time.

"***Extension of Credit***" means (a) the making by any Lender of a Revolving Loan, (b) the making by the Swingline Lender of any Swingline Loan, (c) the issuance of a Letter of Credit by the LC Bank or (d) the amendment of any Letter of Credit having the effect of extending the stated termination date thereof, increasing the LC Outstandings, or otherwise altering any of the material terms or conditions thereof.

"***Facility Fee***" has the meaning set forth in Section 2.12.

"***Federal Bankruptcy Code***" means Title 11 of the United States Code (11 U.S.C. § 101 et seq.) as now or hereafter in effect, or any successor statute.

"***Federal Funds Effective Rate***" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"***Foreign Lender***" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"***GAAP***" means generally accepted accounting principles in the United States of America consistent with those applied in the preparation of the financial statements referred to in Section 4.01(e).

"***Governmental Authority***" means the government of the United States of America, any other nation, or any political subdivision of the United States of America or any other nation, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government and includes, in any event, an "Independent System Operator" or any entity performing a similar function.

"***Granting Lender***" has the meaning set forth in Section 11.04.

"***Guarantor***" means NiSource.

"***Guaranty***" means the guaranty of the Guarantor pursuant to Article X of this Agreement.

"***Hazardous Materials***" means any asbestos; flammables; volatile hydrocarbons; industrial solvents; explosive or radioactive materials; hazardous wastes; toxic substances; liquefied natural gas; natural gas liquids; synthetic gas; oil, petroleum, or related materials and any constituents, derivatives, or byproducts thereof or additives thereto; or any other material, substance, waste, element or compound (including any product) regulated pursuant to any Environmental Law, including, without limitation, substances defined as "hazardous substances," "hazardous materials," "contaminants," "pollutants," "hazardous wastes," "toxic substances," "solid waste," or "extremely hazardous substances" in (i) CERCLA, (ii) the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq., (iii) the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., (iv) the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251 et seq., (v) the Clean Air Act, 42 U.S.C. Section 7401 et seq., (vi) the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., (vii) the Safe

Drinking Water Act, 42 U.S.C. Section 300f et seq., or (viii) foreign, state, local or municipal law, in each case, as may be amended from time to time.

"***Indebtedness***" of any Person means (without duplication) (a) Debt for Borrowed Money, (b) obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business which are not overdue, (c) all obligations, contingent or otherwise, of such Person in respect of any letters of credit, bankers' acceptances or interest rate, currency or commodity swap, cap or floor arrangements, (d) all indebtedness of others secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the indebtedness secured thereby has been assumed, (e) all amounts payable by such Person in connection with mandatory redemptions or repurchases of preferred stock, and (f) obligations of such Person under direct or indirect guarantees in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (a) through (e) above.

"***Indemnified Taxes***" means Taxes other than Excluded Taxes.

"***Indemnitee***" has the meaning set forth in Section 11.03.

"***Index Debt***" means the senior unsecured long-term debt securities of the Borrower, without third-party credit enhancement provided by a Person other than the Guarantor.

"***Information***" has the meaning set forth in Section 11.12.

"***Insufficiency***" means, with respect to any Plan, the amount, if any, by which the present value of all vested and unvested accrued benefits under such Plan exceeds the fair market value of assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan using actuarial assumptions used in determining such Plan' s normal cost for purposes of Section 4l2(b)(2)(A) of the Code.

"***Interest Election Request***" means a request by the Borrower to convert or continue a Revolving Borrowing in accordance with Section 2.06.

"***Interest Payment Date***" means (a) with respect to any ABR Loan, the last day of each March, June, September and December, (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, the day that is three months after the first day of such Interest Period, (c) with respect to any Swingline Loan, the date such Swingline Loan is required to be repaid and (d) with respect to any Loan, the Termination Date.

"***Interest Period***" means with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower

may elect; *provided* that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day; and (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and, in the case of a Revolving Borrowing, thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"LC Outstandings" means, for any date of determination, the aggregate maximum amount available to be drawn under all Letters of Credit outstanding on such date (assuming the satisfaction of all conditions for drawing enumerated therein).

"***LC Risk Participation Fee***" has the meaning set forth in Section 2.12.

"***Lenders***" means (a) the Persons listed on Schedule 2.01, including any such Person identified thereon or in the signature pages hereto as a Lead Arranger, and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance, (b) the Swingline Lender in respect of the Swingline Loans made by it and (c) if and to the extent so provided in Section 2.04(c), the LC Bank.

"Letter of Credit" means a letter of credit issued by the LC Bank pursuant to the terms of this Agreement, together with the letters of credit deemed issued by the LC Bank hereunder pursuant to Section 2.04(h), in each case, as such letter of credit may from time to time be amended, modified or extended in accordance with the terms of this Agreement.

"***LIBO Rate***" means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Telerate Page 3750 (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "***LIBO Rate***" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which Dollar deposits of $5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"***Lien***" has the meaning set forth in Section 6.01(a).

"***Loans***" means the loans made by the Lenders to the Borrower pursuant to this Agreement.

"***Margin Stock***" means margin stock within the meaning of Regulations U and X issued by the Board.

"***Material Adverse Effect***" means a material adverse effect on (a) the business, assets, operations, condition (financial or otherwise) or prospects of the Guarantor and its Subsidiaries taken as a whole; (b) the validity or enforceability of any of Credit Documents or the rights, remedies and benefits available to the Administrative Agent and the Lenders thereunder; or (c) the ability of the Borrower or the Guarantor to consummate the Transactions.

"***Material Subsidiary***" means at any time the Borrower, NIPSCO, Columbia, and each Subsidiary of the Guarantor, other than the Borrower, NIPSCO and Columbia, in respect of which:

(a) the Guarantor' s and its other Subsidiaries' investments in and advances to such Subsidiary and its Subsidiaries exceed 10% of the consolidated total assets of the Guarantor and its Subsidiaries taken as a whole, as of the end of the most recent fiscal year; or

(b) the Guarantor' s and its other Subsidiaries' proportionate interest in the total assets (after intercompany eliminations) of such Subsidiary and its Subsidiaries exceeds 10% of the consolidated total assets of the Guarantor and its Subsidiaries as of the end of the most recent fiscal year; or

(c) the Guarantor' s and its other Subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principles of such Subsidiary and its Subsidiaries exceeds 10% of the consolidated income of the Guarantor and its Subsidiaries for the most recent fiscal year.

"***Moody's***" means Moody' s Investors Service, Inc., and any successor thereto.

"***Multiemployer Plan***" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"***Multiple Employer Plan***" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, which (a) is maintained for employees of the Borrower or an ERISA Affiliate and at least one Person other than the Borrower and its ERISA Affiliates, or (b) was so maintained and in respect of which the Borrower or an ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event that such plan has been or were to be terminated.

"***NIPSCO***" means Northern Indiana Public Service Company, an Indiana corporation.

"***Non-Recourse Debt***" means Indebtedness of the Guarantor or any of its Subsidiaries which is incurred in connection with the acquisition, construction, sale, transfer or other disposition of specific assets, to the extent recourse, whether contractual or as a matter of law, for non-payment of such Indebtedness is limited (a) to such assets or (b) if such assets are (or are to be) held by a Subsidiary formed solely for such purpose, to such Subsidiary or the Capital Stock of such Subsidiary.

"***Obligations***" means all amounts, direct or indirect, contingent or absolute, of every type or description, and at any time existing and whenever incurred (including, without limitation, after the commencement of any bankruptcy proceeding), owing to the Administrative Agent or any Lender pursuant to the terms of this Agreement or any other Credit Document.

"***Other Taxes***" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

"***Outstanding Loans***" means, as to any Lender at any time, the aggregate principal amount of all Loans made or maintained by such Lender then outstanding; *provided, however,* that for purposes of any calculation of the Outstanding Loans, any then outstanding Swingline Loans shall be deemed allocated among the Lenders (other than the Swingline Lender in its capacity as such) in accordance with their respective Applicable Percentages.

"***Participant***" has the meaning set forth in Section 11.04.

"***PBGC***" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"***Person***" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"***Plan***" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"***Pricing Grid***" means the pricing grid attached hereto as Annex A.

"***Prime Rate***" means the rate of interest *per annum* publicly announced from time to time by Barclays as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"***Project***" means an energy or power generation, transmission or distribution facility (including, without limitation, a thermal energy generation, transmission or distribution facility and an electric power generation, transmission or distribution facility (including, without limitation, a cogeneration facility)), a gas production, transportation or distribution facility, or a minerals extraction, processing or distribution facility, together with (a) all related electric power transmission, fuel supply and fuel transportation facilities and power supply, thermal energy supply, gas supply, minerals supply and fuel contracts, (b) other facilities, services or goods that are ancillary, incidental, necessary or reasonably related to the marketing, development, construction, management, servicing, ownership or operation of such facility, (c) contractual arrangements with customers, suppliers and contractors in respect of such facility, and (d) any infrastructure facility related to such facility, including, without limitation, for the treatment or management of waste water or the treatment or remediation of waste, pollution or potential pollutants.

"***Project Financing***" means Indebtedness incurred by a Project Financing Subsidiary to finance (a) the development and operation of the Project such Project Financing Subsidiary was formed to develop or (b) activities incidental thereto; *provided* that such Indebtedness does not include recourse to the Guarantor or any of its other Subsidiaries other than (x) recourse to the Capital Stock in any such Project Financing Subsidiary, and (y) recourse pursuant to a Contingent Guaranty.

"***Project Financing Subsidiary***" means any Subsidiary of the Guarantor (a) that (i) is not a Material Subsidiary, and (ii) whose principal purpose is to develop a Project and activities incidental thereto (including, without limitation, the financing and operation of such Project), or to become a partner, member or other equity participant in a partnership, limited liability company or other entity having such a principal purpose, and (b) substantially all the assets of which are limited to the assets relating to the Project being developed or Capital Stock in such partnership, limited liability company or other entity (and substantially all of the assets of any such partnership, limited liability company or other entity are limited to the assets relating to such Project); *provided* that such Subsidiary incurs no Indebtedness other than in respect of a Project Financing.

"***Register***" has the meaning set forth in Section 11.04.

"***Related Parties***" means, with respect to any specified Person, such Person' s Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person' s Affiliates.

"***Request for Issuance***" has the meaning set forth in Section 2.04.

"***Required Lenders***" means Lenders having more than 50% in aggregate amount of the Commitments, or if the Commitments shall have been terminated, of the Total Outstanding Principal.

"***Responsible Officer***" of a Credit Party means any of (a) the President, the chief financial officer, the chief accounting officer and the Treasurer of such Credit Party and

(b) any other officer of such Credit Party whose responsibilities include monitoring compliance with this Agreement.

"***Revolving Loan***" means a Loan made pursuant to Section 2.02.

"***S&P***" means Standard & Poor' s Ratings Group, a division of The McGraw Hill Companies, Inc., and any successor thereto.

"***SPFV***" has the meaning set forth in Section 11.04.

"***Subsidiary***" means, with respect to any Person, any corporation or other entity of which at least a majority of the outstanding shares of stock or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other managers of such corporation or other entity (irrespective of whether or not at the time stock or other equity interests of any other class or classes of such corporation or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more of the Subsidiaries of such Person.

"***Substantial Subsidiaries***" has the meaning set forth in Section 8.01.

"Swingline Commitment" means, for the Swingline Lender, the amount set forth as the Swingline Lender' s Swingline Commitment on Schedule 2.01 hereto.

"Swingline Facility Amount" has the meaning specified in Section 2.01(b).

"Swingline Loan" means a loan made by the Swingline Lender pursuant to the terms of this Agreement.

"Swingline Lender" means Barclays.

"***Swingline Rate***" means: (a) in the case of a Swingline Loan in an original principal amount of $100,000 or more, a fixed rate of interest equal to the sum of (i) the Swingline Lender' s cost of funds as determined by the Swingline Lender in its sole discretion with reference to its funding sources on the date such Swingline Loan is made for a term equal to the period such Swingline Loan is to be outstanding plus (ii) the Applicable Rate then in effect for Eurodollar Revolving Loans or (b) in the case of a Swingline Loan in an original principal amount of less than $100,000, a floating rate of interest equal to the sum of (i) the Alternate Base Rate plus (ii) the Applicable Rate then in effect for Alternate Base Rate Loans, in each case, as notified to the Borrower at the time such Swingline Loan is made. Any Swingline Rate determined in accordance with clause (a), above, shall be adjusted in each case from time to time to give effect to all applicable reserve requirements, including, without limitation, special, emergency or supplemental reserves.

"Swingline Request" means a request by the Borrower for the Swingline Lender to make a Swingline Loan, which shall contain the information in respect of such requested Swingline Loan specified in Section 2.03(b) and shall be delivered to the

Swingline Lender and the Administrative Agent in writing, or by telephone, immediately confirmed in writing.

"***Syndication Agent***" means Credit Suisse, in its capacity as syndication agent for the Lenders hereunder.

"***Taxes***" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority, including any interest, penalties and additions to tax imposed thereon or in connection therewith.

"***Termination Date***" means the earliest of (a) July 7, 2011 and (b) the date upon which the Commitments are terminated pursuant to Section 8.1 or otherwise.

"***Total Outstanding Principal***" means the aggregate amount of the Outstanding Loans of all Lenders plus the aggregate LC Outstandings plus the aggregate Unreimbursed LC Disbursements.

"***Transactions***" means the execution, delivery and performance by the Borrower and the Guarantor of this Agreement and the Borrowing of Loans and issuances of Letters of Credit hereunder.

"***Type***", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the LIBO Rate or the Alternate Base Rate.

"Unreimbursed LC Disbursement" means the unpaid obligation (or, if the context so requires, the amount of such obligation) of the Borrower to reimburse the LC Bank for a payment made by the LC Bank under a Letter of Credit, but shall not include any portion of such obligation that has been repaid with the proceeds of, or converted to, Loans hereunder.

"***Utility Subsidiary***" means a Subsidiary of the Guarantor that is subject to regulation by a Governmental Authority (federal, state or otherwise) having authority to regulate utilities, and any Wholly-Owned Subsidiary thereof.

"***Utilization Margin***" has the meaning set forth in Section 2.13.

"***Wholly-Owned Subsidiary***" means, with respect to any Person, any corporation or other entity of which all of the outstanding shares of stock or other ownership interests in which, other than directors' qualifying shares (or the equivalent thereof), are at the time directly or indirectly owned or controlled by such Person or one or more of the Subsidiaries of such Person.

"***Withdrawal Liability***" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Sections 4201, 4203 and 4205 of ERISA.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (*e.g.*, a "***Revolving Loan***") or by Type (*e.g.*, a "***Eurodollar Loan***") or by Class and Type (*e.g.*, a "***Eurodollar Revolving Loan***"). Borrowings also may be classified and referred to by Class (*e.g.*, a "***Revolving Borrowing***") or by Type (*e.g.*, a "***Eurodollar Borrowing***") or by Class and Type (*e.g.*, a "***Eurodollar Revolving Borrowing***").

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "or" shall not be exclusive. The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person' s successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights. The terms "knowledge of", "awareness of" and "receipt of notice of" in relation to a Credit Party, and other similar expressions, mean knowledge of, awareness of, or receipt of notice by, a Responsible Officer of such Credit Party.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; *provided* that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the Effective Date in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

ARTICLE II
THE CREDITS

SECTION 2.01. Commitments.

(a) Subject to the terms and conditions set forth herein, each Lender agrees to make Revolving Loans to the Borrower from time to time during the Availability Period in an

aggregate principal amount that will not result in (i) such Lender' s Exposure exceeding such Lender' s Commitment or (ii) the sum of the Exposures of all of the Lenders exceeding the Aggregate Commitments.

(b) Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time during the Availability Period in an aggregate principal amount that will not result in (i) the aggregate principal amount of all Swingline Loans made by the Swingline Lender then outstanding under this Agreement exceeding the Swingline Lender' s Swingline Commitment, (ii) the aggregate principal amount of all Swingline Loans then outstanding under this Agreement exceeding $250,000,000 (the ***"Swingline Facility Amount"***), (iii) any Lender' s Exposure exceeding such Lender' s Commitment or (iv) the sum of the Exposures of all of the Lenders exceeding the Aggregate Commitments.

(c) Subject to the terms and conditions set forth herein, the LC Bank agrees to issue, extend or amend Letters of Credit and each Lender agrees to participate in such Letters of Credit, in each case as set forth herein, from time to time during the Availability Period in an aggregate stated amount that will not result in (i) the aggregate LC Outstandings under this Agreement exceeding $500,000,000, (ii) any Lender' s Exposure exceeding such Lender' s Commitment or (iii) the sum of the Exposures of all of the Lenders exceeding the Aggregate Commitments.

(d) Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans and Swingline Loans and request the issuance, extension or amendment of Letters of Credit.

SECTION 2.02. Revolving Loans and Revolving Borrowings; Requests for Borrowings.

(a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender' s failure to make Loans as required.

(b) Subject to Section 2.14, each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurodollar Revolving Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of $5,000,000 and not less than $10,000,000. At the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of $100,000; provided that an ABR Revolving Borrowing may be to an aggregate amount that is equal to the entire unused balance of the Aggregate Commitments. Borrowings of more than one Type and

Class may be outstanding at the same time; provided that there shall not at any time be more than a total of ten Eurodollar Revolving Borrowings outstanding under this Agreement.

(d) To request a Revolving Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 11:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information:

(i) the aggregate amount of the requested Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period".

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Revolving Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month' s duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender' s Loan to be made as part of the requested Borrowing.

(e) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Eurodollar Borrowing if the Interest Period requested with respect thereto would end after the Termination Date.

SECTION 2.03. Swingline Loans. (a) Each Swingline Loan to be made by the Swingline Lender shall be made on notice given by the Borrower to the Swingline Lender and the Administrative Agent via fax transmission in accordance with Section 11.01 hereof not later than 11:00 A.M. (New York City time) on the borrowing date of the proposed Swingline Loan (which shall be a Business Day) or such later time as the Swingline Lender and the Administrative Agent may agree. Each such notice (a "***Swingline Request***") shall specify the requested borrowing date of such Swingline Loan, the amount thereof and the maturity date thereof (which shall be a Business Day not later than five days from the date such Swingline Loan is to be made). Upon receipt of any Swingline Request, the Swingline Lender shall give to the Administrative Agent prompt notice thereof by fax transmission, and shall notify the Borrower and the Administrative Agent of the Swingline Rate to be applicable thereto. The Swingline Lender shall, before 2:00 P.M. (New York City time) on the borrowing date of such

Swingline Loan, make such Swingline Loan available to the Administrative Agent, in same day funds, and, after the Administrative Agent' s receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Administrative Agent will make such funds available to the Borrower to an account within the United States of America specified in the relevant Swingline Request or, if not so specified, in accordance with Section 2.05.

(b) Each Swingline Loan shall bear interest at the Swingline Rate and shall mature on the first to occur of: (i) the date specified in the relevant Swingline Request, (ii) the date that is five days following the date such Swingline Loan was made and (iii) the Termination Date. At no time shall more than a total of five Swingline Loans be outstanding under this Agreement.

(c) At any time upon written demand by the Swingline Lender, with a copy of such demand to the Administrative Agent, and automatically upon the occurrence of an Event of Default, each other Lender shall purchase from the Swingline Lender, and the Swingline Lender shall sell and assign to each such other Lender, such other Lender' s pro rata share (based on its Applicable Percentage) of the Swingline Loans of the Swingline Lender outstanding as of the date of such demand or occurrence, as the case may be, by making available to the Administrative Agent for the account of the Swingline Lender an amount in same day funds equal to the portion of the principal amount of each outstanding Swingline Loan to be purchased by such Lender. The Borrower hereby agrees to each such sale and assignment. Each Lender agrees to pay to the Administrative Agent for the account of the Swingline Lender its pro rata share (based on its Applicable Percentage) of each outstanding Swingline Loan purchased pursuant to this clause (c) on (i) the Business Day on which demand therefor is made by the Swingline Lender, *provided, that,* notice of such demand is received by such Lender not later than 11:00 A.M. (New York City time) on such Business Day, (ii) the first Business Day next succeeding such demand, if notice of such demand is received after such time or (iii) the first Business Day next succeeding the date such Lender has actual knowledge of the occurrence of such Event of Default. Upon any such assignment by the Swingline Lender to any other Lender of a portion of any Swingline Loan, the Swingline Lender represents and warrants to such other Lender that the Swingline Lender is the legal and beneficial owner of the interest being assigned by it, but makes no other representation or warranty and assumes no responsibility with respect to such Swingline Loan, the Credit Documents or the Borrower. If and to the extent that any Lender shall not have so made its participated portion of such Swingline Loan or portion thereof available to the Administrative Agent for the account of the Swingline Lender, such Lender agrees to pay to the Swingline Lender forthwith on demand such amount together with interest thereon for each day from the date of demand by the Swingline Lender until the date such amount is paid to the Swingline Lender, at the Federal Funds Effective Rate. If such Lender shall pay such amount to the Swingline Lender on any Business Day, such amount so paid in respect of principal shall constitute an ABR Revolving Loan made by such Lender on such Business Day for all purposes of this Agreement, and the outstanding principal amount of the relevant Swingline Loan(s) shall be reduced accordingly by such amount on such Business Day. The obligation of each other Lender to purchase its pro rata share of the Swingline Lender' s Swingline Loans in accordance with this subsection shall be absolute and unconditional, notwithstanding the occurrence of any circumstances, including, without limitation any Event of Default or any setoff, deduction or other defense asserted by the Borrower or any other Person, *except* that any Lender shall have the right to bring suit against the Swingline Lender, and the Swingline Lender shall be liable to such Lender, to the extent of any direct, as opposed to

consequential, damages suffered by such Lender which such Lender proves were caused by the Swingline Lender' s wilful misconduct or gross negligence.

SECTION 2.04. Letters of Credit

(a) *LC Bank.* Subject to the terms and conditions hereof, the Borrower may from time to time request Barclays, as LC Bank, to issue, extend or amend one or more Letters of Credit hereunder. Any such request by the Borrower shall be notified to the Administrative Agent at least five Business Days prior to the date upon which the Borrower proposes that the LC Bank issue, extend or amend such Letter of Credit. At no time shall (i) the aggregate LC Outstandings exceed the sum of the Commitments or (ii) the sum of the aggregate LC Outstandings under this Agreement exceed $500,000,000.

(b) *Letters of Credit.* Each Letter of Credit shall be issued (or the stated maturity thereof extended or terms thereof modified or amended) on not less than five Business Days' prior written notice thereof to the Administrative Agent (which shall promptly distribute copies thereof to the Lenders) and the LC Bank. Each such notice (a ***"Request for Issuance"***) shall specify (i) the date (which shall be a Business Day) of issuance of such Letter of Credit (or the date of effectiveness of such extension, modification or amendment) and the stated expiry date thereof (which shall be not later than the Termination Date), (ii) the proposed stated amount of such Letter of Credit and (iii) such other information as shall demonstrate compliance of such Letter of Credit with the requirements specified therefor in this Agreement. Each Request for Issuance shall be irrevocable unless modified or rescinded by the Borrower not less than two days prior to the proposed date of issuance (or effectiveness) specified therein. If the LC Bank shall have approved the form of such Letter of Credit (or such extension, modification or amendment thereof), the LC Bank shall not later than 11:00 A.M. (New York City time) on the proposed date specified in such Request for Issuance, and upon fulfillment of the applicable conditions precedent and the other requirements set forth herein and as otherwise agreed to between the LC Bank and the Borrower, issue (or extend, amend or modify) such Letter of Credit and provide notice and a copy thereof to the Administrative Agent. The Administrative Agent shall furnish (x) to each Lender, a copy of such notice and (y) to each Lender that may so request, a copy of such Letter of Credit.

(c) *Reimbursement on Demand*. Subject to the provisions of Section 2.04(d) hereof, the Borrower hereby agrees to pay (whether with the proceeds of Loans made pursuant to this Agreement or otherwise) to the LC Bank on demand (i) on and after each date on which the LC Bank shall pay any amount under any Letter of Credit a sum equal to such amount so paid (which sum shall constitute a demand loan from the LC Bank to the Borrower from the date of such payment by the LC Bank until so paid by the Borrower), plus (ii) interest on any amount remaining unpaid by the Borrower to the LC Bank under clause (i), above, from the date such sum becomes payable on demand until payment in full, at a rate *per annum* which is equal to 2% plus the then applicable Alternate Base Rate until paid in full.

(d) *Loans for Unreimbursed LC Disbursements*. If the LC Bank shall make any payment under any Letter of Credit and if the conditions precedent set forth in Section 3.02 of this Agreement have been satisfied as of the date of such honor, then, each Lender' s payment made to the LC Bank pursuant to paragraph (e) of this Section 2.04 in respect of such Unreimbursed

LC Disbursement shall be deemed to constitute an ABR Loan made for the account of the Borrower by such Lender. Each such ABR Loan shall mature and be due and payable on the earlier of (i) the first March 31, June 30, September 30 or December 31 to occur following the date such ABR Loan is made and (ii) the Termination Date.

(e) *Participation; Reimbursement of LC Bank*.

(i) Upon the issuance of any Letter of Credit by the LC Bank (and, in the case of the Letters of Credit identified on Schedule 2.04, on the Effective Date), the LC Bank hereby sells and transfers to each Lender, and each Lender hereby acquires from the LC Bank, an undivided interest and participation to the extent of such Lender' s Applicable Percentage in and to such Letter of Credit, including the obligations of the LC Bank under and in respect thereof and the Borrower' s reimbursement and other obligations in respect thereof, whether now existing or hereafter arising.

(ii) If the LC Bank shall not have been reimbursed in full for any payment made by the LC Bank under any Letter of Credit on the date of such payment, the LC Bank shall promptly notify the Administrative Agent and the Administrative Agent shall promptly notify each Lender of such non-reimbursement and the amount thereof. Upon receipt of such notice from the Administrative Agent, each Lender shall pay to the Administrative Agent for the account of the LC Bank an amount equal to such Lender' s Applicable Percentage of such Unreimbursed LC Disbursement, plus interest on such amount at a rate per annum equal to the Federal Funds Rate from the date of such payment by the LC Bank to the date of payment to the LC Bank by such Lender. All such payments by each Lender shall be made in United States dollars and in same day funds not later than 3:00 P.M. (New York City time) on the later to occur of (A) the Business Day immediately following the date of such payment by the LC Bank and (B) the Business Day on which such Lender shall have received notice of such non-reimbursement; *provided, however*, that if such notice is received by such Lender later than 11:00 A.M. (New York City time) on such Business Day, such payment shall be payable on the next Business Day. Each Lender agrees that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. If a Lender shall have paid to the LC Bank its ratable portion of any Unreimbursed LC Disbursement, together with all interest thereon required by the second sentence of this subparagraph (ii), such Lender shall be entitled to receive its ratable share of all interest paid by the Borrower in respect of such Unreimbursed LC Disbursement. If such Lender shall have made such payment to the LC Bank, but without all such interest thereon required by the second sentence of this subparagraph (ii), such Lender shall be entitled to receive its ratable share of the interest paid by the Borrower in respect of such Unreimbursed LC Disbursement only from the date it shall have paid all interest required by the second sentence of this subparagraph (ii).

(iii) The failure of any Lender to make any payment to the LC Bank in accordance with subparagraph (ii) above, shall not relieve any other Lender of its obligation to make payment, but neither the LC Bank nor any Lender shall be responsible for the failure of any other Lender to make such payment. If any Lender shall fail to make any payment to the LC Bank in accordance with subparagraph (ii) above, then such

Lender shall pay to the LC Bank forthwith on demand such corresponding amount together with interest thereon, for each day until the date such amount is repaid to the LC Bank at the Federal Funds Rate. Nothing herein shall in any way limit, waive or otherwise reduce any claims that any party hereto may have against any non-performing Lender.

(iv) If any Lender shall fail to make any payment to the LC Bank in accordance with subparagraph (ii), above, then, in addition to other rights and remedies which the LC Bank may have, the Administrative Agent is hereby authorized, at the request of the LC Bank, to withhold and to apply to the payment of such amounts owing by such Lender to the LC Bank and any related interest, that portion of any payment received by the Administrative Agent that would otherwise be payable to such Lender. In furtherance of the foregoing, if any Lender shall fail to make any payment to the LC Bank in accordance with subparagraph (ii), above, and such failure shall continue for five Business Days following written notice of such failure from the LC Bank to such Lender, the LC Bank may acquire, or transfer to a third party in exchange for the sum or sums due from such Lender, such Lender' s interest in the related Unreimbursed LC Disbursement and all other rights of such Lender hereunder in respect thereof, without, however, relieving such Lender from any liability for damages, costs and expenses suffered by the LC Bank as a result of such failure, and prior to such transfer, the LC Bank shall be deemed, for purposes of Section 2.18 and Article VIII hereof, to be a Lender hereunder owed a Loan in an amount equal to the outstanding principal amount due and payable by such Lender to the Administrative Agent for the account of such LC Bank pursuant to subparagraph (ii), above. The purchaser of any such interest shall be deemed to have acquired an interest senior to the interest of such Lender and shall be entitled to receive all subsequent payments which the LC Bank or the Administrative Agent would otherwise have made hereunder to such Lender in respect of such interest.

(f) *Obligations Absolute.* The payment obligations of each Lender under Section 2.04(e) and of the Borrower under Section 2.04(c) of this Agreement in respect of any payment under any Letter of Credit and any Loan made under Section 2.04(d) shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including, without limitation, the following circumstances:

(i) any lack of validity or enforceability of any Credit Document or any other agreement or instrument relating thereto or to such Letter of Credit;

(ii) any amendment or waiver of, or any consent to departure from, all or any of the Credit Documents;

(iii) the existence of any claim, set-off, defense or other right which the Borrower may have at any time against any beneficiary, or any transferee, of such Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), the LC Bank, or any other Person, whether in connection with this Agreement, the transactions contemplated herein or by such Letter of Credit, or any unrelated transaction;

(iv) any statement or any other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment in good faith by the LC Bank under the Letter of Credit issued by the LC Bank against presentation of a draft or certificate which does not comply with the terms of such Letter of Credit; or

(vi) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

(g) *Liability of LC Bank and the Lenders.* The Borrower assumes all risks of the acts and omissions of any beneficiary or transferee of any Letter of Credit. Neither the LC Bank, the Lenders nor any of their respective officers, directors, employees, agents or Affiliates shall be liable or responsible for (i) the use that may be made of such Letter of Credit or any acts or omissions of any beneficiary or transferee thereof in connection therewith; (ii) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (iii) payment by the LC Bank against presentation of documents that do not comply with the terms of such Letter of Credit, including failure of any documents to bear any reference or adequate reference to such Letter of Credit; or (iv) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit, *except* that the Borrower or any Lender shall have the right to bring suit against the LC Bank, and the LC Bank shall be liable to the Borrower and any Lender, to the extent of any direct, as opposed to consequential, damages suffered by the Borrower or such Lender which the Borrower or such Lender proves were caused by the LC Bank' s wilful misconduct or gross negligence, including the LC Bank' s wilful or grossly negligent failure to make timely payment under such Letter of Credit following the presentation to it by the beneficiary thereof of a draft and accompanying certificate(s) which strictly comply with the terms and conditions of such Letter of Credit. In furtherance and not in limitation of the foregoing, the LC Bank may accept sight drafts and accompanying certificates presented under the Letter of Credit issued by the LC Bank that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary. Notwithstanding the foregoing, no Lender shall be obligated to indemnify the Borrower for damages caused by the LC Bank' s wilful misconduct or gross negligence, and the obligation of the Borrower to reimburse the Lenders hereunder shall be absolute and unconditional, notwithstanding the gross negligence or wilful misconduct of the LC Bank.

(h) *Transitional Provision*. Schedule 2.04 contains a schedule of certain letters of credit issued (or deemed issued) for the account of the Borrower pursuant to the Existing Credit Agreement prior to the Effective Date. Subject to the satisfaction of the conditions contained in Sections 3.01 and 3.02, from and after the Effective Date such letters of credit shall be deemed to be Letters of Credit issued pursuant to this Section 2.04.

SECTION 2.05. Funding of Borrowings.

(a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 3:00 p.m., New York City time, to the

account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account established and maintained by the Borrower at the Administrative Agent' s office in New York City.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed time of any Borrowing that such Lender will not make available to the Administrative Agent such Lender' s share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the Federal Funds Effective Rate or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender' s Loan included in such Borrowing.

SECTION 2.06. Interest Elections.

(a) Each Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.02 if the Borrower were requesting a Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be

specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month' s duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender' s portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

SECTION 2.07. Mandatory Termination or Reduction of Commitments.

Unless previously terminated, the Commitments shall terminate on the Termination Date.

SECTION 2.08. Mandatory Prepayments.

(a) If at any time the Total Outstanding Principal exceeds the Aggregate Commitments then in effect for any reason whatsoever (including, without limitation, as a result of any reduction in the Aggregate Commitments pursuant to Section 2.09), the Borrower shall prepay Loans in such aggregate amount (together with accrued interest thereon to the extent required by Section 2.13) as shall be necessary so that, after giving effect to such prepayment, the Total Outstanding Principal does not exceed the Aggregate Commitments.

(b) Each prepayment of Loans pursuant to this Section 2.08 shall be accompanied by the Borrower' s payment of any amounts payable under Section 2.16 in connection with such prepayment. Prepayments of Revolving Loans shall be applied ratably to the Loans so prepaid.

SECTION 2.09. Optional Reduction of Commitments.

(a) The Borrower may at any time terminate, or from time to time reduce, the Commitments; *provided* that (i) each reduction of the Commitments shall be in an amount that is an integral multiple of $10,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.11, the Total Outstanding Principal would exceed the Aggregate Commitments thereafter in effect.

(b) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under Section 2.09(a) at least five Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; *provided* that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent.

(c) Each reduction of the Commitments pursuant to this Section 2.09 shall be made ratably among the Lenders in accordance with their respective Commitments immediately preceding such reduction.

SECTION 2.10. Repayment of Loans; Evidence of Debt.

(a) The Borrower hereby unconditionally promises to pay to the Administrative Agent (i) for the account of each Lender the then unpaid principal amount of each Revolving Loan on the Termination Date, (ii) for the account of each Lender the then unpaid principal amount of each ABR Loan deemed to be made pursuant to Section 2.04(d) on the maturity date therefor as determined pursuant to Section 2.04(d) and (iii) for the account of the Swingline Lender the then unpaid principal amount of each Swingline Loan on the maturity date therefor as determined pursuant to Section 2.03.

(b) Each Lender (including the Swingline Lender) shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan (including each Swingline Loan) made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders (including the Swingline Lender) and each Lender’ s share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be *prima facie* evidence of the existence and amounts of the obligations recorded therein; *provided* that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender (including the Swingline Lender) may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 11.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.11. Optional Prepayment of Loans.

(a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing (including any Swingline Borrowing) in whole or in part, subject to prior notice in accordance with paragraph (b) of this Section.

(b) The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment, (ii) in the case of prepayment of an ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of prepayment or (iii) in the case of prepayment of a Swingline Borrowing, not later than 11:00 a.m., New York City time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; *provided* that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.09, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.09. Promptly following receipt of any such notice relating to a Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Revolving Borrowing shall be in an amount that would be permitted in the case of an advance of a Revolving Borrowing of the same Type as provided in Section 2.02, and each partial prepayment of a Swingline Borrowing shall be in an amount not less than $100,000 or any integral multiple thereof, it being understood that the foregoing minimums shall not apply to the prepayment in whole of the outstanding Revolving Loans of all Lenders or to the prepayment in whole of the outstanding Swingline Loans of the Swingline Lender. Each prepayment of a Revolving Borrowing shall be applied ratably to the Loans included in the prepaid Revolving Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.13 and by any amounts payable under Section 2.16 in connection with such prepayment.

SECTION 2.12. Fees.

(a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a facility fee (each a "***Facility Fee***"), which shall accrue at the Applicable Rate on the daily amount of the Commitment of such Lender (whether used or unused) during the period from and including the Effective Date to but excluding the date on which such Commitment terminates; *provided* that, if such Lender continues to have any Outstanding Loans after its Commitment terminates, then such Facility Fee shall continue to accrue on the daily amount of such Lender' s Outstanding Loans from and including the date on which its Commitment terminates to but excluding the date on which such Lender ceases to have any Outstanding Loans. Accrued Facility Fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the Effective Date; *provided* that any Facility Fees accruing after the date on which the Commitments terminate shall be payable on demand. All Facility Fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a letter of credit risk participation fee (each a "***LC Risk Participation Fee***"), which shall accrue at the Applicable Rate on the average daily amount of the LC Outstandings during the period from and including the Effective Date to but excluding the Termination Date or such later date as on which there shall cease to be any LC Outstandings. Accrued LC Risk Participation Fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the Effective Date; *provided* that any LC Risk Participation Fees accruing after the date on which the Commitments terminate shall be payable on demand; *provided* further that if at any time the Total Outstanding Principal Exceeds 50% of the Aggregate Commitments, the LC Risk Participation Fee otherwise applicable to the LC Outstandings shall be increased by a rate *per annum* equal to the Utilization Margin. All LC Risk Participation Fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The Borrower shall also pay to the LC Bank for its own account (x) a fronting fee, which fronting fee shall accrue at a per annum rate agreed upon between the Borrower and the LC Bank on the average daily amount of the LC Outstanding during the period such Letter of Credit shall be outstanding, which fronting fee shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which such Letter of Credit terminates, and (y) documentary and processing charges in connection with the issuance, or modification cancellation, negotiation, or transfer of, and draws under Letters of Credit in accordance with the LC Bank' s standard schedule for such charges as in effect from time to time.

(c) The Borrower agrees to pay to the Administrative Agent, for its own account and for the account of the other Persons entitled thereto, the fees provided for in that certain fee letter dated June 12, 2006, executed and delivered with respect to the credit facility provided for herein, in each case, in the amounts and at the times set forth therein and in immediately available funds.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (for distribution, in the case of Facility Fees and LC Risk Participation Fees, to the Lenders). Fees due and paid shall not be refundable under any circumstances.

(e) On the Effective Date, the Borrower shall pay to the Administrative Agent, for distribution to the lenders then party to the Existing Credit Agreement and to any such other Persons entitled thereto, the accrued and unpaid "Facility Fees", "LC Risk Participation Fees" and "Utilization Fees" (as each such terms are defined in the Existing Credit Agreement before giving effect to this Agreement) and all other interest, fees and expenses accrued under the Existing Credit Agreement to but not including the Effective Date.

SECTION 2.13. Interest.

(a) The Loans comprising each ABR Borrowing shall bear interest at a rate *per annum* equal to the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at a rate *per annum* equal to the LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Each Swingline Loan shall bear interest at a rate *per* annum equal to the Swingline Rate, as determined for such Swingline Loan and notified by the Swingline Lender to the Borrower in accordance with Section 2.03(a).

(d) If at any time the Total Outstanding Principal exceeds 50% of the Aggregate Commitments, the interest rate otherwise applicable to the Loans shall be increased by a rate *per annum* equal to the utilization margin (the "***Utilization Margin***") at the Applicable Rate determined in accordance with the Pricing Grid.

(e) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate *per annum* equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided above or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided above.

(f) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan; *provided* that (i) interest accrued pursuant to paragraph (e) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan, accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment, (iii) in the event of any conversion of any Eurodollar Revolving Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion and (iv) all accrued interest shall be payable upon termination of the Commitments.

(g) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base

Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.14. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent reasonably determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Revolving Borrowing to, or continuation of any Revolving Borrowing as, a Eurodollar Borrowing shall be ineffective and (ii) if any Borrowing Request requests a Eurodollar Revolving Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.15. Increased Costs. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or the LC Bank (except any such reserve requirement described in paragraph (e) of this Section); or

(ii) impose on any Lender or the LC Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or participation therein or Unreimbursed LC Disbursements or Letters of Credit and participations therein;

and the result of any of the foregoing shall be to increase the cost to such Lender or the LC Bank of making or maintaining any Eurodollar Loan or Unreimbursed LC Disbursement or issuing or maintaining Letters of Credit and participation interests therein (or of maintaining its obligation to make any such Loan or issue or participate in such Letter of Credit) or to reduce the amount of any sum received or receivable by such Lender or the LC Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or the LC Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the LC Bank for such additional costs incurred or reduction suffered.

(b) If any Lender or the LC Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender’ s or the

LC Bank' s capital or on the capital of its holding company, if any, as a consequence of this Agreement to a level below that which such Lender or the LC Bank or its holding company could have achieved but for such Change in Law (taking into consideration its policies and the policies of its holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the LC Bank, as the case may be, such additional amount or amounts as will compensate it or its holding company for any such reduction suffered.

(c) A certificate of a Lender or the LC Bank, as the case may be, setting forth the amount or amounts necessary to compensate it or its holding company as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or the LC Bank to demand compensation pursuant to this Section shall not constitute a waiver of its right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender pursuant to this Section for any increased costs or reductions incurred more than ninety days prior to the date that such Lender or the LC Bank notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of its intention to claim compensation therefor; provided, further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the ninety day period referred to above shall be extended to include the period of retroactive effect thereof.

(e) The Borrower shall pay (without duplication as to amounts paid under this Section 2.15) to each Lender, so long as such Lender shall be required under regulations of the Board to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Eurodollar Loan of such Lender, from the date of such Loan until such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the LIBO Rate for the Interest Period for such Loan from (ii) the rate obtained by dividing such LIBO Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Lender for such Interest Period, payable on each date on which interest is payable on such Loan. Such additional interest determined by such Lender and notified to the Borrower and the Administrative Agent, accompanied by the calculation of the amount thereof, shall be conclusive and binding for all purposes absent manifest error.

SECTION 2.16. Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Revolving Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice is permitted to be revocable under Section 2.11(b) and is revoked in accordance therewith), or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, the loss to any Lender attributable to any such event shall be deemed to include an amount reasonably determined by such Lender to be equal to the excess, if any, of (x) the amount of

interest that such Lender would pay for a deposit equal to the principal amount of such Loan for the period from the date of such payment, conversion, failure or assignment to the last day of the then current Interest Period for such Loan (or, in the case of a failure to borrow, convert or continue, the duration of the Interest Period that would have resulted from such borrowing, conversion or continuation) if the interest rate payable on such deposit were equal to the LIBO Rate for such Interest Period, over (y) the amount of interest that such Lender would earn on such principal amount for such period if such Lender were to invest such principal amount for such period at the interest rate that would be bid by such Lender (or an affiliate of such Lender) for dollar deposit from other banks in the eurodollar market at the commencement of such period. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.17. Taxes.

(a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; *provided* that if any Credit Party shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, LC Bank or Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Credit Party shall make such deductions and (iii) such Credit Party shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, the LC Bank and each Lender, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (and for any Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Administrative Agent, the LC Bank or such Lender, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the LC Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the LC Bank, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by a Credit Party to a Governmental Authority, such Credit Party shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the laws of the jurisdiction in which the Borrower or the Guarantor is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with an additional original or a photocopy, as required under applicable rules and procedures, to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower, such properly completed and executed documentation prescribed by applicable law as shall be necessary to permit such payments to be made without withholding or at a reduced rate. Further, in those circumstances as shall be necessary to allow payments hereunder to be made free of (or at a reduced rate of) withholding tax, each other Lender and the Administrative Agent, as applicable, shall deliver to Borrower such documentation as the Borrower may reasonably request in writing.

(f) Except with the prior written consent of the Administrative Agent, all amounts payable by a Credit Party hereunder shall be made by such Credit Party in its own name and for its own account from within the United States by a payor that is a United States person (within the meaning of Section 7701 of the Code).

SECTION 2.18. Payments Generally; Pro Rata Treatment; Sharing of Set-Offs.

(a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest or fees, or under Section 2.15, 2.16, 2.17 or 11.03, or otherwise) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 200 Park Avenue, New York, New York, except that payments pursuant to Sections 2.15, 2.16, 2.17 and 11.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in Dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, interest and fees then due hereunder, such funds shall be applied (i) first, to pay interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, to pay principal then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of the Obligations owing to it resulting in such Lender receiving payment of a greater proportion of the aggregate amount of such Obligations and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Loans of, or other Obligations owing to, other Lenders to the

extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Loans or other Obligations, as applicable; *provided* that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Guarantor, the Borrower or any other Subsidiary or Affiliate of the Guarantor (as to which the provisions of this paragraph shall apply). The Borrower and the Guarantor consent to the foregoing and agree, to the extent they may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower and the Guarantor rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower or the affected Guarantor in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the Federal Funds Effective Rate.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.03(c), 2.04(e), 2.05(b) or 2.18(d), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender' s obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.19. Mitigation Obligations; Replacement of Lenders.

(a) Any Lender claiming reimbursement or compensation from the Borrower under either of Sections 2.15 and 2.17 for any losses, costs or other liabilities shall use reasonable efforts (including, without limitation, reasonable efforts to designate a different lending office of such Lender for funding or booking its Loans or to assign its rights and obligations hereunder to another of its offices, branches or affiliates) to mitigate the amount of such losses, costs and other liabilities, if such efforts can be made and such mitigation can be accomplished without such Lender suffering (i) any economic disadvantage for which such Lender does not receive full indemnity from the Borrower under this Agreement or (ii) otherwise be disadvantageous to such Lender.

(b) In determining the amount of any claim for reimbursement or compensation under Sections 2.15 and 2.17, each Lender will use reasonable methods of calculation consistent with such methods customarily employed by such Lender in similar situations.

(c) Each Lender will notify the Borrower either directly or through the Administrative Agent of any event giving rise to a claim under Section 2.15 or Section 2.17 promptly after the occurrence thereof which notice shall be accompanied by a certificate of such Lender setting forth in reasonable detail the circumstances of such claim.

(d) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 11.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); *provided* that (i) the Borrower shall have received the prior written consent of the Administrative Agent and the LC Bank, which consent, in the case of the Administrative Agent, shall not unreasonably be withheld and, in the case of the LC Bank, may be given or withheld in the sole discretion of the LC Bank, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

ARTICLE III
CONDITIONS

SECTION 3.01. Conditions Precedent to the Effectiveness of this Agreement. This Agreement shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 11.02).

(a) The Administrative Agent (or its counsel) shall have received from each party thereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) The Lenders, the Administrative Agent, the Arrangers and each other Person entitled to the payment of fees or the reimbursement or payment of expenses, pursuant hereto or to that certain fee letter dated June 12, 2006, executed and delivered with respect to the credit facility

provided for herein, shall have received all fees required to be paid by the Effective Date (including, without limitation, all fees owing on the Effective Date under Section 2.12(e) hereof), and all expenses for which invoices have been presented on or before the Effective Date.

(c) The Administrative Agent shall have received certified copies of the resolutions of the Board of Directors of each of the Guarantor and the Borrower approving this Agreement, and of all documents evidencing other necessary corporate action and governmental and regulatory approvals with respect to this Agreement.

(d) The Administrative Agent shall have received from each of the Borrower and the Guarantor, to the extent generally available in the relevant jurisdiction, a copy of a certificate or certificates of the Secretary of State (or other appropriate public official) of the jurisdiction of its incorporation, dated reasonably near the Effective Date, (i) listing the charters of the Borrower or the Guarantor, as the case may be, and each amendment thereto on file in such office and certifying that such amendments are the only amendments to the Borrower' s or the Guarantor' s charter, as the case may be, on file in such office, and (ii) stating, in the case of the Borrower, that the Borrower is authorized to transact business under the laws of the jurisdiction of its place of incorporation, and, in the case of the Guarantor, that the Guarantor is duly incorporated and in good standing under the laws of the jurisdiction of its place of incorporation.

(e) (i) The Administrative Agent shall have received a certificate or certificates of each of the Borrower and the Guarantor, signed on behalf of the Borrower and the Guarantor respectively, by a the Secretary, an Assistant Secretary or a Responsible Officer thereof, dated the Effective Date, certifying as to (A) the absence of any amendments to the charter of the Borrower or the Guarantor, as the case may be, since the date of the certificates referred to in paragraph (d) above, (B) a true and correct copy of the bylaws of each of the Borrower or the Guarantor, as the case may be, as in effect on the Effective Date, (C) the absence of any proceeding for the dissolution or liquidation of the Borrower or the Guarantor, as the case may be, (D) the truth, in all material respects, of the representations and warranties contained in the Credit Documents to which the Borrower or the Guarantor is a party, as the case may be, as though made on and as of the Effective Date, and (E) the absence, as of the Effective Date, of any Default or Event of Default; and (ii) each of such certifications shall be true.

(f) The Administrative Agent shall have received a certificate of the Secretary or an Assistant Secretary of each of the Guarantor and the Borrower certifying the names and true signatures of the officers of Guarantor or the Borrower, as the case may be, authorized to sign, and signing, this Agreement and the other Credit Documents to be delivered hereunder on or before the Effective Date.

(g) The Administrative Agent shall have received from Schiff Hardin LLP, counsel for the Guarantor and the Borrower, a favorable opinion, substantially in the form of Exhibit B hereto and as to such other matters as any Lender through the Administrative Agent may reasonably request.

SECTION 3.02. Conditions Precedent to Each Extension of Credit. The obligation of each Lender to make any Extension of Credit and of the LC Bank to issue, extend (other than an extension pursuant to an automatic extension provision set forth in the applicable Letter of

Credit) or amend any Letter of Credit (including the initial Extension of Credit but excluding any conversion or continuation of any Loan) shall be subject to the satisfaction (or waiver in accordance with Section 11.02) of each of the following conditions:

(a) The representations and warranties of the Guarantor and the Borrower set forth in this Agreement (other than the representation and warranty set forth in Section 4.01(f)) shall be true and correct in all material respects on and as of the date of such Extension of Credit, except to the extent that such representations and warranties are specifically limited to a prior date, in which case such representations and warranties shall be true and correct in all material respects on and as of such prior date.

(b) After giving effect to (A) such Extension of Credit, together with all other Extensions of Credit to be made contemporaneously therewith, and (B) the repayment of any Loans or Unreimbursed LC Disbursements that are to be contemporaneously repaid at the time such Loan is made, such Extension of Credit will not result in the sum of the then Total Outstanding Principal exceeding the Aggregate Commitments.

(c) Such Extension of Credit will comply with all other applicable requirements of Article II, including, without limitation Sections 2.01, 2.02, 2.03 and 2.04, as applicable.

(d) At the time of and immediately after giving effect to such Extension of Credit, no Default or Event of Default shall have occurred and be continuing.

(e) In the case of a Revolving Loan, the Administrative Agent shall have timely received a Borrowing Request; and, in the case of a Letter of Credit issuance, extension (other than an extension pursuant to an automatic extension provision set forth in the applicable Letter of Credit) or amendment, a Request for Issuance.

Each Extension of Credit and the acceptance by the Borrower of the benefits thereof shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a), (b), (c) and (d) of this Section.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Credit Parties. Each of the Borrower and the Guarantor represents and warrants as follows:

(a) Each of the Borrower and the Guarantor is a corporation duly organized, validly existing and, in the case of the Borrower, authorized to transact business under the laws of the State of its incorporation, and, in the case of the Guarantor, in good standing under the laws of the State of its incorporation.

(b) The execution, delivery and performance by each of the Credit Parties of the Credit Documents to which it is a party (i) are within such Credit Party' s corporate powers, (ii) have been duly authorized by all necessary corporate action, (iii) do not contravene (A) such Credit Party' s charter or by-laws, as the case may be, or (B) any law, rule or regulation, or any material

Contractual Obligation or legal restriction, binding on or affecting such Credit Party or any Material Subsidiary, as the case may be, and (iv) do not require the creation of any Lien on the property of such Credit Party or any Material Subsidiary under any Contractual Obligation binding on or affecting such Credit Party or any Material Subsidiary.

(c) No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority or other Person is required for the due execution, delivery and performance by any Credit Party of this Agreement or any other Credit Document to which any of them is a party, except for such as (i) have been obtained or made and that are in full force and effect or (ii) are not presently required under applicable law and have not yet been applied for.

(d) Each Credit Document to which any Credit Party is a party is a legal, valid and binding obligation of such Credit Party, enforceable against such Credit Party in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(e) The consolidated balance sheet of the Guarantor and its Subsidiaries as at March 31, 2006, and the related statements of income and retained earnings of the Guarantor and its Subsidiaries for the three months then ended, copies of which have been made available or furnished to each Lender, fairly present (subject to year-end adjustments) the financial condition of the Guarantor and its Subsidiaries as at such date and the results of the operations of the Guarantor and its Subsidiaries for the period ended on such date, all in accordance with generally accepted accounting principles consistently applied.

(f) Since December 31, 2005, there has been no material adverse change in such condition or operations, or in the business, assets, operations, condition (financial or otherwise) or prospects of any of the Credit Parties or of Columbia.

(g) There is no pending or threatened action, proceeding or investigation affecting such Credit Party before any court, governmental agency or other Governmental Authority or arbitrator that (taking into account the exhaustion of appeals) would have a Material Adverse Effect, or that (i) purports to affect the legality, validity or enforceability of this Agreement or any promissory notes executed pursuant hereto, or (ii) seeks to prohibit the ownership or operation, by any Credit Party or any of their respective Material Subsidiaries, of all or a material portion of their respective businesses or assets.

(h) The Guarantor and its Subsidiaries, taken as a whole, do not hold or carry Margin Stock having an aggregate value in excess of 10% of the value of their consolidated assets, and no part of the proceeds of any Loan or Letter of Credit hereunder will be used to buy or carry any Margin Stock.

(i) No ERISA Event has occurred, or is reasonably expected to occur, with respect to any Plan that could reasonably be expected to have a Material Adverse Effect.

(j) Schedule B (Actuarial Information) to the 2005 Annual report (Form 5500 Series) for each Plan, copies of which have been filed with the Internal Revenue Service and made available or furnished to each Lender, is complete and accurate and fairly presents the funding status of

such Plan, and since the date of such Schedule B there has been no adverse change in such funding status which may reasonably be expected to have a Material Adverse Effect.

(k) Neither the Guarantor nor any ERISA Affiliate has incurred or is reasonably expected to incur any Withdrawal Liability to any Multiemployer Plan which may reasonably be expected to have a Material Adverse Effect.

(l) Neither the Guarantor nor any ERISA Affiliate has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title VI of ERISA, and no Multiemployer Plan is reasonably expected to be in reorganization or to be terminated, within the meaning of Title IV of ERISA, in either such case, that could reasonably be expected to have a Material Adverse Effect.

(m) No Credit Party is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

(n) The Guarantor is a "holding company" within the meaning of the Public Utility Holding Company Act of 2005 ("PUHCA 2005"). Pursuant to PUHCA 2005, the Guarantor is subject to the limited jurisdiction of the Federal Energy Regulatory Commission, and any State commission with jurisdiction to regulate a public utility company in the Guarantor' s holding company system, with respect to access to the books and records of the Guarantor and its subsidiaries and affiliates

(o) Each Credit Party has filed all tax returns (Federal, state and local) required to be filed by it and has paid or caused to be paid all taxes due for the periods covered thereby, including interest and penalties, except for any such taxes, interest or penalties which are being contested in good faith and by proper proceedings and in respect of which such Credit Party has set aside adequate reserves for the payment thereof in accordance with GAAP.

(p) Each Credit Party and its Subsidiaries are and have been in compliance with all laws (including, without limitation, all Environmental Laws), except to the extent that any failure to be in compliance, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(q) No Subsidiary of any Credit Party is party to, or otherwise bound by, any agreement that prohibits such Subsidiary from making any payments, directly or indirectly, to such Credit Party, by way of dividends, advances, repayment of loans or advances, reimbursements of management or other intercompany charges, expenses and accruals or other returns on investment, or any other agreement that restricts the ability of such Subsidiary to make any payment, directly or indirectly, to such Credit Party, other than prohibitions and restrictions permitted to exist under Section 6.01(e).

(r) The information, exhibits and reports furnished by the Guarantor or any of its Subsidiaries to the Administrative Agent or to any Lender in connection with the negotiation of, or compliance with, the Credit Documents, taken as a whole, do not contain any material misstatement of fact and do not omit to state a material fact or any fact necessary to make the statements contained therein not misleading in light of the circumstances made.

ARTICLE V
AFFIRMATIVE COVENANTS

SECTION 5.01. Affirmative Covenants. So long as any Lender shall have any Commitment hereunder or any principal of any Loan, Unreimbursed LC Disbursement, interest or fees payable hereunder shall remain unpaid or any Letter of Credit shall remain outstanding, each of the Credit Parties will, unless the Required Lenders shall otherwise consent in writing:

(a) ***Compliance with Laws, Etc.*** Comply, and cause each of its Subsidiaries to comply, in all material respects with all applicable laws, rules, regulations and orders (including, without limitation, any of the foregoing relating to employee health and safety or public utilities and all Environmental Laws), unless the failure to so comply could not reasonably be expected to have a Material Adverse Effect.

(b) ***Maintenance of Properties, Etc.*** Maintain and preserve, and cause each Material Subsidiary to maintain and preserve, all of its material properties which are used in the conduct of its business in good working order and condition, ordinary wear and tear excepted, if the failure to do so could reasonably be expected to have a Material Adverse Effect.

(c) ***Payment of Taxes, Etc.*** Pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all taxes, assessments and governmental charges or levies imposed upon it or upon its property, and (ii) all legal claims which, if unpaid, might by law become a lien upon its property; *provided, however,* that neither any Credit Party nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or claim which is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained.

(d) ***Maintenance of Insurance.*** Maintain, and cause each of its Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually obtained by companies engaged in similar businesses of comparable size and financial strength and owning similar properties in the same general areas in which such Credit Party or such Subsidiary operates, or, to the extent such Credit Party or Subsidiary deems it reasonably prudent to do so, through its own program of self-insurance.

(e) ***Preservation of Corporate Existence, Etc.*** Preserve and maintain, and cause each Material Subsidiary to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises, except as otherwise permitted under this Agreement; *provided that* that no such Person shall be required to preserve any right or franchise with respect to which the Board of Directors of such Person has determined that the preservation thereof is no longer desirable in the conduct of the business of such Person and that the loss thereof is not disadvantageous in any material respect to any Credit Party or the Lenders.

(f) ***Visitation Rights.*** At any reasonable time and from time to time, permit the Administrative Agent or any of the Lenders or any agents or representatives thereof, on not less than five Business Days' notice (which notice shall be required only so long as no Default shall be occurred and be continuing), to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, such Credit Party or any of its Subsidiaries,

and to discuss the affairs, finances and accounts of the Credit Parties and their respective Subsidiaries with any of their respective officers and with their independent certified public accountants; subject, however, in all cases to the imposition of such conditions as the affected Credit Party or Subsidiary shall deem necessary based on reasonable considerations of safety and security and provided that so long as no Default or Event of Default shall have occurred and be continuing, each Lender will be limited to one visit each year.

(g) ***Keeping of Books.*** (i) Keep, and cause each of its Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all material financial transactions and the assets and business of each of the Credit Parties and each of their respective Subsidiaries, and (ii) maintain, and cause each of its Subsidiaries to maintain, a system of accounting established and administered in accordance with generally accepted accounting principles consistently applied.

(h) ***Reporting Requirements.*** Deliver to the Administrative Agent for distribution to the Lenders:

(i) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Guarantor (or, if earlier, concurrently with the filing thereof with the Securities and Exchange Commission or any national securities exchange in accordance with applicable law or regulation), balance sheets of the Guarantor and its Consolidated Subsidiaries in comparative form as of the end of such quarter and statements of income and retained earnings of the Guarantor and its Consolidated Subsidiaries for the period commencing at the end of the previous fiscal year of the Guarantor and ending with the end of such quarter, each prepared in accordance with generally accepted accounting principles consistently applied, subject to normal year-end audit adjustments, certified by the chief financial officer of the Guarantor.

(ii) as soon as available and in any event within 90 days after the end of each fiscal year of the Guarantor (or, if earlier, concurrently with the filing thereof with the Securities and Exchange Commission or any national securities exchange in accordance with applicable law or regulation), a copy of the audit report for such year for the Guarantor and its Consolidated Subsidiaries containing financial statements for such year prepared in accordance with generally accepted accounting principles consistently applied as reported on by independent certified public accountants of recognized national standing acceptable to the Required Lenders, which audit was conducted by such accounting firm in accordance with generally accepted auditing standards;

(iii) concurrently with the delivery of financial statements pursuant to clauses (i) and (ii) above or the notice relating thereto contemplated by the final sentence of this Section 5.01(h), a certificate of a senior financial officer of each of the Guarantor and the Borrower (A) to the effect that no Default or Event of Default has occurred and is continuing (or, if any Default or Event of Default has occurred and is continuing, describing the same in reasonable detail and describing the action that the Guarantor or the Borrower, as the case may be, has taken and proposes to take with respect thereto), and (B) in the case of the certificate relating to the Guarantor, setting forth calculations,

in reasonable detail, establishing Borrower' s compliance, as at the end of such fiscal quarter, with the financial covenant contained in Article VII;

(iv) as soon as possible and in any event within five days after the occurrence of each Default or Event of Default continuing on the date of such statement, a statement of the chief financial officer of the Borrower setting forth details of such Event of Default or event and the action which the Borrower has taken and proposes to take with respect thereto;

(v) promptly after the sending or filing thereof, copies of all reports which the Guarantor sends to its stockholders, and copies of all reports and registration statements (other than registration statements filed on Form S-8) that the Guarantor, the Borrower or any Subsidiary of the Guarantor or the Borrower, files with the Securities and Exchange Commission;

(vi) promptly and in any event within 10 days after the Guarantor knows or has reason to know that any material ERISA Event has occurred, a statement of the chief financial officer of the Borrower describing such ERISA Event and the action, if any, which the Guarantor or any affected ERISA Affiliate proposes to take with respect thereto;

(vii) promptly and in any event within two Business Days after receipt thereof by the Guarantor (or knowledge being obtained by the Guarantor of the receipt thereof by any ERISA Affiliate), copies of each notice from the PBGC stating its intention to terminate any Plan or to have a trustee appointed to administer any Plan;

(viii) promptly and in any event within five Business Days after receipt thereof by the Guarantor (or knowledge being obtained by the Guarantor of the receipt thereof by any ERISA Affiliate) from the sponsor of a Multiemployer Plan, a copy of each notice received by the Guarantor or any ERISA Affiliate concerning (A) the imposition of material Withdrawal Liability by a Multiemployer Plan, (B) the reorganization or termination, within the meaning of Title IV of ERISA, of any Multiemployer Plan or (C) the amount of liability incurred, or which may be incurred, by the Guarantor or any ERISA Affiliate in connection with any event described in clause (A) or (B) above;

(ix) promptly after the Guarantor has knowledge of the commencement thereof, notice of any actions, suits and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting the Guarantor or any Material Subsidiary of the type described in Section 4.01(g);

(x) promptly after the Guarantor or the Borrower knows of any change in the rating of the Index Debt by S&P or Moody' s, a notice of such changed rating; and

(xi) such other information respecting the condition or operations, financial or otherwise, of the Guarantor or any of its Subsidiaries as any Lender through the Administrative Agent may from time to time reasonably request.

Notwithstanding the foregoing, the Credit Parties' obligations to deliver the documents or information required under any of clauses (i), (ii) and (v) above shall be deemed to be satisfied upon (x) the relevant documents or information being publicly available on the Guarantor' s website or other publicly available electronic medium (such as EDGAR) within the time period required by such clause, and (y) the delivery by the Guarantor or the Borrower of notice to the Administrative Agent and the Lenders, within the time period required by such clause, that such documents or information are so available.

(i) ***Use of Proceeds.*** Use the proceeds of the Loans and the Letters of Credit hereunder for working capital and other general corporate purposes, including to provide liquidity support for commercial paper issued by the Borrower.

(j) ***Ratings.*** At all times maintain ratings by both Moody' s and S&P with respect to the Index Debt.

ARTICLE VI
NEGATIVE COVENANTS

SECTION 6.01. Negative Covenants. So long as any Lender shall have any Commitment hereunder or any principal of any Loan, Unreimbursed LC Disbursement, interest or fees payable hereunder shall remain unpaid or any Letter of Credit shall remain outstanding, no Credit Party will, without the written consent of the Required Lenders:

(a) ***Limitation on Liens.*** Create or suffer to exist, or permit any of its Subsidiaries (other than a Utility Subsidiary) to create or suffer to exist, any lien, security interest, or other charge or encumbrance (collectively, "***Liens***") upon or with respect to any of its properties, whether now owned or hereafter acquired, or collaterally assign for security purposes, or permit any of its Subsidiaries (other than a Utility Subsidiary) to so assign any right to receive income in each case to secure or provide for or guarantee the payment of Debt for Borrowed Money of any Person, without in any such case effectively securing, prior to or concurrently with the creation, issuance, assumption or guaranty of any such Debt for Borrowed Money, the Obligations (together with, if the Guarantor shall so determine, any other Debt for Borrowed Money of or guaranteed by the Guarantor or any of its Subsidiaries ranking equally with the Loans and Unreimbursed LC Disbursements and then existing or thereafter created) equally and ratably with (or prior to) such Debt for Borrowed Money; *provided, however,* that the foregoing restrictions shall not apply to or prevent the creation or existence of:

(i) (A) Liens on any property acquired, constructed or improved by the Guarantor or any of its Subsidiaries (other than a Utility Subsidiary) after the date of this Agreement that are created or assumed prior to, contemporaneously with, or within 180 days after, such acquisition or completion of such construction or improvement, to secure or provide for the payment of all or any part of the purchase price of such property or the cost of such construction or improvement; or (B) in addition to Liens contemplated by clauses (ii) and (iii) below, Liens on any property existing at the time of acquisition thereof, provided that the Liens shall not apply to any property theretofore owned by the Guarantor or any such Subsidiary other than, in the case of any such construction or improvement, (1) unimproved real property on which the property so constructed or the

improvement is located, (2) other property (or improvements thereon) that is an improvement to or is acquired or constructed for specific use with such acquired or constructed property (or improvement thereof), and (3) any rights and interests (A) under any agreements or other documents relating to, or (B) appurtenant to, the property being so constructed or improved or such other property;

(ii) existing Liens on any property or indebtedness of a corporation that is merged with or into or consolidated with any Credit Party or any of its Subsidiaries; *provided* that such Lien was not created in contemplation of such merger or consolidation;

(iii) Liens on any property or indebtedness of a corporation existing at the time such corporation becomes a Subsidiary of any Credit Party; *provided* that such Lien was not created in contemplation of such occurrence;

(iv) Liens to secure Debt for Borrowed Money of a Subsidiary of a Credit Party to a Credit Party or to another Subsidiary of the Guarantor;

(v) Liens in favor of the United States of America, any State, any foreign country or any department, agency or instrumentality or political subdivision of any such jurisdiction, to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any Debt for Borrowed Money incurred for the purpose of financing all or any part of the purchase price of the cost of constructing or improving the property subject to such Liens, including, without limitation, Liens to secure Debt for Borrowed Money of the pollution control or industrial revenue bond type;

(vi) Liens on any property (including any natural gas, oil or other mineral property) to secure all or part of the cost of exploration, drilling or development thereof or to secure Debt for Borrowed Money incurred to provide funds for any such purpose;

(vii) Liens existing on the date of this Agreement;

(viii) Liens for the sole purposes of extending, renewing or replacing in whole or in part Debt for Borrowed Money secured by any Lien referred to in the foregoing clauses (i) through (vii), inclusive, or this clause (viii); *provided, however,* that the principal amount of Debt for Borrowed Money secured thereby shall not exceed the principal amount of Debt for Borrowed Money so secured at the time of such extension, renewal or replacement (which, for purposes of this limitation as it applies to a synthetic lease, shall be deemed to be (x) the lessor' s original cost of the property subject to such lease at the time of extension, renewal or replacement, *less* (y) the aggregate amount of all prior payments under such lease allocated pursuant to the terms of such lease to reduce the principal amount of the lessor' s investment, and borrowings by the lessor, made to fund the original cost of the property), and that such extension, renewal or replacement shall be limited to all or a part of the property or indebtedness which secured the Lien so extended, renewed or replaced (plus improvements on such property);

(ix) Liens on any property or assets of a Project Financing Subsidiary, or on any Capital Stock in a Project Financing Subsidiary, in either such case, that secure only a Project Financing or a Contingent Guaranty that supports a Project Financing; or

(x) Any Lien, other than a Lien described in any of the foregoing clauses (i) through (ix), inclusive, to the extent that it secures Debt for Borrowed Money, or guaranties thereof, the outstanding principal balance of which at the time of creation of such Lien, when added to the aggregate principal balance of all Debt for Borrowed Money secured by Liens incurred under this clause (x) then outstanding, does not exceed $150,000,000.

If at any time any Credit Party or any of its Subsidiaries shall create, issue, assume or guaranty any Debt for Borrowed Money secured by any Lien and the first paragraph of this Section 6.01(a) requires that the Loans be secured equally and ratably with such Debt for Borrowed Money, the Borrower shall promptly deliver to the Administrative Agent and each Lender:

(1) a certificate of a duly authorized officer of the Borrower stating that the covenant contained in the first paragraph of this Section 6.01(a) has been complied with; and

(2) an opinion of counsel acceptable to the Required Lenders to the effect that such covenant has been complied with and that all documents executed by any Credit Party or any of its Subsidiaries in the performance of such covenant comply with the requirements of such covenant.

(b) ***Mergers, Etc.*** Merge or consolidate with or into, or, except in a transaction permitted under paragraph (c) of this Section, convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to any Person, or permit any of its Subsidiaries to do so, except that:

(i) any Subsidiary of the Guarantor (other than the Borrower) may merge or consolidate with or transfer assets to or acquire assets from any other Subsidiary of the Guarantor, *provided* that in the case of any such merger, consolidation, or transfer of assets to which NIPSCO or Columbia is a party, the continuing or surviving Person shall be a Wholly-Owned Subsidiary of the Guarantor; and

(ii) the Borrower may merge or consolidate with, or transfer assets to, or acquire assets from, any other Wholly-Owned Subsidiary of the Guarantor, provided that in the case of any such merger or consolidation to which the Borrower is not the surviving Person, or transfer of all or substantially all of the assets of the Borrower to any other Wholly-Owned Subsidiary of the Guarantor, immediately after giving effect thereto, (A) no Event of Default shall have occurred and be continuing (determined, for purposes of compliance with Article VII after giving effect to such transaction, on a pro forma basis as if such transaction had occurred on the last day of the Guarantor' s fiscal quarter then most recently ended) and (B) such surviving Person or transferee, as

applicable, shall have assumed all of the obligations of the Borrower under and in respect of the Credit Documents by written instrument satisfactory to the Administrative Agent and its counsel in their reasonable discretion, accompanied by such opinions of counsel and other supporting documents as they may reasonably require; and

(iii) any Subsidiary of the Guarantor may merge into the Guarantor or the Borrower or transfer assets to the Borrower or the Guarantor, *provided* that in the case of any merger or consolidation of the Borrower into the Guarantor or transfer of all or substantially all of the assets of the Borrower to the Guarantor, immediately after giving effect thereto, (A) no Event of Default shall have occurred and be continuing (determined, for purposes of compliance with Article VII after giving effect to such transaction, on a pro forma basis as if such transaction had occurred on the last day of the Guarantor' s fiscal quarter then most recently ended) and (B) the Guarantor shall have assumed all of the obligations of the Borrower under and in respect of the Credit Documents by written instrument satisfactory to the Administrative Agent and its counsel in their reasonable discretion, accompanied by such opinions of counsel and other supporting documents as they may reasonably require; and

(iv) the Guarantor or any Subsidiary of the Guarantor may merge, or consolidate with or transfer all or substantially all of its assets to any other Person; provided that in each case under this clause (iii), immediately after giving effect thereto, (A) no Event of Default shall have occurred and be continuing (determined, for purposes of compliance with Article VII after giving effect to such transaction, on a pro forma basis as if such transaction had occurred on the last day of the Guarantor' s fiscal quarter then most recently ended); (B) in the case of any such merger, consolidation or transfer of assets to which the Borrower is a party, the Borrower shall be the continuing or surviving corporation; (C) in the case of any such merger, consolidation, or transfer of assets to which NIPSCO or Columbia is a party, NIPSCO or Columbia, as the case may be, shall be the continuing or surviving corporation and shall be a Wholly-Owned Subsidiary of the Guarantor; (D) in the case of any such merger, consolidation or transfer of assets to which the Guarantor is a party, the Guarantor shall be the continuing or surviving corporation; and (E) the Index Debt shall be rated at least BBB- by S&P and at least Baa3 by Moody' s.

(c) ***Sales, Etc. of Assets.*** Sell, lease, transfer or otherwise dispose of, or permit any of their respective Subsidiaries to sell, lease, transfer or otherwise dispose of (other than in connection with a transaction authorized by paragraph (b) of this Section) any substantial part of its assets; *provided* that the foregoing shall not prohibit any such sale, conveyance, lease, transfer or other disposition that (i) constitutes realization on a Lien permitted to exist under Section 6.01(a); or (ii) (A) (1) is for a price not materially less than the fair market value of such assets, (2) would not materially impair the ability of any Credit Party to perform its obligations under this Agreement and (3) together with all other such sales, conveyances, leases, transfers and other dispositions, would have no Material Adverse Effect, or (B) would not result in the sale, lease, transfer or other disposition, in the aggregate, of more than 10% of the consolidated total assets of the Guarantor and its Subsidiaries, determined in accordance with GAAP, on December 31, 2005.

(d) ***Compliance with ERISA.*** (i) Terminate, or permit any ERISA Affiliate to terminate, any Plan so as to result in a Material Adverse Effect or (ii) permit to exist any occurrence of any Reportable Event (as defined in Title IV of ERISA), or any other event or condition, that presents a material (in the reasonable opinion of the Required Lenders) risk of such a termination by the PBGC of any Plan, if such termination could reasonably be expected to have a Material Adverse Effect.

(e) ***Certain Restrictions.*** Permit any of its Subsidiaries (other than, in the case of the Guarantor, the Borrower) to enter into or permit to exist any agreement that by its terms prohibits such Subsidiary from making any payments, directly or indirectly, to such Credit Party by way of dividends, advances, repayment of loans or advances, reimbursements of management or other intercompany charges, expenses and accruals or other returns on investment, or any other agreement that restricts the ability of such Subsidiary to make any payment, directly or indirectly, to such Credit Party; *provided* that the foregoing shall not apply to prohibitions and restrictions (i) imposed by applicable law, (ii) (A) imposed under an agreement in existence on the date of this Agreement, and (B) described on Schedule 6.01(e), (iii) existing with respect to a Subsidiary on the date it becomes a Subsidiary that are not created in contemplation thereof (but shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such prohibition or restriction), (iv) contained in agreements relating to the sale of a Subsidiary pending such sale, *provided* that such prohibitions or restrictions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (v) imposed on a Project Financing Subsidiary in connection with a Project Financing, or (vi) that could not reasonably be expected to have a Material Adverse Effect.

ARTICLE VII
FINANCIAL COVENANT

So long as any Lender shall have any Commitment hereunder or any principal of any Loan, Unreimbursed LC Disbursement, interest or fees payable hereunder shall remain unpaid or any Letter of Credit shall remain outstanding, the Guarantor shall maintain a Debt to Capitalization Ratio of not more than 0.70 to 1.00.

ARTICLE VIII
EVENTS OF DEFAULT

SECTION 8.01. Events of Default. If any of the following events ("***Events of Default***") shall occur and be continuing:

(a) The Borrower shall fail to pay any principal of any Loan or Unreimbursed LC Disbursement when the same becomes due and payable or shall fail to pay any interest, fees or other amounts hereunder within three days after when the same becomes due and payable; or

(b) Any representation or warranty made by any Credit Party in any Credit Document or by any Credit Party (or any of its officers) in connection with this Agreement shall prove to have been incorrect in any material respect when made; or

(c) Any Credit Party shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(e), 5.01(f), 5.01(h), 5.01(i), 6.01 or Article VII; or

(d) Any Credit Party shall fail to perform or observe any term, covenant or agreement contained in any Credit Document on its part to be performed or observed (other than one identified in paragraph (a), (b) or (c) above) if the failure to perform or observe such other term, covenant or agreement shall remain unremedied for thirty days after written notice thereof shall have been given to the Borrower by the Administrative Agent or any Lender; or

(e) The Guarantor, the Borrower or any of their respective Subsidiaries shall fail to pay any principal of or premium or interest on any Indebtedness (excluding Non-Recourse Debt) which is outstanding in a principal amount of at least $50,000,000 in the aggregate (but excluding the Loans) of the Guarantor, the Borrower or such Subsidiary, as the case may be, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Indebtedness and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the scheduled maturity of such Indebtedness; or any such Indebtedness shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; or

(f) Any Credit Party shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against any Credit Party seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against any Credit Party (but not instituted by any Credit Party), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, any Credit Party or for any substantial part of its property) shall occur; or any Credit Party shall take any corporate action to authorize any of the actions set forth above in this paragraph (f); or

(g) One or more Subsidiaries of the Guarantor (other than the Borrower) in which the aggregate sum of (i) the amounts invested by the Guarantor and its other Subsidiaries in the aggregate, by way of purchases of Capital Stock, Capital Leases, loans or otherwise, and (ii) the amount of recourse, whether contractual or as a matter of law (but excluding Non-Recourse Debt), available to creditors of such Subsidiary or Subsidiaries against the Guarantor or any of its other Subsidiaries, is $100,000,000 or more (collectively, "***Substantial Subsidiaries***") shall generally not pay their respective debts as such debts become due, or shall admit in writing their respective inability to pay their debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against Substantial Subsidiaries

seeking to adjudicate them bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of them or their respective debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for them or for any substantial part of their respective property and, in the case of any such proceeding instituted against Substantial Subsidiaries (but not instituted by the Guarantor or any Subsidiary of the Guarantor), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, the Substantial Subsidiaries or for any substantial part of their respective property) shall occur; or Substantial Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this paragraph (g); or

(h) Any judgment or order for the payment of money in excess of $50,000,000 shall be rendered against the Borrower, the Guarantor or any of its other Subsidiaries and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(i) Any ERISA Event shall have occurred with respect to a Plan and, 30 days after notice thereof shall have been given to the Guarantor or the Borrower by the Administrative Agent, (i) such ERISA Event shall still exist and (ii) the sum (determined as of the date of occurrence of such ERISA Event) of the Insufficiency of such Plan and the Insufficiency of any and all other Plans with respect to which an ERISA Event shall have occurred and then exist (or, in the case of a Plan with respect to which an ERISA Event described in clauses (c) through (f) of the definition of ERISA Event shall have occurred and then exist, the liability related thereto) is equal to or greater than $10,000,000 (when aggregated with paragraphs (j), (k) and (l) of this Section), and a Material Adverse Effect could reasonably be expected to occur as a result thereof; or

(j) The Guarantor or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan in an amount which, when aggregated with all other amounts required to be paid to Multiemployer Plans by the Guarantor and its ERISA Affiliates as Withdrawal Liability (determined as of the date of such notification), exceeds $10,000,000 or requires payments exceeding $10,000,000 *per annum* (in either case, when aggregated with paragraphs (i), (k) and (l) of this Section), and a Material Adverse Effect could reasonably be expected to occur as a result thereof; or

(k) The Guarantor or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if as a result of such reorganization or termination the aggregate annual contributions of the Guarantor and its ERISA Affiliates to all Multiemployer Plans which are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the respective plan year of each such Multiemployer Plan immediately preceding the plan year in which the reorganization or termination occurs by an amount exceeding $10,000,000 (when aggregated with paragraphs (i),

(j) and (l) of this Section), and a Material Adverse Effect could reasonably be expected to occur as a result thereof; or

(l) The Guarantor or any ERISA Affiliate shall have committed a failure described in Section 302(f)(1) of ERISA and the amount determined under Section 302(f)(3) of ERISA is equal to or greater than $10,000,000 (when aggregated with paragraphs (i), (j) and (k) of this Section), and a Material Adverse Effect could reasonably be expected to occur as a result thereof; or

(m) Any provision of the Credit Documents shall be held by a court of competent jurisdiction to be invalid or unenforceable against any Credit Party purported to be bound thereby, or any Credit Party shall so assert in writing; or

(n) Any Change of Control shall occur;

then, and in any such event, the Administrative Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the Commitment of each Lender, the obligation of the Swingline Lender to make or maintain Swingline Loans and the obligation of the LC Bank to issue or maintain Letters of Credit hereunder to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request or with the consent of the Required Lenders, by notice to the Borrower, declare all amounts payable under this Agreement to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; *provided* that in the event of an actual or deemed entry of an order for relief with respect to any Credit Party under the Federal Bankruptcy Code, (1) the Commitment of each Lender, the obligation of the Swingline Lender to make or maintain Swingline Loans and the obligation of the LC Bank to issue or maintain Letters of Credit hereunder shall automatically be terminated and (2) all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

Notwithstanding anything to the contrary contained herein, no notice given or declaration made by the Administrative Agent pursuant to this Section 8.01 shall affect (i) the obligation of the LC Bank to make any payment under any outstanding Letter of Credit in accordance with the terms of such Letter of Credit, (ii) the obligations of each Lender in respect of each such Letter of Credit or (iii) the obligation of each Lender to purchase its pro rata share of any Swingline Loans; *provided, however*, that upon the occurrence and during the continuance of any Event of Default, the Administrative Agent shall at the request, or may with the consent, of the Required Lenders, upon notice to the Borrower, require the Borrower to deposit with the Administrative Agent an amount in the cash account (the ***"Cash Account"***) described below equal to the then current LC Outstandings. Such Cash Account shall at all times be free and clear of all rights or claims of third parties. The Cash Account shall be maintained with the Administrative Agent in the name of, and under the sole dominion and control of, the Administrative Agent, and amounts deposited in the Cash Account shall bear interest at a rate equal to the rate generally offered by Barclays for deposits equal to the amount deposited by the Borrower in the Cash Account pursuant to this Section 8.01, for a term to be agreed to between the Borrower and the Administrative Agent. If any drawings under any Letter of Credit then outstanding or thereafter

made are not reimbursed in full immediately upon demand or, in the case of subsequent drawings, upon being made, then, in any such event, the Administrative Agent may apply the amounts then on deposit in the Cash Account, in such priority as the Administrative Agent shall elect, toward the payment in full of any or all of the Borrower' s obligations hereunder as and when such obligations shall become due and payable. Upon payment in full, after the termination of the Letters of Credit, of all such obligations, the Administrative Agent will repay to the Borrower any cash then on deposit in the Cash Account.

ARTICLE IX
THE ADMINISTRATIVE AGENT

SECTION 9.01. The Administrative Agent.

(a) Each of the Lenders and the LC Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto.

(b) The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the any Credit Party or any of such Credit Party' s Subsidiaries or other Affiliates thereof as if it were not the Administrative Agent hereunder.

(c) The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (i) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (ii) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that the Administrative Agent is required to exercise in writing by the Required Lenders, and (iii) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower, the Guarantor or any of its other Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or, if applicable, all of the Lenders) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (1) any statement, warranty or representation made in or in connection with this Agreement, (2) the contents of any certificate, report or other document delivered hereunder or in connection herewith, (3) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein, (4) the validity, enforceability, effectiveness or genuineness of this Agreement or any other agreement, instrument or document, or (5) the satisfaction of any condition set forth in Article III or elsewhere herein, other than to confirm

receipt of items expressly required to be delivered to the Administrative Agent and the conformity thereof to such express requirement.

(d) The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for a Credit Party) independent accountants and other experts selected by it and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

(e) The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

(f) Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders and the Credit Parties. Upon any such resignation, the Required Lenders shall have the right, with the consent of the Borrower (which consent shall not unreasonably be withheld), to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank, in any event having total assets in excess of $500,000,000 and who shall serve until such time, if any, as an Agent shall have been appointed as provided above. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent' s resignation hereunder, the provisions of this Article and Section 11.03 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

(g) Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it

shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder.

(h) No Lender identified on the signature pages of this Agreement as a "Lead Arranger", "Co-Documentation Agent" or "Syndication Agent", or that is given any other title hereunder other than "LC Bank", "Swingline Lender" or "Administrative Agent", shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders as such. Without limiting the generality of the foregoing, no Lender so identified as a "Lead Arranger", "Co-Documentation Agent" or "Syndication Agent" or that is given any other title hereunder, shall have, or be deemed to have, any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on the Lenders so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

ARTICLE X
GUARANTY

SECTION 10.01. The Guaranty.

(a) The Guarantor, as primary obligor and not merely as a surety, hereby irrevocably, absolutely and unconditionally guarantees to the Administrative Agent and the Lenders and each of their respective successors, endorsees, transferees and assigns (each a "***Beneficiary***" and collectively, the "***Beneficiaries***") the prompt and complete payment by the Borrower, as and when due and payable, of the Obligations, in accordance with the terms of the Credit Documents. The provisions of this Article X are sometimes referred to hereinafter as the "***Guaranty***".

(b) The Guarantor hereby guarantees that the Obligations will be paid strictly in accordance with the terms of the Credit Documents, regardless of any law now or hereafter in effect in any jurisdiction affecting any such terms or the rights of the Beneficiaries with respect thereto. The obligations and liabilities of the Guarantor under this Guaranty shall be absolute and unconditional irrespective of: (i) any lack of validity or enforceability of any of the Obligations or any Credit Document, or any delay, failure or omission to enforce or agreement not to enforce, or the stay or enjoining, by order of court, by operation of law or otherwise, of the exercise of any right with respect to the foregoing (including, in each case, without limitation, as a result of the insolvency, bankruptcy or reorganization of any Beneficiary, the Borrower or any other Person); (ii) any change in the time, manner or place of payment of, or in any other term in respect of, all or any of the Obligations, or any other amendment or waiver of or consent to any departure from the Credit Documents or any agreement or instrument relating thereto; (iii) any exchange or release of, or non-perfection of any Lien on or in any collateral, or any release, amendment or waiver of, or consent to any departure from, any other guaranty of, or agreement granting security for, all or any of the Obligations; (iv) any claim, set-off, counterclaim, defense or other rights that the Guarantor may have at any time and from time to time against any Beneficiary or any other Person, whether in connection with this Transaction or any unrelated transaction; or (v) any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower or any other guarantor or surety in respect of the Obligations or the Guarantor in respect hereof.

(c) The Guaranty provided for herein (i) is a guaranty of payment and not of collection; (ii) is a continuing guaranty and shall remain in full force and effect until the Commitments and Letters of Credit have been terminated and the Obligations have been paid in full in cash; and (iii) shall continue to be effective or shall be reinstated, as the case may be, if at any time any payment, or any part thereof, of any of the Obligations is rescinded or must otherwise be returned by any Beneficiary upon or as a result of the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or otherwise, all as though such payment had not been made.

(d) The obligations and liabilities of the Guarantor hereunder shall not be conditioned or contingent upon the pursuit by any Beneficiary or any other Person at any time of any right or remedy against the Borrower or any other Person that may be or become liable in respect of all or any part of the Obligations or against any collateral security or guaranty therefor or right of setoff with respect thereto.

(e) The Guarantor hereby consents that, without the necessity of any reservation of rights against the Guarantor and without notice to or further assent by the Guarantor, any demand for payment of any of the Obligations made by any Beneficiary may be rescinded by such Beneficiary and any of the Obligations continued after such rescission.

(f) The Guarantor' s obligations under this Guaranty shall be unconditional, irrespective of any lack of capacity of the Borrower or any lack of validity or enforceability of any other provision of this Agreement or any other Credit Document, and this Guaranty shall not be affected in any way by any variation, extension, waiver, compromise or release of any or all of the Obligations or of any security or guaranty from time to time therefor.

(g) The obligations of the Guarantor under this Guaranty shall not be reduced, limited, impaired, discharged, deferred, suspended or terminated by any proceeding or action, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, marshalling of assets, assignment for the benefit of creditors, composition with creditors, readjustment, liquidation or arrangement of the Borrower or any similar proceedings or actions, or by any defense the Borrower may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding or action. Without limiting the generality of the foregoing, the Guarantor' s liability shall extend to all amounts and obligations that constitute the Obligations and would be owed by the Borrower, but for the fact that they are unenforceable or not allowable due to the existence of any such proceeding or action.

SECTION 10.02. Waivers.

(a) The Guarantor hereby unconditionally waives: (i) promptness and diligence; (ii) notice of or proof of reliance by the Administrative Agent or the Lenders upon this Guaranty or acceptance of this Guaranty; (iii) notice of the incurrence of any Obligation by the Borrower or the renewal, extension or accrual of any Obligation or of any circumstances affecting the Borrower' s financial condition or ability to perform the Obligations; (iv) notice of any actions taken by the Beneficiaries or the Borrower or any other Person under any Credit Document or any other agreement or instrument relating thereto; (v) all other notices, demands and protests, and all other formalities of every kind in connection with the enforcement of the Obligations, of

the obligations of the Guarantor hereunder or under any other Credit Document, the omission of or delay in which, but for the provisions of this Section 10 might constitute grounds for relieving the Guarantor of its obligations hereunder; (vi) any requirement that the Beneficiaries protect, secure, perfect or insure any Lien or any property subject thereto, or exhaust any right or take any action against the Borrower or any other Person or any collateral; and (vii) each other circumstance, other than payment of the Obligations in full, that might otherwise result in a discharge or exoneration of, or constitute a defense to, the Guarantor' s obligations hereunder.

(b) No failure on the part of any Beneficiary to exercise, and no delay in exercising, any right, remedy, power or privilege hereunder or under any Credit Document or any other agreement or instrument relating thereto shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege hereunder or under any Credit Document or any other agreement or instrument relating thereto preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. This Guaranty is in addition to and not in limitation of any other rights, remedies, powers and privileges the Beneficiaries may have by virtue of any other instrument or agreement heretofore, contemporaneously herewith or hereafter executed by the Guarantor or any other Person or by applicable law or otherwise. All rights, remedies, powers and privileges of the Beneficiaries shall be cumulative and may be exercised singly or concurrently. The rights, remedies, powers and privileges of the Beneficiaries under this Guaranty against the Guarantor are not conditional or contingent on any attempt by the Beneficiaries to exercise any of their rights, remedies, powers or privileges against any other guarantor or surety or under the Credit Documents or any other agreement or instrument relating thereto against the Borrower or against any other Person.

(c) The Guarantor hereby acknowledges and agrees that, until the Commitments have been terminated and all of the Obligations have been paid in full in cash, under no circumstances shall it be entitled to be subrogated to any rights of any Beneficiary in respect of the Obligations performed by it hereunder or otherwise, and the Guarantor hereby expressly and irrevocably waives, until the Commitments have been terminated and all of the Obligations have been paid in full in cash, (i) each and every such right of subrogation and any claims, reimbursements, right or right of action relating thereto (howsoever arising), and (ii) each and every right to contribution, indemnification, set-off or reimbursement, whether from the Borrower or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, and whether arising by contract or operation of law or otherwise by reason of the Guarantor' s execution, delivery or performance of this Guaranty.

(d) The Guarantor represents and warrants that it has established adequate means of keeping itself informed of the Borrower' s financial condition and of other circumstances affecting the Borrower' s ability to perform the Obligations, and agrees that neither the Administrative Agent nor any Lender shall have any obligation to provide to the Guarantor any information it may have, or hereafter receive, in respect of the Borrower.

ARTICLE XI
MISCELLANEOUS

SECTION 11.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for

herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to any Credit Party, to it at:

801 East 86th Avenue
Merrillville, Indiana 46410
Attention: Treasurer
Telecopier: (219) 647-6060;

with a copy to such Credit Party at:

801 East 86th Avenue
Merrillville, Indiana 46410
Attention: Director Corporate Finance and Treasury
Telecopier: (219) 647-6180;

(b) if to the Administrative Agent or the LC Bank, to Barclays Bank PLC at:

200 Park Avenue
New York, New York 10166
Attn: Sydney G. Dennis, Power and Utilities Group
Telecopier: (212) 412-6709

with a copy to such party at:

200 Cedar Knolls Road
Whippany, New Jersey 07981
Attn: May Wong, Customer Service Unit
Telephone: (973) 576-3251
Telecopier: (973) 576-3014

(c) if to any Lender or the Swingline Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 11.02. Waivers; Amendments.

(a) No failure or delay by the Administrative Agent, the LC Bank or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to

enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the LC Bank and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by any Credit Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, no Extension of Credit shall be construed as a waiver of any Default, regardless of whether the Administrative Agent, the LC Bank or any Lender may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower, the Guarantor and the Required Lenders or by the Borrower, the Guarantor and the Administrative Agent with the consent of the Required Lenders; *provided* that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or any Unreimbursed LC Disbursement or reduce the rate of interest thereon, or reduce any fees or other amounts payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan, any Unreimbursed LC Disbursement or any interest thereon, or any fees or other amounts payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.18(b) or (c) in a manner that would alter the *pro rata* sharing of payments required thereby, without the written consent of each Lender, (v) release the Guarantor from its obligations under the Guaranty without the written consent of each Lender, (vi) waive any of the conditions precedent to the effectiveness of this Agreement set forth in Section 3.01 without the written consent of each Lender, (vii) issue any Letter of Credit with an expiry date, or extend the expiry date of any Letter of Credit to a date, that is later than the Termination Date without the written consent of each Lender, or (viii) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender; *provided, further,* that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the LC Bank hereunder without the prior written consent of the Administrative Agent or the LC Bank, as the case may be.

SECTION 11.03. Expenses; Indemnity; Damage Waiver.

(a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the initial syndication of the credit facilities provided for herein, the preparation and administration of this Agreement or any amendments, modifications or waivers of the provisions hereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the LC Bank, including the reasonable fees, charges and disbursements of counsel for the LC Bank, in connection with the execution, delivery, administration, modification

and amendment of any Letters of Credit to be issued by it hereunder, and (iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the LC Bank or any Lender, including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, the LC Bank or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement, including its rights under this Section, or in connection with the Loans made and Letters of Credit issued hereunder, including in connection with any workout, restructuring or negotiations in respect thereof.

(b) The Borrower shall indemnify the Administrative Agent, the Syndication Agent, each Co-Documentation Agent, the LC Bank, each Lender and the Swingline Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "***Indemnitee***") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related reasonable expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transaction contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property now, in the past or hereafter owned or operated by the Borrower, the Guarantor or any of its other Subsidiaries, or any Environmental Liability related in any way to the Borrower, the Guarantor or any of its other Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; *provided* that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent or the LC Bank under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent or the LC Bank such Lender' s Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; *provided* that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent or the LC Bank in its capacity as such.

(d) To the extent permitted by applicable law, each party hereto shall not assert, and hereby waives, any claim against each other party, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions or any Loan or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable not later than 20 days after written demand therefor.

SECTION 11.04. Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby; provided that, except to the extent permitted pursuant to Section 6.01(b)(iii)(C), no Credit Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender and the LC Bank (and any attempted assignment or transfer by a Credit Party without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans and other Obligations at the time owing to it); *provided* that (i) except in the case of an assignment to a Lender or an Affiliate of a Lender, each of the Administrative Agent, the LC Bank and, so long as no Event of Default is continuing, the Borrower must give its prior written consent to such assignment (which consent, in the case of the Administrative Agent and the Borrower, shall not unreasonably be withheld and, in the case of the LC Bank, may be given or withheld in the sole discretion of the LC Bank), (ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender' s Commitment, the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000 unless each of the Administrative Agent and, so long as no Event of Default shall be continuing, the Borrower otherwise consent, (iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender' s rights and obligations under this Agreement, (iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of $3,500, and (v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender' s rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 11.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the

Lenders, and the Commitment of, and principal amount of the Loans and other Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "***Register***"). The entries in the Register shall be conclusive (absent manifest error), and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee' s completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other entities (a "***Participant***") in all or a portion of such Lender' s rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); *provided* that (i) such Lender' s obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Guarantor and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender' s rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; *provided* that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 11.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower' s prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; *provided* that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such assignee for such Lender as a party hereto.

(h) Anything herein to the contrary notwithstanding, each Lender (the "***Granting Lender***") shall have the right, without the prior consent of the Borrower, to grant to a special purpose funding vehicle (the "***SPFV***") that is utilized by such Granting Lender, identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrower, the option to provide all or any part of any Loan that such Granting Lender would otherwise be obligated to make hereunder, *provided* that (i) nothing herein shall constitute a commitment to make any Loan by any SPFV or shall relieve its Granting Lender of any obligation of such Granting Lender hereunder or under any other Credit Document, except to the extent that such SPFV actually funds all or part of any Loan such Granting Lender is obligated to make hereunder, (ii) if an SPFV elects not to exercise such option or otherwise fails to provide all or any part of such Loan, such Granting Lender shall be obligated to make such Loan pursuant to the terms hereof, (iii) the Granting Lender hereby indemnifies and holds the Administrative Agent harmless from and against any liability, loss, cost or expense (including for or in respect of Taxes) arising out of such identification and grant or any transaction contemplated thereby, and (iv) the provisions of this paragraph (h) shall not impose any increased cost or liability on any Credit Party. The making of a Loan by an SPFV hereunder shall utilize the Commitment of its Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. Each party hereto agrees that no SPFV shall be liable for any payment under this Agreement or any other Credit Document for which a Lender would otherwise be liable, for so long as, and to the extent that, its Granting Lender makes such payment. As to any Loans or portions of Loans made by it, each SPFV shall have all the rights that a Lender making such Loans or such portions of Loans would have had under this Agreement and otherwise; *provided* that (1) its voting rights under this Agreement shall be exercised solely by its Granting Lender and (2) its Granting Lender shall remain solely responsible to the other parties hereto for the performance of such SPFV' s obligations under this Agreement, including its obligations in respect of the Loans or portions of Loans made by it. No additional promissory notes, if any, shall be required to evidence the Loans or portions of Loans made by a SPFV; and the Granting Lender shall be deemed to hold its promissory note, if any, as agent for its SPFV to the extent of the Loans or portions of Loans funded by such SPFV. Each Granting Lender shall act as administrative agent for its SPFV and give and receive notices and other communications on its behalf. Any payments for the account of any SPFV shall be paid to its Granting Lender as administrative agent for such SPFV, and neither a Credit Party nor the Administrative Agent shall be responsible for any Granting Lender' s application of such payments. In furtherance of the foregoing, each party hereto hereby agrees that, until the date that is one year and one day after the payment in full of all outstanding senior Debt of any SPFV, it shall not institute against, or join any other Person in instituting against, such SPFV any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings (or any similar proceedings) under the laws of the United States of America or any State thereof. In addition, notwithstanding anything to the contrary contained in this paragraph (h), an SPFV may (1) (A) with notice to, but without the prior written consent of, the Administrative Agent or the Borrower and without paying any processing fee therefor, assign all or any portion of its interest in any Loan to its Granting Lender or (B) with the consent (which consent shall not be unreasonably withheld) of the Administrative Agent and (if no Event of Default has occurred and is continuing) the Borrower, but without paying any processing fee therefor, assign all or any portion of its interest in any Loan to any financial institution providing liquidity or credit facilities to or for the account of such SPFV to fund the Loans funded by such SPFV or to

support any securities issued by such SPFV to fund such Loans, and (2) disclose, on a confidential basis, any non-public information relating to Loans funded by it to any rating agency, commercial paper dealer or provider of a surety, guaranty or credit or liquidity enhancement to such SPFV. The Borrower shall not be required to pay, or to reimburse any Granting Lender for, its expenses relating to any SPFV identified by such Granting Lender pursuant to this paragraph (h).

SECTION 11.05. Survival. All covenants, agreements, representations and warranties made by the Borrower and the Guarantor herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans. The provisions of Sections 2.15, 2.16, 2.17, 10.01(c)(iii) and 11.03 and Article IX shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Commitments or the termination of this Agreement or any provision hereof.

SECTION 11.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the commitment letter relating to the credit facility provided hereby (to the extent provided therein) and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 3.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 11.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 11.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender or the LC Bank or any Affiliate of either is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of any Credit Party against any of and all the Obligations now or hereafter existing under this Agreement held by such Lender or the LC Bank, irrespective of whether or not such Lender or the LC Bank shall have made any demand under this Agreement and although such Obligations may be unmatured.

The rights of each Lender and the LC Bank under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 11.09. Governing Law; Jurisdiction; Consent to Service of Process.

(a) This Agreement shall be construed in accordance with and governed by the laws of the State of New York.

(b) Each Credit Party hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against any Credit Party or its properties in the courts of any jurisdiction.

(c) Each Credit Party hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 11.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 11.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 11.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 11.12. Confidentiality. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than a Credit Party or any Subsidiary of a Credit Party. For the purposes of this Section, "***Information***" means all information received from any Credit Party or any Subsidiary of a Credit Party relating to a Credit Party or any Subsidiary of a Credit Party or its respective businesses, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by any Credit Party or any Subsidiary of a Credit Party; *provided* that, in the case of information received from any Credit Party or any Subsidiary of a Credit Party after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 11.13. USA PATRIOT Act. Each Lender hereby notifies the Credit Parties that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "***Act***"), it is required to obtain, verify and record information

that identifies the Credit Parties, which information includes the name and address of the Credit Parties and other information that will allow such Lender to identify the Credit Parties in accordance with the Act.

SECTION 11.14. Amendment and Restatement. It is the express intent of the parties hereto that this Agreement (i) shall re-evidence the Borrower' s and the Guarantor' s indebtedness under the Existing Credit Agreement, (ii) is entered into in substitution for, and not in payment of, the obligations of the Borrower and the Guarantor under the Existing Credit Agreement, and (iii) is in no way intended to constitute a novation of any of the Borrower' s and the Guarantor' s indebtedness which was evidenced by the Existing Credit Agreement or any of the other "Credit Documents" (as such term is defined in the Existing Credit Agreement before giving effect to this Agreement). On the Effective Date, the Administrative Agent shall administer a reallocation of the aggregate Exposure ratably among the Lenders in accordance with their respective Applicable Percentages after giving effect to this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

NISOURCE FINANCE CORP., as Borrower

By: /s/ David J. Vajda
Name: David J. Vajda
Title: Vice President and Treasurer

Federal Tax Identification Number: 35-2105468

NISOURCE INC., as Guarantor

By: /s/ David J. Vajda
Name: David J. Vajda
Title: Vice President and Treasurer

Federal Tax Identification Number: 35-2108964

BARCLAYS BANK PLC, as a Lead Arranger and Lender, as Swingline Lender, as LC Bank and as Administrative Agent

By: /s/ Sydney G. Dennis
Name: Sydney G. Dennis
Title: Director

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CREDIT SUISSE, ACTING THROUGH ITS CAYMAN ISLANDS BRANCH, as a Lead Arranger and Lender and as Syndication Agent

By: /s/ David Dodd
Name: David Dodd
Title: Vice President

By: /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Associate

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JPMORGAN CHASE BANK, N.A., as a Lender and as a Co-Documentation Agent

By: /s/ Nancy R. Barwig
Name: Nancy R. Barwig
Title: Vice President

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THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., CHICAGO BRANCH (F/K/A THE BANK OF TOKYO-MITSUBISHI, LTD., CHICAGO BRANCH, as a Lender and as a Co-Documentation Agent

By: /s/ Tsuguyuki Umene
Name: Tsuguyuki Umene
Title: Deputy General Manager

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CITICORP USA, INC., as a Lender and as a Co-Documentation Agent

By: /s/ Stuart J. Murray
Name: Stuart J. Murray
Title: Director

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BNP PARIBAS, as a Lender

By: /s/ Mark Renaud
Name: Mark Renaud
Title: Managing Director

By: /s/ Francis Delaney
Name: Francis Delaney
Title: Managing Director

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COMMERZBANK AG NEW YORK AND GRAND CAYMAN BRANCHES, as a Lender

By: /s/ Andrew Campbell
Name: Andrew Campbell
Title: Senior Vice President

By: /s/ Barbara Stacks
Name: Barbara Stacks
Title: Assistant Vice President

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DEUTSCHE BANK AG NEW YORK BRANCH, as a Lender

By: /s/ Marcus Tarkington
Name: Marcus Tarkington
Title: Director

By: /s/ Rainer Meier
Name: Rainer Meier
Title: Vice President

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DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN BRANCHES, as a Lender

By: /s/ Thomas R. Brady
Name: Thomas R. Brady
Title: Director

By: /s/ Brian M. Smith
Name: Brian M. Smith
Title: Managing Director

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BMO CAPITAL MARKETS FINANCING, INC. (fka HARRIS NESBITT FINANCING, INC.), as a Lender

By: /s/ James Whitmore
Name: James Whitmore
Title: Managing Director

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KEYBANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Paul J. Pace
Name: Paul J. Pace
Title: Assistant Vice President

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MIZUHO CORPORATE BANK, LTD., NEW YORK BRANCH, as a Lender

By: /s/ Raymond Ventura
Name: Raymond Ventura
Title: Deputy General Manager

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THE ROYAL BANK OF SCOTLAND plc, as a Lender

By: /s/ Paul McDonagh
Name: Paul McDonagh
Title: Managing Director

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WACHOVIA BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Shawn Young
Name: Shawn Young
Title: Vice President

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BANK OF AMERICA, N.A., as a Lender

By: /s/ Gabriela Millhorn
Name: Gabriela Millhorn
Title: Senior Vice President

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THE NORTHERN TRUST COMPANY, as a Lender

By: /s/ Thomas R. Hasenauer
Name: Thomas R. Hasenauer
Title: Vice President

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PNC BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ W.J. Bowne
Name: W.J. Bowne
Title: Managing Director

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U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ James N. Devries
Name: James N. Devries
Title: Senior Vice President

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The undersigned Departing Lender hereby acknowledges and agrees that, from and after the Effective Date, it is no longer a party to the Existing Credit Agreement.

THE BANK OF NOVA SCOTIA, as a Departing Lender

By: /s/ Thane A. Rattew
Name: Thane A. Rattew
Title: Managing Director

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PRICING GRID

The "Applicable Rate" for any day with respect to any Eurodollar Loan, ABR Loan, Facility Fee, Utilization Margin or LC Risk Participation Fee, as the case may be, is the percentage set forth below in the applicable row under the column corresponding to the Status that exists on such day:

Status	Level I	Level II	Level III	Level IV	Level V
Eurodollar Revolving Loans (basis points)	19.0	27.0	35.0	42.5	65.0
ABR Loans (basis points)	0	0	0	0	0
Facility Fee (basis points)	6.0	8.0	10.0	12.5	17.5
Utilization Margin (basis points)	5.0	5.0	5.0	10.0	10.0
LC Risk Participation Fee (basis points)	19.0	27.0	35.0	42.5	65.0

For purposes of this Pricing Grid, the following terms have the following meanings (as modified by the provisos below):

"***Level I Status***" exists at any date if, at such date, the Index Debt is rated either A- or higher by S&P or A3 or higher by Moody' s.

"***Level II Status***" exists at any date if, at such date, the Index Debt is rated either BBB+ by S&P or Baa1 by Moody' s.

"***Level III Status***" exists at any date if, at such date, the Index Debt is rated either BBB by S&P or Baa2 by Moody' s.

"***Level IV Status***" exists at any date if, at such date, the Index Debt is rated either BBB- by S&P or Baa3 by Moody' s.

"***Level V Status***" exists at any date if, at such date, no other Status exists.

"***Status***" refers to the determination of which of Level I Status, Level II Status, Level III Status, Level IV Status or Level V Status exists at any date.

The credit ratings to be utilized for purposes of this Pricing Grid are those assigned to the Index Debt, and any rating assigned to any other debt security of the Borrower shall be disregarded. The rating in effect at any date is that in effect at the close of business on such date.

Provided, that the applicable Status shall change as and when the applicable Index Debt ratings change.

Provided further, that if the Index Debt is split-rated, the applicable Status shall be determined on the basis of the higher of the two ratings then applicable; *provided further, that,* if the Index Debt is split-rated by two or more levels, the applicable Status shall instead be determined on the basis of the rating that is one level above the lower of the two ratings then applicable.

Provided further, that if both Moody' s and S&P, or their successors as applicable, shall have ceased to issue or maintain such ratings, then the applicable Status shall be Level V.

EXHIBIT A

FORM OF ASSIGNMENT AND ACCEPTANCE

Reference is made to the Amended and Restated Revolving Credit Agreement dated as of July 7, 2006, among NiSource Finance Corp., a Delaware corporation, as Borrower (the "***Borrower***"), NiSource Inc., a Delaware corporation ("***NiSource***"), as Guarantor (the "***Guarantor***"), the Co-Documentation Agents, Lead Arrangers and other Lenders from time to time party thereto, Credit Suisse, as Syndication Agent, and Barclays Bank PLC, as LC Bank and as Administrative Agent thereunder. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

The Assignor named on Schedule 1 hereto (the "***Assignor***") and the Assignee named on Schedule 1 hereto (the "***Assignee***") agree as follows:

1. The Assignor hereby irrevocably sells and assigns to the Assignee without recourse to the Assignor, and the Assignee hereby irrevocably purchases and assumes from the Assignor without recourse to the Assignor, as of the Effective Date (as defined below), an interest as specified in Schedule 1 hereto (the "***Assigned Interest***") in and to the Assignor' s rights and obligations under the Credit Agreement as described on Schedule 1 hereto (individually, an "***Assigned Facility***"; collectively, the "***Assigned Facilities***"), in a principal amount for each Assigned Facility as set forth on Schedule 1 hereto.

2. The Assignor (a) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or any other Credit Document or with respect to the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other instrument or document furnished pursuant thereto, other than that it is the legal and beneficial owner of the Assigned Interest, that it has not created any adverse claim upon the Assigned Interest and that the Assigned Interest is free and clear of any such adverse claim; and (b) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower, the Guarantor or any of their respective Subsidiaries or the performance or observance by the Borrower or the Guarantor of any of their respective obligations under the Credit Agreement or any other Credit Document.

3. The Assignee (a) represents and warrants that it is legally authorized to enter into the Assignment and Acceptance; (b) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.01 thereof and the most recent financial statements referred to in Section 5.01 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (c) agrees that it will, independently and without reliance upon the Assignor, the Administrative Agent, the Syndication Agent, the LC Bank, any Co-Documentation Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement or any other Credit Document; (d) appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to

exercise such powers and discretion under the Credit Agreement and any other Credit Document as are delegated to the Administrative Agent by the terms thereof, together with such powers as are incidental thereto; and (e) agrees that it will be bound by the provisions of the Credit Agreement and will perform in accordance with its terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender.

4. The effective date of this Assignment and Acceptance shall be as specified on Schedule 1 hereto (the "***Effective Date***"). Following the execution of this Assignment and Acceptance, it will be delivered to the Administrative Agent for acceptance by it and recording by the Administrative Agent pursuant to Section 11.04 of the Credit Agreement, effective as of the Effective Date (which shall not, unless otherwise agreed to by the Administrative Agent, be earlier than five Business Days after the execution hereof).

5. Upon such acceptance and recording, from and after the Effective Date, the Administrative Agent shall make all payments with respect to the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignee. The Assignor and the Assignee shall make all appropriate adjustments in payments by the Administrative Agent for periods prior to the Effective Date or with respect to the making of this assignment directly between themselves.

6. From and after the Effective Date, (a) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have (in addition to any rights and obligations theretofore held by it) the rights and obligations of a Lender thereunder and shall be bound by the provisions thereof, and (b) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement (other than any such rights which expressly survive the termination thereof).

7. This Agreement may be executed in as many counterparts as may be deemed necessary or convenient, and by the different parties hereto on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

8. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED UNDER THE INTERNAL LAWS OF THE STATE OF NEW YORK. THIS AGREEMENT IS SUBJECT TO SECTION 11.09 (CHOICE OF FORUM AND SERVICE OF PROCESS) AND SECTION 11.10 (WAIVER OF TRIAL BY JURY) OF THE CREDIT AGREEMENT. THE PROVISIONS OF SUCH SECTIONS 11.09 AND 11.10 OF THE CREDIT AGREEMENT ARE INCORPORATED HEREIN BY REFERENCE IN FULL.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Acceptance to be executed as of the date first above written by their respective duly authorized officers on Schedule 1 hereto.

SCHEDULE 1
TO
ASSIGNMENT AND ACCEPTANCE

Name of Assignor:

Name of Assignee:

Effective Date of Assignment:

Facility Assigned	Principal Amount Assigned	Applicable Percentage Assigned*

The terms set forth above and in the Assignment and Acceptance to which this Schedule 1 is attached are hereby agreed to:

[Consented to and]#/ Accepted for the
Recordation in the Register:

_____, as Assignor

By: _____
Name:
Title:

BARCLAYS BANK PLC,
As Administrative Agent and LC Bank

By: _____
Name:
Title:

_____, as Assignee

By: _____
Name:
Title:

* If applicable.

To be completed only if consents are required under Section 11.04(b).

[Consented to]:

NISOURCE FINANCE CORP.,
As Borrower

By: _____
Name:
Title:

Exhibit A-4

EXHIBIT B

FORM OF OPINION OF SCHIFF HARDIN LLP

Schedule 2.01
(Credit Agreement)

Names, Addresses, Allocation of Aggregate Commitment, and Applicable Percentages of Banks

Bank Name	Domestic Lending Office	Eurodollar Lending Office	Commitment	Applicable Percentage
Barclays Bank PLC	Barclays Bank PLC 200 Park Avenue New York, NY 10166	Barclays Bank PLC, Nassau Branch c/o Barclays Bank PLC 200 Park Avenue New York, NY 10166	$ 142,500,000	9.50%
Credit Suisse	One Madison Avenue New York, NY 10010	Same	$ 142,500,000	9.50%
The Bank of Tokyo-Mitsubishi UFJ, Ltd., Chicago Branch	227 W. Monroe Street Suite 2300 Chicago, IL 60606	Same	$ 105,000,000	7.00%
Citicorp USA, Inc.	399 Park Avenue, 16th Floor New York, NY 10043	Same	$ 105,000,000	7.00%
JPMorgan Chase Bank, N.A.	10 S. Dearborn Chicago, IL 60603	Same	$ 105,000,000	7.00%
Bank of America, N.A.	100 North Tryon Street Charlotte, NC 28255	Same	$ 80,000,000	5.33%
BNP Paribas	787 7th Avenue New York, NY 10019	Same	$ 80,000,000	5.33%
Deutsche Bank AG New York Branch	60 Wall Street New York, NY 10005	same	$ 80,000,000	5.33%
Dresdner Bank AG, New York and Grand Cayman Branches	1301 Avenue of the Americas New York, NY 10019	Same	$ 80,000,000	5.33%
BMO Capital Markets Financing, Inc.	115 S. LaSalle 17th Floor Chicago, IL 60603	Same	$ 80,000,000	5.33%
Keybank National Association	127 Public Square Cleveland, OH 44114	Same	$ 80,000,000	5.33%
The Royal Bank of	101 Park Avenue	Same	$ 80,000,000	5.33%

Bank Name	Domestic Lending Office	Eurodollar Lending Office	Commitment	Applicable Percentage
Scotland plc	6th Floor New York, NY 10178			
Wachovia Bank, National Association	201 South College Street, C89 Charlotte, NC 28288	Same	$ 80,000,000	5.33%
Mizuho Corporate Bank, Ltd., New York Branch	1251 Avenue of the Americas New York, NY 10020	Same	$ 60,000,000	4.00%
Commerzbank AG New York and Grand Cayman Branches	2 World Financial Center 225 Liberty Street New York, NY 10281	Same	$ 50,000,000	3.33%
The Northern Trust Company	50 S. LaSalle Street Chicago, IL 60675	Same	$ 50,000,000	3.33%
PNC Bank, National Association	One PNC Plaza, 529 Fifth Avenue Pittsburgh, PA 15222	Same	$ 50,000,000	3.33%
U.S. Bank National Association	209 S. LaSalle Street Suite 300 Chicago, IL 60604	Same	$ 50,000,000	3.33%
TOTAL			**$ 1,500,000,000**	**100 %**

Swingline Lender:

Bank Name	Lending Office	Swingline Commitment*
Barclays Bank PLC	200 Park Avenue New York, NY 10166	$ 250,000,000

* Swingline Commitments expressed as totals for this Agreement. Swingline Commitments are within, and not in addition to, the Swingline Lender' s Commitment as a Lender.

SCHEDULE 2.04

TRANSITIONAL LETTERS OF CREDIT

LETTER OF CREDIT NO.	ISSUER	APPLICANT	ISSUE DATE	EXPIRY DATE	BENEFICIARY	OUTSTANDING BALANCE
SB00095	Barclays Bank PLC	NiSource Finance Corp.	04/17/01	03/15/07	Columbia Insurance Corp Ltd.	$ 2,000,000.00
SB00116	Barclays Bank PLC	NiSource Finance Corp.	08/29/01	03/15/07	Travelers Indemnity Co.	$ 13,538,500.00
SB00246	Barclays Bank PLC	NiSource Finance Corp.	07/02/03	03/15/07	Liberty Mutual Insurance Co.	$ 1,950,000.00
SB00399	Barclays Bank PLC	NiSource Finance Corp	07/25/05	07/01/07	Ace American Insurance Company	$ 7,200,000

SCHEDULE 6.01(e)

EXISTING AGREEMENTS

1. Note Assumption and Exchange Agreement dated as of June 11, 2003 by Whiting Leasing LLC and the noteholders that are a party thereto.

2. Receivables Purchase Agreements and Receivables Sale Agreements of Columbia of Ohio Receivables Corporation and NIPSCO Receivables Corporation.

Exhibit 31.1

Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert C. Skaggs, Jr., certify that:

1. I have reviewed this Quarterly Report of NiSource Inc. on Form 10-Q for the quarter ended June 30, 2006;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: August 3, 2006

By: /s/ Robert C. Skaggs, Jr.
Robert C. Skaggs, Jr.
Chief Executive Officer

Exhibit 31.2

Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael W. O' Donnell, certify that:

1. I have reviewed this Quarterly Report of NiSource Inc. on Form 10-Q for the quarter ended June 30, 2006;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: August 3, 2006

By: /s/ Michael W. O' Donnell
Michael W. O' Donnell
Executive Vice President and Chief Financial Officer

Exhibit 32.1

Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of NiSource Inc. (the "Company") on Form 10-Q for the quarter ending June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert C. Skaggs, Jr., Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Robert C. Skaggs, Jr.
Robert C. Skaggs, Jr.
Chief Executive Officer

Date: August 3, 2006

Exhibit 32.2

Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of NiSource Inc. (the "Company") on Form 10-Q for the quarter ending June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael W. O' Donnell, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Michael W. O' Donnell
Michael W. O' Donnell
Executive Vice President and Chief Financial Officer

Date: August 3, 2006