

NISOURCE INC/DE
Form 10-Q
May 01, 2012
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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 March 31, 2012

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)

<u>Delaware</u> (State or other jurisdiction of incorporation or organization)	<u>35-2108964</u> (I.R.S. Employer Identification No.)
--	--

801 East 86th Avenue

<u>Merrillville, Indiana</u> (Address of principal executive offices)	<u>46410</u> (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.

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Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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: 284,092,190 shares outstanding at April 26, 2012.

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NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2012

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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

Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission, L.L.C.
CPRC	Columbia Gas of Pennsylvania 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
Millennium	Millennium Pipeline Company, L.L.C.
NARC	NIPSCO Accounts Receivable Corporation
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.
NiSource Midstream	NiSource Midstream Services, L.L.C.
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
PEI	PEI Holdings, Inc.
Whiting Clean Energy	Whiting Clean Energy, Inc.

Abbreviations

AFUDC	Allowance for funds used during construction
AMRP	Accelerated Main Replacement Program
AOC	Administrative Order by Consent
AOI	Accumulated other comprehensive income
ARP	Alternative Regulatory Plan
ARRs	Auction Revenue Rights
ASC	Accounting Standards Codification
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BP AE	BP Alternative Energy North America Inc
BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
Ccf	Hundred cubic feet
CERCLA	

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Comprehensive Environmental Response, Compensation and
Liability Act (also known as Superfund)
Cross-State Air Pollution Rule

CSAPR

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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 generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECT	Environmental Cost Tracker
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
FTRs	Financial Transmission Rights
GAAP	U.S. Generally Accepted Accounting Principles
GCR	Gas cost recovery
GHG	Greenhouse gases
gwh	Gigawatt hours
IDEM	Indiana Department of Environmental Management
IFRS	International Financial Reporting Standards
IRP	Infrastructure Replacement Program
IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last in first out
Mcf	Million cubic feet
MGP	Manufactured Gas Plant
MISO	Midwest Independent Transmission System Operator
Mitchell	Dean H. Mitchell Coal Fired Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO2	Nitrogen dioxide
NOx	Nitrogen oxide
NSR	New Source Review
NYMEX	New York Mercantile Exchange
OCI	Other Comprehensive Income (Loss)
OPEB	Other Postretirement and Postemployment Benefits
OUC	Indiana Office of Utility Consumer Counselor
PADEP	Pennsylvania Department of Environmental Protection
Piedmont	Piedmont Natural Gas Company, Inc.
PJM	PJM Interconnection (a regional transmission organization (RTO) that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia.)
PM	particulate matter
PSC	Public Service Commission
PUC	Public Utility Commission
PUCO	Public Utilities Commission of Ohio
RA	Resource Adequacy
RBS	Royal Bank of Scotland PLC
RCRA	Resource Conservation and Recovery Act

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RTO
SEC
SIP
SO2
VaR

Regional Transmission Organization
Securities and Exchange Commission
State Implementation Plan
Sulfur dioxide
Value-at-risk and instrument sensitivity to market factors

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DEFINED TERMS (continued)

VIE
VSCC

Variable Interest Entities
Virginia State Corporation Commission

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Table of Contents**PART I****ITEM 1. FINANCIAL STATEMENTS****NiSource Inc.****Condensed Statements of Consolidated Income (unaudited)**

Three Months Ended March 31, <i>(in millions, except per share amounts)</i>	2012	2011
Net Revenues		
Gas Distribution	\$ 873.7	\$ 1,372.0
Gas Transportation and Storage	409.2	403.0
Electric	352.6	346.5
Other	23.2	110.1
Gross Revenues	1,658.7	2,231.6
Cost of Sales (excluding depreciation and amortization)	630.3	1,170.9
Total Net Revenues	1,028.4	1,060.7
Operating Expenses		
Operation and maintenance	405.4	429.3
Depreciation and amortization	146.1	134.3
Impairment and (gain)/loss on sale of assets, net	(1.6)	0.7
Other taxes	86.8	93.0
Total Operating Expenses	636.7	657.3
Equity Earnings in Unconsolidated Affiliates	7.7	3.0
Operating Income	399.4	406.4
Other Income (Deductions)		
Interest expense, net	(103.3)	(89.8)
Other, net	0.3	3.3
Total Other Deductions	(103.0)	(86.5)
Income from Continuing Operations before Income Taxes	296.4	319.9
Income Taxes	102.9	110.8
Income from Continuing Operations	193.5	209.1
(Loss) Income from Discontinued Operations - net of taxes	(0.1)	0.4
Net Income	\$ 193.4	\$ 209.5
Basic Earnings Per Share		
Continuing operations	\$ 0.68	\$ 0.75
Discontinued operations	-	-

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Basic Earnings Per Share	\$	0.68	\$	0.75
Diluted Earnings Per Share				
Continuing operations	\$	0.66	\$	0.73
Discontinued operations		-		-
Diluted Earnings Per Share	\$	0.66	\$	0.73
Dividends Declared Per Common Share				
	\$	0.46	\$	0.46
Basic Average Common Shares Outstanding				
		282.9		279.3
Diluted Average Common Shares				
		293.1		285.0

The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents**ITEM 1. FINANCIAL STATEMENTS (continued)**

NiSOURCE INC.

Condensed Statements of Consolidated Comprehensive Income (unaudited)

Three Months Ended March 31, <i>(in millions, net of taxes)</i>	2012	2011
Net Income	\$ 193.4	\$ 209.5
Other comprehensive (loss) income		
Net loss on available for sale securities ^(a)	(2.8)	(0.3)
Net unrealized gains on cash flow hedges ^(b)	1.0	1.1
Unrecognized pension benefit and OPEB costs ^(c)	0.6	0.4
Total other comprehensive (loss) income	(1.2)	1.2
Total Comprehensive Income	\$ 192.2	\$ 210.7

(a) Net unrealized losses on available-for-sale securities, net of \$2.0 million and \$0.2 million tax benefit in the first quarter of 2012 and 2011.

(b) Net unrealized gains on derivatives qualifying as cash flow hedges, net of \$0.6 million and \$0.7 million tax expense in the first quarter of 2012 and 2011, respectively. Net unrealized gains on cash flow hedges includes realization of unrealized losses of \$0.3 million and \$0.2 million related to the unrealized losses of interest rate swaps held by NiSource's unconsolidated equity method investments for the first quarter of 2012 and 2011, respectively.

(c) Unrecognized pension benefit and OPEB costs, net of \$0.5 million and \$0.4 million tax expense in the first quarter of 2012 and 2011. The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents**ITEM 1. FINANCIAL STATEMENTS (continued)**

NiSOURCE INC.

Condensed Consolidated Balance Sheets (unaudited)

<i>(in millions)</i>	March 31, 2012	December 31, 2011
ASSETS		
Property, Plant and Equipment		
Utility Plant	\$ 20,571.1	\$ 20,337.8
Accumulated depreciation and amortization	(8,805.9)	(8,670.2)
Net utility plant	11,765.2	11,667.6
Other property, at cost, less accumulated depreciation	136.8	132.5
Net Property, Plant and Equipment	11,902.0	11,800.1
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	0.2	0.2
Unconsolidated affiliates	204.8	204.7
Other investments	156.5	150.9
Total Investments and Other Assets	361.5	355.8
Current Assets		
Cash and cash equivalents	38.5	11.5
Restricted cash	149.7	160.6
Accounts receivable (less reserve of \$45.6 and \$30.5, respectively)	730.3	854.8
Income tax receivable	0.7	0.9
Gas inventory	181.1	427.6
Underrecovered gas and fuel costs	15.0	20.7
Materials and supplies, at average cost	89.8	87.6
Electric production fuel, at average cost	83.3	50.9
Price risk management assets	141.9	137.2
Exchange gas receivable	76.4	64.9
Regulatory assets	186.2	169.7
Prepayments and other	277.4	261.8
Total Current Assets	1,970.3	2,248.2
Other Assets		
Price risk management assets	114.7	188.7
Regulatory assets	1,940.1	1,978.2
Goodwill	3,677.3	3,677.3

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Intangible assets	294.9	297.6
Postretirement and postemployment benefits assets	34.9	31.5
Deferred charges and other	150.2	130.9
Total Other Assets	6,212.1	6,304.2
Total Assets	\$ 20,445.9	\$ 20,708.3

The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents**ITEM 1. FINANCIAL STATEMENTS (continued)**

NiSOURCE INC.

Condensed Consolidated Balance Sheet (unaudited) (continued)

	March 31,	December 31,
<i>(in millions, except share amounts)</i>	2012	2011
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders' Equity		
Common stock - \$0.01 par value, 400,000,000 shares authorized;		
283,890,607 and 281,853,571 shares issued and outstanding, respectively	\$ 2.9	\$ 2.8
Additional paid-in capital	4,198.9	4,167.7
Retained earnings	980.0	917.0
Accumulated other comprehensive loss	(60.9)	(59.7)
Treasury stock	(40.4)	(30.5)
Total Common Stockholders' Equity	5,080.5	4,997.3
Long-term debt, excluding amounts due within one year	5,834.4	6,267.1
Total Capitalization	10,914.9	11,264.4
Current Liabilities		
Current portion of long-term debt	750.8	327.3
Short-term borrowings	1,264.2	1,359.4
Accounts payable	380.7	434.8
Dividends payable	65.3	-
Customer deposits and credits	215.1	313.6
Taxes accrued	237.3	220.9
Interest accrued	70.2	111.9
Overrecovered gas and fuel costs	74.3	48.9
Price risk management liabilities	180.4	167.8
Exchange gas payable	66.3	168.2
Deferred revenue	10.6	10.1
Regulatory liabilities	99.9	112.0
Accrued liability for postretirement and postemployment benefits	26.6	26.6
Legal and environmental reserves	37.0	43.9
Other accruals	239.7	301.0
Total Current Liabilities	3,718.4	3,646.4
Other Liabilities and Deferred Credits		
Price risk management liabilities	94.9	138.9
Deferred income taxes	2,650.7	2,541.9
Deferred investment tax credits	27.9	29.0
Deferred credits	80.7	78.9
Accrued liability for postretirement and postemployment benefits	946.0	953.8
Regulatory liabilities and other removal costs	1,616.2	1,663.9
Asset retirement obligations	148.4	146.4
Other noncurrent liabilities	247.8	244.7

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Total Other Liabilities and Deferred Credits	5,812.6	5,797.5
Commitments and Contingencies (Refer to Note 19)	-	-
Total Capitalization and Liabilities	\$ 20,445.9	\$ 20,708.3

The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents**ITEM 1. FINANCIAL STATEMENTS (continued)**

NiSOURCE INC.

Condensed Statements of Consolidated Cash Flows (unaudited)

Three Months Ended March 31, (in millions)	2012	2011
Operating Activities		
Net Income	\$ 193.4	\$ 209.5
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:		
Depreciation and amortization	146.1	134.3
Net changes in price risk management assets and liabilities	24.9	14.3
Deferred income taxes and investment tax credits	92.2	102.3
Deferred revenue	0.5	0.7
Stock compensation expense and 401(k) profit sharing contribution	8.9	7.8
Gain on sale of assets	(1.6)	-
Loss on impairment of assets	-	0.7
Income from unconsolidated affiliates	(6.6)	(3.1)
Loss (Gain) from discontinued operations - net of taxes	0.1	(0.4)
Amortization of debt related costs	2.3	2.1
AFUDC equity	(1.0)	(1.4)
Distributions of earnings received from equity investees	12.9	1.8
Changes in Assets and Liabilities:		
Accounts receivable	127.9	16.0
Income tax receivable	0.2	78.6
Inventories	211.2	208.5
Accounts payable	(41.3)	(119.9)
Customer deposits and credits	(98.5)	(136.5)
Taxes accrued	16.6	24.1
Interest accrued	(41.7)	(53.0)
Overrecovered gas and fuel costs	31.1	191.0
Exchange gas receivable/payable	(113.4)	(129.6)
Other accruals	(54.3)	(34.0)
Prepayments and other current assets	(4.7)	1.3
Regulatory assets/liabilities	(1.2)	15.2
Postretirement and postemployment benefits	(6.9)	(94.4)
Deferred credits	2.6	3.5
Deferred charges and other noncurrent assets	(23.3)	(3.6)
Other noncurrent liabilities	4.0	1.0
Net Operating Activities from Continuing Operations	480.4	436.8
Net Operating Activities used for Discontinued Operations	(0.4)	(14.7)
Net Cash Flows from Operating Activities	480.0	422.1
Investing Activities		
Capital expenditures	(292.6)	(209.4)
Proceeds from disposition of assets	2.1	5.5
Restricted cash withdrawals	11.5	38.0
Contributions to equity investees	(5.3)	-
Other investing activities	(10.4)	(9.2)
Net Cash Flow used for Investing Activities	(294.7)	(175.1)

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Financing Activities

Retirement of long-term debt	(5.9)	(2.8)
Premiums and other debt related costs	-	(8.2)
Change in short-term borrowings, net	(94.8)	(119.5)
Issuance of common stock	17.4	3.7
Acquisition of treasury stock	(9.9)	(2.7)
Dividends paid - common stock	(65.1)	(64.2)

Net Cash Flow used for Financing Activities	(158.3)	(193.7)
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Change in cash and cash equivalents from continuing operations	27.4	68.0
Cash contributions to discontinued operations	(0.4)	(14.7)
Cash and cash equivalents at beginning of period	11.5	9.2

Cash and Cash Equivalents at End of Period	\$ 38.5	\$ 62.5
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The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents**ITEM 1. FINANCIAL STATEMENTS (continued)**

NiSOURCE INC.

Notes to Condensed Consolidated Financial Statements (unaudited)**1. Basis of Accounting Presentation**

The accompanying unaudited condensed consolidated financial statements for NiSource (the Company) reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with GAAP 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, 2011. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors.

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although NiSource believes that the disclosures made are adequate to make the information not misleading.

Immaterial Restatement

As indicated in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, NiSource made correcting adjustments to its historical financial statements including for the first quarter of 2011 relating to deferred revenue, environmental asset recovery and OPEB over-reimbursement. NiSource does not believe that these corrections, individually or in the aggregate, are material to its financial statements (unaudited) for the quarterly period ended March 31, 2011. For additional information on these corrections, see Note 1, Nature of Operations and Summary of Significant Accounting Policies, and Note 26, Quarterly Financial Data (Unaudited), of the Consolidated Financial Statements of NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

The following table sets forth the effects of the correcting adjustments to Net Income for the three months ended March 31, 2011:

Increase/(Decrease) in Net Income (<i>in millions</i>)	Three Months Ended March 31, 2011
Previously reported Net Income	\$ 205.2
Deferred revenue	(0.6)
Environmental asset recovery	8.0
OPEB over-reimbursement	(0.2)
Total corrections	7.2
Income taxes	2.9
Corrected Net Income	\$ 209.5

Table of Contents**ITEM 1. FINANCIAL STATEMENTS (continued)**

NiSOURCE INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table sets forth the effects of the correcting adjustments on affected line items within the Condensed Statement of Consolidated Income (unaudited) for the three months ended March 31, 2011:

Condensed Statements of Consolidated Income (unaudited)

<i>(in millions, except per share amounts)</i>	Three Months ended March 31, 2011	
	As Previously Reported	As Corrected
Net Revenues		
Electric	\$ 347.1	\$ 346.5
Gross Revenues	2,232.2	2,231.6
Total Net Revenues	1,061.3	1,060.7
Operation and maintenance	432.5	429.3
Depreciation and amortization	138.9	134.3
Total Operating Expenses	665.1	657.3
Operating Income	399.2	406.4
Income from Continuing Operations before Income Taxes	312.7	319.9
Income Taxes	107.9	110.8
Income from Continuing Operations	204.8	209.1
Net Income	\$ 205.2	