NISOURCE INC/DE
Form 10-Q
November 01, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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 þ 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 þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company," and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer ¨ Emerging growth company ¨
Non-accelerated filer ¨ Smaller reporting company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ

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: 336,793,693 shares outstanding at October 23, 2017.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2017
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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, Affiliates and Former Subsidiaries	
Capital Markets	NiSource Capital Markets, Inc.
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.
NIPSCO	Northern Indiana Public Service Company
NiSource or the Company	NiSource Inc.
NiSource Finance	NiSource Finance Corp.

Abbreviations and Other	
AFUDC	Allowance for funds used during construction
AOCI	Accumulated Other Comprehensive Income (Loss)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM	At-the-market
CAA	Clean Air Act
CCRs	Coal Combustion Residuals
CEP	Capital Expenditure Program
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
CIAC	Contributions In Aid of Construction
CO_2	Carbon Dioxide
CPP	Clean Power Plan
DPU	Department of Public Utilities
DSM	Demand Side Management
ECR	Environmental Cost Recovery
ECT	Environmental Cost Tracker
EGUs	Electric Utility Generating Units
ELG	Effluent limitations guidelines
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GCA	Gas cost adjustment
GCR	Gas cost recovery
GHG	Greenhouse gases
GSEP	Gas System Enhancement Program
gwh	Gigawatt hours
IBM	International Business Machines Corporation
IRP	Infrastructure Replacement Program

DEFINED TERMS

IURC	Indiana Utility Regulatory Commission
LDCs	Local distribution companies
MGP	Manufactured Gas Plant
MISO	Midcontinent Independent System Operator
MMDth	Million dekatherms
MPSC	Maryland Public Service Commission
NAAQS	National Ambient Air Quality Standards
NOL	Net operating loss
NYMEX	New York Mercantile Exchange
OCC	Ohio Consumers' Counsel
OPEB	Other Postretirement Benefits
OUCC	Office of Utility Consumer Counselor
Pure Air	Pure Air on the Lake LP
RCRA	Resource Conservation and Recovery Act
ppb	Parts per billion
PUCO	Public Utilities Commission of Ohio
SEC	Securities and Exchange Commission
TDSIC	Transmission, Distribution and Storage System Improvement Charge
VIE	Variable Interest Entities
VSCC	Virginia State Corporation Commission

Note regarding forward-looking statements

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

Factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed in this Quarterly Report on Form 10-Q include, among other things, NiSource’s debt obligations; any changes in NiSource’s credit rating; NiSource’s ability to execute its growth strategy; changes in general economic, capital and commodity market conditions; pension funding obligations; economic regulation and the impact of regulatory rate reviews; NiSource's ability to obtain expected financial or regulatory outcomes; any damage to NiSource's reputation; compliance with environmental laws and the costs of associated liabilities; fluctuations in demand from residential and commercial customers; economic conditions of certain industries; the success of NIPSCO's electric generation strategy; the price of energy commodities and related transportation costs; the reliability of customers and suppliers to fulfill their payment and contractual obligations; potential impairments of goodwill or definite-lived intangible assets; changes in taxation and accounting principles; potential incidents and other operating risks associated with our business; the impact of an aging infrastructure; the impact of climate change; potential cyber-attacks; construction risks and natural gas costs and supply risks; extreme weather conditions; the attraction and retention of a qualified workforce; advances in technology; the ability of NiSource's subsidiaries to generate cash; tax liabilities associated with the separation of Columbia Pipeline Group, Inc. on July 1, 2015, and other matters set forth in the “Risk Factors” section of NiSource’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each business segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

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

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PART I

ITEM 1. FINANCIAL STATEMENTS
NiSource Inc.
Condensed Statements of Consolidated Income (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share amounts)	2017	2016	2017	2016
Net Revenues				
Gas Distribution	$239.4	$212.3	$1,403.0	$1,244.3
Gas Transportation	191.6	180.0	735.1	689.5
Electric	485.8	465.5	1,365.5	1,249.2
Other	0.2	3.5	2.7	12.5
Gross Revenues	917.0	861.3	3,506.3	3,195.5
Cost of Sales (excluding depreciation and amortization)	233.6	218.2	1,062.7	949.6
Total Net Revenues	683.4	643.1	2,443.6	2,245.9
Operating Expenses				
Operation and maintenance	383.3	336.6	1,184.9	1,028.9
Depreciation and amortization	143.0	136.3	428.5	406.0
Gain on sale of assets and impairments, net	—	(0.1)	(0.1)	(0.4)
Other taxes	57.5	56.6	189.7	178.1
Total Operating Expenses	583.8	529.4	1,803.0	1,612.6
Operating Income	99.6	113.7	640.6	633.3
Other Income (Deductions)				
Interest expense, net	(87.9)	(85.0)	(260.8)	(261.5)
Other, net	4.8	3.5	9.8	(1.9)
Loss on early extinguishment of long-term debt	—	—	(111.5)	—
Total Other Deductions, Net	(83.1)	(81.5)	(362.5)	(263.4)
Income from Continuing Operations before Income Taxes	16.5	32.2	278.1	369.9
Income Taxes	2.5	8.5	97.1	130.6
Income from Continuing Operations	14.0	23.7	181.0	239.3
Income (Loss) from Discontinued Operations - net of taxes	—	3.5	(0.1)	3.4
Net Income	14.0	27.2	180.9	242.7
Basic Earnings Per Share				
Continuing operations	$0.04	$0.07	$0.55	$0.74
Discontinued operations	—	0.01	—	0.02
Basic Earnings Per Share	$0.04	$0.08	$0.55	$0.76
Diluted Earnings Per Share				
Continuing operations	$0.04	$0.07	$0.55	$0.74
Discontinued operations	—	0.01	—	0.01
Diluted Earnings Per Share	$0.04	$0.08	$0.55	$0.75
Dividends Declared Per Common Share	$0.175	$0.165	$0.700	$0.640
Basic Average Common Shares Outstanding	331.1	322.3	326.7	321.4
Diluted Average Common Shares	332.4	323.9	328.0	323.2

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Statements of Consolidated Comprehensive Income (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, net of taxes)	2017	2016	2017	2016
Net Income	$14.0	$27.2	$180.9	$242.7
Other comprehensive income:				
Net unrealized gain (loss) on available-for-sale securities[1]	0.1	(0.3)	1.1	2.2
Net unrealized loss on cash flow hedges[2]	(9.3)	(22.6)	(21.2)	(146.8)
Unrecognized pension and OPEB benefit[3]	1.1	0.2	1.5	0.7
Total other comprehensive loss	(8.1)	(22.7)	(18.6)	(143.9)
Comprehensive Income	$5.9	$4.5	$162.3	$98.8

(1) Net unrealized gain (loss) on available-for-sale securities, net of zero and $0.1 million tax benefit in the third quarter of 2017 and 2016, respectively, and $0.6 million and $1.2 million tax expense for the nine months ended 2017 and 2016, respectively.
(2) Net unrealized loss on cash flow hedges, net of $5.8 million and $14.0 million tax benefit in the third quarter of 2017 and 2016, respectively, and $13.1 million and $90.6 million tax benefit for the nine months ended 2017 and 2016, respectively.
(3) Unrecognized pension and OPEB benefit, net of $0.5 million and $0.1 million tax expense in the third quarter of 2017 and 2016, respectively, and $0.8 million and $0.4 million tax expense for the nine months ended 2017 and 2016, respectively.
The accompanying Notes to Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Consolidated Balance Sheets (unaudited)

(in millions)	September 30, 2017	December 31, 2016
ASSETS		
Property, Plant and Equipment		
Utility plant	$ 20,657.6	$ 19,368.0
Accumulated depreciation and amortization	(6,906.2)	(6,613.7)
Net utility plant	13,751.4	12,754.3
Other property, at cost, less accumulated depreciation	290.7	313.7
Net Property, Plant and Equipment	14,042.1	13,068.0
Investments and Other Assets		
Unconsolidated affiliates	5.6	6.6
Other investments	207.7	193.3
Total Investments and Other Assets	213.3	199.9
Current Assets		
Cash and cash equivalents	19.3	26.4
Restricted cash	9.0	9.6
Accounts receivable (less reserve of $17.4 and $23.3, respectively)	480.0	847.0
Gas inventory	325.2	279.9
Materials and supplies, at average cost	102.3	101.7
Electric production fuel, at average cost	84.0	112.8
Exchange gas receivable	42.9	5.4
Regulatory assets	203.9	248.7
Prepayments and other	65.8	130.6
Total Current Assets	1,332.4	1,762.1
Other Assets		
Regulatory assets	1,666.2	1,636.7
Goodwill	1,690.7	1,690.7
Intangible assets	234.4	242.7
Deferred charges and other	90.4	91.8
Total Other Assets	3,681.7	3,661.9
Total Assets	$ 19,269.5	$ 18,691.9

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

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

(in millions, except share amounts)	September 30, 2017	December 31, 2016
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stockholders’ Equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 336,691,078 and 323,159,672 shares outstanding, respectively	$ 3.4	$ 3.3
Treasury stock	(94.6)	(88.7)
Additional paid-in capital	5,518.5	5,153.9
Retained deficit	(1,020.6)	(972.2)
Accumulated other comprehensive loss	(43.7)	(25.1)
Total Common Stockholders’ Equity	4,363.0	4,071.2
Long-term debt, excluding amounts due within one year	7,518.6	6,058.2
Total Capitalization	11,881.6	10,129.4
Current Liabilities		
Current portion of long-term debt	289.8	363.1
Short-term borrowings	843.2	1,488.0
Accounts payable	447.4	539.4
Dividends payable	58.9	—
Customer deposits and credits	253.1	264.1
Taxes accrued	148.4	195.4
Interest accrued	89.2	120.3
Exchange gas payable	68.0	83.7
Regulatory liabilities	55.1	116.7
Legal and environmental	27.5	37.4
Accrued compensation and employee benefits	167.0	161.4
Other accruals	119.2	82.7
Total Current Liabilities	2,566.8	3,452.2
Other Liabilities		
Risk management liabilities	28.7	44.5
Deferred income taxes	2,619.4	2,528.0
Deferred investment tax credits	12.6	13.4
Accrued insurance liabilities	89.0	82.8
Accrued liability for postretirement and postemployment benefits	397.3	713.4
Regulatory liabilities	1,217.8	1,265.1
Asset retirement obligations	268.5	262.6
Other noncurrent liabilities	187.8	200.5
Total Other Liabilities	4,821.1	5,110.3
Commitments and Contingencies (Refer to Note 14, "Other Commitments and Contingencies")	—	—
Total Capitalization and Liabilities	$ 19,269.5	$ 18,691.9

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

ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Statements of Consolidated Cash Flows (unaudited)

Nine Months Ended September 30, (in millions)	2017	2016
Operating Activities		
Net Income	$180.9	$242.7
Adjustments to Reconcile Net Income to Net Cash from Continuing Operations:		
Loss on early extinguishment of debt	111.5	—
Depreciation and amortization	428.5	406.0
Deferred income taxes and investment tax credits	96.3	137.7
Other adjustments	28.5	24.5
Changes in Assets and Liabilities:		
Components of working capital	32.6	(52.0)
Regulatory assets/liabilities	(12.9)	(202.2)
Postretirement and postemployment benefits	(314.5)	(20.9)
Other noncurrent assets	(3.7)	(3.0)
Other noncurrent liabilities	(17.7)	—
Net Operating Activities from Continuing Operations	529.5	532.8
Net Operating Activities from (used for) Discontinued Operations	0.1	(0.8)
Net Cash Flows from Operating Activities	529.6	532.0
Investing Activities		
Capital expenditures	(1,216.4)	(1,083.4)
Cost of removal	(78.9)	(79.5)
Purchases of available-for-sale securities	(139.4)	(33.4)
Sales of available-for-sale securities	129.4	25.9
Other investing activities	(0.8)	2.2
Net Cash Flows used for Investing Activities	(1,306.1)	(1,168.2)
Financing Activities		
Issuance of long-term debt	2,750.0	500.0
Repayments of long-term debt and capital lease obligations	(1,352.4)	(210.9)
Premiums and other debt related costs	(139.8)	(0.3)
Change in short-term borrowings, net	(644.9)	491.6
Issuance of common stock	332.6	16.8
Acquisition of treasury stock	(5.9)	(8.1)
Dividends paid - common stock	(170.2)	(152.3)
Net Cash Flows from Financing Activities	769.4	636.8
Change in cash and cash equivalents from (used for) continuing operations	(7.2)	1.4
Change in cash and cash equivalents from (used for) discontinued operations	0.1	(0.8)
Cash and cash equivalents at beginning of period	26.4	15.5
Cash and Cash Equivalents at End of Period	$19.3	$16.1

Supplemental Disclosures of Cash Flow Information

As of September 30, (in millions)	2017	2016
Non-cash transactions:		
Capital expenditures included in current liabilities	$219.1	$131.2
Dividends declared but not paid	$58.9	$53.1

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

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ITEM 1. FINANCIAL STATEMENTS (continued)

NiSource Inc.
Condensed Statements of Consolidated Equity (unaudited)

(in millions)	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balance as of January 1, 2017	$ 3.3	$ (88.7)	$ 5,153.9	$ (972.2)	$ (25.1)	$ 4,071.2
Comprehensive Income (Loss):						
Net Income	—	—	—	180.9	—	180.9
Other comprehensive income, net of tax	—	—	—	—	(18.6)	(18.6)
Common stock dividends ($0.70 per share)	—	—	—	(229.3)	—	(229.3)
Treasury stock acquired	—	(5.9)	—	—	—	(5.9)
Stock issuances:						
Employee stock purchase plan	—	—	3.7	—	—	3.7
Long-term incentive plan	—	—	11.2	—	—	11.2
401(k) and profit sharing	—	—	28.8	—	—	28.8
Dividend reinvestment plan	—	—	6.3	—	—	6.3
ATM program	0.1	—	314.6	—	—	314.7
Balance as of September 30, 2017	$ 3.4	$ (94.6)	$ 5,518.5	$ (1,020.6)	$ (43.7)	$ 4,363.0

Shares (in thousands)	Common Shares	Treasury Shares	Outstanding Shares
Balance as of January 1, 2017	326,664	(3,504)	323,160
Treasury Stock acquired		(245)	(245)
Issued:			
Employee stock purchase plan	155	—	155
Long-term incentive plan	241	—	241
401(k) and profit sharing	1,188	—	1,188
Dividend reinvestment plan	261	—	261
ATM program	11,931	—	11,931
Balance as of September 30, 2017	340,440	(3,749)	336,691

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

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ITEM 1. FINANCIAL STATEMENTS (continued)
NiSource Inc.
Notes to Condensed Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying Condensed Consolidated Financial Statements (unaudited) for NiSource Inc. ("NiSource" or 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 contain the accounts of the Company and its majority-owned or controlled subsidiaries.
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, 2016. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors.
The Condensed Consolidated Financial Statements (unaudited) 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 in this quarterly report on Form 10-Q are adequate to make the information herein not misleading.

2. Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements

NiSource is currently evaluating the impact of certain ASUs on its Condensed Consolidated Financial Statements (unaudited) and Notes to Condensed Consolidated Financial Statements (unaudited), which are described below:

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	The pronouncement changes how defined benefit pension and other postretirement benefit plans present net periodic benefit cost. The service cost component of net periodic benefit cost will be included with other employee compensation costs whereas other components of the net periodic benefit cost will be disclosed separately outside of income from operations in the income statement. Additionally, only the service cost component of net periodic benefit cost will be eligible for capitalization.	Annual periods beginning after December 15, 2017, including interim periods therein. Early adoption is permitted.	NiSource plans to adopt the standard effective January 1, 2018. Upon adoption, NiSource will continue to present the service cost component of net periodic benefit cost within "Operation and maintenance"; however, other components of the net periodic benefit cost will be presented separately below "Operating Income" in the income statement. This change in income statement presentation will be implemented on a retrospective basis. Additionally, beginning prospectively on the date of adoption, only the service cost component of NiSource's net periodic benefit cost component will be eligible for capitalization as "Property, Plant and Equipment" on the balance sheet. NiSource is currently evaluating the impact of adoption on the Condensed Consolidated Financial Statements (unaudited) and Notes to Condensed Consolidated Financial Statements (unaudited).

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ITEM 1. FINANCIAL STATEMENTS (continued)
NiSource Inc.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

<table>
<tr><th>Standard</th><th>Description</th><th>Effective Date</th><th>Effect on the financial statements or other significant matters</th></tr>
<tr><td>ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients</td><td>The pronouncement clarifies implementation guidance in ASU 2014-09 on assessing collectability, noncash consideration and the presentation of sales and other similar taxes collected from customers.</td><td rowspan="3">Annual periods beginning after December 15, 2017, including interim periods therein. Early adoption is permitted for annual or interim periods beginning after December 15, 2016.</td><td rowspan="3">NiSource has formed an internal stakeholder group to promote information sharing and communication of the new requirements. Additionally, NiSource participates in an informal forum of industry peers where questions can be asked and interpretations of the new standard can be shared. Involvement in this group has resulted in additional clarity on industry-specific issues such as treatment of CIAC, scoping of tariff arrangements and presentation of alternative revenue programs. This clarity has furthered NiSource's adoption efforts. NiSource has separated its various revenue streams into high-level categories, which serve as the basis for accounting analysis and documentation as it relates to the pronouncement's impact on NiSource's revenues. Substantially all of NiSource’s revenues are tariff based, which NiSource concluded will be in scope of ASC 606. Based on evaluation performed to date, NiSource generally expects that the revenue from tariff based sales will continue to be equivalent to the natural gas or electricity supplied and billed each period (including unbilled revenues) and the adoption of the new guidance will not result in a material shift in the amount or timing of revenue recognition for such sales. NiSource has also undertaken efforts to outline mock footnote disclosures intended to satisfy ASC 606's disclosure requirements and expects to enhance its disclosures on revenue recognition policies and elections. Certain disclosure options continue to be evaluated at NiSource, including method and level of revenue disaggregation. NiSource intends to adopt this ASU effective January 1, 2018 and plans to use the modified retrospective method of adoption. If applicable, this method requires a cumulative effect adjustment to be recorded on the balance sheet as of January 1, 2018 and disclosures reconciling results under the new revenue recognition guidance to results under previous guidance. In its evaluation, NiSource continues to monitor industry implementation issues which could impact accounting policies and revenue recognition, including NiSource's preliminary conclusions described above.</td></tr>
<tr><td>ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations</td><td>The pronouncement clarifies the principal versus agent guidance in ASU 2014-09. The amendment clarifies how an entity should identify the unit of accounting for the principal versus agent evaluation, and how it should apply the control principle to certain types of arrangements.</td></tr>
<tr><td>ASU 2014-09, Revenue from Contracts with Customers (Topic 606)</td><td>The pronouncement outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</td></tr>
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ITEM 1. FINANCIAL STATEMENTS (continued)
NiSource Inc.
Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
ASU 2016-02, Leases (Topic 842)	The pronouncement introduces a lessee model that brings most leases on the balance sheet. The standard requires that lessees recognize the following for all leases (with the exception of short-term leases, as that term is defined in the standard) at the lease commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.	Annual periods beginning after December 15, 2018, including interim periods therein. Early adoption is permitted.	NiSource has formed an internal stakeholder group that meets periodically to share information and gather data related to leasing activity at NiSource. This includes compiling a list of all contracts that could meet the definition of a lease under the new standard and evaluating the accounting for these contracts under the new standard to determine the ultimate impact the new standard will have on NiSource’s financial statements. Also, this procedure has identified process improvements to ensure data from newly initiated leases is captured to comply with the new standard. This work included the assistance of a third-party advisory firm. NiSource plans to adopt this standard effective January 1, 2019.

Recently Adopted Accounting Pronouncements

Standard	Adoption
ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	NiSource elected to adopt this ASU effective October 1, 2017. Upon adoption, restricted cash on the Statements of Consolidated Cash Flows will no longer be presented as an investing activity and will instead be included as a component of beginning and ending cash balances. The adoption of this standard will be reflected in the Statements of Consolidated Cash Flows beginning with NiSource's Annual Report on Form 10-K for the year ending December 31, 2017 (including all prior periods presented).
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to accounting for Hedging Activities	NiSource elected to adopt this ASU effective September 30, 2017. Upon adoption, NiSource is no longer required to separately measure and report hedge ineffectiveness. The guidance also eases the requirements related to ongoing hedge effectiveness assessments at NiSource. The adoption of this standard did not have a material impact on the Condensed Consolidated Financial Statements (unaudited) or Notes to Condensed Consolidated Financial Statements (unaudited).
ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting	NiSource elected to adopt this ASU effective July 1, 2017. The adoption of this standard did not have a material impact on the Condensed Consolidated Financial Statements (unaudited) or Notes to Condensed Consolidated Financial Statements (unaudited).
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	NiSource elected to adopt this ASU effective January 1, 2017. The adoption of this standard did not have a material impact on the Condensed Consolidated Financial Statements (unaudited) or Notes to Condensed Consolidated Financial Statements (unaudited).

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3. Earnings Per Share

Basic EPS is computed by dividing net income by the weighted-average number of shares of common stock outstanding for the period. The weighted-average shares outstanding for diluted EPS includes the incremental effects of the various long-term incentive compensation plans. The computation of diluted average common shares is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Denominator				
Basic average common shares outstanding	331,139	322,318	326,662	321,445
Dilutive potential common shares:				
Shares contingently issuable under employee stock plans	604	228	503	146
Shares restricted under employee stock plans	653	1,372	866	1,606
Diluted Average Common Shares	332,396	323,918	328,031	323,197

4. Common Stock

ATM Program. On May 3, 2017, NiSource entered into four separate equity distribution agreements, pursuant to which NiSource may sell, from time to time, up to an aggregate of $500.0 million of its common stock. As of September 30, 2017, approximately $182.8 million of equity remained available for issuance under the ATM program. The program expires on December 31, 2018. Shares of common stock are offered pursuant to NiSource's shelf registration statement filed with the SEC. The following table summarizes NiSource's activity under the ATM program:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Number of shares issued	10,612,915	—	11,931,376	—
Average price per share	$ 26.67	$ —	$ 26.58	$ —
Proceeds, net of fees (in millions)	$ 281.0	$ —	$ 314.7	$ —

5. Regulatory Matters
Gas Distribution Operations Regulatory Matters
Cost Recovery and Trackers. Comparability of Gas Distribution Operations line item operating results is impacted by regulatory trackers that allow for the recovery in rates of certain costs such as those described below. Increases in the expenses that are the subject of trackers result in a corresponding increase in net revenues and therefore have essentially no impact on total operating income results.
Certain operating costs of the NiSource distribution companies are significant, recurring in nature, and generally outside the control of the distribution companies. Some states allow the recovery of such costs through cost tracking mechanisms. Such tracking mechanisms allow for abbreviated regulatory proceedings in order for the distribution companies to implement charges and recover appropriate costs. Tracking mechanisms allow for more timely recovery of such costs as compared with more traditional cost recovery mechanisms. Examples of such mechanisms include GCR adjustment mechanisms, tax riders, and bad debt recovery mechanisms.

A portion of the distribution companies' revenue is related to the recovery of gas costs, the review and recovery of which occurs through standard regulatory proceedings. All states in NiSource's operating area require periodic review of actual gas procurement activity to determine prudence and to permit the recovery of prudently incurred costs related to the supply of gas for customers. NiSource distribution companies have historically been found prudent in the procurement of gas supplies to serve customers.

Certain of the NiSource distribution companies have completed rate proceedings involving infrastructure replacement or are embarking upon regulatory initiatives to replace significant portions of their operating systems that are nearing the end of their useful lives. Each LDC's approach to cost recovery may be unique, given the different laws, regulations and precedent that exist in each jurisdiction.

Columbia of Ohio. On November 28, 2012, the PUCO approved Columbia of Ohio's application to extend its IRP for an additional five years (2013-2017), allowing Columbia of Ohio to continue to invest and recover on its accelerated main replacements. Columbia of Ohio filed its application to adjust rates associated with its IRP and DSM Riders on February 27, 2017, which requested authority to increase annual revenues by approximately $31.5 million. On March 23, 2017, the PUCO Staff filed comments which recommended approval of the application with only minor revisions. The PUCO issued an order on April 26, 2017, approving Columbia of Ohio's application. New rates went into effect on May 1, 2017.

On February 27, 2017, Columbia of Ohio filed an application requesting authority to extend its IRP for an additional five years (2018-2022). On July 10, 2017, the PUCO Staff recommended approval of Columbia of Ohio's IRP for the additional five years, with modifications to Columbia of Ohio's proposed IRP rates for the five-year period. A joint stipulation and recommendation, outlining annual maximum IRP rates for the five-year period, was filed on August 18, 2017 and was supported or not opposed by all parties except the OCC. A hearing was held on October 2, 2017 and briefing is scheduled to be completed by November 7, 2017. An order is expected by the end of 2017.

On October 27, 2017 Columbia of Ohio filed a 30-day notice that they plan to file a request for a rider to begin recovering plant and associated deferrals related to the CEP. The CEP was established in 2011 and allows for deferral of interest, depreciation and property taxes on certain plant investments not recovered through its IRP modernization tracker.

NIPSCO Gas. On September 27, 2017, NIPSCO filed a base rate case with the IURC, seeking an annual revenue increase of $143.5 million (inclusive of amounts being recovered through various tracker programs). As part of this filing and among other items, NIPSCO proposed to update base rates for ongoing infrastructure improvements, revised depreciation rates and ongoing level of expenses to reflect the current costs of providing natural gas service. An order is expected in the second half of 2018.

On April 30, 2013, then Indiana Governor Pence signed Senate Enrolled Act 560, the TDSIC statute, into law. Among other provisions, this legislation provides for cost recovery outside of a base rate proceeding for new or replacement electric and gas transmission, distribution, and storage projects that a public utility undertakes for the purposes of safety, reliability, system modernization, or economic development. Provisions of the TDSIC statute require that, among other things, requests for recovery include a seven-year plan of eligible investments. Once the plan is approved by the IURC, eighty percent of eligible costs can be recovered using a periodic rate adjustment mechanism. The cost recovery mechanism is referred to as a TDSIC mechanism. Recoverable costs include a return on, and of, the investment, including AFUDC, post-in-service carrying charges, operation and maintenance expenses, depreciation and property taxes. The remaining twenty percent of recoverable costs are to be deferred for future recovery in the public utility's next general rate case. The periodic rate adjustment mechanism is capped at an annual increase of no more than two percent of total retail revenues. On February 28, 2017, NIPSCO filed TDSIC-6 requesting approval of $271.3 million of cumulative net capital spend through December 31, 2016. An order approving NIPSCO's filing was received from the IURC on June 28, 2017, and new rates went into effect on July 1, 2017. On August 31, 2017, NIPSCO filed TDSIC-7 requesting approval of $328.9 million of cumulative net capital spend through June 30, 2017. An order is expected in the fourth quarter of 2017.

Columbia of Massachusetts. On July 7, 2014, the Governor of Massachusetts signed into law Chapter 149 of the Acts of 2014, An Act Relative to Natural Gas Leaks ("the Act"). The Act authorizes natural gas distribution companies to file gas infrastructure replacement plans with the Massachusetts DPU to address the replacement of aging natural gas pipeline infrastructure. In addition, the Act provides that the Massachusetts DPU may, after review of the plans, allow the proposed estimated costs of the plan into rates as of May 1 of the subsequent year. On October 31, 2016, Columbia of Massachusetts filed its GSEP for the 2017 construction year. In that filing, Columbia of Massachusetts proposed to recover a cumulative revenue requirement of $17.2 million. An order was received from the

Massachusetts DPU on April 28, 2017 approving the filing and rates went into effect on May 1, 2017. On October 31, 2017, Columbia of Massachusetts filed its GSEP for the 2018 construction year. Columbia of Massachusetts is proposing to recover a cumulative revenue requirement of $26.8 million including a waiver to collect the $3.1 million revenue requirement in excess of the GSEP cap provision. If the waiver is not approved, the cumulative revenue requirement will be $23.7 million. An order is expected from the Massachusetts DPU in the second quarter of 2018, with new rates effective May 1, 2018.

Columbia of Virginia. On April 29, 2016, Columbia of Virginia filed a request with the VSCC, seeking an annual revenue increase of $37.0 million. On September 28, 2016, Columbia of Virginia implemented updated interim base rates subject to refund. On January 17, 2017, Columbia of Virginia presented a stipulation and proposed recommendation, representing a settlement by all parties to the proceeding that included a base revenue increase of $28.5 million. On March 17, 2017, by final order, the VSCC approved the settlement agreement without modification. In accordance with the terms of the final order, during 2017 Columbia of Virginia completed its refund of the difference between the interim customer rates implemented in 2016 and the rates approved by the final order.

Columbia of Maryland. On April 14, 2017, Columbia of Maryland filed a request with the MPSC to adjust base rates. On July 28, 2017, all parties filed a settlement agreement with the MPSC, under which Columbia of Maryland will receive an annual revenue increase of $2.4 million. The MPSC approved the settlement on September 19, 2017 and rates went into effect on October 27, 2017.

Electric Operations Regulatory Matters

Cost Recovery and Trackers. Comparability of Electric Operations line item operating results is impacted by regulatory trackers that allow for the recovery in rates of certain costs such as those described below. Increases in the expenses that are the subject of trackers result in a corresponding increase in net revenues and therefore have essentially no impact on total operating income results.

Certain operating costs of the Electric Operations are significant, recurring in nature, and generally outside the control of NIPSCO. The IURC allows for recovery of such costs through cost tracking mechanisms. Such tracking mechanisms allow for abbreviated regulatory proceedings in order for NIPSCO to implement charges and recover appropriate costs. Tracking mechanisms allow for more timely recovery of such costs as compared with more traditional cost recovery mechanisms. Examples of such mechanisms include electric energy efficiency programs, MISO non-fuel costs and revenues, resource capacity charges, federally mandated costs and environmental related costs.

A portion of NIPSCO's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a quarterly regulatory proceeding in Indiana.

NIPSCO has approval from the IURC to recover certain environmental related costs through an ECT. Under the ECT, NIPSCO is permitted to recover (1) AFUDC and a return on the capital investment expended by NIPSCO to implement environmental compliance plan projects and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational. On July 28, 2017, NIPSCO filed ECR-30 which included $256.2 million of cumulative net capital expenditures through the period ended June 30, 2017. An order was received from the IURC on October 25, 2017, and new rates went into effect the first billing cycle of November 2017.

NIPSCO made a TDSIC-2 rate adjustment mechanism filing on June 30, 2017 seeking recovery and ratemaking relief associated with $177.3 million of cumulative net capital expenditures made through April 30, 2017. An order approving the request was received from the IURC on October 31, 2017 and new rates are expected to go into effect with the first billing cycle of November 2017.

On November 1, 2016, NIPSCO filed a petition with the IURC for relief regarding the construction of additional environmental projects required to comply with the final rules for regulation of CCRs and the ELG. On June 9, 2017, a settlement agreement was filed with the IURC regarding the CCR projects and treatment of associated costs. An evidentiary hearing was held on August 21, 2017 and an order is expected by the end of 2017. Given the current postponement of the ELG rule, NIPSCO has agreed, with the settling parties, that the ELG projects and related costs would be addressed in a later proceeding. Refer to Note 14-C, “Environmental Matters,” for more information.

6. Risk Management Activities

NiSource is exposed to certain risks relating to its ongoing business operations, namely commodity price risk and interest rate risk. NiSource recognizes that the prudent and selective use of derivatives may help to lower its cost of debt capital, manage its interest rate exposure and limit volatility in the price of natural gas.

Risk management assets and liabilities on NiSource’s derivatives are presented on the Condensed Consolidated Balance Sheets (unaudited) as shown below:

(in millions)	September 30, 2017	December 31, 2016
Risk Management Assets - Current[(1)]		
Interest rate risk programs	$ —	$ 17.0
Commodity price risk programs	0.2	7.4
Total	$ 0.2	$ 24.4
Risk Management Assets - Noncurrent[(2)]		
Interest rate risk programs	$ 20.1	$ 17.1
Commodity price risk programs	0.7	7.5
Total	$ 20.8	$ 24.6
Risk Management Liabilities - Current[(3)]		
Interest rate risk programs	$ 36.9	$ 15.3
Commodity price risk programs	3.3	1.5
Total	$ 40.2	$ 16.8
Risk Management Liabilities - Noncurrent		
Interest rate risk programs	$ —	$ 24.5
Commodity price risk programs	28.7	20.0
Total	$ 28.7	$ 44.5

[(1)]Presented in "Prepayments and other" on the Condensed Consolidated Balance Sheets (unaudited).
[(2)]Presented in "Deferred charges and other" on the Condensed Consolidated Balance Sheets (unaudited).
[(3)]Presented in "Other accruals" on the Condensed Consolidated Balance Sheets (unaudited).

Commodity Price Risk Management

NiSource and NiSource’s utility customers are exposed to variability in cash flows associated with natural gas purchases and volatility in natural gas prices. NiSource purchases natural gas for sale and delivery to its retail, commercial and industrial customers, and for most customers the variability in the market price of gas is passed through in their rates. Some of NiSource’s utility subsidiaries offer programs whereby variability in the market price of gas is assumed by the respective utility. The objective of NiSource’s commodity price risk programs is to mitigate the gas cost variability, for NiSource or on behalf of its customers, associated with natural gas purchases or sales by economically hedging the various gas cost components using a combination of futures, options, forwards or other derivative contracts.

NIPSCO received IURC approval to lock in a fixed price for its natural gas customers using long-term forward purchase instruments. The term of these instruments may range from five to ten years and is limited to ten percent of NIPSCO’s average annual GCA purchase volume. Gains and losses on these derivative contracts are deferred as regulatory liabilities or assets and are remitted to or collected from customers through NIPSCO’s quarterly GCA mechanism. These instruments are not designated as accounting hedges.

Interest Rate Risk Management

As of September 30, 2017, NiSource Finance has forward-starting interest rate swaps with an aggregate notional value totaling $1.0 billion to hedge the variability in cash flows attributable to changes in the benchmark interest rate during the periods from the effective dates of the swaps to the anticipated dates of forecasted debt issuances, which are expected to take place by the end of 2019. These interest rate swaps are designated as cash flow hedges. The effective portions of the gains and losses related to these swaps are recorded to AOCI and are recognized in earnings concurrently with the recognition of interest expense on the associated debt, once issued. If it becomes probable that a hedged forecasted transaction will no longer occur, the accumulated gains or losses on the derivative will be recognized currently in earnings.

On May 11, 2017, NiSource Finance settled $950.0 million of forward-starting interest rate swap agreements contemporaneously with the issuance of $2.0 billion of 3.49% and 4.375% senior notes, maturing in 2027 and 2047, respectively. These derivative

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contracts were accounted for as cash flow hedges. As part of the transaction, the associated net unrealized loss position of $6.9 million is being amortized from accumulated other comprehensive loss into interest expense over the term of the associated interest payments.
On September 5, 2017, NiSource Finance settled $750.0 million of treasury lock agreements, initially entered into August 2017, contemporaneously with the issuance of $750.0 million of 3.95% senior notes, maturing in 2048. This derivative contract was accounted for as cash flow hedge. As part of the transaction, the associated net unrealized loss position of $19.0 million is being amortized from accumulated other comprehensive loss into interest expense over the term of the associated interest payments.
Cash associated with payments to settle interest rate swaps and treasury lock agreements are reflected within operating activities within the Condensed Statements of Consolidated Cash Flows (unaudited) for the nine months ended September 30, 2017.
Realized gains and losses from NiSource's interest rate cash flow hedges are presented in "Interest expense, net" on the Condensed Statements of Consolidated Income (unaudited). There were no amounts excluded from effectiveness testing for derivatives in cash flow hedging relationships at September 30, 2017 and December 31, 2016.
NiSource's derivative instruments measured at fair value as of September 30, 2017 and December 31, 2016 do not contain any credit-risk-related contingent features.

7. Fair Value

A. Fair Value Measurements

Recurring Fair Value Measurements. The following tables present financial assets and liabilities measured and recorded at fair value on NiSource's Condensed Consolidated Balance Sheets (unaudited) on a recurring basis and their level within the fair value hierarchy as of September 30, 2017 and December 31, 2016:

Recurring Fair Value Measurements September 30, 2017 (in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2017
Assets				
Risk management assets	$ —	$ 21.0	$ —	$ 21.0
Available-for-sale securities	—	139.3	—	139.3
Total	$ —	$ 160.3	$ —	$ 160.3
Liabilities				
Risk management liabilities	$ —	$ 68.1	$ 0.8	$ 68.9
Total	$ —	$ 68.1	$ 0.8	$ 68.9

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Recurring Fair Value Measurements December 31, 2016 (in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2016
Assets				
Risk management assets	$ 5.4			