

# FINAL TRANSCRIPT

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## NI - Q1 2009 NiSource Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Glen Kettering**

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**Bob Skaggs**

*NiSource - President and CEO*

**Stephen Smith**

*NiSource - EVP, CFO*

## CONFERENCE CALL PARTICIPANTS

**Jonathan Arnold**

*Merrill Lynch - Analyst*

**Barry Klein**

*Citigroup - Analyst*

**Mark Finn**

*T. Rowe Price - Analyst*

**Carrie St. Louis**

*Fidelity - Analyst*

**Raymond Leung**

*Goldman Sachs - Analyst*

## PRESENTATION

**Operator**

Good day ladies and gentlemen and welcome to NiSource first quarter 2009 earnings conference call. My name is Mary and I will be your conference coordinator for today. At this time all participants are in a listen-only mode. We will be facilitating a question and answer session towards the end of this conference. (Operator Instructions) As a reminder this conference is being recorded for replay purposes.

I would now like to turn the present over to your host for today's call, Mr. Glen Kettering, Senior Vice President of Corporate Affairs. Please proceed.

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**Glen Kettering** - *NiSource - SVP, Corporate Affairs*

Thank you, Mary, and good morning to everyone. On behalf of NiSource we'd like to welcome you to our quarterly analyst call. We appreciate the opportunity to be with you today and thank you for taking the time to join us. With me this morning are Bob Skaggs, President and Chief Executive Officer, Steve Smith, Executive Vice President and Chief Financial Officer, and Randy Hullen, Director of Investor Relations.

As you know, the focus of today's call is to review our first quarter 2009 earnings results and provide a general business update. During the course of the call we will be referring to certain supplemental materials, which are available to those accessing our call via Web site and which have been posted on the NiSource Web site at NiSource.com. Following Bob's prepared remarks we will open the call to your questions.

I'd like to remind all of you that some of the statements made on this conference call will be forward-looking statements within the meaning of the Safe Harbor provisions of US Federal securities laws. These these forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking

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statements. Information concerning factors that could cause actual results to differ materially is included in the managements discussion and analysis and risk factors section of our periodic SEC filings.

Now I'd like to turn the call over to Bob Skaggs.

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**Bob Skaggs** - NiSource - President and CEO

Thanks, Glen. Good morning and thanks for joining us. During today's discussion we have several important points to address. First and foremost, we'll report on NiSource's first quarter earnings results. Next, we'll update you on the series of concrete steps we've taken to maintain NiSource's financial flexibility and enhance our solid liquidity position. Finally we'll discuss our business segment results and highlight the progress on balance plan to enhance shareholder value.

As Glen mentioned, we have posted certain supplemental materials on our Web site some of which I will refer to in my remarks. These include an update to the 2009 sources and uses of funds schedule we reviewed on our February 4th call. A scheduled showing net available liquidity for NiSource at the end of the first quarter. A slide showing 2008 and 2009 projected capital expenditures by business unit. And lastly a time line for a number of ongoing initiatives across NiSource.

Let's begin with a look at our first quarter results. As we noted in our news release this morning despite extraordinarily challenging economic conditions in our market areas, NiSource produced another solid quarter of core earnings while continuing to execute on our business plan. For the first quarter NiSource delivered net operating earnings on a non-GAAP basis of \$170 million or \$0.62 per share. This compares with \$189 million or \$0.69 per share for the first quarter of 2008. For reconciliation of net operating earnings and operating earnings to GAAP, please see schedules one and two of the earnings release which is also available at NiSource.com.

Operating earnings, again, on a non-GAAP basis, were almost \$370 million compared to about \$395 million for the same period in 2008. As we indicated during our last earnings call in early February, the most significant impact on our first quarter results was increased pension expense related to the global collapse in securities markets during 2008. Specifically our added pension expense for the quarter totaled \$25 million which accounted for about \$0.06 of the \$0.07 per share difference between our 2008 and 2009 first quarter results. You may recall that our earnings guidance for 2009 anticipated a total increase of about \$100 million in pension expense during the course of this year, impacting our forecasted 2009 earnings by about \$0.24 per share.

I'd note that our first quarter earnings are in line with our earlier outlook and that we are reaffirming our previously announced 2009 guidance of \$1 to \$1.10 per share in net operating earnings non-GAAP for 2009. As I've mentioned in previous calls we continued closely monitor economic conditions across the markets we serve and assess the potential impacts on our business. Although these issues certainly aren't unique to NiSource they represent a set of challenges that we have been and continue to be thoughtfully and proactively managing.

This brings a topic that holds particular interest for the financial community and that's our strategy for maintaining financial flexibility in the current environment. As I note on our February call beginning last year NiSource put in place a range of strategies to effectively address our liquidity needs and I've observed that Steve Smith and his finance team have executed against our plan in exceptional fashion. These action have helped us meet our 2009 debt refinancing requirements of approximately \$500 million and put us well on the way toward meeting our remaining 2010 refinancing needs which now stand at about \$690 million.

Let me quickly touch on some key steps we've taken to advance our financing and liquidity plan. On March 9th we issued \$600 million of senior unsecured notes and underwritten offering. Proceeds from the issuance will be used to refinance outstanding debt that's scheduled to mature in November 2009 and for general corporate purposes including refinancing a portion of outstanding debt scheduled to mature in November 2010.

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On April 9th we closed on a senior unsecured term loan under attractive terms with a syndicate of lenders. As you may recall the initial closing was at \$265 million and the finance team was successful in expanding the loan to \$385 million at final closing under an accordion feature in the financing agreement. And just two days ago we announced the results of a tender offer for up to \$300 million aggregate principal amount of outstanding notes due in 2010. The aggregate principal amount of notes tendered was approximately \$250 million which will serve to reduce NiSource's interest expense through November 2010 by about \$30 million.

On March 30th, NIPSCO an amended position with the Indiana Utility Regulatory Commission or IURC seeking permission to issue \$120 million of long-term debt to finance the sugar creek electric generating facility which NIPSCO acquired last year. The hearing on that petition is set before the IURC on June 30th. And I would add that we are now continued to go evaluate financing opportunities at other operating units.

Our individual business units have also taken aggressive steps to better manage spending and optimize Funds from Operations including the recently announced restructuring of our NiSource Gas Transmission and Storage organization. Slide two of the supplemental materials shows the positive effect of these initiatives on NiSource's overall liquidity position. As you can see we are now projecting over \$0.5 billion of excess liquidity in 2009. And notably as reflected in slide three NiSource's net available liquidity at the end of the first quarter was in excess of \$1.3 billion.

Just one added footnote. Standard & Poor's recognized our efforts on March 5th when a defer on NiSource's BBB minus investment great credit rating and revised it's outlook to stable from negative. The Moody's and Fitch ratings services also affirmed our investment ratings during the first quarter. We appreciate this recognition of our comprehensive strategy to maintain financial flexibility and deliver on our core business commitments. In light of the steps we've taken and our continuing to take, I'm confident NiSource will maintain a solid liquidity position going forward.

Let's shift now to our first quarter business segment results and accomplishments. Here again you'll see that we are continuing to make tangible progress and remain fully committed to enhancing shareholder value by preserving and executing on the core elements of our long-term business strategy. During the first quarter NiSource's three business units continued to advance key growth and infrastructure enhancements programs, synchronize with complementary regulatory and commercial initiatives.

At NIPSCO we received a favorable order from IURC on February 18th related to our efforts to electric generating capacity and to advance our electric rate case. The IURC ruled that NIPSCO's \$330 million Sugar Creek electric generating facility was in service for rate making purposes as of December 1st, 2008. The IURC also approved deferral of depreciation expenses and carrying costs associated with the Sugar Creek investment unless such time as the IURC recognizes the plant in the Company's rate base through revised rates.

Progress also continued on the NIPSCO electric rate base increase, the Company's first in 20 years. Intervening parties are now scheduled to file their testimony by May 8th with a final round of evidentiary hearings scheduled to be held this summer. We anticipate that the case will be resolved and new rates effective by late 2009 or during the first quarter of 2010. As we've repeatedly said successful resolution of NIPSCO rate case remains a very high priority for NIPSCO's CEO [Eilene Odoman] and her team. Although much work remains ahead of us, I am pleased with the progress we are making to a solid foundation for NIPSCO and position it to contribute to NiSource's growth going forward.

From an earnings standpoint electric operations reported \$26 million of operating earnings for the current quarter compared with \$38 million in the first quarter of 2008. The decrease resulted from higher operating expenses partially offset by higher net revenues. Net revenues were up by \$4.3 million due to increased residential and commercial margins, which more than offset the impacts of reduced industrial and wholesale volumes and margins. Operating expenses increased by about \$16 million due to higher employee and administrative costs and electric generation and maintenance expenses including expenses associated with the Sugar Creek facility. Expenses were also impacted by storm damage repairs, higher depreciation costs, and other taxes during the quarter. These increases were partially offset by lower environmental expense resulting from an insurance settlement.

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As I mentioned earlier the increases in employee and administrative expenses across all our operating segments were primarily driven by a \$25 million increase in pension expenses. And as I alluded to earlier our NIPSCO team is closely monitoring economic conditions in our Northern Indiana service territory. Industrial production in particular has been impacted by the regional economy with volumes down approximately 20% compared to last year. Our 2009 earnings outlook anticipated the impact of reduced industrial activity at NIPSCO with gradual improvement expected to begin in the second half of the year. Of course we'll continue up to date you on this key business sensitivity in future earnings calls.

In our NiSource Gas Transmission and Storage unit work continued on the development of new growth projects and a maximization of value from NiSource's existing asset base. In South Western Pennsylvania we are beginning a \$30 million project to increase our transportation capabilities on the Columbia gases transmission system to provide market access for an additional 150,000 dekatherms per day of gas from the promising Marcellus shale production area. We are modifying a compressor station South of Pittsburgh and parts of the pipeline system in the region to transport new natural gas supplies to market. The initial phase of firm transportation service started in third quarter of 2008. With additional increments scheduled through mid 2010.

On our Columbia Gulf system we completed the addition of 95,000 dekatherms per day of contracted capacity for delivery to the Florida Gas transmission system near Lafayette, Louisiana. The new capacity is in addition to 145,000 dekatherms of capacity already subscribed for delivery to Florida Gas. In our March 25, the Federal Energy Regulatory Commission issued a certificate authorizing our \$65 million Ohio storage expansion project which will meet growth demands for natural gas storage and transportation services in our Mid Atlantic markets. It was notable that the commission authorized market based rates for the project, the first time the Columbia Gas Transmission has been granted such authority in connection with the expansion of existing traditionally cost based storage facility.

Construction also continued on two addition NGT&S expansion projects. The approximately \$30 million Appalachian expansion project continues to progress with service targeted to begin later this year, providing approximately 100,000 dekatherms per day of new transportation capacity to Appalachian producers. And the \$200 million Eastern market expansion was placed into service on April 1st. That project expands our facilities to provide 97,000 dekatherms per day of additional storage and related transportation services under fully subscribed 15-year firm contracts.

As you can see, NGT&S CEO [Chris Helms] and his team continue to make significant progress in developing and delivering new energy infrastructure projects that will provide enhanced supply access to Eastern and South Eastern market areas. These ongoing infrastructure projects are and will continue to be a key contributor to NiSource's long-term growth plan.

From an earnings standpoint gas transmission and storage operations reported operating earnings for the quarter of \$111 million versus operating earnings of about \$104 million in the first quarter of 2008. Net revenues were up by \$11 million primarily due to increases in firm capacity reservation fees and the impact of regulatory trackers. Equity earnings increased by \$4.4 million as a result of the Millennium pipeline being placed in service. Operating expenses at NGT&S increased by \$8.7 million due to higher employee and administrative expenses, environmental costs and regulatory trackers, partially offset by lower outside service fees and materials and supplies.

And last but certainly not least, at our gas distribution unit we continue to see notable progress on our strategy of synching regulatory and commercial initiatives with our investment based infrastructure enhancement initiatives. On March 27th, the Maryland Public Service Commission approved unanimous settlement of Columbia Gas of Maryland base rate case filed last year. The rate change which went into effect on March 31st, 2009, will increase annual revenues by approximately \$1.2 million.

Also in March the Virginia State Corporation Commission approved Dominion Virginia Power Company's planned 580 Megawatt Bear Garden Power Station in Buckingham County Virginia. Columbia Gas of Virginia will supply natural gas transportation service to the facility following an approximately \$50 million expansion of its distribution system. The service which is scheduled to begin by the Fall of 2010 represents an excellent investment opportunity for Columbia Virginia.

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Just yesterday Columbia Gas of Ohio followed application with the Public Utilities Commission of Ohio to defer pension and other post employment benefit expenses above those currently subject to collection and rates. A similar filing was made by Columbia Gas of Kentucky with the Kentucky Public Service Commission on April 23rd. Progress also continued on new rate proceedings at two of NiSource's gas distribution Companies. Bay State Gas Company filed a petition with the Massachusetts Department of Public Utilities on April 16th seeking to increase total annual revenues by \$34.6 million, or a 6.4% increase. While Columbia Gas of Kentucky is on track to file for a base rate increase later today with the Kentucky Public Service Commission. The details of the Kentucky filing will be announced in a separate release this afternoon.

These proceedings will continue NiSource's collaborative approach towards regulatory proceedings. We remain committed to engaging stakeholders in addressing issues related to energy conservation, customer assistance, and timely recovery of increased pension expenses and ongoing infrastructure enhancement investments. Synchronizing our significant infrastructure replacement programs and enhancement projects with thoughtful, collaborative regulatory initiatives such as those being undertaken in Massachusetts and Kentucky is a central feature to NiSource's long-term gas distribution business strategy. Building on last year's successes in Ohio and Pennsylvania, gas distribution CEO [Jimmy Statton] and his team continues to make excellent progress in executing on that strategy.

From an earnings standpoint, gas distribution operations reported operating earnings for the current quarter of \$237.3 million compared to \$255.6 million in the first quarter of 2008. Net revenues excluding impact of regulatory trackers increased \$5 million primarily attributable to regulatory and service programs including impacts from rate cases at various utilities. These increases were partially offset by decreased customer usage and lower off system sales. Operating expenses again excluding trackers were \$23.4 million, higher than the comparable period including increases in employee and administrative costs, uncollectible accounts, depreciation costs, and outside services. I would note that as a result of rate design initiatives at a number of our gas distribution companies we are beginning to see revenues become more balanced over the course of the year. We view this as a positive trends for our companies and for their customers.

Shifting to other operations we reported an operating earnings loss for the current quarter of \$1.4 million compared with a loss of \$0.5 million for the first quarter of 2008. The decrease was due to lower net revenues from commercial and industrial gas marketing activities. In terms of interest expenses, we saw a decrease of \$1.3 million due to lower short term interest rates and savings from our \$100 million of open market repurchases of debt in January of 2009. Those savings were partially offset by incremental interest expense associated with \$700 million of debt issued in May of 2008 and a partial month of interest expense associated with the new \$600 million of debt issued in March. Other net was a loss of \$4.2 million compared to a loss of \$1.5 million for the first quarter of 2008 as a result of lower interest income.

On a GAAP basis income from continuing operations for the quarter was \$159.3 million or \$0.58 per share compared with \$189.5 million or \$0.69 per share for 2008. Operating income was \$348.3 million versus \$394.9 million in the year ago period. First quarter 2009 GAAP results include a restructuring charge of approximately \$20 million related to the restructuring of Columbia Gas Transmission and Storage operations. To wrap up, NiSource's overall financial performance for the quarter is consistent with our business plan, as I mentioned earlier in line with our outlook of net operating earnings in the range of \$1 to \$1.10 per share for 2009.

Although we have much more to accomplish in a challenging environment in which to operate I'm pleased with the solid progress of our team -- that our team is making in delivering on our aggressive game plan. Over the past 90 days we've taken big steps to maintain our solid liquidity position while continuing to advance our agenda of executing on our infrastructure programs, rate proceedings, and pipeline and storage growth opportunities. These accomplishments serve to underscore our continued commitment to preserving and executing on the core elements of our strategy for generating long-term, sustainable growth for NiSource and real value for our shareholders.

Now prior to opening the call to questions I want to specifically reemphasize three key commitments. One, we remain committed to maintaining NiSource's investment grade credit ratings. Two, we remain committed to maintaining NiSource's current

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dividend. And, three, we don't plan on any large scale issuances of NiSource's common equity. And I'd add that with aggressive thoughtful management we believe we can incorporate to honor all three of these commitments.

Finally, we remain committed to communicating with our investors in a transparent and timely manner regarding these and all of our efforts. Ongoing updates will be provided through our analyst calls and news releases posted on NiSource.com. Thank you for participating today. And for your continued interest and support of NiSource.

At this time we'd like to open the call to

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) First question comes from the line of Jonathan Arnold of Merrill Lynch.

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**Jonathan Arnold** - *Merrill Lynch - Analyst*

Good morning, guys.

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**Bob Skaggs** - *NiSource - President and CEO*

Good morning, Jonathan.

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**Jonathan Arnold** - *Merrill Lynch - Analyst*

I had a couple of questions, the first one on the pension filings, the deferral filings you made in Ohio and Kentucky. If I remember in the operating earnings waterfall for the year, pension expense was about a \$0.24 negative. Can you give us some sort of indication of how much of that might be mitigated if you were to get these deferrals in those two states?

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**Bob Skaggs** - *NiSource - President and CEO*

Yes. We can give you a sense if again the Commissions would act favorably on those filings. The Kentucky positive impact would be \$1 million or so. Again we are asking deferral from the beginning of the year until new rates go into effect. And again you're aware that Columbia -- Kentucky just is in the process of filing a rate case later today. For Columbia Gas of Ohio again they filed for a deferral retroactive back to the first of the year. And in terms of pretax positive impact if the Commission acted favorably and without modification it would be about \$50 million again pretax in 2009.

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**Jonathan Arnold** - *Merrill Lynch - Analyst*

Okay. And that's the 2009 impact of a full year of the difference between what's in rates and what you are currently incurring?

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**Bob Skaggs** - *NiSource - President and CEO*

That's correct.

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**Jonathan Arnold** - Merrill Lynch - Analyst

What is the precedent like in the States, is there anything like that?

**Bob Skaggs** - NiSource - President and CEO

This would be plowing new ground.

**Jonathan Arnold** - Merrill Lynch - Analyst

Okay. And one other question I had, you had \$0.12 of negative of interest expense for the year. It's kind of flat in the first quarter and I'm guessing that's partly because you have a bigger short term debt balance in Q1. And rates on that were down. But is that given the financing you managed to achieve and the outcome of the tender offer is that \$0.12 still a good estimate for the year or could that be a little on the conservative side?

**Bob Skaggs** - NiSource - President and CEO

I would characterize that we are on budget for interest expense for the year. Steve, would you like to provide any additional comment?

**Stephen Smith** - NiSource - EVP, CFO

Yes, I would totally agree with that, Bob. I think we should be able to manage interest expense within the confines of the guidance that we gave at the end of the year with respect to the \$1 to \$1.10. So we are currently anticipating that we will stay within that range.

**Jonathan Arnold** - Merrill Lynch - Analyst

You still expect to have a \$0.12 negative delta in interest for the year?

**Stephen Smith** - NiSource - EVP, CFO

Yes.

**Bob Skaggs** - NiSource - President and CEO

That's correct.

**Jonathan Arnold** - Merrill Lynch - Analyst

Okay. And if I may just one last thing, there was in the adjustments from GAAP to non-GAAP you had a \$9 million I think revenue, revenue adjustment in the electric segment. Which I'm guessing was unbilled sales or something of that nature, but could you elaborate on what that is?

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**Bob Skaggs** - NiSource - President and CEO

Yes. It's effectively an adjustment of reserve for regulatory, commercial proceedings and activities at NIPSCO Electric.

**Jonathan Arnold** - Merrill Lynch - Analyst

Meaning, I'm not sure if I know what that is.

**Bob Skaggs** - NiSource - President and CEO

As you know NIPSCO has many different relationships and many different cases and initiatives going on in Indiana with any number of parties. That adjustment reflects the current status of those discussions and interactions both commercial and regulatory.

**Jonathan Arnold** - Merrill Lynch - Analyst

Okay. And that was a negative for the year, for the quarter, is that correct?

**Bob Skaggs** - NiSource - President and CEO

That's correct.

**Jonathan Arnold** - Merrill Lynch - Analyst

Okay. Thank you.

**Operator**

Your next question comes from the line of Barry Klein of Citigroup.

**Barry Klein** - Citigroup - Analyst

Hi, guys.

**Bob Skaggs** - NiSource - President and CEO

Good morning.

**Stephen Smith** - NiSource - EVP, CFO

Hi, Barry.

**Barry Klein** - Citigroup - Analyst

For the gas you are putting into storage and the impact on working capital, what gas prices are you assuming for that gas going into storage?

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**Stephen Smith** - NiSource - EVP, CFO

Thanks, Barry, this is Steve. When we spoke earlier at year end we talked about our weighted-average cost of gas that we were anticipating in 2009. That was about \$7.50 for gas. And when we look at it currently today, it's closer to \$4.50. So the gas weight COG is about \$3 lower than we were anticipating in February.

And we talked also in February about our rule of thumb with respect to \$1 in gas prices. And for every \$1 in gas prices, higher or lower, it contributes about \$50 million or so of working capital. So if you look at the slide that we put out for everyone on the sources and uses, the working capital increased from \$250 million to \$500 million. And that's more than half of that increase is driven by the fact that we are seeing lower gas prices out in the market in terms of the storage refill. Again that level is around \$4.50.

**Barry Klein** - Citigroup - Analyst

Okay. Thanks a lot.

**Operator**

(Operator Instructions). We have a question from the line of [Mark Finn] of T. Rowe Price

**Mark Finn** - T. Rowe Price - Analyst

Thanks, good morning, guys.

**Bob Skaggs** - NiSource - President and CEO

Good morning, Mark.

**Mark Finn** - T. Rowe Price - Analyst

What would be the, if you guys proceed down the NIPSCO rate case, we get intervener testimony coming up I guess next week, what would be the steps if you were to engage in settlement talks? How would that proceed or what would be sort of a time line or when could you engage? And, I guess I'm -- this is more of an observation but I'm curious whether or not you are getting a sense that the Indiana Commission is taking notice of sort of the dramatic change that you guys have made to the culture of NiSource?

And I know you've been, I know, Bob, you've been working hard in that regard in a lot of different jurisdictions. Indiana is the one that we haven't seen a lot out of yet because there hasn't been a lot for them to rule on. I mean, we saw a little bit on the plant that you bought. But I just would be curious about how you proceed on sort of rate case settlement discussions if that's possible? And how you are perceiving sort of the Commissions kind of observation or your relationship with the Commission as we go into this?

**Bob Skaggs** - NiSource - President and CEO

Yes.

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**Mark Finn** - *T. Rowe Price - Analyst*

Thanks for any comments you can give.

**Bob Skaggs** - *NiSource - President and CEO*

We will try to give you some color and incite. Let me answer first question about settlement. I see the opportunity to pursue this on two paths and one path is clearly set forth and that's the litigation path. And you're correct, intervenor testimony is due early this month. The final hearing, evidentiary hearing is set forth July. And then if you follow it out briefing and Commission decision late this year, first quarter of 2010.

The second path would be that the settlement discussions. We hope that we are in a position to engage the parties in meaningful settlement discussions once we see their formal positions go on record here the first week of May. So over the course of the summer we hope to engage. We hope that those discussions are fruitful. Having said that we certainly anticipate the litigation path will continue to proceed. But again we would go down both paths with vigor. Mark and others I think are familiar with our approach. We prefer to collaborate, settle, with parties, and we are certainly going to give that every effort and again I see it going down two paths.

In terms of the Commission, quite frankly we are in a show me position or show them position. The record NIPSCO over the past ten, 15, 20 years has been quite frankly checkered. The Commission I believe has giving us every opportunity to show ourselves relationship wise. And as parties to a major rate case is being constructive, forthcoming, transparent and the like. But they have challenged to us show them operationally, relationship wise and other wise that we are true to our word. And we will work with them and others in a constructive fashion.

But they have opened the door for that showing. And I think one hopeful piece of evidence that we are beginning to work better with the Commission is the Commission's ruling on our Sugar Creek facility. Number one to say that it's part of the rate base as of the end of last year and to grant deferral treatment of that. And Mark, as you and others recognize that effectively collapsed a two-step rate case into one step. So, I don't mean to over read that, but I do think it is a bit of evidence that we continue to make progress. Having said that, it's an everyday process and we need to show the Commission and others that is we are intent, true, honest, straight forward and we mean what we say.

**Mark Finn** - *T. Rowe Price - Analyst*

I understand, can I ask one quick follow up on the gas pipeline side?

**Bob Skaggs** - *NiSource - President and CEO*

Sure.

**Mark Finn** - *T. Rowe Price - Analyst*

Do the low -- the recent pull down in natural gas prices to 350 or so, does that cause you guys to have to go back and sort of continually reassess the bolt on opportunities that you have in sort of the Marcellus and things like that? I'm just curious whether or not you're sort of continuously looking at that sort of every step of the way.

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**Bob Skaggs** - NiSource - President and CEO

Yes, we are continuously looking at that. It is a very fluid situation. Having said that we continue to see positive producer indications and activity in and around Marcellus. The pace may have slowed a bit but we are still seeing activity.

I noted I believe it's yesterday gas daily where range resources at a conference continued to have a very bullish statements about its activity in the Marcellus particularly in that Western Pennsylvania portion of the Marcellus where we are situated. But we will continue to be very measured. But we continue to see activity in the region.

**Mark Finn** - T. Rowe Price - Analyst

All right. Thanks. Thanks for your good work, guys.

**Bob Skaggs** - NiSource - President and CEO

Thanks. Mark, we appreciate it.

**Operator**

Your next question comes from the line of Carrie St. Louis of Fidelity.

**Carrie St. Louis** - Fidelity - Analyst

Hi, good morning.

**Bob Skaggs** - NiSource - President and CEO

Hi, good morning, Carrie.

**Carrie St. Louis** - Fidelity - Analyst

So just wanted to congratulate you guys on the large steps with respect to liquidity this quarter. I think you guys acted both rapidly and responsibly, and I appreciate that. Just wanted to kind of follow up on a couple of future data points. So I didn't hear the number that you filed for with respect to the financing on Sugar Creek. Did you say \$200 million?

**Stephen Smith** - NiSource - EVP, CFO

That's \$120 million, Carrie.

**Carrie St. Louis** - Fidelity - Analyst

Okay, \$120 million.

**Stephen Smith** - NiSource - EVP, CFO

That's correct.

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**Carrie St. Louis** - *Fidelity - Analyst*

And then in prior quarterly discussion I think you said you had the opportunity to issue up to 350 at the operating companies. Is that still a good reasonable estimate?

**Stephen Smith** - *NiSource - EVP, CFO*

That's a good reasonable estimate, yes, we are still working on filings in some of our other jurisdictions here in the second quarter you will probably see some more activity in Columbia Gas of Virginia. We are also looking at various opportunities in Pennsylvania and we also have the opportunity at the pipeline as well if we decide we want to go that way.

**Carrie St. Louis** - *Fidelity - Analyst*

Okay. And do you think that with the up sized term loan and the robustness of the working capital forecast, do you think that you guys might be able to plug the funding gap strictly by using the Op Co financing vehicle?

**Stephen Smith** - *NiSource - EVP, CFO*

Yes. There's a high probability of that. I mean when we look at 2010, we think probably somewhere up to \$500 million would be what the need is in 2010. So we feel pretty comfortable with the subsidiary activities would be available to us here and also potentially in NiSource Finance Corp. issuance that will be able to deal with any liquidity needs that we would have in 2010 relative to the November 2010 maturity.

**Carrie St. Louis** - *Fidelity - Analyst*

Okay. Great. I had seen in your slide that you had mentioned \$100 million of open market purchases. Were those incremental open market debt purchases versus your prior release or is that inclusive of what you had done previously?

**Stephen Smith** - *NiSource - EVP, CFO*

That's inclusive of what we had done previously Carrie.

**Carrie St. Louis** - *Fidelity - Analyst*

Okay. And then lastly I think maybe sometime in this quarter I think it was I&MP and Indiana Michigan Power received its rate treatment in Indiana?

**Bob Skaggs** - *NiSource - President and CEO*

That's right. They had a settlement that was approved, Carrie, by the Commission.

**Carrie St. Louis** - *Fidelity - Analyst*

Yes, I think it was about a 1075 ROE.

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**Bob Skaggs** - NiSource - President and CEO

That was the neighborhood, yes.

**Carrie St. Louis** - Fidelity - Analyst

Okay. What did you, is there any parallels we can draw from that with respect to NIPSCO or how are you guys, how did you guys think about that?

**Bob Skaggs** - NiSource - President and CEO

We considered it a positive indicator on the Commissions approach to the rate cases and the settlement. Hard to draw a lot of point on parallels to our case. Again, first case in 20 years. Many, many more moving parts, we believe in our case. So it was instructive but hard to draw any parallels.

**Carrie St. Louis** - Fidelity - Analyst

Okay. But I guess the context that it was a settlement versus a fully litigated case was positive to the settlement for you guys, right?

**Bob Skaggs** - NiSource - President and CEO

Correct. And again we continue to regard Indiana as a thoughtful, enlightened regulatory environment we think that proved that out again in the I&M case.

**Carrie St. Louis** - Fidelity - Analyst

Great. Great. Okay. Thanks, guys.

**Bob Skaggs** - NiSource - President and CEO

Thanks, and thanks for your positive comments. We appreciate that.

**Operator**

Your next question comes from the line of Raymond Leung of Goldman Sachs.

**Raymond Leung** - Goldman Sachs - Analyst

Hi, guys. A couple of things. Can you talk a little bit more about what's going on with the economy and have things sort of leveled off, like we are hearing a lot of other utilities talk about March being sort of a point where we sort of stopped seeing the declines? And sort of remind us what's embedded in your guidance for sales growth?

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**Bob Skaggs** - NiSource - President and CEO

Yes. Just at the most micro level it's soft, it continues to be soft. Of course our service territory is that great industrial, manufacturing hard land and so it continues to be very soft. I don't believe I would consider March a turnaround month. If anything I would say that the rate of decline has slowed somewhat, but it's still just very, very soft. I would just use as evidence of that if you look at any indicator be it unemployment, production, inventories, again all those numbers are extremely soft for the bulk of our market.

And I cited in the prepared remarks, and the press release reflect, earnings release reflect the sorts of softness we've seen particularly in the large industrial, smaller industrial markets. Again, upwards of 20% off at NIPSCO electric, the gas large industrials 5% to 10% off depending on what you're looking at. What market you are looking at. Again, year over year.

In terms of our earnings outlook we provided in February and what we are reaffirming today again I think what we've seen is consistent with the market activity. In certain spots it's been a little bit worse than we anticipated but still manageable. Our team has done a good job of mitigating the impacts with the reduction of discounts, the use of demand charges, moving to new agreements and the like. So we are again consistent with the outlook.

I would give you one caveat that we again mentioned in the prepared remarks and I will continue to mention. We are going to watch the situation very carefully. Our outlook assumed a gradual recovery in large industrial, small industrial markets over the balance of the year, over the second half of the year. So that's a key sensitivity that we will continue to monitor and we will continue to bring you up to date on our views on that.

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**Raymond Leung** - Goldman Sachs - Analyst

Okay. Great. And with respect to the rate case, are there any key items of hurdle points that would maybe prohibit a settlement or is it, it's been so long since the rate case that this probably has to get fully litigated?

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**Bob Skaggs** - NiSource - President and CEO

Yes. One, it has been so long since the rates have been fully examined so that's a key consideration. But what we continue to believe and what we consistently said to you and others is that the cost allocation issue how rates are going to be, costs allocated and rates designed in this proceeding, are in many respects the central feature of the case. And because you have such strong industrial interests, strong residential commercial consumer interest, that issue is divisive, can be divisive and it can be we believe the single largest hurdle to resolving the case via settlement.

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**Raymond Leung** - Goldman Sachs - Analyst

Okay. And finally one last thing, with respect to the Sugar Creek financing that you talked about, the 120, what's the time line of that with the IURC? Is that the same as the rate case or is that on a different track?

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**Bob Skaggs** - NiSource - President and CEO

It's on a different track. It's a separate filing. The hearing is at the end of this month.

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**Stephen Smith** - NiSource - EVP, CFO

June 30th.

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**Bob Skaggs** - NiSource - President and CEO

I'm getting help here, June 30th is the here on that. And so traditionally or typically disposition of a financing application is handled a lot more expeditiously.

**Raymond Leung** - Goldman Sachs - Analyst

Okay. Typically what, about, hearings after a month, or would you say a month after that or so?

**Bob Skaggs** - NiSource - President and CEO

The team is suggesting it's going to be 60 days after the hearing.

**Raymond Leung** - Goldman Sachs - Analyst

Okay, thanks a lot guys. Good luck.

**Bob Skaggs** - NiSource - President and CEO

Thank you.

**Operator**

And your next question comes from the line of Jonathan Arnold, Merrill Lynch.

**Jonathan Arnold** - Merrill Lynch - Analyst

Well, I apologize, my follow up was asked already.

**Bob Skaggs** - NiSource - President and CEO

Okay, thanks.

**Stephen Smith** - NiSource - EVP, CFO

Thanks, Jonathan.

**Operator**

Thank you. There are no other questions at this time. At this time, I would like to hand the call to Bob Skaggs for closing remarks.

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**Bob Skaggs** - NiSource - President and CEO

Yes, again, thank you all for your participation, your support. Your recognition that the team over the past 90 days has made remarkable progress both on our business initiatives as well as improving and enhancing our liquidity position. So again, thank you for your interest and support and we will talk to you soon. Have a good weekend.

**Operator**

Thank you for your participation in today's conference. This concludes the presentation, and you may now disconnect. Have a great day.

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