

NISOURCE INC/DE

Form 10-K

February 22, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware 35-2108964

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

801 East 86th Avenue 46410
Merrillville, Indiana
(Address of principal executive offices) (Zip Code)

(877) 647-5990

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes

No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of the registrant's common stock, par value \$0.01 per share (the "Common Stock") held by non-affiliates was approximately \$8,497,589,485 based upon the June 30, 2016, closing price of \$26.52 on the New York Stock Exchange.

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

Documents Incorporated by Reference

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

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DEFINED TERMS

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

NiSource Subsidiaries, Affiliates and Former Subsidiaries

Capital Markets	NiSource Capital Markets, Inc.
CGORC	Columbia Gas of Ohio Receivables Corporation
Columbia	Columbia Energy Group
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Massachusetts	Bay State Gas Company
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Company	NiSource Inc. and its subsidiaries, unless otherwise indicated by the context
CPG	Columbia Pipeline Group, Inc.
CPPL	Columbia Pipeline Partners LP
CPRC	Columbia Gas of Pennsylvania Receivables Corporation
NARC	NIPSCO Accounts Receivable Corporation
NIPSCO	Northern Indiana Public Service Company
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corporation

Abbreviations

AFUDC	Allowance for funds used during construction
AOCI	Accumulated Other Comprehensive Income
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BNS	Bank of Nova Scotia
Board	Board of Directors
BTMU	The Bank of Tokyo-Mitsubishi UFJ, LTD.
CAA	Clean Air Act
CAP	Compliance Assurance Process
CCGT	Combined Cycle Gas Turbine
CCRs	Coal Combustion Residuals
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)
CO2	Carbon Dioxide
Columbia OpCo	CPG OpCo LP
CPP	Clean Power Plan
DPU	Department of Public Utilities
DSM	Demand Side Management
Dth	Dekatherm
ECR	Environmental Cost Recovery

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DEFINED TERMS

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

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DEFINED TERMS

RDAF Revenue decoupling adjustment factor

ROE Return on Equity

RTO Regional Transmission Organization

Separation The separation of NiSource's natural gas pipeline, midstream and storage business from NiSource's natural gas and electric utility business accomplished through the pro rata distribution by NiSource to holders of its outstanding common stock of all the outstanding shares of common stock of CPG. The separation was completed on July 1, 2015.

SEC Securities and Exchange Commission

Sugar Creek Sugar Creek electric generating plant

TDSIC Transmission, Distribution and Storage System Improvement Charge

TUAs Transmission Upgrade Agreements

VIE Variable Interest Entity

VSCC Virginia State Corporation Commission

Note regarding forward-looking statements

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

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

All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements. NiSource undertakes no obligation to, and expressly disclaims any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events or

changes to the future results over time or otherwise, except as required by law.

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ITEM 1. BUSINESS
NISOURCE INC.

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

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

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

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

Gas Distribution Operations

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

Electric Operations

NiSource generates, transmits and distributes electricity through its subsidiary NIPSCO to approximately 466,000 customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. NIPSCO owns and operates three coal-fired electric generating stations. The three operating facilities have a net capability of 2,540 mw. NIPSCO also owns and operates Sugar Creek, a CCGT plant with net capability of 535 mw, three gas-fired generating units located at NIPSCO's coal-fired electric generating stations with a net capability of 196 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 3,281 mw. NIPSCO's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,805 circuit miles. NIPSCO is interconnected with five neighboring electric utilities. During the year ended December 31, 2016, NIPSCO generated 66.4% and purchased 33.6% of its electric requirements. NIPSCO participates in the MISO transmission service and wholesale energy market. The MISO is a nonprofit organization created in compliance with FERC regulations to improve the flow of electricity in the regional marketplace and to enhance electric reliability. Additionally, the MISO is responsible for managing energy markets, transmission constraints and the day-ahead, real-time, FTR and ancillary markets. NIPSCO transferred functional control of its electric transmission assets to the MISO, and transmission service for NIPSCO occurs under the MISO Open Access Transmission Tariff.

Business Strategy

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

Competition and Changes in the Regulatory Environment

The regulatory frameworks applicable to NiSource's operations, at both the state and federal levels, continue to evolve. These changes have had and will continue to have an impact on NiSource's operations, structure and profitability.

Management continually seeks new ways to be more competitive and profitable in this environment.

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

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ITEM 1. BUSINESS

NISOURCE INC.

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

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

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

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

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

Financing Subsidiary

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

Seasonality

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

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NISOURCE INC.

Other Relevant Business Information

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

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

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

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

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ITEM 1A. RISK FACTORS
NISOURCE INC.

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

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

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

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

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

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

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

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

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

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

operations and growth prospects.

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ITEM 1A. RISK FACTORS
NISOURCE INC.

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

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

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

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

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

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

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

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

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

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

harm NiSource's ability to remain competitive in the marketplace for its products, services and processes.

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ITEM 1A. RISK FACTORS
NISOURCE INC.

NiSource is exposed to significant reputational risks, which make it vulnerable to a loss of cost recovery, increased litigation and negative public perception.

As a utility company, NiSource is subject to adverse publicity focused on the reliability of our services and the speed with which NiSource is able to respond effectively to electric outages, natural gas leaks and similar interruptions caused by storm damage or other unanticipated events, as well as our own or third parties' actions or failure to act. If customers, legislators, or regulators have or develop a negative opinion of NiSource, this could result in less favorable legislative and regulatory outcomes or increased regulatory oversight, increased litigation and negative public perception. The imposition of any of the foregoing could have a material adverse effect on the business, results of operations, cash flow and financial condition of NiSource.

NiSource's businesses are regulated under numerous environmental laws. The cost of compliance with these laws, and changes to or additions to, or reinterpretations of the laws, could be significant. Liability from the failure to comply with existing or changed laws could have a material adverse effect on the business, results of operations, cash flows, and the financial condition of NiSource.

NiSource's businesses are subject to extensive federal, state and local environmental laws and rules that regulate, among other things, air emissions, water usage and discharges, and waste products such as coal combustion residuals. Compliance with these legal obligations requires NiSource to make expenditures for installation of pollution control equipment, remediation, environmental monitoring, emissions fees, and permits at many of NiSource's facilities. These expenditures are significant, and NiSource expects that they will continue to be significant in the future. Furthermore, if NiSource fails to comply with environmental laws and regulations or is found to have caused damage to the environment or persons, even if caused by factors beyond NiSource's control, that failure or harm may result in the assessment of civil or criminal penalties and damages against NiSource and injunctions to remedy the failure or harm. Existing environmental laws and regulations may be revised and new laws and regulations seeking to increase environmental regulation of the energy industry may be adopted or become applicable to NiSource. Revised or additional laws and regulations may result in significant additional expense and operating restrictions on NiSource's facilities or increased compliance costs, which may not be fully recoverable from customers through regulated rates and could, therefore, impact NiSource's financial position, financial results, and cash flow. Moreover, such costs could materially affect the continued economic viability of one or more of NiSource's facilities.

An area of significant uncertainty and risk are the laws concerning emission of GHG. Because NiSource operates fossil fuel facilities, emissions of GHGs are an expected and unavoidable aspect of the business. While NiSource continues to reduce GHG emissions through efficiency programs, leak detection, and other programs, GHG emissions cannot be eliminated. Revised or additional future GHG legislation and/or regulation could materially impact NiSource's financial position, financial results, and cash flows.

Even in instances where legal and regulatory requirements are already known or anticipated, the original cost estimates for environmental capital projects, remediation of past harm, or the costs of operating pollution reduction strategies or equipment can differ materially from the amount ultimately expended. The actual future expenditures depend on many factors, including the nature and extent of impact, the method of cleanup, the cost of raw materials, contractor costs, and the availability of cost recovery. Changes in costs and the ability to recover under regulatory mechanisms could affect NiSource's financial position, financial results and cash flows.

A significant portion of the gas and electricity NiSource sells is used by residential and commercial customers for heating and air conditioning. Accordingly, fluctuations in weather, gas and electricity commodity costs and economic conditions impact demand of our customers and our operating results.

Energy sales are sensitive to variations in weather. Forecasts of energy sales are based on normal weather, which represents a long-term historical average. Significant variations from normal weather could have, and have had, a material impact on energy sales. Additionally, residential usage, and to some degree commercial usage, is sensitive to fluctuations in commodity costs for gas and electricity, whereby usage declines with increased costs, thus affecting NiSource's financial results. Lastly, residential and commercial customers' usage is sensitive to economic conditions

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

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

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

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ITEM 1A. RISK FACTORS
NISOURCE INC.

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

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

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

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

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

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

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

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

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

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

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

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ITEM 1A. RISK FACTORS
NISOURCE INC.

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

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

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

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

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

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

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

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

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

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

NiSource is reliant on technology to run its businesses, which are dependent upon financial and operational computer systems to process critical information necessary to conduct various elements of its business, including the generation,

transmission and distribution of electricity, operation of its gas pipeline facilities and the recording and reporting of commercial and financial transactions to regulators, investors and other stakeholders. Any failure of NiSource's computer systems, or those of its customers, suppliers or others with whom it does business, could materially disrupt NiSource's ability to operate its business and could result in a financial loss and possibly do harm to NiSource's reputation.

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ITEM 1A. RISK FACTORS
NISOURCE INC.

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

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

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

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

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

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

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

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

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

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

or pay dividends.

The Separation may result in significant tax liabilities.

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

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ITEM 1B. UNRESOLVED STAFF COMMENTS
NISOURCE INC.

None.

ITEM 2. PROPERTIES

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

Gas Distribution Operations

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

Electric Operations

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

Corporate and Other Operations

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

Character of Ownership

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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NISOURCE INC.

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

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

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Assistant Controller, FirstEnergy Corp. (diversified energy corporation) from November 2012 to March 2014.

Vice President, Controller and Chief Accounting Officer, Maxum Petroleum Inc. (energy logistics company) from August 2012 to October 2012.

Vice President, Controller and Chief Accounting Officer of DPL Inc. and its subsidiary, The Dayton Power and Light Company (electric utility company) from May 2009 to June 2012.

Teresa M. Smith 53 Vice President of Human Resources for NiSource Corporate Services Company since January 2010.

Suzanne K. Surface 52 Vice President, Audit of NiSource since July 1, 2015.

Vice President of Regulatory Strategy and Support of NiSource from July 2009 to June 2015.

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PART II

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

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

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

⁽¹⁾ On July 1, 2015, NiSource completed the Separation through a special pro rata stock dividend, distributing one share of CPG common stock for every one share of NiSource common stock held by any NiSource stockholder on June 19, 2015, the record date. On July 1, 2015, the last trading day before the Separation became effective, the closing price of our common stock trading "regular way" (with an entitlement to CPG shares distributed in the Separation) was \$45.45. On July 2, 2015, the first day of trading after the Separation, the opening price of our common stock was \$17.61 per share.

⁽²⁾ On July 2, 2015, following the Separation, NiSource's Board declared a dividend of \$0.155 per share of common stock and CPG's Board declared a dividend of \$0.125 per share of CPG common stock. The amount of dividends paid by NiSource in the third and fourth quarter of 2015 is that of NiSource only, and does not include the dividend declared by CPG during the same period.

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

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

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

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PART II

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

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

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

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

Table of ContentsITEM 6. SELECTED FINANCIAL DATA
NISOURCE INC.

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

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

On July 1, 2015, NiSource completed the Separation. The results of operations of the former Columbia Pipeline Group Operations segment have been classified as discontinued operations for all periods presented. See Note 3, "Discontinued Operations," in the Notes to the Consolidated Financial Statements for further information.

Prior to the Separation, CPG closed its placement of \$2,750.0 million in aggregate principal amount of its senior notes. Using the proceeds from this offering, CPG made cash payments to NiSource representing the settlement of inter-company borrowings and the payment of a one-time special dividend. In May 2015, using proceeds from the cash payments from CPG, NiSource Finance settled its two bank term loans in the amount of \$1,075.0 million and executed a tender offer for \$750.0 million consisting of a combination of its 5.25% notes due 2017, 6.40% notes due 2018 and 4.45% notes due 2021. In conjunction with the debt retired, NiSource Finance recorded a \$97.2 million loss on early extinguishment of long-term debt, primarily attributable to early redemption premiums.

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NISOURCE INC.

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CONSOLIDATED REVIEW

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

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

Executive Summary

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

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

Summary of Consolidated Financial Results

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

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

property taxes and lower environmental expenses.

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

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NISOURCE INC.

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

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

Regulatory Developments

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

Gas Distribution Operations.

On April 20, 2016, the PUCO approved Columbia of Ohio's annual IRP rider. The rider provides for continued support of Columbia of Ohio's well-established pipeline replacement program. This order authorized approximately \$21 million in increased annual revenue related to 2015 infrastructure investments of approximately \$185 million.

On September 28, 2016, Columbia of Virginia implemented updated interim base rates subject to refund. The new rates are part of its base rate case which remains pending before the VSCC. On January 17, 2017, Columbia of Virginia presented to the VSCC a stipulation and proposed recommendation representing a settlement by all parties to the proceeding that included a base revenue increase of \$28.5 million. On February 8, 2017, the Hearing Examiner in the case filed a report recommending approval of the stipulation and proposed recommendation. A VSCC decision is expected in the first half of 2017.

On October 27, 2016, the Pennsylvania PUC approved a joint settlement agreement in Columbia of Pennsylvania's base rate case. The settlement includes an annual revenue increase of \$35.0 million and incentives to expand gas service to commercial customers. New rates went into effect on December 19, 2016.

On October 20, 2016, a settlement was reached with the Kentucky PSC on Columbia of Kentucky's base rate case. The settlement includes a revenue increase of \$13.4 million and will allow for continued system modernization and pipeline safety investments to improve overall system safety and reliability. On December 22, 2016, the Kentucky PSC issued an order modifying the stipulation resulting in an annual revenue increase of \$13.1 million. Columbia of Kentucky accepted this modification, and rates went into effect on December 27, 2016.

NIPSCO continues to execute on its seven-year, \$824 million gas infrastructure modernization program to further improve system reliability and safety. In August, NIPSCO filed its semi-annual tracker update covering \$67 million of investments made in the first half of 2016. On December 28, 2016, the IURC issued an order approving the tracker update. New rates became effective January 1, 2017.

Electric Operations.

New rates became effective October 1, 2016 under NIPSCO's electric base rate case settlement, which was approved by the IURC on July 18, 2016. The settlement provides a platform for NIPSCO's continued electric infrastructure investments and service improvements for customers, and increases NIPSCO's annual base rate revenues by \$72.5 million.

NIPSCO is focused on executing its seven-year electric infrastructure modernization program, which includes enhancements to electric transmission and distribution infrastructure designed to improve system safety and

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

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NISOURCE INC.

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

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

Results of Operations

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

Operating Income

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

Other Income (Deductions)

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

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

Income Taxes

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

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

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

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

NISOURCE INC.

Gas Distribution Operations

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

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

NISOURCE INC.

Gas Distribution Operations (continued)

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

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

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

2016 vs. 2015 Operating Income

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

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

• New rates from base-rate proceedings and infrastructure replacement programs of \$95.1 million.

• The effects of increased customer count of \$9.6 million.

Partially offset by:

• Lower regulatory, tax and depreciation trackers, which are offset in expense, of \$52.8 million.

• The effects of warmer weather of \$12.4 million.

• Decreased commercial, industrial and residential usage of \$8.8 million.

• Lower forfeited discount and late payment collections of \$3.9 million.

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

• Increased employee and administrative expenses of \$26.1 million.

• Higher depreciation of \$19.8 million due to increased capital expenditures placed in service.

• Increased outside service costs of \$13.4 million.

• Higher rental expense of \$2.6 million.

Partially offset by:

• Lower regulatory, tax and depreciation trackers, which are offset in net revenues, of \$52.8 million.

• Decreased gross receipts taxes of \$2.8 million.

2015 vs. 2014 Operating Income

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

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

• New rates from base-rate proceedings and infrastructure replacement programs of \$88.7 million.

• Increased rent billed to affiliates, offset in expense, of \$8.4 million.

• Higher regulatory and tax trackers, which are offset in expense, of \$7.5 million.

Partially offset by:

• The effects of warmer weather of \$30.6 million.

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

Increased employee and administrative expenses of \$16.3 million.

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

NISOURCE INC.

Gas Distribution Operations (continued)

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

Weather

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

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

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

Throughput

Total volumes sold and transported for the year ended December 31, 2016 were 971.7 MMDth, compared to 988.7 MMDth for 2015. This decrease is primarily attributable to warmer weather experienced in 2016 compared to 2015. Total volumes sold and transported for the year ended December 31, 2015 were 988.7 MMDth, compared to 1,042.5 MMDth for 2014. This decrease is primarily attributable to warmer weather and lower off-system sales opportunities experienced in 2015 compared to 2014.

Economic Conditions

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

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

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

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

NISOURCE INC.
Electric Operations

Year Ended December 31, (in millions)	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Net Revenues					
Sales revenues	\$1,661.6	\$1,574.4	\$1,673.4	\$87.2	\$(99.0)
Less: Cost of sales (excluding depreciation and amortization)	495.0	488.4	609.7	6.6	(121.3)
Net Revenues	1,166.6	1,086.0	1,063.7	80.6	22.3
Operating Expenses					
Operation and maintenance	538.8	490.1	474.9	48.7	15.2
Depreciation and amortization	274.5	267.7	244.4	6.8	23.3
(Gain) Loss on sale of assets, net	—	—	(0.1)	—	0.1
Other taxes	61.9	63.8	61.8	(1.9)	2.0
Total Operating Expenses	875.2	821.6	781.0	53.6	40.6
Operating Income	\$291.4	\$264.4	\$282.7	\$27.0	\$(18.3)
Revenues					
Residential	\$457.4	\$427.1	\$438.2	\$30.3	