REOFFERING CIRCULAR *RATINGS: See "Ratings" herein*
NOT A NEW ISSUE — BOOK-ENTRY ONLY

$55,000,000

Jasper County, Indiana

POLLUTION CONTROL REVENUE REFUNDING BONDS
(NORTHERN INDIANA PUBLIC SERVICE COMPANY PROJECT) SERIES 2003

Interest Rate Accrual Date: August 25, 2008 ***Due: July 1, 2017***

The Bonds are limited obligations of Jasper County, Indiana (the "Issuer") and are payable solely from revenues derived by the Issuer pursuant to a Financing Agreement dated as of December 1, 2003 by and between Jasper County, Indiana and

Northern Indiana Public Service Company

(the "Company"). Payment of the principal of and interest on the Bonds when due is insured, to the extent described herein, by a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") issued by Ambac Assurance Corporation

Ambac

(the "Bond Insurer") as more fully described under "BOND INSURANCE."

The Bonds were issued pursuant to an Indenture of Trust dated as of December 1, 2003, as amended by a First Supplemental Indenture dated as of May 1, 2008 and a Second Supplemental Indenture dated as of August 1, 2008, between the Issuer and U.S. Bank National Association (successor to National City Bank of Indiana), as Trustee.

The Bonds, are in denominations of $5,000 or whole multiples thereof. The Bonds will bear interest at the fixed rate of 5.70% per year from August 25, 2008 to July 1, 2017, payable each January 1 and July 1, commencing January 1, 2009.

The Bonds are not subject to optional redemption.

The Bonds are subject to extraordinary optional redemption and to mandatory redemption prior to maturity upon the terms, in the manner and at the times described herein.

The Bonds are issued only as fully registered bonds registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which acts as securities depository pursuant to a book-entry only system described herein. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds. Interest on, principal of, and premium, if any, on the Bonds are payable by the Trustee to Cede & Co., as nominee of DTC. DTC will in turn make payments to its direct and indirect participants, who will in turn make payments to the Beneficial Owners of the Bonds.

The opinion of Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel, delivered upon the original issuance of the Bonds on December 18, 2003 stated that on the date of the original issue of the Bonds, under then-existing law (i) interest on the Bonds was not includable in gross income of the owners thereof for federal income tax purposes, except for interest on any Bond for any period during which such Bond is owned by a person who is a substantial user of the Project or any person considered to be related to such person (within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended) and (ii) interest on the Bonds was not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Such interest was taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. The opinion of Bond Counsel also stated that on the date of the original issue of the Bonds, under the laws of the State of Indiana, as then enacted and construed, interest on the Bonds was exempt from the Gross Income Tax and the Adjusted Gross Income Tax imposed by the State of Indiana, but is subject to the Financial Institution Tax. See "TAX EXEMPTION" herein for a more complete discussion.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Reoffering Circular to obtain information essential to making an informed investment decision.

PRICE: 100%

The Bonds are reoffered when, as and if received by the Remarketing Agent upon conversion from Weekly Rate Bonds on August 25, 2008 and, subject to the approval of such conversion by Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Remarketing Agent by Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania.

MORGAN STANLEY

Dated: August 20, 2008

Morgan Stanley & Co. Incorporated has provided the following sentence for inclusion in this Reoffering Circular. Morgan Stanley & Co. Incorporated has reviewed the information in this Reoffering Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but it does not guarantee the accuracy or completeness of such information. This Reoffering Circular is submitted in connection with the sale of the securities referenced herein, and may not be reproduced or be used, in whole or in part, for any other purposes. The delivery of this Reoffering Circular at any time does not imply that the information herein is correct as of any time subsequent to its date.

No dealer, salesman or any other person has been authorized by Northern Indiana Public Service Company, the Issuer, U.S. Bank National Association, or Morgan Stanley & Co. Incorporated to give any information or to make any representations other than as contained in this Reoffering Circular in connection with the offering described herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Reoffering Circular does not constitute an offer of any securities, other than those described on the cover page, or an offer to sell or a solicitation of an offer to buy in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The Issuer has not participated in the preparation of this Reoffering Circular and, except for the information appearing herein under the caption "THE ISSUER," makes no representation as to its adequacy or accuracy.

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REOFFERING CIRCULAR

$55,000,000
Jasper County, Indiana
Pollution Control Revenue Refunding Bonds
(Northern Indiana Public Service Company Project) Series 2003
Due July 1, 2017

INTRODUCTION

This Reoffering Circular provides information concerning the reoffering of $55,000,000 aggregate principal amount of Pollution Control Revenue Refunding Bonds (Northern Indiana Public Service Company Project) Series 2003 (the "Bonds") of Jasper County, Indiana (the "Issuer"). The Bonds were issued pursuant to the provisions of the Act (as defined below) and an Indenture of Trust dated as of December 1, 2003, as amended by a First Supplemental Indenture dated as of May 1, 2008 and a Second Supplemental Indenture dated as of August 1, 2008 (as amended, the "Indenture"), between the Issuer and U.S. Bank National Association (successor to National City Bank of Indiana), as trustee (the "Trustee") and as paying agent (the "Paying Agent"). The Bonds are to be converted to bear interest at the fixed rate per year to maturity shown on the cover hereof commencing August 25, 2008.

The proceeds of the Bonds were loaned to Northern Indiana Public Service Company, an Indiana public utility (the "Company"), pursuant to a Financing Agreement dated as of December 1, 2003 (the "Financing Agreement"), and used to refund the Issuer's $55,000,000 aggregate principal amount of Jasper County, Indiana Collateralized Pollution Control Refunding Revenue Bonds (Northern Indiana Public Service Company Project) Series 1991 (the "Prior Bonds"). The Prior Bonds were issued to refund bonds originally issued in 1981 to finance a portion of the cost of acquisition, construction and installation of certain air and water pollution control, sewage and solid waste disposal facilities at Units 17 and 18 of the Rollin M. Schahfer Generating Station in Jasper County, Indiana (the "Plant"). The facilities refinanced with the proceeds of the Bonds are referred to as the "Project." The Bonds are secured by an assignment to the Trustee of amounts payable under the Financing Agreement and are not secured by the Project or any other physical properties of the Company.

THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE REVENUES DESCRIBED IN THE INDENTURE. NEITHER THE ISSUER, THE STATE OF INDIANA NOR ANY POLITICAL SUBDIVISION THEREOF SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PURCHASE PRICE FOR OR INTEREST ON THE BONDS EXCEPT FROM SAID REVENUES, AND NEITHER THE FAITH AND CREDIT NOR ANY TAXING POWERS OF THE ISSUER, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PURCHASE PRICE FOR OR INTEREST ON THE BONDS. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS IS PAYABLE SOLELY FROM REVENUES DERIVED PURSUANT TO THE FINANCING AGREEMENT, AND FROM OTHER MONEYS PLEDGED UNDER THE INDENTURE. THE BONDS ARE NOT AN INDEBTEDNESS OR LIABILITY OF THE ISSUER, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION OF THE STATE OF INDIANA WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF INDIANA.

As more fully described under "BOND INSURANCE," the payment of the principal of and interest on the Bonds is insured pursuant to a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") issued upon the original issuance of the Bonds in 2003 by Ambac Assurance Corporation (the "Bond Insurer"). Information concerning the Bond Insurer and the Financial Guaranty

Insurance Policy is contained under "BOND INSURANCE" herein and a specimen of the Financial Guaranty Insurance Policy is set forth in Appendix C to this Reoffering Circular.

Brief descriptions and summaries of the Bonds, the Financing Agreement and the Indenture follow in this Reoffering Circular. The descriptions herein of the Financing Agreement and the Indenture, are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents, copies of which are available at the principal corporate trust office of the Trustee in Indianapolis, Indiana. Appendix A and Appendix B to this Reoffering Circular have been furnished by the Company and contain financial statements and other information concerning the Company and its business.

Capitalized terms used herein and not otherwise defined herein shall have the meanings as set forth in the Indenture and the Financing Agreement.

THE ISSUER

The Issuer is a political subdivision of the State of Indiana and is governed by a three member Board of Commissioners and a seven member County Council. The Issuer was authorized to issue the Bonds under the provisions of Indiana Code Title 36, Article 7, Chapters 11.9 and 12, as supplemented and amended, and Indiana Code Title 5, Article 1, Chapter 5, as supplemented and amended (collectively, the "Act").

USE OF PROCEEDS

The proceeds of the Bonds were applied to the redemption of the Prior Bonds within 90 days of the issuance of the Bonds. Costs of issuance of the Bonds were paid by the Company.

THE BONDS

The following is a summary of certain provisions of the Bonds. Capitalized terms used herein and not otherwise defined are used as defined in the Indenture.

General

The Bonds were issued and are in fully registered form in the aggregate amount set forth on the cover page hereof. The Bonds are dated December 18, 2003, and will mature on July 1, 2017. The Bonds will bear interest at the fixed rate per year to maturity set forth on the cover page hereof commencing August 25, 2008, payable January 1 and July 1 commencing January 1, 2009. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

The Bonds are only in denominations of $5,000 or any integral multiple thereof (an "Authorized Denomination"). Beneficial interests in the Bonds will initially be issued pursuant to a Book-Entry System (the "Book-Entry System") maintained by The Depository Trust Company, New York, New York ("DTC"), as described below under the caption "- Book-Entry System." Under the Indenture, the Trustee may appoint a successor securities depository to DTC that is acceptable to the Issuer. (DTC, together with any such successor securities depository, is hereinafter referred to as the "Securities Depository"). The holders of the Bonds have no right to a Book-Entry System for the Bonds.

Payments of interest on the Bonds are payable when due to the Securities Depository as the Registered Owner.

The Regular Record Date for the Bonds is the close of business on the 15th day (whether or not a Business Day) of the calendar month immediately preceding such Interest Payment Date.

Optional Redemption

The Bonds are not subject to optional redemption.

Extraordinary Optional Redemption

The Bonds are subject to extraordinary optional redemption in whole, at the direction of the Company, at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date, at any time after the occurrence of any of the following:

(a) Damage or destruction to the Plant or the Project to such extent that in the opinion of the Company's board of directors (expressed in a resolution filed with the Issuer and the Trustee): (1) the Plant or the Project, as the case may be, cannot be reasonably repaired, rebuilt or restored within a period of six months to its condition immediately preceding such damage or destruction, or (2) the Company is thereby prevented from carrying on its normal operations at the Plant for a period of six months or longer.

(b) Loss of title to or use of a substantial part of the Plant or the Project as a result of the exercise of the power of eminent domain which, in the opinion of the Company's board of directors (expressed in a resolution filed with the Issuer and the Trustee), results or is likely to result in the Company being thereby prevented from carrying on its normal operations therein for a period of six months.

(c) A change in the Indiana Constitution or of the United States of America or legislative or administrative action (whether local, state or federal) or a final decree, judgment or order of any court or administrative body (whether local, state or federal) which causes the Financing Agreement to become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed therein, or unreasonable burdens or excessive liabilities to be imposed upon the Issuer or the Company with respect to the Plant or the Project or the operation thereof.

(d) Any event occurs which, in the opinion of the Company's board of directors (expressed in a resolution filed with the Issuer and the Trustee), renders the Project or the Plant so uneconomical that it is abandoned.

Any such redemption shall be on any date within 90 days from the time the Company files the resolution (if required, as described above) and directs that the Bonds are to be redeemed, which direction must be given, if at all, within 180 days following the occurrence of one of the events listed above.

In the event any of the events described above affects a portion of the Project or the facilities at which a portion of the Project is located, the Bonds shall be subject to extraordinary optional redemption in part to the extent of the Bond proceeds expended with respect to such portion of the Project or facilities.

Special Mandatory Redemption

The Bonds are also subject to special mandatory redemption prior to maturity not later than 180 days after the occurrence of a Determination of Taxability (as hereinafter defined) or a Determination by

Bond Counsel (as hereinafter defined), at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date. As used herein, a "Determination of Taxability" means a final determination by the Internal Revenue Service or by a court of competent jurisdiction in the United States that, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Financing Agreement or as the result of the inaccuracy of any representation or agreement made by the Company under the Financing Agreement, the interest payable on any Bond is includable in the gross income of the owner of such Bond, other than an owner who is a substantial user or related person within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954 (the "1954 Code"), which final determination follows proceedings of which the Company has been given written notice and in which the Company, at its sole expense and to the extent deemed sufficient by the Company, has been given an opportunity to participate, either directly or in the name of the owner of such Bond. Any such redemption shall be in whole, unless the Trustee receives an opinion of Bond Counsel that the redemption of a portion of the outstanding Bonds would have the result that the interest payable on the Bonds remaining outstanding after such redemption would not be so includable in the gross income of the owners, in which case only such portion need be redeemed. As used herein, a "Determination by Bond Counsel" means a written opinion of Bond Counsel requested by the Company to the effect that the interest paid or to be paid on any Bond (except to a "substantial user" of the Project or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code or Section 147(h) of the Internal Revenue Code of 1986 (the "Code")) more likely than not is or was includable in the gross income of the Bond's owner of federal income tax purposes.

Selection of Bonds for Redemption; Notice of Redemption

In the event fewer than all of the Bonds are subject to extraordinary optional redemption or special mandatory redemption, Bonds shall be selected for redemption as follows: (i) first by lot, from Bonds subject to redemption (other than Bonds owned by the Company); and (ii) second from Bonds subject to redemption owned by the Company. Notice of any redemption identifying the Bonds to be redeemed will be given by the Paying Agent by first class mail to the registered owners of all Bonds to be redeemed not less than 30 and not more than 60 days prior to the redemption date (or, in the event of a Special Mandatory Redemption, not less than 10 days prior to the redemption date). In addition, notice will be sent by overnight express to at least two of the national information services that disseminate redemption notices. Neither failure to give notice by mail nor defect in any notice so mailed in respect of any Bond will affect the validity of any proceedings for redemption of any other Bonds. No further interest will accrue on the principal of any Bonds called for redemption after the redemption date if payment of the redemption price thereof has been duly provided for, and the registered owners of such Bonds will have no rights with respect to such Bonds nor will they be entitled to the benefits of the Indenture except to receive payment of the redemption price thereof and unpaid interest accrued to the date fixed for redemption.

Book-Entry System

The following information in this section concerning DTC and DTC's book-entry system has been obtained from sources (including DTC) that the Company believes to be reliable, but none of the Company, the Issuer, the or the Remarketing Agent takes any responsibility for the accuracy of such information.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other nominee as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued in the aggregate principal amount of the Bonds and will be deposited with DTC. So long as the nominee of DTC is the registered owner of the

Bonds, such nominee will be considered the sole owner or holder of the Bonds for all purposes under the Indenture and any applicable laws. Except as otherwise provided below, a Beneficial Owner of interests in the Bonds will not be entitled to have the Bonds registered in such owner's name, will not be entitled to receive a physical certificate representing such ownership interest and will not be considered an owner or holder of the Bonds under the Indenture.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the "Exchange Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents.

Redemption notices will be sent by the Trustee to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date with respect to any request for consent or vote. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon receipt of funds and corresponding detail information from the Issuer or the Trustee, on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer, or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners or holders of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture. Beneficial Owners will not be, and will not be considered by the Issuer, or the Trustee to be, and will not have any rights as, holders of Bonds under the Indenture.

The Issuer, the Company, and the Remarketing Agent cannot and do not give any assurances that DTC will distribute payments of debt service on the Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Reoffering Circular.

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Registrar and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

In the event that the book-entry-only system is discontinued, the following provisions will apply: So long as any of the Bonds remain outstanding, the Trustee will maintain books for the registration, transfer and exchange of the Bonds and Bonds will be transferred only upon the books for the registration and transfer kept by the Trustee. Upon surrender for transfer or exchange of any Bond at such office, with a written instrument of transfer or authorization for exchange in form and with guarantee of signature satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, the Issuer will execute and the Trustee will authenticate and deliver an equal aggregate principal amount of Bonds of any authorized denominations, subject to such reasonable regulations as the Trustee may prescribe and upon payment sufficient to reimburse it for any tax, fee or other governmental charge required to be paid in connection with such transfer or exchange. All Bonds surrendered for transfer or exchange will be canceled by the Trustee. The Trustee will not be required to transfer or exchange Bonds subject to redemption during the fifteen days preceding the date of mailing of notice of redemption of such Bonds, or any Bond after such Bond has been called for redemption.

THE ISSUER, THE COMPANY, THE TRUSTEE, THE PAYING AGENT, THE BOND INSURER AND THE REMARKETING AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO ITS PARTICIPANTS OR THAT DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO BENEFICIAL OWNERS OF THE BONDS (I) PAYMENTS OF THE PRINCIPAL AND PURCHASE PRICE OF, OR INTEREST OR PREMIUM, IF ANY, ON THE BONDS, OR (II) CONFIRMATION OF OWNERSHIP INTERESTS IN THE BONDS, OR (III) REDEMPTION OR OTHER NOTICES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS REOFFERING CIRCULAR. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE COMMISSION AND CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH ITS PARTICIPANTS ARE ON FILE WITH DTC.

Neither the Issuer, the Company, the Remarketing Agent, the Trustee, the Bond Insurer nor the Paying Agent will have any responsibility or obligation to DTC, Direct Participants, Indirect Participants or the Beneficial Owners of the Bonds with respect to (a) the accuracy of any records maintained by DTC, any Direct Participant or any Indirect Participant; (b) the payment by DTC to any Direct Participant or any Indirect Participant of any amount due to any Beneficial Owner in respect of the principal amount or purchase price of, or premium, if any, or interest on, any Bonds; (c) the delivery of any notice by DTC, any Direct Participant or any Indirect Participant; (d) the selection of Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (e) any other action taken or omitted to be taken by DTC or any Direct Participant or Indirect Participant.

BOND INSURANCE

The following information has been furnished by the Bond Insurer for use in this Reoffering Circular. The Issuer, the Company and the Remarketing Agent make no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation (the "Bond Insurer" or "Ambac Assurance") issued a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds that was effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance extends for the term of the Bonds and cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy insures payment only on stated maturity dates and on Special Mandatory Redemption, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption (other than Special Mandatory Redemption) and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than Special Mandatory Redemption) or as a result of any other advancement of maturity;

2. payment of any redemption, prepayment or acceleration premium; and

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond or right to payment of principal or interest on such Bonds and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $12,438,000,000 (unaudited) and statutory capital of approximately $6,700,000,000 (unaudited) as of June 30, 2008. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Ambac Assurance has been assigned the following financial strength ratings by the following rating agencies: Aa3, with negative outlook, by Moody's Investors Service, Inc. and AA, with negative outlook, by Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Reoffering Circular other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE" and Appendix C.

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. ("AFG"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including AFG. These reports, proxy statements and other information can also be read at Ambac Assurance's internet website at www.ambac.com and at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared on the basis of accounting practices prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance are available without charge from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by AFG with the SEC (File No. 1-10777) are incorporated by reference in this Reoffering Circular:

1. AFG's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed on February 29, 2008;

2. AFG's Current Report on Form 8-K dated and filed on March 7, 2008;

3. AFG's Current Reports on Form 8-K dated and filed on March 12, 2008;

4. AFG's Current Report on Form 8-K dated and filed on April 23, 2008;

5. AFG's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2008 and filed on May 12, 2008;

6. AFG's Current Report on Form 8-K dated and filed on May 9, 2008;

7. AFG's Current Report on Form 8-K dated and filed on May 28, 2008;

8. AFG's Current Report on Form 8-K dated and filed on June 4, 2008;

9. AGF's Current Report on Form 8-K dated and filed on June 5, 2008;

10. AFG's Current Report on Form 8-K dated and filed on June 19, 2008;

11. AFG's Current Report on Form 8-K dated and filed on June 20, 2008;

12. AFG's Current Report on Form 8-K dated June 26, 2008 and filed on June 27, 2008;

13. AFG's Current Report on Form 8-K dated July 7, 2008 and filed on July 8, 2008; and

14. AFG's Current Report on Form 10-Q for the fiscal quarterly period ended June 30, 2008 and filed on August 11, 2008.

Ambac Assurance's consolidated financial statements and all other information relating to Ambac Assurance and subsidiaries included in AFG's periodic reports filed with the SEC subsequent to the date of this Reoffering Circular and prior to the date of the conversion of the Bonds shall, to the extent filed (rather than furnished pursuant to Item 9 of Form 8-K), be deemed to be incorporated by reference into this Reoffering Circular and to be a part hereof from the respective dates of filing of such reports.

Any statement contained in a document incorporated in this Reoffering Circular by reference shall be modified or superseded for the purposes of this Reoffering Circular to the extent that a statement contained in a subsequently filed document incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Circular.

Copies of all information regarding Ambac Assurance that is incorporated by reference in this Reoffering Circular are available for inspection in the same manner as described above in "Available Information".

All documents subsequently filed by AFG pursuant to the requirements of the Exchange Act after the date of this Reoffering Circular will be available for inspection in the same manner as described above in "Available Information".

RISK FACTORS RELATED TO BOND INSURANCE

In addition to the matters set forth below relating to the Financial Guaranty Insurance Policy, prospective purchasers of the Bonds should analyze carefully all the information contained in this Reoffering Circular, including the Appendices hereto, and additional information in the form of the complete documents summarized herein and in the Appendices hereto, copies of which are available as described herein.

Recent Developments Affecting Bond Insurers

When the Bonds were originally issued and delivered on December 18, 2003, payment of the principal of and interest on the Bonds when due was insured by the Financial Guaranty Insurance Policy issued by Ambac Assurance which remains in effect. However, recent developments which have been the subject of substantial discussion in the financial press and which affect the bond insurance business, including that of the Bond Insurer, have had an adverse effect on the financial condition of a number of bond insurers. These developments have led to the deterioration of the credit rating of the Bond Insurer as reflected by the major credit rating agencies. No assurance is given that the Bond Insurer will maintain its current ratings and any changes in such rating may affect the value of the Bonds.

No review of the business or affairs of the Bond Insurer has been conducted in connection with the remarketing of the Bonds.

PROSPECTIVE INVESTORS SHOULD BASE THEIR INVESTMENT DECISIONS ON THE COMPANY'S ABILITY TO MAKE PAYMENTS FOR THE PRINCIPAL OF AND INTEREST ON THE BONDS AND SHOULD NOT RELY ON THE FINANCIAL GUARANTY INSURANCE POLICY IN DECIDING WHETHER TO INVEST IN THE BONDS. THE POLICY DOES GUARANTY THE BONDS.

Liquidity Risk

No assurance can be given that an active trading market for the Bonds will develop, or, if one develops, that it will be maintained. In addition, further adverse development affecting the Bond Insurer or other bond insurers, or credit markets generally, could cause trading prices to decline in any market that develops for the Bonds, even if those developments do not affect the Company's financial condition or its ability to pay debt service on the Bonds. Consequently, should such further adverse developments arise in the future, Bondholders who wish to sell their Bonds in the secondary market may not be able to do so on the terms or at the times they wish and consequently may lose a substantial portion of their investment.

THE FINANCING AGREEMENT

The following is a summary of certain provisions of the Financing Agreement and should not be considered a full statement of the Financing Agreement. Reference is made to the Financing Agreement for its detailed provisions.

Pursuant to the terms of the Financing Agreement, the Issuer has loaned the proceeds from the sale of the Bonds to the Company in order to refund the Prior Bonds, and the Company has agreed to make repayment of such loan in an amount sufficient, together with other funds available for such purpose, to pay when due the principal of, premium, if any, and interest on the Bonds.

Payments

To repay the loan made to it by the Issuer, the Company has agreed to make payment to the Trustee for the account of the Issuer an amount equal to the principal of, and any premium on, the Bonds and, as interest on its obligation to pay such amount, an amount equal to the interest on the Bonds (the "Loan Payments"), such amounts to be paid in installments due on the Business Day prior to each date, in the amounts and in the manner provided in the Indenture for the payment of the principal of, and premium, if any, and interest on, the Bonds whether at maturity, upon redemption or otherwise; provided, however, that the obligation of the Company to make any Loan Payment shall be reduced by the amount of any reduction under the Indenture of the amount of the corresponding payment required to be made by the Issuer under the Indenture.

The Loan Payments are pledged and assigned to the Trustee by the Issuer, and the Company's obligations to make such payments are absolute and unconditional and are not be subject to defense (other than payment) or any right of set-off or otherwise.

The Company agreed to pay to the Paying Agent amounts equal to the amounts to be paid by the Paying Agent pursuant to the Indenture for the purchase of outstanding Bonds, such amounts to be paid by the Company to the Paying Agent on the dates such payments are to be made.

Special Covenants

The Company has agreed that during the term of the Financing Agreement the Company will maintain its corporate existence in the State of Indiana, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation unless the acquirer of its assets or the corporation with which it shall consolidate or into which it shall merge is a corporation organized under the laws of one of the states of the United States of America, is qualified to do business in the State of Indiana, has a net worth immediately subsequent to such acquisition, consolidation or merger at least equal to that of the Company immediately prior to such acquisition, consolidation or merger and shall assume in writing all of the Bonds of the Company under the Financing Agreement and an opinion of counsel is furnished to the Trustee and the Issuer that such disposition, consolidation or merger complies with the Financing Agreement.

The Company has covenanted and agreed that it (a) has not taken and will not take or permit to be taken on its behalf, any action which would adversely affect the exclusion of interest on the Bonds from gross income of the recipients thereof for federal income tax purposes, and (b) will take, or cause to be taken, such actions as may from time to time be required under applicable law or regulation to continue to cause the interest on the Bonds to be so excluded.

The Company has covenanted and agreed to comply with the Tax Exemption Certificate and Agreement by and among the Issuer, the Company and the Trustee and to notify the Trustee and the Issuer of any event of which the Company has notice and which would require the Company to prepay the Bonds in accordance with the Financing Agreement.

Arbitrage

Pursuant to the terms of the Financing Agreement, the Company has covenanted that none of the proceeds of the Bonds or the payments to be made under the Financing Agreement, or any other funds which may be deemed to be proceeds of the Bonds pursuant to Section 148(a) of the Code, will be invested or used in such a way, and that no actions will be taken or not taken, to violate or fail to comply with the applicable arbitrage, accounting, segregation, reporting and rebate requirements, if any, of Section 148 of the Code and any regulations promulgated or proposed thereunder.

Assignment

The Financing Agreement may not be assigned by either the Issuer or the Company without the consent of the other and the Bond Insurer, except that the Issuer shall assign its rights under the Financing Agreement to the Trustee (except certain rights designated in the Financing Agreement), and the Company may assign its rights under the Financing Agreement to any transferee or any surviving or resulting corporation with which it may consolidate or merge as described under "– Special Covenants."

Defaults

The Financing Agreement provides that the happening of one or more of the following events will constitute an "event of default":

(a) Failure by the Company to pay when due any amounts required to be paid under the Financing Agreement which failure results in a default under the Indenture in the payment of the principal of, premium, if any, or interest on the Bonds when due and payable;

(b) Failure by the Company to pay or cause to be paid when due any payment required to be paid with respect to payment of the purchase price of tendered Bonds;

(c) Any material breach by the Company of a representation or warranty made in the Financing Agreement or failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Financing Agreement, other than as referred to in (a) or (b) above, for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, from the Issuer or the Trustee, unless (i) the Issuer, the Trustee and the Bond Insurer shall agree in writing to an extension of such time prior to its expiration, or (ii) if the breach or failure is such that it cannot be corrected within the applicable period, corrective action is instituted by the Company within such period and is being diligently pursued, or (iii) in certain cases, such failure occurs by reason of force majeure (as defined in the Financing Agreement);

(d) Certain events of bankruptcy, dissolution, liquidation or reorganization of the Company; or

(e) The occurrence of an "event of default" under the Indenture.

Remedies

Upon the occurrence of an "event of default," the Trustee, as assignee of the Issuer:

(a) Shall by notice in writing to the Company declare all amounts payable under the Financing Agreement as Loan Payments to be immediately due and payable, if concurrently with or prior to such notice the unpaid principal amount of the Bonds has been declared to be due and payable; and

(b) May take whatever action at law or in equity may appear necessary or desirable to collect the payments and other amounts then due and thereafter to become due under the Financing Agreement or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Financing Agreement.

Any amounts collected pursuant to action taken upon the occurrence of an event of default shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture.

Amendment

The Financing Agreement may not be amended except by an instrument in writing signed by the Company and the Issuer and consented to by the Trustee and the Bond Insurer. See "THE INDENTURE – Supplemental Indentures; Amendments of the Financing Agreement."

THE INDENTURE

The following is a summary of certain provisions of the Indenture and should not be considered a full statement of the Indenture. Reference is made to the Indenture for its detailed provisions.

Pledge of Revenues

Pursuant to the Indenture (i) all amounts payable with respect to the principal, premium, if any, or interest on the Bonds under the Financing Agreement and all moneys and earnings held by the Trustee in the Bond Fund created under the Indenture, and (ii) all right, title and interest of the Issuer in the Financing Agreement and the moneys payable thereunder (except the purchase price of tendered Bonds) are assigned and pledged to the Trustee to secure the payment of the principal, premium, if any, and interest on the Bonds.

Funds Under the Indenture

The Indenture establishes with the Trustee a Bond Fund into which will be deposited funds for the payment of principal of, premium, if any, and interest on the Bonds.

Events of Default and Remedies

Each of the following is an "event of default" under the Indenture:

(a) Failure to make payment of any installment of interest upon any Bond;

(b) Failure to make due and punctual payment of the principal of and premium, if any, on any Bond at the stated maturity thereof, or upon redemption thereof or upon the maturity thereof by declaration;

(c) The occurrence of an "event of default" under the Financing Agreement;

(d) The Trustee shall have received written notice from the Bond Insurer that an "event of default" has occurred under the Insurance Agreement entered into between the Company and the Bond Insurer;

(e) A failure by the Company to pay an amount due for the purchase of Bonds tendered for purchase pursuant to the Indenture when the same shall have become due and payable; and

(f) Failure on the part of the Issuer to perform or observe any of its covenants, agreements or conditions in the Indenture or in the Bonds contained and failure to remedy the same after notice thereof.

Under the Indenture, all rights of consent, approval and notification granted to the Owners will be exercised by the Bond Insurer, on behalf of the Owners, to the extent the Bond Insurer is not in default in its payment obligations under the Financial Guaranty Insurance Policy. For all purposes under the Indenture and the Financing Agreement relating to defaults and remedies, except the giving of notice of default to the Owners, the Bond Insurer is deemed to be the sole Owner of the Bonds, to the extent the Bond Insurer is not in default in its payment obligations under the Financial Guaranty Insurance Policy.

Upon the occurrence of an event of default under the Indenture, the Trustee may, with the prior written consent of the Bond Insurer, and upon the written request of (a) the Owners of more than 50% in aggregate principal amount of Bonds then outstanding, with the prior written consent of the Bond Insurer, or (b) the Bond Insurer shall, by written notice to the Company with copies of such notice being sent to the Issuer and the Remarketing Agent, declare the principal of all Bonds then outstanding and the interest accrued thereon to be immediately due and payable, and all options to tender such Bonds shall be immediately suspended.

Upon the occurrence and continuation of an event of default under the Indenture, the Trustee, at the direction and control of the Bond Insurer, shall pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding and to enforce and compel the performance of the duties and obligations of the Issuer as set forth in the Indenture. In addition, the Trustee may, without notice to the Issuer or the Company but with the consent of the Bond Insurer, exercise any and all remedies afforded the Issuer under the Financing Agreement in its name or the name of the Issuer without the necessity of joining the Issuer.

If an event of default shall have occurred and be continuing and if requested so to do by the Bond Insurer or by the Owners of not less than 25% in aggregate principal amount of Bonds then outstanding, then with the prior written consent of the Bond Insurer and indemnified as provided in the Indenture, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture as the Trustee being advised by Counsel shall deem most expedient in the interests of the Bondholders.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Bondholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders under the Indenture or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right, power or remedy accruing upon any event of default shall impair any such right, power or remedy or shall be construed to be a waiver of any such event of default or acquiescence therein; and every such right, power or remedy may be exercised from time to time and as often as may be deemed expedient.

No waiver of any event of default, whether by the Trustee or by the Bondholders or by the Bond Insurer, shall extend to or shall affect any subsequent event of default or shall impair any rights or remedies consequent thereon.

The Bond Insurer is entitled to the same rights to pursue legal remedies as are granted in the Indenture to the Issuer, the Trustee or the Bondowners. Notwithstanding any provisions of the Indenture providing rights to the Bond Insurer, if the Bond Insurer shall fail to make a payment when and as required under the provisions of the Financial Guaranty Insurance Policy and such failure is continuing, the Bond Insurer shall not exercise any rights under the Indenture, including without limitation, the right to give any directions, waivers or consents, except to the extent of any rights which the Bond Insurer may have as a result of subrogation to the rights of Bondholders prior to such Bond Insurer's default.

Supplemental Indentures; Amendments of the Financing Agreement

Subject to the conditions and restrictions in the Indenture, the Indenture may be amended or supplemented by the Issuer and the Trustee, with notice to and the consent of other parties as provided in the Indenture, from time to time, without the consent of, or notice to, the Bondholders, but with notice to and the consent of the Bond Insurer, for one or more of the following purposes: (i) to add to the covenants and agreements of, and limitations and restrictions upon, the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect; (ii) to grant to or confer or impose upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary or inconsistent with the Indenture; (iii) to cure any ambiguity or omission or to cure, correct or supplement any defective provision of the Indenture in each case in such manner as shall not adversely affect the Bondholders; (iv) to evidence the appointment of a separate Trustee or co-trustee or to evidence the succession of a new Trustee thereunder; (v) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended; (vi) to subject to the Indenture additional revenues, properties or collateral; (vii) to provide for the issuance of coupon bonds (provided, however, that the Issuer and the Trustee have received an opinion of Bond Counsel to the effect that the issuance of such coupon bonds complies with all applicable laws and will not adversely affect the exemption from federal income taxes of interest on any of the Bonds); (viii) to modify the provisions relating to the use of a book-entry system (provided, however, that the Issuer and the Trustee have received an opinion of Bond Counsel to the effect that the use of a modified book-entry system complies with all applicable laws and will not adversely affect the exemption from federal income taxes of interest on any of the Bonds); (ix) to conform to or permit compliance with the terms and provisions of any letter of credit, credit facility or liquidity facility; (x) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (xi) to qualify the Bonds for a rating by Moody's or S&P in the rating category assigned at such time by such rating agency to obligations of political subdivisions or similar issuers supported by a letter of credit, including without limitation such modifications, alterations or amendments of the Indenture as may be required with respect to the cessation of the accrual of interest following any acceleration of the maturity of the Bonds; or (xii) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondholders and which does not involve a change which would require Bondholder consent as described in the next succeeding paragraph and which, in the judgment of the Trustee, is not to the prejudice of the Trustee.

The Indenture also may be amended from time to time with the consent of the Bond Insurer (or the registered owners of at least 60% in aggregate principal amount of the Bonds then outstanding if the Bond Insurer is in default in its payment obligations under the Financial Guaranty Insurance Policy) and with the consent of the Company, the Remarketing Agent and the Paying Agent to any supplemental indenture affecting the rights of each respective party, provided, that no amendment may be made which permits (i) an extension of the maturity date of the principal of or the interest on any Bond issued under the Indenture, or (ii) a reduction in the principal amount of, premium, if any, on any Bond or the rate of interest on the Bonds, or (iii) an adverse change in the rights of the Owners of the Bonds to demand the purchase of the Bonds pursuant to the Indenture or to have their Bonds subject to mandatory tender pursuant to the Indenture, or (iv) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (v) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture.

The Financing Agreement may be amended with the consent of the Trustee and the Bond Insurer, but without the consent of or a notice to any of the Bondholders, as may be required by the Financing Agreement or the Indenture, to cure any ambiguity, formal defect or omission or any other change which is not to the prejudice of the Trustee or the Owners of the Bonds, or to add additional rights acquired in accordance with the Financing Agreement. The Financing Agreement may also be amended by written agreement of the Issuer and the Company, together with the approval or consent of the Bond Insurer and the owners of at least 60% in aggregate principal amount of the Bonds then outstanding, provided that no amendment may be made which would (i) decrease the amounts payable under the Financing Agreement; or (ii) extend the date of payment or prepayment provisions under the Financing Agreement.

Defeasance

When interest on, and principal or redemption price (as the case may be) of, the Bonds issued under the Indenture, all amounts which may become due upon tender of such Bonds for purchase and all other sums payable by the Issuer under the Indenture with respect to such Bonds have been paid, or provision has been made for payment of the same, the Indenture and the lien, rights and interest created thereby shall cease, determine and become null and void and the right, title and interest of the Trustee shall cease and the Trustee, on request of the Issuer, shall cancel and discharge the Indenture and release to the Issuer any and all rights pledged to the Trustee pursuant to the Indenture.

Provision for the payment of any Bond shall be deemed to have been made when (a) there shall have been irrevocably deposited with the Trustee cash or Governmental Obligations not subject to prepayment or call, the principal of and interest on which, when due, will provide sufficient moneys to pay fully that Bond at the maturity date or the date fixed for redemption thereof; provided, however, that if such moneys are invested in Governmental Obligations, the Issuer shall cause a nationally recognized certified public accounting firm to deliver to Moody's and/or S&P, as applicable, a certificate verifying that sufficient moneys have been set aside to make such payment without relying on reinvestment income therefrom; (b) the Bond Insurer has given its written consent; and (c) provision for compensation of the Trustee has been made to the satisfaction of the Trustee. "Governmental Obligations" means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America for full and timely payment and which are not subject to redemption by the issuer thereof.

CONTINUING DISCLOSURE UNDERTAKING

Although not obligated by Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the Company has agreed to provide the following information:

(a) to each nationally recognized municipal securities information repository ("NRMSIR") and to each state information depository, if any, for the State of Indiana (none presently exist) (the "SID"), in each case as designated by the SEC in accordance with the Rule (1) updates of the information under the heading "Selected Information Concerning the Company" in Appendix A; and (2) financial statements prepared in accordance with generally accepted accounting principles and audited by independent auditors. Such audited financial statements are expected to be available on or before the 120th day after the end of the fiscal year of the Company.

(b) in a timely manner, to each NRMSIR and to the SID, notice of the occurrence of any of the following events listed in clause (b)(5)(i)(C) of the Rule with respect to the Bonds, if applicable, if such event is material:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on credit enhancements reflecting financial difficulties;

(4) substitution of credit or liquidity providers, or their failure to perform;

(5) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(6) modifications to rights of holders of the Bonds;

(7) Bond calls;

(8) defeasances;

(9) release, substitution, or sale of property securing repayment of the Bonds; and

(10) rating changes with respect to the Bonds.

(c) in a timely manner, to (1) each NRMSIR or the Municipal Securities Rulemaking Board and (2) to the SID, if any, notice of a failure of the Company to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The Company has not undertaken to give notice of the occurrence of any event other than described in (b) and (c) above. No other person has undertaken to give notice of the occurrence of any event described in the Rule.

The Company has not failed to comply with the requirements as described in section (b)(5) of the Rule of any undertaking made by the Company during the last five years.

The Company reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information to the extent necessary or appropriate in the judgment of the Company; however, the Company agrees that any such modification will be done in a manner consistent with the Rule. The Company reserves the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the Company no longer remains an obligated person with respect to the Bonds within the meaning of the Rule. The Company acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Bonds and will be enforceable by the holders of the Bonds (including Beneficial Owners); however, the right to enforce the provisions of the undertaking is limited to a right to obtain specific enforcement by the Company to comply with the provisions of the undertaking and will not be an event of default with respect to the Bonds or under the Indenture or the Financing Agreement.

TAX EXEMPTION

The opinion of Chapman and Cutler LLP, Bond Counsel, delivered on December 18, 2003, the original issue date of the Bonds, is included as Appendix D hereto. It is expected that on August 25, 2008, Bond Counsel will deliver its opinion with respect to the Bonds regarding the conversion of the Bonds to bear interest at a fixed rate. A form of such opinion is included as Appendix E hereto.

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters.

The Issuer and the Company have covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

The opinion of Chapman and Cutler LLP, Bond Counsel, delivered on December 18, 2003, the date of the original delivery of the Bonds, stated that, subject to compliance by the Issuer and the Company with the above-referenced covenants, under then-existing law, it was the opinion of Bond Counsel on the original issuance date of the Bonds that interest on the Bonds was not includable in the gross income of the owners thereof for federal income tax purposes, except for interest on any Bond for any period during which such Bond is owned by a person who is a substantial user of the Project or any person considered to be related to such person (within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended), and such interest was not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Such interest is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

The Internal Revenue Code of 1986, as amended (the "Code") includes provisions for an alternative minimum tax ("AMT") for corporations, in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax exempt interest, including interest on the Bonds.

In rendering its opinion, Bond Counsel relied upon certifications of the Issuer and the Company with respect to certain material facts solely within the Issuer's and the Company's knowledge. Bond Counsel's opinion represented its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for the Bonds is the price at which a substantial amount of the Bonds is first sold to the public. The Issue Price of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expressed no opinion regarding any pending or proposed federal tax legislation.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Bonds, are in certain cases required to be reported to the Internal Revenue Service (the "Service"). Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

Chapman and Cutler LLP was also of the opinion that under the laws of the State of Indiana, as then enacted and construed, interest on the Bonds was exempt from the Gross Income Tax and the Adjusted Gross Income Tax imposed by the State of Indiana pursuant to Title 6, Articles 2.1 and 3 of the Indiana Code Annotated. Interest on the Bonds was subject to the Financial Institution Tax imposed under Title 6, Article 5.5 of the Indiana Code Annotated. Bond Counsel expresses no opinion regarding taxation of interest on the Bonds under any other provision of Indiana law. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such state and local consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

RISK OF AUDIT BY INTERNAL REVENUE SERVICE

The Service has an ongoing program of auditing tax–exempt obligations to determine whether, in the view of the Service, interest on such tax–exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service will treat the Issuer as the taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

REMARKETING

Morgan Stanley & Co. Incorporated (the "Remarketing Agent") is the Remarketing Agent for the Bonds. Pursuant to and subject to the conditions set forth in a Remarketing Agreement with the Company, the Remarketing Agent has agreed to use its best efforts to sell the Bonds for the Company at a purchase price of 100% of the principal amount of the Bonds. The Company has agreed to pay a fee, exclusive of expenses, to the Remarketing Agent equal to $220,000 in consideration of its services. The Company has also agreed to indemnify the Remarketing Agent against certain liabilities, including certain liabilities under federal securities laws relating to the Bonds, or to contribute to payments the Remarketing Agent may be required to make in respect thereof. The Remarketing Agent may offer and sell the Bonds to certain dealers and others at prices lower than the initial offering prices stated on the cover page hereof. After the initial public offering, the public offering prices and concessions to dealers may be changed from time to time by the Remarketing Agent.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds were subject to the approving legal opinion of Chapman and Cutler LLP, Chicago, Illinois, as Bond Counsel (the "Bond Counsel") who has been retained by, and acts as, Bond Counsel to the Company. In connection with the reoffering of the Bonds on the date the Bonds are being converted to the Fixed Rate, Bond Counsel will not render a new approving opinion, but will provide the conversion opinion that is required by the Indenture, the form of which is attached as Appendix E. Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Reoffering Circular or other offering material relating to the Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Reoffering Circular, except that in its capacity as Bond Counsel, Chapman and Cutler LLP has, at the request of Morgan Stanley & Co. Incorporated, reviewed the information under the captions "THE FINANCING AGREEMENT," "THE INDENTURE" and "TAX EXEMPTION". This review was undertaken solely at the request and for the benefit of Morgan Stanley & Co. Incorporated, may not be relied upon by any other person, including, but not limited to, the owners of Bonds and did not include any obligation to establish or confirm factual matters set forth herein.

In connection with the reoffering of the Bonds, certain legal matters will be passed upon for Morgan Stanley & Co. Incorporated by Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania.

RATINGS

The current ratings of the Bond Insurer are set forth under the heading "BOND INSURANCE" — Ambac Assurance Corporation". Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service, Inc. ("Moody's") have confirmed ratings of AA and Aa3 respectively, on the Bonds. S&P and Moody's have assigned underlying ratings on the Bonds of BBB- and Baa2, respectively. There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely if, in the judgment of the Rating Agency originally establishing the rating, circumstances so warrant. A downward revision or withdrawal of such ratings, or any of them, may have an effect on the market price and marketability of the Bonds in the secondary market. Please also see the discussion under "RISK FACTORS RELATED TO BOND INSURANCE — Recent Developments Affecting Bond Insurers".

MISCELLANEOUS

The foregoing descriptions or summaries of the Bonds, the Financing Agreement and the Indenture, and all references to other materials not purporting to be quoted in full, are only brief outlines of some of their provisions and do not purport to summarize or describe all of their provisions. Reference is made to such instruments and other materials for the complete provisions of such instruments and other materials, copies of which may be obtained from the office of the Company and at the principal corporate trust office of the Trustee in Indianapolis, Indiana.

Appendix A

NORTHERN INDIANA PUBLIC SERVICE COMPANY

August 12, 2008

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FORWARD-LOOKING STATEMENTS

This Appendix A contains certain forward-looking statements and information that are based on the beliefs of the Company as well as assumptions made by and information currently available to the Company. Such statements are subject to certain risks and uncertainties, some of which are beyond the Company's control, and certain underlying assumptions. Should one of more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected.

Investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements and information, which speak only as of the date of this Official Statement.

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NORTHERN INDIANA PUBLIC SERVICE COMPANY

I. DESCRIPTION OF BUSINESS

Northern Indiana Public Service Company ("**Northern Indiana**" or the "**Company**"), a wholly-owned subsidiary of NiSource Inc. ("**NiSource**"), is a public utility operating company, incorporated in Indiana on August 2, 1912, that supplies natural gas and electric energy to the public. It operates in 30 counties in the northern part of Indiana, serving an area of about 12,000 square miles with a population of approximately 2.2 million. The Company's customer base is broadly diversified, with no single customer accounting for a significant portion of the Company's revenues. NIPSCO Receivables Corporation ("**NRC**"), an Indiana corporation, is a wholly-owned subsidiary of the Company.

NiSource is a public energy holding company whose subsidiaries provide natural gas, electricity and other products and services to approximately 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England.

Northern Indiana's primary business segments are: Gas Distribution Operations, Electric Operations, and Other Operations. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Indiana. The Electric Operations segment provides electric service in the northern part of Indiana and engages in electric wholesale and transmission transactions. The Other Operations segment includes NRC, the activities of which relating to the Company's accounts receivable are described below.

Gas Distribution Operations

Northern Indiana's natural gas distribution operations serve approximately 710,000 customers in the northern part of Indiana. The Company owns and operates approximately 15,274 miles of pipelines, 27,129 reservoir acres of underground storage, 82 storage wells, two compressor stations with a total of 6,000 horsepower of installed capacity, and a liquefied natural gas facility with a storage capacity of 48.6 million gallons. The Company's physical properties are located in the northern part of Indiana. The Company's distribution system is primarily located on or under public streets and other public places or on private property not owned by the Company, based on easements from or the consent of the respective owners.

Electric Operations

Northern Indiana generates, transmits and distributes electricity to approximately 456,000 customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. The Company owns four coal-fired electric generating stations, three of which are currently operational. The three operable facilities have a net capability of 2,574 megawatts ("**mw**"). The Company also operates four gas-fired generating units with a net capability of 203 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system operating net capability of 2,787 mw. Northern Indiana's transmission system, with voltages from 69,000 to 345,000 volts, consists of 2,778 circuit miles. The Company's transmission system is interconnected with five neighboring electric utilities.

The Company's Mitchell Station, shut down indefinitely in 2002, is not included in the net capability of the Company's coal-fired generation stations. The Company does not anticipate restarting the Mitchell Station in the near term.

During the year ended December 31, 2007, Northern Indiana generated 78.5% and purchased 21.5% of its electric requirements. Northern Indiana's Integrated Resource Plan, filed with the Indiana Utility Regulatory Commission ("**IURC**") in November 2007, indicated a gap between customer demand projections and Company-owned generating capability of approximately 800 mw in 2008 and approximately 1,000 mw in 2014. On May 28, 2008, the Company received approval from the IURC (the "**May 28 IURC Order**") to purchase the Sugar Creek combined cycle gas turbine facility, located in West Terre Haute, Indiana. The Company previously received approval of the purchase from the Federal Energy Regulatory Commission ("**FERC**") on February 27, 2008. The Company completed the purchase of that facility on May 30, 2008. The Sugar Creek facility has been in commercial operation since 2002 and will add approximately 535 mw to the Company's total system operating net capability, at a cost of approximately $330 million. The Company purchased the Sugar Creek facility subject to power sale contracts which commit 100% of the capacity of the facility to others through May 31, 2010. The Company will receive the power sale revenues generated under these contracts but will not have access to the power generated by the facility and under the May 28 IURC Order will not be able to add the costs of the facility to its rate base until that date. On June 6, 2008, the Company filed a petition with the IURC for the presentation of an alternate regulatory plan to the IURC, as authorized by statute, in order to obtain relief from the rate treatment, mandated in the May 28 IURC Order, of costs associated with the acquisition of the Sugar Creek facility and the purchase of power during the period through May 31, 2010. The Company cannot predict at this time when such proceedings will be concluded or what the eventual result will be.

The Company participates in the Midwest Independent Transmission System Operator ("**MISO**") transmission service and wholesale energy market. The MISO is a nonprofit organization created in compliance with FERC requirements, to improve the flow of electricity in the regional marketplace and to enhance electric reliability. Additionally, the MISO is responsible within its service area for managing the energy markets, managing transmission constraints, managing the day-ahead, real-time and financial transmission rights markets and managing the ancillary market. Northern Indiana transferred functional control of its electric transmission assets to the MISO and transmission service for the Company is provided under the MISO Open Access Transmission Tariff.

Other Operations

As of December 31, 2007 and June 30, 2008, the Other Operations segment includes the results of NRC, the wholly-owned subsidiary of the Company, the sole activity of which is to purchase accounts receivable from the Company and sell an undivided percentage ownership interest in these accounts to a commercial paper conduit, within the limits established in the agreement between NRC and the conduit.

Properties

The principal offices and properties of Northern Indiana are held in fee and are free from encumbrances, subject to minor exceptions, none of which are of such a nature as to impair substantially the usefulness of such properties to the Company. All properties are subject to liens for taxes, assessments and undetermined charges (if any) incidental to construction. It is the Company's practice to pay such amounts, as and when due, unless contested in good faith. In general, the Company's electric lines, gas pipelines and related facilities are not located on land owned by the Company in fee but on land owned by others pursuant to necessary consents of various governmental authorities or by appropriate rights obtained from owners of private property. Northern Indiana 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 the Company purchased each of its principal properties, a title search was made. In general, no examination of titles was made as to rights-of-way for electric lines, gas pipelines or related facilities, other than examinations, in certain cases, to verify the grantors' ownership and the lien status of the property.

II. BOARD OF DIRECTORS AND OFFICERS

Directors

The directors of Northern Indiana and the date when each was elected are listed below.

Name	Elected
Timothy A. Dehring	2004
Eileen O'Neill Odum	2008

Officers

The principal executive officers of Northern Indiana, the position held by each and the date when each was elected to such position are listed below.

Name	Position Held	Elected
Eileen O'Neill Odum	President	January 2008
Timothy A. Dehring	General Manager	January 2004
Jeffrey W. Grossman	Vice President	November 2000
David J. Vajda	Vice President and Treasurer	January 2003

Biographies

Name	Age	Years with the Company and Affiliates	Offices Held Since 2002
Eileen O'Neill Odum	53	--	President and Director of Northern Indiana since January 2008.
Timothy A. Dehring	49	25	General Manager and Director of Northern Indiana, and General Manager, Indiana Operations, for NiSource since January 2004. Director, Construction from August 2002 to December 2003. Vice President, Service Delivery from January 2001 to July 2002.
Jeffrey W. Grossman	56	7	Vice President of Northern Indiana since November 2000. Vice President and Controller of NiSource since November 2000.
David J. Vajda	53	30	Vice President and Treasurer of Northern Indiana since January 2003. Vice President and Treasurer, NiSource since January 2003. Vice President, Finance, Indiana Energy Group of NiSource Corporate Services from August 2002 to December 2002. Vice President, Finance and Administration, Merchant Energy of NiSource Corporate Services from October 2000 to August 2002.

III. EMPLOYEES

As of June 30, 2008, Northern Indiana had 2,457 full-time employees, of whom 1,783 were subject to collective bargaining agreements.

IV. REGULATION AND COMPETITION

Many of the Company's activities are subject to regulation by various federal and state agencies. Under the Federal Power Act, the Company is subject to the jurisdiction of the FERC with respect to rates and accounting. Federal environmental agencies have broad jurisdiction over environmental matters. The Company is also subject to the jurisdiction of the IURC and the municipalities in which it operates.

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

The Company competes with investor-owned, municipal and cooperative electric utilities throughout its service area and, to a lesser extent, with other regulated natural gas utilities and propane and fuel oil suppliers.

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. Local distribution company ("**LDC**") customers and marketers began to purchase gas directly from producers and marketers and an open, competitive market for gas supplies has emerged. This separation or "unbundling" of the transportation and other services offered by pipelines and LDC's allows customers to purchase the commodity independent of services provided by the pipelines and LDC's. The LDC's continue to purchase gas and recover the associated costs from their customers. Northern Indiana is involved in programs that provide customers the opportunity to purchase their natural gas requirements from third parties and use Northern Indiana for transportation services.

Electric Competition. In 1996, the FERC ordered that all public utilities owning, controlling or operating electric transmission lines file non-discriminatory, open-access tariffs and offer wholesale electricity suppliers and marketers the same transmission service they provide to themselves. In 1997, the FERC accepted for filing Northern Indiana's open-access transmission tariff and issued an opinion on December 31, 2002. In December 1999, the FERC issued Order 2000, a final rule addressing the formation and operation of Regional Transmission Organizations. The rule was intended to eliminate pricing inequities in wholesale electric transmission service. In compliance with the rule, Northern Indiana transferred functional control of its electric transmission assets to MISO on October 1, 2003. Transmission service for Northern Indiana is now provided under the MISO Open Access Transmission Tariff, as the Northern Indiana Open Access Transmission Tariff was retired.

Refer to Note 4, "Regulatory Matters," in the Notes to the Company's Consolidated Financial Statements as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 in ***Appendix B***; Note 6, "Regulatory Matters," in the Notes to the Company's Unaudited Condensed Consolidated Financial Statements as of June 30, 2008 and December 31, 2007 and for the six month periods ended June 30, 2008 and 2007 in ***Appendix B***; and Item 1 under the caption "RISK FACTORS" below for further information.

V. RATES

Base Rate Case. The Company filed an electric base rate case with the IURC on June 27, 2008. A prehearing conference was held on July 29, 2008, to establish the procedural schedule for the rate case. The Company will file its detailed case with the IURC on or before August 29, 2008. The Company anticipates that hearings will be held in January 2009.

MISO. As part of the Company's participation in the MISO transmission service and wholesale energy market, the Company incurred certain administrative fees and non-fuel costs. The IURC issued orders authorizing the deferral for consideration in a future rate case proceeding of such administrative fees and non-fuel related costs incurred after July 31, 2006. During the first half of 2008, non-fuel related costs of $1.5 million were deferred in accordance with the IURC orders. In addition, administrative, FERC and other fees of $3.4 million were deferred. In comparison, in the first half of 2007, MISO costs totaling $6.3 million were deferred.

On April 25, 2006, the FERC issued an order with respect to the MISO's Transmission and Energy Markets Tariff, stating that the MISO had violated the tariff in several respects including by not assessing revenue sufficiency guarantee charges on virtual bids and offers and by charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges. The resettlement began on June 9, 2007 and ended in January 2008. Certain charge types included in the resettlement were originally considered to be non-fuel and were recorded as regulatory assets, in accordance with previous IURC orders allowing deferral of certain non-fuel MISO costs. During the fourth quarter 2007, based on precedent set by an IURC ruling for another Indiana utility, the Company reclassified these charges, totaling $16.7 million, as fuel and included them in the fuel cost recovery mechanism in its fuel adjustment charge filing with the IURC. Prior to the hearing on that filing on April 17, 2008, several intervenors objected to a portion of the $16.7 million and the Company agreed to remove $7.6 million of these charges from the filing. This amount represents the portion of the resettlement costs related to periods prior to December 9, 2005. The $7.6 million was recorded as a reduction to the Company's net revenues in the first quarter of 2008.

Refer to Note 4, "Regulatory Matters," in the Notes to the Company's Consolidated Financial Statements as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 in ***Appendix B***; Note 6, "Regulatory Matters," in the Notes to the Company's Unaudited Condensed Consolidated Financial Statements as of June 30, 2008 and December 31, 2007 and for the six month periods ended June 30, 2008 and 2007 in ***Appendix B***; and Item 1 under the caption "RISK FACTORS" below for further information concerning rates and rate-related matters.

VI. ENVIRONMENTAL MATTERS

General

The Company's operations are subject to extensive and changing federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect the Company's operations to the extent that those operations affect air and water quality and the land on which the Company's operations are conducted.

The Company recorded reserves, as of June 30, 2008 and December 31, 2007, of approximately $19.2 million and $20.3 million, respectively, to cover the anticipated costs of probable corrective actions at sites where Northern Indiana has environmental remediation liability. Regulatory assets have been recorded to the extent environmental expenditures are expected to be recovered in rates. Northern Indiana accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The Company's estimates of undiscounted future expenditures are based on many factors including currently enacted laws and regulations, existing technology and estimated site-specific costs based on which assumptions may be made about the nature and extent of site contamination, the extent of cleanup efforts, costs of alternative cleanup methods, and other variables. Actual remediation costs may differ materially from Northern Indiana's estimates due to the factors described above. Accordingly, the Company refines its estimates from time to time as events in the remediation process occur.

Possible Future Developments

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Northern Indiana engages in efforts to voluntarily report and reduce greenhouse gas emissions and is currently a participant in the Climate Leaders program of the United Stated Environmental Protection Agency ("**USEPA**"). On April 2, 2007, in a case captioned *Massachusetts v. EPA*, the Supreme Court ruled that the USEPA has authority under the Clean Air Act to regulate emissions of greenhouse gases if it is determined that greenhouse gases have a negative impact on human health or the environment. On July 11, 2008, in response to the April 2, 2007, U.S. Supreme Court decision in *Massachusetts v. EPA*, the USEPA released an Advance Notice of Proposed Rulemaking ("**ANPR**") soliciting public input on the effects of climate change and the potential ramifications of the Clean Air Act in relation to greenhouse gas emissions. In the ANPR, the USEPA presents and requests comment on the best-available science, requests relevant data, and poses questions about the advantages and disadvantages of using the Clean Air Act to potentially regulate stationary and mobile sources of greenhouse gases. The ANPR also reviews various petitions, lawsuits and court deadlines before the agency, and the profound effect regulating under the Clean Air Act could have on the economy. The Company will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

On March 12, 2008, the USEPA announced the tightening of the 8-hour ozone National Ambient Air Quality Standard ("**NAAQS**") from 0.08 parts per million to 0.075 parts per million. The number and extent of the areas that do not meet the new standard could significantly increase across the country. Over the next several years, states will be required to develop ozone attainment plans to implement the standards and improve air quality in these areas. This could lead to requirements for additional emission reductions of nitrogen oxide ("**NOx**"), an ozone precursor, from facilities owned by the Company. Northern Indiana will closely monitor developments in these matters and cannot at this time accurately estimate the timing or cost of emission controls that may eventually be required.

The Federal government has recently shown an increased interest in evaluating the advisability of Federal regulation of coal combustion waste products because of concern over potential health and environmental risks. A subcommittee of the U.S. House of Representatives has begun to study this issue building on the USEPA's ongoing activities in this matter. Northern Indiana will continue to monitor this activity for any future regulatory actions and cannot predict the potential financial impact at this time.

Gas Distribution Operations

The Company is a potentially responsible party at waste disposal sites under the Comprehensive Environmental Response, Compensation, and Liability Act ("**CERCLA**") (commonly known as "Superfund") and similar state laws, as well as at manufactured gas plant

(“**MGP**”) sites, which it, or its corporate predecessors, own or previously owned or operated. The Company may be required to share in the cost of cleanup of such sites. In addition, Northern Indiana has responsibility for corrective action under the Resource Conservation and Recovery Act (“**RCRA**”) for closure and cleanup costs associated with underground storage tanks and under the Toxic Substances Control Act for cleanup of polychlorinated biphenyls (“**PCBs**”). The final costs of cleanup have not yet been determined. As site investigations and cleanup proceed and as additional information becomes available reserves are adjusted.

A program has been instituted to identify and investigate former MGP sites where the Company or predecessors are the current or former owner. The program has identified up to 25 such sites and initial investigations have been conducted at 22 sites. Additional investigation activities have been completed or are in progress at 20 sites and remedial measures have been implemented or completed at 12 sites. This effort includes the sites contained in the January 2004 agreement entered into with the Indiana Department of Environmental Management (“**IDEM**”), Northern Indiana and other Indiana utilities under the Indiana Voluntary Remediation Program. As costs become probable and reasonably estimable, reserves will be adjusted. As reserves are recorded, regulatory assets are recorded to the extent environmental expenditures are expected to be recovered through rates. The Company is unable, at this time, to accurately estimate the time frame and potential costs of the entire program.

Electric Operations

Environmental Remediation. The Company is a potentially responsible party at two waste disposal sites relating to its electric operations under CERCLA and similar state laws and shares in the cost of their remediation with other potentially responsible parties. At one site, the Remedial Investigation and Feasibility Study was submitted to USEPA in 2007. The USEPA has issued a proposed plan to remediate the site which is in the public comment period. At the second site, the Company has agreed to conduct a Remedial Investigation and Feasibility Study in the vicinity of the third party, state-permitted landfill at which the Company contracted for fly ask disposal. In addition, the Company has responsibility for corrective action under RCRA for remediation costs associated with three facilities that historically stored hazardous wastes. The Company’s ultimate liability in connection with these sites cannot now be determined. As discussed above, the Company has recorded reserves to cover the anticipated costs of probable corrective actions at sites where the Company has environmental remediation liability.

Air Quality. In December 2001, the USEPA approved regulations developed by the State of Indiana to comply with the USEPA’s NOx State Implementation Plan (“**SIP**”) call. The NOx SIP call requires certain states, including Indiana, to reduce NOx levels from several sources, including industrial and utility boilers, during the summer months to lower regional transport of ozone. Compliance with the NOx limits contained in these rules was required by May 31, 2004. To comply with the rule, the Company developed a NOx compliance plan, which included the installation of Selective Catalytic Reduction NOx reduction technology at each of its active generating stations. The Company is currently in compliance with the NOx limits. In implementing the NOx compliance plan, the Company has expended approximately $311 million as of June 30, 2008. Actual costs may vary depending on a number of factors including market demand and resource constraints, uncertainty of future equipment and construction costs, and the potential need for additional control technology.

On March 10, 2005, the USEPA issued the Clean Air Interstate Rule ("**CAIR**") final regulations. The CAIR establishes phased reductions of NOx and sulfur dioxide ("**SO_2**") from 28 Eastern states, including electric utilities in Indiana, by establishing an annual emissions cap for NOx and SO_2 and an additional cap on NOx emissions during the ozone control season. On March 15, 2006, the USEPA signed three related rulemakings providing final regulatory decisions on implementing the CAIR. The USEPA, in one of the rulings, denied several petitions for reconsideration of various aspects of the CAIR, including requests by the Company to reconsider SO2 and NOx allocations. On March 25, 2008, the U. S. Court of Appeals for the D.C. Circuit held oral arguments in litigation challenging the CAIR. Northern Indiana, along with other utilities, directly participated in one of the arguments addressing the legality of using the allowance allocations of the Acid Rain program for the purpose of complying with the CAIR SO_2 reduction requirements. On July 11, 2008, the court vacated the CAIR in its entirety, and remanded the case back to the EPA to promulgate a rule consistent with the court's opinion. In accordance with the Court's rules, the mandate will be deferred during the 45-day period allowed for the filing of any petitions for rehearing.

On October 3, 2007, the Indiana Air Pollution Control Board adopted, with minor changes from the USEPA Clean Air Mercury Rule ("**CAMR**"), the state rule to implement USEPA's CAMR. The rule became effective on February 3, 2008, with compliance required in 2010. On February 8, 2008, the United States Court of Appeals for the District of Columbia Circuit vacated two USEPA rules addressing utility mercury emissions that are the stimulus for the Indiana Air Pollution Control Board's CAMR. The first is the USEPA's rule delisting coal and oil-fired electric generating units from the list of sources whose emissions are regulated under section 112 of the Clean Air Act, 42 U.S.C. § 7412. *Revision of December 2000 Regulatory Finding* ("**Delisting Rule**"), 70 Fed. Reg. 15,994 (March 29, 2005). The second is the USEPA's rule that set performance standards for new coal-fired electric generating units and established total mercury emission limits for States along with a cap-and-trade program for new and existing coal-fired electric generating units. *Standards of Performance for New and Existing Stationary Sources: Electric Utility Steam Generating Units*, 70 Fed. Reg. 28,606 (May 18, 2005). On March 24, 2008, the USEPA and industry filed petitions with the court for rehearing of these decisions and on May 20, 2008, the D.C. Circuit Court of Appeals denied the rehearing requests. Any party wishing to appeal the decision has until August 16, 2008, to file a petition for certiorari with the U.S. Supreme Court. The resolution of this legal action and the USEPA's response will affect the implementation and timing of the installation of controls to address potential mercury reduction obligations. The Company will closely monitor developments regarding any further action by the USEPA and subsequent regulatory developments from the USEPA and/or the Indiana Air Pollution Control Board in this matter.

Local air quality has improved in three Indiana counties in which the Company's generating assets are located. In recognition of this improvement, the IDEM submitted petitions to the USEPA seeking redesignation of the Indiana counties of Lake, Porter, and LaPorte to attainment of the eight-hour ozone NAAQS. Final USEPA rulemaking approving the LaPorte County redesignation became effective on July 19, 2007. The USEPA approval for Lake and Porter counties is undergoing further evaluation and may be delayed until after the 2008 ozone season due to monitored values in 2007 at one site that put the design value just above the NAAQS. On October 3, 2007, the Air Pollution Control Board adopted the redesignation of LaPorte County to attainment as part of a reformatting of the state attainment designation rule.

The rule became effective January 28, 2008. Upon promulgation of the USEPA and subsequent IDEM regulations to implement the redesignations to attainment, new source review rules are expected to change from nonattainment new source review rules to prevention of significant deterioration while measures responsible for existing emission reductions would continue. The March 12, 2008 USEPA tightening of the 8-hour ozone NAAQS may preclude the approval of the redesignation requests and may result in these counties remaining and/or again being designated as nonattainment of the ozone NAAQS. As discussed above under the subcaption "Possible Future Developments", the USEPA ozone NAAQS revision could lead to additional emission reductions of NOx, an ozone precursor, from facilities owned by the Company. Northern Indiana will closely monitor developments in these matters and cannot at this time accurately estimate the timing or cost of emission controls that may eventually be required.

The U. S. Court of Appeals for the D. C. Circuit, in late 2006, ruled a requirement to impose Clean Air Act §185 fees on emissions sources located in counties that failed to timely attain the previous (one-hour) ozone standard, which had been rescinded by the USEPA in May 2005, remained applicable retroactive to November 2005. The court remanded the issue to the USEPA for reconsideration. In January 2008, the U. S. Supreme Court denied a petition to hear an appeal on this matter. The USEPA has announced that it intends to propose regulations in fall 2008 to specify how §185 fees will be imposed and calculated. One of the Company's operating generating assets is located in Porter County where this fee could potentially be applied. On July 7, 2008, the USEPA proposed a finding of attainment of the one-hour ozone NAAQS for the Illinois and Indiana one-hour ozone nonattainment area which includes Porter County. Included in the proposed rule is a finding that the area, including Porter County, is not subject to the imposition of the CAA §185 penalty fees. The Company will closely monitor developments in this matter.

In late 1999, the USEPA initiated a New Source Review enforcement action against several industries, including the electric utility industry, concerning rule interpretations that have been the subject of recent (prospective) reform regulations. The Company has received and responded to the USEPA information requests on this subject, most recently in June 2002. The USEPA issued a Notice of Violation ("**NOV**") to Northern Indiana on September 29, 2004, for alleged violations of the Clean Air Act and the SIP. Specifically, the NOV alleges that modifications were made to certain boiler units at the Michigan City, Schahfer, and Bailly Generating Stations between the years of 1985 and 1995 without obtaining appropriate air permits for the modifications. An adverse outcome in this matter could require capital expenditures beyond the USEPA requirements that cannot be determined at this time and could require payment of substantial penalties. Northern Indiana is unable, at this time, to predict the timing or outcome of this USEPA action.

Water Quality. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed and the State of Indiana has promulgated its regulations for this water discharge permit program and has received final USEPA approval.

The National Pollutant Discharge Elimination System ("**NPDES**") water discharge permit for the Bailly Generating Station was issued on June 26, 2006, and became effective on August 1, 2006. Northern Indiana appealed the Bailly Generating Station NPDES permit, due to an unacceptable internal outfall monitoring permit condition. On February 18, 2008, the Bailly NPDES permit was modified to resolve the monitoring issue and to address the 316(b) rule status due to the remand mentioned below. Due to additional pending studies, the cost of complying with the permit requirements cannot be estimated at this time.

On February 16, 2004, the USEPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems, such as a closed-cycle cooling tower. On January 25, 2007, the Second Circuit in a court decision on the Phase II 316(b) rule, remanded for USEPA reconsideration the options providing flexibility for meeting the requirements of the rule. On March 20, 2007, the USEPA issued a guidance memo advising its Regional Administrators that the Agency considers the 316(b), Phase II Rule governing cooling water withdrawals suspended and will be issuing a Federal Register notice to that effect. On July 9, 2007, the USEPA published a notice in the Federal Register suspending the Phase II rule. The notice explained that the USEPA is not accepting comments on the suspension and notes that "best professional judgment" is to be used in making 316(b) decisions. The USEPA will need to propose a revised 316(b) rule and/or provide guidance to address the impact of the court decision. Northern Indiana will closely monitor the USEPA rule developments.

On July 5, 2007, the United States Court of Appeals for the Second Circuit denied the petitions for rehearing asking the court to reconsider its remand of the Phase II 316(b) ruling. Various parties submitted petitions for a *writ of certiorari* to the U. S. Supreme Court in November 2007 seeking to reverse the decision of the Second Circuit Court of Appeals. The U.S. Supreme Court has agreed to hear the appeal which is based on the role of cost-benefit analysis in establishing standards for compliance with the rule. The case is scheduled to be heard during the fall of 2008. Northern Indiana will continue to closely monitor this activity.

Refer to Note 12.C, "Environmental Matters," in the Notes to the Company's Consolidated Financial Statements as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 in ***Appendix B***; Note 12.B, "Environmental Matters," in the Notes to the Company's Unaudited Condensed Consolidated Financial Statements as of June 30, 2008 and December 31, 2007 and for the six month periods ended June 30, 2008 and 2007 in ***Appendix B***; and Item 2 under the caption "RISK FACTORS" below for further information.

VII. LEGAL PROCEEDINGS

In the normal course of its business, the Company has been named as a defendant in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse effect on the Company's consolidated financial position.

Refer to Note 12.A, "Other Legal Proceedings," in the Notes to the Company's Consolidated Financial Statements as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 in ***Appendix B***; and Note 12.A, "Other Legal Proceedings," in the Notes to the Company's Unaudited Condensed Consolidated Financial Statements as of June 30, 2008 and December 31, 2007 and for the six month periods ended June 30, 2008 and 2007 in ***Appendix B*** for further information.

VIII. Affiliate Transactions

NiSource Corporate Services, a wholly-owned subsidiary of NiSource, provides executive, financial, gas supply, sales and marketing, and administrative and general services to the Company.

IX. Risk Management Activities

The Company uses commodity-based derivative financial instruments primarily to manage commodity price risk in its business. Additionally, Northern Indiana enters into forward physical contracts with various third parties to procure natural gas or electric power for its operational needs.

Refer to Note 5, "Risk Management Activities," in the Notes to the Company's Consolidated Financial Statements as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 in ***Appendix B***; and Note 7, "Risk Management Activities," in the Notes to the Company's Unaudited Condensed Consolidated Financial Statements as of June 30, 2008 and December 31, 2007 and for the six month periods ended June 30, 2008 and 2007 in ***Appendix B***, for further information.

X. SELECTED INFORMATION CONCERNING THE COMPANY

Summary Financial Information[a]

(Dollars in millions)

	Unaudited 12 Months Ended June 30, 2008	Year Ended December 31 (audited) 2007	2006	2005	2004	2003
Consolidated Statement of Income Data:						
Operating Revenues.................	$2,496.9	$2,381.2	$2,223.4	$2,422.6	$2,071.9	$2,091.9
Operating Income....................	235.9	290.4	326.1	336.0	345.5	331.0
Interest Charges.......................	51.4	52.1	53.0	43.7	43.6	56.0
Net Income..............................	111.7	139.9	157.9	180.9	177.6	162.8
Ratio of Earnings to Fixed Charges [b]...................	4.06	4.95	5.37	5.96	6.03	4.78

Consolidated Balance Sheet Data at June 30, 2008[c]	Amount	Percentage
Long-Term Debt (excluding amounts due within one year)		
Secured..	$ 0	0.00%
Unsecured..	673.3	31.63%
Total	673.3	31.63%
Common Shareholder's Equity...	1,455.3	68.37%
Total Capitalization...	$2,128.6	100.00%

(a) The selected income statement financial data for each of the years ended December 31, 2003 through December 31, 2007 is derived from the Company's audited financial statements and related notes. The selected income statement financial data for the year ended June 30, 2008 is derived from the Company's accounting records and the selected balance sheet financial data at June 30, 2008 is derived from the Company's unaudited financial statements and related notes. The financial information presented under the caption "Ratio of Earnings to Fixed Charges" is derived from the Company's accounting records and unaudited financial statements and was computed by the Company in the manner described in footnote (b).

(b) For purposes of calculating the ratio of earnings to fixed charges, "earnings" consists of income from continuing operations before income taxes plus fixed charges and "fixed charges" consists of interest on all indebtedness, amortization of debt expense, discount or premium, the portion of rental expense on operating leases deemed to be representative of the interest factor and preferred stock requirements of consolidated subsidiaries.

(c) Short-term debt (including the current portion of long-term debt: $25.0 million) outstanding at June 30, 2008, was $434.6 million.

Operating Income by Business Segment

The following table provides information about the Company's operating income by business segment. Northern Indiana uses operating income as its primary measurement for each of the reported segments. Operating income is derived from revenues and expenses directly associated with each of the three business segments described under the caption "DESCRIPTION OF BUSINESS" above.

(in millions)	2007	2006	2005
REVENUES			
Gas Distribution Operations			
Unaffiliated	$ 990.8	$ 904.7	$1,159.8
Affiliated	27.3	14.9	15.2
Total	1,018.1	919.6	1,175.0
Electric Operations			
Unaffiliated	$1,361.6	$1,302.2	$1,245.5
Affiliated	1.5	1.6	2.1
Total	1,363.1	1,303.8	1,247.6
Consolidated Revenues	$2,381.2	$2,223.4	$2,422.6
Operating Income (Loss)			
Gas Distribution Operations	$ 29.2	$ 16.1	$ 42.9
Electric Operations	261.5	310.4	293.3
Other Operations	(0.3)	(0.4)	(0.2)
Consolidated	$ 290.4	$ 326.1	$ 336.0
Depreciation and Amortization			
Gas Distribution Operations	$ 90.5	$ 89.0	$ 88.1
Electric Operations	191.9	187.3	185.9
Consolidated	$ 282.4	$ 276.3	$ 274.0
Assets			
Gas Distribution Operations	$1,053.1	$1,265.1	$1,191.1
Electric Operations	3,410.3	3,389.8	3,128.0
Consolidated	$4,463.4	$4,654.9	$4,319.1
Capital Expenditures			
Gas Distribution Operations	$ 34.2	$ 45.2	$ 42.1
Electric Operations	242.6	151.2	133.2
Consolidated	$ 276.8	$ 196.4	$ 175.3

XI. RISK FACTORS

There are many factors that could have a material adverse effect on Northern Indiana's operating results and financial condition. New risks may emerge at any time, and the Company cannot predict those risks or estimate the extent to which they may affect financial performance. Each of the risks described below could adversely impact the Company's operating results and financial condition and the value of the Company's obligations.

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

Virtually all of the Company's net revenues are subject to economic regulation at either the federal or state level. As such, the net revenues generated by the Company are subject to regulatory review by the applicable federal or state authority. These rate reviews determine the energy rates charged to customers and directly impact revenues. As part of a settlement reached in other regulatory proceedings, Northern Indiana filed an electric base rate case with the IURC on June 27, 2008. The Company will file its detailed case with the IURC on or before August 29, 2008. In addition, on June 6, 2008, the Company filed a petition with the IURC for an alternative regulatory plan in response to the IURC's recent order authorizing the Company's acquisition of the Sugar Creek electric generating plant. The outcome of these rate cases could have a material effect on the Company's financial results. See the information under the caption "RATES" above and in the Notes to the Company's financial statements referred to under that caption.

2. The Company's costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws and the incurrence of environmental liabilities could impact cash flow and profitability.

Northern Indiana is subject to extensive federal, state and local environmental requirements that, among other things, regulate air emissions, water usage and discharges, remediation and the management of chemicals, hazardous waste and solid waste. Compliance with these legal requirements requires Northern Indiana to commit significant expenditures for installation of pollution control equipment, remediation, environmental monitoring, emissions fees and permits at many of the Company's facilities. These expenditures are significant, and Northern Indiana expects that they will continue to be significant in the future.

If Northern Indiana fails to comply with environmental laws and regulations, or causes harm to the environment or persons, even if caused by factors beyond the Company's control, that failure or harm may result in the assessment of civil or criminal penalties and damages against the Company. In September 2004, the USEPA issued an NOV to Northern Indiana alleging violations of the new source review provisions of the Clean Air Act. An adverse outcome in this matter could require capital expenditures beyond the USEPA requirements that cannot be determined at this time and could require payment of substantial penalties.

Existing environmental laws and regulations may be revised, and new laws and regulations seeking to protect the environment may be adopted or become applicable to the Company. Revised or additional laws and regulations could result in significant additional expense and operating restrictions on the Company's facilities or increased compliance costs, which may not be fully recoverable from customers and would therefore reduce net income. The cost impact of any new or amended legislation would depend upon the specific requirements enacted and cannot be determined at this time.

3. A significant portion of the gas and electricity the Company sells is used by residential and commercial customers for heating and air conditioning. Accordingly, the Company's operating results fluctuate depending on the weather and, to a certain extent, usage of gas or electricity.

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, have shown to be sensitive to fluctuations in commodity costs for gas and electricity, whereby usage declines with increased energy costs, thus affecting the Company's financial results.

4. The Company's electric operations are subject to economic conditions in certain industries.

Electric operations in northern Indiana have been and may continue to be adversely affected by events in the steel and steel related industries. In particular, sales to large industrial customers within these steel and steel related industries may be impacted by economic downturns. The U.S. steel industry continues to adjust to changing market conditions including international competition, increased costs and fluctuating demand for their products.

5. NiSource recently restructured its outsourcing agreement with IBM, which included transitioning back to NiSource many of the functions which had been outsourced. Many associated changes in systems and personnel are being made, which may increase operational and control risks during transition and may have an impact on the business and its financial condition.

Under NiSource's restructured agreement with International Business Machines Corporation ("**IBM**"), most functions, other than information technology, which had been outsourced to IBM will be transitioned back to NiSource or other third party providers. There will be costs incurred to undertake this transition and there could be a risk of operational delays, potential errors and control failures during the transition phase.

XII. FINANCIAL STATEMENTS

The consolidated financial statements of Northern Indiana Public Service Company and Subsidiary as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005, included in ***Appendix B*** to this Reoffering Circular have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein.

The interim unaudited condensed consolidated financial statements of the Company as of June 30, 2008 and December 31, 2007 and for the six month periods ended June 30, 2008 and 2007 included in ***Appendix B*** to this Reoffering Circular are derived from Company records and are unaudited.

Appendix B

NORTHERN INDIANA PUBLIC SERVICE COMPANY AND SUBSIDIARY

Financial Statements

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NORTHERN INDIANA PUBLIC SERVICE COMPANY

AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006,

AND FOR THE YEARS ENDED

DECEMBER 31, 2007, 2006 AND 2005

CONTENTS

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
Northern Indiana	Northern Indiana Public Service Company
NRC	NIPSCO Receivables Corporation
PEI	PEI Holdings, Inc.
TPC	EnergyUSA-TPC Corp.
Whiting Clean Energy	Whiting Clean Energy, Inc.

Abbreviations

AFUDC	Allowance for funds used during construction
ARP	Alternative Regulatory Plan
ASM	Ancillary Services Market
BART	Best Alternative Retrofit Technology
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCGT	Combined Cycle Gas Turbine
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (Also known as Superfund)
CPCN	Certificate of Public Convenience and Necessity
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EER	Environmental Expense Recovery
EERM	Environmental Expense Recovery Mechanism
EITF No. 06-3	Emerging Issues Task Force Issue No. 06-03, "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)"
EPA	United States Environmental Protection Agency
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 39	FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts an interpretation of APB Opinion No. 10 and FASB Statement No. 105"
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FIN 48	FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"
FIP	Federal Implementation Plan
FSP FIN 39-1	FASB Staff Position FIN39-1: Amendment of FASB Interpretation No. 39
FTRs	Financial Transmission Rights
IBM	International Business Machines Corp.
IBM Agreement	The Agreement for Business Process & Support Services

DEFINED TERMS (continued)

IDEM	Indiana Department of Environmental Management
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
LIFO	Last-in, first-out
MGP	Manufactured gas plant
MISO	Midwest Independent Transmission System Operator
Mitchell Station	Dean H. Mitchell Coal Fired Generating Station
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen oxide
NPDES	National Pollutant Discharge Elimination System
NYMEX	New York Mercantile Exchange
OUCC	Indiana Office of Utility Consumer Counselor
PCB	Polychlorinated biphenyls
ppm	parts per million
PPS	Price Protection Service
QPAI	Qualified production activities income
RCRA	Resource Conservation and Recovery Act
SAB No. 92	Staff Accounting Bulletin No. 92, “Accounting and Disclosures Relating to Loss Contingencies”
SEC	Securities and Exchange Commission
SFAS No. 5	Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies”
SFAS No. 71	Statement of Financial Accounting Standards No. 71, “Accounting for the Effects of Certain Types of Regulation”
SFAS No. 101	Statement of Financial Accounting Standards 101, “Regulated Enterprises – Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71”
SFAS No. 109	Statement of Financial Accounting Standards No. 109, “Accounting for Uncertain Tax Positions”
SFAS No. 131	Statement of Financial Accounting Standards No. 131, “Disclosures about Segments of an Enterprise and Related Information”
SFAS No. 133	Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended
SFAS No. 140	Statement of Financial Accounting Standards No. 140, “Accounting for Transfers and Servicing of Financial Asset and Extinguishments of Liabilities”
SFAS No. 143	Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations”
SFAS No. 157	Statement of Financial Accounting Standards No. 157, “Fair Value Measurement”
SFAS No. 158	Statement of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”
SFAS No. 159	Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115”
SFAS No. 160	Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51”

DEFINED TERMS (continued)

SFAS No. 160	Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51”
SIP	State Implementation Plan
SNG	Synthetic Natural Gas
SO2	Sulfur dioxide
SOP 98-1	Statement of Position 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use”

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Northern Indiana Public Service Company:

We have audited the accompanying consolidated balance sheets and statements of consolidated long-term debt of Northern Indiana Public Service Company and subsidiary (the “Company”) as of December 31, 2007 and 2006, and the related consolidated statements of income, of common shareholder’s equity and of comprehensive income, and of cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northern Indiana Public Service Company and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 7 to the consolidated financial statements, effective December 31, 2006, the Company adopted Financial Accounting Standards Board Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”.

/s/ DELOITTE & TOUCHE LLP
Columbus, Ohio
March 28, 2008

NORTHERN INDIANA PUBLIC SERVICE COMPANY
STATEMENTS OF CONSOLIDATED INCOME

Year Ended December 31, *(in millions)*	**2007**	2006	2005
Net Revenues			
Gas	**$ 990.8**	$ 904.7	$ 1,159.8
Gas - affiliated	**27.3**	14.9	15.2
Electric	**1,361.6**	1,302.2	1,245.5
Electric - affiliated	**1.5**	1.6	2.1
Gross Revenues	**2,381.2**	2,223.4	2,422.6
Cost of Sales			
Cost of sales	**1,280.8**	1,136.6	1,316.9
Cost of sales - affiliated	**15.0**	7.7	29.2
Total Cost of Sales (excluding depreciation and amortization)	**1,295.8**	1,144.3	1,346.1
Total Net Revenues	**1,085.4**	1,079.1	1,076.5
Operating Expenses			
Operation and maintenance	**424.0**	391.3	390.9
Depreciation and amortization	**282.4**	276.3	274.0
Gain on sale of assets	**(1.1)**	-	(0.8)
Other taxes	**89.7**	85.4	76.4
Total Operating Expenses	**795.0**	753.0	740.5
Operating Income	**290.4**	326.1	336.0
Other Deductions			
Interest on long-term debt	**26.1**	26.4	26.0
Interest on long-term debt - affiliated	**19.1**	19.1	8.7
Other interest	**2.1**	3.2	1.9
Other interest - affiliated	**1.5**	0.8	3.5
Amortization of premium, reacquisition premium, discount and expense on debt, net	**3.3**	3.5	3.6
Other, net	**5.4**	5.1	5.5
Loss on early redemption of preferred stock	**-**	0.7	-
Total Other Deductions	**57.5**	58.8	49.2
Income Before Income Taxes	**232.9**	267.3	286.8
Income Taxes	**93.0**	109.4	105.9
Net Income	**$ 139.9**	$ 157.9	$ 180.9
Dividend requirements on preferred stocks	**-**	1.1	4.2
Balance available for common shares	**$ 139.9**	$ 156.8	$ 176.7
Common dividends declared	**$ 75.0**	$ 215.1	$ 80.0

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

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CONSOLIDATED BALANCE SHEETS

As of December 31, *(in millions)*		**2007**		2006
ASSETS				
Property, Plant and Equipment				
Utility Plant	**$**	**7,159.4**	$	7,005.0
Accumulated provision for depreciation and amortization		**(3,617.1)**		(3,520.7)
Net utility plant		**3,542.3**		3,484.3
Other propery, at cost, less accumulated depreciation		**2.1**		2.2
Net Property, Plant and Equipment		**3,544.4**		3,486.5
Current Assets				
Cash and cash equivalents		**3.0**		10.1
Restricted cash		**11.1**		35.2
Accounts receivable (less reserve of $8.9 and $11.6, respectively)		**117.9**		160.6
Accounts receivable - affiliated		**7.7**		44.5
Underrecovered fuel costs		**40.3**		26.7
Materials and supplies, at average cost		**52.5**		53.7
Electric production fuel, at average cost		**58.1**		63.9
Natural gas in storage, at last-in, first-out cost		**99.3**		141.9
Price risk management assets		**14.0**		1.6
Regulatory assets		**58.3**		59.9
Prepayments and other		**31.4**		25.5
Total Current Assets		**493.6**		623.6
Other Assets				
Regulatory assets		**382.6**		537.8
Postretirement and postemployment benefits assets		**37.2**		-
Deferred charges and other		**5.6**		7.0
Total Other Assets		**425.4**		544.8
Total Assets	**$**	**4,463.4**	$	4,654.9

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

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CONSOLIDATED BALANCE SHEETS (continued)

As of December 31, *(in millions, except shares outstanding)*		**2007**		2006
CAPITALIZATION AND LIABILITIES				
Capitalization				
Common Shareholder's Equity				
Common stock - without par value - 73,282,258 shares outstanding	**$**	**859.5**	$	859.5
Additional paid-in capital		**81.5**		70.5
Retained earnings		**454.2**		395.3
Accumulated other comprehensive loss		**(1.1)**		(4.7)
Total Common Shareholder's Equity		**1,394.1**		1,320.6
Long-term debt, excluding amounts due within one year		**418.2**		442.1
Long-term debt - affiliated, excluding amounts due within one year		**350.0**		350.0
Total Capitalization		**2,162.3**		2,112.7
Current Liabilities				
Current portion of long-term debt		**24.0**		56.0
Short-term borrowings - affiliated		**72.0**		116.6
Accounts payable		**192.5**		182.8
Accounts payable - affiliated		**30.5**		20.3
Customer deposits		**71.6**		67.2
Taxes accrued		**74.3**		78.5
Interest accrued		**2.5**		3.4
Overrecovered gas costs		**7.3**		103.6
Accrued employment costs		**27.9**		21.4
Price risk management liabilities		**13.3**		36.6
Regulatory liabilities		**36.7**		0.8
Accrued liability for postretirement and postemployment benefits		**0.1**		-
Other accruals		**71.0**		76.3
Total Current Liabilities		**623.7**		763.5
Other Liabilities and Deferred Credits				
Deferred income taxes		**363.4**		391.9
Deferred investment tax credits		**30.4**		36.6
Deferred credits		**1.4**		2.9
Accrued liability for postretirement and postemployment benefits		**330.8**		452.5
Regulatory liabilities and other removal costs		**834.6**		783.2
Asset retirement obligations		**70.3**		71.6
Other noncurrent liabilities		**46.5**		40.0
Total Other Liabilites and Deferred Credits		**1,677.4**		1,778.7
Commitments and Contingencies (see note 12)				
Total Capitalization and Liabilities	**$**	**4,463.4**	$	4,654.9

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

NORTHERN INDIANA PUBLIC SERVICE COMPANY
STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

As of December 31, *(in millions)*	**2007**	2006
Pollution Control Bonds—-		
Series 1988 Bonds—Jasper County—Series A, B and C—3.65% weighted average at December 31, 2007, due November 1, 2016	**$ 130.0**	$ 130.0
Series 1994 Bonds—Jasper County—Series A—4.00% at December 31, 2007, due August 1, 2010	**10.0**	10.0
Series 1994 Bonds—Jasper County—Series B—4.00% at December 31, 2007, due June 1, 2013	**18.0**	18.0
Series 1994 Bonds—Jasper County—Series C—4.15% at December 31, 2007, due April 1, 2019	**41.0**	41.0
Series 2003 Bonds—Jasper County—3.90% at December 31, 2007, due July 1, 2017	**55.0**	55.0
Total Pollution Control Bonds	**254.0**	254.0
Medium-Term Notes—		
Interest rates between 7.02% and 7.69% with a weighted average interest rate of 7.43% and various maturities between June 8, 2009 and August 4, 2027	**165.2**	189.2
Intercompany Notes—		
5.420% due June 26, 2020	**137.5**	137.5
5.210% due June 27, 2015	**137.5**	137.5
5.985% due September 18, 2025	**75.0**	75.0
Total Intercompany Notes	**350.0**	350.0
Unamortized Discount on Long-Term Debt	**(1.0)**	(1.1)
Total long-term debt, excluding amounts due in one year	**$ 768.2**	$ 792.1

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

Northern Indiana Public Service Company
STATEMENTS OF CONSOLIDATED CASH FLOWS

Year Ended December 31, *(in millions)*	**2007**	2006	2005
Operating Activities			
Net income	**$ 139.9**	$ 157.9	$ 180.9
Adjustments to reconcile net income to net cash:			
Loss on early redemption of preferred stock	**-**	0.7	-
Depreciation and amortization	**282.4**	276.3	274.0
Net changes in price risk management assets and liabilities	**0.6**	0.7	(0.7)
Deferred income taxes and investment tax credits	**(46.2)**	(70.0)	(35.9)
Stock compensation expense	**0.1**	0.1	0.2
Gain on sale of assets	**(1.1)**	-	(0.8)
Amortization of discount/premium on debt	**3.3**	3.5	3.6
AFUDC equity	**(3.6)**	(2.0)	-
Changes in assets and liabilities:			
Accounts receivable	**70.7**	60.0	(57.5)
Inventories	**49.5**	(60.2)	(15.8)
Accounts payable	**23.3**	(26.8)	42.8
Customer deposits	**4.4**	4.2	6.6
Taxes accrued	**(0.2)**	71.5	25.7
Interest accrued	**(0.8)**	0.2	(3.7)
(Under) Overrecovered gas and fuel costs	**(109.9)**	103.2	(32.2)
Prepayments and other current assets	**2.5**	(13.0)	(0.1)
Regulatory assets/liabilities	**44.5**	2.6	4.7
Postretirement and postemployment benefits	**(57.6)**	(31.4)	20.0
Deferred credits	**(1.5)**	(4.7)	4.4
Other accruals	**11.2**	2.4	2.3
Deferred charges and other noncurrent assets	**2.3**	1.1	(1.3)
Other noncurrent liabilities	**(3.4)**	(1.4)	(6.9)
Net Cash Flows from Operating Activities	**410.4**	474.9	410.3
Investing Activities			
Capital expenditures	**(276.8)**	(196.4)	(175.3)
Changes in affiliated money pool lendings	**10.0**	(5.1)	(3.5)
Proceeds from disposition of assets	**0.8**	0.4	1.4
Restricted cash	**24.1**	(21.5)	8.7
Net Cash Flows used for Investing Activities	**(241.9)**	(222.6)	(168.7)
Financing Activities			
Issuance of affiliated long-term debt	**-**	-	350.0
Retirement of long-term debt	**(56.0)**	-	(73.3)
Changes in affiliated money pool borrowings	**(44.6)**	41.3	(419.2)
Retirement of preferred stock	**-**	(81.6)	-
Dividends paid - common stock	**(75.0)**	(215.1)	(80.0)
Dividends paid - preferred stock	**-**	(2.1)	(4.3)
Net Cash Flows used for Financing Activities	**(175.6)**	(257.5)	(226.8)
Increase (decrease) in cash and cash equivalents	**(7.1)**	(5.2)	14.8
Cash and cash equivalents at beginning of year	**10.1**	15.3	0.5
Cash and cash equivalents at end of period	**$ 3.0**	$ 10.1	$ 15.3
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest	**$ 51.0**	$ 49.9	$ 44.5
Interest capitalized	**1.4**	0.7	0.6
Cash paid to NiSource for income taxes	**160.0**	175.0	93.8

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

NORTHERN INDIANA PUBLIC SERVICE COMPANY

STATEMENTS OF CONSOLIDATED COMMON SHAREHOLDER'S EQUITY AND COMPREHENSIVE INCOME

(in millions)	Common Stock Shares Outstanding	Common Stock Value	Additional Paid-In Capital	Retained Earnings	Accum. Other Comp. Income (Loss)	Total	Comp. Income
Balance at January 1, 2005	**73.3**	**$ 859.5**	**$ 63.0**	**$ 356.9**	**$ (123.2)**	**$ 1,156.2**	
Comprehensive Income:							
Net Income				180.9		180.9	$ 180.9
Other comprehensive income, net of tax:							
Net unrealized losses on derivatives qualifying as cash flow hedges (a)					2.5	2.5	2.5
Unrecognized Pension Benefit and Other Postretirement Benefit Costs (b)					(16.9)	(16.9)	(16.9)
Total comprehensive income							$ 166.5
Cash dividends:							
Common stock				(80.0)		(80.0)	
Preferred stock dividend				(4.2)		(4.2)	
Tax benefit allocation			2.9			2.9	
Balance at December 31, 2005	**73.3**	**$ 859.5**	**$ 65.9**	**$ 453.6**	**$ (137.6)**	**$ 1,241.4**	
Comprehensive Income:							
Net Income				157.9		157.9	$ 157.9
Other comprehensive income, net of tax:							
Net unrealized losses on derivatives qualifying as cash flow hedges (a)					(3.5)	(3.5)	(3.5)
Unrecognized Pension Benefit and Other Postretirement Benefit Costs (b)					136.4	136.4	14.2
Total comprehensive income							$ 168.6
Cash dividends:							
Common stock				(215.1)		(215.1)	
Preferred stock dividend				(1.1)		(1.1)	
Tax benefit allocation			4.6			4.6	
Balance at December 31, 2006	**73.3**	**$ 859.5**	**$ 70.5**	**$ 395.3**	**$ (4.7)**	**$ 1,320.6**	
Adjusted to initially apply new measurment date pursuant to SFAS No. 158, net of tax				(5.2)		(5.2)	
Adjustment to initially apply FIN 48, net of tax				(0.8)		(0.8)	
Beginning balance as adjusted	**73.3**	**$ 859.5**	**$ 70.5**	**$ 389.3**	**$ (4.7)**	**$ 1,314.6**	**$ -**
Comprehensive Income:							
Net Income				139.9		139.9	$ 139.9
Other comprehensive income, net of tax:							
Net unrealized gains on derivatives qualifying as cash flow hedges (a)					3.6	3.6	3.6
Total comprehensive income							$ 143.5
Cash dividends:							
Common stock				(75.0)		(75.0)	
Tax benefit allocation			11.0			11.0	
Balance at December 31, 2007	**73.3**	**$ 859.5**	**$ 81.5**	**$ 454.2**	**$ (1.1)**	**$ 1,394.1**	

(a) Net unrealized losses on derivatives qualifying as cash flow hedges, net of $2.4 million tax expense in 2007, $2.4 million tax benefit in 2006 and $1.7 million tax expense in 2005.
(b) Unrecognized Pension Benefit and Other Postretirement Benefit Costs recorded to accumulated other comprehensive income, net of $92.9 million tax expense in 2006 and $11.5 million tax benefit in 2005. For the year ended December 31, 2006, Unrecognized Pension Benefit and Other Postretirement Benefit Costs recorded to comprehensive income was net of $9.7 million tax expense.

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

1. Nature of Operations and Summary of Significant Accounting Policies

A. Company Structure and Basis of Accounting Presentation. Northern Indiana, a wholly-owned subsidiary of NiSource, is a public utility operating company, incorporated in Indiana on August 2, 1912, that supplies natural gas and electric energy to the public. It operates in 30 counties in the northern part of Indiana, serving an area of about 12,000 square miles with a population of approximately 2.2 million.

NiSource is an energy holding company whose subsidiaries provide natural gas, electricity and other products and services to customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. NiSource is a Delaware corporation and is a holding company under the Public Utility Holding Company Act of 2005.

Northern Indiana's primary business segments are: Gas Distribution Operations, Electric Operations, and Other Operations. Northern Indiana's natural gas distribution operations serve approximately 721 thousand customers in the northern part of Indiana. Northern Indiana generates, transmits and distributes electricity to approximately 457 thousand customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. At December 31, 2007, the Other Operations segment includes the results of NRC, a wholly-owned subsidiary of Northern Indiana, whose sole activity is to purchase accounts receivable from Northern Indiana and sell an undivided percentage ownership interest in these accounts to a commercial paper conduit, within the limits of the agreement between NRC and the conduit. The consolidated financial statements include the accounts of Northern Indiana and subsidiary, after the elimination of all intercompany items.

In the Consolidated Balance Sheet at December 31, 2006, the classification of customer advances has been reclassified to "Other noncurrent liabilities" from "Deferred Credits" to conform to the current year presentation. This resulted in a decrease of $19.5 million to "Deferred credits" and a corresponding increase in "Other noncurrent liabilities" as of December 31, 2006.

B. Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Cash, Cash Equivalents, and Restricted Cash. Northern Indiana considers all investments with original maturities of three months or less to be cash equivalents. Northern Indiana reports amounts deposited in brokerage accounts for margin requirements as restricted cash.

Restricted cash was $11.1 million and $35.2 million for the years ended December 31, 2007 and 2006, respectively, representing primarily margin deposits on open derivative contracts.

D. Accounts Receivable and Unbilled Revenue. Accounts receivable on the Consolidated Balance Sheets includes both billed and unbilled amounts as Northern Indiana believes that total accounts receivable is a more meaningful presentation, given the factors which impact both billed and unbilled accounts receivable. Unbilled revenue is based on estimated amounts of electric energy or natural gas delivered but not yet billed to its customers. Unbilled amounts of accounts receivable relate to a portion of a customer's consumption of gas or electricity from the date of the last cycle billing date through the last day of the month (balance sheet date). Factors taken into consideration when estimating unbilled revenue include historical usage, customer rates and weather. Accounts receivable fluctuates from year to year depending upon seasonality and price volatility. Northern Indiana's accounts receivable on the Consolidated Balance Sheets includes unbilled revenue, less reserves, in the amounts of $25.7 million and $80.1 million for the years ended December 31, 2007 and 2006, respectively.

Northern Indiana detected an error in its unbilled revenue calculation and revised its estimate for unbilled electric and gas revenues in the fourth quarter of 2007. Over a period of several years, Northern Indiana used incorrect customer usage data to calculate its unbilled revenue. As a result, this correction reduced electric net revenues by $10.9 million and gas net revenues by $14.6 million in the fourth quarter of 2007. The unbilled revenue estimates were never billed to customers.

E. Basis of Accounting for Rate-Regulated Operations. Northern Indiana's rate-regulated operations follow the accounting and reporting requirements of SFAS No. 71. SFAS No. 71 provides that rate-regulated operations account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the Consolidated Balance Sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

In the event that regulation significantly changes the opportunity for Northern Indiana to recover its costs in the future, all or a portion of Northern Indiana's regulated operations may no longer meet the criteria for the application of SFAS No. 71. In such event, a write-down of all or a portion of Northern Indiana's existing regulatory assets and liabilities could result. If transition cost recovery was approved by the appropriate regulatory bodies that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to continue to apply the provisions of SFAS No. 71, Northern Indiana would be required to apply the provisions of SFAS No. 101. In management's opinion, Northern Indiana will be subject to SFAS No. 71 for the foreseeable future.

Regulatory assets were comprised of the following items:

At December 31, *(in millions)*	**2007**	2006
Assets		
Reacquisition premium on debt (see Note 9)	**$ 15.6**	$ 18.3
R. M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation (see Note 1G)	**24.4**	28.6
Bailly scrubber carrying charges and deferred depreciation (see Note 1G)	**0.5**	1.5
Unrecognized pension benefit and other postretirement benefit costs (SFAS No. 158), (see Note 2)	**220.3**	350.2
Postemployment and other postretirement costs (see Note 7)	**28.0**	33.6
Regulatory effects of accounting for income taxes (see Note 1Q)	**81.9**	92.0
Underrecovered fuel costs (see Note 1K)	**40.3**	26.7
Asset retirement obligations (see Note 3)	**22.6**	20.4
Environmental costs (see Note 1R)	**21.6**	21.4
Derivatives (SFAS No. 133 hedges) (see Note 5)	**10.8**	27.7
Deferred MISO costs (see Note 4)	**14.0**	4.0
Electric rate case (see Note 4)	**1.2**	-
Total Assets	**$ 481.2**	$ 624.4
Less amounts included as Underrecovered fuel costs	**(40.3)**	(26.7)
Total Regulatory Assets reflected in Current Regulatory Assets and Other Regulatory Assets	**$ 440.9**	$ 597.7

Regulatory liabilities were comprised of the following items:

At December 31, *(in millions)*		**2007**		2006
Liabilities				
Overrecovered gas costs (see Note 1L)	**$**	**7.3**	$	103.6
Emission allowances (see Note 1O)		**15.2**		13.3
Asset retirement obligations (see Note 3)		**70.3**		71.6
Cost of removal (see Note 3)		**785.0**		744.3
Regulatory effects of accounting for income taxes (see Note 1Q)		**20.7**		25.0
Derivatives (SFAS No. 133 hedges) (see Note 5)		**13.7**		0.7
Fuel adjustment clause settlements (see Note 1K)		**33.5**		-
Other		**3.2**		0.7
Total Liabilities	**$**	**948.9**	$	959.2
Less amounts included as Overrecovered gas costs		**(7.3)**		(103.6)
Less amounts included as Asset retirement obligations		**(70.3)**		(71.6)
Total Regulatory Liabilities reflected in Current Regulatory Liabilities and Other Regulatory Liabillities and Other Removal Costs	**$**	**871.3**	$	784.0

With the adoption of SFAS No. 158 Northern Indiana determined that the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71 and recorded amounts that would otherwise have been recorded to accumulated other comprehensive income to a regulatory asset account. Refer to Note 2, "Recent Accounting Pronouncements," in the Notes to Consolidated Financial Statements for additional information.

Regulatory assets of approximately $397.2 million as of December 31, 2007 are not presently included in rate base and consequently are not earning a return on investment. The regulatory assets of approximately $161.5 million are covered by specific regulatory orders and are being recovered as components of cost of service over a remaining life of up to 7 years. Regulatory assets of approximately $251.1 million require specific rate action.

F. Utility Plant and Other Property and Related Depreciation and Maintenance. Property, plant and equipment (principally utility plant) are stated at cost. Northern Indiana records depreciation using composite rates on a straight-line basis over the remaining service lives of the electric, gas and common properties.

Northern Indiana's property, plant and equipment on the Consolidated Balance Sheets was classified as follows:

At December 31, *(in millions)*	2007	2006
Property Plant and Equipment		
Gas Distribution Utility (1)	$1,751.4	$1,732.7
Electric Utility (1)	5,235.0	5,128.8
Construction Work in Process	173.0	143.5
Non-Utility and Other	2.8	2.8
Total Property Plant and Equipment	$7,162.2	$7,007.8
Accumulated Depreciation and Amortization		
Gas Distribution Utility (1)	($963.8)	($932.6)
Electric Utility (1)	(2,653.3)	(2,588.1)
Non-Utility and Other	(0.7)	(0.6)
Total Accumulated Depreciation and Amortization	($3,617.8)	($3,521.3)
Net Property, Plant and Equipment	$3,544.4	$3,486.5

(1) Northern Indiana's common utility plant and associated accumulated depreciation and amortization are allocated between Gas Distribution Utility and Electric Utility Property, Plant and Equipment.

For Northern Indiana, AFUDC is capitalized on all classes of property except organization land, autos, office equipment, tools and other general property purchases. The allowance is applied to construction costs for that period of time between the date of the expenditure and the date on which such project is completed and placed in service. The pre-tax rate for AFUDC was 9.2% in 2007, 9.4% in 2006, and 2.6% in 2005. The increase in the 2007 and 2006 AFUDC rate, as compared with 2005, was due to higher short-term interest rates and an increase in the level of funding capital projects with long-term financing and equity.

The depreciation provisions for utility plant, as a percentage of the original cost, for the periods ended December 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Electric Operations	**3.6%**	3.6%	3.5%
Gas Distribution Operations	**5.6%**	5.4%	5.4%

Northern Indiana follows the practice of charging maintenance and repairs, including the cost of removal of minor items of property, to expense as incurred. When regulated property that represents a retired unit is replaced or removed, the cost of such property is credited to utility plant, and such cost, net of salvage, is charged to the accumulated provision for depreciation.

G. Carrying Charges and Deferred Depreciation. Upon completion of units 17 and 18 at the R. M. Schahfer Generating Station, Northern Indiana capitalized the carrying charges and deferred depreciation in accordance with orders of the IURC, pending the inclusion of the cost of each unit in rates. Such carrying charges and deferred depreciation are being amortized over the remaining service life of each unit.

Northern Indiana has capitalized carrying charges and deferred depreciation and certain operating expenses relating to its scrubber service agreement for its Bailly Generating Station in accordance with an order of the IURC. The accumulated balance of the deferred costs and related carrying charges is being amortized over the remaining life of the scrubber service agreement.

H. Amortization of Software Costs. External and internal costs associated with computer software developed for internal use are capitalized. Capitalization of such costs commences upon the completion of the preliminary stage of each project in accordance with SOP 98-1. Once the installed software is ready for its intended use, such capitalized costs are amortized on a straight-line basis generally over a period of five years. Northern Indiana amortized $10.1 million in 2007, $8.1 million in 2006 and $13.5 million in 2005 related to software costs. Northern Indiana unamortized software balance was $24.7 million at December 31, 2007

I. Revenue Recognition. Revenues are recorded as products and services are delivered. Utility revenues are billed to customers monthly on a cycle basis. Revenues are recorded on the accrual basis and include estimates for electricity and gas delivered, but not billed.

J. Accounts Receivable Sales Program. Northern Indiana enters into agreements with a third party to sell certain accounts receivable without recourse. These sales are reflected as reductions of accounts receivable in the accompanying Consolidated Balance Sheets and as operating cash flows in the accompanying Statements of Consolidated Cash Flows. The costs of these programs, which are based upon the purchasers' level of investment and borrowing costs, are charged to Other, net in the accompanying Statements of Consolidated Income.

K. Fuel Adjustment Clause. All metered electric rates contain a provision for adjustment to reflect increases and decreases in the cost of fuel and the fuel cost of purchased power through operation of a fuel adjustment clause. As prescribed by order of the IURC applicable to metered retail rates, the adjustment factor has been calculated based on the estimated cost of fuel and the fuel cost of purchased power in a future three-month period. If two statutory requirements relating to expense and return levels are satisfied, any under-recovery or over-recovery caused by variances between estimated and actual costs in a given three-month period are recorded as adjustments to revenue and will be included in a future filing, provided that the benchmark established as part of the FAC-71 settlement has not been exceeded. Northern Indiana records any under-recovery or over-recovery as a current regulatory asset or liability until such time as it is billed or refunded to its customers. The fuel adjustment factor is subject to a quarterly review by the IURC and remains in effect for a three- month period.

L. Gas Cost Adjustment Clause. Northern Indiana adjusts its revenues for differences between amounts collected from customers and actual gas costs and adjusts future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions.

M. Natural Gas in Storage. Natural gas in storage is valued using the LIFO inventory methodology. Based on the average cost of gas using the LIFO method in December 2007, the estimated replacement cost of gas in storage at December 31, 2007, exceeded the stated LIFO cost by $171.8 million. Based on the average cost of gas using the LIFO method in December 2006, the estimated replacement cost of gas in storage at December 31, 2006, exceeded the stated LIFO cost by $137.5 million.

N. Affiliated Company Transactions. Northern Indiana receives executive, financial, gas supply, sales and marketing, and administrative and general services from an affiliate, NiSource Corporate Services, a wholly-owned subsidiary of NiSource.

The costs of these services are charged to Northern Indiana based on payroll costs and expenses incurred by NiSource Corporate Services employees for the benefit of Northern Indiana. These costs, which totaled $70.4 million for the year 2007, $60.0 million for the year 2006 and $74.0 million for the year 2005, consist primarily of employee compensation and benefits. These costs are included in "Operation and Maintenance Expense," on the Statements of Consolidated Income.

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM was to provide a broad range of business transformation and outsourcing services to NiSource. The IBM Agreement is for ten years with a transition period that ended on December 31, 2006.

On December 12, 2007, NiSource Corporate Services amended its agreement with IBM. Under the amended agreement, NiSource will reassume responsibility for business support functions including human resource administration, payroll, accounts payable, supply chain (procurement), sales centers, and the majority of meter to cash operations (billing and collections). During 2007, NiSource had already begun to bring certain finance and accounting functions back within the company. These functions include general accounting, fixed asset accounting, and budgeting. In the Customer Contact Centers, interim operational responsibility will be retained by IBM, although NiSource intends to pursue a direct arrangement with Vertex, which currently operates the contact center as a subcontractor for IBM. IBM will retain responsibility for information technology operations. Support functions returning to NiSource will be transitioned in a phased approach throughout 2008. The fees paid by NiSource under the agreement are being allocated to Northern Indiana in the manner permitted by the services agreement between Northern Indiana and NiSource Corporate Services.

Northern Indiana had affiliated gas revenues of $27.3 million, $14.9 million and $15.2 million for years 2007, 2006 and 2005, respectively. Also, Northern Indiana had affiliated electric revenues of $1.5 million, $1.6 million and $2.1 million for years 2007, 2006 and 2005, respectively.

Northern Indiana purchased natural gas and transportation services from affiliated companies in the amount of $7.4 million, $1.2 million and $3.4 million, representing 1.0%, 0.2% and 0.4% of Northern Indiana's total gas costs for years 2007, 2006 and 2005, respectively.

Northern Indiana purchased fuel for electric generation from an affiliated company, TPC, in the amount of $7.6 million, $6.5 million and $9.1 million, representing 2.4%, 2.3% and 3.3% of Northern Indiana's total fuel for electric generation costs for years 2007, 2006 and 2005, respectively.

Northern Indiana did not purchase power from TPC in 2007 and 2006. In 2005, Northern Indiana purchased $16.7 million from TPC representing 9.5% of total purchased power.

The December 31, 2007 and 2006 accounts receivable balance includes approximately $7.7 million and $44.5 million, respectively, due from associated companies. Also, included in this balance are amounts due from the NiSource Money Pool of $0.5 million and $10.6 million, respectively.

As of December 31, 2007, and 2006, Northern Indiana had a long-term debt affiliated balance of $350.0 million due to NiSource Finance.

As of December 31, 2007, Northern Indiana had short-term NiSource Money Pool borrowings of $72.0 million at an interest rate of 5.35%. As of December 31, 2006, Northern Indiana had short-term NiSource Money Pool borrowings of $116.6 million at an interest rate of 5.73%.

The amount of federal and state taxes payable to NiSource included in Northern Indiana's Consolidated Balance Sheet as of December 31, 2007 and 2006 was $(0.2) million and $32.0 million, respectively.

O. Accounting for Emissions Allowances. Northern Indiana has obtained SO2 and NOx emissions allowances from the EPA based upon its electric generation operations that the utility may sell, trade or hold for future use. Northern Indiana utilizes the inventory model in accounting for these emissions allowances, whereby these allowances were recognized at zero cost upon receipt from the EPA. The utility defers proceeds from the sale of certain allowances as regulatory liabilities to be applied for customer benefit. The sale of other allowances, not used due to investments made by Northern Indiana in pollution control assets and services, that are not included in rate base, are reflected in earnings in the period in which they occur and are included in net cash flows from operating activities in Northern Indiana's Statements of Consolidated Cash Flows.

P. Accounting for Risk Management Activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities on the Consolidated Balance Sheets at fair value, unless such contracts are exempted as a normal purchase sale under the provisions of the standard. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation.

If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction. In order for a derivative contract to be designated as a hedge, the relationship between the hedging instrument and the hedged item or transaction must be highly effective. The effectiveness test is performed at the inception of the hedge and each reporting period thereafter, throughout the period that the hedge is designated. Any amounts determined to be ineffective are recognized currently in earnings. For derivative contracts that qualify for the normal purchase normal sale exemption under SFAS. No. 133, a contract's fair value is not recognized in the Consolidated Financial Statements until the contract is settled.

Unrealized and realized gains and losses are recognized each period as components of accumulated other comprehensive income, regulatory assets and liabilities or earnings depending on the nature of such derivatives. Northern Indiana utilizes derivatives for cash flow hedges and the effective portions of the gains and losses are recorded to accumulated other comprehensive income and are recognized in earnings concurrent with the disposition of the hedged risks. If a forecasted transaction corresponding to a cash flow hedge is no longer probable to occur, the accumulated gains or losses on the derivative are recognized currently in earnings. As a result of the rate-making process, Northern Indiana generally records gains and losses as regulatory liabilities or assets and recognizes such gains or losses in earnings when both the contracts settle and the physical commodity flows. These gains and losses recognized in earnings are then subsequently recovered in revenues through rates. When gains and losses are recognized in earnings, they are recognized in cost of sales for derivatives that correspond to commodity risk activities.

Q. Income Taxes and Investment Tax Credits. Northern Indiana records income taxes to recognize full interperiod tax allocations. Under the liability method, deferred income taxes are provided for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Previously recorded investment tax credits of Northern Indiana were deferred on the balance sheet and are being amortized to book income over the regulatory life of the related properties to conform to regulatory policy.

To the extent certain deferred income taxes of Northern Indiana are recoverable or payable through future rates, regulatory assets and liabilities have been established. Regulatory assets for income taxes are primarily attributable to property related tax timing differences for which deferred taxes had not been provided in the past, when regulators did not recognize such taxes as costs in the rate-making process. Regulatory liabilities for income taxes are primarily attributable to Northern Indiana’s obligation to refund to ratepayers deferred income taxes provided at rates higher than the current federal income tax rate. Such amounts are credited to ratepayers using the average rate assumption method.

Northern Indiana joins in the filing of consolidated federal and state income tax returns with its parent company, NiSource, and certain of NiSource’s other affiliated companies. Northern Indiana is party to an agreement (Tax Allocation Agreement) that provides for the allocation of consolidated tax liabilities. The Tax Allocation Agreement generally provides that each party is allocated an amount of tax similar to that which would be owed had the party been separately subject to tax. In addition, the Tax Allocation Agreement provides that tax benefits associated with NiSource parent’s tax losses, excluding tax benefits from interest expense on acquisition debt, are allocated to and reduce the income tax liability of all NiSource subsidiaries having a positive separate company tax liability in a particular tax year. The amount of such tax benefits allocated to Northern Indiana for the 2006, 2005 and 2004 tax years were $11.0 million, $4.6 million and $2.9 million, respectively. These amounts were recorded in equity in the 2007, 2006 and 2005 periods, respectively.

R. Environmental Expenditures. Northern Indiana accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The undiscounted estimated future expenditures are based on currently enacted laws and regulations, existing technology and estimated site-specific costs where assumptions may be made about the nature and extent of site contamination, the extent of cleanup efforts, costs of alternative cleanup methods and other variables. The liability is adjusted as further information is discovered or circumstances change. The reserves for estimated environmental expenditures are recorded on the Consolidated Balance Sheets in “Other noncurrent liabilities.”

In addition, Northern Indiana received approval from the IURC in 2003 to recover costs associated with environmental compliance-programs for NOx pollution-reduction equipment at Northern Indiana's generating stations. Refer to Note 4, “Regulatory Matters,” in the Notes to Consolidated Financial Statements for further information.

S. Excise Taxes. Northern Indiana accounts for excise taxes that are customer liabilities by separately stating on its invoices the tax to its customers and recording amounts invoiced as liabilities payable to the applicable taxing jurisdiction. Northern Indiana accounts for these taxes in accordance with EITF No. 06-3 whereby these types of taxes, comprised largely of sales taxes collected, are presented on a net basis affecting neither revenues nor cost of sales. Northern Indiana accounts for other taxes for which it is liable by recording a liability for the expected tax with a corresponding charge to “Other taxes” expense.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

SFAS No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. In September 2006, the FASB issued SFAS No. 158 to improve existing reporting for defined benefit postretirement plans by requiring employers to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan, among other changes.

In the fourth quarter of 2006, Northern Indiana adopted the provisions of SFAS No. 158. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at September 30, 2006, the pretax impact of adopting SFAS No. 158 decreased intangible assets by $24.9 million, increased regulatory assets by $350.2 million, increased accumulated other comprehensive income by $229.3 million and increased accrued liabilities for postretirement and postemployment benefits by $96.0 million. With the adoption of SFAS No. 158 Northern Indiana determined that the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71. Northern Indiana recorded regulatory assets that would otherwise have been recorded to accumulated other comprehensive income.

On January 1, 2007, Northern Indiana adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. Prior to January 1, 2007, NiSource and Northern Indiana used September 30 as its measurement date for its pension and postretirement benefit plans. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions decreased regulatory assets by $46.4 million, decreased retained earnings by $8.1 million and decreased accrued liabilities for postretirement and postemployment benefits by $38.3 million. Northern Indiana also recorded a reduction in deferred income taxes of approximately $3.5 million. In addition, 2007 expense for pension and postretirement benefits reflects the updated measurement date valuations.

Refer to Note 7, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for additional information.

FIN 48 – Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The determination of whether a tax position meets the more-likely-than-not recognition threshold is based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, Northern Indiana adopted the provisions of FIN 48. As a result of the implementation of FIN 48, Northern Indiana recognized a charge of $0.8 million to the opening balance of retained earnings. Refer to Note 6, "Income Taxes," in the Notes to Consolidated Financial Statements for additional information.

Recently Issued Accounting Pronouncements

SFAS No. 157 – Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157 to define fair value, establish a framework for measuring fair value and to expand disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and should be applied prospectively, with limited exceptions. Northern Indiana will adopt this standard in the first quarter of 2008. Northern Indiana is currently reviewing the provisions of this interpretation and does not anticipate a material impact to the Consolidated Financial Statements.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. In February 2007, the FASB issued SFAS No. 159 which permits entities to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. Upon adoption, a cumulative adjustment will be made to beginning retained earnings for the initial fair value option remeasurement. Subsequent unrealized gains and losses for fair value option items will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and should not be applied retrospectively, except as permitted for certain conditions for early adoption. Northern Indiana is currently reviewing the provisions of SFAS No. 159 to determine whether to elect fair value measurement for any of its financial assets or liabilities when it adopts this standard in 2008.

FSP FIN 39-1 - FASB Staff Position Amendment of FASB Interpretation No. 39. In April 2007, the FASB posted FSP FIN 39-1 to amend paragraph 3 of FIN 39 to replace the terms *conditional contracts* and e*xchange contracts* with the term *derivative instruments* as defined in SFAS No. 133. This FSP also amends paragraph 10 of FIN 39 to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. This FSP is effective for fiscal years beginning after November 15, 2007, with early application permitted. Northern Indiana is currently reviewing the provisions of FSP FIN 39-1 to determine the impact it may have on the Consolidated Balance Sheets.

3. Asset Retirement Obligations.

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

Changes in Northern Indiana's liability for asset retirement obligations for the years 2007 and 2006 are presented in the table below:

(in millions)		**2007**		2006
Beginning Balance	**$**	**71.6**	$	64.2
Addition		**0.2**		3.2
Settlements		**(5.4)**		(0.9)
Accretion		**3.9**		5.1
Ending Balance	**$**	**70.3**	$	71.6

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

Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of Northern Indiana, are classified as regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

For the year ended December 31, 2007, Northern Indiana accrued $3.9 million of accretion, with a corresponding amount recognized as regulatory asset. For the year ended December 31, 2006, Northern Indiana accrued $5.1 million of accretion, with a corresponding amount recognized as regulatory asset.

4. Regulatory Matters

Gas Distribution Operations Regulatory Matters

Significant Rate Developments. On May 9, 2007, the IURC approved Northern Indiana's petition to simplify rates, stabilize revenues and provide for energy efficiency funding. The order adopts a new rate structure that enhances Northern Indiana's ability to increase revenues and provides incremental funding for an energy efficiency program.

Cost Recovery and Trackers. A significant portion of Northern Indiana's gas revenue is related to the recovery of gas costs, the review and recovery of which occurs via standard regulatory proceedings and which requires periodic review of actual gas procurement activity to determine prudence and to permit the recovery of prudently incurred costs related to the supply of gas for customers. Northern Indiana has historically been found prudent in the procurement of gas supplies to serve customers.

Northern Indiana has 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 to be included in future customer billings. During times of unusually high gas prices, throughput and net revenue have been adversely affected as customers may reduce their usage as a result of higher gas cost.

Electric Operations Regulatory Matters

Significant Rate Developments. To settle a proceeding regarding Northern Indiana's request to recover intermediate dispatchable power costs, Northern Indiana has agreed to file an electric base rate case on or before July 1, 2008.

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year. The credits will continue at approximately the same annual level and per the same methodology, until the IURC enters a base rate order that approves revised Northern Indiana electric rates. The order included a rate moratorium that expired on July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage; therefore, in times of high usage the credit may be more than $55.1 million. Credits amounting to $56.0 million, $50.9 million and $58.5 million were recognized for electric customers for the years ended December 31, 2007, 2006 and 2005, respectively.

MISO. As part of Northern Indiana's participation in the MISO transmission service and wholesale energy market, certain administrative fees and non-fuel costs have been incurred. IURC Orders have been issued authorizing the deferral for consideration in a future rate case proceeding the administrative fees and certain non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. During 2007 non-fuel costs of $3.4 million were deferred in accordance with the aforementioned orders. In addition, administrative, FERC and other fees of $6.5 million were deferred. In total, for 2007 and 2006, MISO costs of $9.9 million and $4.0 million, respectively, were deferred.

On April 25, 2006, the FERC issued an order on the MISO's Transmission and Energy Markets Tariff, stating that MISO had violated the tariff on several issues including not assessing revenue sufficiency guarantee charges on virtual bids and offers and for charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges back to the start of the Day 2 Market. The resettlement began on June 9, 2007 and ended in January 2008. Certain charge types included in the resettlement were originally considered to be non-fuel and were recorded as regulatory assets, in accordance with previous IURC orders allowing deferral of certain non-fuel MISO costs. During the fourth quarter 2007, based on precedent set by an IURC ruling for another Indiana utility, Northern Indiana reclassified these charges, totaling $16.7 million, as fuel and included them in the fuel cost recovery mechanism in its latest FAC filing.

On September 14, 2007, MISO filed a tariff with FERC outlining the development of an ASM. The ASM will allow participants to buy and sell operating reserves and regulation services that are essential to reliability. The pricing of these markets will be optimized with the current energy markets and MISO is targeting the start of the ASM for September

2008. Northern Indiana is an active stakeholder in the process used in designing, testing and implementing the ASM and in developing the surrounding business practices. On January 18, 2008, Northern Indiana as part of a joint petition to the IURC, filed a request to participate in ASM and seek approval of cost recovery methodologies for associated costs. At this time, Northern Indiana is unable to determine what impact the ASM will have on its operations or cash flows.

Cost Recovery and Trackers. A significant portion of the Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through an FAC, a standard, quarterly, "summary" regulatory proceeding in Indiana.

On January 30, 2008, the IURC approved a settlement agreement which was reached in October 2007 with the OUCC, LaPorte County and a group of Northern Indiana industrial customers to resolve questions relating to the costs paid by customers for power purchased by Northern Indiana versus the amount of these costs absorbed by Northern Indiana. The terms of the settlement call for Northern Indiana to make a one-time payment to resolve this question as it relates to power purchased from January 1, 2006 through September 30, 2007. The amount of the refund is set at $33.5 million. A reserve for the entire amount was recorded in the third quarter of 2007. Northern Indiana implemented a new "benchmarking standard" that will govern the allocation of costs for purchased power between customers and Northern Indiana. The benchmark defines the price below which customers will pay for power purchases and above which Northern Indiana must absorb a portion of the costs. The benchmark is based upon the costs of power generated by a hypothetical natural gas fired CCGT's using gas purchased and delivered to Northern Indiana. This will most likely result in Northern Indiana absorbing some purchased power costs that will reduce net revenues during future periods. The agreement also contemplates Northern Indiana adding generating capacity to its existing portfolio. The benchmark will be adjusted as new capacity is added. The added generating capacity will substantially reduce the amount of purchased power and mitigate the impact of the adjusted benchmark. Further, the settling parties agreed to support Northern Indiana's deferral and future recovery of carrying costs and depreciation associated with the acquisition of new generating facilities. In the approving order, the IURC dictated that, while the parties agreed to support the deferral of costs mentioned above, the IURC would rule on such deferral in CPCN proceedings.

On November 1, 2007, Northern Indiana filed its bi-annual IRP with the IURC. The plan showed the need to add approximately 1,000 mw of new capacity. Additionally, during November 2007, Northern Indiana filed a CPCN as well as contracts to purchase power generated with renewable energy, specifically with wind. The CPCN requested approval to purchase two CCGT power plants - the Whiting Clean Energy facility owned by PEI, a wholly-owned subsidiary of NiSource, and the Sugar Creek facility located in west central Indiana and owned by LS Power Group. On December 22, 2007, BP indicated it would exercise a contractual right of first refusal to purchase the Whiting Clean Energy facility. Whiting Clean Energy is in discussions with BP regarding several aspects of the offer. As a result, on January 25, 2008, Northern Indiana filed an amended CPCN to address just the Sugar Creek CCGT facility. The estimated cost of the facility is $329 million. Northern Indiana is requesting that the IURC approve the purchase by the second quarter of 2008. FERC approval was received in February 2008.

On November 26, 2002, Northern Indiana received approval from the IURC for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. In December 2006, Northern Indiana filed a petition with the IURC for appropriate cost treatment and recovery of emission control construction needed to address the Phase I CAIR requirements of the Indiana Air Pollution Control Board's CAIR rules that became effective on February 25, 2007. On July 3, 2007, Northern Indiana received an IURC order issuing a CPCN for the CAIR and CAMR Phase I Compliance Plan Projects, estimated to cost approximately $23 million. Northern Indiana will include the CAIR and CAMR Phase I Compliance Plan costs to be recovered in the semi-annual and annual ECRM and EERM filing six months after construction costs begin. On December 19, 2007, the IURC approved Northern Indiana's latest compliance plan with the estimate of $338.5 million. On October 10, 2007, the IURC approved ECR-10 for capital expenditures (net of accumulated depreciation) of $237.4 million. In February 2008, Northern Indiana filed ECR-11 for $252.6 million in capital expenditures (net of accumulated depreciation) and EER-5 for $14.1 million in expenses.

On January 9, 2008, the IURC established a procedural schedule to review the October 27, 2006 Joint Petition of Indiana Gasification, LLC., Vectren Energy Delivery of Indiana and Northern Indiana. The petition seeks IURC approval for a coal gasification facility, the transportation of electricity and SNG produced at the facilities and the recovery of the cost incurred by the joint petitioners. A technical workshop and settlement hearing are scheduled for April 2008.

Mitchell Station. In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. Northern Indiana, with input from a broad based stakeholder group, is evaluating the appropriate course of action for the Mitchell Station facility in light of its value for alternative uses and the substantial cost of restarting the facility including the expected increases in the level of environmental controls required. Northern Indiana has received guidance from the IDEM that any reactivation of this facility would require a preconstruction New Source Review Standards permit. The detailed analysis of alternative methods to meet customers' future power needs filed in the IRP did not recommend restarting the Mitchell Station. Northern Indiana does not anticipate restarting the Mitchell Station in the near term.

5. Risk Management Activities

Northern Indiana uses commodity-based derivative financial instruments primarily to manage commodity price risk in its business as well as for commercial and industrial sales. Northern Indiana accounts for its derivatives in accordance with SFAS No. 133. Under SFAS No. 133, if certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction. Additionally, Northern Indiana enters into forward physical contracts with various third parties to procure natural gas or power for its operational needs. These forward physical contracts are derivatives which qualify for the normal purchase normal sales exception under SFAS No. 133 and do not require mark-to-market accounting.

Northern Indiana's derivatives on the Consolidated Balance Sheets at December 31, 2007 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 0.3	$ 13.7	$ 14.0
Total price risk management assets	$ 0.3	$ 13.7	$ 14.0
Price risk management liabilities			
Current liabilities	$ (2.5)	$ (10.8)	$ (13.3)
Total price risk management liabilities	$ (2.5)	$ (10.8)	$ (13.3)

Northern Indiana's derivatives on the Consolidated Balance Sheets at December 31, 2006 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 0.9	$ 0.7	$ 1.6
Total price risk management assets	$ 0.9	$ 0.7	$ 1.6
Price risk management liabilities			
Current liabilities	$ (8.8)	$ (27.8)	$ (36.6)
Total price risk management liabilities	$ (8.8)	$ (27.8)	$ (36.6)

The hedging activity for the years ended December 31, 2007 and 2006 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

(in millions, net of tax)	**2007**	2006
Unrealized losses on derivatives qualifying as cash flow hedges at the beginning of the period	**$ (4.7)**	$ (1.2)
Unrealized hedging losses arising during the period on derivatives qualifying as cash flow hedges	**(1.5)**	(9.6)
Reclassification adjustment for net loss included in net income	**5.1**	6.1
Net unrealized (losses) on derivatives qualifying as cash flow hedges at the end of the period	**$ (1.1)**	$ (4.7)

During 2007 and 2006, a gain of $0.3 million and zero, net of taxes respectively, were recognized in earnings due to the ineffectiveness of derivative instruments being accounted for as hedges. All derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During 2007 and 2006, Northern Indiana reclassified no amounts related to its cash flow hedges from accumulated other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in loss recognition of amounts currently classified in accumulated other comprehensive income of approximately $1.1 million, net of taxes.

Commodity Price Risk Programs. Northern Indiana uses NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of its gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in the company's gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana has purchased NYMEX futures, NYMEX options and basis contracts that correspond to a fixed or capped price in the associated delivery month and currently enters into forward physical contracts to secure forward gas prices. The NYMEX futures and options contracts are designated as cash flow hedges. This derivative program is accounted for as cash flow hedge.

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana has purchased NYMEX futures, NYMEX options and basis contracts that match the anticipated delivery needs of the program and currently enters into forward physical contracts to secure forward gas prices. The NYMEX futures and options contracts associated with this program are generally designated and accounted for as cash flow hedges.

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

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

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

	December 31, 2007		December 31, 2006	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	**$ -**	$ (9.7)	$ -	$ (26.2)
PPS program derivatives	0.2	(1.4)	0.6	(6.4)
DependaBill program derivatives	0.1	(1.1)	0.3	(2.4)
MISO FTR program derivatives	13.7	(1.1)	0.7	(1.6)

6. Income Taxes

The components of income tax expense were as follows:

Year Ended December 31, *(in millions)*	**2007**	2006	2005
Income Taxes			
Current			
Federal	**$ 108.6**	$ 143.6	$ 109.1
State	**30.6**	35.9	32.7
Total Current	**139.2**	179.5	141.8
Deferred			
Federal	**(37.0)**	(55.1)	(26.4)
State	**(2.9)**	(8.3)	(2.6)
Total Deferred	**(39.9)**	(63.4)	(29.0)
Deferred Investment Credits	**(6.3)**	(6.7)	(6.9)
Total Income Taxes	**$ 93.0**	$ 109.4	$ 105.9

Total income taxes were different from the amount that would be computed by applying the statutory federal income tax rate to book income before income tax. The major reasons for this difference were as follows:

Year Ended December 31, *(in millions)*	**2007**		2006		2005	
Book income before income taxes	**$ 232.9**		$ 267.3		$ 286.8	
Tax expense at statutory federal income tax rate	**81.5**	**35.0%**	93.6	35.0%	100.4	35.0%
Increases (reductions) in taxes resulting from:						
State income taxes, net of federal income tax benefit	**18.0**	**7.7**	17.9	6.7	19.5	6.8
Regulatory treatment of depreciation differences	**3.8**	**1.6**	6.0	2.2	2.4	0.8
Amortization of deferred investment tax credits	**(6.3)**	**(2.7)**	(6.7)	(2.5)	(6.9)	(2.4)
SFAS 109 adjustment to deferred taxes	**-**	**-**	-	-	(4.8)	(1.7)
Section 199 Electric Production Deduction	**(3.3)**	**(1.4)**	(1.4)	(0.5)	(2.4)	(0.8)
Other, net	**(0.7)**	**(0.3)**	-	-	(2.3)	(0.8)
Total Income Taxes	**$ 93.0**	**39.9%**	$ 109.4	40.9%	$ 105.9	36.9%

The effective income tax rates were 39.9%, 40.9%, and 36.9 % in 2007, 2006 and 2005, respectively. The 1.0% decrease in the overall effective tax rate in 2007 versus 2006 is due primarily to an increase in the estimated tax benefit associated with the electric production deduction. The overall effective tax rate increase for 2006 versus 2005 is due primarily to an increase in the regulatory flow-through of depreciation differences, a reduction in the estimated tax benefit associated with the electric production deduction, and the $4.8 million reduction in deferred income tax requirements recorded in 2005.

The American Jobs Creation Act of 2004, signed into law on October 22, 2004, created new Internal Revenue Code Section 199 which, beginning in 2005, permits taxpayers to claim a deduction from taxable income attributable to certain domestic production activities. Northern Indiana's electric production activities qualify for this deduction. The deduction is equal to 6% of QPAI for the taxable year, with certain limitations. This deduction was 3% of QPAI for years 2005 and 2006 and increases to 9% of QPAI beginning in 2010 and thereafter. The tax benefit for the Section 199 domestic production activities deduction claimed in Northern Indiana's 2006 consolidated federal income tax return was $2.1 million and is estimated to be $3.3 million for 2007.

Deferred income taxes resulted from temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The principal components of Northern Indiana's net deferred tax liability were as follows:

At December 31, *(in millions)*	**2007**	2006
Deferred tax liabilities		
Accelerated depreciation and other property differences	**$ 721.5**	$ 735.1
Unrecovered gas and fuel costs	**16.3**	16.1
Other regulatory assets	**172.3**	234.8
Reacquisition premium on debt	**6.3**	7.4
Total Deferred Tax Liabilities	**916.4**	993.4
Deferred tax assets		
Deferred investment tax credits and other regulatory liabilities	**(39.2)**	(47.1)
Cost of removal	**(336.4)**	(319.1)
Pensions and other postretirement/postemployment benefits	**(130.9)**	(196.4)
Other, net	**(54.7)**	(28.8)
Total Deferred Tax Assets	**(561.2)**	(591.4)
Less: Deferred income taxes related to current assets and liabilities	**(8.2)**	10.1
Non-Current Deferred Tax Liability	**$ 363.4**	$ 391.9

On January 1, 2007, Northern Indiana adopted the provisions of FIN 48. As a result of the implementation of FIN 48, Northern Indiana recognized a charge of $0.8 million to the opening balance of retained earnings, which includes the adjustment to the liability for unrecognized tax benefits shown below. The total amount of the liability for unrecognized tax benefits as of the date of adoption was $1.0 million, which was included in "Other noncurrent liabilities," on the Consolidated Balance Sheets. As a result of the implementation of FIN 48, Northern Indiana recognized the following changes in the liability for unrecognized tax benefits:

(in millions)	Total
Reduction in Retained Earnings (cumulative effect)	$ 0.8
Additional Deferred Tax Liabilities	0.2
Net increase in liability for unrecognized tax benefits	$ 1.0

Included in the balance of unrecognized tax benefits at January 1, 2007, are $0.8 million of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits at January 1, 2007, are $0.2 million of tax benefits that, if recognized, would result in adjustments to deferred taxes.

Reconciliation of the change in unrecognized tax benefits recorded on the Consolidated Balance Sheets from the January 1, 2007 FIN 48 date of adoption through December 31, 2007 is as follows:

Reconciliation of Unrecognized Tax Benefits *(in millions)*		
Unrecognized Tax Benefits - Opening Balance	$	1.0
Gross increases - tax positions in prior period		-
Gross decreases - tax positions in prior period		(0.1)
Gross increases - current period tax positions		0.3
Settlements		0.0
Lapse of statute of limitations		(0.1)
Unrecognized Tax Benefits - Ending Balance	$	1.1

As of December 31, 2007, the Consolidated Balance Sheet reflects an increase of $0.1 million in the liability for unrecognized tax benefits from the January 1, 2007 amount. The total amount of unrecognized tax benefits at December 31, 2007 that, if recognized, would affect the effective tax rate is $1.1 million. Northern Indiana does not anticipate any significant changes to its liability for unrecognized tax benefits over the next twelve months.

Effective January 1, 2007, Northern Indiana recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. In prior years, Northern Indiana recognized such accrued interest in interest expense and penalties in other expenses. Upon adoption of FIN 48 on January 1, 2007, Northern Indiana accrued interest on unrecognized tax benefits of $0.1 million. On a net basis, Northern Indiana recorded less than $50,000 in accrued interest on unrecognized tax benefits in 2007, resulting in accrued interest on unrecognized tax benefits of $0.1 million as of December 31, 2007. No amounts have been estimated or accrued for penalties.

Northern Indiana is subject to income taxation in the United States and various state jurisdictions, primarily Indiana.

Because Northern Indiana's parent, NiSource, is part of the IRS's Large and Mid-Size Business program, each year's federal income tax return is typically audited by the IRS. Tax years through 2004 have been audited and are settled and years through 2002 are closed to further assessment. The audit of tax years 2005 and 2006 is expected to commence in the second quarter of 2008.

The statute of limitations in each of the state jurisdictions in which Northern Indiana operates remain open until the years are settled for federal income tax purposes, at which time amended state income tax returns reflecting all federal income tax adjustments are filed. There are no state income tax audits currently in progress.

7. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and a noncontributory defined benefit retirement plan that cover employees of Northern Indiana. Benefits under the defined benefit retirement plan reflect the employees' compensation, years of service and age at retirement. Additionally, NiSource provides health care and life insurance benefits for certain retired employees of Northern Indiana. The majority of employees may become eligible for these benefits if they reach retirement age while working for Northern Indiana. The expected cost of such benefits is accrued during the employees' years of service. Northern Indiana's current rates include postretirement benefit costs on an accrual basis, including amortization of the regulatory assets that arose prior to inclusion of these costs in rates. Cash contributions are remitted to grantor trusts.

Northern Indiana's employees are included in NiSource's plans mentioned above. Costs are allocated to Northern Indiana. Northern Indiana's employees account for approximately 31% of the employees participating in the Plans in 2007 compared to 32% in 2006.

Adoption of SFAS No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. In September 2006, the FASB issued SFAS No. 158 to improve existing reporting for defined benefit postretirement plans by requiring employers to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan, among other changes.

In the fourth quarter of 2006, NiSource and Northern Indiana adopted the provisions of SFAS No. 158. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at September 30, 2006, the pretax impact of adopting SFAS No. 158 decreased intangible assets by $24.9 million, increased regulatory assets by $350.2 million, increased accumulated other comprehensive income by $229.3 million and increased accrued liabilities for postretirement and postemployment benefits by $96.0 million. With the adoption of SFAS No. 158 Northern Indiana determined that the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71. Northern Indiana recorded regulatory assets that would otherwise have been recorded to accumulated other comprehensive income.

On January 1, 2007, NiSource and Northern Indiana adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. Prior to January 1, 2007, NiSource and Northern Indiana used September 30 as its measurement date for its pension and postretirement benefit plans. Northern Indiana's pre-tax impact of adopting the SFAS No. 158 measurement date provisions decreased regulatory assets by $46.4 million, decreased retained earnings by $8.1 million and decreased accrued liabilities for postretirement and postemployment benefits by $38.3 million. Northern Indiana also recorded a reduction in deferred income taxes of approximately $3.5 million. In addition, 2007 expense for pension and postretirement benefits reflects the updated measurement date valuations.

NiSource Retirement Plans. The fair value of NiSource's retirement plans' assets was $2,238.2 million as of December 31, 2007 and $2,051.5 million as of September 30, 2006. The projected benefit obligation was $2,158.8 million as of December 31, 2007 and $2,285.7 million as of September 30, 2006. The accumulated benefit obligation was $2,080.6 million at December 31, 2007 and $2,167.0 million at September 30, 2006. Northern Indiana recognized income of $8.9 million in 2007 for its pension plan due in large part to NiSource pension fund assets earning a return of 13.8% for the plan year ended December 31, 2006. Northern Indiana recorded pension expense of $5.7 million and $13.5 million for 2006 and 2005, respectively. These allocations were based on expenses, net of assets returns, as actuarially determined for employees associated with Northern Indiana. Northern Indiana made cash contributions to the pension plan for 2007 and 2006 of $42.7 million and zero, respectively.

NiSource Other Postretirement Plans. The fair value of NiSource's other postretirement plans' assets was $305.0 million as of December 31, 2007 and $243.9 million as of September 30, 2006. The projected benefit obligation was $760.7 million as of December 31, 2007 and $770.4 million as of September 30, 2006. Postretirement benefits expense, as allocated by NiSource, for Northern Indiana was $23.7 million in 2007, $29.0 million in 2006 and $27.7 million in 2005. These allocations were based on expenses, net of assets returns, as actuarially determined for employees associated with Northern Indiana. Northern Indiana made cash contributions to its other postretirement plans' for 2007 and 2006 of $12.9 million and $23.9 million, respectively.

Northern Indiana has deferred as a regulatory asset the transition obligation and the difference between other postretirement benefit costs (OPEB) and cash payments for the period January 1, 1991 to October 31, 1994. Beginning November 1994, Northern Indiana's rates provide for full recovery of current OPEB costs and the amortization of previously deferred OPEB costs. This regulatory asset totaled $28.0 million at December 31, 2007 and $33.6 million at December 31, 2006.

8. Authorized Classes of Cumulative Preferred and Preference Stocks

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

The authorized classes of par value and no par value cumulative preferred and preference stocks of Northern Indiana are as follows: 2,400,000 shares of Cumulative Preferred with a $100 par value; 3,000,000 shares of Cumulative Preferred with no par value; 2,000,000 shares of Cumulative Preference with a $50 par value; and 3,000,000 shares of Cumulative Preference with no par value.

9. Long-Term Debt

On October 31, 2007, Northern Indiana redeemed $24.0 million of its Variable Rate Demand Pollution Control Refunding Bonds, Series 1988D, issued by Jasper County, Indiana on behalf of Northern Indiana with a floating interest rate of 3.645% at time of redemption.

During August 2007, Northern Indiana redeemed $20.0 million of its medium-term notes with an average interest rate of 6.77%.

During June 2007, Northern Indiana redeemed $12.0 million of its medium-term notes with an interest rate of 7.25%.

Following are the outstanding long-term debt sinking fund requirements and maturities at December 31, 2007. The long-term debt maturities shown below exclude unamortized discount on long-term debt.

Year Ending December 31, *(in millions)*		
2008	$	24.0
2009		1.0
2010		10.0
2011		18.7
2012		-
After		739.5
Total	$	793.2

Unamortized debt expense, premium and discount on long-term debt applicable to outstanding bonds are being amortized over the lives of such bonds. Reacquisition premiums have been deferred and are being amortized. These premiums are not earning a regulatory return during the recovery period.

10. Short-Term Borrowings - Affiliated

Northern Indiana satisfies its liquidity requirements primarily through internally generated funds and through intercompany borrowings from the NiSource Money Pool. Northern Indiana may borrow a maximum of $1.0 billion through the NiSource Money Pool as approved by the FERC. As of December 31, 2007, Northern Indiana had $72.0 million short-term NiSource Money Pool borrowings outstanding at an interest rate of 5.35%. As of December 31, 2006, Northern Indiana had $116.6 million short-term NiSource Money Pool borrowings outstanding at an interest rate of 5.73%.

11. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Investments. Investments are carried at cost, which approximates market value.

Long-term Debt. The fair values of these securities are estimated based on the quoted market prices for the same or similar issues or on the rates offered for securities of the same remaining maturities. Certain premium costs associated with the early settlement of long-term debt are not taken into consideration in determining fair value.

The carrying amount and estimated fair values of financial instruments were as follows:

At December 31, *(in millions)*		**Carrying Amount 2007**		**Estimated Fair Value 2007**		Carrying Amount 2006		Estimated Fair Value 2006
Long-term debt (including current portion)	**$**	**792.2**	**$**	**763.2**	$	848.1	$	853.2

Sale of Trade Accounts Receivable. On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement with Citibank, N.A. under the terms of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. NRC's agreement with the commercial paper conduit has a scheduled expiration date of December 19, 2008, and can be renewed if mutually agreed to by both parties. As of December 31, 2007, NRC had sold $200 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's or Moody's, respectively.

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

Northern Indiana's accounts receivable program qualifies for sale accounting based upon meeting the conditions in SFAS No. 140. In the agreement, all transferred assets have been isolated from the transferor and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership. Northern Indiana does not retain any interest in the receivables under the agreement.

12. Other Commitments and Contingencies

A. Legal Proceedings. In the normal course of its business, Northern Indiana has been named as defendant in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on Northern Indiana's consolidated financial position.

B. Tax Matters. Northern Indiana records liabilities for potential income tax assessments. The accruals relate to tax positions in a variety of taxing jurisdictions and are based on management's estimate of the ultimate resolution of these positions. These liabilities may be affected by changing interpretations of laws, rulings by tax authorities, or the expiration of the statute of limitations. Northern Indiana's parent, NiSource, is a part of the IRS's Large and Mid-Size Business program. As a result, each year's federal income tax return is typically audited by the IRS. The audits of all tax years through 2004 have been completed and settled and years through 2002 are closed to further assessment. It is anticipated that the IRS audit of years 2005 and 2006 will begin in the first quarter of 2008. There are no state income tax audits in progress at this time.

C. Environmental Matters.

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

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Certain Northern Indiana affiliates engage in efforts to voluntarily report and reduce their greenhouse gas emissions. Northern Indiana is currently a participant in the EPA's Climate Leaders program. On April 2, 2007, in Massachusetts v. EPA, the Supreme Court ruled that the EPA does have authority under the Clean Air Act to regulate emissions of greenhouse gases if it is determined that greenhouse gases have a negative impact on human health or the environment. Northern Indiana will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

Implementation of the fine particulate matter and ozone national ambient air quality standards may require imposition of additional controls on boilers, engines and turbines. On April 15, 2004, the EPA finalized the eight-hour ozone nonattainment area designations. After designation, the Clean Air Act provides for a process for promulgation of rules specifying compliance level, compliance deadline, and necessary controls to be implemented within designated areas over the next few years. Resulting state rules could require additional reductions in NOx emissions from facilities owned by electric generation operations. On March 29, 2007, the EPA signed a rule to govern implementation of the NAAQS for particulate matter (PM-2.5) that the EPA promulgated in 1997. The rule addresses a wide range of issues, including state rulemaking requirements as well as attainment demonstration requirements and deadlines. States must evaluate for potential reduction measures for the emission of particulate matter and its precursors such as SO2 and NOx. The rule includes a conditional presumption that, for power plants subject to the CAIR, compliance with CAIR would satisfy Reasonably Available Control Measures and Reasonably Available Control Technology requirements for SO2 and NOx. States must submit their SIPs to the EPA by April 2008. Also, on September 21, 2006, the EPA issued revisions to the NAAQS for particulate matter. The final rule increased the stringency of the current fine particulate (PM2.5) standard, added a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter), and revoked the annual PM10 standards while retaining the 24-hour PM10 standards. The EPA designations of areas not meeting the new fine particulate matter standards are due by November 2009, effective in April 2010. The SIPs detailing how states will reduce emissions to meet the NAAQS will be due three years later with attainment due by April 2015 with a possible five year extension to April 2020. These actions could require further reductions in NOx emissions from various emission sources in and near nonattainment areas. Northern Indiana will continue to closely monitor developments in these matters and cannot accurately estimate the timing or cost of emission controls at this time.

On March 12, 2008, the EPA announced the tightening of the 8-hour ozone NAAQS from 0.08 parts per million to 0.075 parts per million. The number of areas that do not meet the new standards could significantly increase across the county and in Indiana, including Northern Indiana's operating areas. Over the next several years states will be required to develop ozone attainment plans to implement the standards and improve air quality in these areas. This could lead to additional emission reductions of NOx, an ozone precursor, from facilities owned by Northern Indiana. Northern Indiana will closely monitor developments in these matters and cannot at this time accurately estimate the timing or cost of emission controls that may eventually be required.

Gas Distribution Operations. Northern Indiana is a potentially responsible party at waste disposal sites under the CERCLA (commonly known as Superfund) and similar state laws, as well as at MGP sites, which it, or its corporate predecessors, own or previously owned or operated. Northern Indiana may be required to share in the cost of cleanup of such sites. In addition, Northern Indiana has responsibility for corrective action under the RCRA for closure and cleanup costs associated with underground storage tanks and under the Toxic Substances Control Act for cleanup of PCBs. The final costs of cleanup have not yet been determined. As site investigations and cleanup proceed and as additional information becomes available reserves are adjusted.

A program has been instituted to identify and investigate former MGP sites where Northern Indiana or predecessors are the current or former owner. The program has identified up to 25 such sites and initial investigations have been conducted at 22 sites. Additional investigation activities have been completed or are in progress at 20 sites and remedial measures have been implemented or completed at 12 sites. This effort includes the sites contained in the January 2004 agreement entered into with the IDEM, Northern Indiana and other Indiana utilities under the Indiana Voluntary Remediation Program. Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5. As costs become probable and reasonably estimable, reserves will be adjusted. As reserves are recorded, regulatory assets are recorded to the extent environmental expenditures are expected to be recovered through rates. Northern Indiana is unable, at this time, to accurately estimate the time frame and potential costs of the entire program. Management expects that, as characterization is completed, additional remediation work is performed and more facts become available, Northern Indiana will be able to develop a probable and reasonable estimate for the entire program or a major portion thereof consistent with the SEC's SAB No. 92, SFAS No. 5 and SOP No. 96-1. As of December 31, 2007 and 2006, reserves of approximately \$17.2 million and \$13.7 million, respectively, have been recorded to cover probable environmental response actions for Gas Distribution Operations.

Electric Operations.

Air. In December 2001, the EPA approved regulations developed by the State of Indiana to comply with the EPA's NOx SIP call. The NOx SIP call requires certain states, including Indiana, to reduce NOx levels from several sources, including industrial and utility boilers, to lower regional transport of ozone. Compliance with the NOx limits contained in these rules was required by May 31, 2004. To comply with the rule, Northern Indiana developed a NOx compliance plan, which included the installation of Selective Catalytic Reduction NOx reduction technology at each of its active generating stations and is currently in compliance with the NOx limits. In implementing the NOx compliance plan; Northern Indiana has expended approximately \$290 million as of December 31, 2007. Actual costs may vary depending on a number of factors including market demand and resource constraints, uncertainty of future equipment and construction costs, and the potential need for additional control technology.

Implementation of the fine particulate matter and ozone national ambient air quality standards may require imposition of additional controls on coal-fired boilers. On April 15, 2004, the EPA finalized the eight-hour ozone nonattainment area designations. After designation, the Clean Air Act provides for a process for promulgation of rules specifying compliance level, compliance deadline, and necessary controls to be implemented within designated areas over the next few years. Resulting state rules could require additional reductions in NOx emissions from these boilers.

On September 21, 2006, the EPA issued revisions to the NAAQS for particulate matter as described above under, "General." The new rules set forth in this standard could impact the emission control requirements for coal-fired boilers including Northern Indiana's electric generating stations. Northern Indiana will continue to closely monitor developments in these matters and cannot accurately estimate the impact, timing or cost of emission controls at this time.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern states, including electric utilities in Indiana, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. On March 15, 2006, the EPA signed three related rulemakings providing final regulatory decisions on implementing the CAIR. The EPA, in one of the rulings, denied several petitions for reconsideration of various aspects of the CAIR, including requests by Northern Indiana to reconsider SO2 and NOx allocations. The main rulemaking established federal implementation plans, or FIPs, for power plants to ensure that the emissions reductions required by the CAIR are achieved on schedule and provide criteria, whereby SIPs that meet a majority of the federal requirements or abbreviated SIPs could be approved if submitted by the states within six months of the September 2006 deadline. As an affected state, Indiana structured, and preliminarily adopted in June 2006, a draft rule to meet the EPA abbreviated CAIR SIP requirements and should therefore be eligible for a six-month extension of the submittal deadline. The Air Pollution Control Board adopted the final rules on November 1, 2006. The CAIR rules became effective in Indiana on February 25, 2007. In a petition filed with the IURC in December 2006, Northern Indiana provided plans for the first phase of the emission control construction required to address the Phase I CAIR requirements and a request for appropriate cost treatment and recovery. Northern Indiana's plan includes the upgrade of existing emission controls on three generating units for an estimated cost of $23 million and anticipates that these expenses are recoverable. Northern Indiana will continue to closely monitor developments in these matters and expects to install additional emission controls for the second phase of CAIR, but cannot accurately estimate the timing or cost of the emission controls at this time.

On October 3, 2007, the Indiana Air Pollution Control Board adopted, with minor changes from the EPA Clean Air Mercury Rule, the state rule to implement EPA's CAMR. The rule became effective on February 3, 2008, with compliance required in 2010. The EPA FIP rule, published December 22, 2006, has not been finalized and is intended only as a backstop for states such as Indiana that missed the November 17, 2006 submittal deadline but are working diligently to finalize its state rule. The IDEM has indicated it is planning on utilizing an option in the FIP that allows the state to submit a request for partial approval to use the IDEM's allowance allocation methodology until the EPA is able to approve the full state plan. The state's request for partial approval will be due to the EPA upon the effective date of the final FIP, estimated to be in the first half of 2008. The EPA would not record allowance allocations for 2010 until September 2008. The FIP would be rescinded upon EPA acceptance of the Indiana rule. On February 8, 2008, the United States Court of Appeals for the District of Columbia Circuit vacated two EPA rules addressing utility mercury emissions that are the stimulus for the Indiana Air Pollution Control Board's CAMR. The first is the EPA's rule delisting coal and oil-fired electric generating units from the list of sources whose emissions are regulated under section 112 of the Clean Air Act, 42 U.S.C. § 7412. *Revision of December 2000 Regulatory Finding* ("Delisting Rule"), 70 Fed. Reg. 15,994 (March 29, 2005). The second is the EPA's rule that set performance standards for new coal-fired electric generating units and established total mercury emission limits for States along with a cap-and-trade program for new and existing coal-fired electric generating units. *Standards of Performance for New and Existing Stationary Sources: Electric Utility Steam Generating Units* ("CAMR"), 70 Fed. Reg. 28,606 (May 18, 2005). This decision and the EPA's response will affect the implementation and timing of the installation of controls to address potential mercury reduction obligations. Northern Indiana will closely monitor developments regarding any further action by the EPA and subsequent regulatory developments from the EPA and/or the Indiana Air Pollution Control Board in this matter.

Local air quality has improved in three counties in which Northern Indiana generating assets are located. In recognition of this improvement in local air quality, the IDEM prepared petitions for submittal to the EPA seeking redesignation of the Indiana counties of Lake, Porter, and LaPorte to attainment of the eight-hour ozone NAAQS. Final EPA rulemaking approving the LaPorte County redesignation became effective on July 19, 2007. The EPA approval for Lake and Porter counties is undergoing further evaluation and may be delayed until after the 2008 ozone season due to monitored values in 2007 at one site that put the design value just above the NAAQS. On October 3, 2007, the Air Pollution Control Board adopted the redesignation of LaPorte County to attainment as part of a reformatting of the state attainment designation rule. The rule became effective January 28, 2008. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignations to attainment, new source review rules are expected to change from nonattainment new source review rules to prevention of significant deterioration while measures responsible for existing emission reductions would continue. The March 12, 2008, EPA tightening of the 8-hour ozone NAAQS may preclude the approval of the redesignation requests and may result in these counties remaining and/or again being designated as nonattainment of the ozone NAAQS. As discussed above under "General," the EPA ozone NAAQS revision could lead to additional emission reductions of NOx, an ozone precursor, from facilities owned by Northern Indiana. Northern

Indiana will closely monitor developments in these matters and cannot at this time accurately estimate the timing or cost of emission controls that may eventually be required.

On March 14, 2007, Indiana proposed a draft rule to implement the EPA BART requirements for reduction of regional haze. On October 3, 2007, the Indiana Air Pollution Control Board adopted, with some minor modifications, a rule to implement the EPA BART requirements for reduction of regional haze. The rule became effective February 22, 2008, with compliance with any required BART controls within five years (2013). The language of the final rule relies upon the provisions of the Indiana CAIR to meet requirements for NOx and SO2 and does not impose any additional control requirements on coal-fired generation emissions, including those of Northern Indiana. As part of the BART analysis process, the IDEM is still evaluating the potential impact of particulate matter from electric generating units to determine if there are impacts on Class I areas. Northern Indiana will work closely with IDEM regarding the particulate matter analysis requirements of the BART analysis. Northern Indiana will closely monitor developments in these matters and at this time cannot accurately estimate the timing or cost of any emission controls that may be required.

In late 1999, the EPA initiated a New Source Review enforcement action against several industries, including the electric utility industry, concerning rule interpretations that have been the subject of recent (prospective) reform regulations. Northern Indiana has received and responded to the EPA information requests on this subject, most recently in June 2002. The EPA issued an NOV to Northern Indiana on September 29, 2004, for alleged violations of the Clean Air Act and the SIP. Specifically, the NOV alleges that modifications were made to certain boiler units at the Michigan City, Schahfer, and Bailly Generating Stations between the years of 1985 and 1995 without obtaining appropriate air permits for the modifications. An adverse outcome in this matter could require capital expenditures beyond the EPA requirements that cannot be determined at this time and could require payment of substantial penalties. On April 2, 2007, in Environmental Defense v. Duke Energy Corp, the US Supreme Court overturned a Fourth Circuit Court decision related to the determination of a 'modification' under the Clean Air Act's new source review program. The Supreme Court ruled that under the new source review program an 'annual emission increase' test must be applied and rejected Duke Energy Corp's arguments and a Fourth Circuit Court decision that a 'maximum hourly' test was appropriate. The case will now go back to the trial court to address whether or not a 'modification' occurred and whether Duke Energy Corp is required to install pollution control devices and pay any penalties. Northern Indiana is unable, at this time, to predict the timing or outcome of this EPA action.

Water. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana's three electric generating stations located on Lake Michigan. The state of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. The NPDES water discharge permit for Michigan City Generating Station has been issued and became effective on April 1, 2006. Engineering studies have begun to determine specific compliance costs for this facility. The permit for the Bailly Generating Station was issued on June 26, 2006, and became effective on August 1, 2006. Northern Indiana has since appealed the Bailly Generating Station NPDES permit, due to an unacceptable internal outfall monitoring permit condition. The Bailly NPDES permit is currently being modified to resolve the monitoring issue and to address the 316(b) rule status due to the remand mentioned below. Due to additional pending studies, the cost of complying with the permit requirements cannot be estimated at this time.

On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems, such as a closed-cycle cooling tower. On January 25, 2007, the Second Circuit in a court decision on the Phase II 316(b) rule, remanded for EPA reconsideration the options providing flexibility for meeting the requirements of the rule. On March 20, 2007, the EPA issued a guidance memo advising its Regional Administrators that the Agency considers the 316(b), Phase II Rule governing cooling water withdrawals suspended and will be issuing a Federal Register notice to that effect. On July 9, 2007, the EPA published a notice in the Federal Register suspending the Phase II rule. The notice explained that the EPA is not accepting comments on the suspension and notes that "best professional judgment" is to be used in making 316(b) decisions. The EPA will need to propose a revised 316(b) rule and/or provide guidance to address the impact of the court decision. Northern Indiana will closely monitor the EPA rule developments.

On July 5, 2007, the Second Circuit Court of Appeals denied the petitions for rehearing asking the court to reconsider its remand of the Phase II 316(b) ruling. Various parties submitted petitions for a *writ of certiorari* to the U. S. Supreme

Court in early November seeking to reverse the Second Circuit Court's decision. Northern Indiana will continue to closely monitor this activity.

IDEM recently issued a renewed NPDES Permit for the Northern Indiana's Michigan City Generating Station. The permit requires that the facility meet the Great Lakes Initiative discharge limits for copper. The Michigan City Generating Station has a four year compliance schedule to meet these limits, which ends April 1, 2011. Northern Indiana is evaluating alternatives for treating copper in wastewater at the Michigan City Generating Station.

Great Lakes Initiative-based discharge limits for mercury have also been set for both the Bailly and the Michigan City Generating Stations. Northern Indiana will collect data, develop and implement pollution reduction program plans, to demonstrate progress in reducing mercury discharge.

Remediation. Northern Indiana is a potentially responsible party under the CERCLA and similar state laws at two waste disposal sites and shares in the cost of their cleanup with other potentially responsible parties. At one site, the Remedial Investigation and Feasibility Study was submitted to EPA in 2007. The EPA has issued a proposed plan to remediate the site which is in the public comment period. At the second site, Northern Indiana has agreed to conduct a Remedial Investigation and Feasibility Study in the vicinity of the third party, state-permitted landfill where Northern Indiana contracted for fly ash disposal. In addition, Northern Indiana has corrective action liability under the RCRA for three facilities that historically stored hazardous waste.

On March 31, 2005, the EPA and Northern Indiana entered into an Administrative Order on Consent under the authority of Section 3008(h) of the RCRA for the Bailly Station. The order requires Northern Indiana to identify the nature and extent of releases of hazardous waste and hazardous constituents from the facility. Northern Indiana must also remediate any release of hazardous constituents that present an unacceptable risk to human health or the environment. Investigation activities are complete and Northern Indiana is awaiting EPA comments on proposed remedial actions. A reserve has been established to fund the remedial measures proposed to EPA. The final costs of cleanup could change based on EPA review.

On September 13, 2006, IDEM advised Northern Indiana that further investigation of historic releases from two previously removed underground storage tanks at the Schahfer Generating Station would need to be investigated. Northern Indiana completed an investigation of potentially impacted soils and groundwater in 2007 and submitted results to the IDEM Leaking Underground Storage Tank section. As of the end of 2007, the IDEM has not responded.

As of December 31, 2007 and 2006, reserves of approximately $3.1 million and $3.6 million, respectively, have been recorded to cover probable environmental response actions for Electric Operations. The ultimate liability in connection with these sites cannot be estimated at this time but could be significant.

Environmental Reserves. It is management's continued intent to address environmental issues in cooperation with regulatory authorities in such a manner as to achieve mutually acceptable compliance plans. However, there can be no assurance that fines and penalties will not be incurred. Management expects a significant portion of environmental assessment and remediation costs to be recoverable through rates for Northern Indiana.

As of December 31, 2007 and 2006, reserves of approximately $20.3 million and $17.3 million, respectively, have been recorded to cover probable corrective actions at sites where Northern Indiana has environmental remediation liability. Regulatory assets have been recorded to the extent environmental expenditures are expected to be recovered in rates. Northern Indiana accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The undiscounted estimated future expenditures are based on many factors including currently enacted laws and regulations, existing technology and estimated site-specific costs whereby assumptions may be made about the nature and extent of site contamination, the extent of cleanup efforts, costs of alternative cleanup methods and other variables. Northern Indiana's estimated environmental remediation liability will be refined as events in the remediation process occur. Actual remediation costs may differ materially from Northern Indiana's estimates due to the dependence on the factors listed above.

D. Operating Leases. Northern Indiana leases assets in several areas of its operations. Payments made in connection with operating leases were $16.3 million in 2007, $15.1 million in 2006 and $13.8 million in 2005, and are primarily charged to operation and maintenance expense as incurred.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are:

(in millions)	
2008	$ 15.6
2009	14.4
2010	11.4
2011	9.7
2012	8.8
After	19.6
Total future minimum payments	$ 79.5

E. Purchase and Service Obligations. Northern Indiana has entered into various purchase and service agreements whereby Northern Indiana is contractually obligated to make certain minimum payments in future periods.

Northern Indiana has entered into various energy commodity contracts. These purchase obligations are for the purchase of physical quantities of natural gas, electricity and coal.

These amounts represent minimum quantities of these commodities Northern Indiana is obligated to purchase at both fixed and variable prices.

Northern Indiana's service agreements encompass a broad range of business support and maintenance functions which are generally described below. Northern Indiana has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2008 to 2018, require Northern Indiana to pay fixed monthly charges.

Northern Indiana's other service obligations include agreements with certain rail companies and Pure Air.

Northern Indiana has contracts with four major rail operators providing for coal transportation services for which there are certain minimum payments. These service contracts extend for various periods through 2013.

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on June 15, 1992, and Northern Indiana pays for the services under a combination of fixed and variable charges. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period.

The estimated aggregate amounts of minimum fixed payments at December 31, 2007, were:

(in millions)	Energy Commodity Agreements	Pipeline Service Agreements	Other Service Agreements
2008	$ 280.5	$ 77.3	$ 101.9
2009	149.2	50.4	53.0
2010	89.1	30.4	29.7
2011	39.7	23.7	30.3
2012	39.7	19.9	22.4
After	118.9	19.9	6.0
Total purchase and service obligations	$ 717.1	$ 221.6	$ 243.3

13. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss.

Year Ended December 31, *(in millions)*		**2007**		2006
Other comprehensive income (loss), before tax:				
Unrealized (losses) on cash flow hedges	**$**	**(1.9)**	$	(7.9)
Tax benefit on cash flow hedges		**0.8**		3.2
Total Accumulated Other Comprehensive Loss, net of taxes	**$**	**(1.1)**	$	(4.7)

14. Segments of Business

Under provisions of SFAS No. 131, operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The NiSource Chief Executive Officer is the chief operating decision maker.

Northern Indiana's operations are divided into three primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Indiana. The Electric Operations segment provides electric service in 20 counties in the northern part of Indiana and engages in electric wholesale and transmission transactions. The Other Operations segment includes the results of NRC, a wholly-owned subsidiary of Northern Indiana, whose sole activity is to purchase accounts receivable from Northern Indiana and sell an undivided percentage ownership interest these accounts to a commercial paper conduit, within the limits of the agreement between NRC and the conduit. NRC commenced operations on December 30, 2003.

The following table provides information about business segments. Northern Indiana uses operating income as its primary measurement for each of the reported segments. Operating income is derived from revenues and expenses directly associated with each segment.

(in millions)		**2007**		2006		2005
REVENUES						
Gas Distribution Operations						
Unaffiliated	**$**	**990.8**	$	904.7	$	1,159.8
Affiliated		**27.3**		14.9		15.2
Total		**1,018.1**		919.6		1,175.0
Electric Operations						
Unaffiliated	**$**	**1,361.6**	$	1,302.2	$	1,245.5
Affiliated		**1.5**		1.6		2.1
Total		**1,363.1**		1,303.8		1,247.6
Consolidated Revenues	**$**	**2,381.2**	$	2,223.4	$	2,422.6

(in millions)	**2007**	2006	2005
Operating Income (Loss)			
Gas Distribution Operations	**$ 29.2**	$ 16.1	$ 42.9
Electric Operations	**261.5**	310.4	293.3
Other Operations	**(0.3)**	(0.4)	(0.2)
Consolidated	**$ 290.4**	$ 326.1	$ 336.0
Depreciation and Amortization			
Gas Distribution Operations	**$ 90.5**	$ 89.0	$ 88.1
Electric Operations	**191.9**	187.3	185.9
Consolidated	**$ 282.4**	$ 276.3	$ 274.0
Assets			
Gas Distribution Operations	**$ 1,053.1**	$ 1,265.1	$ 1,191.1
Electric Operations	**3,410.3**	3,389.8	3,128.0
Consolidated	**$ 4,463.4**	$ 4,654.9	$ 4,319.1
Capital Expenditures			
Gas Distribution Operations	**$ 34.2**	$ 45.2	$ 42.1
Electric Operations	**242.6**	151.2	133.2
Consolidated	**$ 276.8**	$ 196.4	$ 175.3

15. Subsequent Event

Jasper County Pollution Control Bonds. Northern Indiana has seven series of Jasper County Pollution Control Bonds with a total principal value of $254 million currently outstanding. Each of the series are remarketed in auctions that take place at either 7, 28, or 35 day intervals. Between February 13, 2008 and March 5, 2008, Northern Indiana received notice that six separate market auctions of four of the series of the Jasper County Pollution Control Bonds had failed. The current holders of these bonds do not have the ability to put the bonds back to the issuer. The failed auctions represented an aggregate principal value of $112 million. Under the Pollution Control Bond financing documents, Northern Indiana must pay a default rate of interest of between 15% - 18% to existing investors whenever the periodic auction process fails. Subsequent auctions have been successful, but have resulted in interest rates between 5.13% and 11.0%, which are in excess of historical rates. Northern Indiana does not believe this issue will have a material impact on its financial results. These auction failures are attributable to the recent lack of liquidity in auction rate securities market, largely driven by the recent turmoil in the bond insurance market. The Northern Indiana Pollution Control Bonds are insured by either Ambac Assurance Corporation or MBIA Insurance Corporation.

Northern Indiana is in the process of providing notice to current holders of this debt that it will be converted from the auction rate mode into a variable rate demand bond mode during March and April 2008. As this occurs, the debt will be subject to mandatory tender for purchase on the conversion date at 100 percent of the principal amount, plus accrued interest. To date, $152.0 million of this outstanding debt has been converted to the variable rate demand bond format and has been repurchased by Northern Indiana for its own account. The remaining $102.0 million will be converted and repurchased by Northern Indiana by April 11, 2008. Following conversion to the variable rate demand bond format, Northern Indiana will preserve its options to again convert the debt to other interest rate modes and remarket it to investors, via refunding, or redeeming the debt and reissuing new debt.

NORTHERN INDIANA PUBLIC SERVICE COMPANY

AND SUBSIDIARY

UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

AS OF JUNE 30, 2008 AND DECEMBER 31, 2007

AND FOR THE SIX MONTH PERIODS ENDED

JUNE 30, 2008 AND 2007

CONTENTS

DEFINED TERMS

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

NiSource Subsidiaries and Affiliates

NiSource	NiSource Inc.
NiSource Finance	NiSource Finance Corp.
Northern Indiana	Northern Indiana Public Service Company
NRC	NIPSCO Receivables Corporation

Abbreviations

AFUDC	Allowance for funds used during construction
ANPR	Advance Notice of Proposed Rulemaking
ARRs	Auction Revenue Rights
ASM	Ancillary Services Market
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCGT	Combined Cycle Gas Turbine
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (Also known as Superfund)
CPCN	Certificate of Public Convenience and Necessity
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and generation, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EER	Environmental Expense Recovery
EERM	Environmental Expense Recovery Mechanism
EITF Issue No. 02-3	EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities"
EPA	United States Environmental Protection Agency
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FIN 48	FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109
FIP	Federal Implementation Plan
FSP	FASB Staff Position
FSP FAS 157-2	FASB Staff Position FAS 157-2: Effective Date of FASB Statement No. 157
FSP FIN 39-1	FASB Staff Position FIN 39-1: Amendment of FASB Interpretation No. 39
FTRs	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles
IDEM	Indiana Department of Environmental Management
IRP	Integrated Resource Plan
IURC	Indiana Utility Regulatory Commission
LIFO	Last-in, first out
MGP	Manufactured gas plant

DEFINED TERMS (continued)

MISO	Midwest Independent Transmission System Operator
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen oxides
NPDES	National Pollutant Discharge Elimination System
NYMEX	New York Mercantile Exchange
OUCC	Indiana Office of Utility Consumer Counselor
PCB	Polychlorinated biphenyls
PPS	Price Protection Service
RCRA	Resource Conservation and Recovery Act
SAB No. 92	Staff Accounting Bulletin No. 92, “Accounting and Disclosures Relating to Loss Contingencies”
SEC	Securities and Exchange Commission
SFAS No. 5	Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies”
SFAS No. 71	Statement of Financial Accounting Standards No. 71, “Accounting for the Effects of Certain Types of Regulation”
SFAS No. 133	Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended
SFAS No. 140	Statement of Financial Accounting Standards No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a replacement of FASB Statement 125”
SFAS No. 141R	Statement of Financial Accounting Standards No. 141R, “Business Combinations”
SFAS No. 143	Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations”
SFAS No. 157	Statement of Financial Accounting Standards No. 157, “Fair Value Measurements”
SFAS No. 158	Statement of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”
SFAS No. 159	Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115”
SFAS No. 161	Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging — an amendment of SFAS No. 133”
SIP	State Implementation Plan
SO2	Sulfur dioxide
SOP 96-1	Statement of Position 96-1, “Environmental Remediation Liabilities”

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Condensed Statements of Consolidated Income (unaudited)

(in millions)	Six Months Ended June 30, 2008	2007
Net Revenues		
Gas	**$ 725.9**	$ 621.6
Gas - affiliated	**12.7**	14.0
Electric	**673.6**	660.8
Electric - affiliated	**0.7**	0.8
Gross Revenues	**1,412.9**	1,297.2
Cost of Sales	**855.1**	728.7
Cost of Sales - affiliated	**9.6**	5.8
Total Cost of Sales (excluding depreciation and amortization)	**864.7**	734.5
Total Net Revenues	**548.2**	562.7
Operating Expenses		
Operation and maintenance	**225.6**	200.7
Depreciation and amortization	**151.6**	139.5
Loss on sale of assets	**2.1**	-
Other taxes	**46.9**	46.0
Total Operating Expenses	**426.2**	386.2
Operating Income	**122.0**	176.5
Other Income (Deductions)		
Interest on long-term debt	**(12.5)**	(13.5)
Interest on long-term debt - affiliated	**(10.2)**	(9.5)
Other interest	**0.5**	(1.4)
Other interest - affiliated	**(2.2)**	(0.4)
Amortization of premium, reacquisition premium, discount and expense on debt, net	**(1.4)**	(1.7)
Other, net	**1.0**	(2.5)
Total Other Income (Deductions)	**(24.8)**	(29.0)
Income before Income Taxes	**97.2**	147.5
Income Taxes	**37.8**	59.9
Net Income	**$ 59.4**	$ 87.6
Common dividends declared	**$ -**	$ 75.0

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

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Condensed Consolidated Balance Sheets (unaudited)

(in millions)		June 30, 2008		December 31, 2007
ASSETS				
Property, Plant and Equipment				
Utility Plant	**$**	**7,681.6**	$	7,159.4
Accumulated provision for depreciation and amortization		**(3,776.2)**		(3,617.1)
Net utility plant		**3,905.4**		3,542.3
Other propery, at cost, less accumulated depreciation		**0.4**		2.1
Net Property, Plant and Equipment		**3,905.8**		3,544.4
Current Assets				
Cash and cash equivalents		**10.5**		3.0
Restricted cash		**-**		11.1
Accounts receivable (less reserve of $13.2 and $8.9, respectively)		**86.0**		117.9
Accounts receivable - affiliated		**3.8**		7.7
Underrecovered fuel costs		**32.4**		40.3
Underrecovered gas costs		**38.2**		-
Materials and supplies, at average cost		**57.4**		52.5
Electric production fuel, at average cost		**48.3**		58.1
Natural gas in storage, at last-in, first-out cost		**59.7**		99.3
Price risk management assets		**25.3**		14.0
Regulatory assets		**59.3**		58.3
Prepayments and other		**23.0**		31.4
Total Current Assets		**443.9**		493.6
Other Assets				
Regulatory assets		**373.3**		382.6
Postretirement and postemployment benefits assets		**48.1**		37.2
Deferred charges and other		**2.8**		5.6
Total Other Assets		**424.2**		425.4
Total Assets	**$**	**4,773.9**	$	4,463.4

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

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Condensed Consolidated Balance Sheets (unaudited) (continued)

(in millions, except shares outstanding)	**June 30, 2008**	December 31, 2007
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Shareholder's Equity		
Common stock - without par value - 73,282,258 shares outstanding	**$ 859.5**	$ 859.5
Additional paid-in capital	**81.5**	81.5
Retained earnings	**513.6**	454.2
Accumulated other comprehensive income (loss)	**0.7**	(1.1)
Total Common Shareholder's Equity	**1,455.3**	1,394.1
Long-term debt, excluding amounts due within one year	**163.3**	418.2
Long-term debt - affiliated, excluding amounts due within one year	**510.0**	350.0
Total Capitalization	**2,128.6**	2,162.3
Current Liabilities		
Current portion of long-term debt	**25.0**	24.0
Short-term borrowings - affiliated	**409.6**	72.0
Accounts payable	**192.0**	192.5
Accounts payable - affiliated	**24.7**	30.5
Customer deposits	**73.1**	71.6
Taxes accrued	**103.9**	74.3
Interest accrued	**2.5**	2.5
Overrecovered gas costs	**-**	7.3
Accrued employment costs	**23.4**	27.9
Price risk management liabilities	**3.3**	13.3
Regulatory liabilities	**9.6**	36.7
Accrued liability for postretirement and postemployment benefits	**0.1**	0.1
Temporary LIFO liquidation credit	**31.9**	-
Other accruals	**44.1**	71.0
Total Current Liabilities	**943.2**	623.7
Other Liabilities and Deferred Credits		
Deferred income taxes	**348.0**	363.4
Deferred investment tax credits	**27.6**	30.4
Deferred credits	**1.4**	1.4
Accrued liability for postretirement and postemployment benefits	**339.6**	330.8
Regulatory liabilities and other removal costs	**878.8**	834.6
Asset retirement obligations	**69.3**	70.3
Other noncurrent liabilities	**37.4**	46.5
Total Other Liabilites and Deferred Credits	**1,702.1**	1,677.4
Commitments and Contingencies (see note 12)		
Total Capitalization and Liabilities	**$ 4,773.9**	$ 4,463.4

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

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Condensed Statements of Consolidated Cash Flows (unaudited)

Six Months Ended June 30, *(in millions)*	**2008**	2007
Operating Activities		
Net income	**$ 59.4**	$ 87.6
Adjustments to reconcile net income to net cash:		
Depreciation and amortization	**151.6**	139.5
Net changes in price risk management assets and liabilities	**27.8**	-
Deferred income taxes and investment tax credits	**(20.5)**	(24.4)
Loss on sale of assets	**2.1**	-
Amortization of discount/premium on debt	**1.4**	1.7
AFUDC equity	**(4.1)**	(1.9)
Changes in assets and liabilities:		
Accounts receivable	**37.3**	69.5
Inventories	**76.5**	91.5
Accounts payable	**13.4**	(1.4)
Customer deposits	**1.5**	1.4
Taxes accrued	**28.9**	36.8
Interest accrued	**-**	(0.2)
(Under) Overrecovered gas and fuel costs	**(37.6)**	(69.9)
Prepayments and other current assets	**10.1**	18.3
Regulatory assets/liabilities	**(63.9)**	3.5
Postretirement and postemployment benefits	**8.8**	(47.2)
Deferred credits	**-**	(1.1)
Other accruals	**(20.0)**	(40.0)
Deferred charges and other noncurrent assets	**(10.2)**	1.1
Other noncurrent liabilities	**(9.2)**	(2.5)
Net Cash Flows from Operating Activities	**253.3**	262.3
Investing Activities		
Capital expenditures	**(158.1)**	(136.5)
Sugar Creek purchase	**(329.7)**	-
Change in affiliated money pool lendings	**(1.4)**	(3.7)
Proceeds from disposition of assets	**-**	0.3
Restricted cash	**(0.2)**	22.4
Net Cash Flows used for Investing Activities	**(489.4)**	(117.5)
Financing Activities		
Issuance of affiliated long-term debt	**160.0**	-
Repurchase of long-term debt	**(254.0)**	-
Retirement of long-term debt	**-**	(12.0)
Change in affiliated money pool borrowings	**337.6**	(61.9)
Dividends paid - common stock	**-**	(75.0)
Net Cash Flows from (used for) Financing Activities	**243.6**	(148.9)
Increase (decrease) in cash and cash equivalents	**7.5**	(4.1)
Cash and cash equivalents at beginning of period	**3.0**	10.1
Cash and cash equivalents at end of period	**$ 10.5**	$ 6.0

Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	**$ 26.6**	$ 25.6
Interest capitalized	**2.2**	0.5
Cash paid to NiSource for income taxes	**29.8**	62.6

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

1. Company Structure and Basis of Accounting Presentation

Northern Indiana, a wholly owned subsidiary of NiSource, is a public utility operating company, incorporated in Indiana on August 2, 1912, that supplies natural gas and electric energy to the public. It operates in 30 counties in the northern part of Indiana, serving an area of about 12,000 square miles with a population of approximately 2.2 million.

NiSource is an energy holding company whose subsidiaries provide natural gas, electricity and other products and services to customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. NiSource is a Delaware corporation and is a holding company under the Public Utility Holding Company Act of 2005.

Northern Indiana's primary business segments are: Gas Distribution Operations, Electric Operations, and Other Operations. Northern Indiana's natural gas distribution operations serve approximately 710 thousand customers in the northern part of Indiana. Northern Indiana electric operations generates, transmits and distributes electricity to approximately 456 thousand customers in 20 counties in the northern part of Indiana and engages in wholesale and transmission transactions. At June 30, 2008, the Other Operations segment includes the results of NRC, a wholly-owned subsidiary of Northern Indiana, whose sole activity is to purchase accounts receivable from Northern Indiana and sell an undivided percentage ownership interest in these accounts to a commercial paper conduit, within the limits of the agreement between NRC and the conduit. The unaudited condensed consolidated financial statements include the accounts of Northern Indiana and subsidiary, after the elimination of all intercompany items.

The accompanying financial statements should be read in conjunction with the Northern Indiana and subsidiary consolidated financial statements and notes for the fiscal year ended December 31, 2007. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors.

Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted, although Northern Indiana believes that the disclosures made are adequate to make the information not misleading.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

SFAS No. 157 – Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157 to define fair value, establish a framework for measuring fair value and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not change the requirements to apply fair value in existing accounting standards.

Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability.

To increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy disclosed is based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical asset or liabilities that the company has the ability to access as of the reporting date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

- Level 3 inputs are unobservable inputs, such as internally developed pricing models for the asset or liability due to little or no market activity for the asset or liability.

SFAS No. 157 became effective for Northern Indiana as of January 1, 2008. The provisions of SFAS No. 157 are to be applied prospectively, except for the initial impact on the following three items, which are required to be recorded as an adjustment to the opening balance of retained earnings in the year of adoption: (1) changes in fair value measurements of existing derivative financial instruments measured initially using the transaction price under EITF Issue No. 02-3, (2) existing hybrid financial instruments measured initially at fair value using the transaction price and (3) blockage factor discounts. The adoption of SFAS No. 157 did not have an impact on Northern Indiana's January 1, 2008 balance of retained earnings and is not anticipated to have a material impact prospectively.

In February 2008, the FASB issued FSP FAS 157-2, which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of non-financial assets and liabilities until fiscal years beginning after November 15, 2008. Northern Indiana has elected to defer the adoption of the nonrecurring fair value measurement disclosures of non-financial assets and liabilities.

See Note 8, "Fair Value of Financial Assets and Liabilities," in the Notes to Condensed Consolidated Financial Statements for additional information regarding the adoption of SFAS No. 157.

SFAS No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. In September 2006, the FASB issued SFAS No. 158 to improve existing reporting for defined benefit postretirement plans by requiring employers to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan, among other changes.

In the fourth quarter of 2006, Northern Indiana adopted the provisions of SFAS No. 158. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at September 30, 2006, the pretax impact of adopting SFAS No. 158 decreased intangible assets by $24.9 million, increased regulatory assets by $350.2 million, increased accumulated other comprehensive income by $229.3 million and increased accrued liabilities for postretirement and postemployment benefits by $96.0 million. With the adoption of SFAS No. 158 Northern Indiana determined that the future recovery of pension and other postretirement plans costs is probable in accordance with the requirements of SFAS No. 71. Northern Indiana recorded regulatory assets that would otherwise have been recorded to accumulated other comprehensive income.

On January 1, 2007, Northern Indiana adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. The pre-tax impact of adopting the SFAS No. 158 measurement date provisions decreased regulatory assets by $46.4 million, decreased retained earnings by $8.1 million and decreased accrued liabilities for postretirement and postemployment benefits by $38.3 million. Northern Indiana also recorded a reduction in deferred income taxes of approximately $3.5 million.

Refer to Note 10, "Pension and Other Postretirement Benefits," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. In February 2007, the FASB issued SFAS No. 159 which permits entities to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. Upon adoption, a cumulative adjustment would be made to beginning retained earnings for the initial fair value option remeasurement. Subsequent unrealized gains and losses for fair value option items will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and should not be applied retrospectively, except as permitted for certain conditions for early adoption. Northern Indiana has chosen not to elect to measure any applicable financial assets or liabilities at fair value pursuant to this standard when SFAS No. 159 was adopted on January 1, 2008.

FSP FIN 39-1 – FASB Staff Position Amendment of FASB Interpretation No. 39. In April 2007, the FASB posted FSP FIN 39-1 to amend paragraph 3 of FIN 39 to replace the terms *conditional contracts* and *exchange contracts* with the term *derivative instruments* as defined in SFAS No. 133. This FSP also amends paragraph 10 of

FIN 39 to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. This FSP became effective for Northern Indiana as of January 1, 2008. Northern Indiana has not elected to net fair value amounts for its derivative instruments or the fair value amounts recognized for its right to receive cash collateral or obligation to pay cash collateral arising from those derivative instruments recognized at fair value, which are executed with the same counterparty under a master netting arrangement. This is consistent with Northern Indiana's current accounting policy prior to the adoption of this amended standard. Northern Indiana discloses amounts recognized for the right to reclaim cash collateral within "Restricted cash" and amounts recognized for the right to return cash collateral within current liabilities on the Consolidated Balance Sheets.

FIN 48 – Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The determination of whether a tax position meets the more-likely-than-not recognition threshold is based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, Northern Indiana adopted the provisions of FIN 48. As a result of the implementation of FIN 48, Northern Indiana recognized a charge of $0.8 million to the opening balance of retained earnings. Refer to Note 9, "Income Taxes," in the Notes to Condensed Consolidated Financial Statements (unaudited) for additional information.

Recently Issued Accounting Pronouncements

SFAS No. 161 – Disclosures about Derivative Instruments and Hedging — an amendment of SFAS No. 133. In March 2008, the FASB issued SFAS No. 161 to amend and expand the disclosure requirements of SFAS No. 133 with the intent to provide users of the financial statement with an enhanced understanding of how and why an entity uses derivative instruments, how these derivatives are accounted for and how the respective reporting entity's financial statements are affected. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, and earlier application is encouraged. Northern Indiana is currently reviewing the provisions of SFAS No. 161 to determine the impact it may have on its disclosures within the Notes to Condensed Consolidated Financial Statements (unaudited).

SFAS No. 141R – Business Combinations. In December 2007, the FASB issued SFAS No. 141R to improve the relevance, representational faithfulness, and comparability of information that a reporting entity provides in its financial reports regarding business combinations and its effects, including recognition of assets and liabilities, the measurement of goodwill and required disclosures. SFAS No. 141R is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. Northern Indiana is currently reviewing the provisions of SFAS No. 141R to determine the impact on future business combinations.

3. Purchase of Sugar Creek Plant

On May 30, 2008, Northern Indiana purchased Sugar Creek for $329.7 million. This purchase was in response to Northern Indiana's need to add approximately 1,000 mw of new capacity. Refer to Note 6, "Regulatory Matters," in the Notes to Condensed Consolidated Financial Statements (unaudited) for further discussion. The Sugar Creek facility is a CCGT located in West Terre Haute, Indiana. Sugar Creek has a plant capacity rating of 535 mw. Sugar Creek has transmission access to and is able to participate in both the MISO and PJM Interconnection wholesale electricity markets. The plant is currently committed to the PJM Interconnection market until May 31, 2010. At acquisition, Northern Indiana recorded at fair value $328.1 million related to utility plant. No goodwill was recorded in conjunction with the purchase. The preliminary allocation of the purchase price was assigned to the assets and liabilities of Sugar Creek, based on their estimated fair value in accordance with GAAP. This allocation is subject to completion of certain analyses and allocation of property, plant and equipment unit of accounts. Northern Indiana has up to one year from the date of purchase to complete its final purchase price allocation. Sugar Creek purchase was financed from the NiSource Money Pool and is included on the Condensed Consolidated Balance Sheet (unaudited) as short-term borrowings - affiliated.

4. Gas in Storage

Northern Indiana prices storage injections at the average of the costs of natural gas supply purchased during the year. For interim periods, the difference between current projected replacement cost and the LIFO cost for quantities of gas temporarily withdrawn from storage is recorded as a temporary LIFO liquidation credit within the Condensed Consolidated Balance Sheets (unaudited). Due to seasonality requirements, Northern Indiana expects interim reductions in LIFO layers to be replenished by year-end. Changes between the temporary LIFO liquidation credit and gas inventory in the amounts of $31.9 million and $11.8 million during the first six months of 2008 and 2007, respectively, are considered non-cash activity for the Condensed Statements of Consolidated Cash Flow (unaudited).

5. Asset Retirement Obligations

Northern Indiana accounts for its asset retirement obligations in accordance with SFAS No. 143 and FIN 47. Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of Northern Indiana, are classified as regulatory liabilities and other removal costs on the Condensed Consolidated Balance Sheets (unaudited).

Northern Indiana activity for asset retirement obligations:

	Six Months Ended June 30,	
(in millions)	**2008**	2007
Accretion recorded as a regulatory asset	**$ 2.2**	$ 2.0
Settlements	**(3.2)**	-
Increase (Decrease) in Asset Retirement Obligation Liability	**$ (1.0)**	$ 2.0

Northern Indiana performed retirement activities associated with a landfill resulting in settlements of $3.2 million for the second quarter of 2008.

6. Regulatory Matters

Gas Distribution Operations Regulatory Matters

Cost Recovery and Trackers. A significant portion of Northern Indiana's gas revenue is related to the recovery of gas costs, the review and recovery of which occurs via standard regulatory proceedings and which requires periodic review of actual gas procurement activity to determine prudence and to permit the recovery of prudently incurred costs related to the supply of gas for customers. Northern Indiana has historically been found prudent in the procurement of gas supplies to serve customers.

Northern Indiana has 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 Condensed Consolidated Balance Sheets (unaudited) to be included in future customer billings. During times of unusually high gas prices, throughput and net revenue have been adversely affected as customers may reduce their usage as a result of higher gas cost.

Electric Operations Regulatory Matters

Significant Rate Developments. Northern Indiana filed a petition for new electric base rates and charges on June 27, 2008 and will file its detailed case on or before August 29, 2008. The prehearing conference to establish the procedural schedule for the electric rate case was held on July 29, 2008. Initial hearings are anticipated in January 2009.

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year. The credits will continue at approximately the same annual level and per the same methodology, until the IURC enters a base rate order that approves revised Northern Indiana electric rates. The order included a rate moratorium that expired on July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage, therefore in times of high usage the credit may be more than $55.1 million. Credits amounting to $25.1 million and $27.7 million were recognized for electric customers for the first half of 2008 and 2007, respectively.

MISO. As part of Northern Indiana's participation in the MISO transmission service and wholesale energy market, certain administrative fees and non-fuel costs have been incurred. IURC orders have been issued authorizing the deferral for consideration in a future rate case proceeding of the administrative fees and certain non-fuel related costs incurred after Northern Indiana's rate moratorium, which expired on July 31, 2006. During the first half of 2008 non-fuel cost of $1.5 million were deferred in accordance with the aforementioned orders. In addition, administrative, FERC and other fees of $3.4 million were deferred. In the first half of 2008 and 2007, MISO costs of $4.9 million and $6.3 million, respectively, were deferred.

On April 25, 2006, the FERC issued an order on the MISO's Transmission and Energy Markets Tariff, stating that MISO had violated the tariff on several issues including not assessing revenue sufficiency guarantee charges on virtual bids and offers and for charging revenue sufficiency guarantee charges on imports. The FERC ordered MISO to perform a resettlement of these charges back to the start of the Day 2 Market. The resettlement began on June 9, 2007 and ended in January 2008. Certain charge types included in the resettlement were originally considered to be non-fuel and were recorded as regulatory assets, in accordance with previous IURC orders allowing deferral of certain non-fuel MISO costs. During the fourth quarter 2007, based on precedent set by an IURC ruling for another Indiana utility, Northern Indiana reclassified these charges, totaling $16.7 million, as fuel and included them in the fuel cost recovery mechanism in its latest FAC filing. Prior to the hearing for FAC-78 on April 17, 2008, several intervenors objected to a portion of the $16.7 million and Northern Indiana agreed to remove $7.6 million from the FAC filing. This amount represents the portion of the resettlement costs related to periods prior to December 9, 2005. The $7.6 million was recorded as a reduction to net revenues in the first quarter of 2008.

Northern Indiana is an active stakeholder in the process used in designing, testing and implementing the ASM and in developing the surrounding business practices. On January 18, 2008, Northern Indiana as part of a Joint Petition among several other Indiana utilities, filed a request to the IURC to participate in ASM and seek approval of timely cost recovery for the associated costs of participating. The evidentiary hearing is planned for September 4, 2008. At this time, Northern Indiana is unable to determine what impact the ASM will have on its operations or cash flows.

Cost Recovery and Trackers. A significant portion of the Northern Indiana's revenue is related to the recovery of fuel costs to generate power and the fuel costs related to purchased power. These costs are recovered through a FAC, a standard, quarterly, "summary" regulatory proceeding in Indiana.

On May 30, 2008, Northern Indiana purchased the Sugar Creek facility for $329.7 million. The Sugar Creek facility is a CCGT located in West Terre Haute, Indiana. Sugar Creek has a plant capacity rating of 535 mw. Sugar Creek has transmission access to and is able to participate in both the MISO and PJM Interconnection wholesale electricity markets. The plant is currently committed to the PJM Interconnection market until May 31, 2010. The purchase was in response to Northern Indiana's need to add approximately 1,000 mw of new capacity, as filed in its bi-annual IRP with the IURC on November 1, 2007.

The IRP included a commitment to using renewable energy, and a subsequent filing was made with the IURC, requesting approval for Northern Indiana to enter into power purchase contracts with subsidiaries of Iberdrola Renewables for wind-generated power in Iowa and South Dakota, and requesting full recovery of all associated costs. On July 24, 2008, the IURC issued an order approving Northern Indiana's proposed purchase power agreement with subsidiaries of Iberdrola Renewables. The agreement provides Northern Indiana the opportunity to purchase 100 mw of wind power commencing in early 2009.

The IURC had issued an order on May 28, 2008 approving the purchase of Sugar Creek, but denied Northern Indiana's request for deferral of depreciation expense and carrying costs related to the plant, beginning with the acquisition date, on the basis that the facility would not be used and useful property under traditional regulation until the facility was operating inside of MISO. The order also denied Northern Indiana’s request for alternative regulatory treatment of the plant, based on incomplete presentation of evidence, but allowed for the establishment of a subdocket to allow for the proper presentation and consideration of alternative regulatory treatment. On June 6, 2008, Northern Indiana filed its (A) Verified Petition for Rehearing; (B) Request for Establishment of a Subdocket for Presentation and Consideration of an Alternative Regulatory Plan; and (C) Motion for Consolidation (a single document) in Cause No. 43396. The subdocket requests the same deferral accounting treatment that was requested for depreciation expense and carrying costs associated with the Sugar Creek facility. An order in the subdocket proceeding is expected in early 2009.

On January 30, 2008, the IURC approved a settlement agreement which was reached in October 2007 with the OUCC, LaPorte County and a group of Northern Indiana industrial customers to resolve questions relating to purchased power costs in the period from January 1, 2006 through September 30, 2007. The terms of the settlement called for Northern Indiana to make a one-time payment of $33.5 million to FAC customers. A reserve for the entire amount was recorded in the third quarter of 2007 and the refund was made to customers via the FAC in the periods of February through July 2008. As part of this agreement, Northern Indiana implemented a new “benchmarking standard,” that became effective in October 2007, which defines the price above which purchased power costs must be absorbed by Northern Indiana and are not permitted to be passed on to customers. The benchmark is based upon the costs of power generated by a hypothetical natural gas fired CCGT using gas purchased and delivered to Northern Indiana. During the first half of 2008, the amount of purchased power costs exceeding the benchmark amounted to $6.5 million, which was recognized as a net reduction of revenues. The agreement also contemplated Northern Indiana adding generating capacity to its existing portfolio and that the benchmark would be adjusted as new capacity is added. It was anticipated that the addition of the Sugar Creek capacity would trigger a change in the benchmark beginning in June 2008. However, based on the IURC order in the CPCN as described above, the Sugar Creek capacity will not be considered until the plant is operating inside of MISO and therefore the benchmark is unchanged.

On November 26, 2002, Northern Indiana received approval from the IURC for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM’s NOx SIP through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. In December 2006, Northern Indiana filed a petition with the IURC for appropriate cost treatment and recovery of emission control construction needed to address the Phase I CAIR requirements of the Indiana Air Pollution Control Board’s CAIR rules that became effective on February 25, 2007. On July 3, 2007, Northern Indiana received an IURC order issuing a CPCN for the CAIR and CAMR Phase I Compliance Plan Projects, estimated to cost approximately $23 million. Northern Indiana will include the CAIR and CAMR Phase I Compliance Plan costs to be recovered in the semi-annual and annual ECRM and EERM filing six months after construction costs begin. On December 19, 2007, the IURC approved Northern Indiana’s latest compliance plan with the estimate of $338.5 million. On April 2, 2008, the IURC approved ECR-11 for $252.6 million in capital expenditures (net of accumulated depreciation) and EER-5 for $14.1 million in expenses, for which billing began in May 2008. In July 2008, Northern Indiana filed ECR-12 for $265.2 million in capital expenditures (net of accumulated depreciation), requesting approval for new billing factors beginning November 2008.

On October 27, 2006, Indiana Gasification, LLC, Vectren Energy Delivery of Indiana, Citizens Gas & Coke Utility and Northern Indiana filed a joint petition at the IURC seeking approval for Indiana Gasification, LLC to construct a coal gasification facility and the respective utilities to enter into long-term contracts to purchase the energy output of the plant, both gas and electricity. This filing was based upon a Letter of Intent that was entered into by the parties, but subject to finalization of a contract and regulatory approval. On December 12, 2007, Citizens Gas & Coke Utility filed a Motion with the IURC to withdraw from the petition. The parties have had frequent negotiations during the two year period, but have not reached a definitive agreement. Northern Indiana anticipates filing a notice with the IURC on the status of the project in the third quarter of 2008.

7. Risk Management Activities

Northern Indiana uses commodity-based derivative financial instruments primarily to manage commodity price risk in its business. Northern Indiana accounts for its derivatives in accordance with SFAS No. 133. Under SFAS No. 133, if certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction. Additionally, Northern Indiana enters into forward physical contracts with various third parties to procure natural gas or power for its operational needs. These forward physical contracts are derivatives which qualify for the normal purchase normal sales exception under SFAS No. 133 and do not require mark-to-market accounting.

Northern Indiana's derivatives on the Condensed Consolidated Balance Sheets (unaudited) at June 30, 2008 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 1.2	$ 24.1	$ 25.3
Total price risk management assets	$ 1.2	$ 24.1	$ 25.3
Price risk management liabilities			
Current liabilities	$ -	$ 3.3	$ 3.3
Total price risk management liabilities	$ -	$ 3.3	$ 3.3

Northern Indiana's derivatives on the Consolidated Balance Sheets at December 31, 2007 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 0.3	$ 13.7	$ 14.0
Total price risk management assets	$ 0.3	$ 13.7	$ 14.0
Price risk management liabilities			
Current liabilities	$ 2.5	$ 10.8	$ 13.3
Total price risk management liabilities	$ 2.5	$ 10.8	$ 13.3

The hedging activity for the six months ended June 30, 2008 and 2007 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

	Six Months Ended June 30,	
(in millions, net of taxes)	**2008**	2007
Unrealized losses on derivatives qualifying as cash flow hedges at the beginning of the period	**$ (1.1)**	$ (4.7)
Unrealized hedging gains arising during the period of derivatives qualifying as cash flow hedges	**1.2**	3.2
Reclassification adjustment for net loss included in net income	**0.6**	0.8
Net unrealized gains (losses) on derivatives qualifying as cash flow hedges at the end of the period	**$ 0.7**	$ (0.7)

During the six months ended June 30, 2008 and 2007, a loss of $0.3 million and zero, net of taxes respectively, were recognized in earnings due to the ineffectiveness of derivative instruments being accounted for as hedges. All derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the six months ended June 30, 2008 and 2007, Northern Indiana did not reclassify any amounts related to its cash flow hedges from accumulated other comprehensive income to earnings due to the probability that the underlying forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income statement recognition of amounts currently classified in accumulated other comprehensive income of approximately $0.7 million of income, net of taxes.

Commodity Price Risk Programs. Northern Indiana uses NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of its gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the gas costs that could be charged in future months. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana has purchased NYMEX futures, NYMEX options and basis contracts that correspond to a fixed or capped price in the associated future delivery months and currently enters into forward physical purchase contracts to secure forward gas prices. The NYMEX futures and option contracts associated with these programs are generally designated and accounted for as cash flow hedges and Northern Indiana elects the normal purchase normal sale exemption under SFAS No. 133 for its forward physical contracts associated with this program.

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill in future months at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana has purchased NYMEX futures, NYMEX options and basis contracts that match the anticipated future delivery needs of the program to secure forward gas prices and currently enters into forward physical purchase contracts to secure forward gas prices. The NYMEX futures contracts associated with this program are generally designated and accounted for as cash flow hedges and Northern Indiana elects the normal purchase normal sale exemption under SFAS No. 133 for its forward physical contracts associated with this program.

As part of the MISO Day 2 initiative, Northern Indiana was allocated and has purchased FTRs. These FTRs help Northern Indiana offset congestion costs due to the MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism, the related gains and losses associated with marking these derivatives to market are recorded as a regulatory asset or liability, in accordance with SFAS No. 71. In the second quarter of 2008, MISO changed its allocation procedures from an allocation of FTRs to an allocation of ARRs, whereby Northern Indiana was allocated ARRs based on its historical use of the MISO administered transmission system. ARRs entitle the holder to a stream of revenues or charges based on the price of the associated FTR in the FTR auction. Northern Indiana converted the ARRs that were received in the second quarter of 2008 into FTRs. Additionally, Northern Indiana also uses derivative contracts to minimize risk associated with power price volatility. These derivative programs must be marked to fair value, but because these derivatives are used within the framework of their cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

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

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

	June 30, 2008		December 31, 2007	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	$ 17.9	$ 2.9	$ -	$ 9.7
PPS program derivatives	1.2	-	0.2	1.4
DependaBill program derivatives	0.2	-	0.1	1.1
Electric energy program derivatives	6.0	0.4	13.7	1.1
Total commodity price risk programs	$ 25.3	$ 3.3	$ 14.0	$ 13.3

8. Fair Value of Financial Assets and Liabilities

Northern Indiana adopted the provisions of SFAS No. 157 on January 1, 2008. There was no impact on retained earnings as a result of the adoption.

Recurring Fair Value Measurements. The following table presents assets and liabilities measured and recorded at fair value on Northern Indiana's Condensed Consolidated Balance Sheet (unaudited) on a recurring basis and their level within the fair value hierarchy as of June 30, 2008:

Recurring Fair Value Measurements *(in millions)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2008
Assets				
Price risk management assets	$ 19.7	$ -	$ 5.6	$ 25.3
Liabilities				
Price risk management liabilities	$ 0.4	$ -	$ 2.9	$ 3.3

Price risk management assets and liabilities include commodity exchange-traded and non-exchange-based derivative contracts. Exchange-traded derivative contracts are generally based on unadjusted quoted prices in active markets and are classified within Level 1. Level 2 fair value measurements may utilize various inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, i.e., inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. Certain derivatives trade in less active markets with a lower availability of pricing information and models may be utilized in the valuation. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3.

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the six months ended June 30, 2008:

Six Months Ended June 30, 2008 (*in millions*)	Financial Transmission Rights	Other Derivatives	Total
Balance as of January 1, 2008	$ 12.6	$ (0.4)	$ 12.2
Total losses (unrealized/realized)			
Included in regulatory assets/liabilities	(0.1)	-	(0.1)
Purchases, issuances and settlements (net)	(6.9)	(2.5)	(9.4)
Balance as of June 30, 2008	$ 5.6	$ (2.9)	$ 2.7
Change in unrealized losses relating to instruments still held as of June 30, 2008	$ (0.1)	$ -	$ (0.1)

Realized gains and losses for Level 3 recurring items are included in income within Cost of Sales on the Condensed Statements of Consolidated Income. Unrealized gains and losses from Level 3 recurring items are included within regulatory assets and liabilities on the Condensed Consolidated Balance Sheets.

As part of the MISO Day 2 initiative, Northern Indiana was allocated and has purchased FTRs. These rights help Northern Indiana offset congestion costs due to the MISO Day 2 activity. These instruments are considered derivatives and are valued utilizing forecasted congestion source and sink prices in the Day Ahead market. They are classified as Level 3 and reflected in the table above. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism, the related gains and losses associated with marking these derivatives to market are recorded as a regulatory asset or liability, in accordance with SFAS No. 71.

9. Income Taxes

Northern Indiana's interim effective tax rates reflect the estimated annual effective tax rate for 2008 and 2007, respectively, adjusted for tax expense associated with certain discrete items. The effective tax rates for the six months ended June 30, 2008 and June 30, 2007 were 38.9% and 40.6%, respectively. These effective tax rates differ from the federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and other permanent book-to-tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.

For the six months ended June 30, 2008 versus the six months ended June 30, 2007, the 1.7% decrease in the effective tax rate is primarily attributable to the tax impact of additional estimated AFUDC-Equity for the six months ended June 30, 2008 versus the six months ended June 30, 2007.

Northern Indiana adopted the provisions of FIN 48 on January 1, 2007, recognizing a charge of $0.8 million to the opening balance of retained earnings and an adjustment to deferred tax assets of $0.2 million. As of December 31, 2007, the total liability for unrecognized tax benefits, which is included in "Other noncurrent liabilities" on the Consolidated Balance Sheets, was $1.1 million ($1.2 million including interest). There have been no material changes in Northern Indiana's FIN 48 liabilities from the December 31, 2007 amounts.

Effective January 1, 2007, Northern Indiana records interest and penalties (if any) on prior year tax liabilities as a component of income tax expense.

10. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and a noncontributory defined benefit retirement plan that cover employees of Northern Indiana. Benefits under the defined benefit retirement plan reflect the employees' compensation, years of service and age at retirement. Additionally, NiSource provides health care and life insurance benefits for certain retired employees of Northern Indiana. The majority of employees may become eligible for these benefits if they reach retirement age while working for Northern Indiana. The expected cost of such benefits is accrued during the employees' years of service. Northern Indiana's current rates include postretirement benefit costs on an accrual basis, including amortization of the regulatory assets that arose prior to inclusion of these costs in rates. Cash contributions are remitted to grantor trusts.

On January 1, 2007, NiSource and Northern Indiana adopted the SFAS No. 158 measurement date provisions requiring employers to measure plan assets and benefit obligations as of the fiscal year-end. Northern Indiana's pre-tax impact of adopting the SFAS No. 158 measurement date provisions decreased regulatory assets by $46.4 million, decreased retained earnings by $8.1 million and decreased accrued liabilities for postretirement and postemployment benefits by $38.3 million. Northern Indiana also recorded a reduction in deferred income taxes of approximately $3.5 million.

Northern Indiana's employees are included in NiSource's plans mentioned above. Costs are allocated to Northern Indiana. Northern Indiana's employees account for approximately 31% of the employees participating in the Plans in 2007. Northern Indiana recognized $7.8 million and $5.4 million in allocated pension income, and $17.3 million and $8.4 million in allocated other postretirement benefit expenses for the first half of 2008 and of 2007, respectively.

Northern Indiana expects to make contributions of $1.9 million to NiSource to fund its pension plans and $14.2 million to NiSource to fund its other postretirement benefit plans during 2008. Through June 30, 2008, Northern Indiana has contributed $1.5 million to fund NiSource's pension plans and $4.5 million to fund NiSource's other postretirement benefit plans.

The following tables provide the components of NiSource plans' net periodic benefits cost for the six months ended June 30, 2008 and 2007:

	Pension Benefits		Other Postretirement Benefits	
Six Months Ended June 30, *(in millions)*	**2008**	2007	**2008**	2007
Components of Net Periodic Benefit Cost				
Service cost	**$ 18.7**	$ 20.6	**$ 4.7**	$ 4.9
Interest cost	**66.2**	63.8	**23.8**	21.8
Expected return on assets	**(97.0)**	(93.4)	**(12.6)**	(10.5)
Amortization of transitional obligation	**-**	-	**4.0**	4.0
Amortization of prior service cost	**2.1**	2.8	**0.4**	0.2
Recognized actuarial loss	**0.6**	4.0	**2.0**	3.0
Total Net Periodic Benefits Cost	**$ (9.4)**	$ (2.2)	**$ 22.3**	$ 23.4

11. Long Term Debt

Jasper County Pollution Control Bonds. Northern Indiana has seven series of Jasper County Pollution Control Bonds with a total principal value of $254 million currently outstanding. Prior to March 25, 2008, each of the series bore interest at rates established through auctions that took place at either 7, 28, or 35 day intervals. Between February 13, 2008 and March 5, 2008, Northern Indiana received notice that six separate market auctions of four series of the Jasper County Pollution Control Bonds had failed. As a result, those series representing an aggregate principal amount of $112 million of the Jasper County Pollution Control Bonds bore interest at default rates equal to 15% or 18% per annum. Subsequent auctions were successful, but resulted in interest rates between 5.13% and 11.0%, which are in excess of historical rates. These auction failures were attributable to the recent lack of liquidity in the auction rate securities market, largely driven by the recent turmoil in the bond insurance market. The Jasper County Pollution Control Bonds are insured by either Ambac Assurance Corporation or MBIA Insurance Corporation.

Northern Indiana converted all seven series of Jasper County Pollution Control Bonds from the auction rate mode to a variable rate demand bond mode between March 25, 2008 and April 11, 2008 and repurchased the bonds as part of the conversion process. As of April 11, 2008, all of the Jasper County Pollution Control Bonds were purchased and are held in Northern Indiana's treasury. Northern Indiana is currently evaluating its options for reoffering the debt to the public.

Northern Indiana has recorded the repurchased bonds as an offset to long-term debt in the Condensed Consolidated Balance Sheet (unaudited) as the debt is considered extinguished per SFAS No. 140. Unamortized debt expense previously recorded under deferred charges and other qualifies for regulatory treatment and has been reclassified as a regulatory asset. The repurchase of the bonds is included in the financing activities section in the Condensed Statement of Consolidated Cash Flow.

Northern Indiana Inter-Company Notes. On February 6, 2008, the IURC approved Northern Indiana's financing petition to issue $160.0 million of long-term notes to NiSource Finance. The approved petition allows Northern Indiana to issue two $80.0 million notes with terms of ten and fifteen years, respectively, anytime prior to August 6, 2008. On June 6, 2008, Northern Indiana issued an $80.0 million, 6.09% ten-year note and an $80.0 million, 6.525% fifteen-year note, which is included in long-term debt affiliated on the Condensed Consolidated Balance Sheet (unaudited).

12. Other Commitments and Contingencies

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

B. Environmental Matters.

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

A reserve of $19.2 million and $20.3 million has been recorded as of June 30, 2008 and December 31, 2007, respectively, to cover probable corrective actions at sites where Northern Indiana has environmental remediation liability. Regulatory assets have been recorded to the extent environmental expenditures are expected to be recovered in rates. Northern Indiana accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The undiscounted estimated future expenditures are based on many factors including currently enacted laws and regulations, existing technology and estimated site-specific costs whereby assumptions may be made about the nature and extent of site contamination, the extent of cleanup efforts, costs of alternative cleanup methods and other variables. Northern Indiana's estimated environmental remediation liability will be refined as events in the remediation process occur. Actual remediation costs may differ materially from Northern Indiana's estimates due to the dependence on the factors listed above.

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Northern Indiana engages in efforts to voluntarily report and reduce their greenhouse gas emissions and is currently a participant in the EPA's Climate Leaders program. On April 2, 2007, in Massachusetts v. EPA, the Supreme Court ruled that the EPA does have authority under the CAA to regulate emissions of greenhouse gases if it is determined that greenhouse gases have a negative impact on human health or the environment. On July 11, 2008, in response to the April 2, 2007, U.S. Supreme Court decision in *Massachusetts v. EPA*, the EPA released an ANPR soliciting public input on the effects of climate change and the potential ramifications of the CAA in relation to greenhouse gas emissions. In the ANPR, the EPA presents and requests comment on the best-available science, requests relevant data, and poses questions about the advantages and disadvantages of using the CAA to potentially regulate stationary and mobile sources of greenhouse gases. The ANPR also reviews various petitions, lawsuits and court deadlines before the agency, and the profound effect regulating under the CAA could have on the economy. Northern Indiana will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

On March 12, 2008, the EPA announced the tightening of the 8-hour ozone NAAQS from 0.08 parts per million to 0.075 parts per million. The number of areas that do not meet the new standards could significantly increase across the country. Over the next several years states will be required to develop ozone attainment plans to implement the standards and improve air quality in these areas. This could lead to additional emission reductions of NOx, an ozone precursor, from facilities owned by Northern Indiana. Northern Indiana will closely monitor developments in these matters and cannot at this time accurately estimate the timing or cost of emission controls that may eventually be required.

Gas Distribution Operations. Northern Indiana is a potentially responsible party at waste disposal sites under the CERCLA (commonly known as Superfund) and similar state laws, as well as at MGP sites, which it, or its corporate predecessors, own or previously owned or operated. Northern Indiana may be required to share in the cost of cleanup of such sites. In addition, Northern Indiana has responsibility for corrective action under the RCRA for closure and cleanup costs associated with underground storage tanks and under the Toxic Substances Control Act for cleanup of PCBs. The final costs of cleanup have not yet been determined. As site investigations and cleanup proceed and as additional information becomes available reserves are adjusted.

A program has been instituted to identify and investigate former MGP sites where Northern Indiana or predecessors are the current or former owner. The program has identified up to 25 such sites and initial investigations have been conducted at 22 sites. Additional investigation activities have been completed or are in progress at 20 sites and remedial measures have been implemented or completed at 12 sites. This effort includes the sites contained in the January 2004 agreement entered into with the IDEM, Northern Indiana and other Indiana utilities under the Indiana Voluntary Remediation Program. Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5. As costs become probable and reasonably estimable, reserves will be adjusted. As reserves are recorded, regulatory assets are recorded to the extent environmental expenditures are expected to be recovered through rates. Northern Indiana is unable, at this time, to accurately estimate the time frame and potential costs of the entire program. Management expects that, as characterization is completed, additional remediation work is performed and more facts become available, Northern Indiana will be able to develop a probable and reasonable estimate for the entire program or a major portion thereof consistent with the SEC's SAB No. 92, SFAS No. 5 and SOP No. 96-1.

Electric Operations.

Remediation. Northern Indiana is a potentially responsible party under the CERCLA and similar state laws at two waste disposal sites and shares in the cost of their cleanup with other potentially responsible parties. At one site, the Remedial Investigation and Feasibility Study was submitted to the EPA in 2007. The EPA has issued a proposed plan to remediate the site which is in the public comment period. At the second site, Northern Indiana has agreed to conduct a Remedial Investigation and Feasibility Study in the vicinity of the third party, state-permitted landfill where Northern Indiana contracted for fly ash disposal. In addition, Northern Indiana has corrective action liability under the RCRA for three facilities that historically stored hazardous waste.

As of June 30, 2008 and December 31, 2007, reserves of $3.3 million and $3.1 million, respectively, have been recorded to cover probable environmental response actions for Electric Operations. The ultimate liability in connection with these sites cannot be estimated at this time.

Air. In December 2001, the EPA approved regulations developed by the State of Indiana to comply with the EPA's NOx SIP call. The NOx SIP call requires certain states, including Indiana, to reduce NOx levels from several sources, including industrial and utility boilers, to lower regional transport of ozone. Compliance with the NOx limits contained in these rules was required by May 31, 2004. To comply with the rule, Northern Indiana developed a NOx compliance plan, which included the installation of Selective Catalytic Reduction NOx reduction technology at each of its active generating stations and is currently in compliance with the NOx limits. In implementing the NOx compliance plan, Northern Indiana has expended approximately $310.9 million as of June 30, 2008. Actual costs may vary depending on a number of factors including market demand and resource constraints, uncertainty of future equipment and construction costs, and the potential need for additional control technology.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern states, including electric utilities in Indiana, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. On March 15, 2006, the EPA signed three related rulemakings providing final regulatory decisions on implementing the CAIR. The EPA, in one of the rulings, denied several petitions for reconsideration of various aspects of the CAIR, including requests by Northern Indiana to reconsider SO2 and NOx allocations. On March 25, 2008, the U. S. Court of Appeals for the D. C. Circuit held oral arguments in litigation challenging the CAIR. Northern Indiana, along with other utilities, directly participated in one of the arguments addressing the legality of using the allowance allocations of the Acid Rain program for the purpose of complying with the CAIR SO2 reduction requirements. On July 11, 2008, the court vacated the CAIR and the CAIR FIP in their entirety, and remanded them back to the EPA to promulgate a rule consistent with the court's opinion. Per the Court's rules, the mandate will be deferred during the 45-day period allowed for the filing of any petitions for rehearing.

On October 3, 2007, the Indiana Air Pollution Control Board adopted, with minor changes from the EPA Clean Air Mercury Rule, the state rule to implement EPA's CAMR. The rule became effective on February 3, 2008, with compliance required in 2010. On February 8, 2008, the United States Court of Appeals for the District of Columbia Circuit vacated two EPA rules addressing utility mercury emissions that are the stimulus for the Indiana Air Pollution Control Board's CAMR. The first is the EPA's rule delisting coal and oil-fired electric generating units from the list of sources whose emissions are regulated under section 112 of the CAA, 42 U.S.C. § 7412. *Revision of December 2000 Regulatory Finding* ("Delisting Rule"), 70 Fed. Reg. 15,994 (March 29, 2005). The second is the EPA's rule that set performance standards for new coal-fired electric generating units and established total mercury emission limits for states along with a cap-and-trade program for new and existing coal-fired electric generating units. *Standards of Performance for New and Existing Stationary Sources: Electric Utility Steam Generating Units* ("CAMR"), 70 Fed. Reg. 28,606 (May 18, 2005). On March 24, 2008, the EPA and industry filed petitions with the court for rehearing of these decisions and on May 20, 2008, the D.C. Circuit denied the rehearing requests. Any party wanting to appeal the decision has until August 16, 2008, to file a petition for certiorari with the U. S. Supreme Court. The resolution of this legal action and the EPA's response will affect the implementation and timing of the installation of controls to address potential mercury reduction obligations. Northern Indiana will closely monitor developments regarding any further action by the EPA and subsequent regulatory developments from the EPA and/or the Indiana Air Pollution Control Board in this matter.

Local air quality has improved in three counties in which Northern Indiana generating assets are located. In recognition of this improvement the IDEM submitted petitions to the EPA seeking redesignation of the Indiana counties of Lake, Porter, and LaPorte to attainment of the eight-hour ozone NAAQS. Final EPA rulemaking approving the LaPorte County redesignation became effective on July 19, 2007. The EPA approval for Lake and Porter counties is undergoing further evaluation and may be delayed until after the 2008 ozone season due to monitored values in 2007 at one site that put the design value just above the NAAQS. On October 3, 2007, the Air Pollution Control Board adopted the redesignation of LaPorte County to attainment as part of a reformatting of the state attainment designation rule. The rule became effective January 28, 2008. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignations to attainment, new source review rules are expected to change from nonattainment new source review rules to prevention of significant deterioration while measures responsible for existing emission reductions would continue. The March 12, 2008 EPA tightening of the 8-hour ozone NAAQS may preclude the approval of the redesignation requests and may result in these counties remaining and/or again being designated as nonattainment of the ozone NAAQS. As discussed above under "General," the EPA ozone NAAQS revision could lead to additional emission reductions of NOx, an ozone precursor, from facilities owned by Northern Indiana. Northern Indiana will closely monitor developments in these matters and cannot at this time accurately estimate the timing or cost of emission controls that may eventually be required.

The U. S. Court of Appeals for the D. C. Circuit, in late 2006, ruled a requirement to impose CAA §185 fees on emissions sources located in counties that failed to timely attain the previous (one-hour) ozone standard, which had been rescinded by the EPA in May 2005, remained applicable retroactive to November 2005. The court remanded the issue to the EPA for reconsideration. In January 2008, the U. S. Supreme Court denied a petition to hear an appeal on this matter. The EPA has announced that it intends to propose regulations in fall 2008 to specify how CAA §185 fees will be imposed and calculated. One of Northern Indiana's operating generating assets is located in Porter County where this fee could potentially be applied. On July 7, 2008, the EPA proposed a finding of attainment of the one-hour ozone NAAQS for the Illinois and Indiana one-hour ozone nonattainment area which includes Porter County. Included in the proposed rule is a finding that the area, including Porter County, is not subject to the imposition of the CAA §185 penalty fees. Northern Indiana will closely monitor developments in this matter.

In late 1999, the EPA initiated a New Source Review enforcement action against several industries, including the electric utility industry, concerning rule interpretations that have been the subject of recent (prospective) reform regulations. Northern Indiana has received and responded to the EPA information requests on this subject, most recently in June 2002. The EPA issued an NOV to Northern Indiana on September 29, 2004, for alleged violations of the CAA and the SIP. Specifically, the NOV alleges that modifications were made to certain boiler units at the Michigan City, Schahfer, and Bailly Generating Stations between the years of 1985 and 1995 without obtaining appropriate air permits for the modifications. An adverse outcome in this matter could require capital expenditures beyond the EPA requirements that cannot be determined at this time and could require payment of substantial penalties. Northern Indiana is unable, at this time, to predict the timing or outcome of this EPA action.

Water. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed and the State of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. The permit for the Bailly Generating Station was issued on June 26, 2006, and became effective on August 1, 2006. Northern Indiana appealed the Bailly Generating Station NPDES permit, due to an unacceptable internal outfall monitoring permit condition. On February 18, 2008, the Bailly Generating Station NPDES permit was modified to resolve the monitoring issue and to address the 316(b) rule status due to the remand mentioned below. Due to additional pending studies, the cost of complying with the permit requirements cannot be estimated at this time.

On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems, such as a closed-cycle cooling tower. On January 25, 2007, the Second Circuit in a court decision on the Phase II 316(b) rule, remanded for EPA reconsideration the options providing flexibility for meeting the requirements of the rule. On March 20, 2007, the EPA issued a guidance memo advising its Regional Administrators that the Agency considers the 316(b), Phase II Rule governing cooling water withdrawals suspended and will be issuing a Federal Register notice to that effect. On July 9, 2007, the EPA published a notice in the Federal Register suspending the Phase II rule. The notice explained that the EPA is not accepting comments on the suspension and notes that "best professional judgment" is to be used in making 316(b) decisions. The EPA will need to propose a revised 316(b) rule and/or provide guidance to address the impact of the court decision. Northern Indiana will closely monitor the EPA rule developments.

On July 5, 2007, the Second Circuit Court of Appeals denied the petitions for rehearing asking the court to reconsider its remand of the Phase II 316(b) ruling. Various parties submitted petitions for a *writ of certiorari* to the U. S. Supreme Court in early November seeking to reverse the Second Circuit Court's decision. The U.S. Supreme Court has agreed to hear the appeal which is based on the role of cost-benefit analysis in establishing standards for compliance with the rule. The case is scheduled to be heard during the fall of 2008. Northern Indiana will continue to closely monitor this activity.

Coal Combustion Products. The Federal government has recently shown an increased interest in evaluating the advisability of Federal regulation of coal combustion waste products because of concern over potential health and environmental risks. A House subcommittee has begun to study this issue building on the EPA's ongoing activities in this matter. Northern Indiana will continue to monitor this activity for any future regulatory actions and cannot predict the potential financial impact at this time.

C. Purchase and Service Obligations. As a result of the Sugar Creek purchase, Northern Indiana assumed a service agreement to provide various energy services for Sugar Creek, including fuel supply services and power services that extends through May 31, 2010. The estimated annual aggregate amount of minimum fixed payments are $0.9 million. Additional annual payments of approximately $0.5 million will be paid under the agreement as long as power services are contracted and performed. This service agreement should be considered in addition to the purchase and service obligations disclosed in Note 12E to Northern Indiana's December 31, 2007 Notes to Consolidated Financial Statements.

13. Changes in Common Shareholder's Equity and Comprehensive Income

The following table displays the changes in Common Shareholder's Equity and Comprehensive Income for the six months ended June 30, 2008 and 2007.

(in millions)	Common Stock Shares Outstanding	Common Stock Value	Additional Paid-In Capital	Retained Earnings	Accum. Other Comp. Income (Loss)	Total	Comp. Income
Balance January 1, 2008	**73.3**	**$ 859.5**	**$ 81.5**	**$ 454.2**	**$ (1.1)**	**$ 1,394.1**	
Comprehensive Income:							
Net Income				59.4		59.4	$ 59.4
Other comprehensive income, net of tax:							
Net unrealized gains on derivatives qualifying as cash flow hedges (a)					1.8	1.8	1.8
Total comprehensive income							$ 61.2
Balance June 30, 2008	**73.3**	**$ 859.5**	**$ 81.5**	**$ 513.6**	**$ 0.7**	**$ 1,455.3**	

(in millions)	Common Stock Shares Outstanding	Common Stock Value	Additional Paid-In Capital	Retained Earnings	Accum. Other Comp. Income (Loss)	Total	Comp. Income
Balance January 1, 2007	**73.3**	**$ 859.5**	**$ 70.5**	**$ 395.3**	**$ (4.7)**	**$ 1,320.6**	
Adjusted to initially apply new measurment date pursuant to SFAS No. 158, net of tax				(5.2)		(5.2)	
Adjustment to initially apply FIN 48, net of tax				(0.8)		(0.8)	
Beginning balance, as adjusted	**73.3**	**$ 859.5**	**$ 70.5**	**$ 389.3**	**$ (4.7)**	**$ 1,314.6**	
Comprehensive Income:							
Net Income				87.6		87.6	$ 87.6
Other comprehensive income, net of tax:							
Net unrealized gains on derivatives qualifying as cash flow hedges (a)					4.0	4.0	4.0
Total comprehensive income							$ 91.6
Cash dividends:							
Common stock				(75.0)		(75.0)	
Balance June 30, 2007	**73.3**	**$ 859.5**	**$ 70.5**	**$ 401.9**	**$ (0.7)**	**$ 1,331.2**	

(a) Net unrealized gains on derivatives qualifying as cash flow hedges, net of $1.3 million and $2.7 million tax expense in the first half of 2008 and 2007, respectively.

14. Accumulated Other Comprehensive Income (Loss)

The following table displays the components of Accumulated Other Comprehensive Income (Loss), which is included in "Common Shareholder's Equity," on the Condensed Consolidated Balance Sheets.

(in millions)	**June 30, 2008**	December 31, 2007
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on cash flow hedges	**$ 1.2**	$ (1.9)
Tax (expense) benefit on cash flow hedges	**(0.5)**	0.8
Total Accumulated Other Comprehensive Income (Loss), net of taxes	**$ 0.7**	$ (1.1)

15. Business Segment Information

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

Northern Indiana's operations are divided into three primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Indiana. The Electric Operations segment provides electric service in 20 counties in the northern part of Indiana and engages in electric wholesale and transmission transactions. The Other Operations segment includes the results of NRC, a wholly-owned subsidiary of Northern Indiana, whose sole activity is to purchase accounts receivable from Northern Indiana and sell an undivided percentage ownership interest in these accounts to a commercial paper conduit, within the limits of the agreement between NRC and the conduit. NRC commenced operations on December 30, 2003.

The following table provides information about business segments. Northern Indiana uses operating income as its primary measurement for each of the reported segments. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment. Electric Operations operating income was negatively impacted by an $8.3 million depreciation expense adjustment recorded by Northern Indiana during the second quarter of 2008. The non-cash adjustment to depreciation expense was not material to the results of operations and consolidated financial statements and will not materially impact depreciation charges in future periods.

	Six Months Ended June 30,	
(in millions)	**2008**	2007
REVENUES		
Gas Distribution Operations		
Unaffiliated	**$ 725.9**	$ 621.6
Affiliated	**12.7**	14.0
Total	**738.6**	635.6
Electric Operations		
Unaffiliated	**673.6**	660.8
Affiliated	**0.7**	0.8
Total	**674.3**	661.6
Consolidated Revenues	**$ 1,412.9**	$ 1,297.2
Operating Income (Loss)		
Gas Distribution Operations	**$ 33.2**	$ 38.8
Electric Operations	**89.1**	137.8
Other Operations	**(0.3)**	(0.1)
Consolidated Operating Income	**$ 122.0**	$ 176.5

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APPENDIX C

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

SPECIMEN

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Due for Payment" shall also mean, when referring to the principal and interest on any Obligation, any date on which such Obligation shall have been duly called for special mandatory redemption as a result of (a) a final determination by the Internal Revenue Service or by a court of competent jurisdiction in the United States that, as a result of the failure by Northern Indiana Public Service Company (the "Company") to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Financing Agreement entered into in connection with the Obligations, or as the result of the inaccuracy of any representation or agreement made by the Company under the Financing Agreement, the interest payable on any Obligation is includable in the gross income of the owner of such Obligation, other than an owner who is a substantial user or related person within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954 (the "1954 Code"), which final determination follows proceedings of which the Company has been given written notice and in which the Company, at its sole expense and to the extent deemed sufficient by the Company, has been given an opportunity to participate, either directly or in the name of the owner of such Obligation, or (b) Bond Counsel shall have issued a written opinion to the effect that the interest paid or to be paid on any Obligation (except to a "substantial user" of the project financed by the Obligations or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code or Section 147(h) of the Internal Revenue Code of 1986) more likely than not is or was includable in the gross income of the Obligation's owner of federal income tax purposes

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

Robert J. Genader

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

Secretary

Form No.: 2B-0027 (4/94)

Authorized Representative

APPENDIX D

**FORM OF OPINION OF BOND COUNSEL
DELIVERED ON DECEMBER 18, 2003**

[LETTERHEAD OF CHAPMAN AND CUTLER LLP]

December 18, 2003

Re: $55,000,000 Jasper County, Indiana
Pollution Control Refunding Revenue Bonds
(Northern Indiana Public Service Company Project)
Series 2003

We hereby certify that we have examined a certified copy of the proceedings of record of the County Council of Jasper County, Indiana, preliminary to and in connection with the issuance by Jasper County, Indiana, a political subdivision of the State of Indiana *(the "Issuer"),* of its Pollution Control Refunding Revenue Bonds (Northern Indiana Public Service Company Project) Series 2003, principal amount of $55,000,000 (the *"Bonds").* The Bonds are being issued under the provisions of Indiana Code Title 36, Article 7, Chapters 11.9 and 12, as amended, and Title 5, Article 1, Chapter 5, as amended (together, the *"Act"),* and an ordinance adopted by the Issuer on September 16, 2003, (the *"Ordinance")* for the purpose of refunding $55,000,000 aggregate principal amount of Jasper County, Indiana Collateralized Pollution Control Refunding Revenue Bonds (Northern Indiana Public Service Company Project) Series 1991 (the *"Prior Bonds ")* which were issued to finance or to refund obligations issued to finance or refinance a portion of the costs of the acquisition, construction and installation by Northern Indiana Public Service Company *(the "Company")* of certain pollution control facilities (the *"Project")* at Units 17 and 18 of the Company's Rollin M. Schahfer Generating Station, located in Jasper County, Indiana, and for the purpose of paying expenses incidental thereto, to provide for the abatement or control of pollution in Jasper County, Indiana and to promote the health, prosperity, economic stability and general welfare of the area in Jasper County, Indiana.

The Bonds bear interest at the rates and determined in the manner, and mature on the date, as set forth in the Indenture (as hereinafter defined). The Bonds are subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in the Indenture. The Bonds are issuable as registered Bonds without coupons in denominations that vary according to the mode of interest rate borne by the Bonds from time to time. The proceeds from the sale of the Bonds will be deposited in trust with the trustee for the Prior Bonds as set forth in the Indenture, to be applied to the payment of the principal of the Prior Bonds at redemption.

From such examination of the proceedings of the County Council of Jasper County, Indiana referred to above, and from an examination of the Act, we are of the opinion that such proceedings show lawful authority for the issue of the Bonds under the laws of the State of Indiana now in force.

The Issuer and the Company have entered into a Financing Agreement, dated as of December 1, 2003 (the *"Agreement"),* an executed counterpart of which we have examined, which contains, among other things, the terms and conditions of the use of the proceeds of the Bonds for the purposes stated above and the payment of the loan repayments by the Company. The Agreement, in our opinion, has been duly authorized, executed and delivered by the Issuer, and is the valid and binding obligation of the Issuer, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally.

We have also examined (i) the Indenture of Trust, dated as of December 1, 2003 (the *"Indenture")* by and between the Issuer and National City Bank of Indiana (the *"Trustee"),* securing the Bonds and setting forth the covenants and undertakings of the Issuer in connection with the Bonds, (ii) a certified copy of the proceedings of record of the County Council of Jasper County, Indiana preliminary to and in connection with the execution and delivery of the Indenture and (iii) an executed counterpart of the Indenture. From such examination, we are of the opinion that the Indenture is a valid and binding obligation of the Issuer, enforceable according to its terms (subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally), and that the proceedings of the County Council of Jasper County, Indiana referred to above show lawful authority for the execution and delivery of the Indenture.

The Bonds are payable from the revenues and receipts derived by the Issuer from payments to be made under the Agreement.

We further certify that we have examined the form of the Bonds and find the same in due form of law, and in our opinion the Bonds, to the amount named, are valid and legally binding upon the Issuer according to the import thereof as provided in the Indenture, and the Bonds are payable by the Issuer solely and only from Revenues (as that term is defined in the Indenture) derived from the Agreement.

It is our opinion that, subject to compliance by the Issuer and the Company with certain covenants, under present law, interest on the Bonds is not includable in gross income of the owners thereof for federal income tax purposes (except for interest on any Bond for any period during which such Bond is owned by a person who is a substantial user of the Project or any person considered to be related to such person within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended) and such interest is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but it is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such Issuer and Company covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

Under the laws of the State of Indiana, as presently enacted and construed, interest on the Bonds is exempt from the Gross Income Tax and the Adjusted Gross Income Tax imposed by the State of Indiana pursuant to Title 6, Articles 2.1 and 3 of the Indiana Code Annotated. Interest on the Bonds is subject to the Financial Institution Tax imposed under Title 6, Article 5.5 of the Indiana Code Annotated. No opinion is expressed regarding taxation of interest on the Bonds under any other provision of Indiana law. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding such collateral tax consequences arising with respect to the Bonds.

We express no opinion as to the title to, description of, or priority of any liens, charges or encumbrances on the Project, the lien of the Indenture or the filing and recording of the Indenture or the Agreement.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

In rendering this opinion, we have relied upon certifications of the Issuer and the Company with respect to certain material facts solely within the Issuer's and the Company's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

You have received an opinion of Schiff Hardin & Waite, counsel to the Company, of even date herewith, regarding the obligations of the Company under the Agreement. In rendering this opinion, we have relied upon said opinion with respect to (i) the due organization of the Company, (ii) the valid existence and qualification to do business of the Company in the State of Indiana, (iii) the corporate power of the Company to enter into, and the due execution by the Company of, the Agreement and the binding effect of the Agreement on the Company, and (iv) matters which might be disclosed as a result of an examination of the indentures, mortgages, deeds of trust and other agreements or instruments to which the Company is a party or by which it or its properties are bound.

Respectfully submitted,

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF CHAPMAN AND CUTLER LLP]

August 25, 2008

Jasper County, Indiana
115 West Washington Street, Suite 200
Rensselaer, Indiana 47978
Attention: County Auditor

U.S. Bank National Association,
as Trustee
300 North Meridian Street, Suite 910
Indianapolis, Indiana 46204
Attention: Tanya Smith

Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004
Attention: Global Utilities Surveillance Department

Re: $55,000,000 Jasper County, Indiana Pollution Control Refunding Revenue Bonds (Northern Indiana Public Service Company Project) Series 2003

Ladies and Gentlemen:

The above-referenced bonds (the "Bonds") were issued by Jasper County, Indiana (the "Issuer") on December 18, 2003 under the terms of Indenture of Trust, dated as of December 1, 2003 and supplemented by the First Supplemental Indenture of Trust, dated as of May 1, 2008 and a Second Supplemental Indenture dated as of August 1, 2008 (the "Indenture"), between the Issuer and U.S. Bank National Association (as successor trustee to National City Bank of Indiana), as Trustee (the "Trustee"). We have been advised by Northern Indiana Public Service Company (the "Company") that the Bonds currently bear interest at a Weekly Rate with Interest Payment Dates occurring on the first Business Day of each month. We have been advised by the Trustee that no Event of Default has occurred and is continuing under the Indenture. All capitalized terms used herein and not defined herein shall have the meanings given them in the Indenture.

We have been provided with a written notice of the Company dated August 5, 2008 to the Issuer, the Trustee, the Paying Agent, the Market Agent, the Broker-Dealer and the Insurer pursuant to Section 305 of the Indenture (the "Company Notice") that it has elected that the Bonds shall bear interest at a Fixed Rate commencing on August 25, 2008 (the "Conversion Date"). The Company has requested that we provide the Favorable Opinion of Bond Counsel required by Section 305 of the Indenture.

In that regard, we have examined the Company Notice, the Indenture, the Agreement and such other certificates, documents and matters of law as we have deemed necessary and have assumed that a Form 8038 will be filed with the Internal Revenue Service in connection with the adjustment of the interest rate on the Bonds to the Fixed Rate on the Conversion Date. Based upon and subject to the foregoing (including said waiver and consent), and in reliance thereon, we are of the opinion that, under existing law, the adjustment of the interest rate on the Bonds to the Fixed Rate on the Conversion Date (1) is authorized or permitted by the laws of the State, the Agreement and the Indenture and (2) will not, in and of itself, adversely affect any exclusion from gross income for federal income tax purposes of interest on the Bonds.

At the time of issuance of the Bonds, we rendered our approving opinion dated December 18, 2003 to the effect, among other things, that interest on the Bonds was then not includable in gross income of the owners thereof for federal income tax purposes, except that no opinion was expressed with respect to interest on any Bond for any period during which such Bond is owned by a person who is a substantial user of the Project or any person considered to be related to such person (within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended (the "Code")), and such opinion provided that interest on the Bonds is not treated as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but it is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations under the Code (the "Original Approving Opinion"). As indicated in our Original Approving Opinion, we assumed compliance with certain covenants made by the Issuer and the Company to satisfy pertinent requirements of law. We have not been requested, nor have we undertaken, to make an independent investigation regarding the expenditure of Bond proceeds, to confirm that the Company and the Issuer have complied with the covenants, certifications and representations in the Agreement, the Tax Agreement or the Project and Refunding Certificate of the Company with respect to the Bonds dated December 18, 2003, or to review any other events which may have occurred since we rendered such Original Approving Opinion which might affect the tax-exempt status of the interest on the Bonds or which might change the opinions expressed in such Original Approving Opinion. Further, without limiting the generality of the foregoing, we express no opinion with respect to (i) whether the proceeds of the Bonds have been used in the required manner, or as to the status of the Project; (ii) the enforceability of the Indenture or the Agreement against the parties thereto, or the compliance by the Issuer or the Company with the terms and provisions of the Indenture, the Agreement or any other document executed in connection with the issuance of the Bonds; (iii) any governmental approvals, consents or authorizations that may be required in connection with the original or any subsequent purchase or sale of the Bonds; (iv) the exclusion from gross income for federal or state income tax purposes of the interest on the Bonds (except as specifically set forth in the immediately preceding paragraph and the Original Approving Opinion); or (v) the accuracy, completeness or sufficiency of any disclosure material relating to the Bonds, including any disclosure material utilized in connection with the offer and sale of the Bonds related to the adjustment of the interest rate on the Bonds to the Fixed Rate. The opinions expressed herein are accordingly limited to those specifically stated in the immediately preceding paragraph.

This opinion is furnished by us as Bond Counsel to the Company. No attorney-client relationship has existed or exists between our firm and the addressees by virtue of this opinion.

This opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and it is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur. This opinion is furnished solely for your information and benefit in connection with the adjustment of the interest rate on the Bonds to the Fixed Rate on August 25, 2008, and may not be relied upon by any other person.

Respectfully submitted,

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