MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 July 2021

Update

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NiSource Inc.

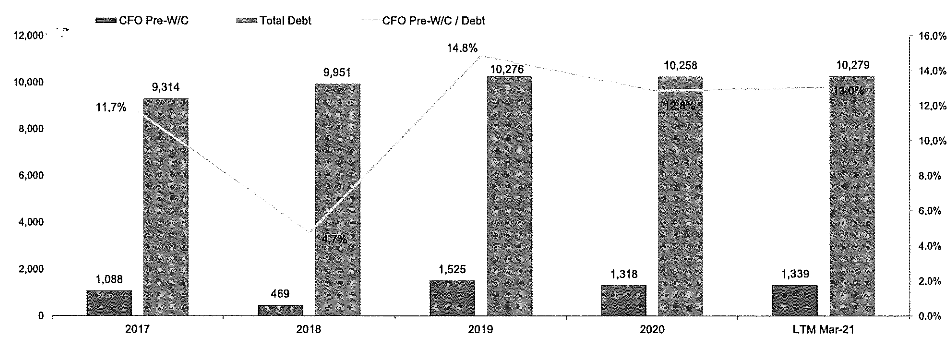
Update to credit analysis

Summary

NiSource Inc.'s (NiSource) credit profile reflects the diversity and supportiveness of its multiple regulatory jurisdictions that provide predictable operating cash flows. Its fully regulated operating utility subsidiaries have low business risk, given their critical infrastructure asset base. Together, these utilities help mitigate a historically weak financial profile driven by the company's high leverage.

We expect NiSource's financial profile to remain under pressure as the company executes a substantial capital expenditure program which includes significant investments in renewable energy generation at subsidiary Northern Indiana Public Service Company (NIPSCO) to replace the retirement of 80% of the utility's coal generation by 2023. We expect NiSource to maintain a ratio of operating cash flow excluding working capital changes (CFO pre-WC) to debt around 13% over the next two years.

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($ MM)



Source: Moody's Financial Metrics

Credit Strengths

» Operations in jurisdictions with attractive cost recovery mechanisms

» Fully regulated utility assets with fundamentally low business risk

» Majority equity financing plan for renewable investments helps to support credit quality

Credit Challenges

» Persistently high debt balance

- » Elevated capital expenditures
- » Weak metrics for the rating leave little room to absorb unexpected negative events

Rating Outlook

NiSource's stable outlook reflects Moody's view that the company will maintain a CFO pre-WC to debt ratio in the 13-14% range over the next two years. The stable outlook also reflects our view that NiSource's regulated utility capital expenditure plans will be financed with a balanced mix of both debt and equity and that its regulatory jurisdictions will remain supportive.

Factors that Could Lead to an Upgrade

- » Improvement in the utility regulatory environments
- » A material and sustained increase in the company's credit metrics with cash flow to debt at or above 17% and debt to capitalization below 50%
- » A significant reduction in parent company leverage

Factors that Could Lead to a Downgrade

- » A decline in the credit supportiveness of it's regulatory environments
- » An adverse change in the company's business mix that increases risk
- » Cash flow pre-working capital to debt sustained below 13%

Key Indicators

Exhibit 2
NiSource Inc. [1]

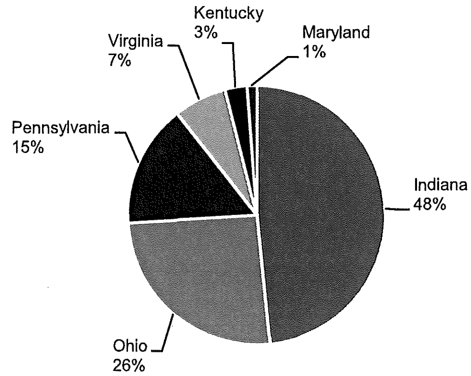
	Dec-17	Dec-18	Dec-19	Dec-20	LTM Mar-21
CFO Pre-W/C + Interest / Interest	3.9x	2.3x	4.7x	4.3x	4.4x
CFO Pre-W/C / Debt	11.7%	4.7%	14.8%	12.8%	13.0%
CFO Pre-W/C – Dividends / Debt	9.2%	1.9%	11.7%	9.4%	9.6%
Debt / Capitalization	62.7%	60.2%	59.6%	59.9%	58.9%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

NiSource Inc. is a utility holding company with a portfolio of fully regulated utility subsidiaries totaling about $13.6 billion in rate base. NiSource owns one of the largest LDC systems in the US, with operations in Ohio, Indiana, Pennsylvania, Virginia, Kentucky, and Maryland providing service to about 3.2 million customers, as well as a mid-sized vertically integrated electric utility in Indiana providing service to about 479,000 customers. The LDCs account for about 60% of the company's consolidated operating earnings, with the balance coming from the electric utility.

Exhibit 3
State Rate Base Exposure



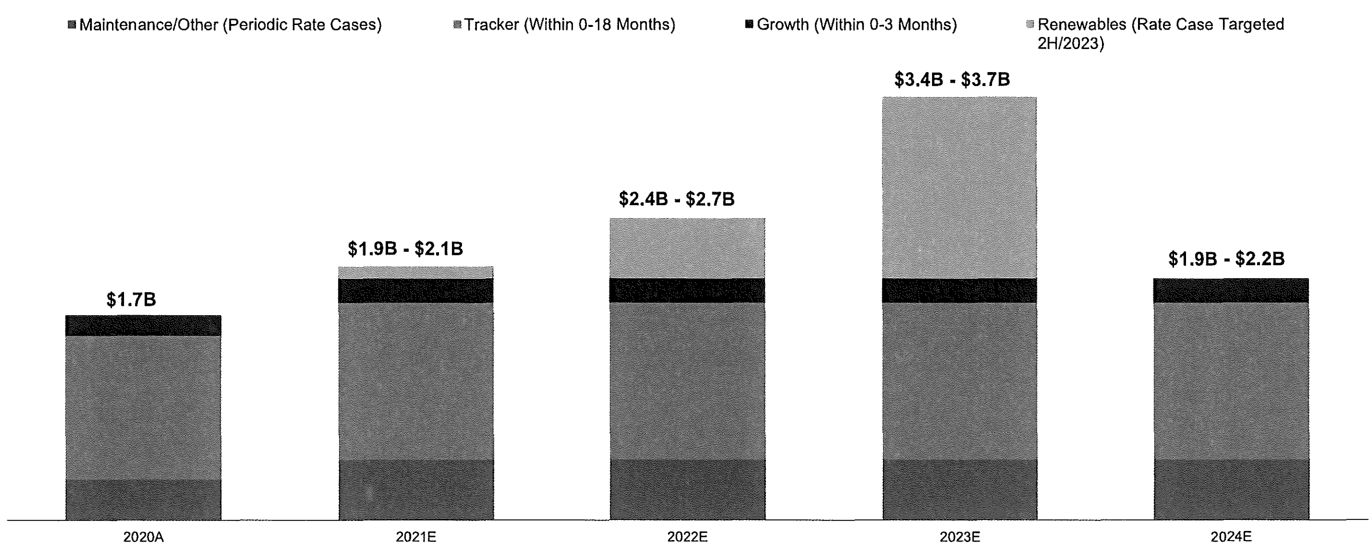
Source: Company's reports

Detailed Credit Considerations

Predictability of cash flow underpinned by supportive regulatory construct

The state regulators overseeing NiSource's utilities are credit supportive. With the exception of NIPSCO Gas, all of NiSource's LDCs benefits from decoupling mechanisms and/or weather normalization adjustments which reduce earnings volatility. In addition, NiSource has access to a variety of tracker mechanisms across its different jurisdictions that provide for timely recovery of its sizeable infrastructure investment program, with more than 75% of its investments beginning recovery within less than 18 months. Similarly, NiSource's electric segment benefits from a broad array of tracker mechanisms providing for timely recovery of operating expenses as well as environmental investments.

Exhibit 4
Capital investments with estimated recovery periods



Source: Company presentations

The company's investments across all of its jurisdictions continue to drive an active regulatory calendar. In addition to receiving orders on multiple infrastructure replacement and other tracker filings, NiSource reached credit supportive outcomes in its recent regulatory filings. The company completed five general rate cases in Indiana, Maryland, Pennsylvania and Virginia from 2019 through 2021 year-to-date that together represented a total revenue increase of about $120 million.

Gas operations

NiSource's most frequent significant rate case activity has recently been in Pennsylvania where subsidiary Columbia Gas of Pennsylvania continues to invest in safety and modernization. In March 2021, Columbia Gas of Pennsylvania filed a rate case requesting a revenue increase of $98.3 million based on an ROE of 10.95% and equity capitalization of 54.34%. The rate case is expected to be concluded in the fourth quarter of 2021. The utility's previous rate case was finalized in February 2021 when Columbia Gas of Pennsylvania received regulatory approval for a $63.5 million rate increase based on a 9.86% ROE, 54.19% equity layer and $2.3 billion rate base.

In addition to the rate case pending in Pennsylvania, NiSource has a rate case pending in Ohio, expected to be concluded in the third quarter of 2022, for a $221.4 million revenue increase based on a 10.95% ROE, 50.60% equity capitalization and $3.56 billion rate base. This is Columbia Gas of Ohio's first rate case since 2008 during which period the utility recovered most of its investments through trackers and riders. The current rate increase request reflects an approximately $2.5 billion increase over its last authorized rate base. NiSource also has two pending gas rate cases in Maryland and Kentucky with a total revenue increase request of $33 million. Decisions are expected in the fourth quarter of 2021 and first quarter of 2022 in Maryland and Kentucky respectively.

Electric operations

In 2020, NIPSCO Electric added 500 MW of new wind generation to its generation portfolio, consisting of a 400 MW power purchase agreement (PPA) and a 100 MW joint venture (JV) project. NIPSCO currently has regulatory approval for about 2,465 MW of additional wind, solar and storage PPAs and JV projects all expected to be in service in the 2021-2023 time frame.

NIPSCO Electric's most recent rate case was finalized in December 2019 when the utility received regulatory approval for a $42.7 million rate increase based on a 9.75% ROE, 47.86% equity capitalization and $4.1 billion rate base. New rates were implemented in two steps effective January 2020 and March 2020 respectively. As part of the rate case order, NIPSCO Electric also received three credit supportive approvals. First, the Indiana Utility Regulatory Commission (IURC) approved a change in industrial customer rate structure to mitigate the risk of a significant curtailment in usage by industrial customers, which represent over 50% of the utility's total energy sales. Second, the utility received approval for the full recovery of its coal generation investments by 2030. Finally, with respect to tax reform, the IURC approved the return to customers of the protected excess accumulated deferred income tax (ADIT) balance of about $203 million over a period of approximately 26 years based on the average rate assumption method. The unprotected ADIT balance of about $137 million will be amortized by $12.2 million annually until the utility's next rate case when the remainder will be included in the revenue requirement and fully amortized by the end of 2030.

Regulated utility assets exhibit fundamentally low business risk

NiSource's six LDCs represent about 60% of its business, while its fully regulated vertically integrated electric utility segment makes up the difference. We continue to view NiSource's LDCs as having low business risk in spite of the possible risk to public safety as demonstrated by the Columbia Gas of Massachusetts incident in 2018. NiSource has identified, and taken steps to improve system safety and reliability and to protect against overpressurization. Futhermore, the size and broad geographic footprint of NiSource's LDC operations offer regulatory diversity and provide a natural hedge against material exposure to a single jurisdiction.

NiSource's electric segment entails more business risk than the LDC's. In addition to its exposure to the risks associated with generation assets, its operations are concentrated in a single, highly industrialized market territory. About 51% of the company's retail electric sales volumes is derived from industrial customers, leaving it particularly sensitive to economic cycles. The electric segment's rate structure does not have the decoupling mechanisms that many of NiSource's LDCs have, further exacerbating potential volatility from the company's electric segment. The volatility is somewhat mitigated by the approximately 50%-55% fixed component of NIPSCO Electric's industrial rates.

Indiana's regulatory environment is favorable from a credit standpoint and provides the company's electric segment with an attractive suite of cost recovery mechanisms that cover most of its operating and capital expenses. NIPSCO Electric plans to retire nearly 80% of its coal capacity by 2023, and the remaining coal-fired units by 2028, reducing its exposure to more stringent environmental regulations that could require costly investments, a credit positive. The company plans to replace its retired coal capacity post 2020 with lower-cost renewable energy sources such as wind, solar and battery technology.

Persistently high debt balance and elevated investment spending weigh on financial profile

NiSource's credit profile is constrained by its relatively weak financial profile, primarily because of its highly levered capital structure, which we expect will continue to weigh on its debt coverage metrics as the company executes its elevated capital investment plan. Debt to capitalization averaged about 60% for the last three years and we expect the ratio to remain close to 60% over the next three years. Assuming that NiSource's subsidiaries are capitalized at their authorized capital structures, with a 50% debt to capitalization ratio assumed for states with black box settlements, we estimate approximately 30% of consolidated debt at the holding company level.

NiSource's capital expenditure program is substantial, totaling more than $10 billion over the 2021-2024 period. Capital spending is expected to peak in 2022 and 2023 because of approximately $2 billion in renewable energy investments at NIPSCO. The renewable investments, which NIPSCO expects to start recovering in mid-2023 following a general rate case, coincide with the planned retirement of 80% of NIPSCO's coal generating capacity in 2023. We expect NiSource's key financial measures to strengthen beginning in 2024 as cash flow benefits from a full year of renewable investment recovery.

NiSource's financing plan for its renewable investments, targeting 60% equity financing, had previously included up to $700 million in common equity block issuance, up to $700 million in long-term debt and up to $1 billion in hybrid securities. The company's issuance of $862.5 million ($835.5 million net proceeds) of equity units in April 2021 eliminates the need for the block equity financing. Moody's views the securities as having equity-like features that allow them to receive basket "E" treatment, i.e, 100% equity for financial leverage purposes (please refer to Moody's Hybrid Equity Credit methodology published in September 2018). NiSource's balanced financing approach should allow it to sustain a CFO pre-WC to debt ratio in the low to mid-teens in the near term.

Sale of Bay State Gas removed Massachusetts regulatory overhang risk

On 26 February 2020, NiSource announced an agreement to sell Bay State Gas Company (a.k.a. Columbia Gas of Massachusetts or CMA) to Eversource Energy (Baa1 negative) for $1.1 billion or approximately 1x rate base. The announcement followed an agreement by NiSource to plead guilty to a federal criminal charge that it had violated federal pipeline safety laws related to the September 2018 Greater Lawrence incident. As part of the plea agreement, NiSource agreed to sell CMA and permanently exit its operations in Massachusetts and to pay a $53 million fine. The transaction was closed in October 2020.

We view NiSource's exit from Massachusetts as positive to the company's credit profile because it removes future risk associated with the company's operations and regulatory relationships in the state. It also allows NiSource to focus more fully on its other jurisdictions and on executing its substantial capital expenditure plan. Proceeds from the sale of CMA eliminated the need for approximately $500-$700 million of equity issuance previously planned for 2020.

ESG considerations

NiSource's ESG Credit Impact Score is CIS-3 (moderately negative).

Exhibit 5
ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

NiSource's ESG Credit Impact Score is moderately negative (**CIS-3**) because of ESG attributes that we consider as overall having a limited impact on the current rating, with greater potential for future negative impact over time. NiSource's **CIS-3** reflects moderately negative exposure to environmental and social risk but neutral to low exposure to governance risk.

Exhibit 6
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-2
Moderately Negative	Moderately Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental
NiSource has moderately negative exposure to environmental risk (**E-3** issuer profile score) primarily because of its exposure to carbon transition risk at both its electric and gas utilities. The company's focus on replacing its coal generation with renewables, while important to reduce carbon transition risk, requires significant capital investments. NiSource is also moderately exposed to physical climate risks, including the risk that extreme or unusual weather events could damage physical assets or negatively impact commodity prices. NiSource's exposure to water management, waste and pollution and natural capital risks is credit neutral.

Social
NiSource's moderately negative exposure to social risks (**S-3** issuer profile score) reflects the risk associated with the regulated utilities sector that public concern over environmental, social or affordability issues could lead to adverse regulatory or political intervention. Furthermore, from a responsible production perspective, NiSource is moderately exposed to the risk to public safety inherent in its gas utility operations. Social risks related to customer relations and human capital are neutral to NiSource's credit profile.

Governance
NiSource's exposure to governance risks is overall credit neutral (**G-2** issuer profile score). The company's inconsistent track record of financial performance is mitigated by its improved financial strategy and risk management as well as neutral to low risk associated with organizational structure, board structure, policies and procedures, and compliance and reporting.

Liquidity Analysis
NiSource's liquidity is adequate and is supported by a $1.85 billion revolving credit facility maturing in 2024. The revolver backs a $1.5 billion commercial paper program and provides funds for ongoing working capital needs. Terms of the facility allow for reliable access to funds by not requiring the company to represent and warrant to any material adverse change at each borrowing. The sole financial covenant is a maximum debt to capitalization ratio of 70%. As of 31 March 2021, the ratio was 62.2%.

NiSource also maintains three separate accounts receivables securitization programs totaling $510 million at its operating companies (no outstanding balance as of 31 March 2021). The programs are renewed annually. As of 31 March 2021, NiSource had about $89.1 million of cash on hand as well as $1.85 billion of available capacity under its revolver, $520 million of commercial paper outstanding and $15.2 million of LCs. NiSource does not have a material debt maturity until 2025 ($1.25 billion).

For the twelve months ended 31 March 2021, NiSource generated $1.2 billion in operating cash flow, invested $1.7 billion in capital expenditures, and paid $383 million in dividend distributions, resulting in a negative free cash flow position of $873 million. NiSource funded the cash shortfall with long-term debt and $211 million of common stock issuances. Over the next 12-18 months, we expect NiSource to remain free cash flow negative as it executes on its sizeable capital expenditure plan. We expect cash shortfalls to be funded with a balanced mix of debt, equity and equity like instruments.

Rating Methodology and Scorecard Factors

Exhibit 7
Methodology Scorecard Factors
NiSource Inc.

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 3/31/2021		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.8x	Baa	4.5x - 5x	A
b) CFO pre-WC / Debt (3 Year Avg)	10.7%	Ba	12% - 14%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	7.5%	Ba	9% - 11%	Baa
d) Debt / Capitalization (3 Year Avg)	60.0%	Ba	58% - 61%	Ba
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2021(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 8

Peer Comparison Table [1]

	NiSource Inc. Baa2 (Stable)			Black Hills Corporation Baa2 (Stable)			PPL Corporation Baa2 (Positive)			CenterPoint Energy, Inc. Baa2 (Stable)		
(In US millions)	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-19	FYE Dec-20	LTM Mar-21
Revenue	5,209	4,682	4,622	1,735	1,697	1,793	7,769	7,607	7,665	7,564	7,418	7,798
CFO Pre-W/C	1,525	1,318	1,339	531	549	535	2,998	3,216	3,193	2,127	1,801	(433)
Total Debt	10,276	10,258	10,279	3,587	3,819	4,400	23,632	24,868	16,317	16,081	14,239	16,635
CFO Pre-W/C + Interest / Interest	4.7x	4.3x	4.4x	4.8x	4.7x	4.6x	4.0x	4.2x	4.2x	4.6x	4.1x	0.2x
CFO Pre-W/C / Debt	14.8%	12.8%	13.0%	14.8%	14.4%	12.2%	12.7%	12.9%	19.6%	13.2%	12.7%	-2.6%
CFO Pre-W/C – Dividends / Debt	11.7%	9.4%	9.6%	10.8%	10.4%	8.7%	7.6%	7.8%	11.7%	9.0%	9.2%	-5.3%
Debt / Capitalization	59.6%	59.9%	58.9%	56.2%	55.4%	58.3%	59.2%	59.0%	51.6%	57.7%	55.2%	58.1%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics

Exhibit 9

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-17	Dec-18	Dec-19	Dec-20	LTM Mar-21
As Adjusted					
FFO	**1,195**	**463**	**1,646**	**1,344**	**1,365**
+/- Other	-108	6	-121	-26	-26
CFO Pre-WC	**1,088**	**469**	**1,525**	**1,318**	**1,339**
+/- ΔWC	-57	104	46	-223	-165
CFO	**1,031**	**573**	**1,571**	**1,095**	**1,174**
- Div	229	277	327	349	355
- Capex	1,733	1,858	1,828	1,795	1,710
FCF	**-930**	**-1,563**	**-584**	**-1,049**	**-892**
(CFO Pre-W/C) / Debt	11.7%	4.7%	14.8%	12.8%	13.0%
(CFO Pre-W/C - Dividends) / Debt	9.2%	1.9%	11.7%	9.4%	9.6%
FFO / Debt	12.8%	4.6%	16.0%	13.1%	13.3%
RCF / Debt	10.4%	1.9%	12.8%	9.7%	9.8%
Revenue	4,875	5,115	5,209	4,682	4,622
Interest Expense	379	372	413	401	393
Net Income	203	441	945	458	454
Total Assets	20,160	22,000	22,660	22,041	22,195
Total Liabilities	15,911	16,758	17,184	16,728	16,703
Total Equity	4,249	5,242	5,476	5,312	5,492

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics

Exhibit 10

NiSource Inc. Moody's - Adjusted Debt Breakdown

(USD Millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Mar-21
As Reported Debt	**7,909.3**	**9,002.2**	**9,132.6**	**9,642.8**	**9,746.1**	**9,766.7**
Pensions	414.9	42.4	113.6	57.8	32.1	32.1
Operating Leases	208.0	198.0	196.4	64.8	40.2	40.2
Hybrid Securities	0.0	0.0	440.0	440.0	440.0	440.0
Non-Standard Adjustments	41.6	71.5	68.5	70.5	0.0	0.0
Moody's Ajusted Debt	**8,573.8**	**9,314.1**	**9,951.1**	**10,275.9**	**10,258.4**	**10,279.0**

Based on consolidated financial data of NiSource Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics

Ratings

Exhibit 11

Category	Moody's Rating
NISOURCE INC.	
Outlook	Stable
Issuer Rating	Baa2
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Pref. Stock	Ba1
Commercial Paper	P-2
NISOURCE FINANCE CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
Bkd Senior Unsecured	Baa2
NORTHERN INDIANA PUBLIC SERVICE COMPANY	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
NISOURCE CAPITAL MARKETS, INC.	
Outlook	Stable
Bkd Senior Unsecured	Baa2
BAY STATE GAS COMPANY	
Outlook	Stable
Senior Unsecured	Baa2

Source: Moody's Investors Service

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CREDIT OPINION
27 July 2021

Update

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RATINGS

Northern Indiana Public Service Company

Domicile	Merrillville, Indiana, United States
Long Term Rating	Baa1
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Japan	81-3-5408-4100
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Northern Indiana Public Service Company

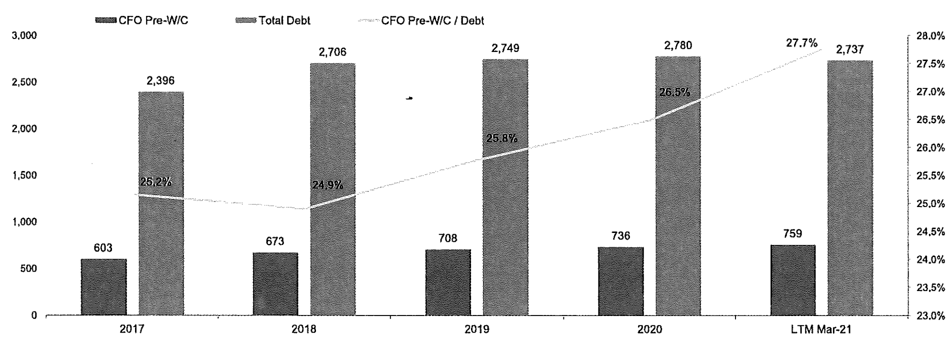
Update to credit analysis

Summary

Northern Indiana Public Service Company's (NIPSCO) credit profile reflects the company's strong stand alone financial metrics and a favorable regulatory environment. Our credit view of NIPSCO also considers its geographic concentration in northern Indiana, with a service territory that is heavily exposed to industry.

NIPSCO's rating is constrained by its parent NiSource Inc. There is high leverage in the consolidated capital structure, with an estimated 30% of consolidated debt at the parent level, and a relatively unrestricted ability to move cash across the corporate family. Over the next few years, we expect NIPSCO's historically strong credit metrics to weaken as the company makes substantial investments in renewable generation to replace coal generation.

Exhibit 1
Historical CFO Pre W/C, Total Debt and CFO Pre W/C to Debt ($ MM)



Source: Moody's Financial Metrics

Credit strengths

» Supportive regulatory environment in Indiana

» Timely investment recovery

» Strong financial metrics

Credit challenges

» Sizeable planned capital investment program

» Service territory economy heavily influenced by activity in the manufacturing sector

» Highly levered parent company

Rating outlook

NIPSCO's stable rating outlook reflects the credit supportiveness of the Indiana regulatory environment and our expectation that the utility will continue to recover costs associated with its large capital program. The stable outlook incorporates our view that free cash deficits will be financed with a balanced mix of both debt and equity. NIPSCO's stable outlook also incorporates the stable outlook at its parent company, NiSource.

Factors that could lead to an upgrade

» Material improvement in the credit supportiveness of the Indiana regulatory environment, providing greater predictability, timeliness and/or sufficiency of rates

» Sustained strong financial ratios, such that CFO pre-WC to debt remains above 22%, combined with a significant reduction in the parent company debt it supports

» An upgrade at NiSource could also place upward rating pressure on NIPSCO

Factors that could lead to a downgrade

» A deterioration in the credit supportiveness of the regulatory environment in Indiana

» A weakening in the company's financial metrics, such that CFO pre-WC to debt falls below 18%, on a sustained basis

» Adoption of an aggressive corporate finance strategy by NiSource that places additional reliance on dividends from NIPSCO to service parent debt

» A downgrade at NiSource could also place downward rating pressure on NIPSCO

Key indicators

Exhibit 2
Northern Indiana Public Service Company [1]

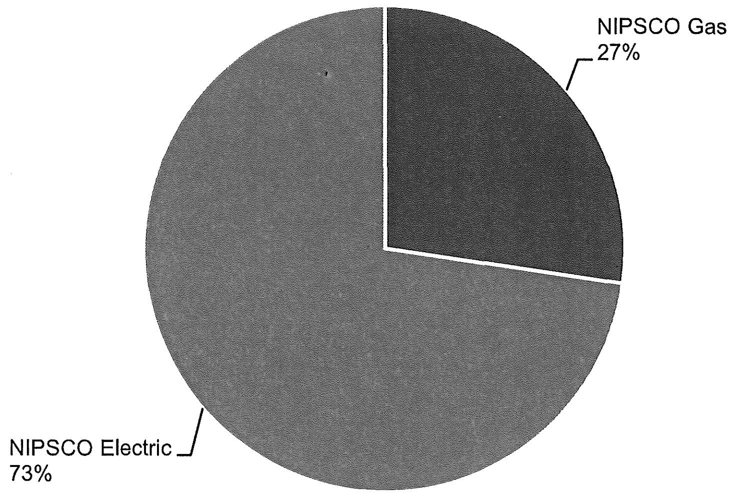
	Dec-17	Dec-18	Dec-19	Dec-20	LTM Mar-21
CFO Pre-W/C + Interest / Interest	6.9x	7.0x	7.0x	7.4x	7.8x
CFO Pre-W/C / Debt	25.2%	24.9%	25.8%	26.5%	27.7%
CFO Pre-W/C – Dividends / Debt	23.1%	23.0%	19.2%	26.5%	27.7%
Debt / Capitalization	43.8%	44.2%	43.0%	40.5%	39.3%

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

Headquartered in Merrillville, Indiana, NIPSCO is the second largest electric utility and the largest local gas distribution company (LDC) in the state of Indiana in terms of number of customers served (479,000 electric and 848,000 gas customers). The vertically integrated electric operations accounted for about 77% of NIPSCO's operating income in 2020, with the LDC making up the remainder.

Exhibit 3
NIPSCO electric and gas rate base break out



Total Rate Base = $6.6 billion
Source: Company reports

NIPSCO is the legacy subsidiary of NiSource, Inc. (Baa2 stable), a holding company that also owns five other LDCs. NIPSCO is a significant operating subsidiary of NiSource in terms of assets (about 43% of consolidated assets) and accounts for about 50% of consolidated operating income.

Detailed credit considerations

Credit supportive regulatory environment in Indiana

We view Indiana's regulatory environment as credit supportive of NIPSCO. The utility has access to a suite of attractive tracker and rider mechanisms that allow for timely recovery of both capital investments and expenses. NIPSCO recovers its largest cost component, fuel and power purchase costs, through regular fuel pass-through adjustments. It also benefits from mechanisms that cover electric energy efficiency costs, MISO RTO non-fuel costs and revenues, resource capacity charges, and environmental related costs.

NIPSCO's environmental cost trackers (ECT) provide for recovery of its environmental investments, allowing the utility to recover AFUDC and a return on environmental compliance investments through an environmental cost recovery mechanism (ECRM). Similarly, the related operation and maintenance and depreciation expenses incurred once the environmental facilities become operational are recovered through an environmental expense recovery mechanism (EERM).

NIPSCO also utilizes Indiana's Transmission, Distribution and Storage System Improvement Charge (TDSIC) for infrastructure improvement expenditures focused on safety, reliability, and modernization. It allows 80% of the investment to be recovered through a semi-annual tracker adjustment while the remaining 20% is deferred until the next rate case.

NIPSCO filed its last Integrated Resource Plan (IRP) with the IURC in October 2018. The IRP included projected retirement of 80% of the company's coal capacity by 2023, and the remainder by 2028. NIPSCO retired the Bailly Generating Station Units 7 and 8 in 2018 and is planning to retire Schahfer Units 14, 15 in 2021 and Units 17, 18 in 2023, totaling about 1,625 MW by 2023. In 2020, the utility added 500 MW of new wind generation to its generation portfolio, consisting of a 400 MW PPA and a 100 MW joint venture (JV) project. NIPSCO currently has regulatory approval for about 2,465 MW of additional wind, solar and storage PPAs and JV projects all expected to be in service in the 2021-2023 time frame.

In December 2019, NIPSCO Electric received IURC approval for a $42.7 million rate increase based on a 9.75% ROE, 47.86% equity capitalization and $4.1 billion rate base. New rates were implemented in two steps effective January 2020 and March 2020, respectively. As part of the rate case order, NIPSCO Electric also received three credit supportive approvals. First, the IURC approved a change in industrial customer rate structure to mitigate the risk of a significant curtailment in usage by industrial customers, which represent over 50% of the utility's total energy sales. Second, the utility received approval for the full recovery of its coal generation investments by 2032. Finally, with respect to tax reform, the IURC approved the return to customers of the protected excess accumulated deferred income tax (ADIT) balance of about $203 million over a period of approximately 26 years based on the average rate assumption method. The unprotected ADIT balance of about $137 million will be amortized by $12.2 million annually until the utility's next rate case when the remainder will be included in the revenue requirement and fully amortized by the end of 2030.

Sizeable capital investment program

NIPSCO's planned capital expenditures over the next three years are substantial, with about $750 million in annual capital expenditures planned for 2021 and an annual average of about $1.6 billion planned for 2022 and 2023. The high capital expenditures in 2022 and 2023 are driven by investments in several renewable energy projects to replace retired coal generation. NIPSCO will use renewable power purchase agreements (PPA), in addition to owned renewable projects, to replace retired generation. The utility plans to retire about 80% of its coal generating capacity by 2023 and all of its coal generation by 2028.

Over the last few years, NIPSCO's growth capital expenditures have been primarily related to investment opportunities under the TDSIC, including electric and gas infrastructure enhancement projects identified in its electric and gas resource plan. In July 2020, NIPSCO received IURC approval for a new six-year TDSIC for the 2020-2025 period. The plan has an estimated capital cost of about $950 million and includes the replacement of aging transmission and distribution infrastructure, storage projects and expansion of natural gas service to currently unserved rural areas.

Financial ratios expected to weaken from historically strong levels

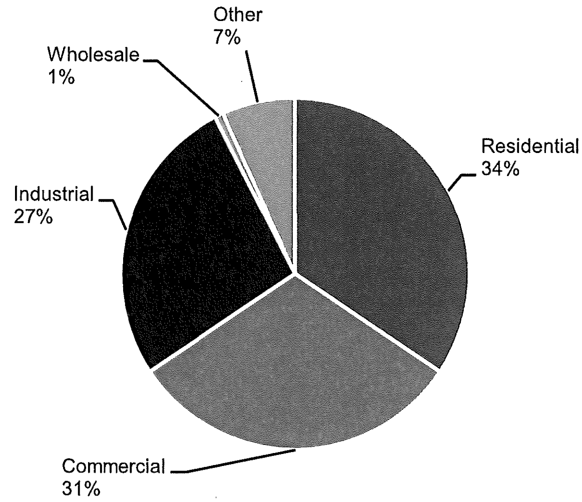
The size of NIPSCO's annual capital investment plan means that the company will generate negative free cash flow even before accounting for any dividends to its parent. We expect NIPSCO's capex financing needs will be funded with operating cash flow, intercompany loans and capital contributions from NiSource. We also anticipate that NiSource will keep with its past practice of foregoing or limiting dividends from NIPSCO over the near to medium term to support the utility through a period of elevated capital spending.

For the last twelve months ending 31 March 2021, NIPSCO's credit metrics remained strong, with a cash flow from operations before working capital changes (CFO pre-WC) to debt ratio of 27.7%, and a debt to capitalization ratio of 39.3%. We expect a weakening in NIPSCO's debt coverage metrics over the next two years with the company's ratio of CFO pre-WC to debt declining to the high teens in 2023 before recovering above 20% in 2024 following regulatory approval to recover its substantial renewable investments.

Service territory economy heavily influenced by activity in the manufacturing sector

NIPSCO Electric's industrial customers accounted for roughly 51% of total retail sales volume and 27% of revenues in 2020. The electric industrial retail sales volume and revenues were lower than historical levels in 2020 and compared to 55% of sales and 35% of revenues in 2019, partly due to lower usage because of the coronavirus pandemic. The company's high exposure to industrial customers, roughly twice what is typical for the US electric power industry, leaves it particularly sensitive to economic cycles. Of NIPSCO's industrial sales, about 46% are to energy intensive steel-related industries. Moody's outlook for the steel sector is stable, although NIPSCO's exposure to these more volatile markets remains a credit negative. We note, however, that the impact of lower volumes on margins is mitigated by the approximately 50%-55% fixed component of NIPSCO Electric's industrial rates.

Exhibit 4
2020 Electric revenue by customer type



Source: Company reports

ESG considerations

Environmental considerations incorporated into our credit analysis for NIPSCO are primarily related to the company's exposure to carbon regulations. NIPSCO has moderate carbon transition risk given its exposure to fossil fueled generation. The utility's plan to retire 80% of its coal generation by 2023 and all of its coal generation by 2028 and replace the lost generation with renewable energy will substantially reduce its carbon transition risk.

Exhibit 5
NIPSCO Generating Capacity

Resource	Unit	Fuel	Capacity NDC (MW)	Year in Service
Michigan City	12	Coal	469	1974
Schahfer	14	Coal	431	1976
	15	Coal	472	1979
	17	Coal	361	1983
	18	Coal	361	1986
	16A	NG	78	1979
	16B	NG	77	1979
Subtotal			1,780	
Sugar Creek		NG	535	2002
Bailly	10	NG	31	1968
Hydro	Norway	Water	4	1923
	Oakdale	Water	6	1925
Subtotal			10	
Wind		Wind	100	2009
	Jordan Creek	Wind	400	2020
	Rosewater	Wind	102	2020
Total Capacity			3,427	

Source: Company reports