

**PIEDMONT NATURAL GAS COMPANY, INC.**



**Corporate Governance  
Guidelines**

June 2014

## **CORPORATE GOVERNANCE GUIDELINES**

### **PRELIMINARY STATEMENT**

The corporate governance guidelines set forth herein are intended to be guidelines to assist the Board in the exercise of its responsibilities to the Company and its shareholders. These Guidelines should be interpreted in the context of all applicable laws and the Company's organizational documents and other corporate governance documents. They may be amended or waived at any time to the extent and in the manner permitted by applicable law and/or the rules and regulations of governmental agencies and securities exchanges having jurisdiction over the Company.

### **ROLE AND COMPOSITION OF THE BOARD OF DIRECTORS**

1. The Board of Directors, which is elected by the shareholders, is the ultimate decision-making body of the Company except with respect to those matters reserved to the shareholders. It selects the senior management team, which is charged with the conduct of the Company's business. Having selected the senior management team, the Board acts as an advisor and counselor to senior management and ultimately monitors their performance.
2. The Board plans for succession (in the event of retirement or an unexpected disability or other emergency) to the position of Chief Executive Officer (CEO) as well as certain other senior management positions. The Board shall consider various characteristics in selecting a CEO, including problem-solving capability, interpersonal relations, communication and leadership skills. To assist the Board, the CEO annually provides the Board with an assessment of senior managers and their potential to succeed him or her. He or she also provides the Board with an assessment of persons considered potential successors to certain senior management positions.
3. It is the policy of the Company that the majority of the Board consists of "Independent Directors" (as defined below) and that the number of Directors not be less than nine or exceed a number that can function efficiently as a body. For the purposes of these Guidelines, an "Independent Director" is a Director who has been affirmatively determined by the Board not to have a "material relationship" with the Company (either directly or indirectly, such as by virtue of being a partner, shareholder or officer of an organization that has a relationship with the Company). A Director shall be presumed not to have a material relationship with the Company if he or she meets all the following criteria:

- The Company does not employ, and has not within the last three fiscal years employed, the Director or, except in a non-executive officer capacity, any of his or her immediate family members, except in either case in an interim capacity not exceeding six months.<sup>(1)</sup>
- Neither the Director, nor any of his or her immediate family members, during any consecutive 12-month period within the last three fiscal years, has received more than \$120,000 in direct compensation from the Company, other than Director and Committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
- Neither the Director nor an immediate family member (i) is a current partner of a firm that is the Company's internal or outside auditor or (ii) was at any time, within the last three fiscal years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time.
- The Director is not employed by a firm that is the Company's internal or external auditor and the Director does not have an immediate family member who is a current employee of such a firm and who personally works on the Company's audit.
- Neither the Director, nor any of his or her immediate family members, is or has been, within the last three fiscal years, employed as an executive officer of another company where a present executive officer of the Company serves or served on the compensation (or equivalent) committee of the other company at the same time.

---

<sup>(1)</sup> For purposes of these categorical standards, the Board has adopted the definition of an "immediate family member" as adopted by the New York Stock Exchange, which includes spouse, parents, children, siblings and in-laws of the director, as well as anyone else (other than domestic employees) who share such director's home. For purposes of these categorical standards, the term "executive officer" shall have meaning specified for the term "officer" under Rule 16a-1(f) of the Securities Exchange Act of 1934, which includes an entity's president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice-president of the entity in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the entity.

- The Director is not a current employee, and none of his or her immediate family members is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeded the greater of (a) \$1 million or (b) 2% of such other company's consolidated gross revenues. The measured payments and revenue are those for the last completed fiscal year.
- Neither the Director, nor any of his or her immediate family members has had, within the last three fiscal years, a personal services contract valued at more than \$50,000 per year with the Company, its chairman, chief executive officer or other executive officer, or any affiliate of the Company.
- The Director is not an executive officer of a foundation, university or other non-profit organization to which the Company has contributed in any single fiscal year within the preceding three years, directly or indirectly through its charitable foundation, an amount that exceeds the greater of \$1 million per annum or 2% of the consolidated gross revenues of such charitable organization.
- Neither the Director, nor any of his or her immediate family members, within the last three fiscal years, either directly or indirectly as a partner, shareholder or officer of another company, has owned more than 5% of the Company's common stock.
- Neither the Director, nor any of his or her immediate family members, has, within the last three fiscal years, been an executive officer or director of a significant lender of the Company. For the purposes of this categorical standard, a lender shall be considered significant if the credit extended is more than 5% of the consolidated assets of the Company.

However, a member of the Company's Audit Committee shall not be deemed independent if, other than in his or her capacity as a member of the Company's Audit Committee, Board of Directors, or any other Board Committee, the member:

(A) Accepts directly or indirectly <sup>(2)</sup> any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that, unless the rules of the New York Stock Exchange provide otherwise, compensatory fees do not include the receipt of fixed

---

<sup>(2)</sup> The term *indirect* acceptance of any consulting, advisory or other compensatory fee includes acceptance of such a fee by a spouse, a minor child or stepchild or a child or stepchild sharing a home with the member or by an entity in which such member is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Company or any subsidiary.

amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company (provided that such compensation is not contingent in any way on continued service); or

(B) Is an affiliated <sup>(3)</sup> person of the Company or any subsidiary.

Additionally, each member of the Company's Compensation Committee must (i) be an "independent director" in accordance with Section 303A.02(a)(ii) of the listing standards of the New York Stock Exchange, which requires considering the source of compensation received by the member from any party, as well as any affiliate relationship between the member and the Company, and (ii) have no relationship to the Company that may interfere with the exercise of his or her independence from management of the Company in connection with the duties of a Compensation Committee member.

In determining if a Director has a "material relationship" with the Company, the Board will broadly consider all facts and circumstances, not merely from the standpoint of the Director but also from that of persons or organizations with which the Director has an affiliation. "Material relationships" can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships (among others).

4. The Board selects the Chairman of the Board of Directors in the manner that it determines to be in the best interests of the Company's shareholders. The Board does not have a policy as to whether the Chairman should be an Independent Director, an affiliated director, or a member of management. When the Chairman is an affiliated director or a member of the Company's management, or when the Independent Directors determine that it is in the best interests of the Company, the Independent Directors will annually appoint from among themselves an Independent Lead Director. The Chairman of the Board, when present, shall preside at all meetings of Directors and shall have such other

---

<sup>(3)</sup> A person *affiliated* with a specified person means a person who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

- A person will be deemed not to be in control of a specified person if the person (1) Is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of the specified person; and (2) Is not an executive officer of the specified person.
- The following will be deemed to be affiliates: (A) An executive officer of an affiliate; (B) A Director who also is an employee of an affiliate; (C) A general partner of an affiliate; and (D) A managing member of an affiliate.
- The term *control* (including the terms *controlling*, *controlled by* and *under common control with*) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.
- The term *executive officer* means, as set forth in 17 CFR 240.3b-7, an entity's president, any vice president in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policy making function or any other person who performs similar policy making functions for the entity. Executive officers of subsidiaries may be deemed executive officers of the entity if they perform such policy making functions for entity.

duties as provided by the Board. The Independent Lead Director shall chair the meetings or portions of meetings where the Chairman is absent. The Independent Lead Director also chairs all executive sessions of the Board. The Independent Lead Director shall also 1) have the right to convene the Board at any time; 2) have access to any information he/she deems necessary to fulfill the roles and responsibilities of the position; 3) consult with the CEO on business issues; 4) consult with the CEO on the annual calendar and agendas for all regular meetings of the Board and its standing Committees; 5) maintain close contact with the chairmen of each standing Committee, including in particular the Chairman of the Directors and Corporate Governance Committee, on Board management; 6) communicate with the CEO on behalf of the Board of Directors following each regularly scheduled meeting; and 7) coordinate the activities of the Independent Directors.

5. A Director must offer his or her resignation upon a significant change in personal or professional circumstances that would reasonably cause a re-examination of the Director's continued membership on the Board. Changes that might necessitate an offer of resignation may include such events as retirement or a change in principal job responsibilities, a permanent residence relocation to a community different than that at the time of election, or other significant situations. The Directors and Corporate Governance Committee will review the resignation for recommendation to the Board of acceptance or rejection, and the full Board will vote to accept or reject the resignation.

6. The Directors and Corporate Governance Committee, in consultation with the CEO, considers and makes recommendations to the Board concerning the appropriate size and needs of the Board. The Directors and Corporate Governance Committee considers candidates to fill new positions created by expansion and vacancies that occur by resignation, by retirement, or for any other reason. Any Director candidates recommended by shareholders will be considered by the Board for nomination as a Director of the Company if the proposed candidate otherwise meets the Board's Director qualifications. The Board embraces a policy to champion diversity among its members so as to consider and evaluate issues affecting the Company with more effective thought leadership from different perspectives and view points. Thus the Directors and Corporate Governance Committee will consider diversity of thought, experience, talent, background, and perspective, including that which exists with respect to gender, race, and national origin, when considering candidates for the Board. Candidates for Board membership must possess the intelligence, integrity, strength of character and sense of timing required to provide the leadership and guidance to effectively govern and to recommend alternative solutions to problems. The independence necessary to make an unbiased evaluation of management performance and effectively carry out responsibilities of oversight will be considered. Candidates must have an awareness of both the business and social environment within which the Company operates and the ability to bring sound business judgment to the Board and the Company. They must have the commitment, sense of urgency and spirit of cooperation that will enable them to interface with other Board members in directing the future, profitable growth of the Company, in an ethically responsible fashion. The Board also may consider a number of relevant factors, including, but not limited to, the following: a) Candidates for Board

membership with extensive experience in a senior executive role with a major business organization and, preferably, be either Chief Executive Officer, President, or Chairman; and b) Candidates with equivalent experience from other backgrounds such as academic, government, legal, accounting, audit or other recognized professions. Qualified candidates often will have had exposure to the numerous programs a corporation employs relative to creating shareholder value, while balancing the needs of all stakeholders. Finally, candidates will normally be associated with organizations that do not have competitive lines of business or other conflicts of interest with the Company. The composition, skills and needs of the Board change over time, and other factors will be considered in establishing the desirable profile of candidates for any specific opening on the Board. The Committee also considers the number of other boards on which a candidate serves. The Directors and Corporate Governance Committee evaluates all candidates in the same manner, regardless of whether a candidate's nomination is made by a shareholder, a Board member or Company management. Final approval of a candidate is determined by the full Board.

7. Director Election Resignation Policy. In an uncontested election of directors, a nominee that receives more "Withhold" votes for his/her election than "For" votes shall promptly tender his/her resignation to the Board of Directors following certification of the shareholder vote for the election. An uncontested election of directors is one where the number of nominees is equal to or less than the number of directors to be elected. The Directors and Corporate Governance Committee will promptly consider the tendered resignation and will recommend to the full Board whether to accept the tendered resignation or to take some other action, which may include:

- reject the tendered resignation and address apparent underlying causes of the "Withhold" votes;
- defer acceptance of the resignation if the underlying causes of the majority "Withhold" votes can be ascertained and the subject director can cure them within a specified period of time (for example, if the "Withhold" votes were due to a related person transaction, by terminating the transaction); or
- defer acceptance of the resignation until such vacancy can be filled by the Board of Directors in accordance with the Company's Bylaws with a replacement director with necessary qualifications held by the subject director (for example, audit committee financial expertise).

The Board will decide on a responsive action as soon as practicable, but in any case, no later than 120 days following the certification of the shareholder vote. The Directors and Corporate Governance Committee and the Board will base their decisions on the best interests of the Company and its shareholders, considering such relevant factors as the potential underlying causes of the "Withhold" votes, the length of service, qualifications and special expertise or attributes of the tendering director, the director's contributions to the Company, and any non-compliance with stock exchange, securities or other applicable law, rule, regulation or governing document that may result from accepting the resignation. The Company will publicly disclose the Board's decision within 150 days after the results of the election are certified.

Any director who tenders his or her resignation pursuant to this policy will not participate in the Directors and Corporate Governance Committee recommendation or Board consideration regarding whether or not to accept the tendered resignation. However, such director shall remain active and engaged in all other committee and Board activities, deliberations and decisions during this Directors and Corporate Governance Committee and Board process.

If a majority of the members of the Directors and Corporate Governance Committee received a majority “Withhold” vote at the same election, then the independent directors who are on the Board who did not receive a majority “Withhold” vote will appoint a Board committee amongst themselves solely for the purpose of considering the tendered resignations. This Board committee may, but need not, consist of all of the independent directors who did not receive a majority “Withhold” Vote.

8. Directors are generally elected for three-year terms. Nevertheless, Directors shall retire from the Board not later than the annual shareholder's meeting following their seventy-second birthday.

9. Retired Chief Executive Officers of the Company are ineligible to serve as members on the Board.

10. The Directors and Corporate Governance Committee periodically reviews the compensation of Directors. In connection with such reviews, the Committee considers compensation paid to Directors by comparable businesses and, from time to time, employs consultants to assist with this determination. All Directors are expected to own stock in the Company in an amount that is appropriate for them. In general, within five years from the commencement of service by a Director, a Director must maintain holdings of the Company's Common Stock equal in market value to ten times the annual retainer fee paid to such Director.

11. It is the general policy of the Company that the Board as a whole consider all major decisions. As a consequence, the Committee structure of the Board is limited to those Committees considered to be basic to or required for the operation of a publicly owned company. Currently these Committees are the Audit Committee, Compensation Committee, Directors and Corporate Governance Committee, Finance and Enterprise Risk Committee, and Benefits Committee. Annually, the Directors and Corporate Governance Committee, in consultation with the CEO, recommends the members and chairs of these Committees to the Board. All Committees of the Board are comprised only of Non-Management Directors (as defined below). In addition, the Audit Committee, Compensation Committee, and Directors and Corporate Governance Committee are made up of only Independent Directors. As set forth in the Committee charters, additional qualifications and restrictions for service may apply to some Committees. As used herein, a “Non-Management Director” is a Director who is not an officer of the Company.

In furtherance of its policy of having major decisions made by the Board as a whole, the Company has a full orientation process for new Board members that includes extensive materials, meetings with key management, and visits to Company facilities. Board members are encouraged to periodically obtain continuing education for Board members available at various institutions and universities. Directors are also expected to participate in continued training to increase their knowledge and understanding of the Company's business and operations. The Board also has at least one meeting each year devoted to Director continuing education. That meeting appropriately may include presentations regarding the role and operation of the Board and Board members' responsibilities; information about the natural gas industry; information about the Company's business and operations; meetings with senior management or other employees; and visits to Company facilities.

12. The Board of Directors is responsible for (i) overseeing and reviewing with management the Company's Enterprise Risk Management program, including the actions taken to identify, assess, monitor and mitigate risks and (ii) reviewing the Company's major risk exposures and approving the Company's tolerance for its major risk exposures ("risk appetite"). The Finance and Enterprise Risk Committee of the Board assists the Board in its oversight of the Company's management of key risks, including oversight of the administration and execution of the ERM program and adherence to risk appetite. Each Committee of the Board shall have responsibility for overseeing and informing the full Board as necessary on risks relating to its areas of oversight.

13. The Compensation Committee is responsible for providing overall guidance in the development and administration of the Company's executive compensation programs, including those for the CEO, including incentive or equity-compensation plans as described and reflected in the Company's Compensation Discussion and Analysis of its proxy statement.

14. The CEO is responsible for establishing effective communications with the Company's stakeholder groups, *i.e.*, shareholders, customers, communities, suppliers, creditors, governments, and corporate partners.

15. Members of the Board are expected to attend all regular and special meetings of the Board or its Committees on which the member has been elected to serve, and shall endeavor to review material provided to Board members prior to Board meetings.

16. Members of the Board shall not own, operate, join, control, serve in any corporate governance capacity, or participate in the management, operation or control of, or be employed by any company which competes with the Company or any of its subsidiaries without the consent of the Board of Directors; provided, that a Director shall be free, without such consent, to purchase or hold as an investment, an insignificant and non-controlling voting interest of any such company.

17. Members of the Board should limit their service to not more than three boards of directors of publicly traded companies (two boards of directors of publicly traded companies for the Company's Chief Executive Officer) in addition to that of the

Company. Exception to this policy may be made by the Board in appropriate cases. If a Director who is a member of the Company's Audit Committee simultaneously sits on the audit committee of more than two other public companies, the Board must determine that such simultaneous service would not impair the ability of such Director to effectively serve on the Company's Audit Committee.

18. It is important that all communications regarding the Company are informed and accurate. Accordingly, non-public information or materials regarding the Company must not be distributed outside of the Company, including to the media or other sources, unless specifically authorized by the CEO or General Counsel. From time to time members of the board of directors may receive inquiries from the media or other sources, including shareholders, regarding the Company, its business or opinions on the same. As a general matter, management, not members of the board of directors, speaks on behalf of the Company. Accordingly, members of the board of directors should refer outside inquiries concerning the Company to the CEO or General Counsel even when a director believes that the subject matter of his or her statements is within the public domain. If comments from the Board itself are appropriate, most circumstances would require the Chairman or Lead Independent Director to speak for the Board. In addition, any public speeches, interviews, presentations or appearances by members of the board of directors on behalf of the Company should be coordinated with the CEO or General Counsel. If during the course of a public speech, interview, presentation or appearance issues arise concerning the Company's business, prompt notification should be provided to the CEO or General Counsel.

## **FUNCTIONING OF THE BOARD**

1. In general, the Board Chairman sets the agenda for Board meetings, in conjunction with the Lead Independent Director, with the understanding that certain items pertinent to the advisory and monitoring functions of the Board be brought to it periodically by the CEO for review and/or decision. For example, the Board reviews the annual corporate capital and operating budgets. Agenda items that fall within the scope of responsibilities of a Board Committee are reviewed with the chair of that Committee prior to the meeting. Any member of the Board may request that an item be included on the agenda. The Lead Independent Director establishes the agenda for the executive sessions of Non-Management Directors; however, any Non-Management Director may request that an item be included on the agenda.

2. Board materials related to agenda items are provided to Board members sufficiently in advance of Board meetings as necessary to allow the Directors to prepare for discussion of the items at the meeting.

3. With the approval of the Board, members of management attend Board meetings or portions thereof for the purpose of participating in discussions. In addition, Board members have free access to all other members of management and employees of the Company.

4. Executive sessions or meetings of Non-Management Directors, without management present, are held at every regularly scheduled Board meeting. The Lead Independent Director acts as chair of the executive sessions of Non-Management Directors. Additional executive sessions or meetings of Non-Management Directors may be held from time to time as required.
5. The Board has the right to engage independent advisors, as appropriate.
6. The Board conducts an annual performance evaluation of the Board.
7. The Company shall provide for appropriate funding, as determined by the Board and each Committee, for payment of the ordinary administrative expenses of the Board and its Committees that are necessary for carrying out their duties.

## **FUNCTIONING OF COMMITTEES**

1. The chair of each of the Committees determines the frequency, length, and agenda of Committee meetings. Sufficient time to consider the agenda items is provided. Materials related to agenda items are provided to the Committee members sufficiently in advance of the meeting, where necessary, to allow the members to prepare for discussion of the items at the meeting.
2. From time to time, the Board determines the responsibilities of each of the committees.
3. As necessary, the Board may act for a Committee, if, in its sound business judgment, it deems it to be necessary and appropriate, unless where prohibited by law or regulation.

## **RELATED PERSON TRANSACTIONS**

The Directors and Corporate Governance Committee is charged with reviewing and, if in the best interests of the Company, approving appropriate, transactions, arrangements and relationships in which the Company is or will be a participant and in which any director, nominee for director, executive officer, person known by the Company to beneficially own more than 5% of the Company's Common Stock, or any immediate family member of the foregoing, has or will have a material interest. "Related person transactions" include those relationships described in the Categorical Standards of Director Independence as well as those described in Item 404(a) of Regulation S-K of the Securities and Exchange Commission, as in effect from time to time.

Each director and executive officer is required to bring to the attention of the Directors and Corporate Governance Committee any related person transactions involving the director or executive officer promptly, and to the extent practicable prior to entering into the transaction, so that the Committee can determine whether to approve the

transaction. The Directors and Corporate Governance Committee is responsible for reviewing all potential related person transactions annually and as they are brought to the attention of the Committee. The Directors and Corporate Governance Committee reviews each related person transaction and determines if it is in the best interests of the Company based on its consideration of all relevant factors, including but not limited to:

- the related person's relationship to the Company and interest in the transaction,
- the material facts relating to the transaction, including the nature and size of the transaction,
- the benefits to the Company of the transaction,
- whether the transaction involves the provision of goods or services to the Company that are available from unrelated third parties, and if so, whether the transaction is on terms that are comparable to the terms available from unrelated third parties, including the speed, quality and certainty of performance of such third parties,
- whether the transaction would influence the director's or officer's ability to act in the best interests of the Company, its customers or its shareholders,
- whether the transaction would result or may appear to result in improper benefits for the director, officer or a family member, and
- in the case of directors, whether the transaction would impair the independence of the director.

The Directors and Corporate Governance Committee approves potential related person transactions only if the transaction is in the best interests of the Company. If a potential related person transaction involving an Independent Director implicates any of the Company's independence standards, the transaction, if approved by the Directors and Corporate Governance Committee, must also be reviewed by the full Board of Directors. A director involved in the potential related person transaction may not participate in the review or approval of such transaction.

## **PERIODIC REVIEW**

The Board reviews these Guidelines from time to time and makes changes as appropriate.