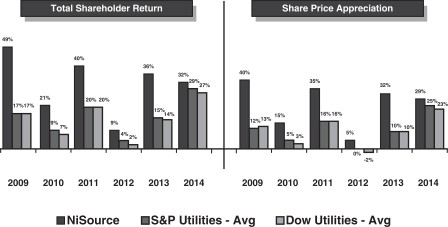
# 2014 Accomplishments

**EXECUTIVE COMPENSATION**

**COMPENSATION DISCUSSION AND ANALYSIS (CD&A)**

The Company had another year of significant achievements in 2014 including:

* Another industry leading year in stock price appreciation;
* Delivering total shareholder return of approximately 32%;
* Increasing our annual dividend by approximately 4%;
* Outperforming the major utility indices for the sixth consecutive year; and
* Generating earnings growth in line with our guidance range for the eighth consecutive year.



Our 2014 performance was once again driven in large part by our continued disciplined execution across all facets of our established infrastructure focused and investment-driven business strategy. Key business accomplishments during 2014 include:

* Initiating our strategic and transformational growth plan, including the creation of CPPL and planned separation of our natural gas pipeline and related business into CPG, Inc., a stand-alone, publicly traded company;
* Being selected to the Dow Jones Sustainability North American Index;
* Completing the second of several electric generation environmental upgrades;
* Originating several transformational, customer-driven growth projects at Columbia Pipeline Group, including placing into service more than $300 million in system expansion projects, adding approximately 1.1 billion cubic feet of system capacity; placing into service nearly $200 million in new midstream projects; and completing approximately $325 million in system modernization projects during the year;
* Continuing our multi-billion dollar system modernization programs across each of our business units;
* Being selected as one of the World’s Most Ethical Companies for the fourth consecutive year;
* Increasing equity market capitalization by approximately $3 billion.

In addition, we continued to strengthen our financial profile, and deliver on our capital investment program of just over $2.2 billion while maintaining an investment grade credit rating, and providing a solid and growing dividend.

The ONC Committee considered these achievements while performing its oversight activities throughout the course of the year.

# Executive Compensation Highlights

In connection with its ongoing review of our executive compensation program, the ONC Committee made a number of compensation decisions with respect to 2014 including:

* Approving base salary increases for each of the Named Executive Officers for the reasons explained in the section entitled “2014 Base Salaries;”

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* Approving an increase in the trigger, target and stretch award opportunities for the annual cash short-term incentive for the Chief Executive Officer for the reasons explained in the section entitled “Annual Performance-Based Cash Incentives;”
* Delivering the 2014 annual long-term equity awards to our Named Executive Officers solely in the form of performance shares that vest upon the achievement of performance goals and continuous employment over the course of the multi-year performance period;
* Further aligning the performance goals for our 2014 annual long-term equity awards with the Company’s strategic operating plan and with the interests of shareholders by removing “funds from operations” as a performance goal under the 2014 annual long- term equity incentive program and substantially increasing the weighting for relative total shareholder return;
* Approving increases in the grant date value of the 2014 annual long-term equity award opportunities for Messrs. Skaggs, Smith, and Hamrock for the reasons explained in the section entitled “LTIP Awards;”
* Awarding Mr. Kettering a special cash bonus of $100,000 and a special grant of time-vested restricted stock units with a grant date fair value of $500,000 in recognition of his role as interim Business Unit CEO;
* Approving discretionary cash bonuses for each of the Named Executive Officers based on their significant contributions to the Company’s success as further explained in the section entitled “Additional Discretionary Lump Sum Payouts to the Named Executive Officers Based on 2014 Performance;”
* Approving a change to our 2014 restricted stock and restricted stock unit awards so that change-in-control vesting is contingent on the occurrence of both a qualifying change-in-control and employment termination; and
* Modifying the Comparative Group (as defined below) to further align the Company with companies that are operationally similar and with which we compete for executive talent.

# Overview of Our 2014 Executive Compensation Program

## Compensation Practices

Our compensation program is intended to attract, retain and motivate highly qualified executives.

The principal elements of compensation we provide to our executives are: base salary, annual short-term performance-based cash incentives and long-term performance-based equity incentive awards. Taken together these three elements are referred to as “total compensation.”

We generally target total compensation to be competitive with the compensation paid to similarly positioned executives at companies within our peer group of companies (the “Comparative Group”) as described in the section entitled “Our Executive Compensation Process

* Competitive Market Review.” We do not, however, manage pay to a certain target percentile of the Comparative Group practices.

We use short and long-term performance-based compensation to motivate our executives to meet and exceed the short and long-term business objectives of the Company.

Historically, we have used 100% performance-based equity compensation for our annual long-term equity incentive awards as a means to align the interests of our executives with those of our stockholders. See the section entitled “Changes to Our Executive Compensation Program in 2015” for an explanation of our use of restricted stock units for our 2015 annual long-term equity awards. We also occasionally use special awards of time-vested restricted stock and restricted stock units to attract and retain executive talent, promote management continuity and reward outstanding performance.

We employ leading governance practices, such as clawback policies and stock ownership guidelines, and we conduct an annual risk assessment of the Company’s compensation practices.

In addition, our executive officers are prohibited from trading in Company securities during quarterly blackout periods and they are also prohibited from engaging in hedging or short sales of the Company’s equity securities.

Finally, when making decisions about our executive compensation program, we take into account the stockholders’ view of such matters. In 2014, 96% of our investors voted in favor of our Say on Pay Proposal at our Annual Meeting. No changes were made to the design of our executive compensation program as a result of the stockholder vote.

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# Our Executive Compensation Philosophy

The discussion of executive compensation philosophy, program and practices that follows applies to our Company’s Named Executive Officers in 2014. They were: Robert C. Skaggs, Jr., President and CEO, Stephen P. Smith, Executive Vice President and CFO; Glen L. Kettering, Executive Vice President and Group Chief Executive Officer, Columbia Pipeline Group (“CPG”); Carrie J. Hightman, Executive Vice President and Chief Legal Officer; and Joseph Hamrock, Executive Vice President and Group Chief Executive Officer, NiSource Gas Distribution (“NGD”).

The key design priorities of the Company’s executive compensation program are to:

* + Maintain a financially responsible program aligned with the Company’s strategic plan to build stockholder value and long-term, sustainable earnings growth;
  + Provide a total compensation package that is aligned with the standards in our industry thereby enhancing the Company’s ability to:
    - Attract and retain executives with competitive compensation opportunities;
    - Motivate and reward for achieving and exceeding our business objectives; and
    - Provide substantial portions of pay at risk for failure to achieve our business objectives;
  + Align the interests of stockholders and executives by emphasizing stock-denominated compensation opportunities that are contingent on goal achievement; and
  + Comply with all applicable laws and regulations.

The ONC Committee believes that the Company’s executive compensation program is thoughtfully and effectively constructed to fulfill our compensation objectives, and rewards decision making that creates value for our stockholders, customers and other key stakeholders.

# Principal Elements of Our Compensation Program

We have designed our program to meet our business objectives using various compensation elements intended to drive both short- term and long-term performance.

We believe that total compensation for our Named Executive Officers should be largely performance-based, and the proportion of at- risk, performance-based compensation should increase as the executive’s level of responsibility within the Company increases. The ONC Committee believes the appropriate mix of the elements of compensation should take into account the Company’s business objectives, the competitive environment, Company performance, individual performance and responsibilities and evolving governance practices.

For 2014, the approximate percentage of our Named Executive Officers’ 2014 target total compensation (base salary, the annual performance-based cash incentive payable at the target level and the grant date fair value of the annual long-term performance-based equity incentive award payable at the target level) that was fixed (base salary) was as follows:



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The principal elements of our total compensation package, as more fully described below, help us achieve the objectives of our compensation program as follows:

**Time Horizon**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Form of** |  | **Short-** | **Long-** | **Alignment with** |  |
| **Element of Total Compensation** | **Compensation** | **Attraction** | **Term** | **Term** | **Stockholder Interest** | **Retention** |
| Base Salary  Annual Performance-Based | Cash  Cash |    |  |  |  |    |
| Cash Incentive |  |  |  |  |  |  |
| Long-Term Performance-Based Equity Incentive | Performance Shares |  |  |  |  |  |

***Base Salary*.** Base salary is designed to provide our employees with a level of fixed pay that is commensurate with role and responsibility. We believe that by delivering base salaries that are reflective of market norms, the Company is well-positioned to attract, retain and motivate top caliber executives in an increasingly competitive labor environment. The ONC Committee annually reviews the base salaries of the Company’s senior executives, including the Named Executive Officers, to ensure they are competitive within our industry. In so doing, the ONC Committee considers the base salaries paid to similarly situated executives by the companies in the Comparative Group. See the section entitled “Our Executive Compensation Process — Competitive Market Review” listing the companies in our Comparative Group. The ONC Committee determines any base salary changes for the Company’s senior executives based on a combination of factors that includes competitive pay standards, level of responsibility, experience, internal equity considerations, historical compensation, and individual performance and contribution to business objectives, as well as recommendations from the CEO. The CEO is evaluated separately, taking into account those factors reviewed for all other senior executives, as well as the Corporate Governance Committee’s evaluation of the CEO’s performance. See the section below entitled “ONC Committee Actions Related to 2014 Compensation” for more information.

***Annual Performance-Based Cash Incentive Plan (“Incentive Plan”).*** This component of total compensation provides employees with the opportunity to earn a cash award tied to both the annual performance of the Company and individual contribution to the organization’s success. Annual cash incentives are authorized by the Omnibus Plan which was previously approved by stockholders in May 2010. The performance goals for the Incentive Plan are based on the financial plan approved by the Board at the beginning of the year. The financial plan is designed to achieve the Company’s aim of creating sustainable stockholder value by growing earnings, effectively managing the Company’s cash and providing a strong dividend.

Eligibility for participation in the Incentive Plan extends to nearly all Company employees. Every eligible employee has an incentive opportunity at trigger, target and stretch levels of performance and the ONC Committee identifies expectations for all senior executives, including the Named Executive Officers. See the section below entitled “ONC Committee Actions Related to 2014 Compensation” for more information regarding the 2014 Incentive Plan, including incentive opportunities, performance measures, goals and payouts for each of the Named Executive Officers.

***Long-Term Equity Incentive Plan (“LTIP”).*** Our compensation program also includes a long-term equity incentive component. The ONC Committee believes it important that each executive, in particular each of our senior executives, has personal financial exposure to the performance of the Company’s stock and, therefore, is aligned with the financial interests of stockholders. The ONC Committee also believes that long-term equity incentives promote decision making that is consistent with the Company’s long-range operating goals.

To ensure that our executives’ interests are aligned with those of our stockholders and the Company’s long-term business objectives, the ONC Committee determined that the annual long-term equity incentive awards should be delivered solely in performance shares. Performance shares provide the opportunity to earn shares of the Company’s common stock contingent on the achievement of multi-year performance goals that we believe drive stockholder value. The number of performance shares that can be earned ranges from 50% of target when performance reaches the trigger level to 200% of target when performance reaches the maximum creditable level of results.

When establishing award opportunity levels for each Named Executive Officer, the ONC Committee considers, among other things, the executive’s base salary, the appropriate mix of cash and equity award opportunities,

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prior awards under the LTIP and the compensation practices for similarly situated executives at other companies in our Comparative Group. The actual value of each performance-based award, if any, depends on Company performance against pre-established performance measures as well as stock price at the time the award is paid out.

The ONC Committee may also approve special equity awards that are not performance-based to attract and retain executive talent or to recognize significant contributions. See the section below entitled “ONC Committee Actions Related to 2014 Compensation” for more information regarding the 2014 LTIP awards for each of the Named Executive Officers, including the performance measures and goals and vesting requirements for the 2014 performance share awards, Mr. Kettering’s special time-vested equity award in recognition of his role as interim Chief Executive Officer of CPG, and the performance results and payout amounts for the 2012 performance share awards.

# Other Compensation and Benefits

We also provide other forms of compensation to our executives, including the Named Executive Officers, consisting of a limited number of perquisites, severance and change-in-control arrangements and a number of other employee benefits that generally are extended to our entire employee population. These other forms of compensation are generally comparable to those that are provided to similarly situated executives at other companies of our size.

***Perquisites.*** Perquisites are not a principal element of our executive compensation program. They are intended to assist executive officers in the performance of their duties on behalf of the Company or otherwise to provide benefits that have a combined personal and business purpose. The Company does not reimburse the Named Executive Officers for the payment of personal income taxes incurred by the executives in connection with their receipt of these benefits. For more information on these perquisites, see the Summary Compensation Table and footnote 6 to that table.

***Severance and Change-In-Control Benefits.*** We maintain an executive severance policy, Change-in-Control Agreements with each of the Named Executive Officers and a letter agreement with Mr. Smith regarding payments to be made in the event of termination of his employment.

Change-in-Control Agreements are intended to ensure that thoroughly objective judgments are made in relation to any potential change in corporate ownership so that stockholder value is appropriately safeguarded and returns to investors are maximized. The Change- in-Control Agreements provide for cash severance benefits upon a double trigger (meaning there must be both a qualifying change-in- control and termination of employment) and do not provide for any “gross-up” payments to executives for excise taxes incurred with respect to benefits received under a Change-in-Control Agreement.

For further discussion of these agreements, see the “Potential Payments upon Termination of Employment or a Change-in-Control of the Company” table and the accompanying narrative.

***Pension Programs*.** During 2014, we maintained a tax-qualified defined benefit pension plan for essentially all salaried exempt employees hired before January 1, 2010, all non-exempt employees (both non-union and certain union employees) hired before January 1, 2013, as well as for other union employees, regardless of hire date, and a non-qualified defined benefit pension plan (the “Pension Restoration Plan”) for all eligible employees with annual compensation or pension benefits in excess of the limits imposed by the Internal Revenue Service (“IRS”), including the Named Executive Officers. The Pension Restoration Plan provides for a pension benefit under the same formula provided under the tax-qualified plan but without regard to the IRS limits, reduced by amounts paid under the tax-qualified plan. The material terms of the pension programs are described in the narrative to the Pension Benefits table.

***Savings Programs.*** Our Named Executive Officers are eligible to participate in the same tax-qualified 401(k) Plan as most employees and in a non-qualified defined contribution plan (the “Savings Restoration Plan”) maintained for eligible executive employees. The 401(k) Plan includes a Company match that varies depending on the pension plan in which the employee participates and a Company profit sharing contribution for most employees of between 0.5% and 1.5% of the employee’s eligible earnings based on the overall corporate net operating earnings per share measure. In addition, for salaried employees hired after January 1, 2010 and non-

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union hourly employees hired after January 1, 2013, the 401(k) Plan includes a 3% Company contribution to the employee accounts. The Savings Restoration Plan provides for Company contributions in excess of IRS limits under the 401(k) Plan for eligible employees, including the Named Executive Officers. The material terms of the Savings Restoration Plan are described in the narrative to the Non- qualified Deferred Compensation table.

***Deferred Compensation Plan.*** We also maintain the Executive Deferred Compensation Plan (the “Deferred Compensation Plan”) through which eligible Company executives, including the Named Executive Officers, may elect to defer between 5% and 80% of their base salary and annual cash incentive payout. The Company makes the Deferred Compensation Plan available to eligible executives so they have the opportunity to defer their cash compensation without regard to the limits imposed by the IRS for amounts that may be deferred under the 401(k) Plan. The material terms of the Deferred Compensation Plan are described in the narrative to the Non-qualified Deferred Compensation table.

***Health and Welfare Benefits.*** We also provide other broad-based benefits such as medical, dental, life insurance and long-term disability coverage on the same terms and conditions to all employees, including the Named Executive Officers. We believe that these broad-based benefits enhance the Company’s reputation as an employer of choice and thereby serve the objectives of our compensation program to attract, retain and motivate our employees.

# Our Executive Compensation Process

The ONC Committee is responsible for determining salaries, performance-based incentives and other matters related to the compensation of our executives and for overseeing the administration of our equity plans, including equity award grants to our executive officers. The ONC Committee takes into account various factors when making compensation decisions, including:

* + Attainment of established business and financial goals of the Company;
  + Competitiveness of the Company’s compensation program based upon competitive market data; and
  + An executive’s position, level of responsibility and performance, as measured by the individual’s contribution to the Company’s achievement of its business objectives.

The ONC Committee reviews the compensation of our CEO and his executive direct reports each year. In determining the compensation of the CEO and his executive direct reports, the Committee takes into consideration the Corporate Governance Committee’s evaluation of the CEO’s performance and the CEO’s recommendation with respect to his executive direct reports. When considering changes in compensation for the Named Executive Officers, the ONC Committee also considers input from the Senior Vice President, Human Resources and the ONC Committee’s independent executive compensation consultant, Exequity LLP.

***Competitive Market Review.*** In connection with its compensation decision making, the ONC Committee reviews the executive compensation practices in effect at other companies in the Comparative Group. These companies comprise leading gas, electric, combination utility and natural gas transmission companies that have been selected by the ONC Committee for their operational comparability to the Company and because we generally compete with these companies for the same executive talent. For 2014, the ONC Committee, with input from Exequity LLP, removed PG&E Corporation, PNM Resources Inc. and Southern Company from the Comparative Group and added Spectra Energy Corp. These changes were made to further align the Company with its peer companies with respect to revenue size, market capitalization and operational similarity. For purposes of considering 2014 compensation decisions, the Comparative Group included the following companies:

AGL Resources Inc. Pepco Holdings, Inc.

Ameren Corporation PPL Corporation

American Electric Power Company, Inc. Public Service Enterprise Group Incorporated CenterPoint Energy, Inc. Questar Corporation

CMS Energy Corporation SCANA Corporation

Dominion Resources, Inc. Sempra Energy

DTE Energy Company Spectra Energy Corp

EQT Corporation WGL Holdings, Inc.

FirstEnergy Corp. The Williams Companies, Inc.

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***Policies and Guidelines.*** We maintain various guidelines and policies to help us meet our compensation objectives including:

* + ***Executive Stock Ownership and Retention Guidelines.*** Senior executives, including the Named Executive Officers, are generally expected to satisfy their applicable ownership guidelines within five years of becoming subject to the guidelines. The stock ownership guideline for the CEO is five times his annual base salary. The other senior executives have a stock ownership guideline of three times their respective annual base salaries. Once the senior executive satisfies the guidelines, he/she must continue to own a sufficient number of shares to remain in compliance with the guidelines. Until such time as the senior executives satisfy the stock ownership guidelines, they are required to hold at least 50% of the shares of common stock received upon the lapse of the restrictions on restricted stock units and the vesting of performance shares. At the end of 2014, each of the Named Executive Officers exceeded their ownership guidelines with the exception of Mr. Hamrock who has an additional two years to satisfy his ownership guideline.
  + ***Trading Windows/Trading Plans/Hedging*.** We restrict the ability of certain employees to freely trade in the Company’s common stock because of their periodic access to material non-public information regarding the Company. Under our insider trading policy, our key executives are prohibited from trading in Company securities during quarterly blackout periods. In addition, under our Securities Transaction Compliance Policy for Certain Employees and our Securities Transaction Compliance Policy for Directors and Executive Officers, all directors and all senior executives, including our Named Executive Officers, are prohibited from engaging in short sales of the Company’s equity securities or in buying or selling puts, calls or other options on the Company’s securities or otherwise hedging against or speculating in the potential changes in the value of the Company’s common stock. None of our directors or officers owns Company securities that are pledged.
  + ***Compensation Recovery for Misconduct*.** While we believe our executives conduct business with the highest integrity and in full compliance with our Code of Business Conduct, the ONC Committee believes it is appropriate to ensure that the Company’s compensation plans and agreements provide for financial penalties to an executive who engages in certain fraudulent or other inappropriate conduct. Consequently, our Incentive Plan, the Omnibus Plan and its predecessor, the 1994 Long-Term Incentive Plan, contain “clawback” provisions that require reimbursement of amounts received under the plans in the event of certain acts of misconduct with respect to both the annual short-term cash incentive and long-term equity awards.

***Tax Treatment of Executive Compensation.*** Section 162(m) provides that annual compensation in excess of $1,000,000 paid to the CEO or certain of the other Named Executive Officers, other than compensation meeting the definition of “performance-based compensation,” will not be deductible by a corporation for federal income tax purposes. In January 2014, the ONC Committee established a threshold performance target based on the Company’s operating income in order to qualify certain compensation as performance based for purposes of Section 162(m). The ONC Committee reviews the deductibility of compensation under Section 162(m) and related regulations published by the IRS. The ONC Committee retains the discretion to amend any compensation arrangement to comply with Section 162(m)’s requirements for deductibility in accordance with the terms of such arrangements and what it believes is in the best interest of the Company.

The ONC Committee considers the anticipated tax treatment to the Company when determining executive compensation and routinely seeks to structure its executive compensation program in a way that preserves the deductibility of compensation payments and benefits. It should be noted, however, that there are many factors which are considered by the ONC Committee in determining executive compensation and, similarly, there are many factors which may affect the deductibility of executive compensation. To maintain the flexibility to compensate the Named Executive Officers in a manner designed to promote varying corporate goals, the ONC Committee has not adopted a policy that all executive compensation must be deductible under Section 162(m).

In addition, Sections 280G and 4999 of the Internal Revenue Code (the “Code”) impose excise taxes on Named Executive Officers, directors who own significant stockholder interests in the Company and other service providers who receive payments in excess of a threshold level upon a change-in-control. Although the Company does not provide any gross up payments to reimburse officers, directors or others for any such taxes, the

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Company or its successor could lose a deduction for amounts subject to the additional tax. As discussed under “Potential Payments upon Termination of Employment or a Change-in-Control of the Company” below, it is possible that payments to the Named Executive Officers could be subject to these taxes.

Finally, Section 409A of the Code imposes additional taxes on Named Executive Officers, directors and other service providers who defer compensation in a manner that does not comply with Section 409A. The Company has reviewed its compensation arrangements for compliance with applicable Section 409A requirements.

# ONC Committee Actions Related to 2014 Compensation

During 2014, the ONC Committee reviewed and, as appropriate, took action with respect to each element of total compensation for each Named Executive Officer following the principles, practices and processes described above. In doing so, the ONC Committee concluded that the total compensation provided for each of the Company’s senior executives in 2014, including the Named Executive Officers, was consistent with the Company’s compensation philosophy and was reasonable, competitive and appropriate.

The ONC Committee’s compensation determinations, though subjective in part, were based primarily upon recognition of the performance of each Named Executive Officer, and a determination that the total compensation awarded to each Named Executive Officer provided well-balanced incentives to focus on serving the interests of the Company and its stockholders.

In addition, the ONC Committee considered the stockholders’ advisory approval of the 2013 compensation of our Named Executive Officers at the 2014 Annual Meeting and determined that no changes were necessary or advisable in connection with the design of our senior executive compensation program as a result of the stockholders’ vote.

***2014 Base Salaries.*** Historically, base salaries of senior executives, including the Named Executive Officers, have been adjusted when deemed necessary to maintain competitiveness and reflect performance. During 2014, the Committee reviewed the base salaries of the Company’s senior executives, including the Named Executive Officers, and approved salary increases for each of the Named Executive Officers.

In so doing, the Committee considered the base salaries earned by similarly situated executives of companies in the Comparative Group, increased responsibilities, experience, internal pay equity, historical compensation practices, individual performance and contribution to achievement of business objectives. In particular, the ONC Committee noted the strong performance of each of the Named Executive Officers, Mr. Kettering’s increased responsibilities as Executive Vice President and Group CEO of CPG and the fact that, with the exception of Mr. Hamrock, there had been no salary increases for the Named Executive Officers since 2012.

The 2014 base salary adjustments for each Named Executive Officer are shown in the table below.

|  |  |  |
| --- | --- | --- |
| **Name** | **2013**  **Annual Salary** | **2014**  **Annual Salary** |
| Robert C. Skaggs, Jr. | $ 900,000 | $ 980,000 |
| Stephen P. Smith | $ 575,000 | $ 600,000 |
| Glen L. Kettering | $ 340,000 | $ 500,000 |
| Carrie J. Hightman | $ 475,000 | $ 490,000 |
| Joseph Hamrock | $ 470,000 | $ 500,000 |

***Annual Performance-Based Cash Incentives.*** In January 2014, the ONC Committee established performance measures to determine the 2014 incentive payouts to the Named Executive Officers. In determining incentive compensation ranges for the Named Executive Officers, the ONC Committee considered competitive information from the Comparative Group, input from the independent compensation consultant, historical payouts and individual performance and determined that the cash-based incentive compensation range for Mr. Skaggs should be increased to a target of 125% from 100%. Mr. Skaggs’ trigger and stretch amounts were increased to 50% and 200% respectively from 40% and 160% after considering his strong leadership and an evaluation of the competitive market data, including a recognition that Mr. Skaggs’ target cash compensation remained below the market median. The trigger, target and stretch levels were unchanged from the prior year for

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the other Named Executive Officers. For more information on the 2014 payout amounts for each of the Named Executive Officers, see the section below entitled “2014 Incentive Plan Payouts to the Named Executive Officers.”

The 2014 Incentive Plan awards for senior executives, including all of the Named Executive Officers, were subject to achievement with respect to two corporate financial goals, net operating earnings per share and corporate funds from operations, as well as an additional operational measure relating to safety. The ONC Committee approved these measures because they were deemed to be important to the Company’s success in increasing stockholder value.

Earnings, cash flow and safety were measured as follows:

* + The measure of earnings was net operating earnings per share (after accounting for the cost of any incentive payout). Net operating earnings was defined as income from continuing operations determined in accordance with Generally Accepted Accounting Principles (“GAAP”), adjusted for certain items, such as weather, gains and losses on the sale of assets, certain out-of-period items and reserve adjustments. The ONC Committee uses net operating earnings, a non-GAAP financial measure, for determining financial performance for incentive compensation plans because the Board and management believe this measure better represents the fundamental earnings strength and performance of the Company. The Company uses net operating earnings internally for budgeting and for reporting to the Board.
  + The cash flow measure, corporate funds from operations, was calculated by taking net income from operations and adding back non-cash items such as depreciation. The ONC Committee uses corporate funds from operations as an Incentive Plan measure because the ONC Committee and management believe this measure fairly represents the amount of cash produced by the Company’s operations.
  + Safety was measured by the number of employee work days missed or restricted or the number of days an employee was transferred, known as the DART metric, which was developed by the Occupational Safety and Health Administration. Each business unit of the Company had its own safety goal. The safety goal for corporate staff was based upon the respective business unit goals, weighted by employee hours for each business unit.

The incentive opportunities for the senior executives, including the Named Executive Officers, were contingent on achievement of goals relating to these measures, subject to final discretionary adjustment by the ONC Committee.

The 2014 Incentive Plan awards for the leaders of our business units also are subject to achievement with respect to business unit net operating earnings and funds from operations goals for each of the business units. The ONC Committee believes the inclusion of business unit goals in the annual Incentive Plan improves the line of sight between employees and the incentive measures, thereby enhancing Company performance. The ONC Committee extended to Mr. Skaggs the authority to establish the annual business unit targets for the year. He assigned goals that, if accomplished, were expected to ensure the Company’s attainment of its overall corporate objectives.

Consequently, the incentive opportunities for Messrs. Kettering and Hamrock were subject to achievement with respect to the corporate financial measures (net operating earnings per share and corporate funds from operations), and achievement with respect to performance measures tied to the business unit net operating earnings (net of interest expense and income taxes) and business unit funds from operations and business unit safety measures for which they have responsibility. As such, each of their measures is weighted differently than the other Named Executive Officers who are members of the corporate service group, as shown in the tables below.

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The applicable performance measures and their associated weightings and results as a percentage of the target incentive opportunity for Messrs. Skaggs and Smith, and Ms. Hightman were:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Corporate Measures(1)** | **Weight** | **Trigger** | **Target** | **Stretch** | **Result** | **Robert C. Skaggs, Jr.** | | **Stephen P. Smith** | | **Carrie J. Hightman** | |
| **Formulaic Amounts(2)** | | **Formulaic Amounts(2)** | | **Formulaic Amounts(2)** | |
| **Payout as a % of Target** | **Weighted Adjusted Payout as a %**  **of Target** | **Payout as a % of Target** | **Weighted Adjusted Payout as a %**  **of Target** | **Payout as a % of Target** | **Weighted Adjusted Payout as a %**  **of Target** |
| NiSource Net Operating Earnings Per Share | 50% | $1.61 | $1.66 | $1.71 | $1.72 | 160% | 80% | 157.14% | 78.57% | 158.33% | 79.17% |
| NiSource Funds from Operations | 40% | $1,205M | $1,355M | $1,505M | $1,456M(3) | 140.40% | 56.16% | 138.48% | 55.39% | 139.28% | 55.71% |
| Safety | 10% | .79 days | .71 days | — | .76 days | 37.50% | 3.75% | 37.50% | 3.75% | 37.50% | 3.75% |

1. When the result for a particular measure lands between two goals (for example, between the target and stretch goal), the incentive opportunity is determined by interpolation and is expressed as a percentage of the target incentive opportunity. Interpolation for the safety goal only applies between trigger and target. Consequently, target is the maximum available level for the safety goal.
2. These amounts reflect a percentage of each executive’s target incentive opportunity. The trigger, target and stretch incentive opportunities for each of the Named Executive Officers are provided in the section entitled “2014 Incentive Plan Payouts to the Named Executive Officers.”
3. This includes an upward adjustment to Funds from Operations of $92.4 million taking into consideration the impact of non-recurring items, such as incremental pension expense subsidized by the Company and changes in accounting.

The applicable performance measures and their associated weightings and results as a percentage of the target incentive opportunity for Mr. Kettering were:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Corporate Measures(1)** | **Weight** | **Trigger** | **Target** | **Stretch** | **Result** | **Formulaic Payout as a**  **% of Target(2)** | **Weighted Adjusted Formulaic**  **Payout as a % of Target(2)** |
| NiSource Net Operating Earnings Per Share | 25% | $1.61 | $1.66 | $1.71 | $1.72 | 158.33% | 39.58% |
| NiSource Funds from Operations | 20% | $1,205M | $1,355M | $1,505M | $1,456M(3) | 139.28% | 27.86% |
| CPG Safety | 10% | .25 days | .19 days | — | .09 days | 100.00% | 10.00% |
| CPG Net Operating Earnings | 22.50% | $264M | $269M | $279M | $274M(4) | 129.17% | 29.06% |
| CPG Funds from Operations | 22.50% | $397M | $440M | $483M | $527M(5) | 158.33% | 35.63% |

1. When the result for a particular measure lands between two goals (for example, between the target and stretch goal), the incentive opportunity is determined by interpolation and is expressed as a percentage of the target opportunity. Interpolation for the safety goal only applies between trigger and target. Consequently, target is the maximum available level for the safety goal.
2. These amounts reflect a percentage of Mr. Kettering’s target incentive opportunity. The trigger, target and stretch incentive opportunities for Mr. Kettering are provided in the section entitled “2014 Incentive Plan Payouts to the Named Executive Officers.”
3. This includes an upward adjustment to Funds from Operations for NiSource of $92.4 million taking into consideration the impact of non-recurring items, such as incremental pension expense subsidized by the Company and changes in accounting.
4. This includes an upward adjustment to Net Operating Earnings for CPG of $9.8 million taking into consideration the impact of changes in tax law, and the impact of non-recurring items such as incremental pension expense subsidized by the Company and other changes in accounting.

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1. This includes an upward adjustment to Funds from Operations for CPG of $38.6 million taking into consideration the impact of non- recurring items, such as incremental pension expense subsidized by the Company and changes in accounting.

The applicable performance measures and their associated weightings and results as a percentage of the target incentive opportunity for Mr. Hamrock were:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Corporate Measures(1)** | **Weight** | **Trigger** | **Target** | **Stretch** | **Result** | **Formulaic Payout as a**  **% of Target(2)** | **Weighted Adjusted Formulaic**  **Payout as a % of Target(2)** |
| NiSource Net Operating Earnings Per Share | 25% | $1.61 | $1.66 | $1.71 | $1.72 | 161.54% | 40.38% |
| NiSource Funds from Operations | 20% | $1,205M | $1,355M | $1,505M | $1,456M(3) | 141.44% | 28.29% |
| NGD Safety | 10% | .91 days | .82 days | — | 1.03 days | 0.00% | 0.00% |
| NGD Net Operating Earnings | 22.50% | $214M | $220M | $231M | $216M(4) | 58.97% | 13.27% |
| NGD Funds from Operations | 22.50% | $287M | $397M | $507M | $444M(5) | 126.29% | 28.42% |

1. When the result for a particular measure lands between two goals (for example, between the target and stretch goal), the incentive opportunity is determined by interpolation and is expressed as a percentage of the target opportunity. Interpolation for the safety goal only applies between trigger and target. Consequently, target is the maximum available level for the safety goal.
2. These amounts reflect a percentage of Mr. Hamrock’s target incentive opportunity. The trigger, target and stretch incentive opportunities for Mr. Hamrock are provided in the section entitled “2014 Incentive Plan Payouts to the Named Executive Officers.”
3. This includes an upward adjustment to Funds from Operations for NiSource of $92.4 million taking into consideration the impact of non-recurring items, such as incremental pension expense subsidized by the Company and changes in accounting.
4. This includes an upward adjustment to Net Operating Earnings for NGD of $2.3 million taking into consideration the impact of changes in accounting.
5. This includes a downward adjustment to Funds from Operations for NGD of $34.1 million taking into consideration the impact of changes in tax law.

***2014 Incentive Plan Payouts to the Named Executive Officers.*** For 2014, the annual incentive opportunities and actual payout amounts for each of the Named Executive Officers as approved by the ONC Committee were:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Named Executive Officer** | **Trigger**  **(% of Salary)** | **Target**  **(% of Salary)** | **Stretch**  **(% of Salary)** | **2014 Award (% of Target)** | **2014**  **Award(1)** |
| Robert C. Skaggs, Jr. | 50% | 125% | 200% | 140% | $1,715,000 |
| Stephen P. Smith | 30% | 70% | 110% | 138% | $ 579,600 |
| Glen L. Kettering | 25% | 60% | 95% | 142% | $ 426,000 |
| Carrie J. Hightman | 25% | 60% | 95% | 139% | $ 408,660 |
| Joseph Hamrock | 25% | 65% | 105% | 110% | $ 357,500 |

1. The 2014 Awards for each of the Named Executive Officers were calculated as follows: annual base salary multiplied by his/her Target (% of Salary) multiplied by the applicable 2014 Award (% of Target).

In January 2015, the ONC Committee certified the performance results set forth in the tables above. The ONC Committee determined it was appropriate to approve an Incentive Plan payout of $1,715,000 to Mr. Skaggs based on the Company’s above-target performance relative to the net operating earnings per share financial metric and funds from operations financial metric as well as his continued strong leadership in 2014. Mr. Skaggs also

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made recommendations to the ONC Committee with respect to the award of Incentive Plan payouts to the other senior executives, including the other Named Executive Officers. In making his recommendations, Mr. Skaggs considered the Company’s performance and the performance of the senior executives in delivering strong stockholder returns again in 2014, as well as the performances of the business unit and corporate functions the executives led. The ONC Committee considered and accepted Mr. Skaggs’ recommendations and approved Incentive Plan payouts to the Named Executive Officers in accordance with the Incentive Plan formula, as set forth in the table above.

***2014 Discretionary Lump Sum Payout to Mr. Kettering.*** In January 2014, the ONC Committee awarded Mr. Kettering a special one-time cash bonus award of $100,000 in recognition of his role as interim CEO of the CPG. The bonus amount is set forth in the Bonus column of the Summary Compensation Table because it was not based on performance relative solely to the pre-established performance criteria under the Incentive Plan.

***Additional Discretionary Lump Sum Payouts to the Named Executive Officers Based on 2014 Performance.*** In January 2015, the ONC Committee exercised its discretion to award bonuses to each of the Named Executive Officers in addition to amounts based on performance relative to pre-established performance criteria described above under the section entitled “Incentive Plan.” The ONC Committee approved a discretionary bonus of $1,785,000 for Mr. Skaggs based on the Company’s consistently superior performance over the last several years under his stewardship, including 207% cumulative total shareholder return over the past five years and Mr. Skaggs’ strategic leadership in developing and executing on the decision to create CPPL and to separate the Company’s natural gas pipeline and related businesses into a stand-alone publicly traded company.

In addition, the ONC Committee approved discretionary bonuses of $750,000 for Mr. Smith, and $500,000 for Mr. Kettering based on their significant contributions to the development and execution of the decision to create CPPL and to separate the Company’s natural gas pipeline and related businesses into a stand-alone publicly traded company. In particular, the ONC Committee considered Mr. Smith’s and Mr. Kettering’s key roles in developing and executing on the formation of CPPL and the Separation, including strategic and financial analysis, transition analysis and preparation. The ONC Committee also approved discretionary bonuses of $400,000 and $300,000 for Mr. Hamrock and Ms. Hightman, respectively, based on their contributions to the preparation for the Separation. In particular the ONC Committee considered Mr. Hamrock’s strategic leadership in developing a post-separation organization for our Company and Ms. Hightman’s performance in executing on the preparation for the Separation, as well as the creation of CPPL and its initial public offering.

The amounts of these discretionary bonuses are set forth in the Bonus column of the Summary Compensation Table because they are in addition to the amounts based on performance relative to the pre-established performance criteria under the Incentive Plan, described above, which are set forth in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

## LTIP Awards.

***2 014 Performance Share Awards****.* In January 2014, the ONC Committee approved a grant of performance shares to senior executives of the Company, including each of the Named Executive Officers. In determining the 2014 long-term incentive grant values to be awarded to the Named Executive Officers, the ONC Committee considered the competitive pay practices at companies within our Comparative Group, input from the ONC Committee’s independent compensation consultant, the historical mix of fixed compensation versus variable incentive compensation and individual performance. In particular, the ONC Committee considered the continued strong leadership of Messrs. Skaggs and Smith and the increased leadership experience of Mr. Hamrock, in addition to the appropriateness of market adjustments for Messrs. Skaggs and Hamrock based on Comparative Group information. The ONC Committee approved an increase for 2014 grant values for Messrs. Skaggs, Smith and Hamrock that were approximately 25%, 8%, and 17% greater than their prior year’s award values, respectively.

Vesting of the 2014 grant of performance shares is dependent on the Company meeting certain performance measures over a three- year performance period and the executive’s continued employment through January 28, 2017. Special vesting rules apply in the event of death, “Retirement,” “Disability” or a “Change-in-Control” (each as defined in the Omnibus Plan). Termination for any other reason will result in forfeiture of all performance shares.

The performance measures on which vesting of 2014 performance shares is contingent relate to cumulative net operating earnings per share over the three-year period from January 1, 2014 through December 31, 2016,

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