PLACE: Dobbs Building, Raleigh, North Carolina

DATE: Wednesday, October 10, 2018

DOCKET NO.: E-22, Sub 551

G-5, Sub 585

TIME IN SESSION: 10:00 a.m. to 11:02 a.m.

BEFORE: Chairman Edward S. Finley, Jr., Presiding

Commissioner ToNola D. Brown-Bland

Commissioner Jerry C. Dockham

Commissioner James G. Patterson

Commissioner Daniel G. Clodfelter

Commissioner Charlotte A. Mitchell

IN THE MATTER OF:

Joint Application of Dominion Energy, Inc., and SCANA Corporation to Engage in a Business Combination Transaction

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T A B L E O F C O N T E N T S

E X A M I N A T I O N S

E X H I B I T S

P R O C E E D I N G S

CHAIRMAN FINLEY: Good morning. My name is Edward Finley, and with me this morning are Commissioners ToNola D. Brown-Bland, Jerry C. Dockham, James G. Patterson, Daniel G. Clodfelter, and Charlotte A. Mitchell.

I now call for hearing Docket No. E-22, Sub 551, and G-5, Sub 585, which is the Application of Dominion Energy, Inc. and SCANA Corporation to Engage in a Business Combination Transaction.

On January 24, 2018, Dominion and SCANA filed a Joint Application to Engage in a Business Combination Transaction and Address Regulatory Conditions and Codes of Conduct.

Petitions to Intervene have been filed and granted to the following parties: Carolina Industrial Group for the Fair Utility Rates I, the North Carolina Sustainable Energy Association, and Transcontinental Gas Pipe Line Company.

Limited admission to practice before this Commission have been granted by several out-of-state counsel.

No consumer statements of position have been filed in this combined docket.

On June 19, 2018, the Commission issued its Order Scheduling Hearing, Establishing Procedural Deadlines, and Requiring Public Notice.

On June 22, 2018, the direct testimony was filed by Thomas F. Farrell, II, Jimmy E. Addison, D. Russell Harris, Craig C. Wagstaff, James R. Chapman, and David Hunger on behalf of Dominion and SCANA. An updated exhibit to the testimony of Witness Chapman was filed on July 20, 2018.

On September 26, 2018, the direct testimony was filed by Camillo Amezquita on behalf of Transco. On the same date the Public Staff filed the joint testimony of Michael C. Maness, Jan A. Larsen, James S. McLawhorn, and John R. Hinton.

On October 4, 2018, an Agreement and Stipulation of Settlement between the Applicants, Transco, and the Public Staff was filed.

On October 5, 2018, Dominion filed the supplemental testimony of Witnesses Wohlfarth and Harris.

On October 5, 2018, Dominion filed a black-line version of Regulatory Conditions and Code of Conduct.

On October 5, 2018, the parties filed a Joint Motion to Excuse Witnesses, as well as a Joint List of Order of Witnesses reflecting the joint request to excuse all witnesses except Witnesses Wohlfarth and Harris.

On October 8, 2018, the Public Staff filed revised testimony.

Also on October 8, 2018, the Commission issued an Order Granting the Stipulating Parties' Motion in Part by excusing Witnesses Farrell, Addison, Wagstaff, Chapman, Hunger, and Amezquita from attending the October 10 hearing, but requiring the attendance of the Public Staff witnesses.

On October 9, 2018, the Public Staff filed revised versions of the stipulated Regulatory Conditions and Code of Conduct.

At this time I remind the Commissioners of their duty to avoid conflicts of interest, and inquire whether any member of the Commission has a known conflict of interest with regard to the matters coming before the Commission this morning?

(No response.)

CHAIRMAN FINLEY: There appear to be no conflicts, so we will proceed with the appearances by counsel, beginning with the Applicants.

MR. REID: Good morning, Mr. Chairman, members of the Commission. I'm Joe Reid from McGuireWoods in Richmond. It's nice to be back down here again. And I am here representing the Applicant, Dominion Energy, Incorporated. I also have Ms. Lisa Booth from the in-house law department at Dominion here present.

MS. GRIGG: Good morning, Mr. Chairman, Commissioners. I'm Mary Lynne Grigg with McGuireWoods appearing on behalf of the Applicants. Also here on behalf of SCANA Corporation is Mr. Craig Collins.

MS. KELLS: Mr. Chairman, Commissioners, good morning. Andrea Kells with McGuireWoods appearing on behalf of Dominion and SCANA.

MS. HICKS: Good morning. Warren Hicks with Bailey & Dixon appearing on behalf of Carolina Industrial Group for Fair Utility Rates.

MR. BRADY ALLEN: Good morning, Mr. Chairman and Commissioners. My name is Brady Allen, and behind me is Dwight Allen, and we represent the Transcontinental Gas Pipe Line Company, LLC.

MS. HOLT: Good morning. I'm Gina Holt with the Public Staff here on behalf of the Using and Consuming Public, and with me at counsel table is Public Staff Attorney Robert Josey.

CHAIRMAN FINLEY: All right. Thank you. Are there any preliminary matters we need to discuss before we begin the hearing?

MS. GRIGG: No, sir.

CHAIRMAN FINLEY: Has the Public Staff identified any public witnesses that are here and would like to testify on this matter?

MS. HOLT: No, we haven't.

CHAIRMAN FINLEY: Out of an abundance of caution, are there public witnesses in the hearing room that would like to testify in this matter?

(No response.)

CHAIRMAN FINLEY: There appear to be none, so we will call on Dominion and SCANA.

MS. GRIGG: Thank you, Mr. Chairman. I'd like to first put the Company's case in by entering the Application and the testimony of the witnesses who have been excused into the record. And if you so choose, I'll go through them one at a time and request that they be entered into evidence.

CHAIRMAN FINLEY: Well, let's do that. I'm the one who has to fix the record when it is incomplete after these things are all over with, so let's make sure we get it right.

MS. GRIGG: Yes, sir. First, I would request that the Company's Application filed on August 30th, 2018 be identified as Dominion/SCANA Exhibit 1.

CHAIRMAN FINLEY: It shall be so identified.

(Whereupon, Dominion/SCANA Exhibit 1 was marked for identification and admitted into evidence.)

MS. GRIGG: Next, I request that the direct testimony of Mr. Thomas F. Farrell of 15 pages, filed on June 22nd, 2018, be copied into the record as if given orally from the stand.

CHAIRMAN FINLEY: Mr. Farrell's direct prefiled testimony consisting of 15 pages, filed June 22, 2018, is copied into the record as though given orally from the stand.

(Whereupon, the prefiled direct testimony of Thomas F. Farrell, II, was copied into the record as if given orally from the stand.)

Q. PLEASE STATE YOUR FULL NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Thomas F. Farrell, II, and my business address is 120 Tredegar Street, Richmond, Virginia 23219. I am Chairman, President and Chief Executive Officer of Dominion Energy, Inc. ("Dominion Energy").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I earned my undergraduate degree in economics in 1976 and my law degree in 1979, both from the University of Virginia. I joined Dominion Energy in 1995 and have served as an officer of Dominion Energy and many of its subsidiaries. I served as Executive Vice President of Dominion Energy from 1999 to 2003 and President and Chief Operating Officer from January 2004 to December 2005. In January 2006, I was named President and Chief Executive Officer of Dominion Energy and was elected Chairman of Dominion Energy's Board of Directors in April 2007.

In addition to my roles at Dominion Energy, I am the presiding director of Altria Group Inc. and a member of the Board of Directors of AEGIS Insurance Company. I also serve on the Board of Directors of the Edison Electric Institute, of which I was Chairman from 2011 to 2012, and served as chairman of the Institute of Nuclear Power Operations from 2013 to 2015.

I am on the Board of Trustees of the Virginia Museum of Fine Arts and am Chairman of the Richmond Performing Arts Center. I am past Chairman of the Colonial Williamsburg Foundation and currently serve on its board. I am also a past Chairman of the Board of Trustees of the Virginia Business Council. I am a former member of the University of Virginia Board of Visitors, where I served as Rector, and am the former Chairman of the Governor's Commission on Higher Education. I also served on the State Council of Higher Education for Virginia.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to provide an overview of the proposed transaction whereby the parent of Public Service Company of North Carolina, Inc. ("PSNC"), SCANA Corporation ("SCANA"), will become a wholly-owned subsidiary of Dominion Energy. I also will provide an overview of Dominion Energy, affirm the commitments Dominion Energy is making as part of its application in this proceeding ("Joint Application"), and discuss how the business combination will benefit PSNC, its customers, and the citizens of North Carolina. It is my firm belief that the combination is in the public interest and will benefit PSNC, its customers, and the State of North Carolina. The combination will continue and support the State's economic development efforts and its position as an excellent place to do business.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized as follows:

I. Merger summary

II. Dominion Energy's identity, management, and experience

III. Plan for future operations of PSNC and combination commitments and benefits

IV. Conclusion

I. Merger Summary

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMBINATION.

A. On January 2, 2018, Dominion Energy, Sedona Corp. ("Sedona"), and SCANA entered into an Agreement and Plan of Merger ("Merger Agreement") setting forth the terms of the merger. Sedona is a South Carolina corporation and a wholly-owned subsidiary of Dominion Energy created solely to accomplish the merger. Pursuant to the Merger Agreement, Sedona and SCANA will merge, with SCANA being the surviving entity. PSNC is currently owned by SCANA. After the combination, SCANA will become a wholly-owned subsidiary of Dominion Energy, and PSNC will remain a direct, wholly-owned subsidiary of SCANA and will continue to exist as a separate legal entity. Dominion Energy Witness James R. Chapman will provide more details on the merger transaction.

Q. HAS THE MERGER BEEN APPROVED BY DOMINION ENERGY'S BOARD OF DIRECTORS?

A. Yes. Dominion Energy's Board unanimously approved and authorized the merger on January 2, 2018.

II. Dominion Energy's Identity, Management and Experience

Q. PLEASE PROVIDE SOME BACKGROUND ABOUT DOMINION ENERGY.

A. Dominion Energy is one of the largest producers and transporters of electricity and natural gas in the United States. As of December 31, 2017, Dominion

Energy's portfolio of assets included approximately 26,000 megawatts ("MW") of electric generating capacity, 64,200 miles of electric transmission and distribution lines, and approximately 66,600 miles of natural gas transmission, gathering, distribution, and storage pipelines. As of December 31, 2017, Dominion Energy served nearly six million utility and retail energy customers and operated one of the nation's largest underground natural gas storage systems, with approximately one trillion cubic feet of storage capacity. Dominion Energy has approximately 16,200 full-time employees in the states in which it operates. As a holding company, Dominion Energy owns direct and indirect subsidiaries that in turn own the properties through which their respective businesses are conducted.

Q. WHAT IS DOMINION ENERGY'S FINANCIAL STATUS?

A. Dominion Energy has deep financial resources. As of December 31, 2017, Dominion Energy's assets totaled $76.6 billion and revenues for the year ended in 2017 were $12.6 billion. Additional details about Dominion Energy's financial status are addressed by Dominion Energy Witness Chapman.

Q. PLEASE BRIEFLY DESCRIBE DOMINION ENERGY'S STATE REGULATED PUBLIC UTILITIES.

A. Dominion Energy operates four major state regulated electric and natural gas utilities: Virginia Electric and Power Company (which does business in Virginia under the name "Dominion Energy Virginia" and in North Carolina under the name "Dominion Energy North Carolina"); The East Ohio Gas Company (which does business under the name "Dominion Energy Ohio");

Hope Gas, Inc. (which does business under the name "Dominion Energy West Virginia"); and Questar Gas Company (which does business in Utah under the name "Dominion Energy Utah," in Wyoming under the name "Dominion Energy Wyoming," and in Idaho under the name "Dominion Energy Idaho"). Dominion Energy Witness Craig C. Wagstaff will address the operations of Dominion Energy's natural gas utilities.

Virginia Electric and Power Company is regulated in Virginia by the Virginia State Corporation Commission and in North Carolina by this Commission. Virginia Electric and Power Company generates, transmits, and distributes electricity for sale in Virginia and North Carolina to approximately 2.6 million customer accounts. Virginia Electric and Power Company operates approximately 19,925 MW of electric generation facilities, 6,600 miles of electric transmission lines, and approximately 57,000 miles of electric distribution lines. Virginia Electric and Power Company's electric transmission, and sales for resale, of electric power in interstate commerce are regulated by the Federal Energy Regulatory Commission.

Specific to North Carolina, Dominion Energy North Carolina has provided electric service in this State since the late 1920s. Today Dominion Energy North Carolina serves approximately 120,000 residential, commercial, governmental, and industrial customers, with a service territory of about 9,200 square miles in northeastern North Carolina, including Roanoke Rapids, Ahoskie, Williamston, Elizabeth City, and the Outer Banks. Dominion Energy is committed to providing safe, reliable, and cost-effective service to, and being a good citizen of, the communities we serve in North Carolina, and we look forward to bringing that commitment to service and citizenship to the communities served by PSNC.

Q. WHAT VALUES DOES DOMINION ENERGY EMPLOY IN CONNECTION WITH ITS OPERATIONS?

A. Our mission at Dominion Energy is to serve our customers in a safe, reliable, and cost-effective manner and to strengthen our communities, minimize environmental impacts, reward our stockholders, and live our values. We execute on that mission through a set of four core values:

- **Safety** is our highest priority – in the workplace and in the community. The work we do can be challenging. Our fundamental goal is to send every employee home every day with zero injuries and to keep the communities in which we serve safe. PSNC can expect customer, employee and public safety to be a priority for Dominion Energy.
- **Excellence** is our goal and expectation. We set high performance standards and are committed to continuous improvement in all areas of our business. The odds of long-term success improve when we go beyond "good" and strive for "great." Our aim is not to be the biggest energy company, just the best.
- **Ethics**, meaning integrity, corporate responsibility to the environment and the community, and individual responsibility and accountability, go hand-in-hand with bottom line results. We cannot and will not take

shortcuts to achieve our goals and fulfill our obligations to stakeholders. Ethical behavior matters, and our reputation depends on it.

- **Teamwork** is a unifying outlook that transcends organizational boundaries and focuses on our shared mission and purpose. We know that strong, sustainable performance depends on how well we support each other in executing our business plan.

Q. HAS DOMINION ENERGY BEEN RECOGNIZED FOR ITS OPERATIONS AND PERFORMANCE?

A. Yes, it has. Over the past several years, we have been recognized as either No. 1 or No. 2 on *Fortune's* list of "Most Admired" electric and gas utilities. Among the reasons for that distinction is how we operate and maintain our assets, invest and allocate owner capital, and enhance our culture of safety and service. Dominion Energy has also been lauded as an excellent corporate citizen with its inclusion among *Forbes'* "Just 100" – which recognizes a variety of factors, including producing quality goods, treating customers well, minimizing environmental impact, supporting the communities served, and treating workers well. Part of that ethos as a good corporate citizen includes how we treat military veterans. Dominion Energy has received the highest honor from the U.S. Department of Defense for its support of employees who serve in the National Guard or Reserve – the Employer Support Freedom Award. We are routinely ranked among the top utilities by *Military Times Edge* as "Best for Vets" for the energy sector, and each year *GI Jobs* places our company as one of the Country's top "Military-Friendly Employers" and

"Spouse-Friendly Employers." Our commitment to safety, ethics, excellence and teamwork has made Dominion Energy a successful company, and I look forward to PSNC being part of that success.

Q. PLEASE EXPAND ON DOMINION ENERGY'S COMMITMENT TO THE COMMUNITIES IT SERVES.

A. Dominion Energy believes that it is important for the local utility to be a contributor to, and an active participant in, the communities it serves. In 2017, Dominion Energy and our philanthropic arm, the Dominion Energy Charitable Foundation, awarded nearly $28 million in charitable grants to about 2,000 nonprofit organizations in the states served by Dominion Energy companies. Further, Dominion Energy employees donated more than 124,000 hours of volunteer service to their communities. As another example of Dominion Energy's commitment to the communities it serves, over the past 35 years, Dominion Energy Virginia and Dominion Energy North Carolina have helped nearly 800,000 families and individuals through payment assistance and providing energy-saving upgrades at no charge, including weatherization services, education, and outreach.

Supporting the men and women who have worn a U.S. military uniform in service to their country is also an important priority for Dominion Energy. From 2010 to 2017, Dominion Energy hired more than 1,000 veterans—almost 20% of new hires during that period. Approximately 1,665 Dominion Energy employees are veterans, about 11.5% of our workforce. In 2017, Dominion Energy hired 187 military veterans through its "Troops to Energy Jobs" program to support the veterans' transition to civilian careers and address Dominion Energy's need for skilled and disciplined workers. Additionally, Dominion Energy supports our veteran employees by offering paid time off for Guard and Reserve duty in addition to vacation and sick leave, extending benefits to cover deployed reservists and their dependents, and paying a 100% salary differential for up to five years for deployed military employees.

Q. HOW DOES DOMINION ENERGY FULFILL ITS COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY?

A. In addition to complying with all applicable environmental laws and regulations, Dominion Energy makes environmental concerns an integral part of our planning and decision-making process and devotes substantial resources to implementing effective environmental and sustainability programs. For example, since 2008, Dominion Energy has reduced methane emissions through years of taking increasingly stringent voluntary actions in our natural gas operations.

Dominion Energy incorporates environmental sustainability concepts in the design of its newly constructed buildings as well. Two recent Dominion Energy properties were constructed in Bridgeport, West Virginia for our Dominion Energy Transmission, Inc. employees and in Boston Heights, Ohio as an Ohio Training Center. Both properties achieved a LEED Silver status.[1]

[1] Leadership in Energy and Environmental Design ("LEED") is a green building rating system devised by the U.S. Green Building Council. LEED provides a framework to create healthy, highly efficient, and cost-saving green buildings.

Dominion Energy also makes significant investments to keep our properties operating efficiently using the latest construction practices.

III. Plan for Future Operations of PSNC and Combination Commitments and Benefits

Q. PLEASE DESCRIBE DOMINION ENERGY'S PLAN FOR OPERATING PSNC FOLLOWING THE COMBINATION.

A. Following the combination, Dominion Energy plans to operate PSNC in substantially the same manner as it is operated today, enhanced by Dominion Energy's broad and deep experience in the successful management of natural gas systems. Dominion Energy intends the combination to be about growth, and its gas utility subsidiaries, like PSNC, have a track record of providing safe, reliable, and cost-effective service to customers while making prudent capital investments required to grow and maintain their respective systems. Dominion Energy Witness Wagstaff addresses the plans for operating PSNC in more detail.

Q. WILL THE COMMISSION RETAIN ITS REGULATORY AUTHORITY OVER PSNC AND DOMINION ENERGY NORTH CAROLINA AFTER THE MERGER?

A. Yes, the Commission will continue to exercise its regulatory authority over PSNC and Dominion Energy North Carolina after the merger, thereby ensuring continued protection of the interests of North Carolina customers.

Q. WILL THE COSTS OF THE COMBINATION BE PASSED TO CUSTOMERS OF DOMINION ENERGY NORTH CAROLINA OR PSNC?

A. No. The combination will not have a net adverse impact on the rates and services of Dominion Energy North Carolina or PSNC. No transaction fees, integration costs, or any acquisition premium that will result from the combination will be passed on to the customers of PSNC or Dominion Energy North Carolina.

Q. HOW WILL PSNC BENEFIT FROM BEING PART OF DOMINION ENERGY?

A. Dominion Energy has more than a century of extensive experience operating electric and natural gas public utilities. Together, the major public utility subsidiaries that I noted above currently serve over six million residential, commercial and industrial customers in regulated and retail markets. Dominion Energy's experience in owning and operating its public utility subsidiaries means that it comes to the merger with a deep understanding of the responsibilities and general opportunities and challenges of current U.S. electric and gas utilities. This directly applicable knowledge will benefit PSNC.

First, and as part of that experience and understanding, Dominion Energy's proven leadership team is unfailingly committed to the safe, reliable, cost-effective and environmentally responsible provision of utility services to its customers. That commitment will apply equally to its operation of PSNC once the transaction is consummated.

Dominion Energy's regulated utilities, including Dominion Energy North Carolina, also share the same values as PSNC, including in addition to a focus on safe, reliable, and cost-effective service, a commitment to employees and the communities served, and integrity in all aspects of their businesses, as is attested to by both organizations' customer satisfaction ratings.

In addition, as discussed further in Dominion Energy Witness Chapman's testimony, PSNC will benefit from ownership by Dominion Energy due to Dominion Energy's great financial strength and buying power, its broad expertise in business planning, and its focus on efficiency of business operations over the long term.

As a result of the merger, PSNC's customers, communities, employees, and regulators, as well as SCANA shareholders (many of whom are employees, retirees or other North Carolina citizens), will see numerous and significant benefits, on both an immediate and a long-term basis, from ownership by Dominion Energy. These benefits will include the advantages of a larger, more diversified company, the retention of a strong corporate citizenship and presence of PSNC in North Carolina, the shared values I described above, and continued effective state regulation.

Q. IS DOMINION ENERGY MAKING ANY OTHER COMMITMENTS IN CONNECTION WITH THE MERGER?

A. Yes. As reflected in the Joint Application, Dominion Energy is making a number of commitments that will benefit PSNC, its customers, and the communities that it serves. Dominion Energy Witnesses Chapman and Wagstaff will discuss the majority of these commitments, all of which I affirm.

I do want to highlight a few of these commitments here in my direct testimony as particularly indicative of Dominion Energy's intention of making this merger a success for PSNC and its employees, customers, and communities. First, Dominion Energy will maintain PSNC's corporate headquarters in Gastonia, North Carolina. In addition, PSNC's workforce will be financially protected until January 1, 2020.

Upon closing of the merger, Dominion Energy intends that its board of directors will take all necessary action, as soon as practical after the merger, to appoint a mutually agreeable current member of the SCANA Board or SCANA's executive management team as a director to serve on Dominion Energy's board of directors.

PSNC's generous historical charitable giving levels—all funded by shareholders—also will be increased. Dominion Energy recognizes the significant role that public utilities play in the communities they serve, and will continue that role for PSNC going forward.

Finally and importantly, as I noted earlier, the combination will not have a net adverse impact on the rates and services of Dominion Energy North Carolina or PSNC. No transaction fees, integration costs, or any acquisition premium that will result from the combination will be passed on to the customers of PSNC or Dominion Energy North Carolina.

IV. Conclusion

Q. WHAT OTHER WITNESSES ARE PRESENTING DIRECT TESTIMONY ON BEHALF OF DOMINION ENERGY?

A. The other witnesses presenting direct testimony on behalf of Dominion Energy are Witnesses Wagstaff and Chapman.

Mr. Wagstaff is President – Gas Distribution, Gas Infrastructure Group of Dominion Energy. He will provide testimony concerning how Dominion Energy plans to operate PSNC following the combination, the operational benefits of the combination to PSNC and its customers, and the commitments Dominion Energy is making that relate to natural gas operational matters.

Mr. Chapman is Senior Vice President – Combinations and Acquisitions and Treasurer of Dominion Energy. He will provide testimony concerning financial information supporting the proposed combination. Mr. Chapman will also discuss a number of additional commitments Dominion Energy has made, and describe how Dominion Energy's financial strength will benefit PSNC and its customers.

In addition, David Hunger, Vice President of Charles River Associates, will testify regarding whether the merger will have adverse impacts on wholesale or retail electricity and natural gas markets in North Carolina.

Q. WHAT ARE YOU ASKING THE COMMISSION TO DO REGARDING THE JOINT APPLICATION?

A. The Merger Agreement is contingent upon the parties obtaining the necessary regulatory approvals. Dominion Energy requests that the Commission approve the merger and find it to be justified by the public convenience and necessary as required by § 62-111(a) of the North Carolina General Statutes.

Q. DO YOU HAVE ANY CONCLUDING REMARKS?

A. Yes. Dominion Energy looks forward to being able to invest in the future of PSNC, focusing on the objectives of safety, customer satisfaction, reliable economic service, environmental stewardship, and collaborative and productive relationships with customers, regulators and other governmental entities and interested stakeholders.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

MS. GRIGG: I request that the direct testimony of Mr. Jimmy E. Addison filed on June 22nd, 2018, be copied into the record as if given orally from the stand.

CHAIRMAN FINLEY: Mr. Addison's direct prefiled testimony of 7 pages, filed June 22, 2018, is copied into the record as though given orally from the stand.

(Whereupon, the prefiled direct testimony of Jimmy E. Addison was copied into the record as if given orally from the stand.)

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Jimmy E. Addison and my business address is 220 Operation Way, Cayce, South Carolina. I am the Chief Executive Officer of SCANA Corporation ("SCANA") and each of its subsidiaries, including Public Service Company of North Carolina, Inc. ("PSNC") and South Carolina Electric & Gas Company ("SCE&G").

Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS BACKGROUND.

A. I have a Bachelor of Science Degree in Business Administration and a Master of Accountancy Degree from the University of South Carolina and am a Certified Public Accountant in South Carolina. Before joining SCANA in March 1991, I was employed for seven years as an Audit Manager by the certified public accounting firm Deloitte & Touche, and then became a partner in the public accounting firm Hughes, Boan and Addison. I assumed my current positions with SCANA on January 1, 2018. Before that, I served as Executive Vice President and Chief Financial Officer for SCANA and its subsidiaries.

Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I presented testimony in each of PSNC's last three rate cases, Docket No. G-5, Sub 481, filed in 2006, Docket No. G-5, Sub 495, filed in 2008, and Docket No. G-5, Sub 565, filed in 2016.

Q. WHAT IS THE PURPOSE OF THE TESTIMONY YOU ARE PRESENTING IN THIS PROCEEDING?

A. The purpose of my testimony is to describe the proposed combination of SCANA and Dominion Energy, Inc. ("Dominion Energy"), which would result in SCANA becoming a wholly-owned subsidiary of Dominion Energy. I will outline the terms of the proposed merger, provide background on the merger transaction, and discuss in general terms why the merger is in the public interest and should be approved.

Q. WHAT OTHER WITNESSES ARE PRESENTING DIRECT TESTIMONY ON BEHALF OF SCANA?

A. D. Russell Harris, President and Chief Operating Officer of PSNC, will provide background information concerning PSNC and will address the benefits of the merger from PSNC's perspective.

Q. PLEASE DESCRIBE THE MERGER AGREEMENT ENTERED INTO BY SCANA AND DOMINION ENERGY.

A. On January 2, 2018, SCANA and Dominion Energy entered into an Agreement and Plan of Merger ("Merger Agreement"), a copy of which is attached to the Joint Application as Exhibit 1. Under the terms of the Merger Agreement, Sedona Corp. ("Sedona"), a South Carolina corporation and wholly-owned subsidiary of Dominion Energy, will be merged into SCANA; Sedona will cease to exist and SCANA will survive as a wholly-owned subsidiary of Dominion Energy; and each share of SCANA's common stock issued and outstanding will be converted into 0.6690 shares of Dominion Energy common stock.

Q. WHEN THE MERGER IS COMPLETED WHAT WILL HAPPEN TO PSNC?

A. PSNC will remain a direct, wholly-owned subsidiary of SCANA and will continue to exist as a separate legal entity.

Q. WHAT ARE SCANA AND DOMINION ENERGY ASKING THE COMMISSION TO DO IN THIS PROCEEDING?

A. The Merger Agreement is contingent upon the parties obtaining the necessary regulatory approvals. We are asking the Commission to approve the merger and find it to be justified by the public convenience and necessity as required by Section 62-111(a) of the General Statutes of North Carolina, which provides that all mergers or combinations affecting or resulting in a change of control of a public utility must be approved by the Commission.

Q. WHAT OTHER REGULATORY APPROVALS ARE NECESSARY TO CLOSE THE PROPOSED MERGER?

A. The Merger Agreement identifies the following required regulatory approvals, each of which must be obtained as a condition for consummating the merger:

- Expiration or early termination of the 30-day waiting period under the federal Hart-Scott-Rodino Antitrust Improvements Act. The Federal Trade Commission granted early termination on February 1, 2018.
- Issuance by the Federal Energy Regulatory Commission of an order authorizing the merger under Section 203 of the Federal Power Act.

- Issuance by the Nuclear Regulatory Commission of an order under Section 184 of the Atomic Energy Act consenting to the indirect transfer of control of existing licenses.
- Issuance by the Georgia Public Service Commission ("GPSC") of an order approving the indirect change in ownership of SCANA subsidiary SCANA Energy Marketing, Inc., a natural gas marketer in Georgia. The GPSC issued its order of approval on March 22, 2018.

The Merger Agreement also has a condition requiring that the Public Service Commission of South Carolina ("PSCSC") issue an order that approves the merger or makes certain findings regarding the merger and, in addition, approves the proposed cost recovery plan with respect to SCE&G's abandonment of its nuclear project, which I discuss further below.

Q. PLEASE DISCUSS THE EVENTS LEADING UP TO THE MERGER AGREEMENT.

A. The proposed merger arose out of a series of events related to SCE&G's decision to abandon the project to construct and operate two nuclear units in South Carolina. In March 2017, Westinghouse Electric Company, the primary contractor for the project, filed for bankruptcy with the intent of invalidating the price and performance guarantees it had agreed to in the contract to construct the project. When SCE&G's co-owner subsequently announced that it had decided to cease all funding for the nuclear project, SCE&G determined that it would not be prudent to proceed with construction without a partner to share costs and risks. On August 1, 2017, SCE&G filed a petition asking the PSCSC to review matters raised by the decision to abandon the nuclear project, but withdrew the petition two weeks later under pressure from Governor McMaster, legislative leaders, and others.

On September 26, 2017, the South Carolina Office of Regulatory Staff filed a petition with the PSCSC seeking an immediate order reducing SCE&G's rates by $445 million annually and eliminating all rate recovery associated with the nuclear project. As SCE&G indicated in its filings in that matter, granting such a request could have led to the rapid economic deterioration of SCE&G and SCANA.

During the summer and early fall of 2017, SCE&G sought to engage South Carolina leadership in negotiations to resolve the nuclear abandonment issues. On November 16, 2017, SCE&G presented to the public a rate and regulatory plan to resolve these issues. This proposal was not received favorably and, during the following weeks, SCE&G concluded that it would not be able to offer a settlement proposal on a standalone basis that would be well received.

Q. PLEASE DESCRIBE THE SUBSTANTIVE BUSINESS COMBINATION DISCUSSIONS WITH DOMINION ENERGY.

A. While Dominion Energy had initiated preliminary discussions with SCANA about a possible combination in the summer of 2017, no substantive merger discussions had resulted from those contacts. At a meeting with SCANA's senior leaders on November 27, 2017, Dominion Energy Chief Executive

Officer Thomas Farrell described a possible resolution of SCE&G's nuclear abandonment issues that Dominion Energy could provide and that would go far beyond anything that SCE&G or SCANA could offer without undue financial risk. SCANA's leadership team determined that Dominion Energy's proposed solution should be seriously evaluated. SCANA's Board of Directors convened two days later and concurred. Detailed negotiations ensued.

After conducting extensive due diligence and negotiation, SCE&G's leadership presented a business combination agreement to SCANA's Board. On January 2, 2018, SCANA's Board unanimously approved the agreement and recommended its adoption by shareholders. The proposed merger with Dominion Energy was announced the following day.

Q. WHAT FACTORS DID SCANA'S BOARD CONSIDER IN MAKING ITS DECISION TO APPROVE THE MERGER AGREEMENT?

A. A key factor in the SCANA Board's approval of the Merger Agreement was Dominion Energy's financial ability to address the impact of the nuclear project abandonment. The Board also took into consideration many other factors. The definitive proxy solicitation sets out the factors that were considered, both positive and negative. After weighing all these factors, SCANA's Board unanimously concluded that the Merger Agreement was in the best interests of SCANA and its shareholders.

Q. DO YOU HAVE AN OPINION AS TO WHETHER THE PROPOSED MERGER TRANSACTION IS IN THE PUBLIC INTEREST?

A. Yes, I believe the transaction is in the public interest because of the potential benefits to the customers SCANA and its subsidiaries serve and the states and communities in which they operate.

Q COULD YOU ELABORATE ON THOSE BENEFITS?

A. Yes. From an overall SCANA perspective, the merger transaction will provide the resources necessary to resolve the issues surrounding SCE&G's abandonment of the nuclear project and remove the related regulatory and political uncertainty that is causing SCANA's weakened financial condition and that could result in further negative financial impacts on SCANA, including possible bankruptcy. Moreover, SCANA will become part of a much larger company with a considerably stronger balance sheet and access to greater financial resources. The combined corporate organization also will have more geographic and business diversity and will offer greater economies of scale in providing or acquiring services to support the SCANA companies and their customers. As I stated previously, Mr. Harris will address the benefits of the proposed merger to PSNC specifically.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

MS. GRIGG: I request that the direct testimony of Craig C. Wagstaff, filed on June 22nd, 2018, be copied into the record as if given orally from the stand.

CHAIRMAN FINLEY: Mr. Wagstaff's direct prefiled testimony of 16 pages of June 22, 2018 is copied into the record as though given orally from the stand.

(Whereupon, the direct prefiled testimony of Craig C. Wagstaff was copied into the record as if given orally from the stand.)

Q. PLEASE STATE YOUR FULL NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Craig C. Wagstaff and my business address is 333 South State Street, Salt Lake City, Utah. I am President of Gas Distribution, Gas Infrastructure Group of Dominion Energy, Inc. ("Dominion Energy").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I am a graduate of the University of Utah and Weber State University. I also earned a master's degree in organizational leadership and business management from Gonzaga University and completed Southern Methodist University Business School's Energy Leadership Program.

I joined Questar Gas Company in 1984 and held various leadership positions with Questar Gas Company throughout my career. I assumed my current position with Dominion Energy in 2017.

In addition to my role at Dominion Energy, I serve on the Boards of Directors of the Western Energy Institute, Envision Utah, of which I am the Chair, and on the leadership council of the American Gas Association. I am also the past Chair of Junior Achievement Utah.

I also serve on the advisory boards of the Women's Leadership Institute and the University of Utah's David Eccles School of Business. I am also on the Board of Trustees of EDCUtah and the Board of Governors of the Salt Lake Chamber.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. No, I have not previously testified before this Commission.

Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS CASE?

A. Yes, I am sponsoring Exhibit 3 to the Joint Application.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My direct testimony describes Dominion Energy's natural gas operations in support of the proposed transaction whereby the parent of Public Service Company of North Carolina, Inc. ("PSNC"), SCANA Corporation ("SCANA"), will become a wholly-owned subsidiary of Dominion Energy. I also will discuss how Dominion Energy plans to operate PSNC following the combination, the operational benefits of the combination to PSNC and its customers, and the commitments Dominion Energy is making that relate to natural gas operational matters.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized as follows:

I. Dominion Energy's operations and values

II. Plan for operating PSNC after the combination

III. Operational benefits of the combination

IV. Conclusion

I. Dominion Energy's Operations and Values

Q. PLEASE PROVIDE A GENERAL OVERVIEW OF DOMINION ENERGY'S NATURAL GAS OPERATIONS.

A. The Dominion Energy family of companies has been engaged in the business of providing natural gas service to customers for more than a century. Over those years, that legacy has expanded such that our portfolio of gas assets as of December 31, 2017 included approximately 66,000 miles of natural gas transmission, gathering, distribution, and storage pipelines. Dominion Energy currently serves nearly six million utility and retail energy customers and has approximately 16,200 full-time employees in the states in which it operates.

Q. PLEASE DESCRIBE DOMINION ENERGY'S MAJOR REGULATED PUBLIC UTILITY SUBSIDIARIES THAT PROVIDE NATURAL GAS SERVICES.

A. Dominion Energy's major regulated public utility subsidiaries providing natural gas services include The East Ohio Gas Company (which does business under the name "Dominion Energy Ohio"), Hope Gas, Inc. (which does business under the name "Dominion Energy West Virginia"), and Questar Gas Company (which does business in Utah under the name "Dominion Energy Utah," in Wyoming under the name "Dominion Energy Wyoming," and in Idaho under the name "Dominion Energy Idaho").

The following summaries provide more detail about these subsidiaries:

- Dominion Energy Ohio is regulated by the Public Utilities Commission of Ohio and serves approximately 1.2 million retail natural gas distribution customers in more than 400 eastern and western Ohio communities, including the cities of Cleveland, Akron, Canton, Youngstown, Marietta and Lima. Dominion Energy Ohio operates 18,920 miles of distribution lines, approximately 3,000 miles of transmission, gathering, and storage lines, and 170 billion cubic feet of underground storage capacity.

- Dominion Energy West Virginia is regulated by the Public Service Commission of West Virginia and serves approximately 112,000 retail natural gas distribution customers in West Virginia, including the cities of Clarksburg, Parkersburg and Morgantown. Dominion Energy West Virginia operates 3,196 miles of distribution lines.
- Dominion Energy Utah is regulated by the Public Service Commission of Utah. The Idaho Public Utilities Commission has contracted with the Public Service Commission of Utah for rate oversight of Dominion Energy Idaho. Dominion Energy Wyoming is regulated by the Wyoming Public Service Commission. Together, Questar Gas Company serves over one million retail natural gas distribution customers in Utah, Wyoming, and Idaho, and owns and operates distribution systems and has approximately 29,647 miles of street mains, service lines and interconnecting pipelines.

Q. HOW DOES DOMINION ENERGY MANAGE THE DAILY OPERATIONS OF ITS NATURAL GAS SUBSIDIARIES?

A. Although the assets of its subsidiaries remain wholly within those legal entities (each of which has its own officers, directors, and management teams), Dominion Energy manages and reports on its consolidated natural gas operations through the Gas Infrastructure Group operating segment.

The Gas Infrastructure Group operating segment includes Dominion Energy's gas transmission, storage, and gathering operations, including producer service activities, as well as its gas distribution and storage services. The Gas Infrastructure Group serves approximately 2.3 million gas distribution utility customers across the five local distribution companies operating in five states discussed above.

The common leadership and management of the similarly situated businesses that compose Dominion Energy's Gas Infrastructure Group operating segment provide significant value to each of the individual businesses through the sharing of best practices in such areas as operations, safety, customer service, and environmental stewardship. In this way, each of Dominion Energy's regulated natural gas subsidiaries benefits from the experience and knowledge of the collective group, while day-to-day operations and community engagement are managed at the state, regional and local level.

Q. PLEASE DESCRIBE DOMINION ENERGY'S REGIONAL AND LOCAL NATURAL GAS UTILITY STRUCTURE.

A. The Gas Infrastructure Group reports to the Dominion Energy headquarters in Richmond, Virginia through 2 regional business units ("RBU"). The operations in Ohio and West Virginia are managed by a RBU in Cleveland, Ohio, while the operations in Utah, Wyoming and Idaho are managed by a RBU in Salt Lake City, Utah. These RBUs oversee the operations work activities and service restoration efforts in the local offices in their respective states. There are 32 local offices in Ohio, 9 local offices and training facilities in West Virginia, 17 local offices and training facilities in Utah, and 3 local offices and training facilities in Wyoming.

Q. DOES DOMINION ENERGY UTILIZE A SHARED SERVICES COMPANY?

A. Yes. Dominion Energy has a centralized service company, Dominion Energy Services, Inc. ("DES"), through which the Dominion Energy businesses secure necessary administrative and corporate services support. This shared services organization provides expert and cost-effective service to the Dominion Energy operating subsidiaries in such areas as information technology, cyber security, environmental compliance, environmental permitting, supply chain, accounting, legal matters, and media relations. Through centralization, Dominion Energy's service company is able to create economies of scale and provide a level of expertise, service, and resources more effectively and efficiently than stand-alone departments at each subsidiary level would be able to provide. As a result, Dominion Energy's service company promotes the provision of reliable and cost-effective service to customers.

SCANA currently employs a similar services company model through SCANA Services, Inc. ("SCANA Services"). After the combination, it is anticipated that PSNC will continue to receive some common services through SCANA Services and will benefit from other common services received from DES. Over time, as part of the integration process, the corporate functions and the staffing levels will be reviewed to determine those corporate functions that will remain local to support business operations and those that will be centralized into a common service company such that economies of scale consistent with Dominion Energy's size will reached.

Q. WHAT VALUES DOES DOMINION ENERGY EMPLOY IN CONNECTION WITH ITS NATURAL GAS PUBLIC UTILITY OPERATIONS?

A. As Dominion Energy Witness Thomas F. Farrell, II explains, Dominion Energy's regulated natural gas utilities share the same values as PSNC, including a focus on safe, reliable, and cost-effective service, a commitment to employees and the communities served, and integrity in all aspects of their businesses, as is attested to by both organizations' customer satisfaction ratings. These values help focus our efforts on cost-effectively meeting our customers' growing energy needs safely and reliably.

Q. PLEASE EXPAND ON DOMINION ENERGY'S COMMITMENT TO SAFETY.

A. Safety is one of Dominion Energy's core values. As a result, Dominion Energy has one of the best safety records in the industry. For 2017, in more than 32 million hours worked, Dominion Energy employees recorded 96 workplace OSHA-recordable injuries (an incidence rate of 0.60) and 47 workplace injuries resulting in lost days or reassignment of duties (a rate of 0.29). Dominion Energy's ultimate goal is zero injuries.

Q. WHAT ARE SOME OF THE SPECIFIC BEST PRACTICES DOMINION ENERGY USES TO ACHIEVE SUCH FAVORABLE SAFETY RESULTS?

A. Dominion Energy has a safety culture. Practices like monthly safety calls, beginning meetings with a safety minute, and training keep this principle in the forefront of employees' minds. Also, due to the organization of the Gas Infrastructure Group, the RBUs are able to share best practices, which helps to improve the safety performance for the entire organization. Dominion Energy further emphasizes safety with safety-related bonus goals. Additionally, the Dominion Energy natural gas utilities have shown their commitment to safety by investing about $300 million in capital each year for pipeline replacements to ensure the integrity of their gas systems.

Q. YOU HAVE MENTIONED DOMINION ENERGY'S COMMITMENT TO CUSTOMER SERVICE. PLEASE PROVIDE SOME DETAIL ON THIS ASPECT OF DOMINION ENERGY'S NATURAL GAS OPERATIONS.

A. Customers of regulated natural gas utilities expect safe and reliable service. The natural gas utilities in the Gas Infrastructure Group respond to customers' outage-related service requests quickly – with particular emphasis on emergency situations. Dominion Energy Ohio, Dominion Energy Utah, Dominion Energy West Virginia, and Dominion Energy Wyoming measure and report to their respective state Commissions on a number of customer service metrics. A summary of two of these metrics is shown in the table below.

Customer Service Standards	**Ohio**	**Utah**	**WV**	**WY**
Emergency call response within 60 minutes	98.9%	98.3%	95.7%	99.2%
Customer Complaint Resolution	1.3 days	3 days	1 day	3.5 days

Q. CAN YOU HIGHLIGHT SOME EXAMPLES OF DOMINION ENERGY HELPING LOW-INCOME USERS OF NATURAL GAS?

A. Yes. Assisting low-income customers in the community is a priority for Dominion Energy, as demonstrated by our significant contributions to programs that help pay for the energy costs of low-income customers. For example, EnergyShare in Ohio is a gas assistance program to help customers with their heating bills once government assistance has expired. In Utah, the low income assistance program provides $1.5 million annually to help low-income customers with their winter heating bills.

Q. HOW DOES DOMINION ENERGY FULFILL ITS COMMITMENT TO ENVIRONMENTAL SUSTAINABILTIY THROUGH ITS NATURAL GAS OPERATIONS?

A. Since 2008, Dominion Energy has reduced methane emissions through years of taking increasingly stringent voluntary actions in our natural gas operations. We began by working on reducing our lost and unaccounted for gas rate. More than five years ago, we joined EPA's Natural Gas STAR program which emphasized best management practices to voluntarily reduce methane emissions. Interested in further reducing our methane emissions we joined Methane Challenge as a founding member. Collectively our efforts have resulted in an estimated savings of natural gas of nearly 10 billion cubic feet. We have added additional initiatives to continue a comprehensive methane strategy that will further reduce methane emissions over the next five years at an even more rapid pace. Based on these programs, we estimate that by 2022, our efforts in these programs already identified will result in an estimated savings of 19 billion cubic feet of natural gas.

II. Plan for Operating PSNC After the Combination

Q. HOW DOES DOMINION ENERGY PLAN TO OPERATE PSNC FOLLOWING THE COMBINATION?

A. Following the combination, Dominion Energy plans to operate PSNC in substantially the same way as it is operated today, enhanced by Dominion Energy's broad and deep experience in the successful management of natural gas systems. Like PSNC, Dominion Energy's natural gas utility subsidiaries have a track record for making capital investments required to provide safe, reliable, and cost-effective service to customers. Safety in the workplace and in the community is Dominion Energy's highest priority. Dominion Energy and PSNC also share a history of operating with integrity and a firm commitment to their employees and the communities they serve. PSNC will continue to receive certain shared or common services provided to it as part of a larger organization. Further, Dominion Energy intends to maintain PSNC's customer service at no less than current levels and will strive for improvements to such service.

Q. PLEASE ADDRESS PSNC'S ORGANIZATIONAL STRUCTURE AFTER THE COMBINATION.

A. Dominion Energy has no current plans to change the organizational structure of PSNC operations as a result of the combination. Exhibit 3 to the Joint Application contains charts showing the organization of Dominion Energy prior to (pages 1-4) and after (pages 5-9) the combination.

Q. WILL THE COMMISSION CONTINUE TO EXERCISE ITS REGULATORY AUTHORITY OVER PSNC?

A. Yes, the Commission will continue to exercise its regulatory authority over PSNC, thereby ensuring continued protection of the interests of North Carolina customers.

Q. IS DOMINION ENERGY WILLING TO MAKE COMMITMENTS AND TO PROVIDE ASSURANCES RELATING TO THE OPERATIONS OF PSNC?

A. Yes. I believe that the commitments I sponsor, as well as those sponsored by Dominion Energy Witnesses Farrell and James R. Chapman, will protect and benefit PSNC, its customers, and the State of North Carolina.

Q. PLEASE SUMMARIZE THE COMMITMENTS DOMINION ENERGY IS WILLING TO MAKE RELATED TO THE FUTURE OPERATION OF PSNC.

A. I am sponsoring the following commitments of Dominion Energy related to the operations of PSNC following the combination:

- Dominion Energy intends to maintain PSNC's headquarters in Gastonia, North Carolina.
- Dominion Energy will manage PSNC from an operations standpoint as a separate regional business under Dominion Energy with responsibility for making decisions that achieve the objectives of customer satisfaction, reliable service, customer, public, and employee safety, environmental stewardship, and collaborative and productive relationships with customers, regulators, other governmental entities,

and interested stakeholders.

- Dominion Energy will maintain PSNC's customer service at no less than current levels and will strive for continued improvements.
- Dominion Energy will not diminish PSNC's focus on installing, upgrading, and maintaining facilities necessary for safe and reliable operations.
- Dominion Energy will maintain the pipeline integrity programs of PSNC at or above current levels.
- Dominion Energy commits to maintaining compensation levels for employees of SCANA and its subsidiaries, including PSNC, following the closing of the merger until January 1, 2020. Further, Dominion Energy will give employees of SCANA and its subsidiaries, including PSNC, due and fair consideration for other employment and promotion opportunities within the larger Dominion Energy organization, both inside and outside of North Carolina, to the extent any such employment positions are re-aligned, reduced, or eliminated in the future as a result of the combination.
- Dominion Energy commits to increasing SCANA's historical level of corporate contributions to charities identified by SCANA's leadership by $1,000,000 per year for at least five years after the closing of the merger, and will maintain or increase historical levels of community involvement, low-income funding, and economic development efforts

in SCANA's current operation areas.

III. Operational Benefits of the Combination

Q. WHAT ARE THE OPERATIONAL BENEFITS OF THE COMBINATION TO PSNC AND ITS CUSTOMERS?

A. PSNC will benefit from being part of a corporate organization that has enhanced geographic, business, and regulatory diversity, along with greater financial and operational scale. Dominion Energy has extensive experience in the natural gas industry and, through its energy subsidiaries, has an established record for formulating its policies and plans through customer or stakeholder processes.

As one of the largest and safest operators of energy infrastructure assets, the combined company and its subsidiaries will benefit from the adoption of best practices across an expanded platform of service, which stands to improve employee safety, increase customer service, and minimize operational costs. For example, Dominion Energy brought its operational experience to Carolina Gas Transmission Corporation, now known as Dominion Energy Carolina Gas Transmission ("DECGT"), which it acquired in 2015. Since that time, DECGT has continued its 18-year trend in reducing both the number and severity of injuries. During that same time, contract pipeline capacity has increased to South Carolina customers by 25%, with January 2018 serving as the highest throughput month in DECGT's history.

Dominion Energy's operations also provide geographical diversity that will strengthen SCANA and PSNC. A benefit of geographic diversity is that if a natural disaster were to occur in PSNC's service area after the combination, PSNC would have access to resources such as call centers, operations, and management outside the affected area that it can use to address the emergency.

With an enhanced national presence, the combined company and its subsidiaries will benefit from having a relevant and informed perspective and effect on energy policy discussions that stand to positively affect the quality, safety, reliability, and cost of the services offered to customers.

Q. HAS DOMINION ENERGY DEMONSTRATED SUCCESS IN OPERATING UTILITY SUBSIDIARIES?

A. Yes. The operations of the utility subsidiaries of Dominion Energy provide demonstrable evidence that PSNC will continue its emphasis on key utility performance areas such as reasonable customer rates, reliable customer service, customer and employee safety, and commitment to employees and communities served. Dominion Energy and its subsidiaries also have a demonstrated history of emphasizing the importance of positive relationships with customers, regulators, legislators, and consumer representatives.

IV. Conclusion

Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. Yes. I have described Dominion Energy's commitment to the operations of our natural gas utility subsidiaries. Now Dominion Energy seeks to expand that commitment to include PSNC, its customers, and the communities that it serves. I have described the operating benefits of the combination for PSNC and those stakeholders, and have presented a series of specific operational commitments that will protect PSNC and this Commission's ability to regulate it in the public interest. These commitments will be of substantial value to the customers, employees, and communities served by PSNC as well as the State of North Carolina.

Dominion Energy and PSNC have a shared commitment to customer and employee safety, reliable and cost-effective service, environmental stewardship, and productive relationships with customers, regulators, other governmental entities, and interested stakeholders. We look forward to executing on these shared commitments.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

MS. GRIGG: I request that Mr. James R. Chapman's direct testimony filed on June 22nd, 2018 be copied into the record as if given orally from the stand, and that his two exhibits, and Exhibit 1 as amended and later filed, be marked for identification as prefiled and received into evidence.

CHAIRMAN FINLEY: All right. Mr. Wagstaff's direct prefiled testimony of 16 pages is copied into the record -- wait a minute. That's Chapman.

MS. GRIGG: Chapman. Yes, sir. We're on Chapman.

CHAIRMAN FINLEY: Mr. Chapman's direct prefiled testimony of 10 pages is copied into the record as though given orally from the stand, and his Exhibits 1 and 2, and 1 as amended is marked for identification as premarked in the filing.

And I understand that there are confidential portions of some of that -- some of those exhibits.

MS. GRIGG: Yes, sir.

CHAIRMAN FINLEY: All right.

MS. GRIGG: And request that they be treated accordingly.

CHAIRMAN FINLEY: All right.

(Whereupon, the prefiled direct testimony of James R. Chapman was copied into the record as if given orally from the stand.)

(Whereupon, Exhibits JRC-1 and JRC-2, and Updated Exhibit JRC-1 were identified as premarked and admitted into evidence.)

Q. PLEASE STATE YOUR FULL NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is James R. Chapman and my business address is 120 Tredegar Street, Richmond, Virginia 23219. I am Senior Vice President – Mergers and Acquisitions and Treasurer of Dominion Energy, Inc. ("Dominion Energy").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I earned a bachelor's degree in history and political science from Auburn University and a Masters of Business Administration from the University of Virginia's Darden School of Business.

I joined Dominion Energy in September 2013 and was named to my current post in February 2016. I have over 25 years of experience in corporate finance, capital markets, and mergers and acquisitions, primarily in the power and utility industry. Prior to joining Dominion Energy, I held roles including managing director and head of Asia Pacific Power & Utilities Investment Banking at Barclays, as well as similar senior roles at Barclays and its predecessor firm, Lehman Brothers. In my career, I have worked with dozens of power sector and utility companies with strategic and financing transactions on five continents.

I served on the Dean's Global Advisory Council at the Darden School of Business, am a strategic advisor to Virunga Power, a rural electric utility in East Africa, and am on the board of managers of Iroquois Gas Transmission System.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I provided testimony before the Commission in support of Dominion Energy North Carolina's 2016 general rate case, Docket No. E-22, Sub 532.

Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS CASE?

A. I am sponsoring Exhibits JRC-1 and JRC-2, which are attached to my direct testimony, and am co-sponsoring the Cost-Benefit Analysis, which was filed as Exhibit 4 to the joint application ("Joint Application").

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My direct testimony explains the proposed transaction whereby the parent of Public Service Company of North Carolina, Inc. ("PSNC"), SCANA Corporation ("SCANA"), will become a wholly owned subsidiary of Dominion Energy. I also will provide financial information supporting the proposed business combination. In addition, I will discuss a number of additional commitments Dominion Energy has made, and describe how Dominion Energy's financial strength will benefit PSNC and its customers.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized as follows:

I. Description of the combination

II. Dominion Energy's financial condition and anticipated results of the combination

III. Additional financial commitments and benefits of the combination

IV. Conclusion

I. Description of the Combination

Q. PLEASE DESCRIBE THE COMBINATION.

A. On January 2, 2018, Dominion Energy, Sedona Corp. ("Sedona"), a South Carolina corporation and a wholly-owned subsidiary of Dominion Energy created solely to accomplish the merger, and SCANA entered into an Agreement and Plan of Merger ("Merger Agreement") setting forth the terms of the merger. The use of an entity such as Sedona, created solely for this purpose, is very common in transactions of this nature. A copy of the Merger Agreement is attached to the Joint Application as Exhibit 1 and is sponsored by SCANA Witness Jimmy E. Addison. Through the combination, Sedona and SCANA will merge, with SCANA being the surviving entity, which will continue as a wholly owned subsidiary of Dominion Energy.

Q. HOW WILL SCANA STOCK BE TREATED?

A. As provided by the Merger Agreement, upon consummation of the merger, each issued and outstanding share of common stock of SCANA (other than the cancelled shares as defined in Section 2.01(b) of the Merger Agreement) will be converted into the right to receive 0.6690 validly issued, fully paid and non-assessable shares of common stock of Dominion Energy at the time of merger, with cash to be paid in lieu of the issuance of any fractional share of Dominion Energy common stock.

Q. WHAT WILL HAPPEN TO SEDONA STOCK UPON CONSUMMATION OF THE MERGER?

A. Upon consummation of the merger, each issued and outstanding share of common stock of Sedona will be converted into one share of common stock of SCANA as the surviving corporation. Thus, as a result of the combination, Dominion Energy (which currently owns all the stock of Sedona) will own all the stock of SCANA.

II. Dominion Energy's Financial Condition and Anticipated Results of the Combination

Q. PLEASE DESCRIBE DOMINION ENERGY'S FINANCIAL CONDITION.

A. Dominion Energy is one of the nation's largest producers and transporters of energy. Dominion Energy's common equity is publicly traded on the New York Stock Exchange under the ticker symbol "D" and, as of April 2018, had a public equity market capitalization of over $42 billion. Dominion Energy is a member of prominent general and industry-specific equity market indices including the S&P 500, the Dow Jones Composite Average, and the Philadelphia Stock Exchange Utility Index. Dominion Energy's operations are heavily weighted to state- and federally-regulated energy infrastructure operations, which in my opinion are viewed favorably by many equity and debt investors for their stable earnings and cash flows.

Dominion Energy's assets as of December 31, 2017, totaled $76.6 billion; revenues in 2017 were $12.6 billion; and net income attributable to Dominion Energy in 2017 was $3.0 billion. Dominion Energy's financial statements are provided as part of the Dominion Energy 2017 Annual Report on Form 10-K ("Dominion Energy 10-K"), which I am sponsoring as Exhibit JRC-1.

Dominion Energy and its larger issuing utility subsidiaries are Well-Known Seasoned Issuers ("WKSI") under Securities and Exchange Commission rules and are frequent issuers of public securities, and Dominion Energy's smaller utility subsidiaries are also frequent issuers of various types of debt securities. Accordingly, we maintain regular dialogue with public equity and debt investors as well as rating agencies. Dominion Energy also maintains revolving credit facility capacity of $6.0 billion with commitments from 21 large domestic and international financial institutions that expire in early 2023. Dominion Energy's liquidity, including total cash and cash equivalents at any one time, is typically well in excess of $2.0 billion, and excess availability under Dominion Energy's credit facilities at December 31, 2017 was approximately $2.1 billion.

Q. WHAT ARE DOMINION ENERGY'S CURRENT CREDIT RATINGS?

A. Dominion Energy's predominantly stable regulated operations, strong access to capital markets, ample liquidity, large scale, geographic and regulatory diversity of operations, and experienced leadership team all contribute to its strong investment grade profile. Upon announcement of the combination, Moody's affirmed the ratings for Dominion Energy (Baa2) and revised its outlook to negative from stable. S&P also affirmed its ratings for Dominion Energy (BBB+ Issuer Rating) and also revised its rating outlook for Dominion

Energy and its rated subsidiaries to negative from stable. Fitch affirmed both its credit ratings (BBB+) and outlook (stable) for Dominion Energy. A summary of these credit ratings and recent actions are provided in Exhibit JRC-2.

Q. HOW DOES DOMINION ENERGY HANDLE FINANCING WITH RESPECT TO ITS UTILITY SUBSIDIARIES THAT ISSUE PUBLIC SECURITIES?

A. Dominion Energy's four issuing utility subsidiaries are Virginia Electric and Power Company, Dominion Energy Gas Holdings, LLC, Questar Gas Company, and Dominion Energy Questar Pipeline, LLC, which are each publicly rated and issue third-party debt. These entities are financed through a combination of three sources: (i) operating cash flows; (ii) third-party debt; and (iii) intercompany debt and equity. Virginia Electric and Power Company, Dominion Energy Gas Holdings, LLC, Questar Gas Company, and Dominion Energy Questar Pipeline, LLC make financing decisions to maintain targeted credit ratings. Each entity is operated and financed on an "arm's length" basis, without the comingling of any assets or liabilities with either the parent company or any other subsidiaries of Dominion Energy. Further, Dominion Energy does not permit any lending of cash or other capital from a utility subsidiary to any other entity within the Dominion Energy family (in other words, there is no "money pool" for these regulated utility subsidiaries).

Q. HOW DOES DOMINION ENERGY PLAN TO HANDLE THE FINANCING OF PSNC FOLLOWING THE COMBINATION?

A. Dominion Energy views PSNC's existing capitalization as prudent and plans to maintain PSNC's existing proportions of debt and equity capital, consistent with existing regulatory guidelines. PSNC will remain a standalone, publicly rated entity that issues debt, in line with current practices.

III. Additional Commitments and Benefits of the Combination

Q. IS DOMINION ENERGY MAKING ADDITIONAL FINANCE-RELATED COMMITMENTS AND PROVIDING ASSURANCES THAT WILL ADDRESS POTENTIAL CONCERNS OF THE COMMISSION AND OTHER INTERESTED STAKEHOLDERS?

A. Yes. I believe that the commitments I sponsor, as well as those sponsored by Dominion Energy Witnesses Thomas F. Farrell, II and Craig C. Wagstaff, will protect and benefit PSNC, its customers, and the State of North Carolina.

Q. PLEASE LIST THESE COMMITMENTS.

A. I am sponsoring the following additional commitments of Dominion Energy related to PSNC following the combination:

- Dominion Energy, through SCANA, will provide equity, as needed, to PSNC with the intent of maintaining PSNC's current capital structure and improving credit ratings;
- Dominion Energy intends to maintain credit metrics that are supportive of strong investment-grade credit ratings for PSNC; and

- PSNC and Dominion Energy North Carolina will not seek recovery of any acquisition premium (goodwill) costs, transition costs, or transaction costs associated with the combination from their customers.

Q. ARE THERE ADDITIONAL FINANCIAL BENEFITS OF THE COMBINATION FOR PSNC?

A. Yes. In addition to the benefits provided to PSNC and its customers through the commitments discussed above, Dominion Energy expects that the combination will provide the following financial benefits:

- PSNC will benefit from being part of a corporate organization that has enhanced geographic, business, and regulatory diversity and a greater financial and operational scale;
- PSNC will ultimately benefit from participation in Dominion Energy's service company model wherein each of Dominion Energy's operations has access to an array of services, support, and economies of scale;
- PSNC will benefit by having an enhanced ability to finance capital investments that ensure safe, reliable, and cost-effective operations across a growing customer base; and
- Dominion Energy's long-term investment focus means that Dominion Energy intends to own PSNC for the long term, lending stability to, and confidence in, PSNC's continued commitment to providing safe, reliable, and cost-effective natural gas services to its customers in North Carolina.

Q. PLEASE ELABORATE ON HOW PSNC WILL BENEFIT FROM BEING PART OF A CORPORATE ORGANIZATION THAT HAS ENHANCED GEOGRAPHIC AND REGULATORY DIVERSITY AND GREATER FINANCIAL AND OPERATIONAL SCALE.

A. Upon completion of the merger, Dominion Energy and SCANA will serve nearly 6.6 million total utility customers combined, and generate approximately $17 billion of total annual revenue. The combined company will own and operate electric and gas utilities in 8 states across the Mid-Atlantic, Mid-West, and the Intermountain West regions of the United States. Dominion Energy anticipates that this will provide the following benefits:

- As a national franchise with geographic diversity, the combined company and its subsidiaries will benefit from reduced risk concentration associated with specific state and regional performance;
- As a diverse portfolio of operations across the energy spectrum, the combined company and its subsidiaries will also benefit from reduced risk concentration to specific industry, commodity, or regulatory trends; and
- As one of the largest and most active regulated energy infrastructure company participants in public equity and debt capital markets, the combined company and its subsidiaries will benefit from an enhanced ability to efficiently finance growth and reliability to the benefit of customers.

IV. Conclusion

Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. Yes. I believe that the proposed combination will bring benefits to PSNC, its customers, and the State of North Carolina, and will serve the public interest. PSNC and its customers will benefit from the enhanced scale of managerial and financial resources that Dominion Energy will provide. PSNC will continue to provide efficient, reliable, and safe service at a reasonable cost through the various commitments made by Dominion Energy. Dominion Energy looks forward to being able to invest in the future of PSNC.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

MS. GRIGG: Last, I request that Mr. David Hunger's direct testimony of 6 pages filed on June 22nd, 2018 be copied into the record as if given orally from the stand, and his one exhibit be marked for identification as prefiled and received into evidence.

CHAIRMAN FINLEY: All right. Mr. Hunger's direct prefiled testimony of 6 pages is copied into the record as though given orally from the stand, and his exhibit is marked for identification as premarked in the filing.

(Whereupon, the prefiled direct testimony of David Hunger was copied into the record as if given orally from the stand.)

(Whereupon, Exhibit DH-1 was identified as premarked and admitted into evidence.)

I. QUALIFICATIONS AND PURPOSE

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is David Hunger. I am a Vice President within the Energy Practice of Charles River Associates ("CRA"). My address is 1201 F St. NW, Suite 800, Washington, DC.

Q. WHAT IS YOUR EDUCATION AND PROFESSIONAL BACKGROUND?

A. I am experienced in energy market analysis, and was formerly a senior economist at the Federal Energy Regulatory Commission ("FERC"). For 14 years at FERC, I led or participated in analyses involving mergers and other corporate transactions, market power in market-based rates cases, affiliate transactions, investigations of market manipulation in electricity and natural gas markets, demand response compensation, compliance cases for capacity and energy market rules in Regional Transmission Organizations ("RTOs"), and competition issues in electricity markets. Since leaving FERC and joining CRA in June 2013, I have testified in numerous FERC proceedings involving Federal Power Act section 203 and market-based rates as well as market power and market design in the organized markets administered by independent system operators ("ISOs") and RTOs. I have submitted testimony on energy–related matters before FERC, state public utility commissions, federal court and an arbitration tribunal.

I hold a B.A. in Mathematics from the University of Massachusetts and a M.S. and Ph.D. in economics from the University of Oregon. My experience, education, and prior testimony are described in my curriculum vitae, submitted alongside this testimony as Exhibit DH-1.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. No, I have not. As I state above, however, I have previously testified in a large number of proceedings before FERC. I have also appeared before several state public utility commissions, in federal court, and before an arbitration tribunal. Testimony I have authored (or co-authored) has addressed a range of issues related to markets and competition, and most frequently my testimony is related to the types of market power and merger-related competition concerns that I address here.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. SCANA Corporation ("SCANA") and Dominion Energy, Inc. ("Dominion Energy") (together, "Merging Entities") have petitioned the North Carolina Utilities Commission ("Commission") for review and approval of a proposed transaction whereby SCANA will become a wholly-owned subsidiary of Dominion Energy (the "proposed transaction"). I have been asked by the Merging Entities to analyze whether the proposed transaction has adverse competitive impacts on wholesale or retail electricity and natural gas markets in North Carolina. This is the same market power analysis required by the Commission in its Order Requiring Filing Analyses in Docket No. M-100, Sub 129, promulgated on November 2, 2000.

II. DESCRIPTION OF TRANSACTION AND ANALYSIS

Q. HAVE YOU PROVIDED THE REQUIRED MARKET POWER ANALYSIS?

A. I have. The report with the required market power analysis was filed in this matter as Exhibit 5 to the Joint Application for the proposed transaction. I am sponsoring that exhibit.

Q. PLEASE SUMMARIZE THE PROPOSED TRANSACTION.

A. Dominion Energy is an energy company that owns and operates regulated and unregulated (competitive) gas and electric utilities and utility assets in the Eastern and Rocky Mountain regions of the United States. SCANA is a holding company with subsidiaries operating primarily in South Carolina, North Carolina, and Georgia. If approved, the result of the proposed transaction would be SCANA becoming a wholly-owned subsidiary of Dominion Energy. The proposed transaction will result in the merged entity holding the following gas and electric utility assets in North Carolina:

- Virginia Electric Power Company's retail electric service territory (Dominion Energy North Carolina);

- Public Service Company of North Carolina Inc.'s (PSNC) retail gas service territory;
- Electric generating assets currently owned by Dominion Energy; and
- Contracts for interstate and intrastate pipeline capacity, as well as ownership shares in an interstate LNG storage facility.

Q. PLEASE SUMMARIZE YOUR ANALYSIS.

A. Because of the numerous types of competition that are potentially affected by a merger between two large, diversified energy companies, I first lay out the possible competitive market segments that need to be addressed. This framework is shown in Table 1.

Table 1: Analytic Framework for Market Power Analysis

		Energy Type	
		Gas	Electric
Market Level	Retail	Effect on retail gas competition and rates	Effect on retail electric competition and rates
	Wholesale	Effect on wholesale gas competition	Effect on wholesale electric competition
		Cross-fuel competition issues	

To fulfill the Commission's requirements and address possible competitive concerns associated with the North Carolina markets for electricity and gas, I systematically address the following sectors: wholesale gas, wholesale electricity, retail gas, and retail electricity. I also address possible concerns over effects on competition between retail electric and gas service. As part of my analytic approach, I perform a Herfindahl-Hirschman Index ("HHI") market concentration analysis for wholesale gas supply, as this is the only sector for which this analysis is appropriate in the context of this testimony.

I do not address other market power analyses related to the merger as provided by other consultants or by CRA before this or other regulatory bodies.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. I conclude that the proposed transaction does not raise competitive concerns in any of the studied markets, and will not create an increased ability to exercise market power.

In the market power analysis, I address the full range of competitive concerns in gas and electricity markets associated with the proposed transaction as it relates to North Carolina. To summarize, the specific findings for each market sector include:

- **Wholesale Gas**: A quantitative market concentration analysis was completed, applying the HHI metric, for firm gas capacity in North Carolina. The results show that the market is moderately concentrated, and the proposed transaction will increase the market concentration, but it will remain moderately concentrated. Furthermore, the HHI analysis takes a conservative view of the market, and it should be expected that accounting for additional suppliers and utility obligations would further dilute the market. A sensitivity analysis was also performed on the market impacts of expected pipeline development in the region, leading to the conclusion that planned pipeline capacity, should the pipelines be completed, would not raise competitive concerns, and would improve market supply and competitive alternatives. The presence of FERC's open access regulatory regime as well as oversight and enforcement also relieve any potential concerns regarding an adverse effect in the relevant wholesale natural gas capacity markets.

- **Wholesale Electricity**: Within North Carolina, there will be no change in ownership of generation, and therefore no concentration of the market that would raise concerns over the exercise of market power. Looking at potential supply into North Carolina from outside of North Carolina, there likely will be a slight increase in market concentration caused by the proposed transaction. However, the pool of potential suppliers in neighboring regions that could provide counterparties for import transactions is extensive, and, therefore, I do not expect there to be any concerns over the accumulation of wholesale electric market power as a result of the proposed transaction in the overall North Carolina footprint. I also conclude that the vertical combination of natural gas and electricity assets will not harm competition.

- **Retail Gas**: There is no competitive retail regime for gas service in North Carolina. Thus, the merger cannot and will not have an impact on retail gas competition.

- **Retail Electricity**: As with retail gas, there is no competitive retail regime for electricity service in North Carolina. Thus, the merger cannot and will not have an impact on retail electricity competition.

- **Cross-fuel Competition:** First, there is no overlap in service territories between retail service provided by PSNC (retail gas) and Dominion Energy North Carolina (retail electric) so there is no concern about reduced competition for utility customers who have the ability to switch between electricity and gas for certain needs. And second, the Commission has approved similar rates of return on equity and similar capital structures – and the utilities have similar credit ratings – for the two retail utilities operated in North Carolina by the Merging Entities. Thus, the proposed transaction should not raise concerns that, following the merger, there will be incentives to invest in one type of infrastructure over another to the disservice of customers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

MS. GRIGG: Thank you, sir. I believe that's all, and at this point, then, we'd like to call Mr. Tom Wohlfarth and Mr. Russell Harris to the stand as a panel, please, sir.

CHAIRMAN FINLEY: All right. Gentleman, come forward and be sworn.

RUSSELL HARRIS; Having been duly sworn,
Testified as follows:

THOMAS WOHLFARTH; Having been duly sworn,
Testified as follows:

DIRECT EXAMINATION BY MS. GRIGG:

Q Good morning.

A (Harris) Good morning.

Q Start with you, Mr. Harris. Would you please state your name and business address for the record.

A My name is Don Russell Harris, and my business address is 100 SCANA Parkway, Cayce, South Carolina.

Q By whom are you employed and in what capacity?

A SCANA Corporation, and my capacity is a Senior Vice President Gas Distribution.

Q Did you cause to prefiled in this docket on June 22nd, 2018 7 pages of direct testimony?

A I did.

Q Do you have any changes or corrections to that direct testimony?

A I don't have any changes or corrections, but I can provide an update on PSNC's credit ratings that are discussed in my direct testimony on page 5, lines 18 through 21.

PSNC's long-term issues ratings currently are BBB minus from Standard & Poor's and BB plus from Fitch Ratings, which reflect downgrades made in early August as a result of rate reduction legislation passed in South Carolina dealing with SCE&G's nuclear abandonment.

Q Thank you. With that update, if I were to ask you the same questions that appear in your direct testimony today, would your answers be the same?

A Yes.

Q Mr. Harris, did you also cause to be prefiled in this docket on October 5th, 2018, 5 pages of supplemental testimony?

A I did.

Q Do you have any changes or corrections to that supplemental testimony?

A I do not.

Q If I were to ask you the same questions that appear in your supplemental testimony today, would your answers be the same?

A Yes.

MS. GRIGG: Mr. Chairman, at this time I would move the direct and supplemental testimonies of Mr. Harris be copied into the record as if given orally from the stand.

CHAIRMAN FINLEY: Mr. Harris' direct prefiled testimony of 7 pages, filed June 22, 2018, is copied into the record as though given orally from the stand, and his supplemental testimony of October 5, 2018, consisting of 5 pages is copied into the record as though given orally from the stand.

MS. GRIGG: Thank you.

(Whereupon, the prefiled direct testimony, as updated, and the prefiled supplemental testimony of Don Russell Harris was copied into the record as if given orally from the stand.)

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is D. Russell Harris and my business address is 220 Operation Way, Cayce, South Carolina. I am Senior Vice President of Gas Distribution for SCANA Corporation ("SCANA"). I serve as President and Chief Operating Officer of Public Service Company of North Carolina, Inc. ("PSNC"), President of Gas Operations for South Carolina Electric & Gas Company ("SCE&G"), and President of SCANA Energy Marketing, Inc. ("SEMI"). These three SCANA subsidiaries provide natural gas services to approximately 1.3 million customers in the states of North Carolina, South Carolina, and Georgia.

Q. PLEASE BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I am a 1986 graduate of Clemson University with a Bachelor of Science in Electrical Engineering. In 1990, I received a Master of Business Administration from the University of South Carolina. Upon graduation from college, I began my career with SCANA working in SCE&G's electric operations. From 1986 to 1992 I worked for SCE&G as a Customer Service Engineer and in 1992 became District Manager – Electric Operations. From 1997 to 2003 I served as Vice President – Wires Operation for SCE&G.

For the past fifteen years, I have had management responsibilities over various aspects of SCANA subsidiaries' natural gas operations. In 2003, I became Vice President – Operations for PSNC and was promoted to President and Chief Operating Officer in January 2006. In 2012, I was named Senior Vice President of SCANA and in 2013 was given additional management responsibilities over SCE&G's Gas Operations and over SCANA's Gas Services Group. In 2014, I assumed management responsibilities over SCANA's Customer Services Group. On January 1, 2018, I became President of SEMI.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I presented testimony in each of PSNC's last three rate cases, Docket No. G-5, Sub 481, filed in 2006, Docket No. G-5, Sub 495, filed in 2008, and Docket No. G-5, Sub 565, filed in 2016.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to provide background on PSNC's operations, its relationship with SCANA, and its regulation by the Commission, and to describe how PSNC, its customers, and the communities it serves will benefit from the proposed merger of SCANA and Dominion Energy, Inc. ("Dominion Energy"). I am also co-sponsoring the Cost-Benefit Analysis attached to the Joint Application as Exhibit 4.

Q. PLEASE DESCRIBE PSNC'S UTILITY OPERATIONS.

A. PSNC is a North Carolina public utility engaged in the business of selling, distributing, and transporting natural gas subject to this Commission's jurisdiction. It was formed in 1938 when Gastonia businessman Charles B. Zeigler merged two manufactured gas distribution companies that served 3,800 customers. PSNC now provides natural gas service to more than 550,000 customers in 96 cities, towns, and surrounding areas in a service territory that comprises all or parts of 28 counties in North Carolina. PSNC's service territory includes the Raleigh/Durham/Chapel Hill, Asheville/Hendersonville, and Gastonia/Concord/Statesville areas. At the end of 2017, PSNC had 607 miles of transmission mains and more than 22,000 miles of distribution mains and related service facilities.

Q. PLEASE DISCUSS PSNC'S RELATIONSHIP WITH SCANA.

A. In 2000, PSNC became a wholly-owned subsidiary of SCANA following the Commission's approval of the merger transaction in Docket No. G-5, Sub 400. At that time, SCANA Services, Inc. ("SCANA Services") was established as a service company for the purpose of providing or arranging for services to SCANA's subsidiaries pursuant to agreements setting forth the services involved and addressing the allocation of costs. PSNC obtains many essential services from SCANA Services, including information technology, environmental, legal, accounting, tax, human resources, and risk management. Although PSNC issues its own debt, it relies solely on SCANA for its equity financing.

Q. WHAT REGULATIONS GOVERN THE RELATIONSHIPS AMONG PSNC AND ITS SCANA AFFILIATES?

A. The Commission order approving PSNC's merger with SCANA included regulatory conditions and a Code of Conduct intended to protect customers from any adverse effects of the merger. The Code of Conduct sets forth rules that govern transactions involving PSNC and its affiliates and includes minimum guidelines concerning such things as separation of operations, nondisclosure of confidential system and customer information, nondiscrimination, and cost allocation.

These Commission-ordered requirements are in addition to state statutes that require PSNC to file with the Commission agreements between PSNC and its affiliates and to obtain Commission approval before paying compensation to an affiliate. For example, the Service Agreement between PSNC and SCANA Services, as well as four amendments to the agreement, have been filed with and approved by the Commission.

Q. WHAT IS PSNC'S POSITION CONCERNING SCANA'S COMBINATION WITH DOMINION ENERGY?

A. PSNC unreservedly supports the proposed merger because of the financial and operational benefits it will receive as a member of the Dominion Energy family of companies. Dominion Energy companies have an excellent record of providing safe and reliable utility service and maintaining efficient and cost-effective utility operations. They are known for their exceptional customer service. Dominion Energy has a reputation for supporting the communities it serves and promoting economic development. Dominion Energy takes a long-term view of the utility business, investing in the people, facilities, and systems needed to sustain the provision of outstanding utility service and to maintain strong ties to local communities. In short, Dominion Energy offers many advantages to PSNC and its customers.

Q. PLEASE DISCUSS THE BENEFITS TO PSNC ASSOCIATED WITH THE PROPOSED MERGER.

A. The benefits to PSNC from the proposed merger include those set forth in the Cost-Benefit Analysis I am co-sponsoring. When the merger is completed, PSNC will become part of a much larger corporate organization with more geographic and business diversity and greater financial and operational scale. PSNC will have access to an array of services provided by Dominion Energy's centralized service company which, because of its larger size and buying power, should provide cost advantages to PSNC over time. PSNC also will benefit from the adoption of best practices across a broader range of service experience, which should improve employee and public safety, customer service, and operational cost-effectiveness.

Q. ARE THERE ANY ADDITIONAL BENEFITS OF THE MERGER?

A. Yes. The merger will enhance PSNC's ability to finance the investments necessary to continue providing safe, reliable, and cost-effective operations across a growing customer base. First, PSNC should have better access to equity capital through Dominion Energy's greater financial resources.

Moreover, the merger should positively affect PSNC's credit ratings. PSNC currently has long-term issuer credit ratings of BBB from Standard & Poor's and BBB- from Fitch Ratings, which reflect downgrades made on September 29, 2017. These downgrades coincided with developments in regulatory proceedings pending in South Carolina involving SCE&G's

abandonment of nuclear units that were under construction, which is discussed in the direct testimony of SCANA witness Jimmy E. Addison.

Q. HOW WILL THE MERGER AFFECT PSNC'S OPERATIONS?

A. I do not anticipate any immediate or substantial changes to the way PSNC operates. Dominion Energy has indicated that, after the merger, PSNC will be managed as a separate regional business with responsibility for making decisions that achieve customer service, safety, reliability, and environmental objectives. Dominion Energy plans to keep PSNC's headquarters in Gastonia and to maintain field offices across PSNC's service territory.

Q. HOW WILL THE MERGER AFFECT PSNC'S CUSTOMERS?

A. The merger should appear seamless to our customers and they should continue to receive the safe and reliable service they have come to expect. The benefits that I previously discussed should have a positive impact on our customers. Furthermore, the merger will not adversely affect rates as none of the costs of the merger will be passed on to PSNC's customers.

Q. HOW WILL THE MERGER AFFECT PSNC'S REGULATION BY THE COMMISSION?

A. PSNC's provision of natural gas service will continue to be fully regulated by the Commission after the merger. PSNC expects to continue operating under regulatory conditions and a Code of Conduct as it has since the merger with SCANA. SCANA and Dominion Energy intend to make a supplemental filing in this proceeding of proposed regulatory conditions and a joint Code of Conduct for PSNC and Virginia Electric and Power Company, d/b/a Dominion

Energy North Carolina, the existing Dominion Energy subsidiary also regulated by the Commission. Additionally, PSNC will file any new affiliate agreements with the Commission in accordance with state law.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is D. Russell Harris and my business address is 220 Operation Way, Cayce, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by SCANA Corporation ("SCANA") and my current position is Senior Vice President of Gas Distribution. I serve as President and Chief Operating Officer of Public Service Company of North Carolina, Inc. ("PSNC"), President of Gas Operations for South Carolina Electric & Gas Company, and President of SCANA Energy Marketing, Inc.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

A. Yes. I submitted direct testimony in this proceeding on June 22, 2018.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The purpose of my supplemental testimony is to briefly describe some of the benefits of the proposed business transaction ("Merger"), and I provide the position of SCANA on the Agreement and Stipulation of Settlement ("Stipulation") filed by Dominion Energy, SCANA (collectively, the "Applicants"), Transcontinental Gas Pipeline Company, LLC, and the Public Staff – North Carolina Utilities Commission, in these Dockets on October 4, 2018, for consideration by the North Carolina Utilities Commission ("Commission"). SCANA is the parent of PSNC.

Q YOU TESTIFIED IN YOUR DIRECT TESTIMONY THAT YOU BELIEVED THAT THE MERGER WILL BENEFIT PSNC AND ITS CUSTOMERS. DO YOU BELIEVE THIS CONTINUES TO BE TRUE?

A. Yes. I continue to believe that the Merger will benefit PSNC and its customers. The Stipulation, including the revised Regulatory Conditions and Code of Conduct, provide additional benefits and protections for PSNC's customers.

Q. WHAT ARE THE BENEFITS TO PSNC ASSOCIATED WITH THE MERGER AS PROPOSED?

A. As I discussed in my direct testimony, PSNC will benefit from this Merger. It will become part of a much larger corporate organization with more business diversity and greater financial and operational scale. PSNC will have access to an array of services provided by Dominion Energy's centralized services company which, because of its larger size and buying power, should provide cost advantages to PSNC over time. PSNC also will benefit from the adoption of best practices, which should benefit employee and public safety, customer service, and operational cost-effectiveness. Finally, the Merger will enhance PSNC's ability to finance the investments necessary to continue providing safe, reliable, and cost-effective operations across a growing customer base.

Q. WHAT ARE SOME OF THE BENEFITS TO PSNC CUSTOMERS AS A RESULT OF THE STIPULATION?

Dominion Energy and SCANA agreed that after closing of the Merger, PSNC will record a regulatory liability of $3.75 million representing a refund to customers of 2017 revenues and will subsequently provide such refund to customers as a bill credit of $1.25 million in January 2019 or as soon thereafter as practicable, another bill credit of $1.25 million in January 2020, and a final bill credit of $1.25 million in January 2021.

The Companies also agreed that in 2019, PSNC will increase its charitable contributions over its 2017 contribution level by $150,000. Such contributions shall be used to provide energy assistance for low-income customers in PSNC's service territory.

Further, Dominion Energy and SCANA agreed to a moratorium on PSNC's general rate increases. PSNC will not file an application for a general rate case proceeding to adjust its base rates and charges before April 1, 2021, and will not increase its rates until November 1, 2021, except for the limited circumstances as set forth in the Stipulation.

Q. HOW WILL THE MERGER AND STIPULATION AFFECT PSNC'S REGULATION BY THE COMMISSION?

A. The Commission will continue to have full regulatory oversight of PSNC's provision of natural gas service to its customers. Further, the Stipulation provides for additional Regulatory Conditions and a revised Code of Conduct with which PSNC will comply.

Q. DOES SCANA SUPPORT THE STIPULATION AS FILED WITH THE COMMISSION?

A. Yes. SCANA supports the settlement as reflected in the Stipulation.

Q. IN YOUR OPINION, DO THE MERGER AND STIPULATION SERVE THE PUBLIC INTEREST AND AFFORD BENEFITS AND PROTECTIONS FOR NORTH CAROLINA CUSTOMERS?

A. Yes. The terms of the Stipulation, including the Regulatory Conditions and Code of Conduct, will ensure that the Merger will have no adverse impact on the rates charged and the service provided by PSNC to North Carolina customers and that the benefits of the Merger to PSNC's customers are sufficient to offset any potential costs and risks. PSNC customers will directly benefit from the $3.75 million in bill credits, the rate moratorium until 2021, the commitment to PSNC's 2019 charitable contributions, and the continuation of regulatory oversight and authority of the Commission. PSNC will continue to provide efficient, reliable, and safe service at a reasonable cost through the many commitments made by Dominion Energy and SCANA. For all of these reasons, I believe that approval of the Merger and Stipulation will benefit PSNC and its customers, is justified by the public convenience and necessity, and should be approved.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes, it does.

BY MS. GRIGG:

Q Mr. Harris, do you have a summary of your direct and supplemental testimonies?

A I do.

Q Would you please give it at this time?

A I will. In my direct testimony I provide background on PSNC's operations and describe how PSNC, its customers, and the communities it serves will benefit from the proposed merger of SCANA and Dominion Energy. PSNC unreservedly supports the proposed merger because of the financial and operational benefits it will receive as a member of the Dominion Energy family. When the merger is completed, PSNC will become part of a much larger corporate organization, with more geographic and business diversity and greater financial and operational scale. PSNC will have access to an array of services provided by Dominion Energy's centralized service company.

PSNC will also benefit from the adoption of best practices across a broader range of service experience. The merger will enhance PSNC's ability to finance the investments necessary to continue to provide safe, reliable, and cost effective operations across a growing customer base. Moreover, the merger should positively affect PSNC's credit ratings. And finally, the merger should appear seamless to our customers, and they should continue to receive the safe and reliable service they have come to expect.

In my supplemental testimony, I provide SCANA's support for the Agreement and Stipulation of Settlement filed by Dominion Energy, SCANA, Transco, and the Public Staff in these dockets on October 4th, 2018. The terms of the Stipulation, including the Regulatory Conditions and Code of Conduct, will ensure that the merger will have no adverse impact on the rates charged and the service provided by PSNC to North Carolina customers, and that the benefits of the merger to PSNC's customers are sufficient to offset any potential costs and risks. PSNC customers will directly benefit from $3.75 million in bill credits, a rate moratorium until 2021, a commitment to PSNC's 2019 charitable contributions, and the continuation of regulatory oversight and authority of the Commission. PSNC will continue to provide efficient, reliable, and safe service at a reasonable cost through the many commitments made by Dominion Energy and SCANA. For all of these reasons, I believe that approval of the merger and Stipulation will benefit PSNC and its customers, is justified by the public convenience and necessity, and should be approved.

Q Thank you. Good morning, Mr. Wohlfarth.
A (Wohlfarth) Good morning.
Q Would you please state your name and business address for the record.
A My name is Thomas P. Wohlfarth. My address is 120 Tredegar Street, Richmond, Virginia, 23219.
Q By whom are you employed and in what capacity?
A Dominion Energy, and I am the Senior Vice President of Regulatory Affairs.
Q Did you cause to be prefiled in this docket on October 5th, 2018 11 pages of supplemental testimony?
A Yes, I did.
Q Do you have any changes or corrections to that supplemental testimony?
A I do, and I don't have -- I didn't bring a copy up here, but I can describe what it is, and perhaps you can link to the record what it is. There were -- in my testimony there were, I believe, three references to the regulatory liability and bill credits. The correct amount in total is $1.25 million per year for three years, so the total is 3.75 million in bill credits, which per the terms of the Stipulation would be we would record a regulatory liability on approval and order by the Commission. And I think the first couple of times in

the testimony it was stated correctly as 3.75, and then there was a typo and it's stated as 3-5, 3.5 million.

Q On page 8, line 7 of your testimony, you would like to amend 3.5 million to 3.75 million, correct?

A Yes. That's correct.

Q Thank you.

A And I apologize for the -- for the typo.

Q If I were to ask you the same questions that appear in your supplemental testimony today, other than that correction, would your answers be the same?

A Yes, it would.

MS. GRIGG: Mr. Chairman, I would move that the supplemental testimony of Mr. Wohlfarth be copied into the record as if given orally from the stand.

CHAIRMAN FINLEY: Mr. Wohlfarth's direct supplemental testimony of October 5, 2018, of 11 pages, is copied into the record as though given orally from the stand, as supplemented and modified by him on the stand.

MS. GRIGG: Thank you.

(Whereupon, the prefiled supplemental testimony of Thomas P. Wohlfarth, as corrected, was copied into the record as if given orally from the stand.)

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas P. ("Tom") Wohlfarth. My business address is 120 Tredegar Street, Richmond, Virginia 23219.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by Dominion Energy, Inc. ("Dominion Energy"), and my current position is Senior Vice President—Regulatory Affairs.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

A. No, I have not.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The purpose of my supplemental testimony in this proceeding is to support Dominion Energy's position on the Agreement and Stipulation of Settlement ("Stipulation") filed by Dominion Energy, SCANA Corporation ("SCANA") (collectively, the "Applicants"), Transcontinental Gas Pipeline Company, LLC ("Transco"), and the Public Staff – North Carolina Utilities Commission ("Public Staff"), in these Dockets on October 4, 2018, for consideration by the North Carolina Utilities Commission ("Commission"). Dominion Energy is the parent of Virginia Electric and Power Company, which does business in North Carolina as "Dominion Energy North Carolina" or "DENC."

Q. HOW DID THE STIPULATION WITH THE PUBLIC STAFF COME ABOUT?

A. Following the filing of the Application of Dominion Energy and SCANA pursuant to Gen. Stat. 62-111(a) for authority to engage in the proposed business combination transaction ("Merger"), the Public Staff engaged in an extensive audit and discovery process directed at investigating the public convenience and necessity of the proposed Merger. This discovery process involved the issuance of more than 100 data and document requests to Dominion Energy and SCANA in 13 sets of discovery. Following this process, the Public Staff, Dominion Energy, and SCANA began discussions regarding a possible settlement. Those discussions covered a number of issues and conditions necessary for the Public Staff to support approval of the Merger, including changes to existing Regulatory Conditions and Codes of Conduct appropriate as a result of the proposed Merger. After intervenor testimony was filed, Dominion Energy and SCANA engaged in negotiations with Transco as well regarding the regulatory Conditions. The negotiations involved substantial compromise by all parties on numerous issues. This process ultimately culminated in the Stipulation including the Regulatory Conditions and Code of Conduct that was filed with the Commission on October 4, 2018.

Q. PLEASE DESCRIBE SOME OF THE OVERALL BENEFITS ACHIEVED BY THE MERGER.

A. As discussed in the Application and direct testimonies in this proceeding the Merger will provide many benefits to Public Service Company of North Carolina, Inc.'s ("PSNC") customers and the state of North Carolina. The acquisition of PSNC by Dominion Energy (via SCANA) will create a financially stronger combined company and allow PSNC to more effectively meet the future energy needs of North Carolina.

Overall, PSNC will benefit from best practices across an expanded platform of service. Further, PSNC will benefit from Dominion Energy's services company model with access to a level of services, support, and economies of scale typically only available to a much larger company. PSNC also will have an enhanced ability to access, on reasonable terms, the capital needed to meet its obligations to provide safe and reliable service to its customers.

Q. WHAT ARE THE TERMS OF THE STIPULATION REACHED WITH THE PUBLIC STAFF AND TRANSCO?

A. Presented below is a description of the matters agreed upon by Dominion Energy, SCANA, Transco, and the Public Staff, hereinafter referred to as the Stipulating Parties.

Regulatory Conditions. The Regulatory Conditions, including the Code of Conduct, set forth in Attachment A to the Stipulation, represent commitments by the Applicants as a precondition of approval by the Commission of the Merger as set forth in the Merger Agreement attached to the application as Exhibit A. These Regulatory Conditions will be incorporated into any Commission order approving the Merger.

<u>Bill Credits</u>. The Applicants agree that, upon approval of this Stipulation by the Commission, in its entirety, and closing of the Merger, PSNC will record a regulatory liability of $3.75 million representing a refund to customers of 2017 revenues and will subsequently provide such refund to customers as a bill credit of $1.25 million in January 2019, or as soon thereafter as practicable, another bill credit of $1.25 million in January 2020, and a final bill credit of $1.25 million in January 2021.

<u>Charitable Contribution</u>. In 2019, PSNC will increase its charitable contributions over its 2017 contribution level by $150,000. Such contributions shall be used to provide energy assistance for low-income customers in PSNC's service territory and will be treated as below-the-line expenses (i.e., not recoverable in rates) for regulatory accounting and ratemaking purposes.

<u>Merger-Related Expenses</u>. Direct expenses associated with the Merger will be excluded from the regulated expenses of PSNC and DENC for Commission financial reporting and ratemaking purposes. Merger–Related Expenses include acquisition premiums, change-in-control payments made to

terminated executives, regulatory process costs, and transaction costs such as investment banking, legal, accounting, securities issuances, and advisory fees. Integration costs include the integration of financial, IT, human resources, billing, accounting, and telecommunications systems. Other transition costs include severance payments to employees, changes to signage, the cost of transitioning employees to post-merger employee benefit plans, and costs to terminate any duplicative leases, contracts, and operations, etc. The Applicants have committed that none of these Merger–Related Expenses will be passed on to the customers of PSNC or DENC, and have also stated that the Merger will not have a net adverse impact on the rates and services of DENC or PSNC. The Applicants further commit to file a report of their accounting for Merger-Related Expenses within 60 days after the close of the Merger, and supplemental reports, as necessary, within 60 days after each calendar year.

Rate Moratorium. PSNC will not file an application for a general rate case proceeding to adjust its base rates and charges before April 1, 2021. PSNC will not increase its non-gas cost margin in its rates until November 1, 2021, except for the following reasons: (1) adjustments or changes pursuant to Rider C (Customer Usage Tracker), Rider D (Purchased Gas Adjustment Procedures), and Rider E (Integrity Management Tracker) pursuant to Gen. Stat. 62-133.4, Gen. Stat. 62-133.7, and Gen. Stat. 62-133.7A; (2) to reflect the financial impact of governmental action (legislative, executive, or regulatory) having a substantial specific impact on the gas industry generally or on a segment thereof that includes PSNC, including but not limited to major expenditures for environmental compliance; (3) to implement natural gas expansion surcharges imposed pursuant to Gen. Stat. 62-158; or (4) to reflect the financial impact of major expenditures associated with force majeure. In addition, PSNC shall not file for any cost deferral during or covering any period from the date of an order approving the Merger until after October 31, 2021, except: (1) to reflect the financial impact of governmental action (legislative, executive, or regulatory) having a substantial specific impact on the gas industry generally or on a segment thereof that includes PSNC, including but not limited to major expenditures for environmental compliance; or (2) to reflect the financial impact of major expenditures associated with force majeure. This provision does not indicate that the Public Staff would support, or that the Commission would approve, such cost deferral.

<u>Protection Against Debt Downgrade</u>. The Stipulating Parties agree that PSNC and DENC customers will be held harmless from the impacts of debt downgrade attributable to the Merger as set forth in the Regulatory Conditions.

<u>Customer Service</u>. PSNC will maintain current levels of customer service and behavior towards customers, as well as current levels of professional cooperation with regulators, consumer advocates, and intervenors.

<u>Cost Saving Opportunities</u>. The electric utility operations of DENC and South Carolina Electric & Gas Company, along with their affiliates and subsidiaries, will look for post-Merger opportunities to engage in joint planning, purchasing, and services that will result in cost savings to DENC's retail electric customers, while not compromising reliability or service quality.

<u>Affiliate Agreements</u>. Unless otherwise allowed or ordered by the Commission, no later than March 1, 2019, and in accordance with and as provided by Gen. Stat. 62-153 and the related Regulatory Conditions, DENC and PSNC will file any new or amended affiliate agreements with the Commission for use by DENC and PSNC. The Stipulating Parties agree that DENC and PSNC may operate, as of the date of the Merger's closing, under the new or amended affiliate agreements until the Commission issues such an order approving or accepting the new or amended affiliate agreements under Gen. Stat. 62-153. PSNC and DENC agree and acknowledge that their interim operation under the new or amended affiliate agreements is subject to any fully adjudicated Commission order on the matter. Such services will be provided pursuant to and comply fully with the Code of Conduct approved by the Commission in this proceeding.

Q. WHAT ARE THE BENEFITS TO NORTH CAROLINA CUSTOMERS OF THE STIPULATION, INCLUDING THE REVISED CODE OF CONDUCT AND REGULATORY CONDITIONS?

A. Customers will benefit from rate stability associated with PSNC's commitment not to file prior to April 1, 2021, an application for a general rate proceeding to adjust its rates and charges. PSNC customers also will benefit from bill credits totaling $3.5 million over a three-year period. In addition, PSNC will benefit from being part of a corporate organization with enhanced geographic, business, and regulatory diversity.

The revised Code of Conduct and Regulatory Conditions set forth commitments made by Dominion Energy and SCANA as a precondition of the approval of the Merger. They put safeguards in place to ensure that customers will not be harmed by the Merger. The Regulatory Conditions are intended to protect the jurisdiction of this Commission as a result of the Merger, including agreements and transactions among affiliates. The Regulatory Conditions are also intended to ensure that costs are properly incurred and accounted for in cost of service. In addition, they address issues that Transco raised in this proceeding. The Code of Conduct governs the relationship, activities, and transactions among the public utility operations and their affiliates. Overall, the Merger and the terms and conditions of the Stipulation, including the Regulatory Conditions and Code of Conduct, will ensure that the Merger is justified by the public convenience and necessity, serves the public interest, and affords benefits and protections to North Carolina customers.

Q. WHY IS THE PROVISION ALLOWING DENC AND PSNC TO OPERATE UNDER THE NEW OR AMENDED AFFILIATE AGREEMENTS AS OF THE DATE OF THE MERGER'S CLOSING NECESSARY?

A. This Stipulation provision is necessary to allow PSNC to receive certain shared services and funding from Dominion Energy, on an interim basis, immediately following the Merger's closing, until such time as new or amended affiliate agreements are accepted or approved by the Commission.

Q. DOES THE STIPULATION PROVIDE FINANCIAL PROTECTIONS FROM MERGER-RELATED EXPENSES FOR PSNC, DENC, AND THEIR CUSTOMERS?

A. Yes, it does. Direct expenses associated with the Merger will be excluded from the regulated expense of PSNC and DENC for Commission financial reporting and ratemaking purposes. Merger-related expenses include acquisition premiums, change-in-control payments made to terminated executives, regulatory process costs, and transaction costs such as investment banking, legal, and accounting fees. Moreover, the Applicants commit to file a report of their accounting for Merger-related expenses within 60 days after the close of the Merger, and supplemental reports, as necessary, within 60 days after each calendar year.

Q. IS DOMINION ENERGY MAKING ANY OTHER COMMITMENTS IN CONNECTION WITH THE MERGER?

A. Yes, in addition to those already discussed, Dominion Energy intends to maintain PSNC's headquarters in Gastonia, North Carolina and manage PSNC from an operations standpoint as a separate regional business with responsibility for making decisions that achieve the objectives of customer satisfaction, reliable service, customer, public, and employee safety, environmental stewardship, and collaborative and productive relationships with customers, regulators, other governmental entities, and interested stakeholders. In addition, Dominion Energy commits to maintaining compensation levels for PSNC employees following the Merger until January 1, 2020, and will give due and fair consideration for other employment and promotion opportunities within the larger Dominion Energy organization, both inside and outside of North Carolina, to the extent any such employment positions are re-aligned, reduced, or eliminated in the future as a result of the combination.

Q. IN YOUR OPINION, DO THE MERGER AND STIPULATION SERVE THE PUBLIC INTEREST AND AFFORD BENEFITS AND PROTECTIONS FOR NORTH CAROLINA CUSTOMERS?

A. Yes, I believe they do. The terms of the Stipulation, including the Regulatory Conditions and Code of Conduct, will ensure that the Merger will have no adverse impact on the rates charged and the services provided by DENC and

PSNC to North Carolina customers and that the benefits of the Merger to DENC's and PSNC's customers are sufficient to offset any potential costs and risks. PSNC customers will directly benefit from the $3.75 million in bill credits over three years, the rate moratorium until 2021, the $150,000 increase in its 2019 charitable contributions, and the continuation of regulatory oversight and authority of the Commission. PSNC will continue to provide efficient, reliable, and safe service at a reasonable cost through the many commitments made by Dominion Energy and SCANA. For all of these reasons, I believe that approval of the Merger and the Stipulation will benefit PSNC and its customers, is justified by the public convenience and necessity, and should be approved.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes, it does.

Q Mr. Wohlfarth, do you have a summary of your supplemental testimony?

A Yes, I do. Thank you. Yes. My supplemental testimony supports Dominion Energy's position and the Agreement and Stipulation of Settlement filed in this proceeding by Dominion, SCANA, Transco, and the Public Staff on October 4th of 2018.

As shown in the merger Application and associated direct testimonies, the proposed merger will provide many benefits to PSNC and the state of North Carolina, including the creation of a financially stronger combined company that will allow PSNC to more effectively meet the state's future energy needs. Following the Public Staff's extensive investigation of the public convenience and necessity of the proposed merger, the Public Staff, Dominion, and SCANA began discussions regarding a possible settlement. After the filing of Intervenor testimony, Dominion and SCANA also engaged in negotiations with Transcontinental Gas Pipe Line Company. These negotiations involved substantial compromise by all parties on numerous issues, and resulted in the Stipulation that was filed on October 4th.

The Stipulation will result in a number of significant benefits to DENC's and PSNC's North Carolina customers. PSNC customers will benefit from rate stability associated with PSNC's commitment to not file an Application for a General Rate Increase prior to April 21st of -- April 1st of 2021, and from bill credits totaling $3.75 million over a three-year period. In addition, DENC and PSNC have committed that the merger will not adversely impact their customers' rates or service, and that no merger-related expenses will be passed on to their customers. Dominion also -- Dominion Energy also intends to maintain PSNC's headquarters in Gastonia, North Carolina, to manage PSNC from an operations standpoint as a separate regional business with responsibility for making decisions that achieve its customer service, reliability, safety, and other objectives, and to maintain compensation levels for PSNC employees following the merger until at least January 1st, 2020.

Under the Stipulation, DENC and PSNC may operate, as of the merger's closing, under a new or amended affiliate agreement that will be filed with the Commission on or by March 1st of 2019. This provision is necessary to allow PSNC to receive certain benefits of shared services and funding from Dominion on an interim basis immediately following the closing.

The revised joint Code of Conduct and Regulatory Conditions set forth commitments made by Dominion and SCANA as a precondition to the merger's approval, and establish safeguards to ensure that customers will not be harmed by the merger. The Regulatory Conditions are intended to protect the Commission's jurisdiction as a result of the merger and to ensure that costs are properly incurred and accounted for in cost of service. The Code of Conduct will govern the relationship, activities, and transactions among the public utility operations and their affiliates.

I believe that Commission approval of the merger and the Stipulation is appropriate. The terms and conditions of the Stipulation, including the Regulatory Conditions and Code of Conduct, will ensure that the merger is justified by the public convenience and necessity, serves the public interest, and affords benefits and protections to North Carolina customers. These terms and conditions will ensure that the merger will have no adverse impact on rates charged and services provided by DENC and PSNC to North Carolina customers, that PSNC customers will directly benefit as I have described, and that PSNC will continue to provide efficient, reliable, and safe service at a reasonable cost through the many commitments that Dominion Energy and SCANA have made in this proceeding. Thank you.

Q Thank you.

MS. GRIGG: Mr. Harris and Mr. Wohlfarth are available for questions.

CHAIRMAN FINLEY: All right. CIGFUR -- I think the other parties have waived cross examination. CIGFUR waived or does it have any questions at this time?

MS. HICKS: We waive. Thank you.

CHAIRMAN FINLEY: Okay. All right. So let's see if the Commissioners have questions of the Panel.

EXAMINATION BY COMMISSIOMER CLODFELTER:

Q Mr. Wohlfarth, Dominion has two regional management units for its current LDCs now, one in Cleveland, as I understand, and one in Salt Lake City.

A (Wohlfarth) Yes, sir.

Q So do I understand that PSNC is not going to be managed as part of either of those existing units, business units?

A That is correct. Yes, sir.

Q Will there be a new Southeastern unit created for management purposes?

A Yes. And let me -- if I could, let me kind of explain.

Q Elaborate however you wish.

A Yeah.

Q Elaborate however you wish.

A Yeah. Thank you very much because it's obviously a question that employees ask as well. It's a very good question.

What we -- what our plan is, and kind of the day one plan and probably for a period of, you know, approximately two years for a transition period, is to keep SCANA and essentially the, you know, the operating units as is, and so that would include PSNC operating as it is. And the reason for this, you know, we do have -- as you pointed out, we do have sort of a protocol or structure that we have worked out where we're -- we are organized into three separate units, power generation, power delivery, and gas infrastructure. But what we have learned particularly from the most recent merger is to -- that we really do need to take necessary time to make sure that we're, you know, not rushing integration of, you know, organizations and IT systems and that sort of thing. So for about up to a two-year period of time it will stay as is.

During that period of time, though, we are going to be, you know, exploring is there a more efficient, you know, way to operate, including, you know, potentially going to the type structure that you were talking about. And also during this transition period of time we'll be working on things like signage, you know, what do we call the companies.

It's interesting. Right now what we -- our normal sort of naming convention is the -- like the gas LDC in Utah, Dominion Energy Utah, so typically Dominion Energy and then the name. We have a little bit of a -- kind of a little bit of a conundrum here because we already have a Dominion Energy North Carolina, and so we've got to put on our thinking caps to kind of come up with the, you know, kind of the right protocol there. But we'll work -- and it's part of the teamwork. We'll work with the -- with our colleagues, our new colleagues, to, you know, kind of come up with the right structure.

Q So the transition -- post-transition period structure has not yet --

A It is not yet defined.

Q -- evolved?

A Yes, sir.

Q And so when we say that PSNC is going to continue to be managed as an independent regional entity, that's a near-term plan, but we don't know where it's going to go after that?

A Yeah. I would say that -- I would actually say that that will continue. And if you really think about it, even in the other parts of our business, Dominion Energy Ohio, which was formerly Dominion East Ohio, it's part of this, you know, this new structure that you talked about. It is -- continues to operate as kind of like it's, you know, separate. It's Dominion Energy Ohio. So to the customers, you know, in Cleveland and the other areas that are served by it, you know, they're still being served by that same company that, you know, they've always been served by.

So it's -- I would say that regardless of what ultimately PSNC, the naming convention is, whatever that might be, or from a Wall Street and, you know, reporting standpoint, business segment standpoint, regardless of that, I think it will still, you know, continue to be managed as sort of a separate entity.

Q During the transition period --

A And I would say after.

Q -- I'll focus on that, and if --

A Right.

Q -- you want to say -- if your crystal ball lets you talk after that --

A Yeah.

Q -- that's fine.

A Thank you.

Q The reporting of a relationship for PSNC, will that go through either of the other two, Cleveland or Salt Lake City, units or will it go to Richmond or someplace else?

A Yeah. So during this two-year transition period I was talking about, it will go through SCANA, and then SCANA goes up to Dominion, so it effectively will continue where it reports now.

Q Where it does now?

A So it would be into Cayce, yes, and then Cayce, so basically it's Gastonia to Cayce and then Cayce to Richmond, correct.

Q Okay. Mr. Harris, the current long-term debt ratings you gave us for PSNC, the most recent ratings, did the -- I haven't read them, so I apologize I have to ask you the question. Did the most recent ratings say anything in connection with the ratings about the prospective merger? Were they a factor that was discussed in establishing the most recent ratings for PSNC or not?

A (Harris) I believe the ratings that we have are really more related to our nuclear abandonment at SCANA, not so much the merger.

Q I'm sure they are related to that. I just was curious as to whether they also had anything -- there was anything in the ratings about the prospects of the merger?

A Not to my knowledge.

Q Nothing said. Okay. That's all.

COMMISSIOMER CLODFELTER: I have nothing else.

A (Wohlfarth) If I could --

Q If you have something else, yeah, that's fine.

CHAIRMAN FINLEY: Pull the mic around there, Mr. Wohlfarth.

THE WITNESS: Yes. Yes, sir.

CHAIRMAN FINLEY: Oh, you've got two mics.

THE WITNESS: Is this working?

A (Mr. Wohlfarth) Yeah. So our -- and I agree with Mr. Harris. What our expectation would be in looking at it is that downgrade was because of the situation in -- and we believe that that will be lifted with, you know, with this merger, so...

Q I'm sure you're right. I just was trying to figure out how to interpret the -- sort of the condition on the ratings guaranty that's in the Settlement Agreement. I'm trying to understand how that would play out. Thank you.

A Thank you.

COMMISSIOMER CLODFELTER: That's all I have.

CHAIRMAN FINLEY: Questions? Commissioner Patterson?

EXAMINATION BY COMMISSIONER PATTERSON:

Q This is just a curiosity question.

A (Wohlfarth) Yes, sir.

Q You mentioned a naming convention --

A Yes.

Q -- for eventually changing the name. Are you making a distinction between renaming it and rebranding it, or are you using them pretty much the same?

A It's a d/b/a. It's a doing business as, and it would be a rebranding as well. So, again, no decisions have actually been made because this is what we will very, you know, carefully think through during this transition period. But if it follows the process that we've been following, it would actually be a rebranding to Dominion Energy with the Dominion Energy logo, and then a name that is yet to be determined, Dominion Energy something.

Q Thank you.

CHAIRMAN FINLEY: Commissioner Brown-Bland?

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q Mr. Harris, with regard to the rate moratorium which you have agreed to as part of the settlement, did the Company think about or believes that in any way impacts the Commission's prior Order from 2016, that the integrity management tracker be reviewed in 2020? Is that still part of the plan, or is that impacted?

A (Harris) Well, part of the Stipulation Agreement is that the integrity management tracker plan would continue and not be affected by this moratorium, so we have no plans to change our program as it relates to our pipeline safety projects.

Q So you would still be expecting a full review of the IMT tracker in 2020?

MS. GRIGG: Commissioner Brown-Bland, if I may, that's correct.

COMMISSIONER BROWN-BLAND: All right. Thank you. Take your counsel's word for it.

MR. HARRIS: I do, too.

CHAIRMAN FINLEY: I have a few questions, gentlemen.

EXAMINATION BY CHAIRMAN FINLEY:

Q So how many regulatory approvals besides the approval of this Commission do you need ultimately to consummate the transaction and close the deal?

A (Wohlfarth) Yeah. And I'll get the approximate number. I think it's about six, but we have received all -- at this point we've received all approvals except for North Carolina and South Carolina. Yeah.

Q And South Carolina is the big party in this.

A That is the big one, yeah.

Q When do you expect to get that, if you expect to get it at all?

A Yes. We will get that. That statutory deadline is December 21st.

Q All right. And you, to your credit, have worked with the parties here to come up with a Stipulation and agreement that would, if approved by the Commission, give our authority for you to close the transaction with --

A Yes, sir.

Q -- with a most favored nations clause in there --

A Right.

Q -- to make sure we don't miss anything that somebody else comes up with, which would be South

Carolina, I guess, at this point.

And it looks like to me -- I want to talk to you some about one regulatory condition in particular. And it looks like to me, and correct me if I am wrong, that what the parties did was to go back to the most recently approved Duke/Piedmont Regulatory Conditions and sort of used that as a prototype to work from?

A Yes, sir. That is correct.

Q But to begin with, it looks like -- strike that. Some of those regulatory conditions in the Duke/Piedmont merger have been modified in recent months due to some concerns that have arisen in the Federal Regulatory Commission having to do with complaints by the City of Orangeburg with respect to the Duke/Progress merger. Are you aware of that?

A I'm not aware of those details, no. No, sir, I'm not.

Q Well, because of concerns by the City of Orangeburg and complaints that they filed there, and the merger docket and the Joint Dispatch Agreement and decisions by the DC Court of Appeals, the Public Staff and Duke have modified some of those Piedmont/Duke regulatory conditions. And it's my understanding, in looking at what has been filed yesterday and changed, that that has been -- those changes have been picked up now in the most recently filed regulatory conditions.

A And I am aware that, yeah, there have been some modifications to it. Yes, sir.

Q Well, there's still one that I think that exists in the Duke/Piedmont regulatory conditions that have been picked up here that are somewhat bothersome to me that I want to ask you about.

And I will tell you, just as an editorial comment, that I have trouble with these -- the way these regulatory conditions come about because parties wanting to close a merger are always in a hurry, and they're confronted with regulatory conditions as a condition to close the deal which they want to complete and consummate quickly, and in my opinion they lead to stuff that they wake up the next day after this thing is over and say why in the world did I agree with that. So that's an editorial comment, that I have some difficulty with the way these things come about.

But what I want to ask you about is Regulatory Condition 3.8(f). It's on page 10, and I'll read it to you, and 11, of the most recently filed document submitted by the Public Staff last night.

It says "DENC, PSNC, Dominion Energy, and any other Affiliates, and the Nonpublic Utility Operations shall (A) acknowledge the risk of any possibly preemptive effects of Federal Law with respect to any contract, transaction, or commitment entered into or made or proposed to be entered into or made by DENC or PSNC, or which may otherwise affect DENC's or PSNC's operations, service, or rates and (B) -- shall take all action -- "shall take all actions as may be reasonably necessary and appropriate to hold North Carolina ratepayers harmless from rate increases, foregone opportunities for rate decreases or any other adverse effects of such preemption."

So my general question to you gentlemen is what do you interpret that to mean?

A Yeah. And I may ask -- I may throw a lifeline to my counsel here, you know. The level, you know, we obviously deal with the federal, state preemption issue quite, you know, in that we operate both at the federal level and the state level at Dominion Energy. I will say just that kind of the way that we deal with it, and I think for sure in Virginia it's dealt with, and I would expect it to be dealt with here, is we have entities that are regulated at the FERC federal level, and so there may be contracts, rates, you know, approvals that are done at the federal level. And we may have an affiliate, a utility affiliate, let's just say Dominion Energy North Carolina, that enters into a federally approved rate which has preemption, you know, at least on paper, you know, over state, but at the end of the day --

Q It's probably more than just paper, but go right ahead.

A Yeah. And I didn't mean to be facetious or anything like that, but at the end of the day, and, you know, we've had this experience a few times, that does not -- that does not relieve us of responsibility to act prudently. And, for instance, if you had a pipeline capacity contract where, say, the rate is set at the federal level, you still have to go ultimately to the Commission and say we would like to recover these costs, and notwithstanding federal preemption, the federally approved rate, we are still subject to prudency in having entered into that contract regardless of it.

With respect to this specific provision, it's a little more esoteric, I think. And if okay with you, I'd like to ask my counsel to bail me out here.

MS. GRIGG: No. I think you did beautifully. I don't think you need any bailing at all. I think he's exactly right, that we would still have the ability to argue that the costs incurred under a federally tariffed rate are prudent and should be recoverable in North Carolina.

Q Well, I think that's not the problem I have with it. Let me go through a hypothetical with you to sort of show you where my concern --

A Okay.

Q You know, this Commission intervenes in FERC cases on behalf of Transco rate cases, for example, and other things. For example, with respect to the Eminence Pipeline we are concerned because they've got some caverns that leak and the demand charges that Transco has, and we fuss at those because we think they should be a credit because that's not firm service and demand charges should be waived with respect to that.

We intervene in Transco general rate cases because we think that the rate of return that Transco requests is too high, and we think that that -- we would try to persuade FERC to reduce the rate of return and, therefore, the rates that Transco charges the LDCs like PSNC. And we fuss about allocation of cost issues. You know, we're concerned that sometimes the cost allocated from within Transco that the North Carolina LDCs have to pick up are too high of a cost. But we could easily lose those cases, right, and then the LDC comes to North Carolina to recover those FERC imposed costs from their ratepayers, then I think that's where the issue of federal preemption comes into play.

So what would happen hypothetically if in the future PSNC has a rate case and the Commission says, well, you're asking to recover some cost that Transco has imposed on you resulting from what we've determined to be too high a rate of return on equity or allocation costs that we think are inappropriate, but because of -- and we would not have approved those costs because we think they're unreasonable and imprudent, but because FERC has approved them and Transco has charged them under a rate schedule that you have with Transco, we're going to impose $5 million on PSNC that we don't think you should incur, but you've got to incur because of federal preemption.

I think one way that this could be read would be that those costs should be picked up by the stockholder as opposed to the North Carolina ratepayers. Can that not be read in that fashion here?

A I think there's an interpretation that somebody could arrive at like that. And I --

Q Well, why did you agree to something like that?

A Well, I think we need to think of this in the context of a global settlement. It's a -- you know, quite frankly, and I think you've already indicated, I mean, you can appreciate the settlement process. There are a number of issues and, quite frankly, we all have winners and losers in them, I mean. And what we have arrived at here is a, you know, a comprehensive settlement, that we're satisfied with the overall, you know, given the puts and takes of the many different provisions that are in here, and it doesn't mean that there aren't some that maybe just individually we wouldn't, you know, want or we weren't happy with. I'm sure there's some in here that the Public Staff isn't happy with and, you know, maybe they didn't get exactly what they wanted, and perhaps even Transco didn't get everything that the wanted.

I just think it's kind of an unfortunate nature of the process or maybe it's fortunate. I mean, it's just -- it's the nature of settlement.

Q But you do agree, Mr. Wohlfarth, that this regulatory condition in particular is subject to interpretation --

A Yes, sir.

Q -- in the future, right?

A Yes, sir.

Q And could be subject to an interpretation that your stockholders might not like very much?

A Yes, sir. And on that -- just if I could pursue that because it is a very important issue, on the question of return on equity, for instance, you know, you could have a determination on return on equity and still at the end of the day if there's a negotiated contract, you know, there are many other elements of cost of service as well, you know, other than just return on equity. So even with respect to that, there's still, you know, interpretation ultimately that could result in the Commission saying you know what, I don't think you acted prudently here for one reason or another.

And, you know, we're regulated. We're regulated by FERC, but we're regulated by you, too, so...

Q You've got a -- I think there's a provision in this settlement that says basically that it's the wish of the parties that the Commission approve these provisions, and if not, the whole deal is off or something of that effect, is there not?

A Yes, sir.

Q So what happens if the Commission looks at one provision of this settlement, in particular this regulatory condition, and says sorry, but we don't approve that? Then what happens?

A I think what happens is, the way that I normally think about it is it's not like an automatic thing. I think then the parties would have to reconvene and say this term was changed; is this still acceptable to all the parties?

Q Yeah. I would hope that's the way it's interpreted.

CHAIRMAN FINLEY: Ms. Grigg, do you have a comment on this, also?

MS. GRIGG: Yes, sir, if I may, Chairman Finley. I will confess this was a little bit of a head scratcher, this provision, in the settlement negotiations with the Public Staff, and it had been included in the Duke/Piedmont one which was obviously, as you noted, the starting point of our negotiations and our regulatory conditions. I don't think it was the Company's intention that they waived a right to argue that whole preemption overall. How we interpret this or how a subsequent Commission interprets this, I agree, is open to several interpretations, but I don't think that was the intent, but Ms. Holt may say otherwise. We'll have that discussion on a future day.

CHAIRMAN FINLEY: All right. But, you know, as I'll say -- as I said a moment ago, that this often happens, that not only these parties, but all sorts of parties, they're always in a hurry to close these transactions, they come before the Commission and they settle with the Public Staff, and they agree to stuff that otherwise they would contest forcefully. But they do that in order to get an order from the Commission so that the transaction can close, and then we've got -- at the end of the day we've got books of regulatory conditions. Some of them are far outdated. Regulatory conditions that people don't even remember are there, they have deadlines in them that they pass and nobody is even keeping up with it. Nobody knows about them because it was in the past. That's another editorial comment on my part.

And I will say that my understanding is that as a result of the litigation at FERC having to deal with the Orangeburg disputes, that the -- and Public Staff can correct me if I'm wrong -- that the Public Staff and the Duke entities sat down and determined that they would eliminate some of the regulatory conditions in the Duke/Piedmont context and change those enough to get by the Orangeburg dispute and have that case settled. But my understanding is that they have talked among themselves and there is some indication that they will sit down again and take another look at these regulatory conditions in that context to see what needs to be reviewed and perhaps modified. So you might do the same thing.

MS. GRIGG: Yes, sir. And we are committed to these conditions and recognize it's a monumental task to implement them, but the Companies are committed to do so. And we're certainly open to any further discussions with the Public Staff in the future.

CHAIRMAN FINLEY: All right. Those are the questions that I have. Other questions by other Commissioners?

(No response.)

CHAIRMAN FINLEY: All right. Thank you, gentlemen. We'll receive their exhibits into evidence.

MS. GRIGG: Thank you, sir. That concludes our case. Thank you.

CHAIRMAN FINLEY: Who's next?

MR. BRADY ALLEN: Mr. Chairman, Transco would ask that the prefiled direct testimony of Camilo Amezquita, which consists of 11 pages and three exhibits, be moved into the record as if given orally from the stand.

CHAIRMAN FINLEY: Mr. Amezquita's direct prefiled testimony of 11 pages is copied into the record as if given orally from the stand, filed on September 26, 2018, and his three exhibits are entered into evidence.

MR. BRADY ALLEN: Thank you.

(Whereupon, the prefiled direct testimony of Camilo Amezquita was copied into the record as if given orally from the stand.)

(Whereupon, Amezquita Exhibits 1, 2, and 3 were identified as premarked and admitted into evidence.)

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FILED
SEP 27 2018
Clerk's Office
N.C. Utilities Commission

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-22, SUB 551
DOCKET NO. G-5, SUB 585

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

IN THE MATTER OF
JOINT APPLICATION OF DOMINION ENERGY, INC.
AND SCANA CORPORATION TO ENGAGE IN A BUSINESS COMBINATION
TRANSACTION

PREFILED DIRECT TESTIMONY OF

CAMILO AMEZQUITA

DIRECTOR OF BUSINESS DEVELOPMENT FOR TRANSCONTINENTAL

GAS PIPE LINE COMPANY, LLC

ON BEHALF OF

TRANSCONTINENTAL GAS PIPE LINE COMPANY, LLC

September 26, 2018

Q. PLEASE STATE YOUR NAME, CURRENT POSITION AND BUSINESS ADDRESS.

A. My name is Camilo Amezquita. I am Director of Business Development for Transcontinental Gas Pipe Line Company, LLC ("Transco"). My business address is 2800 Post Oak Boulevard, Houston, Texas 77056.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.

A. I hold a Bachelor of Science degree in Mechanical Engineering from Texas A&M University, which I received in 1993. I have 19 years of experience with Transco and its parent company, The Williams Companies, Inc., during which I have held several positions of increasing management and other responsibilities, including director positions in Customer Services and Gas Management and Control. On December 24, 2016, I was named to my present position.

Q. PLEASE OUTLINE YOUR CURRENT RESPONSIBILITIES WITH TRANSCO.

A. In my capacity as Director – Business Development, I am responsible for working with Transco's existing and potential customers – local distribution companies ("LDCs"), power generators, producers, marketers, etc. – to meet their gas transportation and storage requirements, in accordance with Transco's FERC Gas Tariff ("Tariff") and policies and procedures. This includes developing new expansion projects and services. In my position, I am familiar with Transco's Tariff and transportation and storage arrangements.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE COMMISSION OR ANY OTHER REGULATORY AUTHORITY?

A. Yes. I submitted testimony before the FERC on Transco's utilization of storage assets to support its transportation services in Transco's general Natural Gas Act Section 4 rate proceeding in Docket No. RP12-993.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present Transco's concerns about the impact of the proposed merger on the customers of Public Service Company of North Carolina, Inc. ("PSNC") and to propose necessary safeguards to ensure that if the Dominion Energy, Inc. ("Dominion") and SCANA Corporation ("SCANA") merger is approved the combined entity will use the most reliable, low-cost gas transportation services available to it and that North Carolina ratepayers will continue to receive the best service at the lowest cost.

Q. PLEASE SUMMARIZE TRANSCO'S POSITION IN THIS PROCEEDING.

A. Transco believes it is important to evaluate the proposed merger in the context of Dominion's overall business strategy. In addition to acquiring the distribution and transmission systems of SCANA, Dominion has indicated that its current operations in the Carolinas, including the proposed Atlantic Coast Pipeline ("ACP"), will combine to open new expansion opportunities in the region.

Dominion's proposed business strategy, including the merger proposed in this docket, would create a vertically integrated business structure that could have significant control over essential facilities in the sale, distribution and transmission of natural gas and electricity in North Carolina. In effect, Dominion could control virtually every link in the energy delivery chain – including the acquisition of natural gas at the wellhead, the transportation of gas to electric power generation facilities, the siting and operation of generation facilities, and the sale of electric power and natural gas to end users.

This vertically integrated business structure could lead to decisions by the merged company that could result in North Carolina consumers paying higher prices. Of particular concern should be the ability of PSNC and SCANA to make appropriate decisions when selecting among affiliated and unaffiliated suppliers and whether the new structure will make it difficult for the combined entity to engage in "arms length" negotiations with its affiliates. Unless adequate controls are imposed, the proposed acquisition will leave PSNC and SCANA in a position of selecting among affiliate and third party suppliers of natural gas and competing intrastate and interstate transmission capacity – whose facilities compete with the combined entity.

For these reasons, the proposed merger must be closely scrutinized by the Commission to ensure that the interests of the North Carolina ratepayers to receive service at the most competitive price is protected. Transco believes that if the merger is approved certain safeguards and conditions must be instituted to ensure that North Carolina consumers are able to obtain the most cost effective and reliable service.

Q. WHY IS TRANSCO INTERESTED IN ASSURING THAT THE DOMINION/SCANA ACQUISITION IS ADEQUATELY REGULATED?

A. Transco has been investing for more than sixty years in facilities to provide low cost, reliable natural gas service to North Carolina's LDCs, end users and consumers. Transco provides firm and interruptible transportation, storage and liquefied natural gas ("LNG") peaking services for North Carolina's LDCs, end users and other shippers, including PSNC and consumers located on PSNC's system. Transco currently has firm commitments to provide transportation service of an average of 1,576,222 dekatherms per day ("dt/d") to 17 North Carolina customers, and to provide storage capacity of 6,325,500 dt/d with withdrawal capacity of 127,026 dt/d to four North Carolina customers. Transco delivered approximately 555 billion cubic feet ("Bcf") of natural gas to North Carolina in 2017.

Transco has approximately 560 total miles of pipeline in North Carolina, consisting of three and four mainlines in parallel which range from 24-inch to 42-inch in diameter. Transco has four compressor stations and a total of 55 delivery points to customers in the state. Additionally, Transco employs 76 operating personnel in North Carolina to operate and maintain its facilities.

Q. HAS TRANSCO MADE OTHER INFRASTRUCTURE INVESTMENTS IN NORTH CAROLINA?

Yes. Transco has partnered with North Carolina LDCs, including PSNC, to create additional infrastructure within North Carolina. Wholly owned subsidiaries of Transco own 35% and 45% ownership interests, respectively, in Pine Needle LNG Company, LLC ("Pine Needle") and Cardinal Pipeline Company, LLC ("Cardinal"). Pine Needle is a 4 Bcf LNG storage facility located in Guilford

County, North Carolina, which provides a storage capacity of 3,669,000 dt/d with withdrawal capacity of 366,900 dt/d to two North Carolina customers. Cardinal's system consists of approximately 100 miles of 24-inch diameter pipe and has firm commitments to provide 478,450 dt/d of firm natural gas transportation service to two North Carolina customers, including PSNC.

Finally, Transco has consistently invested to assure that its facilities adequately meet the growing market demand for natural gas in North Carolina by developing projects and constructing facilities to enable North Carolina shippers to access additional gas supply sources on a firm basis to meet existing and future customer needs and to increase the security of those gas supplies. Exhibit 1, attached to my testimony, contains a table of the expansion projects that Transco has undertaken in the past ten years to serve the North Carolina market. This table demonstrates that Transco, together with Cardinal, has developed projects which add a total of 731 dt/d of incremental capacity to serve the gas requirements of the North Carolina consumers as market demand has grown over the past ten year period.

Q. DOES TRANSCO HAVE PLANS FOR FUTURE EXPANSION IN NORTH CAROLINA?

Yes. Transco is also planning to continue expansion of its facilities serving North Carolina. For example, on April 11, 2018, Transco filed with the FERC for a certificate of public convenience and necessity to construct and operate its Southeastern Trail Project to enable Transco to provide an additional 296,375 dt/d of incremental capacity, 60,000 dt/d of which is intended to serve North Carolina, by a target date of November 1, 2020.

Q. PLEASE ELABORATE ON HOW THE PROPOSED MERGER COULD ADVERSELY IMPACT PSNC'S AND SCANA'S RATEPAYERS.

A. The vertically integrated business structure which would result from the proposed merger creates the risk that the interests of North Carolina ratepayers in receiving the best service at the lowest cost could be in direct conflict with the interests of the merged company in supporting its affiliated businesses without sufficient regulatory controls. The merged company, through its affiliates, could exert significant control over electricity and natural gas supplied to North Carolina as well as on the siting of power plants, distribution systems, and intrastate and interstate transmission facilities.

For example, Dominion owns 45% of ACP, a proposed 600 mile pipeline from West Virginia to North Carolina. PSNC has signed a contract with ACP for 100,000 dt/d of capacity. The owners of ACP have expressed the possibility for future expansion opportunities to other markets in North Carolina and South Carolina. Without proper regulatory oversight and controls, Dominion could exercise control over PSNC and/or SCANA to cause them to participate in future expansions of ACP, at a greater cost than similar service on Transco.

If the business structure of the merged company causes PSNC or SCANA to make a decision to purchase transportation or gas service from an affiliate notwithstanding the fact that there is a cheaper and better service alternative available from an unaffiliated supplier, the proposed merger will adversely impact

North Carolina ratepayers. Further, Dominion could exercise control over PSNC to cause it to terminate its existing service agreements with Transco, many of which are beyond the primary term set forth in the contracts and may be terminated upon delivery of the required notice from PSNC to Transco. This could displace PSNC's existing, cost-effective firm transportation service through Transco's legacy pipeline facilities with expensive new infrastructure. Exhibit 2, attached to my testimony, contains a table reflecting the commencement and expiration dates of PSNC's contracts with Transco.

Q. ON WHAT DO YOU BASE YOUR OPIONION THAT TRANSCO PROVIDES A CHEAPER SERVICE THAN ACP?

A. Based on information contained in ACP's public announcements, the capital cost of constructing ACP involves an investment of $5.07 billion to create 1,500 Mdt/d firm capacity. The applicable ACP recourse rate is significantly higher than Transco's rolled-in system rate. The applicable ACP rate is $1.729 dt/d as compared to Transco's currently applicable maximum system rate for transportation from Zone 1 to Zone 5, which covers from Texas to Virginia, of $0.43557 dt/d, including electric power charges.

Q. CAN YOU DESCRIBE THE RELIABILITY AND FLEXIBILITY OF TRANSCO'S SYSTEM?

A. Yes. Transco has provided and continues to provide an extremely reliable source of interstate natural gas pipeline capacity for its customers in North Carolina. This reliability is due to the system-wide flexibility of Transco's system afforded by the total integration of Transco's system, its multiple parallel pipelines, its many compressor units and stations, its storage capacity, substantial line pack capability, and prudent operating and maintenance practices.

In addition to the physical reliability, Transco's system affords its customers the ability to source gas supplies from various gas supply basins attached directly to Transco's vast pipeline network and attached indirectly via Transco's numerous interconnections with third-party pipelines. This supply source diversity serves to reduce the magnitude of the effect of a supply disruption (whether from hurricanes, storms, unplanned outages, etc.).

Q. DOES TRANSCO'S SYSTEM PROVIDE ACCESS TO DIVERSE GAS SUPPLIES?

A. Yes. Shippers on Transco's system are not limited to gas supplied by producers physically connected to Transco's system. Transco is part of an extensive and integrated pipeline grid and through numerous interconnections with other pipeline systems, shippers on Transco's system have access to gas supplies from many different supply basins. For example, shippers can rely on these existing pipeline interconnections to receive gas supplies on other pipeline systems for transportation via the Transco system to North Carolina markets. As a result, shippers on Transco's system have access to diverse gas supplies connected to the interstate grid and supplied by producers as well as marketing companies.

It is well recognized that ample, uncommitted gas supplies are available throughout North America and that a competitive wellhead market for such supplies exists. Given this competitive natural gas market, the transportation component of the rate has a tremendous impact on the price of delivered gas.

Since after the merger, the combined entity would be a supplier of both natural gas and electricity and would be able to pass through its upstream gas supply and transmission costs in its utility rates, PSNC may be indifferent to increases in the price of delivered gas. Consumers of natural gas and electricity, on the other hand, would not be indifferent to increases in the price of delivered gas. It is for this reason that it is so important that PSNC be required as a condition of the merger to contract for the least cost provider of natural gas transportation service.

Q. DOES TRANSCO HAVE SPECIFIC RECOMMENDATIONS FOR NCUC ACTION HEREIN?

A. Yes. Transco believes that due to the potential adverse impact that the proposed merger may have on PSNC's and SCANA's ratepayers, certain safeguards must be included to ensure that the ratepayers continue to receive the best services at the lowest rates. Transco requests that if the NCUC approves the Dominion-SCANA merger, any order of approval include conditions: (a) requiring PSNC to issue a request for proposals for any additional natural gas transmission capacity and engage in good faith negotiations with third party suppliers of natural gas transportation capacity, and affirming the NCUC's intention to carefully scrutinize any affiliated agreements as required by North Carolina Gen. Stat. § 62-153(b); (b) requiring PSNC to file confidential reports on any such negotiations with the NCUC within 30 days after the conclusion of such discussion; and (c) requiring that PSNC follow a "least cost" standard with regard to contracting for gas supplies and transportation and storage services to ensure there is fair competition among competing service providers and that these business decisions are not biased in favor of affiliated transactions, or at a minimum, require PSNC to establish that the contract is in the public interest if it does not accept the "least cost" alternative and an affiliated pipeline/supplier is awarded the contract. A formal statement of these proposed conditions is provided in Exhibit 3, attached to my testimony.

Q. **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS PROCEEDING?**

A. Yes.

MS. HOLT: The Public Staff calls as a Panel Mike Maness, James McLawhorn, Jan Larsen, and Robert Hinton.

CHAIRMAN FINLEY: Looks like we have a cozy Panel here.

(Laughter.)

MR. LARSEN: No pictures.

CHAIRMAN FINLEY: If you'll hold that pose.

JAMES S. MCLAWHORN, MICHAEL C. MANESS, JAN A. LARSEN, AND JOHN ROBERT HINTON;

Having been duly sworn,
Testified as follows:

DIRECT EXAMINATION BY MS. HOLT:

Q Starting with you, Mr. McLawhorn, state your name, business address, and position for the record.

A (McLawhorn) My name is James McLawhorn. I'm the Director of the Public Staff's Electric Division, and my business address is 430 North Salisbury Street, Raleigh, North Carolina.

Q Mr. Maness, could you do the same?

A (Maness) My name is Michael C. Maness. I'm Director of the Accounting Division of the Public Staff, 430 North Salisbury Street, Raleigh, North Carolina.

Q Mr. Larsen?

A (Larsen) My name is Jan A. Larsen. I'm the Director of the Public Staff's Natural Gas Division. Address is 430 North Salisbury Street in Raleigh.

Q And Mr. Hinton?

A (Hinton) My name is John R. Hinton. My business address is 430 North Salisbury Street. I'm Director of Economic Research for the Public Staff.

Q Thank you. Mr. McLawhorn, speaking on behalf of the entire Panel, did the Panel prepare and cause to filed in this docket on September 26, 2018, and revised on October 8th, 2018, testimony consisting of 28 pages, four appendices, and five exhibits?

A (McLawhorn) Yes, we did.

Q Do you have any additional corrections or additions to the revised testimony?

A No, we do not.

Q If you were asked the same questions today, would your answers be the same?

A Yes, they would.

MS. HOLT: I now move, Mr. Chairman, that the joint testimony of Michael Maness, Jan A. Larsen, John R. Hinton, and James McLawhorn, filed on September 26, 2018, as revised on October 8, 2018, consisting of 28 pages, be copied into the record as if given orally from the stand,

and that the four appendices and five exhibits, some of which were marked confidential, be identified as premarked and entered into evidence.

CHAIRMAN FINLEY: All right. The prefiled testimony of the Panel consisting of 28 pages, filed on September 26, 2018, as revised on October 8, 2018, is copied into the record as if given orally from the stand, and the five exhibits and four appendices are marked for identification as premarked in the filing and admitted into evidence at this time, with the acknowledgement that some of the testimony and the exhibits, as far as I know, have confidential information and they may shall be so identified in the transcript.

MS. HOLT: Thank you.

(Whereupon, the public version of the prefiled testimony of the Public Staff and Appendices A through D were copied into the record as if given orally. The confidential version was filed under seal.)

(Whereupon, Public Staff Exhibits 1, 2, 3, 4, and 5 were identified as premarked and admitted into evidence. Public Staff Exhibits 2, 3, and 4 were filed under seal.)

PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

DIRECT TESTIMONY OF THE PUBLIC STAFF

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NOS. E-22, SUB 551 AND G-5, SUB 585

September 26, 2018

Q. **PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.**

A. My name is Michael C. Maness, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am the Director of the Accounting Division of the Public Staff. My qualifications and experience are provided in Appendix A.

Q. **PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.**

A. My name is Jan A. Larsen, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am the Director of the Natural Gas Division of the Public Staff. My qualifications and experience are provided in Appendix B.

Q. **PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.**

A. My name is John R. Hinton, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am the Director of the

Economic Research Division of the Public Staff. My qualifications and experience are provided in Appendix C.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is James S. McLawhorn, and my business address is 430 North Salisbury Street, Raleigh, North Carolina. I am the Director of the Electric Division of the Public Staff. My qualifications and experience are provided in Appendix D.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING.

A. The purpose of our testimony is to present the results of the Public Staff's investigation of the application and direct testimony filed on January 24, 2018, and June 22, 2018, respectfully, by Dominion Energy, Inc. (Dominion Energy or Dominion) and SCANA Corporation (SCANA) (collectively, the Applicants), pursuant to N.C. GEN. STAT. § 62-111(a) for authority to engage in a proposed business combination transaction (Merger), whereby SCANA, the parent company of Public Service Company of North Carolina, Inc. (PSNC), will become a wholly-owned subsidiary of Dominion Energy pursuant to the Agreement and Plan of Merger (Merger Agreement) attached to the application as Exhibit 1; and to set forth commitments made by Dominion Energy and SCANA, and their public utility subsidiaries, Dominion Energy North Carolina (DENC) and PSNC, respectively, in Dominion's Regulatory Conditions and Code of Conduct. In our testimony, we describe the scope of the Public Staff's investigation of the proposed Merger; discuss the balancing of costs and benefits of the proposed business combination; discuss the rules governing affiliate transactions; describe the primary reasons for and major provisions of the Merger-related Regulatory Conditions and Code of Conduct recommended by the Public Staff, which are attached as Exhibit 1; and present the Public Staff's recommendation regarding the North Carolina Utilities Commission (Commission) approval of the transaction.

Q. PLEASE DESCRIBE THE PUBLIC STAFF'S INVESTIGATION.

A. A task force of accountants, engineers, attorneys, and financial analysts conducted an investigation of the proposed Merger, including the market power and cost-benefit analyses submitted with the application. The Public Staff submitted data requests to the Applicants and reviewed the responses to those data requests. The Public Staff also reviewed the Merger proxy statements and other documents filed by the Applicants with the Securities and Exchange Commission, and the Applicants' submissions to the Federal Trade Commission and the US Department of Justice pursuant to the Hart-Scott-Rodino Antitrust Improvements Act.

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Q. WHY IS IT IMPORTANT TO IDENTIFY AND BALANCE THE COSTS AND BENEFITS OF A PROPOSED MERGER OR BUSINESS COMBINATION?

A. N.C. GEN. STAT. § 62-111(a) provides that no merger or combination affecting any public utility shall be made through acquisition or control by stock purchase or otherwise, except after Commission approval, which "shall be given if justified by the public convenience and necessity." This statute requires the Commission to review all aspects of a proposed merger and to balance all potential benefits and costs of the merger in determining whether the transaction should be approved. In reviewing applications for merger approval, the Commission has considered such factors as the maintenance of or improvement in service quality, the extent to which costs can be lowered and rates can be maintained or reduced, the extent to which the merger could have anticompetitive effects, the continuation of effective state regulation, and the relationships between and among the various units of the merged firm. In approving a merger application, the Commission has sought to ensure that the proposed transaction would have no adverse impact on the rates charged and the service provided to North Carolina jurisdictional ratepayers,1 that ratepayers were protected and insulated to the maximum extent possible from all known and

[1] Includes North Carolina retail electric customers of Dominion and North Carolina customers of SCANA.

potential costs and risks associated with the transaction, and that the benefits of the transaction to ratepayers were sufficient to offset those potential costs and risks.

As explained in the Order Approving Merger Subject to Regulatory Conditions and Code of Conduct, issued September 29, 2016, in Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682 (Duke/Piedmont Merger Order):

> In prior merger proceedings the Commission has established a three-part test for determining whether a proposed utility merger is justified by the public convenience and necessity. That test is (1) whether the merger would have an adverse impact on the rates and services provided by the merging utilities; (2) whether ratepayers would be protected as much as possible from potential costs and risks of the merger; and (3) whether the merger would result in sufficient benefits to offset potential costs and risks. See Order Approving Merger Subject to Regulatory Conditions and Code of Conduct (Duke/Progress Merger Order), issued June 29, 2012, in Docket Nos. E-2, Sub 998 and E-7, Sub 986, aff'd, In re Duke Energy Corp., 232 N.C. App. 573, 755 S.E.2d 382 (2014). These questions are related to one another and together establish a reasoned framework upon which utility mergers may be evaluated. In making these assessments, the Commission has also examined factors such as whether service quality will be maintained or improved, the extent to which costs can be lowered and rates can be maintained or reduced, and whether effective regulation of the merging utilities will be maintained. See Order Approving Merger and Issuance of Securities, issued April 22, 1997, in Docket No. E-7, Sub 596.

Duke/Piedmont Merger Order, p. 68.

Q. WHAT ARE THE REQUIREMENTS OF THE COMMISSION'S ORDER REQUIRING FILING OF ANALYSES, ISSUED NOVEMBER 2, 2000, IN DOCKET NO. M-100, SUB 129 (M-100, SUB 129 ORDER)?

A. The M-100, Sub 129 Order requires that merger applications be accompanied by a market power analysis and a cost-benefit analysis. The Applicants submitted both a cost-benefit analysis and a market power analysis with the application to comply with this requirement. In its *Order Scheduling Hearing, Establishing Procedural Deadlines, and Requiring Public Notice* issued on June 19, 2018, in the current proceeding, the Commission found and concluded that the application satisfies the requirements of the Order Requiring Filing of Analyses. An investigation and verification of the cost-benefit analysis and market power analysis is an essential part of the Commission's consideration of the proposed Merger and application of the statutory standard for approval. The Public Staff believes that the quantitative benefits of the Merger, together with strong regulatory conditions proposed by the Public Staff, are sufficient to meet that standard.

Q. PLEASE DESCRIBE THE PROPOSED TRANSACTION.

A. In accordance with the Merger Agreement, each issued and outstanding share of common stock of SCANA (other than the cancelled shares as defined in Section 2.01(b) of the Merger

Agreement) will be converted into the right to receive 0.6690 validly issued, fully paid and non-assessable shares of common stock of Dominion Energy. Based on SCANA's book value as of December 31, 2017, of $11.161 billion,[2] the purchase will result in an estimated $839 million acquisition premium.[3] This will be recorded at the Dominion Energy holding company level and will not impact DENC's or PSNC's financial statements. Upon the close of the Merger, SCANA will no longer be a publicly traded company, but will continue to exist as a wholly-owned direct subsidiary of Dominion. PSNC will remain a direct, wholly-owned subsidiary of SCANA, and is expected to retain its current name, corporate form and headquarters. The Applicants state that none of the acquisition premium costs will be passed on to DENC's or PSNC's customers

Q. PLEASE DESCRIBE PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

A. PSNC is a corporation organized and existing under the laws of the State of South Carolina, having its principal office and place of business in Gastonia, North Carolina. PSNC is a wholly-owned subsidiary of SCANA, a South Carolina holding company. PSNC is a public utility under the laws of North Carolina and its operations in

[2] Page D-6 of Proxy Statement dated June 15, 2018. Online at https://www.sec.gov/Archives/edgar/data/754737/000119312518193204/d454173ddefm14a.htm.

[3] *Id.* at Page 124, Note 4(g).

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this State are subject to the jurisdiction of the Commission pursuant to N.C. GEN. STAT § 62-2. PSNC is primarily engaged in the purchase, sale, transportation, and distribution of natural gas to more than 563,000 customers in North Carolina, within a service territory consisting of all or parts of twenty-eight counties in central and western North Carolina.

Q. PLEASE DESCRIBE DOMINION ENERGY NORTH CAROLINA.

A. Virginia Electric and Power Company, a wholly-owned subsidiary of Dominion Energy, is a public utility operating in the State of North Carolina as DENC. DENC is engaged in the business of generating, transmitting, distributing and selling electric power and energy to the public for compensation, and, as such, its operations in the State are subject to the jurisdiction of the Commission. DENC is also a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). DENC is also a member of the regional transmission organization, PJM Interconnection LLC (PJM). DENC serves approximately 120,000 customers in North Carolina, with a service territory of about 2,600 square miles in northeastern North Carolina.

Q. HOW WILL THE MERGER AFFECT THE OWNERSHIP OF PSNC?

A. Under the Merger Agreement, SCANA will become a direct, wholly-owned subsidiary of Dominion Energy and PSNC will remain a direct,

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wholly-owned subsidiary of SCANA that will continue to exist as a separate legal entity.

Q. PLEASE EXPLAIN THE PURPOSE OF THE REGULATORY CONDITIONS RECOMMENDED BY THE PUBLIC STAFF.

A. As a result of its investigation, the Public Staff developed its recommended Regulatory Conditions, which the Public Staff believes are necessary to ensure that the Merger meets the Commission's three-part test for determining whether a proposed utility merger is justified by the public convenience and necessity, serves the public interest, and affords benefits and protections for North Carolina ratepayers.

Q. PLEASE EXPLAIN THE BENEFITS AND PROTECTIONS OF THE PROPOSED MERGER FOR NORTH CAROLINA RATEPAYERS.

A. Presented below is a description of the Merger benefits and protections proposed in this docket:

Merger-Related Direct Expenses. The Merger–Related Direct Expenses are composed of change-in-control payments made to terminated executives, regulatory process costs, and transaction costs, such as investment banking, legal, accounting, securities issuances and advisory fees. Integration costs include the integration of financial, IT, human resources, billing, accounting, and telecommunications systems. Other transition costs could include

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severance payments to employees, changes to signage, the cost of transitioning employees to post-merger employee benefit plans, and costs to terminate any duplicative leases, contracts and operations, etc. The Applicants stated that the Merger will not have a net adverse impact on the rates and services of DENC or PSNC. The Applicants further stated that they have not yet determined the transaction fees, integration costs, and any acquisition premium that will result from the Merger, but have committed that none of these costs will be passed on to the customers of PSNC or DENC.

Based on the Public Staff's review of SCANA's Proxy Statement dated June 15, 2018, SCANA has estimated transaction costs of $59.0 million.[4] According to the Companies the incremental change in control payments to SCANA executives could total as much as [BEGIN CONFIDENTIAL] [redacted] [END CONFIDENTIAL].[5] We are recommending that DENC and PSNC file a summary report of their final accounting for Merger-Related Direct Expenses, as well as the calculation of the acquisition premium, within 60 days after the close of the Merger, and supplemental reports, as necessary, within 60 days after each quarter.

Merger-Related Cost Savings. The Applicants stated that the Merger provides only benefits, and no detriment, to the State of North

[4] *Id.* at Page 123, Note 4(b).
[5] Confidential Response to Public Staff Data Request 6-13.

Carolina and to PSNC customers. The Applicants also stated that the economic benefits to customers are currently unquantifiable. The Public Staff is concerned that neither Dominion nor SCANA has quantified benefits to PSNC or DENC ratepayers as has been the case in prior natural gas and electric mergers in this State. In response to data requests regarding projected cost savings and benefits to PSNC ratepayers, the Applicants responded that, while they anticipated benefits and cost savings as a result of the Merger, they were unable to quantify the savings at this time. Due to the lack of concrete information, the Public Staff recommends the merger be subject to the following conditions to ensure sufficient benefits to offset potential costs and risks to PSNC's and DENC's ratepayers: (1) a bill credit to PSNC customers totaling $3.75 million over 3 years; (2) a Rate Moratorium until November 1, 2021 for PSNC's customers; (3) holding DENC and PSNC customers harmless from the impacts of debt downgrades for a period of five years; (4) requiring PSNC to maintain current levels of customer service and behavior towards customers and professional cooperation with regulators, consumer advocates, and intervenors; (5) post-merger opportunities for the electric utility operations of DENC and SCE&G; and (6) other benefits to customers such as the Most Favored Nations Clause that is intended to ensure that North Carolina retail customers receive the benefit of a "Most Favored Nation" status with

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regard to the provision of Merger benefits and protections among the states involved in this proceeding.

Financing – Ring Fencing and Cost of Debt. The Applicants stated that Dominion Energy, through SCANA, will provide equity, as needed, to PSNC with the intent of maintaining PSNC's current capital structure and credit ratings, and commit to maintain credit metrics that are supportive of strong investment-grade credit ratings for PSNC.

The Public Staff further recommends that additional language be added to the Regulatory Conditions related to the ring fencing and the replacement cost of debt, primarily due to the legal and regulatory uncertainty in South Carolina concerning whether SCE&G is entitled to recovery of costs incurred on its abandoned V.C. Summer nuclear plant and the related recent debt downgrades.

MERGER-RELATED COST SAVINGS

Q. PLEASE EXPLAIN THE PUBLIC STAFF'S RECOMMENDATIONS TO ENSURE POTENTIAL BENEFITS AND COST SAVINGS FOR PSNC AND DENC CUSTOMERS SHOULD THE MERGER BE APPROVED?

A. As stated earlier, the Public Staff is concerned that neither DENC nor SCANA has provided evidence of quantifiable benefits to PSNC or DENC ratepayers. Based on prior mergers approved by this

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Commission, the Public Staff believes that some level of cost savings will be realized through integration of the companies in the event the merger is approved and consummated. The Public Staff recommends that PSNC provide a total bill credit of $3.75 million that will be credited to customers in increments of $1.25 million on January 1, 2019, $1.25 million on January 1, 2020, and $1.25 million on January 1, 2021. Based on the proportionate share of expected savings when compared to credits given to customers in past merger proceedings, the Public Staff believes a total payout of $3.75 million is an appropriate amount to flow through to PSNC customers at this time to ensure they receive a quantifiable benefit from cost savings.

Q. HAS THIS COMMMISSION HISTORICALLY APPROVED MERGER SAVINGS IN SUPPORT OF NATURAL GAS COMPANY MERGERS IN THIS STATE?

A. Yes. There have been three mergers involving North Carolina Local Distribution Companies (LDCs) since 1999, and all three have resulted in either rate reductions or one time bill credit for the acquired LDC. In Docket No. G-5, Sub 400, PSNC was acquired by SCANA, and PSNC was required to reduce rates by $1,043,542 within six months of the closing date of its proposed business combination with SCANA and by an additional $1,043,542 within eighteen months of that closing date. In a business combination transaction with Duke Energy Corporation and Piedmont Natural

Gas Company, Inc., (Piedmont) in Docket Nos. E-2, Sub 1095, E-7, Sub 100, and G-9, Sub 682, Piedmont agreed to credit $10 million to its North Carolina customers through a one-time bill credit to be completed by December 31, 2016. The most recent natural gas merger involving an application by Frontier Natural Gas Company (Frontier) and FR Bison Holdings, Inc., and First Reserve Corporation in Docket No. G-40, Sub 136, to acquire one hundred percent (100%) of the stock of Gas Natural, Inc. Frontier agreed to credit $100,000 to its North Carolina customers through a one-time bill credit to be completed by the last day of the first full month following the closing of the merger. (Note that Frontier has 3,800 customers as compared to PSNC's 563,000 and Piedmont's 750,000 North Carolina natural gas customers.)

Q. PLEASE EXPLAIN THE PUBLIC STAFF'S RECOMMENDATION FOR A RATE MORATORIUM FOR PSNC.

A. The Applicants have stated in response to data requests that the savings associated with the merger integration plans may not be fully implemented until December 31, 2019. Therefore, the Public Staff recommends that PSNC not be permitted to increase its non-gas cost margin in its rates before November 1, 2021, except for the following reasons: (1) gas cost adjustments or changes in increments or decrements pursuant to N.C. GEN. STAT. § 62-133.4 and 133.7; (2) to reflect the financial impact of governmental action (legislative, executive or regulatory) having a substantial specific impact on the gas industry generally or on a segment thereof that includes PSNC, including but not limited to major expenditures for environmental compliance; (3) to implement natural gas expansion surcharges imposed pursuant to N.C. GEN. STAT. § 62-158; or (4) to reflect the financial impact of major expenditures associated with force majeure.

For purposes of this condition, the term force majeure means an occurrence that is beyond the control of DENC or PSNC and not attributable to either's fault or negligence. Without limiting the foregoing, force majeure includes acts of nature, like earthquakes, cyclones, rain, tornadoes, hurricanes, flood, fire, acts of the public enemy, war, riots, strikes, mobilization, labor disputes, civil disorders, injunctions-intervention-acts, or failures or refusals to act by government authority; and other similar occurrences beyond the control of the party declaring force majeure which such party is unable to prevent by exercising reasonable diligence. To qualify as an exception, a force majeure event must be reported within 15 working days of its occurrence. Any request pursuant to these exceptions will include a specification of the reasons for the request and an accurate quantification of the financial impact of the request.

For purposes of this condition, the "margin rate" is defined as the tariffed sales rate less the benchmark commodity cost of gas, fixed

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gas cost rate, and temporary increments and/or decrements imposed pursuant to N.C. GEN.STAT. § 62-133.4 and 133.7.

In addition, the Public Staff recommends that PSNC not be allowed to file for new cost deferrals during the rate moratorium time period in order to further protect ratepayers. This condition is designed to protect PSNC's ratepayers from increases in margin rates because of the merger and to ensure that PSNC's ratepayers obtain tangible benefits from the merger. Exceptions are provided for normal gas cost adjustments, governmental actions and significant unexpected events over which PSNC has no control.

Q. **HAS THIS COMMMISSION HISTORICALLY APPROVED RATE MORATORIUMS IN SUPPORT OF NATURAL GAS COMPANY MERGERS IN THIS STATE?**

A. Yes. In two of the three natural gas merger cases listed above involving North Carolina LDCs, a rate moratorium was approved ranging from two to five years. Since PSNC's last General Rate Case, in Docket No. G-5, Sub 565, was approved by the Commission on October 28, 2016 (PSNC Sub 565 Rate Order), the Public Staff recommends a rate moratorium of approximately three years from the date of the expected order in this docket.

Q. **HOW WILL THE RATE MORATORIUM AFFECT PSNC'S INTEGRITY MANAGEMENT TRACKER (IMT)?**

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A. In the PSNC Sub 565 Rate Order, the Commission found that the proposed IMT expressly provides for Commission review of the mechanism at the earlier of PSNC's next general rate case proceeding or four years from the implementation of the mechanism. Therefore, the Public Staff believes that the IMT can still continue ~~with~~ without PSNC having to file a general rate case.

Q. HAS THE PUBLIC STAFF IDENTIFIED ANY DIRECT BENEFITS OF THE MERGER THAT WILL ACCRUE TO DENC RETAIL ELECTRIC CUSTOMERS?

A. No. In response to a Public Staff data request, Dominion Energy stated that the electric utility operations of Virginia Electric and Power Company (d/b/a DENC) and South Carolina Electric & Gas Company (SCE&G) will remain separate, and the corporate functions will continue to be provided by separate service companies for the foreseeable future. In addition, Dominion stated that there has been no evaluation of joint operational planning, purchasing, and services between the electric utilities, or any affiliate or subsidiary, post-merger. Such joint planning, purchasing, and services is understood to include: (1) Generating Plants – major equipment purchases, leases, spares or reserves, fuel, and maintenance and repair services; (2) Transmission – major equipment purchases, spares or reserves, and maintenance and repair services; and (3) Distribution

– major equipment purchases, spares or reserves, and maintenance and repair services.

Q. DO YOU HAVE ANY RECOMMENDATIONS IN THIS REGARD?

A. Yes. We recommend that the electric utility operations of DENC and SCE&G, along with their affiliates and subsidiaries, look for post-merger opportunities to engage in joint planning, purchasing, and services that will result in cost savings to DENC's retail electric customers, while not compromising reliability or service quality.

FINANCING – RING FENCING & COST OF DEBT

Q. DOES THE PUBLIC STAFF RECOMMEND ADDITIONAL RING FENCING CONDITIONS?

A. Yes. The Public Staff believes there should be additional provisions regarding the replacement cost rate for debt.

Q. DO ANY CREDIT RATING AGENCIES HAVE CONCERNS WITH DOMINION ENERGY'S MERGER WITH SCANA?

A. Yes. As part of the Merger, Dominion Energy would also acquire SCANA's other wholly-owned subsidiary, SCE&G, which is currently embroiled in legal and regulatory actions in South Carolina related to whether it is entitled to recovery of costs incurred on its abandoned V.C. Summer nuclear plant. Following the announcement in July 2017 by SCE&G and Santee Cooper to cease all construction and

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abandon the nuclear facility, the credit ratings of SCANA, SCE&G, and PSNC declined, as shown in Confidential Public Staff Exhibit 2.

The political uncertainty associated with SCE&G's rate recovery issues and concerns over the decreased cash flow of SCANA have been noted by Moody's Investors Service (Moody's) and S&P. Their concerns were heightened after a federal court's denial of SCE&G's request for a preliminary injunction to halt a 15% rate reduction associated with SCE&G's past recovery of costs incurred on the abandoned nuclear plant. The South Carolina Legislature enacted House Bill 4375, which directed the South Carolina Public Service Commission (SCPSC) to temporarily reduce SCE&G's rates by approximately $31 million per month.[6] On July 2, 2018, the SCPSC implemented the new law, which required SCE&G to implement a rate reduction until a final decision regarding permanent rates for the abandoned nuclear project was determined.[7] Credit rating agencies viewed any incremental and ongoing losses of SCANA as a credit negative to Dominion's acquisition, which is shown in Confidential Public Staff Exhibit 3 and 4.

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[6] 2018 S.C. Acts 258, online at: https://www.scstatehouse.gov/sess122_2017-2018/bills/4375.htm.

[7] SCPSC Docket No. 2018-217-E - Procedure Addressing Implementation of South Carolina General Assembly House Bill 4375, Including Provision of an Experimental Rate as Referenced in S. C. Code Ann. Section 58-34-20. Online at: https://dms.psc.sc.gov/Attachments/Order/0db17176-a490-4527-ac1e-84e35952eb31.

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Q. HOW WILL THE MERGER AFFECT THE BORROWING COST FOR PSNC?

A. Given the recent credit downgrades of PSNC and the higher credit ratings of Dominion Energy, it is reasonable to expect that PSNC will be able to obtain long-term debt capital at lower rates than currently are available if a merger with Dominion is consummated. For example, PSNC's June 15, 2018, $100 million issuance of 10-year senior notes was at a 4.33% debt rate; whereas, [BEGIN CONFIDENTIAL] [redacted] [END CONFIDENTIAL] Shown below are the long-term issuer credit ratings by Moody's, and S&P for SCANA Corp., South Carolina Electric & Gas, PSNC, Dominion Energy, and four Dominion Energy subsidiaries.

[8] Applicant's Confidential Response to Public Staff Data Request No. 12-2.

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[BEGIN CONFIDENTIAL]

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
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[redacted]	[redacted]	[redacted]

[redacted]

[END CONFIDENTIAL]

Q. HOW WILL THE MERGER AFFECT THE BORROWING COST FOR DENC?

A. It is not known at this time. The political uncertainty with regard to SCE&G's cost recovery of its abandoned nuclear project in South Carolina may have negative effects on Dominion Energy's financial condition, which could increase the borrowing costs of DENC. As noted in Confidential Public Staff Exhibit 3, [BEGIN CONFIDENTIAL] [redacted]

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[redacted] [END CONFIDENTIAL]

Q. DOES THE PUBLIC STAFF BELIEVE THAT THE MERGER WILL MAKE PSNC A FINANCIALLY STRONGER COMPANY?

A. Yes. We believe that the increased financial strength of Dominion Energy, the expectation of PSNC's enhanced credit ratings, and PSNC's greater access to capital markets will make PSNC a stronger company. However, this was the same expectation in the 1999 merger case between SCANA and PSNC.[9] In the 1999 merger proceeding, Charles E. Zeigler, the CEO of PSNC, Mr. William B. Timmerman, the CEO of SCANA, and Public Staff witness Thomas Farmer testified that SCANA's significantly larger size and its progressive and successful management team would facilitate future financial stability.[10] Witness Farmer testified that the merged company would be much larger than PSNC on a stand-alone basis, which should provide an opportunity for PSNC to reduce its capital costs. He noted that the higher debt rating of SCANA and its access to capital would be improved. He concluded by stating that the net result should be a reduction in PSNC's cost of borrowing.[11] As such,

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[9] Docket No. G-5, Sub 400: Amended Testimony of Charles E. Zeigler August 19, 1999, page 7 of 9, lines 6-8; Amended Testimony of William B. Timmerman, August 19, 1999, page 9 of 13; Joint Testimony of Public Staff, September 13, 1999, page 6 of 28.

[10] *Id.*

[11] Docket No. G-5, Sub 400, Transcript of Testimony Vol. 7, pp 100-02, 111, heard September 28, 1999.

there are no regulatory conditions that completely insulate utilities from future credit downgrades.

Q. PLEASE EXPLAIN REGULATORY CONDITION 8.2 ON THE REPLACEMENT COST OF DEBT FOR PSNC AND DENC.

A. The Public Staff recommends that the Commission approve this regulatory condition in order to protect PSNC's and DENC's ratepayers from the added risk of a credit downgrade that will lead to higher costs of borrowing than what is appropriate for a LDC comparable to PSNC and an electrical utility comparable to DENC. To accomplish this, the Public Staff recommends that, in the event of a future PSNC debt downgrade that occurs after the Merger and is attributable to the electric utility operations of Dominion Energy, a replacement cost rate for long-term debt for any new financings of PSNC should be employed. The replacement cost rate should assume that PSNC has a credit rating of a "BBB+" by S&P and an "A2" by Moody's for its long-term debt. Similarly, if Dominion Energy has a downgrade that is attributed to the Merger caused, in part, from inadequate cost recovery for SCE&G's Summer units and the political uncertainty in South Carolina; then, a similar replacement cost rate of debt is appropriate for DENC that is based on a "BBB+" by S&P and an "A2" by Moody's for its long-term debt. The Public Staff further recommends that this condition remain in effect for the next five years.

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Q. WHY DO YOU RECOMMEND THE USE OF A REPLACEMENT COST RATE OF DEBT BASED ON A "BBB+" LONG-TERM DEBT RATING BY S&P FOR PSNC AND DENC?

A. The Public Staff has selected these ratings by S&P because it is reasonable to expect that PSNC, as a stand-alone company, would have these ratings absent the 2017 and 2018 downgrades associated with SCE&G's abandoned nuclear project. Secondly, these are the current debt ratings of Virginia Electric Power Company and several of its subsidiary companies as noted on Company witness Chapman's Exhibit JRC 2. Third, as shown in Confidential Public Staff Exhibit 2 [BEGIN CONFIDENTIAL] [redacted] [END CONFIDENTIAL]

SERVICE QUALITY

Q. WHAT MERGER COMMITMENTS HAVE BEEN MADE BY DENC AND PSNC RELATED TO SERVICE QUALITY?

A. DENC and PSNC should maintain current levels of customer service and behavior towards customers and professional cooperation with regulators, consumer advocates, and intervenors, Section XI of the proposed Regulatory Conditions address commitments by both DENC and PSNC to provide superior public utility service.

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PJM REGULATORY OBLIGATIONS OF DENC

Q. WHAT ARE THE EFFECTS OF THE MERGER ON THE PJM REGULATORY CONDITIONS IMPOSED BY THE COMMISSION ON DENC IN DOCKET NO. E-22, SUB 532?

A. The Public Staff believes that based on the revised regulatory conditions contained in Section VI, as filed in this proceeding, all of the PJM conditions imposed by the Commission in Docket No. E-22, Sub 532 will remain in effect.

MARKET POWER

Q. DOES THE PUBLIC STAFF HAVE ANY MARKET POWER CONCERNS WITH THE MERGER?

A. Our review of the Company witness Hunger's testimony, Dominion Energy and SCANA Corp. (Applicants) joint application under Section 203 of the Federal Power Act, and the July 12, 2018, FERC Order[12] support the findings that the Merger is in the public interest. The FERC Order notes that the retail rates of Dominion Virginia and DENC's, and SCE&G will be regulated by the Virginia, North Carolina, and South Carolina regulatory commissions, respectively and that there is no geographic overlap of service areas.[13] With respect to market power with the wholesale gas sector, the

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[12] *Dominion Energy, Inc.*, 164 FERC ¶ 62,025 (July 12, 2018), online at: https://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=14970923.
[13] *Id.*

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Applicants noted that the combined share of firm capacity is about 21 percent (taking into account the completion of the Atlantic Coast Pipeline, Transco Sunrise pipeline, and the Mountain Valley Pipeline in 2018 and 2019) and that pipeline customers do not have the ability to withhold capacity or take actions that would raise costs to rivals. Furthermore, the Public staff's recommended Regulatory Conditions and Code of Conduct provide cost allocation and pricing standards, natural gas marketing standards, requirements regarding the sharing of potentially competitively sensitive information, and requirements to file cost allocation manuals and annual reports on affiliate transactions which should work to minimize any market power of the merged company. Public Staff Exhibit 5 presents the total MW generation segmented by fuel and by the ultimate owners for Duke Energy Corporation, Dominion Energy, Inc., SCANA Corporation and the MW generated by other owners in the three states of Virginia, North Carolina, and South Carolina, showing that the combined companies still rank behind Duke Energy in total MW generation.

OTHER RECOMMENDATIONS

Q. PLEASE DESCRIBE THE PUBLIC STAFF'S RECOMMENDATION THAT THE MERGER CONTAIN A MOST FAVORED NATION CLAUSE.

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A. A most favored nation clause ensures that PSNC and DENC customers in North Carolina will be treated no worse than customers in other jurisdictions as a result of the merger.

Following the approval of the Merger by the state commissions of Georgia, South Carolina, and any other jurisdictions where DENC or PSNC must obtain approval, and approval of merger-related affiliate agreements and any other merger-related filings required to be or otherwise approved by any applicable jurisdiction, any mechanisms pursuant to which benefits and ratepayer protections are provided to DENC and/or PSNC retail customers in each of these states should be reviewed to identify the states in which each utility's retail customers will receive the largest financial (including, but not limited to, rate reductions, rebates, refunds, other payments, bill credits, rate moratoriums, etc.) and non-financial benefits, and other ratepayer protections, on a per customer or pro rata basis. If the application of those benefits to either utility's North Carolina retail ratepayers would result in a greater level of benefits and/or protections than that which has otherwise been provided for North Carolina retail customers in these Regulatory Conditions, then the benefits and protections to that utility's North Carolina retail ratepayers should be increased to match the greatest level of benefits and protections provided to the retail ratepayers in any of the other jurisdictions.

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Application of this methodology is intended to ensure that North Carolina retail customers receive the benefit of a "Most Favored Nation" status with regard to the provision of Merger benefits and protections among the states named above. In no event will the application of the methodology ~~be~~cause North Carolina retail customers' benefits or protections to be reduced. To facilitate this review, DENC and PSNC should jointly to file final Orders, Stipulations, etc. from all jurisdictions listed above.

Q. WHAT IS THE PUBLIC STAFF'S RECOMMENDATION WITH REGARD TO THE PROPOSED MERGER?

A. The Public Staff recommends that the proposed Merger of Dominion and SCANA be approved, subject to the conditions outlined above and the provisions of its proposed Regulatory Conditions and the Code of Conduct, which varies from those filed by the Applicants. The Public Staff, however, intends to engage in settlement negotiations with the Applicants to attempt to reach agreement on the Regulatory Conditions and Code of Conduct.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE

MICHAEL C. MANESS

I am a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science degree in Business Administration with Accounting. I am a Certified Public Accountant and a member of both the North Carolina Association of Certified Public Accountants and the American Institute of Certified Public Accountants.

As Director of the Accounting Division of the Public Staff, I am responsible for the performance, supervision, and management of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings. I have been employed by the Public Staff since July 12, 1982.

Since joining the Public Staff, I have filed testimony or affidavits in several general, fuel, and demand-side management/energy efficiency rate cases of the utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, and Virginia Electric and Power Company (Dominion Energy North Carolina) as well as in several water and sewer general rate cases. I have also filed testimony or affidavits in other proceedings, including applications for certificates of public convenience and necessity for the construction of generating facilities, applications for approval of self-generation deferral rates, applications for approval of cost and incentive recovery mechanisms for electric utility demand-side management and energy efficiency (DSM/EE) efforts, and applications for approval of cost and incentive recovery pursuant to those mechanisms.

I have also been involved in several other matters that have come before this Commission, including the investigation undertaken by the Public Staff into the operations of the Brunswick Nuclear Plant as part of the 1993 Carolina Power & Light Company fuel rate case (Docket No. E-2, Sub 644), the Public Staff's investigation of Duke Power's relationship with its affiliates (Docket No. E-7, Sub 557), and several applications for business combinations involving electric utilities regulated by this Commission. Additionally, I was responsible for performing an examination of Carolina Power & Light Company's accounting for the cost of Harris Unit 1 in conjunction with the prudence audit performed by the Public Staff and its consultants in 1986 and 1987.

I have had supervisory or management responsibility over the Electric Section of the Accounting Division since 1986, and also was assigned management duties over the Water Section of the Accounting Division during the 2009-2012 time frame. I was promoted to Director of the Accounting Division in late December 2016.

APPENDIX B

QUALIFICATIONS AND EXPERIENCE

JAN A. LARSEN

I graduated from North Carolina State University in 1983 with a Bachelor of Science degree in Civil Engineering. I was employed with Law Engineering Testing Company as a Materials Engineer from 1983 to 1984. From 1984 until 1986, I was employed by the North Carolina Department of Transportation as a Highway Engineer.

In 1986, I was employed by the Public Staff's Water Division as a Utilities Engineer I. In 1992, I was promoted to Utilities Engineer II with the Public Staff's Natural Gas Division and promoted to Utilities Engineer III in 2002.

In May of 2016, I was promoted to the Director of the Public Staff's Natural Gas Division. My most current work experience with the Public Staff includes the following topics:

1. Rate Design
2. Allocated Cost-of-Service Studies
3. Purchase Gas Cost Adjustment Procedures
4. Tariff Filings
5. Natural Gas Expansion Project Filings
6. Depreciation Rate Studies
7. Annual Review of Gas Costs
8. Weather Normalization Adjustments
9. Customer Utilization Trackers / Margin Decoupling Trackers
10. Feasibility Studies / Line Extension Policies
11. Pipeline Integrity Management Riders
12. Mergers and Acquisitions

APPENDIX C

QUALIFICATIONS AND EXPERIENCE

JOHN ROBERT HINTON

I received a Bachelor of Science degree in Economics from the University of North Carolina at Wilmington in 1980 and a Master of Economics degree from North Carolina State University in 1983. I joined the Public Staff in May of 1985. I filed testimony on the long-range electrical forecast in Docket No. E-100, Sub 50. In 1986, 1989, and 1992, I developed the long-range forecasts of peak demand for electricity in North Carolina. I filed testimony on electricity weather normalization in Docket Nos. E-7, Sub 620, E-2, Sub 833, and E-7, Sub 989. I filed testimony on customer growth and the level of funding for nuclear decommissioning costs in Docket No. E-2, Sub 1023. I filed testimony on the level of funding for nuclear decommissioning costs in Docket Nos. E-7, Sub 1026 and E-7, Sub 1146. I have filed testimony on the Integrated Resource Plans (IRPs) filed in Docket No. E-100, Subs 114 and 125, and I have reviewed numerous peak demand and energy sales forecasts and the resource expansion plans filed in electric utilities' annual IRPs and IRP updates.

I have been the lead analyst for the Public Staff in numerous avoided cost proceedings, filing testimony in Docket No. E-100, Subs 106, 136, 140, and 148. I have filed a Statement of Position in the arbitration case involving EPCOR and Progress Energy Carolinas in Docket No. E-2, Sub 966. I have filed testimony in applications of avoided cost for cost recovery of energy efficiency programs and

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demand side management programs in Dockets Nos. E-7, Sub 1032, E-7, Sub 1130, E-2, Sub 1145, and E-2, Sub 1174.

I have filed testimony on the issuance of certificates of public convenience and necessity (CPCN) in Docket Nos. E-2, Sub 669, SP-132, Sub 0, E-7, Sub 790, E-7, Sub 791, and E-7, Sub 1134.

I have filed testimony on the issue of fair rate of return in Docket Nos. E-22, Sub 333; E-22, Sub 412; P-26, Sub 93; P-12, Sub 89; G-21, Sub 293;P-31, Sub 125; G-5, Sub 327; G-5, Sub 386; G-9, Sub 351; P-100, Sub 133b; P-100, Sub 133d (1997 and 2002); G-21, Sub 442; W-778, Sub 31; and W-218, Sub 319, E-22, Sub 532, and W-218, Sub 497 and in several smaller water utility rate cases.. I have filed testimony on credit metrics and the risk of a downgrade in Docket No. E-7, Sub 1146.

I have filed testimony on the hedging of natural gas prices in Docket No. E-2, Subs 1001 and 1018. I have filed testimony on the expansion of natural gas in Docket No. G-5, Subs 337 and 372. I performed the financial analysis in the two audit reports on Mid-South Water Systems, Inc., Docket No. W-100, Sub 21. I testified in the application to transfer of the CPCN from North Topsail Water and Sewer, Inc. to Utilities, Inc., in Docket No. W-1000, Sub 5. I have filed testimony on rainfall normalization with respect of water sales in Docket No. W-274, Sub 160.

With regard to the 1996 Safe Drinking Water Act, I was a member of the Small Systems Working Group that reported to the National Drinking Water Advisory Council of the U.S. Environmental Protection Agency. I have published an article in

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the National Regulatory Research Institute's Quarterly Bulletin entitled Evaluating Water Utility Financial Capacity.

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APPENDIX D

QUALIFICATIONS AND EXPERIENCE

JAMES S. MCLAWHORN

I graduated with honors from North Carolina State University with the Bachelor of Science Degree in Industrial Engineering in May of 1984. I received the Master of Science Degree in Management with a finance concentration from North Carolina State University in December of 1991. While an undergraduate, I was selected for membership in both Tau Beta Pi and Alpha Pi Mu engineering honor societies.

I began my employment with the Public Staff Communications Division in June of 1984. While with the Communications Division, I testified before the Commission in general rate proceedings regarding matters of telephone quality of service.

In September of 1987, I was employed by GTE-South as an engineer in the Capital Recovery Department. I was responsible for analysis and Recommendations to Company management regarding appropriate depreciation rates for recovery of the Company's capital investments.

I began my employment with the Electric Division of the Public Staff in November of 1988. I assumed my present position as Director of the Electric Division in October of 2006. It is my responsibility to supervise, and make policy recommendations on, all electric utility matters pending before the Commission.

I have testified previously before the Commission in numerous proceedings including Duke Energy Carolinas, LLC's Rate Cases, Docket No. E-7, Subs 487, 909, 989, and 1146; Duke Energy Progress, LLC's Rate Cases, Docket No. E-2, Subs 1023 and 1142; Virginia Electric and Power Company's Rate Cases, Docket No. E-22, Subs 314, 333, 412, and 532; New River Light and Power Company Rate Cases, Docket No. E-34, Subs 28 and 32; Nantahala Power and Light Company Rate Case Docket No. E-13, Sub 157; in the Application of Dominion North Carolina Power to join PJM in Docket No. E-22, Sub 418; in Duke Power Company's request to merge with Cinergy Corporation in Docket No. E-7, Sub 795; in Duke Energy Carolinas, LLC's request for approval of its Save-A-Watt cost recovery model in Docket No. E-7, Sub 831; and, in the Generic Investigation into Section 111 of the 1992 Energy Policy Act in Docket No. E-100, Sub 69.

BY MS. HOLT:

Q Mr. McLawhorn, do you have a summary of the joint testimony?

A (McLawhorn) Yes, I do.

Q Thank you. Please read it.

A The purpose of our testimony is to present the results of the Public Staff's investigation of the Application and direct testimony filed on January 24th, 2018, and June 22nd, 2018, respectfully, by Dominion Energy and SCANA Corporation, pursuant to North Carolina General Statute 62-111(a) for authority to engage in the proposed business combination transaction as set forth in the Agreement and Plan of Merger attached to the Application. In our testimony we describe the scope of the Public Staff's investigation of the proposed merger, discuss the balancing of costs and benefits of the proposed business combination, discuss the rules governing affiliate transactions, describe the primary reasons for and many provisions of the merger related Regulatory Conditions and Code of Conduct recommended by the Public Staff, and present the Public Staff's recommendation regarding the Commission's approval of the business combination.

Based on its investigation and the terms of the

Stipulation and Settlement Agreement filed in this docket on October 4th, 2018, including the Revised Stipulated Regulatory Conditions and Code of Conduct filed on October 10th, 2018, the Public Staff believes that the proposed merger of Dominion Energy and SCANA is justified by the public convenience and necessity and meets the standard for approval under North Carolina General Statute 62-111(a). Therefore, the Public Staff recommends that the transaction be approved. This concludes the summary of our testimony.

Q Thank you.

MS. HOLT: Our witnesses are available for cross.

CHAIRMAN FINLEY: All right. It seems like everybody has waived -- all the parties have waived cross examination of the Panel, so let's see if Commissioners have questions of the Panel.

EXAMINATION BY COMMISSIOMER CLODFELTER:

Q In the Public Staff's proposed Regulatory Conditions you had a requirement for a third-party independent audit every two years of affiliate transactions. That does not appear in the Stipulation. Defend your decision in the Stipulation to drop that condition.

A (Maness) In making our decision, we looked back historically at what had been required by the Commission. In the early days with some of the mergers there was not a third-party independent audit required. That came about in the -- I believe in the Duke Energy Carolinas situation historically, and it is somewhat related to some difficulties that Duke Energy Carolinas had with some of their accounting and reporting back in the late 1990s, early 2000s time frame.

We discussed this with the Company, and what we eventually settled on was to move certain of the language of those requirements of those third-party independent audits to the internal audit function and also try to strengthen the internal audit function in terms of our ability to see all the reports and workpapers without assertions of privilege so that we could do our own sort of backup investigation of the internal audits if we felt it necessary.

Q You're comfortable with an internal audit and feel like an independent audit is the exception, not the rule?

A I'm sorry?

Q The independent audit requirement is an exception, not the rule?

A For this particular merger.

Q Right.

A Yes.

CHAIRMAN FINLEY: All right.

EXAMINATION BY CHAIRMAN FINLEY:

Q Gentlemen, you were in the hearing room when I asked questions of the Company panelists with respect to this Regulatory Condition 3.8, were you not?

A (Maness) Yes.

A (McLawhorn) Yes.

Q Do you agree that that particular regulatory condition is subject to interpretation?

A (Maness) To some extent I think we would agree. I think one of the key words in the regulatory condition is at the end where it says that -- requires the Company to take all actions as may be reasonably necessary and appropriate to hold North Carolina ratepayers harmless.

Our decision to include this regulatory condition was strongly influenced by the fact that subsequent to the Orangeburg decision, this condition was included in the revised Duke/Piedmont Regulatory Conditions, was agreed to by the parties, and approved by the Commission in that docket. And, therefore, since it had been vetted by the Commission previously, we felt that it was appropriate even though the language is somewhat general, that it was appropriate and reasonable to include in these conditions.

Q All right. Mr. Maness, am I correct in my understanding that the Public Staff and the Duke/Piedmont interests met and changed some of the regulatory conditions with emphasis on what they needed to do to get the Orangeburg dispute and FERC dismissed, but that the door was left open, at least, that the parties would come back and look at regulatory conditions again and perhaps modify others of them?

A I wasn't directly involved in that, but that is my understanding.

Q All right. And you heard my hypothetical question that I asked the Company Panel, did you not?

A It was a little difficult to hear from where we were sitting in the room, so I can't say that I heard all of it.

Q So you're going to make me repeat it again. All right.

A Well, I think I heard enough of it to sort of generally -- if, in fact, there was an action taken at the federal level or an agreement or a FERC order that required a certain ratemaking action, if that was brought to the Commission, if a party took a position that it was not appropriate to recover those costs or relinquish those revenues for North Carolina retail ratemaking purposes, certainly I think the Public Staff recognizes that preemption might come into play, and it would essentially, I think from the standpoint of this Panel, be a legal discussion and perhaps some fact-based discussion to be had at that time.

We're certainly not trying to somehow sneak behind the Orangeburg decision and have some anti-preemptive rights for the Commission that don't exist in law today.

Q All right. I think I asked the Panel also if to the extent that the Commission decided on its own motion to look behind the Stipulation and modify -- clarify a regulatory condition, for example, even though you've got a revision in the Stipulation that says that it's an all or nothing type Stipulation, that the parties will take a look at that and they may agree to live with what the Commission did. Is that a correct understanding from the Public Staff's perspective?

A Yes. I think we would discuss with the parties whether we would continue to agree to settle, given the Commission's changing to the conditions or the

Stipulation.

Q All right.

CHAIRMAN FINLEY: That's the questions I have. Other questions?

MS. HOLT: Mr. Chairman, if I might add, I would ask that the Commission take judicial notice of the Public Staff's comments regarding the amendments that we're discussing today. They were filed on July 12th, 2018. And we specifically commented on the section to which you refer now, and we provided that this language, remaining language in this section does not constitute issue gatekeeping, does not obligate the Companies to take action that may infringe on federal jurisdiction, and does not limit FERC's authority in any way. The remaining language was edited to be an acknowledgement of the risk of any possible preemptive rights -- preemptive effects of federal law.

CHAIRMAN FINLEY: We'll take judicial notice of that clarification, but I think that the gatekeeping issues are a little bit different from this, and that's why you took the gatekeeping issues out and left this in here. And it's not interfering with FERC jurisdiction; it's interfering with this Commission's jurisdiction that is of concern to me. But that's helpful and we appreciate that.

Any other questions on the Commission's questions of the Panel here?

EXAMINATION BY COMMISSIONER BROWN-BLAND:

Q To the Panel as a whole, whoever needs to answer, but my previous question to the Company witnesses regarding the IMT tracker, did you have the same understanding as did Ms. Grigg, that the IMT tracker would be continued to be on schedule to be fully reviewed by 2020?

A (Larsen) Yes, ma'am. The IMT tracker, as it reads now, says that it will remain in effect until November 1st, 2020, which it will then be reviewed by the Commission, so I don't see it needs to have a general rate case in order for it to continue.

Q All right.

COMMISSIONER BROWN-BLAND: All right. Thank you.

CHAIRMAN FINLEY: Questions on the Commission's questions?

(No response.)

CHAIRMAN FINLEY: All right. I think we've -- thank you, gentlemen. I think we've accepted all the identified exhibits. Anything else by any party?

MS. GRIGG: No, sir.

CHAIRMAN FINLEY: What are your thoughts on getting us an order to look at and ultimately issue?

MS. GRIGG: Twenty-one days?

CHAIRMAN FINLEY: Twenty-one days? Without objection, 21 -- from today?

MS. GRIGG: Yes, sir.

CHAIRMAN FINLEY: Twenty-one days from today. And I know you're in a hurry for the order. What is your thought on when you need to have an order? Twenty-two days?

(Laughter.)

MR. REID: Roughly.

MS. GRIGG: Yes, sir. As soon as the Commission can, of course. The South Carolina Commission, as Mr. Wohlfarth testified, is expecting to have their order issued, or it's statutorily required to have this order out by the 21st, and the Company, of course, would like to close as soon as possible.

CHAIRMAN FINLEY: Well, you're optimistic about what South Carolina is going to do, I think, but we'll get our order out as quickly as we can, and thank you all for your participation, and the hearing is closed.

MS. GRIGG: Thank you. I'm sorry. Do we need to get the Stipulation into evidence?

CHAIRMAN FINLEY: All right.

MS. GRIGG: I'm sorry, Chairman Finley.

CHAIRMAN FINLEY: We'll accept the Stipulation into evidence.

MS. GRIGG: Thank you.

(Whereupon, the Agreement and Stipulation of Settlement Between the Applicants, Transco, and the Public Staff, filed on October 4, 2018, and the Revised Stipulation Attachment A filed on October 10, 2018 were admitted into evidence.)

(The hearing was adjourned.)

STATE OF NORTH CAROLINA

COUNTY OF WAKE

C E R T I F I C A T E

I, Linda S. Garrett, Notary Public/Court Reporter, do hereby certify that the foregoing hearing before the North Carolina Utilities Commission in Docket Nos. E-22, Sub 551 and G-5, Sub 585, was taken and transcribed under my supervision; and that the foregoing pages constitute a true and accurate transcript of said Hearing.

I do further certify that I am not of counsel for, or in the employment of either of the parties to this action, nor am I interested in the results of this action.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 16th day of September, 2018.

Linda S. Garrett

Linda S. Garrett, CCR
Notary Public No. 19971700150