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Aug 16 2018

August 16, 2018

VIA ELECTRONIC FILING

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
Dobbs Building
430 North Salisbury Street
Raleigh, North Carolina 27603

Re: Docket No. G-5, Sub 593

Dear Ms. Jarvis:

Pursuant to Section 62-153 of the General Statutes of North Carolina, enclosed for filing on behalf of Public Service Company of North Carolina, Inc., is an Application for Approval of Payment of Compensation under a Service Agreement with Mountain Valley Pipeline, LLC.

If you have any questions regarding this filing, please do not hesitate to call me. Thank you for your assistance with this matter.

Very truly yours,

/s/Mary Lynne Grigg

MLG:mth

Enclosures

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-5, SUB 593

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of:)	
Application of Public Service Company)	
of North Carolina, Inc., for Approval of)	APPLICATION OF PUBLIC
Payment of Compensation under a)	SERVICE COMPANY OF
Service Agreement with Mountain)	NORTH CAROLINA, INC.
Valley Pipeline, LLC)	

Public Service Company of North Carolina, Inc. (“PSNC” or the “Company”), through counsel and pursuant to Section 62-153 of the North Carolina General Statutes and Rules R1-3 and R1-5 of the Rules and Regulations of the North Carolina Utilities Commission (“Commission”), respectfully requests that the Commission approve the payment of compensation under a service agreement (“Southgate Service Agreement”) which is to be entered into in connection with an interstate lateral pipeline project known as the MVP Southgate Project to be constructed and operated by Mountain Valley Pipeline, LLC (“MVP”) and with respect to which PSNC has acquired an ownership interest. In support of this application, PSNC shows the following:

Description of Applicant

1. PSNC is a corporation organized and existing under the laws of the State of South Carolina, with its principal office and place of business located at 800 Gaston Road, Gastonia, North Carolina 28056. PSNC is a public utility engaged in the transportation, distribution, and sale of natural gas within its franchised service area in North Carolina. Its public utility operations are subject to the jurisdiction of this Commission.

Notices and Communications

2. The attorneys for PSNC to whom all notices or other communications should be sent are:

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Background

3. MVP is a limited liability company organized and existing under the laws of the State of Delaware formed for the purpose of constructing, owning, and operating an interstate pipeline subject to the jurisdiction of the Federal Energy Regulatory Commission (“FERC”). On October 23, 2015, MVP filed an application with FERC to obtain a certificate of public convenience and necessity for a project comprising approximately 300 miles of transmission pipeline and compression facilities, with approximately 2,000,000 dekatherms per day of firm natural gas transportation capacity, running from West Virginia to Pittsylvania County, Virginia (“Mainline Project”). On October 13, 2017, FERC issued its order approving the certificate of public convenience and necessity for the project. *Mountain Valley Pipeline, LLC*, 161 FERC ¶ 61,043 (October 13, 2017). MVP has

indicated that the expected in-service date of the Mainline Project is the fourth quarter of 2019.

4. During the spring of 2017, PSNC solicited interest from existing and proposed interstate pipeline providers for natural gas transportation capacity to meet forecasted incremental demand on PSNC's local distribution system. After discussions and negotiations with interested pipeline providers, on December 20, 2017, PSNC and MVP entered into a Precedent Agreement for 250,000 dekatherms per day of firm transportation capacity on the Mainline Project for a term of twenty years at a negotiated rate ("Mainline PA"). Contemporaneously, PSNC and MVP also executed a Credit Agreement for the Mainline Project ("Mainline Credit Agreement") pursuant to Section 7 of the Mainline PA. On January 5, 2018, pursuant to Section 3 of the Mainline PA, PSNC and MVP executed a Transportation Service Agreement applicable to Firm Transportation Service under Rate Schedule FTS for the Mainline Project ("Mainline Service Agreement"). The Mainline Service Agreement is the form agreement set forth in MVP's approved FERC Gas Tariff, with modifications only as necessary to reflect the rates, terms, and conditions of service set forth in the Mainline PA.¹

5. To connect PSNC's system with the Mainline Project facilities, MVP agreed to develop and construct a lateral consisting of approximately 70 miles of transmission pipeline and compression facilities from an interconnection in Pittsylvania County, Virginia, to new delivery points to be established at PSNC's Dan River and Haw

¹ Copies of the Mainline PA, Mainline Credit Agreement, and Mainline Service Agreement are attached as Exhibit A for the Commission's information. Because the material terms of these agreements are the confidential and proprietary trade secrets of PSNC and MVP and all other requirements of G.S. 132-1.2 are met, the agreements are hereby designated to be exempt from disclosure pursuant to G.S. 132-1.2.

River interconnects in Rockingham and Alamance Counties, North Carolina, respectively (“Southgate Project”). On May 3, 2018, MVP filed a request with FERC to initiate its pre-filing review of the Southgate Project and FERC opened Docket No. PF 18-4 for that purpose. The expected in-service date of the Southgate Project is the fourth quarter of 2020.

6. Contemporaneously with the Mainline PA, on December 20, 2017, PSNC and MVP entered into a Precedent Agreement for 300,000 dekatherms per day² of firm transportation capacity on the Southgate Project for a term of twenty years at a negotiated rate (“Southgate PA”). Pursuant to Section 6 of the Southgate PA, on December 20, 2017, PSNC and MVP also executed a Credit Agreement for the Southgate Project (“Southgate Credit Agreement”).³ Given that the Southgate Project is near the beginning of the FERC regulatory process, PSNC and MVP have not yet executed the Southgate Service Agreement pursuant to Section 2 of the Southgate PA. The Southgate Service Agreement will be the form of service agreement applicable to firm service on the Southgate Project facilities, with the rates, terms, and conditions of service as set forth in the Southgate PA. The Southgate Service Agreement will be executed later in the FERC regulatory process,

² This is 50,000 dekatherms per day more than the 250,000 dekatherms per day of firm transportation capacity that PSNC is contracting for on the Mainline Project. The additional capacity will allow the Company to receive primary firm forward-haul deliveries directly from East Tennessee Natural Gas, LLC (“East Tennessee”) through a new interconnection with MVP. PSNC holds 50,000 dekatherms per day of capacity on East Tennessee to access storage services the Company has contracted for with Saltville Gas Storage Company, L.L.C. (“Saltville”). Currently, PSNC uses secondary firm backhaul transportation on Transcontinental Gas Pipeline Company, LLC (“Transco”) to transport quantities of natural gas to and from the East Tennessee pipeline.

³ Copies of the Southgate PA and Southgate Credit Agreement are attached as Exhibit B for the Commission’s information. Because the material terms of these agreements are the confidential and proprietary trade secrets of PSNC and MVP and all other requirements of G.S. 132-1.2 are met, the agreements are hereby designated to be exempt from disclosure pursuant to G.S. 132-1.2.

typically after FERC issues a certificate of public convenience and necessity for the Southgate Project.

7. On August 1, 2018, PSNC acquired a 30% ownership interest in a membership series of MVP, which is related solely to the Southgate Project and which is separate from the membership series that will construct, own, and operate the Mainline Project. This ownership interest is held by PSNC through a wholly-owned subsidiary, PSNC Southgate, LLC (“PSNC Southgate”).

Request for Approval of Payment of Compensation

8. Subsection (a) of G.S. 62-153 requires all public utilities to file with the Commission copies of contracts with affiliates and subsection (b) prohibits them from paying “any fees, commissions, or compensation” to an affiliate “without first filing copies of all proposed agreements and contracts with the Commission and obtaining its approval.” Because of PSNC’s ownership interest in MVP associated with the Southgate Project, this statute requires PSNC to file a copy of the contemplated Southgate Service Agreement with the Commission and, before compensation may be paid to MVP, obtain Commission approval.⁴ As noted in paragraph 6 above, PSNC and MVP have not yet executed the Southgate Service Agreement. Accordingly, PSNC requests that the Commission approve the payment of compensation under the contemplated Southgate Service Agreement with the rates, terms, and conditions of service set forth in the Southgate PA included in

⁴ Because the Southgate PA and Southgate Credit Agreement were entered into prior to the establishment of an affiliate relationship, G.S. 62-153 appears to have no application with respect to those agreements. In addition, PSNC is not an affiliate of MVP under G.S. 62-153 with respect to the Mainline Project agreements because it has no ownership interest associated with the Mainline Project. However, as noted in footnotes 1 and 3 above, PSNC is filing all of these agreements under seal for informational purposes.

Exhibit B to this application. After the Southgate Service Agreement is executed, PSNC will file a copy with the Commission.

9. PSNC submits that payment of compensation under the contemplated Southgate Service Agreement is just and reasonable and in the public interest for the following reasons:

- The Southgate Service Agreement will provide PSNC access to the MVP capacity, which constitutes the best-cost alternative available to satisfy the Company's long-term interstate capacity needs. Although there is no guarantee that other capacity alternatives will arise in the future, it is reasonable to conclude that capacity options that might become available later will be more expensive than the MVP capacity.
- The MVP projects will provide PSNC with a third direct interstate pipeline connection, in addition to the existing Transco pipeline and the new Atlantic Coast Pipeline project, which will improve reliability and add resiliency to the interstate pipeline services the Company receives. The addition of a third interstate pipeline provides risk diversification by giving PSNC multiple options on geographically diverse interstate pipelines. In the event of planned or unplanned outages or constraints on one of the pipelines, PSNC would have access to the other pipelines to continue serving its customers without interruption.
- The MVP projects will provide PSNC additional direct access to low-cost natural gas produced in the Marcellus and Utica shale regions, the largest shale gas deposits in the United States. When completed, the Mainline Project will

interconnect in West Virginia with an existing interstate transmission pipeline system operated by EQT Midstream Partners, LP (“EQT”), which also is expected to be the operator of the MVP projects. At the end of 2016, that system had total throughput of 4.3 billion cubic feet per day and was connected to eighteen natural gas storage reservoirs with approximately 43 billion cubic feet of working gas capacity and 645 million cubic feet of peak withdrawal capacity.

- Through its interconnection with the other EQT-operated pipelines in West Virginia, the MVP projects will give PSNC more competitive and diverse options for natural gas supply. Thus, PSNC will gain optionality in selecting best-cost supply sources and will be able to take advantage of price differentials across more gas supply regions. These price differentials tend to change as suppliers alter their purchasing strategies in response to supply and demand dynamics within different areas.
- As indicated in footnote 2 above, the MVP projects will provide a direct connection of PSNC’s system to the East Tennessee pipeline through which the Company sources its Saltville storage. This will allow PSNC to replace less reliable secondary-firm backhaul deliveries on Transco with primary-firm forward-haul deliveries on MVP.
- The Southgate Service Agreement will provide for a minimum delivery pressure guarantee. The minimum delivery pressure from MVP will allow PSNC to be more confident in its pressure inputs when conducting system modeling. This should improve PSNC’s ability to conduct system planning and enhance the operation of its system.

10. PSNC also submits that its ownership in MVP through PSNC Southgate is in the public interest for the following reasons:

- As a customer of MVP, PSNC will have a vested interest in MVP's operations and will have an opportunity to provide input into how those operations are performed.
- PSNC has valuable experience with operating pipeline facilities within the State of North Carolina that other members do not offer.
- PSNC's experience as a joint-owner of other interstate and intrastate pipeline projects will allow it to provide a unique perspective in its role as an owner and will enhance MVP's provision of interstate natural gas transportation service in North Carolina.

11. PSNC needs the necessary approval to enter into the Southgate Service Agreement by September 30, 2018. Accordingly, PSNC requests that the Commission consider this application on an expedited basis and issue its order approving the payment of compensation under the agreement prior to that date.

Conclusion

WHEREFORE, based on the foregoing, PSNC respectfully requests that the Commission issue an order approving PSNC's payment of compensation under the contemplated Southgate Service Agreement, with the rates, terms, and conditions of service set forth in the Southgate PA.

Respectfully submitted, this 16th day of August, 2018.

/s/ Mary Lynne Grigg

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*Attorneys for Public Service Company of
North Carolina, Inc.*

Exhibit A

Mainline PA, Mainline Credit Agreement, and Mainline Service Agreement

[Filed under seal pursuant to G.S. 132-1.2.]

Exhibit B

Southgate PA and Southgate Credit Agreement

[Filed under seal pursuant to G.S. 132-1.2.]

VERIFICATION

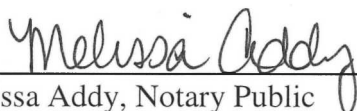
SOUTH CAROLINA,
LEXINGTON COUNTY.

M. Shaun Randall, being first duly sworn, says that (i) he is Vice President of Gas Services and, as such, he is authorized, and has been designated by Public Service Company of North Carolina, Inc., to make this proof on its behalf; (ii) he has read the foregoing application and the matters and things stated therein are true of his own knowledge, except as to those matters and things stated therein on information and belief, and as to those, he believes them to be true.



Affiant (M. Shaun Randall)

Subscribed and sworn to before me, this 15th day of August 2018.



Melissa Addy, Notary Public

My Commission Expires: May 23, 2027
[OFFICIAL SEAL]

