

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

**STAFF CONFERENCE AGENDA-SUPPLEMENTAL
OCTOBER 8, 2018**

COMMISSION STAFF

NO AGENDA ITEMS

PUBLIC STAFF

D. ELECTRIC

- P1. DOCKET NO. G-5, SUB 593 – APPLICATION OF PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC. FOR APPROVAL OF PAYMENT OF COMPENSATION UNDER A SERVICE AGREEMENT WITH MOUNTAIN VALLEY PIPELINE, LLC

EXPLANATION: On August 16, 2018, pursuant to N.C. Gen. Stat. § 62-153 and Rules R1-3 and R1-5 of the Rules and Regulations of the North Carolina Utilities Commission (Commission), Public Service Company of North Carolina, Inc. (PSNC or Company), filed an application with the Commission requesting approval of 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.

MVP is a limited liability company formed for the purpose of constructing, owning, and operating an interstate pipeline, and is subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). 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 (dts/day) of firm natural gas transportation capacity, running from West Virginia to Pittsylvania County, Virginia (Mainline Project).

In the filing, PSNC states that in the spring of 2017, it 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, PSNC and MVP entered into a Precedent Agreement on December 20, 2017 (Mainline PA), for 250,000 dts/ day of firm transportation capacity on the Mainline Project for a term of twenty years at a negotiated rate, which is provided in the Mainline PA. PSNC and MVP also executed a Credit Agreement for the Mainline Project (Mainline Credit Agreement) pursuant to Section 7 of

the Mainline PA. And, 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 Transportation Service Agreement). The Mainline Transportation 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. PSNC submitted these agreements for informational purposes in its filing in this proceeding, under seal on the grounds that they are confidential pursuant to N.C. Gen. Stat. § 132-1.2.

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 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.

Contemporaneously with entering into the Mainline PA, on December 20, 2017, PSNC and MVP entered into a Precedent Agreement (Southgate PA) for 300,000 dts/day of firm transportation capacity on the Southgate Project for a term of twenty years at a negotiated rate. 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). However, 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. PSNC submitted the Southgate PA and the Southgate Credit Agreement as Exhibit B to its application for informational purposes in its filing in this proceeding, under seal on the grounds that they are confidential pursuant to N.C. Gen. Stat. § 132-1.2.

On August 1, 2018, PSNC acquired a 30% ownership interest in a membership series of MVP, related solely to the Southgate Project and 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). PSNC contends in the filing that the Southgate Service Agreement will be in the form of service agreements applicable to firm service on the Southgate Project facilities, with the rates, terms, and conditions of service as set forth in the Southgate PA. PSNC also states that the Southgate Service Agreement will be executed later in the FERC regulatory process, typically after FERC issues a certificate of public convenience and necessity for the Southgate Project.

Affiliate Contract Authorization under N.C. Gen. Stat. § 62-153

Subsection (a) of N.C. Gen. Stat. § 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.” The filing states that since the Southgate PA and the Southgate CA were entered into prior to the establishment of an affiliate relationship, N.C. Gen. Stat. § 62-153 appears to have no application with respect to those agreements. PSNC also states that, because of PSNC’s ownership interest in MVP associated with the Southgate Project, N.C. Gen. Stat. § 62-153 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.

PSNC states that it needs the necessary approval to enter into the Southgate Service Agreement on an expedited basis and further 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. After the Southgate Service Agreement is executed, PSNC states that it will file a copy with the Commission.

PSNC states that payment of compensation under the contemplated Southgate Service Agreement is just and reasonable and in the public interest for many reasons, including: the Southgate Service Agreement will provide PSNC access to capacity on the Mainline Project, which constitutes the best-cost alternative available to satisfy the Company’s long-term interstate capacity needs; the MVP projects (the Mainline Project and the MVP Southgate Project) will provide PSNC with a third direct interstate pipeline connection, which will improve reliability and add resiliency to the interstate pipeline services the Company receives, and the MVP projects will diversify risk; provide access to the other pipelines to continue serving its customers without interruption in the event of an unplanned outage or interruption; 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; provide, when completed, interconnection 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; provide, through its interconnection with the other EQT-operated pipelines in West Virginia, PSNC with more competitive and diverse options for natural gas supply; provide a direct connection of PSNC’s system to the East Tennessee pipeline through which the Company sources its Saltville storage, which will allow PSNC to replace less reliable secondary-firm backhaul deliveries on Transco with primary-firm forward-haul deliveries on MVP; provided via the Southgate Service Agreement, for a minimum delivery pressure guarantee.

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.

Based on our review of PSNC's anticipated future capacity needs to meet its customer demands, the Public Staff believes that, when completed, the pipeline will substantially increase the amount of firm pipeline capacity that PSNC has under long-term contract.

The Public Staff has reviewed the Southgate PA, the other filed agreements, and information provided by PSNC in response to Public Staff data requests. Based on its investigation, the Public Staff has determined that authorizing PSNC to go forward with its participation in the Southgate project should be approved as discussed below.

PSNC states that the Southgate PA, which makes reference to the Southgate Services Agreement, as well as the Southgate Credit Agreement, did not require Commission approval because they were executed prior to the time that an affiliate relationship existed between PSNC and MVP. PSNC also states that neither the Mainline PA, the Mainline Credit Agreement, nor the Mainline Transportation Services Agreement require approval, due to PSNC not having an ownership interest in the Mainline Project.

It is the Public Staff's opinion that an affiliate relationship now exists with regard to the Southgate Project, the Southgate PA, and the Southgate Credit Agreement, which all involve compensation being paid by PSNC, and therefore they should now be subject to Commission review and approval. Furthermore, the Public Staff believes that PSNC may be considered to be at least an indirect affiliate with respect to the Mainline Project, due to their common interest in the Southgate Project. PSNC does not agree with these latter assertions; notwithstanding this disagreement, PSNC supports the Public Staff's recommendation.

The Company's filing is unique in that it seeks approval for a prospective contract, the Southgate Service Agreement, which cannot be provided until later. N.C. Gen. Stat. § 62-153 (a) specifically requires a filing of copies of contracts and agreements with affiliates and the Commission has the authority to disapprove, after hearing, any such contract if it is found to be unjust or unreasonable. N.C. Gen. Stat. § 62-153(b) specifically requires that a utility must first file copies of all proposed agreements with the Commission and receive Commission approval prior to paying compensation to an affiliated company.

Although the Southgate Service Agreement for which it is seeking approval has not yet been executed, it is the Public Staff's understanding after discussions with the Company that it will be similar in form to the Mainline Service Agreement, and its essential terms will be taken from the Southgate PA. Based on the facts of this particular case, the Public Staff believes that the Southgate Service Agreement is simply an implementation of the Southgate PA and need not be received in advance if the primary agreement (which in this case is the Southgate PA) is approved under N.C. Gen. Stat. § 62-153. Accordingly, the Public Staff believes it is appropriate for the Commission at this time to approve PSNC's payment of compensation under the Southgate Service Agreement, subject to PSNC promptly filing a copy of the agreement once it is executed and provided the terms of the agreement are not materially different from those reflected in the Southgate PA.

Therefore, the Public Staff recommends that the Commission accept the Southgate PA, the Southgate Credit Agreement, the Mainline PA, the Mainline Credit Agreement, and the Mainline Transportation Services Agreement for filing and authorize PSNC to make payment of compensation pursuant thereto. Additionally, the Public Staff also recommends that PSNC be required to file the Southgate Service Agreement when executed and authorized to make payment of compensation under the agreement provided its terms are not materially different from the terms of the Southgate PA.

The Public Staff also recommends that the Commission's order state that for ratemaking purposes, these actions do not constitute approval of the amount of compensation paid pursuant to any of the agreements and that the authority granted by the order is without prejudice to the right of any party to take issue with any provision in the agreements in a future proceeding.

Additionally, the Public Staff recommends that notwithstanding the authority granted by its order authorizing payment, the Commission may subsequently disapprove, after hearing, the agreements approved in this proceeding, or any fees, commissions or compensation whatsoever paid to any affiliated or subsidiary holding, managing, operating, constructing, engineering, financing or purchasing company or agency for services rendered, if found to be unjust or unreasonable, or made for the purpose or with the effect of concealing, transferring, or dissipating the earnings of a public utility.

EXHIBIT: The Public Staff's proposed order is attached as Exhibit No. P-1.

RECOMMENDATION: (Larsen/Perry/Holt) That the Commission issue the Public Staff's proposed order approving PSNC's payment of compensation under the Southgate Precedent Agreement, the Southgate Credit Agreement, the Mainline Precedent Agreement, the Mainline Credit Agreement, and the Mainline Transportation Services Agreement, and the Southgate Service Agreement, when executed and filed, subject to terms not materially different from terms in the Southgate Precedent Agreement.

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-5, SUB 593

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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| In the Matter of |) | |
| Application of Public Service Company of North Carolina, Inc. for Approval of Payment of Compensation Under a Service Agreement with Mountain Valley Pipeline, LLC |) | ORDER ACCEPTING AFFILIATED AGREEMENTS FOR FILING AND PERMITTING OPERATION THEREUNDER PURSUANT TO N.C. Gen. Stat. § 62-153 |

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In the filing, PSNC stated that in the spring of 2017, it 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, PSNC and MVP entered into a Precedent Agreement on December 20, 2017 (Mainline PA), for 250,000 dts/day of firm transportation capacity on the Mainline Project for a term of twenty years at a negotiated rate, which is provided in the Mainline PA. PSNC and MVP also executed a Credit Agreement for the Mainline Project (Mainline Credit Agreement) pursuant to Section 7 of the Mainline PA. And, 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 Transportation Service Agreement). The Mainline Transportation 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. PSNC submitted these agreements for informational purposes in its filing in this proceeding, under seal on the grounds that they are confidential pursuant to N.C. Gen. Stat. § 132-1.2.

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On August 1, 2018, PSNC acquired a 30% ownership interest in a membership series of MVP, related solely to the Southgate Project and 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). PSNC contends in the filing that the Southgate Service Agreement will be in the form of service agreements applicable to firm service on the Southgate Project facilities, with the rates, terms, and conditions of service as set forth in the Southgate PA. PSNC also stated that the Southgate Service Agreement will be executed later in the FERC regulatory process, typically after FERC issues a certificate of public convenience and necessity for the Southgate Project.

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PSNC stated that it needs the necessary approval to enter into the Southgate Service Agreement on an expedited basis and further 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. After the Southgate Service Agreement is executed, PSNC stated that it will file a copy with the Commission.

PSNC stated that payment of compensation under the contemplated Southgate Service Agreement is just and reasonable and in the public interest for many reasons, including: the Southgate Service Agreement will provide PSNC access to capacity on the Mainline Project, which constitutes the best-cost alternative available to satisfy the Company’s long-term interstate capacity needs; the MVP projects (the Mainline Project and the MVP Southgate Project) will provide PSNC with a third direct interstate pipeline connection, which will improve reliability and add resiliency to the interstate pipeline services the Company receives, and the MVP projects will diversify risk; provide access to the other pipelines to continue serving its customers without interruption in the event of an unplanned outage or interruption; 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; provide, when completed, interconnection 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; provide, through its interconnection with the other EQT-operated pipelines in West Virginia, PSNC with more competitive and diverse options for natural gas supply; provide a direct connection of PSNC’s system to the East Tennessee pipeline through which the Company sources its Saltville storage, which will allow PSNC to replace less reliable secondary-firm backhaul deliveries on Transco with primary-firm forward-haul deliveries on MVP; provided via the Southgate Service Agreement, for a minimum delivery pressure guarantee.

PSNC also stated 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.

The Public Staff presented this matter to the Commission at its Regular Staff Conference on October 8, 2018. The Public Staff stated that based on its review of PSNC's anticipated future capacity needs to meet its customer demands, the Public Staff believed that, when completed, the pipeline will substantially increase the amount of firm pipeline capacity that PSNC has under long-term contract.

The Public Staff stated that it had reviewed the Southgate PA, the other filed agreements, and information provided by PSNC in response to Public Staff data requests. Based on its investigation, the Public Staff determined that authorizing PSNC to go forward with its participation in the Southgate project should be approved as discussed below.

PSNC stated that the Southgate PA, which makes reference to the Southgate Services Agreement, as well as the Southgate Credit Agreement, did not require Commission approval because they were executed prior to the time that an affiliate relationship existed between PSNC and MVP. PSNC also stated that neither the Mainline PA, the Mainline Credit Agreement, nor the Mainline Transportation Services Agreement require approval, due to PSNC not having an ownership interest in the Mainline Project.

The Public Staff stated that in its opinion an affiliate relationship now exists with regard to the Southgate Project, the Southgate PA, and the Southgate Credit Agreement, which all involve compensation being paid by PSNC, and therefore they should now be subject to Commission review and approval. Furthermore, the Public Staff believes that PSNC may be considered to be at least an indirect affiliate with respect to the Mainline Project, due to their common interest in the Southgate Project. The Public Staff stated that PSNC does not agree with these latter assertions; but notwithstanding this disagreement, PSNC supports the Public Staff's recommendation.

The Public Staff stated that the Company's filing is unique in that it seeks approval for a prospective contract, the Southgate Service Agreement, which cannot be provided until later. N.C. Gen. Stat. § 62-153 (a) specifically requires a filing of copies of contracts and agreements with affiliates and the Commission has the authority to disapprove, after

hearing, any such contract if it is found to be unjust or unreasonable. As noted by the Public Staff, N.C. Gen. Stat. § 62-153(b) specifically requires that a utility must first file copies of all proposed agreements with the Commission and receive Commission approval prior to paying compensation to an affiliated company.

The Public Staff stated that although the Southgate Service Agreement for which PSNC is seeking approval has not yet been executed, it is their understanding after discussions with the Company that it will be similar in form to the Mainline Service Agreement, and its essential terms will be taken from the Southgate PA. Based on the facts of this particular case, the Public Staff stated it believed that the Southgate Service Agreement is simply an implementation of the Southgate PA and need not be received in advance if the primary agreement (which in this case is the Southgate PA) is approved under N.C. Gen. Stat. § 62-153. Accordingly, the Public Staff stated it believed it is appropriate for the Commission at this time to approve PSNC's payment of compensation under the Southgate Service Agreement, subject to PSNC promptly filing a copy of the agreement once it is executed and provided the terms of the agreement are not materially different from those reflected in the Southgate PA.

The Public Staff recommended that the Commission accept the Southgate PA, the Southgate Credit Agreement, the Mainline PA, the Mainline Credit Agreement, and the Mainline Transportation Services Agreement for filing and authorize PSNC to make payment of compensation pursuant thereto. Additionally, the Public Staff also recommended that PSNC be required to file the Southgate Service Agreement when executed and authorized to make payment of compensation under the agreement, provided its terms are not materially different from the terms of the Southgate PA.

The Public Staff further recommended that the Commission's order state that, for ratemaking purposes, these actions do not constitute approval of the amount of compensation paid pursuant to any of the agreements and that the authority granted by the order is without prejudice to the right of any party to take issue with any provision in the agreements in a future proceeding.

Finally, the Public Staff recommended that notwithstanding the authority granted by its order authorizing payment, the Commission may subsequently disapprove, after hearing, the agreements approved in this proceeding, or any fees, commissions or compensation whatsoever paid to any affiliated or subsidiary holding, managing, operating, constructing, engineering, financing or purchasing company or agency for services rendered, if found to be unjust or unreasonable, or made for the purpose or with the effect of concealing, transferring, or dissipating the earnings of a public utility.

Based upon careful consideration of the filing in this docket and the recommendations of the Public Staff, the Commission concludes that the Public Staff's recommendations should be adopted.

IT IS, THEREFORE, ORDERED as follows:

1. That the Southgate Precedent Agreement, the Southgate Credit Agreement, the Mainline Precedent Agreement, the Mainline Credit Agreement, and the Mainline Transportation Services Agreement are accepted for filing pursuant to N.C. Gen. Stat. § 62-153(b), and PSNC is authorized to make payment of compensation pursuant thereto.

2. That PSNC shall file the Southgate Service Agreement when executed and shall be authorized to make payment of compensation under the agreement provided its terms are not materially different from the terms of the Southgate Precedent Agreement.

3. That for ratemaking purposes, the authority granted herein neither constitutes approval of any amount of compensation paid pursuant to any of the agreements and that the authority granted by this order is without prejudice to the right of any party to take issue with any provision in the agreements in a future proceeding.

4. That notwithstanding the authority granted by this order authorizing payment, the Commission may subsequently disapprove, after hearing, the agreements approved in this proceeding, or any fees, commissions or compensation whatsoever paid to any affiliated or subsidiary holding, managing, operating, constructing, engineering, financing or purchasing company or agency for services rendered, if found to be unjust or unreasonable, or made for the purpose or with the effect of concealing, transferring, or dissipating the earnings of a public utility.

ISSUED BY ORDER OF THE COMMISSION.

This the ___ day of October 2018.

NORTH CAROLINA UTILITIES COMMISSION

M. Lynn Jarvis, Chief Clerk