STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-9, SUB 655

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Piedmont Natural Gas Company, Inc., for Authorization to Enter Into Affiliate Agreements and Related Redelivery Agreement Amendments	)	ORDER ACCEPTING AFFILIATED AGREEMENTS FOR FILING AND PERMITTING OPERATION THEREUNDER PURSUANT TO G.S. 62-153 AND AUTHORIZING PIEDMONT TO ENTER INTO RELATED REDELIVERY AGREEMENTS

BY THE COMMISSION: On September 8, 2014, pursuant to G.S. 62-153 and 62-138 and the November 7, 2001 Order on Annual Review of Gas Costs issued by the Commission in Docket No. G-9, Sub 451, Piedmont Natural Gas Company, Inc. (Piedmont), filed a Petition requesting that the Commission issue an order, on or before November 1, 2014, authorizing Piedmont to enter into and perform in accordance with the following, which were attached as exhibits to Piedmont's Petition: (1) the Precedent Agreement, Service Agreement, and Negotiated Rate Agreement (collectively the Precedent Agreement) related to firm natural gas pipeline capacity with Atlantic Coast Pipeline, LLC (ACP), (2) three amendments to existing approved natural gas redelivery agreements between Piedmont and Duke Energy Progress, Inc. (DEP) (collectively the DEP Amendments), and (3) the Transmission Capacity Lease between Piedmont and ACP.

ACP is a jointly-owned entity consisting of Duke Energy Atlantic Coast Pipeline, LLC, an unregulated wholly-owned subsidiary of Duke Energy Corporation and an unregulated affiliate of Duke Energy Carolinas, LLC (DEC) and DEP, Piedmont ACP Company, LLC, an unregulated wholly-owned subsidiary of Piedmont, and affiliates of Dominion Resources, Inc., and AGL Resources, Inc. ACP's proposed pipeline will be operated by Dominion Transmission, Inc. (Dominion Transmission), the interstate gas transportation subsidiary of Dominion Resources, Inc.

Piedmont submitted the agreements under seal on the grounds that they are confidential and proprietary and have been designated as such pursuant to G.S. 132-1.2.

DEC, DEP, and Piedmont solicited bids from a number of experienced natural gas pipeline developers to provide up to 900,000 dekatherms per day of new natural gas transportation capacity from receipt points in the Marcellus Shale supply region to various delivery points within Piedmont's North Carolina service territory. Among other things, the solicitation of bids also indicated that the three utilities would be willing to consider equity participation in the project. Following the receipt and evaluation of responsive bids, they selected Dominion Transmission as the operating partner for the new pipeline and negotiations ensued over both the terms upon which capacity would be provided to Piedmont as a customer of the new pipeline and the form and structure of the new pipeline company that would provide such capacity. These negotiations were conducted on a separate and discrete basis by different operating groups within both DEC and DEP and Piedmont and were fully arms-length in nature. Both processes were successful and resulted in DEC, DEP, and Piedmont becoming, subject to the Commission's authorization, subscribers to capacity on the proposed pipeline, while also being affiliated with the members/owners of the pipeline.

The filing stated that the pipeline presents a unique opportunity for this Commission, as well as for the State of North Carolina. It is the first occasion in more than 60 years in which projected unserved firm demand for natural gas transportation capacity within North Carolina will support the construction and operation of a new high-volume natural gas pipeline into the State. Piedmont stated that this pipeline will provide a multitude of benefits to the State, including access to substantial quantities of shale gas supply from the Marcellus and Utica formations at highly liquid receipt points, access to significant new interstate transportation capacity at favorable rates, and significant operational benefits to Piedmont resulting from the interconnection of Piedmont facilities in the eastern part of North Carolina to ACP's new high pressure facilities, which will support significant additional natural gas deliverability in eastern North Carolina at substantial cost-savings compared to other available options. The filing further stated that the pipeline will also have both short and long-term benefits for the State by supporting economic development in eastern North Carolina, by adding significant numbers of new jobs associated with both the construction and operation of the pipeline, and by generating significant levels of new tax revenues for local municipal and county governments.

Piedmont also stated that while affiliates of DEC, DEP, and Piedmont will have equity ownership interests in the pipeline – 40 percent for affiliates of DEC and DEP and ten percent for Piedmont – these interests will be passive equity investment interests. DEC, DEP, and Piedmont will have input into the management of the pipeline at the Board level, but they will not be responsible for either the construction or the day-to-day operation of the pipeline. Those functions will be provided by Dominion Transmission. Piedmont further stated that Piedmont, DEC, and DEP believe that their participation as minority equity investors in the pipeline will be beneficial to North Carolina ratepayers in several respects. First, it will insure that the management of the pipeline company will be informed of and sensitive to issues that might be of concern to this Commission or the Public Service Commission of South Carolina. Second, the equity participation in the pipeline by affiliates of DEC, DEP, and Piedmont will help insure that it is efficiently constructed and funded, which is a significant benefit to a project of this size whose total capital costs are estimated to be between $4.5 and $5.0 billion. Finally, Piedmont stated that it is not clear that the pipeline project could proceed if affiliates of DEC, DEP, and

Piedmont were not equity investors collectively providing 50 percent of the capital needed to construct the pipeline.

The filing stated that Piedmont has agreed to subscribe, subject to Commission approval, to 160,000 dekatherms per day[1] and that DEC and DEP together, also subject to Commission approval, have agreed to subscribe to 725,000 dekatherms per day of firm transportation capacity on ACP. Public Service Company of North Carolina, Inc. (PSNC), has also agreed to subscribe to an additional 100,000 dekatherms per day of firm transportation capacity on the pipeline, but it is not an equity participant in the project.

Furthermore, the filing stated that while this project will be subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC) as an interstate pipeline "Natural Gas Company" – as that term is defined in the Natural Gas Act – it is necessary for Piedmont (1) to obtain this Commission's authorization to enter into a Precedent Agreement for this project, (2) to receive this Commission's approval for special contract amendments in order to allow for the redelivery of ACP gas to DEP by Piedmont, and (3) to enter into the Transmission Capacity Lease. Without these approvals, the ACP project cannot move forward in the form currently envisioned.

Affiliate Contract Authorization under G.S. 62-153

G.S. 62-153(b) provides that:

> No public utility shall pay any fees, commissions or compensation of any description whatsoever to any affiliated or subsidiary holding, managing, operating, constructing, engineering, financing or purchasing company or agency for services rendered without first filing copies of all proposed agreements and contracts with the Commission and obtaining its approval.

Piedmont's filing stated that the Commission has previously concluded that this statutory provision is applicable to interstate pipeline capacity "precedent agreements" similar to the proposed Precedent Agreement that involves Piedmont owning an equity interest in the entity providing service. In conformance with this statutory provision and the Commission's prior rulings, Piedmont submitted the Precedent Agreement it has negotiated with ACP and requested Commission authorization to enter into it and to abide by its terms.

In support of this request, Piedmont submitted that it requires the additional baseload interstate pipeline capacity provided for by the Precedent Agreement in order to meet projected demand growth on its system at and after the projected in-service

[1] This will substantially increase the amount of firm pipeline capacity that Piedmont has under long term contract, which may exceed Piedmont's needs in the near term. However, Piedmont is expected to manage its expanded portfolio of pipeline resources in a manner that continues to ensure reliability while minimizing costs to its ratepayers.

date of the pipeline of November 1, 2018. Piedmont further submitted that other alternative forms of capacity, such as seasonal storage or peaking services, are not sufficient to meet its projected demand growth and that the projected capacity addition is consistent with its “Best Cost” methodology for acquiring new upstream capacity.

In further support of its request, Piedmont stated that the Precedent Agreement was negotiated at arms-length between Piedmont’s gas supply and capacity employees and employees of Dominion Transmission and that this process was not influenced by the fact that Piedmont was separately negotiating to be an equity investor in the pipeline. Piedmont also stated that the project will provide substantial benefits to ratepayers and that the Precedent Agreement represents a fair balancing of interests between the pipeline and Piedmont during the certification and construction of the pipeline and for service following the completion of construction.

In this regard, Piedmont noted that the Precedent Agreement provides projected rates for service from the pipeline that are well-below the projected recourse rate. Piedmont further noted that the Precedent Agreement also provides many other benefits and protections for ratepayers.

Based on the foregoing, Piedmont requested authorization to enter into the Precedent Agreement (including the Service Agreement and Negotiated Rate Agreement) and to abide by its terms pursuant to G.S. 62-153(b).

Approval of Special Contract Amendments

Piedmont has existing approved natural gas transportation/redelivery agreements in place with DEP for the transportation/redelivery of natural gas from Piedmont’s citygate receipt points on Transcontinental Gas Pipe Line Company, LLC, to the following electric generation plants operated by DEP: Wayne/HF Lee (Docket No. G-9, Sub 572), Richmond/Sherwood Smith Energy Complex (Docket No. G-21, Sub 417), and Sutton (Docket No. G-9, Sub 579).

DEC and DEP together are subscribing to 725,000 dekatherms per day of natural gas transportation capacity on the pipeline in order to provide service to existing and potential expanded gas-fired generation at their facilities. In order to allow for the redelivery of these volumes from ACP, all of which will be delivered by ACP to interconnect points between Piedmont and ACP in the eastern part of Piedmont’s system, DEP requires additional transportation/redelivery rights from Piedmont. In order to provide these additional transportation/redelivery rights to DEP, Piedmont will be required to reconfigure portions of its system and in some cases construct limited new facilities.

DEP and Piedmont have negotiated amendments to the three preexisting transportation/redelivery agreements identified above to enable Piedmont to provide the additional delivery rights requested by DEP at a reasonable cost. In order to effectuate the ultimate delivery of gas transported by DEP on the facilities of ACP to the

Wayne/HF Lee, Richmond/Sherwood Smith Energy Complex, and Sutton electric generation plants, Piedmont requested Commission authorization to enter into and operate under the terms of the DEP Amendments.

Authorization to Enter Into Transmission Capacity Lease Agreement

In its filing, Piedmont stated that during its explorations of other possible demand for service through the ACP pipeline, Dominion Transmission received indications of interest from PSNC. These resulted in a formal precedent agreement between PSNC and ACP for firm transportation service from ACP. Because the planned facilities of ACP do not cross PSNC's service territory, it is necessary to make other arrangements to deliver gas to PSNC from the pipeline facilities.

The initial plan discussed by Dominion Transmission to make these deliveries was to construct a lateral off the new pipeline to traverse approximately 21 miles of Piedmont's territory to reach PSNC at the terminus of the Cardinal Pipeline near Clayton, North Carolina. Further discussions between Piedmont and Dominion Transmission about such a lateral led to both concluding that (a) the ACP lateral under discussion would essentially parallel an existing Piedmont transmission line, and (b) Piedmont, through improvements and expansions to its facilities in this area, could provide the capacity necessary to make deliveries of PSNC's gas from ACP at a substantially lower cost than the ACP lateral, thereby benefitting PSNC and other customers.

Recognizing the benefits to all parties of such an arrangement, Piedmont and ACP negotiated a capacity lease for the PSNC quantities for a term that matches PSNC's term of service under its precedent agreement with ACP.

According to Piedmont, structuring this provision of capacity as a lease avoids the potential for pancaked rates that PSNC would be otherwise faced with and places full operational responsibility for deliveries to PSNC squarely with ACP. It also minimizes costs associated with the provision of service to PSNC by allowing for the targeted incremental expansion of existing Piedmont facilities (rather than the construction of an entirely new pipeline lateral) and benefits PSNC customers through lower upstream gas costs.

Because the Transmission Capacity Lease will be an agreement between Piedmont and ACP, Piedmont filed it with this Commission pursuant to G.S. 62-153(a) and requested approval to enter into it and operate under its terms. ACP's entry into the Transmission Capacity Lease will also have to be approved by the FERC. In conjunction with that approval, Piedmont will file for a limited jurisdiction certificate from FERC establishing that Piedmont's provision of capacity to ACP under the Transmission Capacity Lease will not subject Piedmont or its facilities to regulation by the FERC or otherwise make Piedmont a "Natural Gas Company" within the meaning of the Natural Gas Act.

The Public Staff presented this matter to the Commission at its Staff Conference on October 27, 2014. With respect to the request for approval pursuant to G.S. 62-153(b), the Public Staff recommended that the Commission accept the proposed Precedent Agreement for filing and authorize Piedmont to make payments pursuant thereto.

With respect to the request for Piedmont to provide natural gas service to DEP, the Public Staff recommended that the Commission authorize Piedmont to provide natural gas service to DEP pursuant to the DEP Amendments.

With respect to the request for approval pursuant to G.S. 62-153(a), the Public Staff recommended that the Commission accept the proposed Transmission Capacity Agreement for filing and authorize Piedmont to enter into it and operate under its terms.

The Public Staff 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.

The Public Staff further recommended that the Commission's order state that Piedmont shall manage the additional ACP pipeline capacity and its existing portfolio of pipeline capacity resources in a manner that ensures reliability and minimizes costs and the Commission's acceptance of the Precedent Agreement herein shall not prejudice the right of any party to take issue with Piedmont's management of its pipeline capacity resources.

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 Precedent Agreement is accepted for filing pursuant to G.S. 62-153(b). Piedmont and its affiliate are authorized to enter into the Precedent Agreement and allowed to operate pursuant to its terms.

2. That Piedmont is hereby authorized to provide natural gas service to DEP pursuant to the DEP Amendments.

3. That the Transportation Capacity Lease is accepted for filing pursuant to G.S. 62-153(a). Piedmont is authorized to enter into the Transmission Capacity Lease Agreement and operate pursuant to its terms.

4. That the authority granted herein neither constitutes approval of the amount of any compensation paid thereunder nor prejudices the right of any party to take issue with any provision of the agreements in question in a future proceeding.

5. That Piedmont shall manage the additional ACP pipeline capacity and its existing portfolio of pipeline capacity resources in a manner that ensures reliability and minimizes costs and the Commission's acceptance of the Precedent Agreement herein shall not prejudice the right of any party to take issue with Piedmont's management of its pipeline capacity resources.

ISSUED BY ORDER OF THE COMMISSION.

This the 28th day of October, 2014.

NORTH CAROLINA UTILITIES COMMISSION

Gail L. Mount

Gail L. Mount, Chief Clerk

Commissioners ToNola D. Brown-Bland and James G. Patterson did not participate in this decision.