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COLUMBIA, SOUTH CAROLINA

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FEBRUARY 10, 2015

2:00 P.M.

ALLOWABLE EX PARTE BRIEFING [ND-2014-40-G]

REQUESTED BY PIEDMONT NATURAL GAS COMPANY, INCORPORATED, DUKE ENERGY PROGRESS, INCORPORATED, AND DUKE ENERGY CAROLINAS, LLC - Request for Allowable Ex Parte Communication Briefing for an Update on Atlantic Coast Pipeline

**TRANSCRIPT OF
ALLOWABLE *EX PARTE* BRIEFING**

COMMISSION MEMBERS PRESENT: Nikiya M. 'Nikki' HALL, *Chairman*; Swain E. WHITFIELD, *Vice Chairman*; and COMMISSIONERS John E. 'Butch' HOWARD, Elliott F. ELAM, JR., Comer H. 'Randy' RANDALL, Elizabeth B. 'Lib' FLEMING, and G. O'Neal HAMILTON

ADVISOR TO COMMISSION: Joseph Melchers, General Counsel

STAFF PRESENT: F. David Butler, Senior Counsel; James Spearman, Ph.D., Executive Assistant to Commissioners; B. Randall Dong, Esq., Josh Minges, Esq., and David Stark, Esq., Legal Staff; Philip Riley, Tom Ellison, and Lynn Ballentine, Advisory Staff; Jo Elizabeth M. Wheat, CVR-CM/M|GNSC, Court Reporter; and Allison Minges and Colanthia Alvarez, Hearing Room Assistants

APPEARANCES:

BONNIE D. SHEALY, ESQUIRE, along with **BRIAN L. FRANKLIN** [Associate General Counsel / Duke Energy], **JOSEPH McCALLISTER** [Director, Gas, Oil & Emissions / Duke Energy], **BRIAN HESLIN** [Moore & Van Allen], and **FRANKLIN H. YOHO** [Sr. Vice President and Chief Commercial Officer / Piedmont Natural Gas] presenters, representing DUKE ENERGY CAROLINAS, LLC, DUKE ENERGY PROGRESS, INC., AND PIEDMONT NATURAL GAS COMPANY, INC.

JEFFREY M. NELSON, ESQUIRE, representing the SOUTH CAROLINA OFFICE OF REGULATORY STAFF

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Please note the following inclusions/attachments to the record:

- PowerPoint presentation (PDF)

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- ORS correspondence filed as part of the *ex parte* briefing process

P R O C E E D I N G S

1
2 **CHAIRMAN HALL:** Thank you. Be seated. Good
3 afternoon, everyone. We'll call this *ex parte*
4 briefing to order and ask Mr. Melchers to read the
5 docket, please.

6 **MR. MELCHERS:** Thank you, Madam Chairman.
7 Commissioners, we are here pursuant to a Notice of
8 Request for Allowable *Ex Parte* Briefing, which was
9 noticed for today, February 10, 2015, at 2 p.m.,
10 here in the Commission hearing room. The three
11 entities making the request are Piedmont Natural
12 Gas Company, Inc.; Duke Energy Carolinas, LLC; and
13 Duke Energy Progress, Inc. And the subject matter
14 to be discussed today is: An update on the
15 Atlantic Coast Pipeline.

16 Thank you Madam Chairman.

17 **CHAIRMAN HALL:** All right. Thank you.

18 Ms. Shealy, good afternoon.

19 **MS. SHEALY:** Good afternoon, Madam Chairman
20 and Commissioners. I'm Bonnie Shealy. I'm very
21 glad to be here this afternoon, and we are glad to
22 be presenting this overview to the Commission. I
23 am here as local counsel for Piedmont Natural Gas,
24 Duke Energy Carolinas, and Duke Energy Progress
25 this afternoon.

1 With that, I will turn it over to counsel for
2 Piedmont Natural Gas, Mr. Brian Heslin, and Brian
3 Franklin for Duke, to introduce their panel of
4 presenters.

5 Thank you so much.

6 **CHAIRMAN HALL:** Okay. Thank you, Ms. Shealy.
7 Mr. Heslin and Mr. Franklin?

8 **BRIAN L. FRANKLIN [DUKE ENERGY]:** Good
9 afternoon. [Indicating.] All right, sorry about
10 that. Good afternoon, Madam Chair and members of
11 the Commission. It's good to be here today before
12 you all. As Ms. Shealy said, I am Brian Franklin,
13 appearing on behalf of Duke Energy Carolinas and
14 Duke Energy Progress, and I'm just going to do a
15 short introduction for Joe McAllister, one of the
16 presenters here today, followed by Brian Heslin.

17 Joe McAllister serves as director of Natural
18 Gas, Oil, and Emissions and the Fuel & Systems
19 Optimization Department supporting the Duke Energy
20 regulated fleet, and has been with Progress Energy
21 and Duke Energy combined for 11 years. He's
22 responsible for the development, planning, and
23 recommendations of all natural gas supply,
24 transportation, and storage interstate and
25 intrastate agreements to support existing and

1 planned gas generation needs for Duke Energy's
2 regulated utilities. Thank y'all.

3 **CHAIRMAN HALL:** Thank you.

4 Mr. Heslin.

5 **BRIAN HESLIN [MOORE & VAN ALLEN]:** Good
6 afternoon. I'm with the law firm of Moore & Van
7 Allen and, on behalf of Piedmont Natural Gas, I'm
8 going to give an even shorter introduction of Mr.
9 Yoho.

10 Franklin H. Yoho is the chief commercial
11 officer and senior vice president of Piedmont
12 Natural Gas, and he has been with the company for
13 13 years. Thank you.

14 **CHAIRMAN HALL:** Thank you.

15 Mr. McAllister and Mr. Yoho, welcome. Proceed
16 when you're ready.

17 **JOSEPH McCALLISTER [DUKE ENERGY]:**

18 [Indicating.] Is it on?

19 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:**

20 [Indicating.]

21 **JOSEPH McCALLISTER [DUKE ENERGY]:** So, good
22 afternoon, Commissioners, staff, and other
23 attendees. On behalf of Duke and Piedmont, I want
24 to thank you for your time today to cover the
25 Atlantic Coast Pipeline project. We'll jump right

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into the first slide.

[Reference: Presentation Slide 2]

I wanted to provide a little bit of history to start off. This slide outlines the Transco interstate pipeline. Transco has been the primary interstate pipeline supply header system that has provided the vast majority of natural gas into the Carolinas for the LDCs and power generators. To a smaller degree, the Southern Natural Gas System supplies gas into South Carolina by delivering gas into the Carolina gas transmission system which supports South Carolina.

Historically, the supply of natural gas has moved from the traditional production zones in the south and north, into the market regions. However, in recent years, there've been some fundamental shifts in the region with respect to natural gas demand growth, supply growth, and infrastructure buildout.

First, on the gas demand perspective, there's been significant growth in power generation usage in Virginia and North Carolina in recent years. Duke Energy has added five new combined-cycle units for roughly 3400 megawatts of generation since 2011 in North Carolina, with plans to add additional

1 generation in coming years. In addition, with the
2 growth in gas generation in North Carolina,
3 additional interstate LDC infrastructure has been
4 built primarily from the west to the east, to
5 support power plant development and LDC core system
6 needs.

7 Second, with respect to gas supply growth,
8 there's been significant growth in domestic shale
9 production in recent years and, in particular,
10 rapid growth in Marcellus over the last four to
11 five years. Today, the Marcellus and Utica
12 production is approaching 25 percent of the daily
13 total US production, or approximately 16 BCF a day,
14 with projections to increase to 30 BCF a day by
15 2025.

16 With this production growth, there has been
17 continued buildout of infrastructure to move that
18 gas to markets to the west, the south, and the
19 north, and has resulted in traditional
20 displacements of gas that has moved from the south
21 to the north which no longer is moving from the
22 south to the north.

23 So with that background, we've plotted the
24 Atlantic Coast Pipeline there to the north, that
25 shows the direct access to the Marcellus and Utica

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shale plays, and then the illustrated path down into the Carolinas. The next slide will discuss the drivers of our decision to pursue this project.

FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]: And I'll mention a little history around the desire for additional pipeline infrastructure into the State. As long as I've been in the industry, over 30 years, there have been projects that I've been either directly and indirectly involved with to try to bring more infrastructure into the Carolinas. They sometimes come close, sometimes they haven't come close; but there's one big difference that really has gotten this over the hump and makes this a very attractive project for our customers, and that really is the volumes of gas that power generation brings. With power generation evolving to natural gas, it gives you the order of magnitude and the economies of scale to make this very economical for our customers in the long term, so that is -- there's always been the desire, and there's been a lot of projects that have come and gone, but with the advent of power generation driven by natural gas and the fact that a lot of the infrastructure in the State -- in the Carolinas has been developed, it has made it very efficient

1 to make this Atlantic Coast project work, and work
2 for our customers.

3 [Reference: Presentation Slide 3]

4 **JOSEPH McCALLISTER [DUKE ENERGY]:** Okay. So
5 with that overview, we've touched upon a couple of
6 these. Power generation growth -- from a Duke
7 Energy Carolinas and Duke Energy Progress
8 perspective, both our current and future gas-fired
9 generation needs were certainly one consideration
10 for new infrastructure. The second was Piedmont's
11 needs to support both the power generation growth,
12 as well as their core demand requirements in the
13 State.

14 The other thing we really wanted to make sure
15 was that we provided geographic diversity for the
16 pipeline. First, we wanted some long-term
17 competitive pipeline alternatives for the State.
18 Secondly, we wanted to increase the flexibility and
19 enhance the reliability of the Carolinas'
20 infrastructure. And that's really important as we
21 add more gas generation into the grid for the Duke
22 Energy facilities. And then, thirdly, we wanted
23 direct access to low-cost shale gas from the
24 growing region of the Marcellus and Utica plays.
25 That is important because we believe, over the long

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term, that will provide fuel cost savings for all the customers in the Carolinas.

FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]: And I'll add to that, this pipeline originates and captures gas from what's known as, you'll hear, the South Point Pool. It's probably the largest and most liquid supply pool you'll find in Marcellus and Utica basins -- which, not only did we want deliveries to the right points, we wanted to have a lot of supplies on the other end, so that was very critical to our analysis of this project.

Marcellus gas is also flowing on Transco. It tends to come out of the northeast, and the Marcellus is such a large -- such a large supply basin, the beauty of this is the Transco volumes tend to come from the northeast dry gas area. This project is coming more from the wet window or more from the south-of-Pittsburgh area. So not only are we getting diversity from the southwest; we also get diversity within the Marcellus basin. We are getting from the two different sides of the Marcellus, and we get into the Utica. So this is from a diversity of supply -- and not only it takes from the southwest but it really gets into a lot of key areas that we need to get to in the northeast

1 supplies of gas in the Marcellus and Utica.

2 **JOSEPH McCALLISTER [DUKE ENERGY]:** So, with
3 that, early last year, we did issue a competitive
4 RFP to look for proposals for up to 900,000 a day,
5 to meet both Piedmont's and Duke Energy's needs.
6 we issued that in early April 2014. We asked for
7 proposals to be back by June. We did provide it to
8 12 potential respondents. And with those
9 proposals, we did select the Dominion Atlantic
10 Coast Pipeline project. Duke Energy secured
11 725,000 MMBTUs a day of firm capacity and Piedmont
12 secured 160,000 MMBTUs a day of firm capacity.
13 There are other customers. We'll cover that a
14 little bit later, but those were the volumes that
15 we secured under the proposals.

16 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** And
17 it was a very open and transparent process. We
18 tried to get all potential players involved, and
19 from my personal perspective, had certain
20 expectations of what we would get -- and had high
21 expectations. But I was pleasantly surprised the
22 proposals we got were very aggressive, and the one
23 we were fortunate to choose was every bit as good
24 or better than I kind of expected. So we're very
25 pleased with the outcome of this.

1 [Reference: Presentation Slide 4]

2 **JOSEPH McCALLISTER [DUKE ENERGY]:** So with
3 that background, we just wanted to cover a few of
4 the highlights. I won't read every single one of
5 these bullet points. But under these agreements,
6 they are 20-year contracts for firm transportation.
7 That's very standard and typical for these sorts of
8 projects.

9 The project is a large greenfield project,
10 roughly 540 miles. It's a FERC-regulated pipeline
11 that extends from West Virginia, through Virginia,
12 down into the Carolinas.

13 The initial pipeline capacity is 1.5 BCF a
14 day. There are expansion options, up to 2 BCF a
15 day. The other important aspect of this project
16 Frank talked about a little bit earlier is it does
17 also provide us access to Dominion's traditional
18 system upstream of the pictorial you see here. It
19 accesses the Dominion South Pool, which is a very
20 large trading point -- one of the most liquid
21 trading points in the country -- that currently
22 trades at a significant discount to other trading
23 or traditional supply off Transco. And it also
24 gives us access to other primary points within
25 Dominion's system.

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You know, Dominion's system is well situated right in the heart of the Marcellus. A lot of pipelines flow through it. There's a lot of production on the system, so it's really an excellent supply basin for us to be able to buy a large amount of gas into the future.

With that, you'll see there there's different diameter of pipe throughout the project: Roughly 42 inches, through West Virginia and Virginia, and that's where some of the mountainous regions are of the project; 36-inch diameter pipe through North Carolina. There's a lateral that goes out to the City of Chesapeake to service Virginia Natural Gas's needs, and then there's going to be added compression there to make sure that the gas is delivered at the proper pressures to the delivery points.

Last, but not least, the delivery points for Duke and Piedmont, it does deliver into Transco Zone 5, and it also delivers into three locations in the Piedmont system, in more the easterly part of the State, so Johnston County, Cumberland County, and Robeson County to the southeast.

FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]: One of the interesting answers to the question why a

1 42-inch pipeline through the mountains -- and the
2 answer is you only want to have to go across the
3 mountains once -- and so it was intentionally sized
4 such that it can be for future expansion
5 opportunities without having to go through that
6 challenging construction territory.

7 [Reference: Presentation Slide 5]

8 The next slide we'll move to is another --
9 this shows this is a representation of Piedmont's
10 system. In the purple is the Cardinal Pipeline
11 system, which is an intrastate system that a number
12 of us are customers of -- the PSNC and Piedmont are
13 customers of -- and we move a lot of gas in this
14 part of our backbone. And then you see -- I'll
15 call it -- I call that our northern header,
16 relative to a northern header, and below that,
17 south from Charlotte over to Wilmington is what I
18 would refer to as the southern header.

19 Historically, it was very difficult to build a
20 pipeline because you had to go find a lot of
21 distribution systems and it just added to the cost.
22 These header systems have been built and have been
23 enhanced due to our deliveries to power generation
24 projects by Duke. And having developed these, this
25 new pipeline -- or any pipeline that comes into the

1 State -- can hit two targets versus having to run
2 all over the State and spend a lot of money with
3 laterals. It hits two targets which it can run a
4 straight line to, and through hitting two targets
5 we can -- Piedmont -- I think we have to add 27
6 miles of pipe, and that is it, and we can move gas
7 to Reidsville, Goldsboro, Salisbury, Wilmington,
8 Rockingham, and Anderson. So with that, with these
9 key strategic header points, we can, with very
10 little additional expansion on our system,
11 distribute the gas to all the power generation
12 needs, plus all our core growth needs in the system
13 in North Carolina and South Carolina through
14 displacement of our supply pool.

15 So this was probably the second biggest piece
16 of why this can happen today when it was very
17 challenging before: not just volumes, but the
18 header systems to get very efficient and low-cost
19 distribution of these pretty substantial volumes of
20 natural gas.

21 [Reference: Presentation Slide 6]

22 **JOSEPH McCALLISTER [DUKE ENERGY]:** We did just
23 want to take a moment to outline some of the other
24 customers. You know, Frank talked about it; I
25 think one of the real benefits of this project is,

1 through the path, we're able to -- Dominion and
2 others were able to get other customers to benefit
3 several of us along the path. We have Duke Energy
4 Carolinas and Progress Energy Carolinas, is
5 725,000. Virginia Power executed an agreement for
6 300,000. Piedmont's 160,000. PSNC Energy,
7 100,000. And then Virginia Natural Gas, 75,000
8 MMBTUs. So of the initial design of 1,500,000
9 MMBTUs, it's over 90 percent subscribed, which is
10 very good from a project perspective. Dominion's
11 extraordinarily happy about it. They continue to
12 work on other potential agreements, but at this
13 stage the project is going very well for them and
14 they've secured a high percentage of capacity with
15 secure markets.

16 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** The
17 quality of a project typically is dependent on the
18 quality of its markets and customers, and in our
19 business you probably can't get -- when you have
20 solid, growing utility markets like these, you
21 probably couldn't get a higher quality market. So
22 that just adds to the high probability and the
23 quality of this project.

24 Also, Virginia Power, which is a subsidiary of
25 Dominion -- if you see the project, there's also a

1 lateral that heads east in Virginia that picks up
2 VNG and their market. They were able to bring not
3 only the market that we were solicited for, for
4 900,000 a day -- Duke and Piedmont -- they brought
5 additional market in the State of Virginia. That
6 added to the economies of scale which made them so
7 much more competitive than anybody else and really
8 brought an attractive project. They were able to
9 bring volume and that brings lower cost.

10 [Reference: Presentation Slide 7]

11 **JOSEPH McCALLISTER [DUKE ENERGY]:** So with
12 that there are a series of regulatory steps that
13 we've had to go through. Certainly, you're aware
14 of the steps we took in September and October when
15 we filed the agreements for the South Carolina
16 Public Service Commission and the North Carolina
17 Utilities Commission review. That's complete.

18 The first big step for the pipeline was the
19 pre-filing with the FERC in late October. That
20 really is the start of the FERC process and really
21 the start of the environmental review which will
22 take place over the next 14 to 18 months. So
23 that's been filed.

24 The formal FERC Certificate of Public
25 Convenience and Need is targeted to be filed in

1 September 2015, with formal approval targeted to be
2 the summer of 2016. Construction is currently
3 targeted to begin in the fourth quarter of 2016,
4 with an in-service of November 2018, which is what
5 we requested in the proposal. So currently the
6 project is going well. Everything's on track. All
7 the major milestones are being met. At this point,
8 there's no underlying concerns with the status of
9 how things are going.

10 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** And
11 this is a very, very large project -- not just on a
12 regional but on a national perspective. Anytime --
13 I think we've all seen, if you put a shovel in the
14 dirt, there's going to be questions and challenges
15 from a lot of different areas, including
16 environmental. And we'll see those when we do
17 this. We fully expect it, and there will be
18 changes in routes.

19 But what we've also seen from the very front
20 end, this makes sense for the Southeast and for the
21 citizens of the Southeast. And the governors who,
22 at this point in time, where this runs through
23 their backyards, on the day it was announced, they
24 came out aggressively in favor of it. So sometimes
25 you get no-comments or negative comments. The

1 political and public policy support of this, from a
2 lot of different angles, has been about as good as
3 you can get.

4 Now, there's going to be challenges and we've
5 got to do a good job; it has to be done the right
6 way, and it has to be transparent, and there will
7 be challenges, but we feel extremely good. A, it's
8 a solid project and makes sense for the citizens of
9 the Southeast and our states; and also, the policy
10 makers and the politicians in all the areas have
11 seen that and supported that very much on the front
12 end.

13 [Reference: Presentation Slide 8]

14 When Duke and Piedmont went out with this to
15 get proposals, or solicitation for proposals, this
16 became a very large project and became an
17 opportunity also to invest in a good project for
18 our customers, which makes sense for all of us. In
19 this, you can see Dominion is the largest interest
20 owner -- or, is the largest equity owner, from an
21 ownership perspective. They're also the
22 construction and operating partner; they will be
23 responsible for constructing this pipeline and for
24 operating it, and there will be an oversight
25 organization. Duke is a substantial owner and has

1 40 percent; Piedmont, 10 percent; and AGL
2 Resources, which owns Virginia Natural Gas, is a 5
3 percent owner.

4 We have historically -- Piedmont has
5 historically and we currently have a number of
6 projects where we are customers of Hardy Storage,
7 Pine Needles Storage, with which we serve the
8 Carolinas, and we are also equity interest owners
9 and they've all worked out very well because, at
10 the end of the day, the customer has to come first,
11 and these serve our customers very well, and we
12 find it makes a lot of sense if we are involved in
13 as many aspects as possible to bring these projects
14 to fruition; we think it's helpful in that. So
15 this is the equity ownership stake and Piedmont,
16 Dominion, and Duke, and AGL all fall out on that.

17 [Reference: Presentation Slide 9]

18 And with that, I think we'll go to questions.
19 We didn't want to take up a whole lot of time, just
20 give you an overview. And we really do appreciate
21 everybody taking the time today for us to do this,
22 and I think we would welcome any questions you may
23 have.

24 **CHAIRMAN HALL:** Okay. Thank you, gentlemen.
25 I think we all appreciate the update and the

1 overview of the project.

2 Commissioners, questions? Commissioner
3 Howard.

4 **COMMISSIONER HOWARD:** Thank you for that
5 presentation. Why would it take a year in
6 prefiling with FERC -- and you said that's
7 completed -- to one year later that you file your
8 application? Why wouldn't you file your
9 application almost immediately?

10 **JOSEPH McCALLISTER [DUKE ENERGY]:** You mean
11 between the prefiling and the formal application?

12 **COMMISSIONER HOWARD:** Right.

13 **JOSEPH McCALLISTER [DUKE ENERGY]:** Well -- and
14 Frank, you can jump in -- on very large projects,
15 such as this, there is a -- what they want to do is
16 work through some of the initial environmental
17 aspects of the project before they make the formal
18 filing. So this time window between the prefiling
19 and the formal filing, that's very standard. This
20 is not really -- it's just very consistent with
21 other projects, but they want the FERC to have some
22 initial input on the environmental aspects.

23 As part of this prefiling process, the FERC
24 will actually hold open-house meetings along the
25 route itself to gather feedback from the

1 communities, so really this is the chance for the
2 pipeline, the FERC, as well as all the stakeholders
3 along the route to work together and work through,
4 hopefully, most, if not all, of the major
5 environmental aspects of the project or any other
6 historic or cultural aspects of the project that
7 may come up, before the formal FERC filing is made,
8 you know, later this year. So that's --

9 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** And
10 I would say I'm not a FERC attorney -- and we have
11 some back here -- but, relative to projects of this
12 size, this is a fairly aggressive timeline, given
13 the requirements, both regulatory and environmental
14 requirements, for a four-year time period. It can
15 be done, but this is relatively quick. And I know
16 we have some folks, if you want, Commissioner, any
17 more technical reasons. This is kind of the
18 process to get it done in a fairly rapid fashion --
19 doable but rapid fashion -- given the requirements
20 around environmental and regulatory approvals.

21 **COMMISSIONER HOWARD:** What about right-of-way
22 acquisitions? Have you got most of those? Is it
23 on existing right-of-way, or --

24 **JOSEPH McCALLISTER [DUKE ENERGY]:** This
25 particular project?

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COMMISSIONER HOWARD: Yeah.

JOSEPH McCALLISTER [DUKE ENERGY]: Yeah? Most of this is not on existing right-of-ways. Most of this project is a greenfield project, so a large majority is not on existing right-of-way. So what they'll do is they'll go through the process of surveying the route; they'll go through the process of working with the landowners along the route.

FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]: And that is in process, from what we understand as customers. We get updates that surveying and so on and so forth, can get on land and get that done, so it's moving at an appropriate speed as we understand it.

One of the beauties of this, as I mentioned before with our header systems on Piedmont and distributing the gas, that 27 miles of pipe, it is on a pipeline right-of-way that we already have, and so we're just going to be looping an existing pipeline where we have second pipeline rights. So while Atlantic Coast Pipeline itself is going to require a lot of greenfield right-of-way through some sensitive areas, everything is going according to process, but once it hits our three points on our system -- two critical points -- we really are

1 in good shape right-of-way-wise to get this gas
2 distributed to the power plants and to our markets
3 themselves.

4 **JOSEPH McCALLISTER [DUKE ENERGY]:** And just to
5 expand on what he said, they had issued letters to
6 all the landowners and they're working through that
7 process. You know, it's normal course of business
8 right now. You know, it is a process and they're
9 working through it.

10 **COMMISSIONER HOWARD:** I guess I had a question
11 on when you go from a 42-inch pipe to a 36-inch
12 pipe, what does that do with your pressure inside
13 the pipe? How does that -- any effect on it? I
14 guess it just seems like I'm thinking a 42-inch and
15 go down to a 36-inch, you've got a lot of pressure
16 going down -- excessive pressure, going down to a
17 36-inch pipe.

18 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** And
19 that's typical, and as you find in pipeline
20 systems, that they get telescoped as you go from
21 the core front end to the back end. So it's fairly
22 normal. But, yeah, you get more pressure and you
23 have limits. Both pipe size will limit -- you'll
24 have limits on pressure on the size of the pipe,
25 which will limit the volume.

1 But we're very comfortable with the 42-inch
2 part of the pipeline and 36 most of the rest of the
3 way, not only -- and matter of fact, we have, as
4 customers, options for expansion rights we've
5 negotiated on this, that it does have the ability
6 to expand without any additional pipeline looping,
7 just compression. So there is some very
8 competitive -- that we don't need right now, but
9 for our next tranche of needs for our customers, we
10 have a very competitive option for additional
11 capacity, the way it's been designed.

12 The other thing, you know, you don't only want
13 the size of pipe, you want pressure. And so we
14 have, as customers, pressure commitments from
15 Atlantic Coast Pipeline that they will deliver a
16 certain pressure. And when the pressure hits
17 Piedmont's system and it comes in at a higher rate,
18 we just have a stronger, more capable system. So
19 it really enhances our system to be able to do
20 these things because of the pressure commitment the
21 Atlantic Coast Pipeline has made to its customers,
22 Duke and ourselves, of what delivery pressure
23 requirements will be.

24 **COMMISSIONER HOWARD:** What is the Wall Street
25 attitude towards this? Have you all made any

1 comments to Wall Street and the bond market? How
2 do they look upon this, and is there any risk
3 factor according to them?

4 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** I
5 don't know about a Wall Street perspective, but
6 industry folks will tell you you can't find a
7 project that really looks better than this, because
8 you have to look at the markets. If you get
9 pipelines that are being built on spec, hoping the
10 market shows up, or maybe a speculative power
11 generation project here, or a producer who is
12 hoping -- who will build it hoping to find market,
13 those tend to have the most challenges, as they go,
14 when circumstances change. When you have a project
15 -- from what I've seen in my experience -- that is
16 based on market, real market that has real needs,
17 you just don't find many projects better than that.

18 You have a lot of pipelines -- and this is
19 Frank's opinion -- trying to get to this area. And
20 when I talk to folks who I consider experts, this
21 is the one sure pipeline because it's got real
22 market and it's going to the right place. The
23 other ones have more challenges. So I would say,
24 from a business perspective, this is a highly
25 thought-of project, I think, on all fronts.

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COMMISSIONER HOWARD: I see the two-year construction. There'd be no need for something like a base-load review act because the multitude of this project's cost recovery is upfront?

FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]: The projects are -- this project is based on 20-year contracts. So from Piedmont's perspective, we signed up for the contracts based on our projected needs for our growth markets. And so we follow -- once we do that, we follow our traditional cost-of-gas reviews to show -- and that's why we try to keep our commissions educated on where and what's going on. This was a strategic and, more importantly, a low-cost way to get the gas supply to serving our growing markets. Because the beauty of it -- as we can all see, the economy is turning around, and a lot of our growth is coming back, and this is just setting us up.

So I don't believe we need that process. I think the processes are in place that we think are suited to satisfy the conditions that we're going to see here and the situation we're going to run into. It's just here to satisfy our growing markets. Pretty straightforward, and use the cost-of-gas review to justify.

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JOSEPH McCALLISTER [DUKE ENERGY]: Yeah, and that's consistent with us, as well. I think we're doing this to support our future needs, and we'll go through the normal review process each period in the fuel process.

COMMISSIONER HOWARD: Thank you, very much.

FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:
Thank you, Commissioner.

CHAIRMAN HALL: All right. Commissioner Hamilton.

COMMISSIONER HAMILTON: Thank you, Madam Chair.

I don't want this to look that I'm raining on the parade, but it's kind of a hard pill as I look at the map. I know many years ago when I was the chairman of the Development Board in Marlboro County, we were in competition for the gas generation that was finally awarded to Rocking- -- Robeson County. And this gas generation plant is five miles from the county line, and it skirts the county line. And I'd just like you to tell me the advantage this is going to be to the Grand Strand and the Pee Dee area of South Carolina.

FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]: I would say, from a portfolio perspective, it will

1 serve the Carolinas. Where this originally is
2 planned for stops just north of South
3 Carolina/North Carolina. Originally. I think, as
4 things develop in that part of the State, this is a
5 logical place, a low-cost place to go, to expand
6 from, from this pipeline, to get into the State,
7 whether it be power generation or major
8 manufacturing. This is -- that means you're that
9 much closer to major infrastructure to justify it.
10 And so, whether it be from that part of South
11 Carolina or the eastern part of North Carolina, we
12 have just put in major infrastructure that is
13 expandable so when something comes, it doesn't have
14 to go the whole way west to where Transco is and
15 try to justify that buildout; there's major
16 infrastructure that much closer. And I see this as
17 the first step. And I do see -- I do expect and I
18 would expect, as markets materialize, that this
19 pipeline will be a key asset to serve growth
20 markets. I'm not aware of any right now, but I do
21 know there's discussions going on, and the hope is
22 that this will be expanded and it will help
23 economic development to places like that section of
24 South Carolina, eastern North Carolina. We're just
25 that much closer, so if somebody looks at a

1 project, they can look at it very differently.

2 **COMMISSIONER HAMILTON:** Okay. Well, our
3 availability of natural gas has been limited in
4 this area for years and years. And, of course,
5 communities have tried to do something about it,
6 and, of course, it's not going to be easy to hook
7 onto this pipeline.

8 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** The
9 expansion of this pipeline will be driven like the
10 original pipeline was, by market and by demand.
11 And if market and demand develops there, it's going
12 to take a lot less than it would've the day before
13 this pipeline goes into service, to get the
14 additional infrastructure into service. So my hope
15 is that to that part of North Carolina and South
16 Carolina, this creates a light out there for some
17 hope for major manufacturing, because you don't
18 have to go so far away. Because the infrastructure
19 has been so limited, this doesn't solve all the
20 problems, but it does make the next solution that
21 much easier, I believe.

22 **COMMISSIONER HAMILTON:** Yeah, well, presently
23 it looks like it's going to remove the ability to
24 compete from this area. And this has been the
25 story of our life, I guess.

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FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]: I would hope it would be the opposite. Time will tell, but our hope is that this will serve to eventually expand into those areas where, if a power plant wants to go in and wanted to go in, let's say, 30 miles south of there, it would've had to have gone a long way to get gas supply. Now it doesn't have to go very far. If there's major manufacturing in that part of the State -- let's say an automobile manufacturer that uses a lot of gas -- it would not have to go that far, and the hope for this pipeline, I believe, is not just when it first goes into service but, in the long term, it can help those parts of the Carolinas.

COMMISSIONER HAMILTON: Thank you for your comments.

CHAIRMAN HALL: Okay. Thank you.

I wanted to ask one more thing about Commissioner Howard's question. He asked you about cost recovery, but what do you expect the cost to be, each -- DEC's share and DEP's share and Piedmont's share? Do you have any estimate of that?

JOSEPH McCALLISTER [DUKE ENERGY]: You mean, the fuel cost itself for the pipe? I don't have it

1 off the top of my head, but, you know, for us, it
2 will be the 725,000 a day, at the rate we're
3 paying, would be the amount that we will seek
4 recovery for in the applicable fuel filings in
5 North Carolina and South Carolina.

6 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** And
7 as customers, we negotiated rates based on fixed
8 cost. So what happens, if this pipeline would have
9 to run higher cost, our customers' rates would be
10 the same.

11 **CHAIRMAN HALL:** Okay, good. Okay. Thank you.
12 Commissioner Whitfield.

13 **VICE CHAIRMAN WHITFIELD:** Thank you, Madam
14 Chairman.

15 Thank you, too, for this presentation. I have
16 first a comment and then a question for you. And
17 my comment is where Commissioner Hamilton was
18 going. I serve on the NARUC Gas Committee, and we
19 often have had -- well, I say "often" -- more than
20 once, more than a time or two, have had panels on
21 the expanding role of natural gas in economic
22 development in rural areas, and I, too, share his
23 concern. I know he represents that area, but I,
24 too, share his concern for those areas that are not
25 able to have natural gas and, therefore, are

1 stifled when it comes to economic development
2 opportunities sometimes. And I do want to share
3 that concern that he has done.

4 Also, I want to ask you along those lines a
5 little bit -- slightly different -- I think you all
6 mentioned that it starts or the origin will be
7 below Pittsburgh but not in Pennsylvania. It will
8 actually originate just below there in West
9 Virginia; is that correct?

10 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** It
11 originates between Clarksburg and Morgantown, right
12 around that vicinity, just in the northern part of
13 West Virginia.

14 **VICE CHAIRMAN WHITFIELD:** Okay. But still
15 able to pull out of the Marcellus.

16 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** We
17 have rights that we have obtained -- both Duke and
18 ourselves -- that gives us gas supplies through the
19 Utica and the Marcellus up in Pennsylvania and
20 Ohio. So on top of where this originates, we have
21 rights that extend beyond that into the pool,
22 what's called the Dominion South Point Pool, which
23 captures the Pennsylvania/Ohio/West Virginia
24 Marcellus and Utica shale areas.

25 **VICE CHAIRMAN WHITFIELD:** And we certainly

1 need to tap those resources and be able to bring
2 that gas south, and I certainly concur with that.
3 But in following the path of this pipeline down the
4 map, and I see -- and I get your additional access
5 to the Dominion South Pool; I understand how that's
6 important. You did a good job explaining how
7 important that is. And I understand the path
8 you're coming down through into southeastern
9 Virginia and then eastern North Carolina, and
10 you're picking up proximity to a lot of these
11 generation facilities for Duke and Duke Energy
12 Progress and Duke Energy Carolinas. And I get the
13 need for natural gas for the generation. But my
14 question to you is, with this path, how does this
15 help the Piedmont Natural Gas LDC customers and
16 SCE&G LDC customers in this State, other than maybe
17 taking the pressure off of Transco? Is that a side
18 benefit where you have more capacity on Transco for
19 the Piedmont customers in the upstate and maybe
20 some of the SCE&G customers? Or could you explain
21 that a little more?

22 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** We
23 manage our Carolinas gas supply as a portfolio. So
24 as we get the benefit of portfolio, it is managed
25 for the Carolinas. I believe Duke does similarly

1 for their power generation. And so as we get this,
2 you will have, now, competition into the area, not
3 only from future expansion competition but also you
4 have these supplies coming in, bringing capacity
5 into the -- it's known as Transco Zone 5, what it's
6 typically referred to, which has been a little bit
7 of a stretched point. This helps this area, the
8 Carolinas and Virginia, become -- could become a
9 solidly supplied area which, in effect, drives
10 prices down.

11 So if the price differential stays, it's
12 lower-cost gas coming into our Carolinas supply
13 portfolio, every customer on our system benefits.
14 Plus, if the basis doesn't stay, if it collapses,
15 if the same price in the North and the South come
16 together, these additional supplies mean we're
17 going to have more supplies than we're going to
18 have demand and it's going to drive all prices
19 down. So not only is it going to help one way or
20 the other, it's going to help supply, and we manage
21 ours as a portfolio, and therefore all our
22 customers both in the upstate and through North
23 Carolina will benefit.

24 **VICE CHAIRMAN WHITFIELD:** Thank you. Again, I
25 see that path -- proposed path -- coming down

1 almost parallel to I-95, and we do see it stop
2 almost at the State line. So we do hope that, as
3 the Pee Dee region or maybe the Grand Strand
4 experiences some growth, that there is easy
5 potential there for those resources for not only
6 that region of our State but other parts as well.

7 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** For
8 both Duke and Piedmont, A, we wanted to get gas
9 efficiently distributed through the system to our
10 customers and to the Duke power generation
11 facilities, but also we made a very big effort that
12 if we can get this in a path that gets to more
13 folks who have been real far away from natural gas
14 infrastructure, the better for economic
15 development, because it's been challenging on that
16 side of North Carolina and just south of there in
17 South Carolina. And I think this creates a lot
18 more opportunity than they've ever seen before to
19 get to natural gas infrastructure.

20 **VICE CHAIRMAN WHITFIELD:** Well, that's great,
21 and we hope so. Thank you all for your
22 presentation.

23 Thank you, Madam Chairman.

24 **CHAIRMAN HALL:** Commissioner Elam.

25 **COMMISSIONER ELAM:** Thank you.

1 Good afternoon, gentlemen. From the -- I
2 don't know which page this is. I guess it's page
3 four of the presentation. It talks about an
4 initial pipeline capacity of 1.5 BCF a day, with a
5 potential future expansion to 2 BCF a day. Is that
6 -- is the expansion from the 1.5 to 2 just
7 compression? Or is there some other construction
8 that has to go on?

9 **JOSEPH McCALLISTER [DUKE ENERGY]:** Yes, it is
10 primarily compression.

11 **COMMISSIONER ELAM:** Okay.

12 **JOSEPH McCALLISTER [DUKE ENERGY]:** And as
13 customers, we have that ability to expand in the
14 future.

15 **COMMISSIONER ELAM:** So there wouldn't be any
16 additional real construction costs associated or
17 being requested to be passed through, increasing to
18 2.0 a day.

19 **JOSEPH McCALLISTER [DUKE ENERGY]:** No, other
20 than the volume itself. That expansion quantity
21 does have a rate structure to it. But, yes, those
22 would be passed through at the volume and rate if
23 we did exercise those additional options at a later
24 date.

25 **COMMISSIONER ELAM:** Okay. The increased

1 volumes would raise the cost? Or lower it?

2 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** Your
3 net rate after expansion would --

4 **JOSEPH McCALLISTER [DUKE ENERGY]:** Would be --

5 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** --
6 be lower for --

7 **JOSEPH McCALLISTER [DUKE ENERGY]:** -- lower,
8 yeah.

9 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** --
10 everybody.

11 **COMMISSIONER ELAM:** Okay. And I see, I think,
12 from one of the prior pages that the contracted-for
13 capacity is like 1.36, currently? What kind of
14 timeframe do you project for getting to the full
15 capacity of the pipeline?

16 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** I
17 think it will get fully subscribed by the time it
18 goes into service. But, as a customer, both Duke
19 and ourselves have negotiated a rate where the risk
20 of that is on the equity owners, not on the
21 customers.

22 **COMMISSIONER ELAM:** Okay.

23 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** So
24 we've protected ourselves and our customers. My
25 opinion is, in seeing the rates and where this is

1 going, it's going to be attractive. It would be
2 great if the last 140,000 were for a major facility
3 in South Carolina and got expanded, but that is
4 there and I know folks are trying to do that. But
5 we have protected ourselves and we negotiated rates
6 based on fully subscribed, and the risk around that
7 is on the equity partners.

8 **COMMISSIONER ELAM:** Is that normal for -- I
9 don't know how many pipelines like this you build,
10 but is it normal for pipelines to be fully
11 subscribed by the time they're built?

12 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** It
13 depends. You see some pipelines -- some folks will
14 take some risk and there will be some big risk.
15 The best way to go is they tend to get fully
16 subscribed. If you're at this point in the project
17 and it's an attractive project, a 90 percent
18 subscription rate is pretty darn strong.

19 **COMMISSIONER ELAM:** Right. It almost makes
20 you ask the question whether you're building a big
21 enough pipe now.

22 [Laughter]

23 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** Yes.

24 **JOSEPH McCALLISTER [DUKE ENERGY]:** Well, like
25 Frank said, the other piece of it, too, is that

1 that is the risk of the pipe -- whether it's this
2 project or another, because each project it does
3 depend, but most of the projects that we've dealt
4 with are pretty heavily subscribed. But that is on
5 the pipe themselves in terms of the risk, not the
6 customers.

7 **COMMISSIONER ELAM:** Thank you.

8 **CHAIRMAN HALL:** Commissioner Fleming.

9 **COMMISSIONER FLEMING:** Good afternoon. It's
10 really difficult to get that red light on
11 sometimes, isn't it? This is very interesting
12 information and very exciting, I think, for both
13 North Carolina and South Carolina and what it can
14 mean in the future. What I wanted to ask, though,
15 I know working with a EISPC in the modeling, they
16 were showing major congestion occurring in this
17 area in future years with gas. But with this
18 pipeline going into place, will that alleviate the
19 issue of congestion?

20 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** If
21 you mean the tight supplies we've seen in the past
22 winters, yes.

23 **COMMISSIONER FLEMING:** Okay.

24 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** It's
25 interesting, if the market -- the market has seen

1 that there's a tight supply, high prices and
2 capacity tends to be built in that direction. And
3 so, yes, this should alleviate that, and we should
4 go from the tightness to a longness, which when
5 you're long, hopefully what that means is downward
6 pressure on pricing.

7 **COMMISSIONER FLEMING:** And with the firm
8 supply, it will make sure the customers in these
9 two states are taken care of.

10 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** Yes.

11 **COMMISSIONER FLEMING:** Okay. And I wanted to
12 hear a little bit more, building on what
13 Commissioner Elam said about maybe you might be
14 building it too small now -- I'm not arguing that
15 point. But what I do want to know, if it gets to
16 -- you said you're doing the 42-inch through the
17 mountains because you don't want to go back again.
18 So how difficult is it to expand the smaller pipe
19 if and when that's needed? And the cost, of
20 course, you would have the right-of-way through
21 there, so that would already be there, I guess.

22 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:** My
23 experience has been a pipeline is more expensive
24 and more challenging than compression, especially
25 if you have an existing site. But you would think

1 -- I would think that they would have second-line
2 rights in the right-of-way that they purchase. So
3 relative to the fresh greenfield to the second
4 time, if and when you go beyond compression and you
5 need looping, it should be a lot easier.

6 And there becomes a balance. Remember, we
7 went out -- Duke and Piedmont went out for a
8 competitive project. And so one of the attractive
9 things the suppliers wanted to give us was
10 expansion capability. With that comes a price. So
11 they didn't want to price themselves out of a
12 competitive bid, so they had to do a balancing act
13 of giving us a competitive price and giving us the
14 future expansion opportunities we want, and there's
15 a balance there, and I think this project did a
16 pretty good job of it.

17 **COMMISSIONER FLEMING:** It sounds like you all
18 have done a lot of hard work on this project, a lot
19 of good negotiating, and you seem to be very proud
20 of the end result.

21 **FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]:**
22 Having watched this for 30 years -- 30 years ago, I
23 came down here to try to build a pipeline.

24 **COMMISSIONER FLEMING:** Oh, my goodness. You
25 have been working on it.

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[Laughter]

FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]: So, personally, this is really exciting to see it happen, especially for the region. And especially for -- it's not just going down the same corridor; it's going to a different part of the Carolinas and hopefully gets expanded, because there's a lot of needs in those parts of the states. And that would be really exciting to see some good things happen there.

COMMISSIONER FLEMING: I didn't realize your perseverance.

FRANKLIN H. YOHO [PIEDMONT NATURAL GAS]: I failed the first time; I'm just on the other end this time.

COMMISSIONER FLEMING: Never give up, huh?

[Laughter]

Well, thank you very much for the presentation.

CHAIRMAN HALL: Any other questions, Commissioners?

[No response]

Okay. Well, if there's nothing else from the attorneys?

[No response]

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Okay, we are adjourned. Thank you, gentlemen.
[WHEREUPON, at 2:45 p.m., the proceedings
in the above-entitled matter were
adjourned.]

C E R T I F I C A T E

I, Jo Elizabeth M. Wheat, CVR-CM-GNSC, do hereby certify that the foregoing is, to the best of my skill and ability, a true and correct transcript of all the proceedings had and testimony adduced in an Allowable Ex Parte Proceeding held before THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA in Columbia, South Carolina, according to my verbatim record of same.

Given under my hand this 11th day of February,
2015.



Jo Elizabeth M. Wheat, CVR-CM/M-GNSC
Court Reporter