

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-40, SUB 160

In the Matter of
Joint Application of Frontier Natural Gas)
Company and Ullico Infrastructure)
Hearthstone Holdco, LLC for Approval)
of the Sale and Transfer of Stock)

DIRECT TESTIMONY

OF

TESTIMONY OF KEVIN J. DEGENSTEIN

January 27, 2021

1 A. Yes, I have testified before the North Carolina Utilities Commission (the
2 “Commission”) in prior proceedings involving Frontier, most recently in Docket
3 No. G-40, Sub 136. I have also testified before the Montana Public Service
4 Commission on numerous occasions.

5 **Q. WHY ARE YOU PROVIDING TESTIMONY IN THIS PROCEEDING?**

6 A. HUI is owned by GEP Bison Holdings, Inc. (“GBH”), which is owned by an
7 infrastructure fund managed by an investment management subsidiary of
8 BlackRock, Inc. (“BlackRock”). On December 22, 2020, GBH’s current
9 controlling owner, GEPIF II ECHO AIV, L.P.,¹ entered into a Stock Purchase and
10 Sales Agreement (“SPSA”) with Ullico Infrastructure Hearthstone Holdco, LLC
11 (“UIHH”), a wholly owned subsidiary of Ullico Infrastructure Master Fund, L.P.,
12 (together with its general partner UIF GP, LLC, “UIF”), and formed by UIF
13 specifically for the purpose of acquiring GBH and its subsidiaries, including HUI
14 and Frontier (the “Transaction”). As this proposed change in Frontier’s upstream
15 ownership requires the Commission’s approval, the Applicants are filing this
16 application seeking approval of the Transaction, and my testimony supports the
17 joint application requesting the Commission’s approval of the Transaction.

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

20 A. First, I introduce the other witnesses providing testimony in support of the joint
21 application for approval of the change in Frontier’s upstream ownership. Next, I
22 briefly describe Frontier’s current upstream ownership and some of the

¹ Formerly “FREIF II Echo AIV, L.P.”

1 improvements in HUI's and its subsidiaries' operations since 2017. Then, I
2 describe how the proposed change in Frontier's upstream ownership is not
3 expected to affect the utility from an operational and financial viewpoint. Finally,
4 I describe the anticipated management of HUI and its utility subsidiaries
5 following the Transaction.

6 **Q. PLEASE BRIEFLY SUMMARIZE THE TESTIMONY OF THE OTHER**
7 **WITNESSES SUPPORTING THE JOINT APPLICATION.**

8 A. In addition to my testimony, Frontier and UIF are providing direct testimony from
9 two other witnesses:

- 10 • Mr. Fred A. Steele, President and General Manager for Frontier, describes the
11 Transaction's expected effects on Frontier's operations, finances, and rates.
- 12 • Ms. Sonia Axter, Vice President of UIHH and Vice President of UIF GP,
13 LLC, provides background information regarding UIF, discusses UIF's
14 decision to acquire HUI and its subsidiaries, describes UIF's organizational
15 structure and management and access to long-term sources of capital,
16 discusses the impact of the acquisition on HUI's regulated utilities, and
17 addresses how the Transaction meets the Commission's standards for
18 approval.

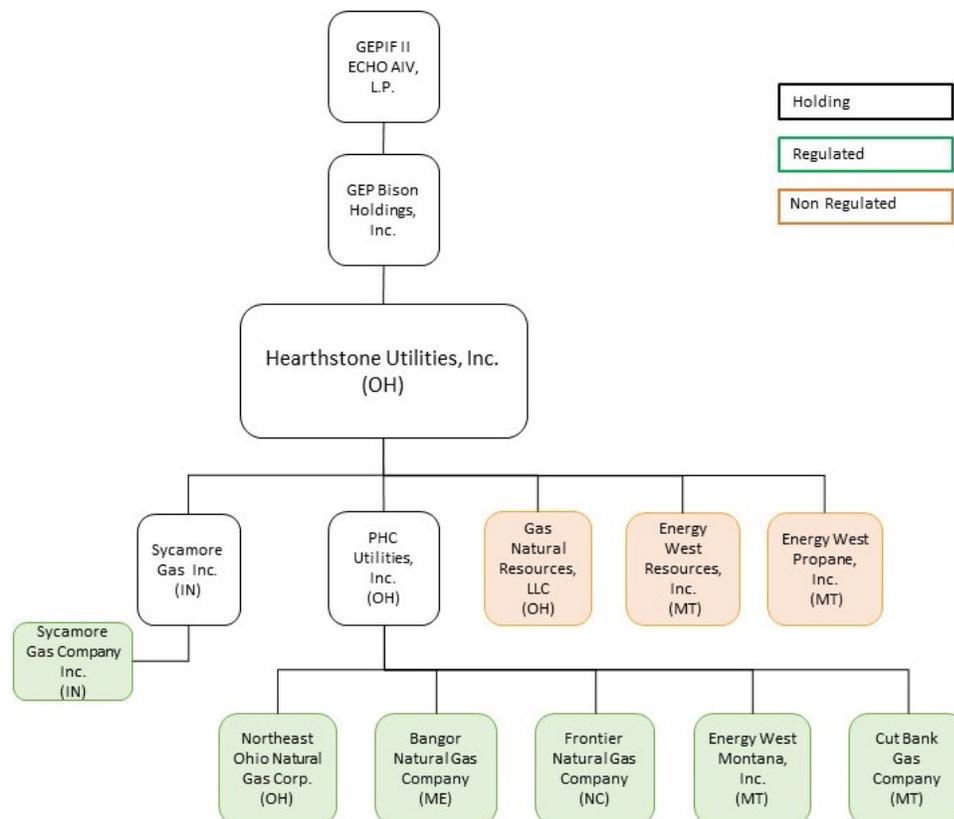
19 **FRONTIER'S CURRENT OWNERSHIP**

20 **Q. CAN YOU DESCRIBE FRONTIER'S CURRENT OWNERSHIP?**

21 A. Yes. Frontier is owned by PHC Utilities, Inc. ("PHC"), which is owned by HUI.
22 HUI is owned by GBH, and GBH is owned by GEPIF II ECHO AIV, L.P., an
23 infrastructure fund managed by an investment management subsidiary of

1 BlackRock. Under this structure, PHC and GBH are intermediary holding
 2 companies which do not have employees, do not provide utility service in any of
 3 the states in which their utility subsidiaries operate, and do not make operational,
 4 regulatory, or financial decisions for any of the operating utilities they hold,
 5 including Frontier. Unlike PHC and GBH, HUI has employees and is actively
 6 engaged in providing services and oversight for its subsidiary utilities. This
 7 ownership structure was explained in detail when the Commission approved the
 8 prior acquisition of HUI's predecessor, GNI.² The current ownership structure is
 9 shown in Figure KJD-1 below:

Figure KJD-1



² See *In the Matter of Joint Application of Frontier Natural Gas Company and FR Bison Holdings, Inc., for Approval of Acquisition of Stock of Gas Natural, Inc.*, Order Approving Merger Subject to Regulatory Conditions, Docket No. G-40, Sub 136 (Aug. 1, 2017).

1 **Q. HAVE THERE BEEN ANY NOTABLE CHANGES TO HUI'S**
2 **OPERATIONS SINCE IT WAS ACQUIRED BY THE INVESTMENT**
3 **FUND?**

4 A. Since the closing of the last transaction, Luvian Partners has overseen the
5 management of HUI. Operations in each of our markets have stabilized and
6 improved. For example, we have improved staffing to meet customer needs,
7 expanded service to more customers, and have strengthened the relationships with
8 our regulators. Additionally, HUI acquired a gas local distribution company in
9 Indiana (Sycamore Gas), the assets of Orwell Trumbull Pipeline in Ohio, and
10 another small gas utility in Ohio.³ These new additions have reduced the
11 allocated share of overhead expenses assigned to Frontier.

12 **EFFECT OF TRANSACTION ON HUI AND ITS UTILITY SUBSIDIARIES**

13 **Q. DO YOU EXPECT THE TRANSACTION TO NEGATIVELY AFFECT**
14 **HUI AND ITS UTILITY SUBSIDIARIES?**

15 A. No, I do not. As explained by Ms. Axter, UIF intends to retain existing
16 management in its utility subsidiaries, to work with Luvian Partners to effectively
17 transition the business to its new ownership, and to seek to provide further
18 stability to HUI by creating long-term alignment with a full time, executive
19 management team.

20 **Q. WILL HUI REQUIRE FRONTIER TO SEEK COMMISSION APPROVAL**
21 **FOR NEW RATES AS A RESULT OF THE TRANSACTION?**

³ The Orwell Trumbull Pipeline and small gas utility in Ohio were absorbed into Northeast Ohio Natural Gas Corp. as part of its utility operations.

1 A. No, HUI will not require Frontier to seek changes in rates as a result of the
2 Transaction. Any future requests for changes in Frontier's rates will be subject to
3 Commission approval.

4 **Q. WILL THE TRANSACTION HAVE AN IMMEDIATE EFFECT ON HUI'S**
5 **OPERATIONS?**

6 A. The Transaction is not expected to affect HUI's operations in the near term.
7 Luvian Partners is under contract through December 31, 2022, and it will continue
8 its management role at the HUI level and support of the operating companies,
9 including Frontier. Ms. Axter will provide information regarding UIF's long-term
10 management strategy.

11 **Q. AS A RESULT OF THE TRANSACTION, WILL HUI CHANGE THE**
12 **DAILY MANAGEMENT OF FRONTIER?**

13 A. It is my understanding that they will not.

14 **Q. WILL THE CORPORATE STRUCTURE OF HUI CHANGE AND**
15 **WHERE WILL HUI FALL WITHIN UIF'S CORPORATE STRUCTURE**
16 **FOLLOWING THE TRANSACTION?**

17 A. HUI's corporate structure will not change, nor will the corporate structure of its
18 current regulated and unregulated subsidiaries. HUI will continue to own PHC,
19 which in turn holds the interests of several operating public utilities in Maine,
20 Montana, North Carolina, and Ohio. HUI will also continue to hold interests in a
21 public utility in Indiana (Sycamore Gas) and various unregulated businesses as
22 depicted in Figure KJD-1.

1 Upon the completion of the Transaction, UIF will acquire GBH, and HUI
2 will become an indirect subsidiary of UIHH and Ullico Infrastructure Master
3 Fund, L.P. The organizational structure following the Transaction is described by
4 Ms. Axter.

5 **Q. WILL ADMINISTRATIVE SERVICES PREVIOUSLY SHARED**
6 **BETWEEN AND AMONG THE HUI COMPANIES CONTINUE TO BE**
7 **SHARED?**

8 A. Yes, those shared services will continue to be shared after the Transaction.

9 **Q. HOW WILL HUI BENEFIT IF THE TRANSACTION IS APPROVED?**

10 A. We expect the Transaction will maintain HUI's access to capital. Continued
11 access to capital will allow HUI to provide its utility subsidiaries with ongoing
12 organic growth opportunities, provided such growth opportunities are otherwise
13 economically viable projects.

14 Additionally, as described by Ms. Axter, UIF's investment vehicle is an
15 "open ended" investment fund, meaning it can hold investments indefinitely and
16 is not required to liquidate or dissolve like other investment vehicles, including
17 the BlackRock fund that currently owns HUI and its subsidiaries. This ownership
18 structure is expected to provide longer-term stability and alignment of interest,
19 enhancing efficient operations and regulatory transparency.

20 **Q. FROM HUI'S PERSPECTIVE, WILL FRONTIER'S CUSTOMERS BE**
21 **HARMED AS A RESULT OF THE TRANSACTION?**

22 A. No.

1 **Q. FROM HUI'S PERSPECTIVE, WILL THE COMMISSION RETAIN**
2 **APPROPRIATE REGULATORY OVERSIGHT OVER FRONTIER**
3 **FOLLOWING THE TRANSACTION?**

4 A. Yes. The Commission will continue to have jurisdiction over Frontier and will
5 continue to exercise the supervision and authority over it under the powers
6 granted to it by North Carolina statute. The Transaction will not affect the
7 Commission's jurisdiction over Frontier.

8 **FINANCIAL IMPACT OF THE TRANSACTION ON HUI**

9 **Q. DO YOU ANTICIPATE ANY CAPITAL INFUSION INTO HUI AS A**
10 **RESULT OF THE TRANSACTION?**

11 A. No. Ms. Axter describes potential changes to HUI's capital structure as a result of
12 the Transaction. Additionally, UIF has pledged additional capital infusions, both
13 as equity and/or debt, to support ongoing capital needs to maintain system safety
14 and reliability as well as viable organic system growth opportunities.

15 **Q. FOLLOWING THE TRANSACTION, WHAT WILL BE THE PROCESS**
16 **FOR HUI TO OBTAIN CAPITAL IF IT OR ITS SUBSIDIARIES**
17 **REQUIRE CAPITAL?**

18 A. As additional capital needs are identified by the subsidiaries, a needs analysis
19 together with assumptions will be prepared and submitted to UIF. UIF will then
20 review the proposal and, if approved, provide funding to HUI for its subsidiaries'
21 projects.

22 **Q. WILL THE TRANSACTION AFFECT THE CURRENT FINANCING**
23 **FACILITIES IN PLACE FOR HUI?**

1 A. No, the Transaction will not have an effect on any of the intercompany notes
2 between HUI and its subsidiaries. Consent is required to transfer the existing
3 intercompany notes based on a change of control, and UIF will seek to confirm
4 this consent prior to final close.

5 **Q. WILL HUI REQUEST ANY CHANGES BE MADE BY FRONTIER TO**
6 **ITS CURRENT DIVIDEND POLICIES FOLLOWING THE**
7 **TRANSACTION?**

8 A. No. The current dividend policies will remain in effect following the Transaction
9 and any changes to Frontier's dividend policies will be made consistent with the
10 Commission's requirements.

11 **Q. WILL THE TRANSACTION AFFECT THE FOUR FACTOR FORMULA**
12 **ALLOCATIONS BETWEEN AND AMONG THE HUI COMPANIES?**

13 A. No. The four factor allocations will continue and the methodology previously
14 applied when making allocation calculations will remain in place.

15 **RESTRUCTURING FOR THE TRANSACTION**

16 **Q. WILL ANY CHANGES BE MADE TO THE CURRENT OWNERSHIP**
17 **STRUCTURE ABOVE GBH AS PART OF THE TRANSACTION?**

18 A. Possibly. If the Transaction is approved, there might be a limited restructuring in
19 the infrastructure fund that owns GBH, at a level above GBH, to allow the fund to
20 better match withholding of taxes to the ultimate assessed income tax to their
21 investors. I understand the fund has applied for a withholding certificate from the
22 Internal Revenue Service to reduce its withholding obligations under the
23 Transaction and hopes to obtain this certificate before closing. However, if the

1 certificate is not received and the Transaction is approved, this upstream
2 restructuring will reduce the withholding tax resulting from the sale of GBH's
3 stock and will have no impact on GBH or any of its subsidiaries, including
4 Frontier. As this restructuring will only occur if the Commission approves the
5 sale of GBH, and because it will not affect GBH or its subsidiaries, the
6 restructuring should not require any action from the Commission; however, we
7 wanted to disclose the restructuring since it is addressed in the SPSA.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes.