

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

FRED A. STEELE

January 27, 2021

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, BY WHOM YOU**
2 **ARE EMPLOYED, AND IN WHAT CAPACITY.**

3 A. My name is Fred A. Steele. My business address is 110 PGW Drive, Elkin, North
4 Carolina, 28621. I am employed by Frontier Natural Gas Company (“Frontier”),
5 as President/General Manager.

6 **Q. MR. STEELE, HOW LONG HAVE YOU BEEN ASSOCIATED WITH**
7 **FRONTIER?**

8 A. I began working with Frontier in March 2014.

9 **Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES AT FRONTIER?**

10 A. I have profit and loss responsibility for Frontier and oversight of the execution of
11 operations, construction, risk management, regulatory, legislative and external
12 strategies, which include customer experience, economic development, large
13 customer relationships, government affairs (federal & state), regulatory affairs,
14 customer care and compliance, energy efficiency, community affairs and
15 communications, with a focus on delivering safe, reliable and efficient natural gas
16 service to Frontier’s customers across the company’s six county service territory.

17 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL**
18 **BACKGROUND.**

19 A. I am a graduate of Ohio University with a degree in accounting. I am a licensed
20 Certified Public Accountant in the States of North Carolina and Ohio. I began
21 working in the oil and gas industry in 1975. Over the years I have held various
22 positions of management and oversight related to gas procurement, interstate
23 pipeline and local distribution company scheduling, and preparation of gas

1 accounting information. Initially I worked as an accountant for an oil and gas
2 exploration and development company. Building upon that experience, I then
3 became the Controller of another oil and gas exploration and development
4 company. Later, I formed and developed an accounting practice primarily serving
5 oil and gas clients. Upon selling the practice in 1986, I became the Chief Financial
6 Officer of an oil and gas exploration and development company and natural gas
7 distribution company. I served in this capacity for ten years. I became the Chief
8 Executive Officer of this company after ten years and then served in that position
9 for an additional thirteen years. The company operated in five states. The
10 company's primary focus was natural gas distribution. Upon sale of the company I
11 worked as a consultant with clients in the energy industry for almost three years
12 prior to accepting the position with Frontier in March 2014. I became the General
13 Manager of Frontier on September 9, 2014.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. The purpose of my testimony is to describe how the acquisition of HUI's parent
16 company, GEP Bison Holdings, Inc. ("GBH") by Ullico Infrastructure Hearthstone
17 Holdco, LLC ("UIHH"), a wholly-owned subsidiary of Ullico Infrastructure Master
18 Fund, L.P. (together with its general partner UIF GP, LLC, "UIF"), will affect
19 Frontier from an operational and financial viewpoint. I also describe how the sale
20 of GBH to UIF (the "Transaction") is not expected to affect the service rendered by
21 Frontier or its rates.

22 **Q. WERE YOU INVOLVED IN NEGOTIATING THE PROPOSED**
23 **TRANSACTION?**

1 A. No. While I have a general understanding of the Transaction, the details are best
2 addressed by Ms. Sonia Axter, Vice President of UIHH and Vice President of UIF
3 GP, LLC. My focus is the effect, if any, that the Transaction will have on the
4 operations of Frontier.

5 **EFFECT OF TRANSACTION ON FRONTIER**

6 **Q. WILL THE TRANSACTION AFFECT FRONTIER'S RATES, TERMS, OR**
7 **CONDITIONS OF SERVICE?**

8 A. No, the Transaction will not immediately impact the rates, terms, or conditions of
9 service for Frontier. Frontier will remain independent for accounting, operating,
10 and ratemaking purposes. Any future capital investment under UIF's ownership
11 will be subject to the Commission's approval before being included in rate base.
12 Frontier's rates will not change as a result of the change in ownership. I understand
13 UIF will not be seeking recovery of any transactional costs associated with the
14 Transaction nor any acquisition premium paid for GBH, consistent with the
15 Commission's policies. And, as the Commission is aware, any changes to
16 Frontier's rates must be approved by the Commission.

17 **Q. WILL THE TRANSACTION HAVE ANY ADVERSE EFFECT ON**
18 **FRONTIER'S OPERATIONS IN NORTH CAROLINA?**

19 A. No, the Transaction should not have any adverse impact on Frontier's operations.
20 Frontier will continue to evaluate its own operational and customer needs and will
21 continue to have independence in making decisions in these areas.

22 **Q. WILL FRONTIER'S CUSTOMERS SEE ANY CHANGES IN SERVICE,**
23 **OR REDUCED SERVICE LEVELS, FOLLOWING THE TRANSACTION?**

1 A. No, Frontier remains firmly committed to strong customer service and I do not
2 anticipate that the Transaction will change this commitment or have any adverse
3 impact on the high quality of service that Frontier currently provides its customers.

4 **Q. WILL THE TRANSACTION AFFECT THE MANAGEMENT OF**
5 **FRONTIER?**

6 A. No. I anticipate that Frontier will continue to be managed by the same individuals
7 and I will continue to serve as the President and General Manager of the utility.

8 **Q. WILL FRONTIER'S EMPLOYEES BE AFFECTED BY THE**
9 **TRANSACTION?**

10 A. No. Decisions relating to the duties, responsibilities, and objectives of Frontier's
11 employees will still be determined by Frontier's management.

12 **Q. WILL THERE BE ANY IMPACT TO THE LOCATION OF FRONTIER'S**
13 **CURRENT OFFICE FOLLOWING THE TRANSACTION?**

14 A. No. The location of Frontier's headquarters is not expected to change. Frontier
15 currently serves approximately 4,400 customers in six counties in North Carolina.
16 Given the geographic location of Frontier's office and principal place of business
17 in Elkin, North Carolina, it continues to make good sense to keep Frontier's office
18 in Elkin.

19 **Q. WILL THE TRANSACTION HAVE ANY EFFECT ON THE CURRENT**
20 **FINANCING FACILITIES IN PLACE FOR FRONTIER?**

21 A. The transaction is not expected to have any effect on the current financing facilities
22 in place for Frontier. However, the source of funding for the intercompany loan
23 agreements (between Frontier and HUI) is subject to a consent approval from the

1 current lender as a result of a change in control provision. Such consent will be
2 sought prior to financial close. Any changes to Frontier's intercompany financing
3 notes must be approved by the Commission as ordered in Docket No. G-40, Sub
4 133.

5 **Q. WILL THE DEBT/EQUITY RATIOS OR CAPITAL STRUCTURE USED**
6 **BY FRONTIER BE AFFECTED BY THE TRANSACTION?**

7 A. No. Any future changes to the debt/equity ratio or capital structure of Frontier will
8 be addressed in the appropriate future proceedings initiated with the Commission.

9 **Q. WILL FRONTIER'S BUSINESS BE ADVERSELY AFFECTED BY THE**
10 **TRANSACTION?**

11 A. We do not anticipate any adverse effect on the business of Frontier.

12 **Q. WILL THERE BE ANY CHANGES TO THE CURRENT DIVIDEND**
13 **POLICIES IN PLACE FOR FRONTIER?**

14 A. No. Regulatory Condition 6 attached to the Order Granting Conditional Approvals
15 issued by the Commission on August 2, 2016, in Docket No. G-40, Sub 133,
16 contains limitations on Frontier's ability to pay distributions to GNI. Frontier's
17 current dividend policy is in compliance with Regulatory Condition 6, and its
18 dividend policy will remain in compliance with Regulatory Condition 6 following
19 the Transaction.

20 **Q. WHAT IMPACT WILL THE TRANSACTION HAVE ON THE**
21 **APPLICATION OF THE FOUR-FACTOR TEST ALLOCATIONS**
22 **BETWEEN AND AMONG THE HUI COMPANIES OR THE**

1 **ADMINISTRATIVE SERVICES PREVIOUSLY SHARED BETWEEN AND**
2 **AMONG THE HUI COMPANIES?**

3 A. Frontier does not anticipate any change to the four-factor allocation methodology
4 or the Shared Services Agreement recently approved by the Commission in Docket
5 No. G-40, Sub 133, as a result of the Transaction.

6 **Q. WILL THE CORPORATE STRUCTURE OF FRONTIER CHANGE?**

7 A. As I understand it, the corporate structure of Frontier will not change. Frontier's
8 upstream parent company will simply become a subsidiary of UIHH and the Ullico
9 Infrastructure Master Fund, L.P.

10 **Q. WILL FRONTIER CONTINUE TO COMPLY WITH THIS**
11 **COMMISSION'S PRIOR ORDERS AND REGULATORY CONDITIONS?**

12 A. Yes. The Transaction will not affect Frontier's obligations to comply with all
13 Commission orders and regulatory conditions. Frontier will continue to comply
14 with all applicable rules and regulations contained in Chapter 62 of the North
15 Carolina General Statutes, all applicable Orders of the Commission, including the
16 Order Approving Merger Subject to Regulatory Conditions issued in Docket No.
17 G-40, Sub 136, the Order Granting Conditional Approvals issued in Docket No. G-
18 40, Sub 133, and the Stipulation filed in Docket No. G-40, Sub 124.

19 **Q. DO YOU ANTICIPATE ANY ADVERSE EFFECT TO FRONTIER'S**
20 **CUSTOMERS FOLLOWING THE TRANSACTION?**

21 A. No, I do not.

22 **Q. WILL ANY OF FRONTIER'S CUSTOMERS NOTICE ANY CHANGES TO**
23 **THEIR SERVICE OR RATES AS A RESULT OF THE TRANSACTION?**

1 A. No. The Transaction will not affect customer service or rates. Frontier will continue
2 providing reliable service at just and reasonable rates.

3 **Q. WHAT BENEFITS WILL FRONTIER AND ITS CUSTOMERS RECEIVE**
4 **IF THE TRANSACTION IS APPROVED?**

5 A. I understand Frontier will maintain continued access to capital, which in turn would
6 provide support for ongoing system expansion, system upgrade, and infrastructure
7 replacement as necessary.

8 **Q. WILL FRONTIER'S CUSTOMERS BE HARMED IN ANY WAY AS A**
9 **RESULT OF THE TRANSACTION?**

10 A. No. I do not foresee any potential harm to Frontier's customers resulting from this
11 Transaction. In my experience, it is not uncommon that a change in ownership of
12 a company can cause anxiety in customers who may have questions about the
13 quality of service that they receive or any financial impact of such a change.
14 Frontier has worked diligently to establish a reputation for providing service that is
15 safe, reliable, and affordable, and Frontier is known to have a passion for further
16 expanding natural gas to new customers. With this joint application and supporting
17 testimony, it is my hope that these questions can be addressed in a transparent
18 fashion in an open and public proceeding and that any concerns can be put to rest.

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

20 A. Yes.