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G-40 Sub 153

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December 2, 2019

VIA ELECTRONIC FILING

Ms. Kimberley A. Campbell
Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street, Dobbs Building
Raleigh, North Carolina 27603

Re: Docket No. G-40, Sub 150

Dear Ms. Campbell:

Pursuant to G. S. § 62-133.4(c) and Commission Rule R1-17(k)(6), I have enclosed the Direct Testimony and Exhibits of Fred A. Steele attesting to the prudence of Frontier Natural Gas Company's ("Frontier") gas purchasing practices and the accuracy of Frontier's gas cost accounting for the twelve month period ended September 30, 2019.

The required fifteen copies of these documents are being sent to the Commission's office via FedEx Overnight.

Thank you for your assistance with this matter. If you have any questions regarding this filing, you may reach me at the number shown above.

Sincerely,

/s/ James H. Jeffries IV
James H. Jeffries IV

JHJ/sko

Enclosures

cc: Elizabeth Culpepper
Fred Steele
Al Harms

State of North Carolina

North Carolina Utilities Commission
Raleigh

Docket No. G-40, Sub 150

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION:

In the Matter of	)
	)
Application of Frontier Natural Gas	)
Company for Annual Review of	)
Gas Costs Pursuant to G.S. 62-133.4(c)	)
and Commission Rule R1-17(k)(6)	)

DIRECT TESTIMONY

OF

FRED A. STEELE

December 2, 2019

Q. Please state your name, business address, by whom you are employed, and in what capacity.

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

Q. Mr. Steele, how long have you been associated with Frontier?

A. I began working with Frontier in March 2014.

Q. Mr. Steele, what are your current responsibilities with Frontier?

A. I am responsible for the management and oversight of the natural gas supply group which supports the gas supply and capacity management functions for Frontier. Frontier's gas supply department's specific responsibilities include procurement and optimization of pipeline transportation, storage, and supply assets, system demand forecasting, administration of Frontier's hedging plans, gas cost accounting, state and federal regulatory issues concerning supply and capacity, asset and risk management, and transportation administration.

Q. Mr. Steele, please summarize your educational and professional background.

A. I am a graduate of Ohio University with a degree in accounting. I am a licensed Certified Public Accountant in the States of North Carolina and Ohio. I began working in the oil and gas industry in 1975. Initially I worked as an accountant for an oil and gas exploration and development company. Building upon that experience, I then became the Controller of another oil and gas exploration and development company. Later, I formed and developed an accounting practice primarily serving oil and gas clients. Upon selling the practice in 1986, I became the Chief Financial Officer of an oil and gas exploration and development company and natural gas distribution company. I served in this capacity for ten years. I became the Chief Executive Officer of this company after ten years and then served in that position for an additional thirteen years. The company operated in five states. The company's primary focus was natural gas distribution. Upon sale of the company I worked as a consultant with clients in the energy industry for almost three years prior to accepting the position with Frontier in March 2014. I became the General Manager of Frontier on September 9, 2014. Over the years I have held various positions of management and oversight related to gas procurement, interstate pipeline and local distribution company scheduling, and preparation of gas accounting information.

Q. Please describe Frontier and its system.

A. Frontier is headquartered in Elkin, North Carolina and is a utility subsidiary of Hearthstone Utilities, Inc. The Frontier natural gas system is physically comprised of approximately 139 miles of transmission line with two Transco take off points located in Warren County and Rowan County. Frontier is engaged in the business of transporting and selling natural gas in North Carolina as a local distribution company, subject to regulation by the North Carolina Utilities Commission. Frontier has transmission and distribution lines that serve customers in Yadkin, Surry, Wilkes, Warren, Watauga, and Ashe Counties. Distribution pipeline construction and the provision of service to existing and additional customers is evaluated on an ongoing basis in all six franchised counties based on the economic feasibility of serving the customer.

Q. Please briefly describe Frontier and the composition of its market.

A. Frontier is a local distribution company primarily engaged in the purchase, transportation, distribution, and sale of natural gas to approximately 4,137 customers in and/or near Wilkesboro, North Wilkesboro, Elkin, Dobson, Mt. Airy, Yadkinville, Hays, Roaring River, Manson, Warrenton, Norlina, Boone, Jefferson, and West Jefferson.

Approximately 71 percent of Frontier's throughput during the review period was comprised of deliveries to industrial or large commercial customers that either purchased natural gas from Frontier or transported gas on Frontier's system. The majority of these customers were and are currently served under interruptible rate schedules. These large customers have the ability to use an alternative fuel other than natural gas (e.g., #2 fuel oil, or propane) and can make the switch to an alternative fuel when its price is less than natural gas. The remainder of Frontier's sales are to residential and small commercial customers served under firm rate schedules. Frontier's primary competition for residential and small commercial customers is electricity, propane, and fuel oil and varies according to geographic area.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to demonstrate that all of Frontier's gas costs were prudently incurred during the review period ended September 30, 2019, and therefore meet the requirement for recovery. North Carolina General Statute § 62-133.4 allows Frontier to track and recover from its customers the cost of natural gas supply and transportation and to adjust customer charges to reflect changes in those costs. Under subsection (c) of the statute, the Commission must conduct an annual review of Frontier's gas costs, comparing Frontier's prudently incurred costs with costs recovered from customers during a twelve month test period. To facilitate this review, Commission Rule R1-17(k)(6) requires Frontier to submit to the Commission, on or before December 1 of each year, certain information for the twelve month test period ended September 30. In addition to my testimony, Frontier is submitting schedules contained in the accompanying exhibits for the purpose of providing the Commission with the data necessary to true-up Frontier's gas costs during the review period. This is Frontier's 21st proceeding under Commission Rule R1-17(k)(6) since we began operations.

Q. Please describe Frontier's gas supply policy.

A. Frontier's system and gas supply procurement policy are designed to serve firm customers reliably year-round and on a peak day at a reasonable cost to our customers. The purpose of this policy is to provide direction for the procurement of natural gas for resale and to establish financially sound, responsible, and prudent guidelines for the procurement of natural gas from available sources for the operation of the natural gas utility system. The gas supply procurement policy of Frontier seeks supply adequacy, reliability, diversity and minimization of the associated costs. This begins with accurate estimation of the customer usage requirements and how to meet them in an efficient manner. This is accomplished through a diligent effort to assess available supply options to meet system and customer requirements in an organized approach. It is Frontier's policy that the gas supply group is established and maintained to pursue this mission. The gas supply group is comprised of company staff which can draw on support from affiliated entities, consultants, and gas marketers as necessary. The information the gas supply group will use includes, but is not limited to, market indicators, seasonal weather forecasts, periodicals and forecast in pricing to gather intelligence on the direction of natural gas and pipeline capacity prices. Frontier's gas supply policy continues to be best described as a best evaluated cost supply strategy. This gas supply strategy is based upon several criteria: operational flexibility, supply security, creditworthiness, reliability of supply, the cost of the gas, and quality of supplier customer service. The foremost criterion for Frontier is the security of gas supply, which refers to the assurance that the supply of gas will be available when needed. This criterion is required for Frontier's firm sales customers, who have no alternate fuel source, due to the daily changes in Frontier's supply requirements caused by the unpredictable nature of weather, and the production levels/operating schedules of Frontier's industrial customers, combined with their abilities to switch to alternate fuels, and the growth of customers during the test period. While Frontier's gas supply agreements have ability to adjust purchase volumes within the contract volume, the gas supply portfolio as a whole must also be capable of handling the seasonal, monthly, daily and hourly changes in Frontier's market requirements. Frontier is still in a growth mode and the variation in bundled load and the need to cover marketer imbalances is important. Frontier understands the necessity of having security of supply to provide reliable, dependable natural gas service and has demonstrated its ability to do so. Frontier's supply strategy and its contracts with its suppliers implementing this strategy have allowed Frontier to accomplish this objective. The other primary criterion is the cost of gas. Frontier is committed to acquiring the most cost effective supplies of natural gas available for its customers while maintaining the necessary operational flexibility, security and reliability to serve their needs.

Q. What are the greatest challenges in the development and implementation of Frontier's gas supply strategy?

A. A significant challenge is to accurately forecast Frontier's gas supply needs. There are several factors that make this difficult. First, Frontier is a growing LDC. The number of customers increased from 3,853 on October 1, 2018 to 4,137 as of September 30, 2019, an increase of approximately 7.3%. Second, Frontier continues to add new customers with undocumented natural gas needs and winter consumption patterns. It is extremely difficult to forecast winter peak load requirements for new industrial/commercial customers that Frontier did not serve the previous winter. Third, most of Frontier's throughput serves large industrial customers, some of whom have alternative fuel supplies. These large industrial/commercial customers can change procurement strategies and secure their commodity needs from other sources. Fourth, Frontier has a disparity in climate in the territory that is accentuated by the small size of our company, therefore making it difficult to project the load. Frontier has experienced substantial climate variations between the mountains in Boone and the valleys around Yadkinville. We also have a significant residential load in Warren County, with usage characteristics, based on temperature that can vary from those in Surry or Yadkin County. Finally, and perhaps most importantly, is unpredictable, extreme weather patterns. A number of our new customers are poultry hatcheries and grow-out houses, which require fairly constant temperatures for their chickens to survive and thrive. Most of their facilities are not well insulated, and many of them do not have alternative fuels. Many of these poultry operations are family-owned and highly leveraged (i.e. the families rely upon the revenue from the sale of fully-grown chickens to meat processors to pay off their loans procured to cover the expenses to raise the chickens and have enough left over to live off of). Extremely cold ambient temperatures greatly increase the natural gas demand for heating these facilities. All of these factors create additional challenges in predicting needs.

Q. Please describe Frontier's interstate capacity.

A. Frontier has contracted for 8,613 DTH per day of firm capacity on the Transco interstate pipeline. This capacity accesses supply in Transco Zones 3 and 4 with delivery to the Frontier system in Zone 5. The quantities purchased were based on availability, cost, and projected need. Frontier's needs exceed its purchased capacity during the winter and has acquired supplemental swing and peaking contracts to offset the additional needs. This additional supply is purchased pursuant to an Asset Management Agreement with UGI Energy Services, as described in greater detail below.

Q. What efforts has Frontier undertaken in the past to purchase additional interstate pipeline capacity?

A. In an effort to increase its firm capacity on Transco over the last four years Frontier has submitted several bids for available capacity. The most recent acquisition of capacity was a bid at the maximum rate possible for 2,663 DTHs on August 18, 2016 for an eighty-seven year term. This capacity became available on January 14, 2017, increasing the total capacity held by Frontier to the current total of 8,613 DTHs

Frontier continues to seek capacity on Transco and review any potential means of expanding and diversifying its access to supplies.

Q. Has there been any significant change to Frontier's gas supply strategy during the test year?

A. Frontier is committed to achieving price stability, at a reasonable level, while continuing to provide safe, and reliable natural gas service that is in balance with the requirements of its firm sale customers. Frontier continues to annually review and update policies related to gas planning, system operations and procurement, including Design Day Demand Requirements, Gas Procurement, including Capacity Planning and Resources, and Commodity Planning and Resources, Curtailment Policy and Technical Training. Frontier has retained Kan Huston as an independent, unbiased third party consultant to assist in our planning. We also have appropriate internal controls between the Controller/accounting functions and Frontier's gas purchasing agent and designated a specific, qualified employee responsible for the implementation of these policies. Taylor Younger, an engineer, has been designated as the qualified employee. Frontier finished revising and updating our Gas Supply Procurement Policy in June of the review period. More details will be provided in the testimony of Taylor Younger.

Q. Based upon the development of new policies, and the review and evaluation of Frontier's policies, what is Frontier's current practice?

A. Frontier currently contracts with UGI Energy Services, LLC ("UGI") to centralize purchasing and reliability of gas deliveries under a full requirements contract.

The core of Frontier's current strategy is to obtain reliability and price stability by fixing components of the gas cost, including fixing commodity costs and/or transportation costs of the commodity under the terms of the Asset Management Agreement with UGI. Under the terms of the UGI Asset Management Agreement the first 8,613 MMbtu/d of daily requirements is the first through the Transco meter, priced at Zone 3 First of Month (FOM) index if scheduled on a month ahead basis or Zone 3 Daily (GDD) index if scheduled on a day ahead basis. Zone 3 pricing is generally less volatile than Zone 5 pricing.

The UGI Asset Management Agreement further provides for additional daily or monthly gas requirements above the 8,613 up to 20,000 MMbtu/d (DTHs/d). If scheduled on a month ahead basis it is priced at Zone 5 FOM. Frontier has the additional contractual right under the agreement to purchase all other daily gas supply requirements at Zone 5 GDD. This additional supply is available on a no-notice basis, up to 20,000 DTHs/s.

Q. Does this portfolio contribute to Frontier's goal of price stability and supply reliability?

A. Yes. In my opinion Frontier has a diversified gas purchase portfolio priced at a mix of Transco Zone 3 FOM index, Transco Zone 3 GD index, Transco Zone 5 FOM index and Transco Zone 5 GD index. I would note that the published indexes are reflective of the market prices for natural gas. Further, while Frontier is physically located in Transco's Zone 5, the acquisition of Transco Firm Transportation has permitted Frontier to significantly diversify its gas supply purchases, providing the opportunity to stabilize price and increase reliability.

Q. Does Frontier periodically evaluate suppliers in the marketplace to ensure the most reasonable and prudent terms, conditions and price for its ratepayers?

A. Yes. Frontier's current AMA expires in April, 2020. Frontier has issued requests for proposals to six potential natural gas suppliers. Frontier is evaluating the proposals from each of the suppliers using the criteria of our gas supply policy: flexibility, security/creditworthiness, price, performance/reliability, and quality of supplier customer service for the period of April 1, 2020 to March 31, 2023.

Q. Under this approach, does Frontier have the flexibility to meet its market requirements?

A. Yes. The gas supply contracts that Frontier has negotiated, including the current one with UGI, have the flexibility and reliability to meet its market requirements in a secure and cost effective manner. Frontier evaluates and plans to meet all short- and long-term requirements on an ongoing basis.

Q. What actions have been taken by Frontier to accomplish its purchasing policy during this review period?

A. Frontier has taken the following steps to keep its gas costs as low as reasonably practical while accomplishing its stated policies of maintaining security of supply and delivery flexibility:

(1) Frontier has continued to work with its industrial customers to facilitate the transportation of customer-owned gas. Frontier's transportation service allows these customers to manage their energy supply in a way that ensures that natural gas remains as competitive as possible with alternative fuels and also maintains throughput on Frontier's system. This also enables Frontier to focus more on accurately predicting and meeting demand/capacity for its bundled full service customers.

(2) Frontier routinely communicates directly with customers, numerous supply sources, and other industry participants, and actively researches and monitors the industry and gas markets by using a variety of sources, including industry contacts, consultants, industry trade periodicals and the internet.

(3) Frontier has internal discussions when necessary among various senior level personnel concerning gas supply policy and major purchasing decisions.

(4) Frontier evaluates various other capacity and supply options.

(5) Frontier's asset management agreements ("AMA") during the review period with UGI Energy Services allowed Frontier to maximize the capabilities of the Transco firm pipeline capacity purchased and manage its supply portfolio in the most cost and operationally effective manner. Frontier continues to adjust its monthly Maximum Daily Quantity ("MDQ") and carefully evaluates forecasted loads prior to each month and makes prudent adjustments to its MDQ.

(6) Frontier's AMA with UGI provides a high degree of operational and supply flexibility.

Q. Does Frontier have plans to obtain any additional pipeline capacity in the future?

A. Frontier will evaluate the need to obtain additional capacity on Transco as it becomes available in relationship to its system growth.

Q. Did Frontier have sufficient daily capacity reserved during the months of January and February 2019, during the test period?

A. Yes, Frontier did have sufficient capacity reserved through a combination of its AMA with UGI, its Transco capacity, and a peaking contract, fully explained in the testimony of Taylor Younger. Frontier was required to buy additional natural gas and utilized its rights under the UGI AMA on the gas daily market to meet customers demand in December, January and February for those quantities of gas purchased over Frontier's firm Transco capacity of 8,613 dth on peak days for Zone 5. Even with the additional peak day purchases Frontier sold gas back to UGI (78,973 dth, 73,307dth, and 74,971 dth for December 2018, and January and February 2019 respectively). The MDQ for the months of December, January, and February were determined prior to the start of each month using the best information available at that time. We believed the monthly MDQs were appropriate, in light of the needs of our customers based on the historical and forecasted information that Frontier reviewed when determining what the MDQ for each of these months should be while also keeping in mind the accepted peaking contract in order to ensure security of supply and delivery flexibility. We were particularly cognizant of the potential impact to our poultry grow-out customers.

Q. What is Frontier's uncollected deferred account balance at September 30, 2019?

A. Frontier strategically tries to minimize adjustments in pricing. However, we had to institute an increase in our benchmark city gate delivered cost on. We anticipate that the current balance owed to the Company of $410,265 will be moving back toward $0.00 over the winter months.

Q. Did Frontier follow the gas cost accounting procedures prescribed by Rule R1-17(k) for the year ended September 30, 2019?

A. Yes. All accounting was done in accordance with Sections (4) and (5) of Rule R1-17(k) as applied to Frontier in previous Commission prudency review orders. In following Section (5)(c) of the Rule, Frontier is responsible for reporting gas costs and deferred account activity to the Commission and the Public Staff on a monthly basis.

Q. What schedules have you caused to be prepared?

A. The following schedules were prepared under my supervision and are attached to this testimony:

Schedule 1 - Summary of Cost of Gas Expense

Schedule 2 - Summary of Demand and Storage Charges

Schedule 3 - Summary of Commodity Gas Costs

Schedule 4 - Summary of Other cost of Gas Charges (Credits)

Schedule 8 – Summary of Deferred Account Activity

Schedule 10 - Summary of Gas Supply

Schedule 11 – Summary of Natural Gas Hedge Transactions

Q. What activity occurred in the deferred account during the twelve months ended September 30, 2019?

A. The activity can be summarized as follows:

Beginning balance, October 1, 2018	$ - 330,127
Commodity Cost vs Collections	$ - 333,832
Accrued interest	$ - 345
Transport Balancing	$ - (22,378)
Adjustments	$ - (231,661)
Ending balance, September 30, 2019	$ - 410,265

Q. The attached schedules show the gas costs incurred by Frontier and billed to customers during the period October 1, 2018 through September 30, 2019. In your opinion, were all these gas costs prudently incurred?

A. Yes. All of these gas costs were incurred under Frontier's best evaluated cost supply strategy and are the result of reasonable business judgments considering the conditions and information available at the time the gas purchasing decisions were made.

Q. In reviewing the monthly schedules that have been filed throughout the current review period and the attached annual Prudency Review Schedules do you believe that there are any additional adjustments that may be required in the Deferred Account in order for Frontier to recover all of its natural gas costs incurred as of September 30, 2019?

A. No.

Q. Please describe any changes in the Company's customer mix or customer market profiles that it forecasts for the next ten (10) years and explain how the changes will impact the Company's gas supply transportation and storage requirements

A. Frontier continues to focus on expanding its system to new customers. The 6" and 10" Steel Transmission (backbone) pipeline system for the Company's franchised area was completed in 2002. Significant PE pipeline construction has occurred since then throughout Frontier's franchised area and will continue wherever economically feasible to extend natural gas service to additional customers. Frontier's market mix will also continue to evolve and change as it matures. Several of Frontier's larger customers have transportation-only service. While service switching has stabilized (because of the relatively low cost of natural gas), fuel switching is still a potential risk if natural gas prices increase relative to alternative fuels. During the test period, natural gas enjoyed a more competitive pricing than alternative fuels.

Over the next five years, the annual forecasted growth is approximately 10.0% annually. Frontier is expecting this rate of growth to remain at this level over the next five years, with an increased focus on residential and small commercial customers. Sales loads are gradually increasing as more people have access to natural gas due to system expansion. Infill customers are slowly converting as current appliances need to be replaced and they become more aware of the benefits and lower prices of natural gas.

Frontier intends to meet its gas supply needs through its current capacity on Transco, and by acquiring additional capacity as it becomes available at reasonable terms, and by buying from wholesale suppliers utilizing an AMA with a third-party wholesale supplier, as needed. Frontier has determined that its current level of purchased capacity is not sufficient for its future, long-term needs -- based on historical winter needs and projected load growth in the future. As Frontier continues to grow, it will look for incremental pipeline capacity on Transco. In addition, Frontier will continue to evaluate storage, LNG, and other opportunities as they arise. Frontier continues to bid on additional pipeline capacity as opportunities present themselves on the Transco system. Frontier evaluates cooperative participation with other companies or municipalities when bidding on the additional capacity, and it plans to meet with other natural gas producers who have purchased capacity on the Transco system – all in an effort to increase its available capacity to accommodate its anticipated growth and improve reliability.

Q. Please provide the base load demand requirements estimated for the review period and forecasted for each of the next four years. Please provide the one-day design peak demand requirements used by the Company for planning purposes for the review period and forecasted for each of the next four winter seasons. The peak demand requirement amounts should set forth the estimated demand for each rate schedule or priority with peak day demand. All assumptions, such as heating degree days, dekatherms per heating degree day, customer growth rates and supporting calculations used to determine the peak day requirement amounts should be provided.

A. Exhibit "B," report on Design Day Study prepared by Dr. Ronald H. Brown, Ph.D. utilizing the Marquette University GasDay, filed confidentially concurrently herewith, shows the projected capacity growth requirements for the 2018-2019 winter. Confidential Exhibit "A" prepared by Frontier shows the projected capacity growth requirements for the next five years.

Q. Please explain how the Company determines which type of resource should be acquired or developed for meeting the Company's deliverability needs, and describe the factors evaluated in deciding whether the Company should acquire a storage service, or develop additional on-system storage deliverability.

A. Frontier has historically relied on its gas supplier to provide the commodity and the capacity requirements to deliver its needs. This was an appropriate approach when Frontier was smaller, and its mix of customers and load was less predictable. Frontier currently has long-term firm pipeline capacity, but not enough to cover the full winter designed peak day needs. Frontier continues to acquire its own capacity on the Transco System in an effort to reduce reliance upon a third-party gas supplier for its capacity needs. Frontier has addressed the shortage of capacity by buying additional capacity from its wholesale supply contractors, UGI, and on the market.

Frontier acquired a long-term commitment for pipeline capacity to handle the projected gas supply needs for the review period. Frontier's need for additional capacity continues to grow. Over the next five years Frontier is projecting that this need for capacity will continue to increase.

When Frontier initially purchased capacity, Transco had available incremental capacity. This availability, however, did not always align with Frontier's needs to buy the desired increments that strategically correspond with Company growth and meet forecasted daily peak day requirements. To more efficiently manage this process, Frontier entered into an AMA to minimize potential stranded gas costs, lower the demand fees, and enable it to meet the supply needs of its growing customer base.

Q. Please describe any significant storage, transmission, and distribution upgrades required for the Company to fulfill its peak day requirements during the next five years.

A. As discussed above in greater detail, the issue is available capacity on Transco, not infrastructure. At this time, Frontier's system has sufficient infrastructure to handle forecasted gas supply needs for the next five years. Frontier will continue to assess its needs on an ongoing basis.

Q. What action does Frontier request the Commission to take regarding these deferred accounts?

A. Frontier requests that the Commission approve the September 30, 2019 balances and find that the costs incurred by Frontier's gas purchases were prudent during the relevant twelve-month period.

Q. Does Frontier have other components of this filing that it would like to bring to the Commission's attention?

A. Yes. Frontier would like to make the Commission aware of an anticipated change to its tariffs as it relates to Lost and Unaccounted for Gas ("LAUF") that it intends to file in order to comply with NCUC R1-17(k). Frontier and the Staff have been discussing the proposed change to the tariff. The change will conform Frontier's recovery of LAUF and Company Use to those of other gas companies in the State by allocating a portion of the LAUF and Company Use to transportation customers. This change in allocation would decrease the cost responsibility currently borne by firm sales customers.

Q. Does that conclude your testimony?

A. Yes, at this time.