

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. G-40, SUB 142

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Frontier Natural Gas Company – Violations of)
Title 49, Part 192, Subpart O, Code of)
Federal Regulations)

COMMISSION PIPELINE SAFETY SECTION SUPPLEMENTAL
TESTIMONY OF STEPHEN P. WOOD
IN SUPPPORT OF SETTLEMENT AGREEMENT

**Pipeline Safety Staff Supplemental Testimony
G-40, Sub 142**

1 Q: PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT
2 POSITION.

3 A: My name is Stephen P. Wood, and my business address is 430 North Salisbury
4 Street, Raleigh, North Carolina. I am the Director of the Pipeline Safety Section of
5 the Operations Division, North Carolina Utilities Commission.

6 Q: ARE YOU THE SAME STEPHEN P. WOOD WHO PREFILED JOINT
7 TESTIMONY AND EXHIBITS IN THIS DOCKET WITH JOHN S. HALL AND
8 HARRY C. BRYANT, III, ON AUGUST 25, 2017?

9 A: Yes.

10 Q: WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

11 A: The purpose of my supplemental testimony is to support the Agreement and
12 Stipulation of Settlement (Settlement Agreement) filed in this docket by Frontier
13 Natural Gas Company (Frontier), and the Pipeline Safety Section of the Operations
14 Division, North Carolina Utilities Commission (Staff) on October 12, 2017.

15 Q: DOES THE SETTLEMENT AGREEMENT ADDRESS THE COMMISSION
16 STAFF'S CONCERNS REGARDING FRONTIER'S NON-COMPLIANCE WITH
17 FRONTIER'S INTEGRITY MANAGEMENT PROGRAM?

18 A: Yes. Section II.2.C., which incorporates Exhibit A of the Settlement Agreement,

1 outlines the steps that Frontier must take to correct Frontier's past non-compliance
2 with Frontier's Integrity Management Program (IMP). Exhibit A sets out a time
3 frame for the assessment of the work needed to be performed, projected dates for
4 the work to be completed, and a monthly reporting requirement by Frontier. In
5 addition, Exhibit A provides that the Commission Staff reserves the right to initiate
6 a Show Cause proceeding if it believes that Frontier is not proceeding in
7 completing the work in the time frame agreed upon.

8 Q: DOES THE SETTLEMENT AGREEMENT ADDRESS THE COMMISSION
9 STAFF'S POSITION THAT FRONTIER'S PAST NON-COMPLIANCE WITH
10 FRONTIER'S IMP IS GROUNDS FOR THE COMMISSION TO ASSESS A
11 SUBSTANTIAL CIVIL PENALTY TO BE PAID BY FRONTIER?

12 A: Yes. Section II.E. provides that Frontier will pay a civil penalty of Two Hundred
13 Thousand Dollars (\$200,000). The provisions of 49 CFR Sec. 190.225 state
14 several criteria to be applied in determining the amount of a civil penalty to be
15 assessed. One of those factors is the effect on the company's ability to continue in
16 business. The \$200,000 civil penalty agreed upon in this docket is just under 10%
17 of Frontier's average annual net income from 2011 through 2016 and is a little over
18 8% of Frontier's 2016 net income per the FERC Form 2 filed by Frontier with this
19 Commission. The Commission Staff believes that this is a substantial penalty that
20 is commensurate with the level of Frontier's IMP violations, but that it will not affect
21 Frontier's ability to fund its ongoing operations.

1 Q: DOES THE SETTLEMENT AGREEMENT REQUIRE FRONTIER TO TAKE
2 STEPS BEYOND THOSE REQUIRED BY FRONTIER'S IMP?

3 A: Yes. Sections II.A., B. and D. provide commitments by Frontier to undertake
4 activities that are not expressly required by Frontier's IMP. These include having
5 a representative portion of its transmission pipeline inspected using an advanced
6 in-line inspection tool, commonly known as a "smart pig;" conducting an
7 emergency response exercise to plan for addressing a breach in a portion of
8 Frontier's transmission line; and undertaking an additional project, at a cost of \$2.0
9 to \$3.0 million, that will enhance the reliability and/or safety of Frontier's system.
10 With regard to this last matter, the Settlement Agreement outlines a process that
11 Frontier and the Staff will employ in leading to a final decision by Frontier regarding
12 the nature of the additional project to be undertaken.

13 Q: PLEASE DESCRIBE THE PROCESS BY WHICH THE PARTIES REACHED
14 AGREEMENT ON THE TERMS SET FORTH IN THE SETTLEMENT
15 AGREEMENT?

16 A: The terms of the Settlement Agreement were agreed to by the Staff and Frontier
17 after they filed testimony, engaged in discovery, and engaged in the give-and-take
18 of extensive negotiations. In summary, the parties met twice, exchanged numerous
19 emails, exchanged settlement offers and counter-offers, and Frontier provided the
20 Staff with a large volume of information in response to data requests submitted by
21 the Staff. The result of this negotiation process is a Settlement Agreement that the
22 Staff believes properly balances the goals and concerns of the Staff and Frontier.

1 Q: DOES THE SETTLEMENT AGREEMENT RESOLVE ALL ISSUES AND CLAIMS
2 BETWEEN THE STAFF AND FRONTIER IN THIS SHOW CAUSE
3 PROCEEDING?

4 A: Yes.

5 Q: WILL APPROVAL OF THE SETTLEMENT AGREEMENT BY THE COMMISSION
6 SERVE THE PUBLIC INTEREST?

7 A: Yes. The Commission Staff believes that the terms of the Settlement Agreement
8 serve the interests of Frontier's customers and the public.

9 Q: DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

10 A: Yes.

Certificate of Service

The undersigned counsel for the North Carolina Utilities Commission Staff hereby certifies that the forgoing Commission Staff's supplemental testimony of Stephen P. Wood was served on the attorney for Frontier Natural Gas Company by electronic service, as follows:

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This the 12th day of October, 2017.

s/ Leonard G. Green
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