

1 PLACE: Via Videoconference
2 DATE: Wednesday, June 23, 2021
3 TIME: 10:00 a.m. - 11:48 p.m.
4 DOCKET NO.: G-40, Sub 160
5 BEFORE: Chair Charlotte A. Mitchell, Presiding
6 Commissioner ToNola D. Brown-Bland
7 Commissioner Lyons Gray
8 Commissioner Daniel G. Clodfelter
9 Commissioner Kimberly W. Duffley
10 Commissioner Jeffrey A. Hughes
11 Commissioner Floyd B. McKissick, Jr.
12

13 IN THE MATTER OF:
14 Joint Application of
15 Frontier Natural Gas Company and
16 Ullico Infrastructure Hearthstone Holdco, LLC,
17 for Approval of the Sale and
18 Transfer of Stock
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1 A P P E A R A N C E S:

2 FOR FRONTIER NATURAL GAS COMPANY:

3 James H. Jeffries, IV, Esq.

4 McGuireWoods LLP

5 201 North Tryon Street, Suite 3000

6 Charlotte, North Carolina 28202

7
8 FOR ULLICO INFRASTRUCTURE HEARTHSTONE HOLDCO, LLC:

9 Marcus Trathen, Esq.

10 Craig Schauer, Esq.

11 Brooks, Pierce, McLendon, Humphrey & Leonard, LLP

12 150 Fayetteville Street

13 1700 Wells Fargo Capitol Center

14 Raleigh, North Carolina 27601

15
16 FOR THE USING AND CONSUMING PUBLIC:

17 Elizabeth Culpepper, Esq.

18 Megan Jost, Esq.

19 Public Staff - North Carolina Utilities Commission

20 4326 Mail Service Center

21 Raleigh, North Carolina 27699-4300

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23
24
NORTH CAROLINA UTILITIES COMMISSION

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IDENTIFIED/ADMITTED

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(Confidential filed under seal)

Public Staff Exhibit 1 and Revised

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P R O C E E D I N G S

CHAIR MITCHELL: Good morning everyone.

Let's come to order and go on the record, please. I'm Charlotte Mitchell, Chair of the North Carolina Utilities Commission and the Presiding Commissioner for this proceeding, and with me this morning are the following Commissioners. When I announce your name, please announce your presence. Commissioner Brown-Bland?

COMMISSIONER BROWN-BLAND: Good morning.

I'm present.

CHAIR MITCHELL: Commissioner Gray?

COMMISSIONER GRAY: Good morning. Present.

CHAIR MITCHELL: Commissioner Clodfelter?

COMMISSIONER CLODFELTER: Yes. Good morning.

CHAIR MITCHELL: Commissioner Duffley?

COMMISSIONER DUFFLEY: Good morning.

CHAIR MITCHELL: Commissioner Hughes?

COMMISSIONER HUGHES: Good morning.

CHAIR MITCHELL: And Commissioner McKissick?

COMMISSIONER MCKISSICK: Good morning. Present.

CHAIR MITCHELL: I now call for hearing

NORTH CAROLINA UTILITIES COMMISSION

1 Docket Number G-40, Sub 160.

2 On January 27, 2021, Frontier Natural Gas
3 Company, to which I will hereinafter refer to as
4 Frontier, and Ullico Infrastructure Hearthstone
5 Holdco, LLC, to which I will now hereinafter refer to
6 as UIHH and collectively as the Applicants, filed an
7 Application pursuant to N.C. General Statute § 62-111
8 for the approval of a transaction whereby Hearthstone
9 Utilities Inc. or HUI and its subsidiaries, including
10 Frontier, will become wholly-owned subsidiaries of
11 UIHH.

12 I am getting a little bit of feedback, so if
13 you are not on mute, please do so now.

14 The Applicants also filed exhibits and
15 direct testimony in support of their Application.

16 On March 31st, 2021, the Commission issued a
17 Scheduling Order in the docket, which, among other
18 things, scheduled a public witness hearing on June 22,
19 2021, to be held at 1:30 p.m., as well as today's
20 expert witness hearing, each of which were to be held
21 remotely on Webex. The Scheduling Order further
22 stated that only individuals registered with the
23 Public Staff by 5:00 p.m., on Monday, June 14th would
24 be allowed to testify at the public hearing, and

1 Applicants -- and the Applicants were also ordered to
2 publish a Public Notice of the Application, including
3 the above information about the public witness
4 hearing.

5 The Public Staff's intervention in this
6 proceeding has been recognized and acknowledged
7 pursuant to applicable Statutes and Rules of the
8 Commission. No other parties sought to intervene in
9 this proceeding.

10 Several procedural motions for extensions of
11 time were sought by the parties involving the dates by
12 which testimony was to be filed. By Commission
13 Orders, the dates for filing direct testimony of
14 intervenors was extended June 8, 2021, and the date
15 for the filing of rebuttal testimony was extended to
16 June 15, 2021.

17 On June 8th, the Public Staff filed the
18 joint testimony of its witnesses.

19 And on June 15th, the Applicants filed the
20 rebuttal testimony of their witnesses.

21 Also on June 15th, the Public Staff filed a
22 motion requesting that the public witness hearing be
23 canceled. In support of its motion, the Public Staff
24 stated that no member of the public had contacted the

1 Public Staff to register to testify at the public
2 hearing, and that no member of the public had
3 submitted a written statement of position to the
4 Commission's Chief Clerk.

5 That same day, the Commission issued an
6 Order canceling the public witness hearing.

7 On June 16th, 2021, the parties filed with
8 the Commission a joint witness list, order of
9 witnesses, and proposed cross-examination times.

10 That brings us to the hearing which will
11 begin today.

12 Before we get started, I want to make a few
13 points on the record in light of the fact that this
14 hearing is being conducted remotely. This hearing has
15 been made accessible to the public by way of a link
16 provided on the Commission's website. Each of
17 the parties has consented to the Commission's
18 conducting this hearing by remote means, as evidenced
19 by filings made by the parties in this docket.

20 Although we are not sitting in the hearing
21 room together, it's the Commission's expectation that
22 this hearing be conducted as if we were. This means
23 that we must maintain order and do our best to
24 minimize interference with the court reporter's

1 ability to transcribe this hearing accurately. When
2 you are not speaking, please keep yourself on mute.
3 If you need to be recognized or interrupt for an
4 objection or for any other good reason, please let me
5 and the court reporter know your name before you
6 begin.

7 All right. Let's get started.

8 Pursuant to the State Ethics Act, I remind
9 all members of the Commission of their duty to avoid
10 conflicts of interest and inquire at this time as to
11 whether any member of the Commission has a known
12 conflict of interest with respect to the matters
13 coming before us.

14 (No response)

15 The record will reflect that no conflicts
16 have been identified, so we'll proceed. And I call
17 upon the parties at this point in time to announce
18 their appearances, beginning with the Applicants.

19 MR. JEFFRIES: Good morning, Chair Mitchell.
20 This is Jim Jeffries. I'm here. I'm with the Law
21 Firm of McGuireWoods and appearing today on behalf of
22 Frontier Natural Gas.

23 CHAIR MITCHELL: Good morning, Mr. Jeffries.

24 MR. TRATHEN: Good morning, Madam Chair and

1 Commissioners. I'm Marcus Trathen despite what my
2 screen image says. I'm with the Law Firm of Brooks
3 Pierce making an appearance this morning on behalf of
4 Ullico Infrastructure Holdco, LLC, an Applicant in
5 this proceeding. And my colleague Craig Schauer is
6 also with me making an appearance today.

7 We had a little connectivity problem with my
8 computer setup and I know our key folks are continuing
9 to work on that. So, at some point I may go back to
10 my other computer but for the time being I hope this
11 is satisfactory.

12 CHAIR MITCHELL: Thank you, Mr. Trathen, and
13 thank you for making us aware of the situation.

14 All right. Public Staff?

15 MS. CULPEPPER: Good morning. Elizabeth
16 Culpepper with the Public Staff appearing on behalf of
17 the Using and Consuming Public. Appearing with me
18 today is Megan Jost.

19 CHAIR MITCHELL: All right. Good morning,
20 Ms. Culpepper, and good morning, Ms. Jost.

21 Any preliminary matters from counsel before
22 we begin?

23 (No response)

24 I'm hearing nothing, so we will go ahead.

1 The case is with Frontier.

2 MR. JEFFRIES: Thank you, Chair Mitchell. I
3 believe our witnesses are designated to go first. We
4 would call Mr. Kevin Degenstein and Mr. Fred Steele to
5 the stand. Mr. Steele and Mr. Degenstein will be
6 appearing as a panel today with leave of the
7 Commission.

8 CHAIR MITCHELL: Thank you, Mr. Jeffries.
9 Mr. Steele, Mr. Degenstein, would you all please turn
10 on your cameras? There you -- I see you
11 Mr. Degenstein. Mr. Steele, there you are. All
12 right, gentlemen, raise your right hands, please.

13 FRED A. STEELE and KEVIN DEGENSTEIN;
14 having been duly affirmed,
15 testified as follows:

16 MR. JEFFRIES: Thank you, Chair Mitchell. I
17 believe on the pleading we filed we indicated that
18 Mr. Steele was going to be going first, but since this
19 is a panel, I prefer to start with Mr. Degenstein if
20 that's acceptable to the Chair.

21 CHAIR MITCHELL: All right. It's acceptable
22 to me. I'm not hearing any objection from
23 Ms. Culpepper or Ms. Jost. Okay. Please proceed,
24 Mr. Jeffries.

1 MR. JEFFRIES: All right. Thank you.

2 DIRECT EXAMINATION BY MR. JEFFRIES:

3 Q Mr. Degenstein, could you state your name and
4 business address for the record, please?

5 A (Degenstein) Yeah. My name is Kevin Degenstein
6 and my business address is #1 Pearse Avenue,
7 Great Falls, Montana.

8 Q Mr. Degenstein, where do you work?

9 A I work for Hearthstone Utilities, Inc., HUI.

10 Q Okay. And what is your position at HUI?

11 A Chief Operating Officer/Chief Compliance Officer.

12 Q And are you the same Kevin Degenstein that
13 prefiled direct testimony in this proceeding on
14 January 27th, 2021, consisting of 10 pages?

15 A Yes.

16 Q And was that testimony prepared by you or under
17 your direction?

18 A Yes.

19 Q And do you have any corrections to your prefiled
20 testimony?

21 A No, I do not.

22 Q All right. Mr. Degenstein, if I ask you the same
23 questions that are set forth in your prefiled
24 direct testimony while you are on the stand

1 today, would your responses be the same as was
2 indicated in your prefiled testimony?

3 A Yes, they would.

4 MR. JEFFRIES: Chair Mitchell, Frontier
5 would ask that Mr. Degenstein's prefiled testimony be
6 incorporated into the record as if given orally from
7 the stand.

8 CHAIR MITCHELL: Mr. Jeffries, hearing no
9 objection to your motion, the prefiled testimony of
10 Mr. Degenstein consisting of 10 pages filed on January
11 1st -- I'm sorry -- January 27th, 2021, shall be
12 copied into the record as if given orally from the
13 stand.

14 MR. JEFFRIES: Thank you, Chair Mitchell.

15 (WHEREUPON, the prefiled direct
16 testimony of KEVIN J. DEGENSTEIN
17 is copied into the record as if
18 given orally from the stand.)
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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****OFFICIAL COPY****Jan 19 2021**

INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Kevin J. Degenstein. I am the Chief Operating Officer and Chief Compliance Officer for Hearthstone Utilities, Inc. ("HUI"). My business address is #1 First Avenue South, Great Falls, Montana 59403.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I earned a B.S. degree in Civil Engineering in 1982 from North Dakota State University. I worked for Nicor Gas in various positions for over 19 years, beginning in 1982; from 2000-2001, I was Chief Engineer. From 2002-2006, I worked for EN Engineering, and was responsible for all gas distribution design activities as well as customer contracts. In 2006, I joined the Energy West, Incorporated ("EWI") team as Senior Vice President of Operations. I also served as the Chief Executive Officer of EWI, and the President of Energy West Montana, Inc. ("EWM") before resigning those positions to focus my professional services across all of HUI and its predecessor, Gas Natural, Inc. ("GNI"). I am a licensed professional engineer in the State of Illinois and the State of Montana and, through HUI, I provide consulting services to HUI and Frontier Natural Gas Company ("Frontier") as needed.

Q. HAVE YOU TESTIFIED BEFORE THE COMMISSION IN PRIOR DOCKETS?

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.

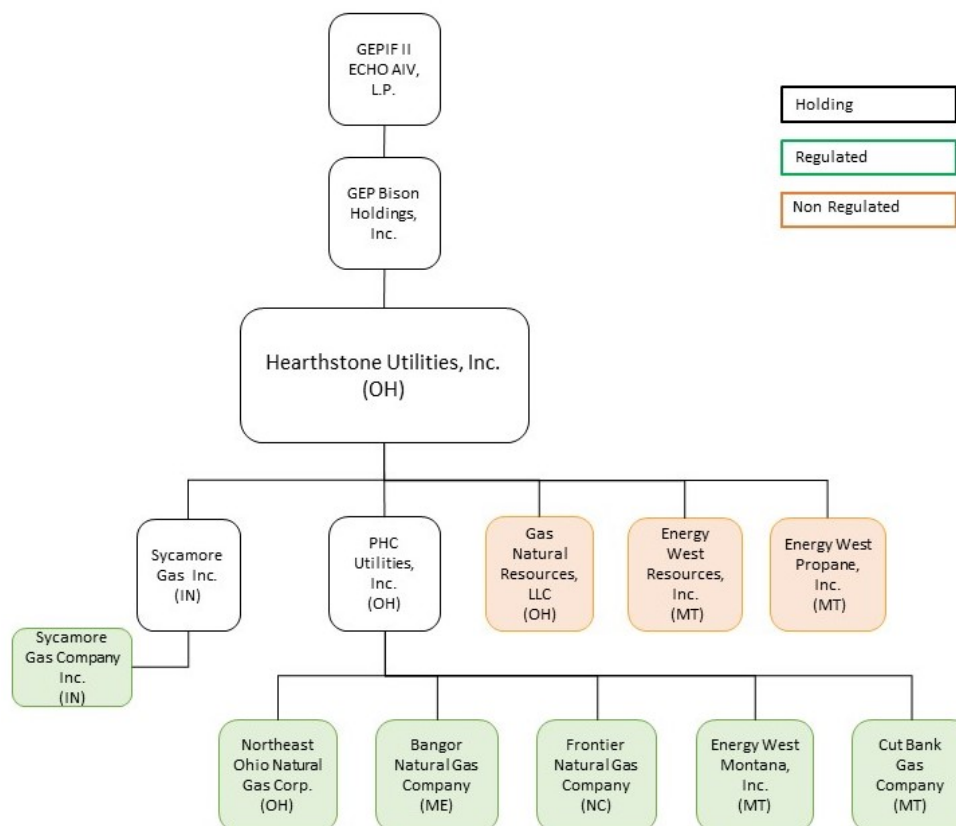
19 **FRONTIER'S CURRENT OWNERSHIP**

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

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

1 MR. JEFFRIES: Mr. Degenstein has prepared a
2 summary of his prefiled direct and has provided that
3 to the other parties and to the Commission but, given
4 the Commission's recent practices, I wanted to ask if
5 you prefer to dispense with the reading of that or to
6 have him go ahead and provide it?

7 CHAIR MITCHELL: He does not need to read
8 it. We have it and we have reviewed it in advance of
9 the proceeding, so no need to read the summary. Thank
10 you, Mr. Jeffries.

11 MR. JEFFRIES: Thank you, Chair Mitchell.
12 And with that, I'd turn to Mr. Steele.

13 BY MR. JEFFRIES:

14 Q Mr. Steele, could you state your name and
15 business address for the record, please?

16 A (Steele) My name is Fred A. Steele. My business
17 address is 110 PGW Drive, Elkin, North Carolina.

18 Q And you work for Frontier Natural Gas; is that
19 correct?

20 A That is correct. I am the President of Frontier
21 Natural Gas.

22 Q All right. And you're the same Fred Steele that
23 prefiled direct testimony in this proceeding on
24 January 27th, 2021, consisting of seven pages; is

1 that right?

2 A That is correct.

3 Q And you also prefiled rebuttal testimony on June
4 15th, 2021, consisting of two pages; is that
5 correct?

6 A That is correct, yes.

7 Q And was that testimony prepared by you or under
8 your direction?

9 A Yes, it was.

10 Q And do you have any corrections to that
11 testimony?

12 A I do not. Thank you.

13 Q Thank you.

14 MR. JEFFRIES: Chair Mitchell, Frontier
15 would move that Mr. Steele's prefiled direct and
16 prefiled rebuttal testimony be entered into the record
17 as if given orally from the stand.

18 CHAIR MITCHELL: Mr. Jeffries, hearing no
19 objection to your motion, the prefiled testimony of
20 Mr. Steele consisting of seven pages filed in this
21 docket on January 27th, 2021, and the rebuttal
22 testimony consisting of two pages filed in this docket
23 on June 16th shall be copied into the record as if
24 given orally from the stand.

1 MR. JEFFRIES: Thank you, Chair Mitchell.

2 (WHEREUPON, the prefiled direct
3 testimony of FRED A. STEELE is
4 copied into the record as if given
5 orally from the stand.)
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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.

1 (WHEREUPON, the prefiled rebuttal
2 testimony of FRED A. STEELE is
3 copied into the record as if given
4 orally from the stand.)
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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)

REBUTTAL TESTIMONY**OF****FRED A. STEELE****JUNE 15, 2021**

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

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

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?**

7 A. Yes, I prefiled Direct Testimony in this proceeding on January 27, 2021.

8 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

9 A. I am testifying on behalf of Frontier Natural Gas Company.

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my testimony is to provide Frontier Natural Gas Company's
12 view on the Regulatory Conditions agreed to between Ullico, Frontier, and the
13 Public Staff.

14 **Q. DOES FRONTIER SUPPORT THE REGULATORY CONDITIONS**
15 **AGREED TO WITH THE PUBLIC STAFF AS REFLECTED IN THEIR**
16 **DIRECT TESTIMONY?**

17 A. Yes. The agreed proposed Regulatory Conditions are balanced and adequate to
18 protect the interests of ratepayers and the Commission with respect to the
19 proposed acquisition and to ensure that the proposed acquisition will meet the
20 Commission's enunciated standards for approval of utility acquisitions, as
21 described in the Public Staff's Direct Testimony. They will also protect
22 Frontier customers from any potential adverse impacts from the acquisition and
23 will provide direct quantifiable benefits to those customers.

- 1 **Q. What are you asking the Commission to do in this docket?**
- 2 A. We are asking the Commission to approve the proposed acquisition transaction
- 3 subject to the agreed proposed Regulatory Conditions consistent with the Public
- 4 Staff's recommendation in this proceeding.
- 5 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**
- 6 A. Yes.

1 MR. JEFFRIES: Mr. Degenstein and Mr. Steele
2 are available for cross examination, questions from
3 the Commission.

4 CHAIR MITCHELL: It's my understanding that
5 there is no cross examination for these witnesses but,
6 Ms. Culpepper, Ms. Jost, I just would like to confirm
7 that with you all on the record. Okay. I see Ms.
8 Culpepper nodding her head just for the court
9 reporter's sake here.

10 Okay. So we will proceed then to questions
11 from the Commission. Any questions from Commissioners
12 for these witnesses?

13 (No response)

14 I'm seeing none of the -- none of my
15 colleagues raising their hands to ask questions of
16 these witnesses.

17 I do have several, gentlemen. I will direct
18 them to you all generally and either of you may answer
19 them. It makes no matter to me as long as we get a --
20 as long as we get a response.

21 EXAMINATION BY CHAIR MITCHELL:

22 Q So gentlemen, the Application that's been filed
23 in this proceeding indicates that UIF and its
24 corporate entities intend to retain the current

1 group of managers within HUI, the management
2 structure of HUI. Do you all know or have you
3 all been made aware how long Frontier's current
4 management will remain unchanged?

5 A (Degenstein) Well, I was waiting for Fred, but
6 I'll answer that.

7 Q And I think he was waiting for you.

8 A Yeah, I think so. That's what happens when
9 you're on a panel. We're very pleased with the
10 management in North Carolina. We have no
11 intentions of replacing anybody in the near term.
12 Of course, if someone decides they want to retire
13 or find a new job, those things happen, but we
14 have no intention of replacing management and we
15 don't see that in the near term and really in the
16 long term, unless individuals choose to make
17 changes.

18 Q Understood. Mr. Steele, anything to add there?

19 A (Steele) I have nothing to add. I'm not aware of
20 any changes that we're currently planning at this
21 point in time.

22 Q Okay. Mr. Degenstein, I'll press you a little
23 bit more. You say "near term", what do you mean
24 by "near term"?

1 A (Degenstein) Oh, I look out two to five years.
2 There's no need to change. And with certain
3 ages, I think we anticipate some retirements, so
4 we'll do some succession planning and plan ahead
5 as those people look towards retirement.

6 Q Okay. Well, thank you, Mr. Degenstein.
7 Obviously, that issue is of critical significance
8 and importance to us.

9 Following up there, there's been a
10 mutual understanding of expectations regarding
11 pipeline safety practices between Frontier
12 Natural Gas and the Commission particularly in
13 recent years. Much effort and work has gone into
14 this. Do you all believe the merger will affect
15 this relationship and the work and progress
16 that's been made?

17 A (Steele) I don't believe it's going to affect
18 this in any fashion. We have shared the projects
19 that we're working on from a compliance
20 standpoint, from an operation standpoint with the
21 Ullico team. And certainly they are supporting
22 everything that we've shared in our forecast and
23 our budgets, as far as operations, the Show Cause
24 Agreement we reached in October of 2017. At this

1 point in time they understand what we have to do
2 and we're going to continue with the compliance
3 efforts that we've started, so I see nothing
4 changing with that.

5 Q Okay. Thank you, Mr. Steele. Mr. Degenstein,
6 anything to add there?

7 A (Degenstein) No. I think Fred covered it quite
8 well.

9 Q Okay. Are you all aware of -- have you all been
10 made aware of any priority lists or priority
11 designation for investment by Ullico in Frontier?
12 Let me be more specific, capital investment.

13 A (Steele) Once again, we have shared some of the
14 areas that we currently don't serve. There's not
15 a priority at this point in time, but we're going
16 to focus on the budgets that we submitted, the
17 forecast for the next five years. We have 11
18 towns we currently don't serve. We've shared
19 those with the Ullico team as well. Again, once
20 again, I just want to say that they're supporting
21 everything that we've proposed at this point in
22 time. So, we have not reached the point of
23 prioritizing those, but we've shared the areas
24 that we currently don't serve and some of the

1 underserved areas that we have now. So again, I
2 think that there's support for -- they're going
3 to support what we've shown them to date.

4 Q Okay. You all touched on this, but I just want
5 to ask you the question and get a good clear
6 answer from you. Do you all feel that Ullico is
7 committed to keeping the Frontier system up to
8 date and in compliance with federal and state
9 regulations?

10 A (Steele) Absolutely.

11 Q Okay.

12 A (Degenstein) Yeah, absolutely.

13 Q Okay. So last question for the two of you and
14 then I'll pause and see if any of my colleagues
15 have questions at this point in time. But it's
16 my understanding that many of Frontier's
17 compliance programs are still handled manually
18 and for this reason may be difficult to manage.
19 Are there plans to streamline processes to ensure
20 better recordkeeping and perhaps more up-to-date
21 IT infrastructure?

22 A (Steele) Well, that is certainly something we've
23 addressed with the Ullico team and, yes, that is
24 something that we are working on internally as

1 well. A lot of those records have been digitized
2 even over the last 12 months. So, we had our --
3 in 2017 and 2018, we audited all of our plans and
4 we digitized a lot of those plans and we've
5 actually moved to using iPads and other things in
6 the field just recently over the last 60 to 90
7 days. So that is already in the process and I
8 think that is something we're only going to
9 continue with their support.

10 Q That's good to hear. Well, I actually have one
11 more question for you then I'll pause. With more
12 mains and service lines going into the ground and
13 anticipated to go into the ground, do you all
14 believe that you'll bring on any additional
15 people to keep up with this growth?

16 A (Steele) Chair Mitchell, we'll certainly have to
17 address that as we continue to grow. Our budget
18 we've prepared going forward does show an
19 increase in new mains, which also will in turn
20 lead to additional operations requirements. So
21 yes, we anticipate having to grow the internal
22 staff here at Frontier Natural Gas over the next
23 year to five years.

24 Q Okay.

1 CHAIR MITCHELL: I'll pause and see if any
2 other Commissioners have questions.

3 COMMISSIONER BROWN-BLAND: Chair Mitchell, I
4 do --

5 CHAIR MITCHELL: Commissioner Brown-Bland.

6 COMMISSIONER BROWN-BLAND: -- have a couple.

7 EXAMINATION BY COMMISSIONER BROWN-BLAND:

8 Q Mr. Steele, one of the provisions from the Sub
9 136 Regulatory Conditions was that Frontier would
10 meet annually with the Public Staff and I think
11 that's a condition that's under the proposed
12 merger will continue. Can you talk to us a
13 little bit about your experience with those
14 meetings, who you've been meeting with, how they
15 have helped in the overall process or -- and any
16 kinds of issues that are uncovered during those
17 kinds of meetings or in preparation for those
18 meetings?

19 A (Steele) Commissioner Brown-Bland, yes. Our last
20 meeting was held on January 8th. Myself and Al
21 Harms from the Luvian group participated in that
22 meeting and some of the things we covered in that
23 last meeting was the potential Frontier merger.

24 We updated them on some tariff

1 changes that we were making, any personnel
2 changes at Frontier Natural Gas, any pipeline
3 expansion projects, our efforts to source
4 additional gas supply other than Transco. We
5 talked about pipeline safety projects and funding
6 status of each of those. We also talked about
7 the growth that we're experiencing, other
8 possibilities for LNG or a backup to our system.
9 And we last year, of course -- or January of
10 this -- we talked about the impact of covid.

11 So the meetings have been helpful.
12 We will continue those. Again, we had the last
13 one on January 8th of this year and I foresee
14 those going forward. There's a Regulatory
15 Condition that requires us to do so. I think
16 they're helpful for us. It helps us to
17 communicate with the Staff. We've participated
18 with many folks from the Staff. I don't know
19 that I can name everybody. I know Ms. Culpepper,
20 Ms. Perry, Ms. Patel, quite a few other folks
21 were involved. So I believe there was about 13
22 or 14 people from the Staff. So I think they're
23 helpful. We would like to continue that.

24 Q Do you come to Raleigh for those meetings, for

1 that annual meeting?

2 A We have in the past. This year obviously we did
3 not. We held that virtually. But we would
4 welcome the opportunity to come back to Raleigh
5 and make a presentation. We've prepared
6 PowerPoints in the past when we've been able to
7 and we showed those at this particular meeting as
8 well and talked through the points.

9 Q Are these meetings like all-day meetings or do
10 they extend beyond a day?

11 A They do not extend beyond a day. Typically an
12 hour and a half to two hours we can cover the
13 topics and then ask, you know, allow time for
14 questions.

15 Q All right. Thank you. And then you mentioned
16 Luvian Partners over the years and I believe they
17 are a resource to you if I recall from past
18 cases. Could you speak a little bit about your
19 working relationship there and what they're able
20 to contribute for you?

21 A Well, the working relationship with the Luvian
22 Partners over the last four years has been
23 excellent. And we closed this I believe on
24 August 4th of 2017. They brought the expertise

1 that they had at the CEO/CFO level with them and
2 we've worked with Mr. Harms as a consultant and
3 they've -- he has a lot of compliance background
4 as well, regulatory compliance background. So,
5 they've been very helpful and they've also
6 assisted us in our HR Department. So, the
7 relationship has been good for Frontier Natural
8 Gas and I think the other divisions as well of
9 HUI.

10 Q Now, what's the -- so kind of the internal
11 process? You would -- first, you would assume,
12 or is this correct that if this proposal or
13 merger is approved that in essence you won't see
14 a difference in the way you operate within the
15 levels of ownership, this -- the acquiring now
16 will come in and just substitute, and your -- the
17 way that you communicate your needs and requests
18 up the line. Do you anticipate any change in how
19 that will occur?

20 A I do not at this point. No. I see nothing
21 changing.

22 Q So you will prepare your budget -- I think we
23 spoke before in terms of a bottoms up in terms of
24 your operational needs if you saw that you needed

1 more investment, your process to get more
2 resources, how does that work?

3 A We currently prepare an annual budget and we
4 prepare a five-year forecast. We submit that to
5 the senior management team. And there is also a
6 capital committee that looks at and reviews all
7 the projects each year and I think that's a
8 process that's been put in place by Luvian. I
9 only envision, you know, during this transition
10 period we continue to work with Luvian. And as
11 the new Ullico management team moves into place,
12 I think -- I envision it to continue the same.
13 Maybe even make some improvements, too, as we
14 move forward.

15 Q All right. Thank you. And so somewhat on an
16 operational level we here at the Commission, and
17 I guess all across the country, we've seen the
18 greater importance of having good cyber security
19 plans in place. You know, we've seen major
20 hacking incidents that have caused problems with
21 various infrastructure around the nation. In
22 that regard, have you made any determinations
23 about your needs? Are your needs being met? Do
24 you need more resources? And just what expertise

1 is at your fingertips?

2 A Well, we have been working with, and Mr.
3 Degenstein can assist me on this if I drop
4 something here, if I miss something, but we've
5 been working with our IT team. This is
6 something, once again, that the senior
7 management, we've been on top of it obviously. I
8 feel very much so on top of it with the Colonial
9 incident that we've taken a lot of steps and
10 continue to have -- we have monthly meetings with
11 our IT, all the presidents from all the divisions
12 we meet, discuss our needs. And so I think, once
13 again, we're doing things at the IT level. But
14 it's not just at the IT level. This is going to
15 be -- everybody is going to have to be involved
16 at Frontier and at the various divisions in order
17 to make sure we've secured our system.

18 So we are working on that.
19 There's more to come on that. At this point in
20 time, though, but it's something we're addressing
21 on a monthly basis -- a weekly basis.

22 Q And help me with your levels there. So when you
23 say our IT, are you at the Frontier level or
24 above?

1 A It's above. We have a corporate IT group and we
2 work with them on a regular basis. And we have
3 somebody here that's not a full-time IT person at
4 Frontier, but we do have IT help here at
5 Frontier. But we have -- we receive most of our
6 IT assistance from a cyber security standpoint at
7 the corporate level.

8 Q And if there were some sort of event, your
9 assessment of being able to be nimble at the
10 Frontier level?

11 A I think we're pretty nimble here at Frontier.
12 You know, we've had not a cyber security incident
13 but we've had some pipeline incidents over the
14 last couple of years and we were very quick to
15 respond to those. So I think we'll be able to
16 address those.

17 We actually are -- I believe
18 Mr. Degenstein again could probably address this,
19 but I know we're planning some mock emergencies,
20 you know, related to IT and outages, so that's
21 something we're addressing right now. So that'll
22 help us going forward.

23 Q All right. I think I heard Mr. Degenstein
24 clearing his throat, so I hear him trying to

1 weigh in, so --

2 A (Degenstein) Good to see you again. It's been a
3 few years, so it's very nice to see you again,
4 Commissioner Brown (sic).

5 So yeah, there's a few things I
6 think we can add. As an organization we
7 routinely at least two times a year have an
8 outside agency do penetration tests and give us
9 information. We review that and we make
10 adjustments accordingly, based on the results of
11 the penetration tests.

12 We routinely test every employee
13 through email to make sure they're not clicking
14 on things they're not supposed to. We report
15 that to the group and we report how many failures
16 we have and how many successes we have, and we
17 address that through further education.

18 And then a step up because of
19 recent incidents and the increase in cyber
20 attacks, what we chose to do just recently, and
21 we picked Maine because we felt we could build
22 upon their audit, but we had TSA and CISA come in
23 and do a small utility validation test. They
24 have sent us the information. We're reviewing

1 that information. We'll come up with
2 recommendations and implement the things that we
3 need to over time. And that will be done across
4 all Hearthstone Utilities. The reason we went
5 with Maine is just I think they were a little
6 further along than Frontier and we figured that
7 was the best place to start that review. And so
8 we're in the process of building upon that as
9 well.

10 And then the one thing that we've
11 always done as an organization and through clear
12 leadership and direction on the operation side is
13 we understand the need for communication,
14 monitoring, recording, keeping track, seeing
15 what's happening in the system, but we have no
16 ability to remotely be shut down by a cyber
17 attack. So they cannot come in and shut our
18 valves. They cannot come in and shut our
19 pressures. We're not a transmission system.
20 We're a distribution system. We can do a lot of
21 things by monitoring and then we can go out and
22 check in the field.

23 There was one system that could be
24 communicated to remotely throughout HUI's system

1 and we dismantled that for the pure purpose of we
2 have enough protection, enough redundancy, enough
3 backup, we have all the information coming in
4 electronically and we can respond quickly. So we
5 eliminated that threat because we don't have, you
6 know, 36-inch pipelines running hundreds of miles
7 where you need to remotely control valves. So
8 we've done a lot of things to also limit if we
9 were hacked what someone could actually do. So
10 hopefully that helped.

11 Q Thank you for those assurances. So -- and I'm
12 sure I don't have a good grasp on this as I ask
13 it, but when you mentioned Maine, is there
14 comparative size between Maine and Frontier? Are
15 they vastly similar? Vastly different?

16 A They're fairly close. Fred is pushing 5,000
17 customers. And a little over 4,500 I think,
18 Fred, is your number. And up in Maine they're
19 around 7,500. So the customer size is about the
20 same. The system's operating at 60 psi for
21 plastic are very similar. And then their
22 pressure in their short transmission system up
23 there is very close to the pressure in North
24 Carolina. I think they operate around 500.

1 Fred, you might operate 5 - 600, somewhere in
2 that range so very, very close. So they're very
3 similar systems.

4 Q In other industries, we see that sometimes the
5 smaller system or the more outlying system is a
6 little more at risk of I guess certain types of
7 hackers trying to get to them and do certain
8 things. Are there things that you might see to
9 be unique to Frontier? And you don't have to
10 identify them. We're not trying to get them
11 public on the record, but I'm just interested in
12 whether you think Frontier needs a different type
13 of attention from its IT resources.

14 A No, I don't see anything unique. We are very
15 consistent about how we operate and how we comply
16 and we keep that consistency through compliance
17 committee at the Hearthstone level where we've
18 got engineers and operators across Hearthstone
19 working together to identify each group and get a
20 broader breadth with people working together and
21 coming to the right decision. So I don't see
22 anything unique. I don't see high risk on the
23 cyber side and across our organization and North
24 Carolina as well.

1 You know, the biggest threat we
2 probably face is outside damage, someone digging
3 it up. Physical threats are probably a higher
4 risk than cyber threats to the system today. If
5 someone decided to do a physical threat, that's
6 hard to prevent. Even with security getting
7 there in time is an issue. So physical threats
8 are something that we take very seriously, work
9 with our interconnect transmission systems,
10 monitor systems, lockup gates. There's cameras
11 at gate stations and those types of things. But
12 again, physical threat is probably greater than
13 cyber just the way we're set up.

14 Q All right. And Mr. Degenstein, to be sure I've
15 understood your prefiled testimony with regard to
16 this proposal that we're -- or transaction that
17 we're being asked to approve, is it your
18 testimony that Frontier's daily management will
19 not change as a result of the transaction?

20 A No, they will not change and Fred will still
21 report up through me. Yes, I see no change.

22 Q Just trying to be sure that your testimony didn't
23 have a qualification on that and I don't hear any
24 in your response today.

1 A Thank you.

2 COMMISSIONER BROWN-BLAND: Thank you, Madam
3 Chair. That's all the questions I have of these
4 witnesses.

5 CHAIR MITCHELL: All right. Any other
6 questions from Commissioners? All right.
7 Commissioner McKissick?

8 COMMISSIONER McKISSICK: Thank you, Madam
9 Chair. Just one or two.

10 EXAMINATION BY COMMISSIONER McKISSICK:

11 Q Are there any specific initiatives that will be
12 pursued short term and long term by this as a
13 result of the merger that otherwise would not be
14 taking place with Frontier operating under its
15 current structure?

16 A (Steele) I don't believe we can identify anything
17 specific other than we do want to continue to
18 work with some of our customer service folks and
19 helping them make sure that people who struggle
20 with paying their bills. We're going to do more
21 in that area. We currently refer customers to
22 the LIHEAP and the other programs available in
23 the six counties that we operate in, so we hope
24 to maybe expand that a little bit further.

1 We have looked at some of the
2 other areas. We're working in Warren County in
3 particular right now. We've got some projects
4 over there. That's an area that we feel that we
5 could do some more things in and we're actually
6 working on a project today as we speak. It's a
7 nice project for us to go to a Perdue processing
8 facility and that's going to allow us to open up
9 to some of the other areas that have never been
10 served. So that's something we're pretty
11 excited with. That is a specific one, I guess I
12 can address currently that we're working on. So,
13 IT I think is a specific. We're going to do more
14 in that area as we've said already. So other
15 than that, no, I can't really identify anything
16 at this point.

17 Q Okay. And let me ask you this. Obviously there
18 are investors who want to see, I guess,
19 predictability in their yield in years to come
20 and likewise stability in what that consists of
21 and increase. How do you see this merger
22 benefiting those investors?

23 A Well, I think you touched on it. I mean, it's
24 the stability. Utilities are still very stable

1 and I think this is something that Ullico has --
2 their team has looked at. They see a long-term
3 stability here at Frontier Natural Gas, a sister
4 company in Maine, other companies in Montana;
5 that's an older company that's, you know, been
6 there forever, so -- and we have a lot of growth
7 in both North Carolina and Maine, still
8 opportunities -- and Ohio to grow the systems and
9 Indiana. So I think they're looking at that from
10 a long-term investment that the fact that -- and
11 this gives us access to capital to probably
12 develop some of those projects that we have not
13 been able to do in the past.

14 So we currently have --
15 Commissioner McKissick, we still have 11 small
16 towns in the counties we serve that we don't
17 serve. And we have 21,000 potential customers
18 within 500 feet of our line. So, I think they're
19 viewing this as really a long-term investment
20 that's going to benefit them as well as the
21 ratepayers.

22 Q Got it. And the final question. How do you
23 identify the extension going to the chicken
24 processing facility in Warren County? Are there

1 any other infrastructure extensions or
2 improvements or investments that are contemplated
3 or are you just expecting things to continue kind
4 of with the status quo?

5 A Well, having said that, I mean, we're pretty
6 proud of the fact that over the last three years
7 we've been able to go out and obtain almost \$3.9
8 million in agriculture grants from the North
9 Carolina Commerce Department. That's allowed us
10 to -- reach for my paper if you don't mind -- I
11 don't want to mislead you -- but that's allowed
12 us to put in 115,500 feet of additional pipe.
13 This has also allowed us to reach about 89
14 poultry barns that we would've not had access to
15 prior to getting those grants from the North
16 Carolina Commerce Department.

17 It's also opened up -- and when
18 we're going to these agricultural projects, you
19 know, we're going out into the country, so we've
20 passed over 400 potential residential and about
21 85 small commercial customers. And then just
22 last Friday we announced where we've worked with
23 the Commerce Department in Surry County and Altec
24 here in Surry County. We received \$760,000 grant

1 to bring gas to Altec Pike and we're going to
2 pass another 225. So these are all projects that
3 we're working on that -- working with the
4 Commerce Department.

5 We envision continuing to do those
6 projects. Those have been very good for Frontier.
7 And again, that's over the last three years. So,
8 I only envision being able to do more of those,
9 and it's opened up a lot of areas that we haven't
10 had access to before.

11 Q Thank you.

12 COMMISSIONER McKISSICK: I don't have any
13 further questions, Madam Chair.

14 CHAIR MITCHELL: All right. Thank you,
15 Commissioner McKissick. I would like to follow up
16 with you, Mr. Steele, in response to questions from
17 Commissioner McKissick.

18 FURTHER EXAMINATION BY CHAIR MITCHELL:

19 Q Growth opportunities for Frontier, what you've
20 described seem to be additions of
21 commercial/industrial customers. Is that
22 generally where you all see growth potential in
23 your service territory?

24 A (Steele) No. Chair Mitchell, we see both. We

1 have -- I'm going to back up. We have 21,000
2 residential -- well, structures -- let me back up
3 and say structures -- most of which, you know,
4 you're probably looking at 75 to 80 percent of
5 those would be residential and small commercial.
6 The bigger grants that I talked about, those were
7 kind of -- those grants were anchored by a bigger
8 project and that allowed us to go buy multiple,
9 as I said, over 400 residential and small
10 commercial customers.

11 So no, we're focusing on -- and we
12 do small main extensions annually to add
13 residential. We identify neighborhoods in our
14 budgets every year that we want to do, new
15 neighborhoods that we currently don't serve, and
16 expand into those neighborhoods. We're doing
17 that right now. We did a project last, which
18 began in December, finished it in April to an
19 asphalt plant. That moved us closer to
20 residential neighborhoods that, again, we're now
21 developing off of the mainline extension to the
22 asphalt plant into those neighborhoods.

23 Q Okay.

24 A Does that answer your question?

1 Q It does. It does. And what I'm hearing you say
2 is there -- you all are experiencing and
3 exploring opportunities both with the
4 commercial/industrial sector as well as the
5 residential customers.

6 A Absolutely we do.

7 Q All right.

8 CHAIR MITCHELL: Thank you. I'll see if
9 there are any additional questions from Commissioners
10 before we turn it over to the lawyers.

11 (No response)

12 I'm hearing none, so we'll go now to
13 questions on Commission's questions. We'll start with
14 the Public Staff.

15 MS. CULPEPPER: No questions.

16 CHAIR MITCHELL: Okay. Thank you, Ms.
17 Culpepper. Mr. Trathen?

18 MR. TRATHEN: No questions.

19 CHAIR MITCHELL: Okay. Mr. Jeffries?

20 MR. JEFFRIES: Thank you, Chair Mitchell. I
21 have just one follow-up question for Mr. Steele.

22 CHAIR MITCHELL: Okay.

23 REDIRECT EXAMINATION BY MR. JEFFRIES:

24 Q Mr. Steele, do you recall Commissioner

1 Brown-Bland was -- had some questions for you
2 around the Public Staff annual meeting process?

3 A (Steele) I do.

4 Q And then your answers were appropriately geared
5 toward that process and what was involved in
6 those discussions, but in order to maybe give a
7 little fuller picture of how the Company works
8 with the Public Staff, could you just summarize?
9 You know, do you have contacts with the Public
10 Staff outside those annual meetings and how
11 closely do you work with them on a regular basis?

12 A We do have conversations, Mr. Jeffries, on a
13 regular basis with the Staff; actually weekly. I
14 mean, I think at this point in time I could say
15 we communicate with Staff members on a weekly
16 basis concerning many matters related to tariffs,
17 annual gas cost filings, customer service. We
18 have a regular communication, not just the annual
19 meeting.

20 Q Okay. All right. Thank you, Mr. Steele.

21 MR. JEFFRIES: That's all the questions I
22 had, Chair Mitchell.

23 THE WITNESS: Thank you.

24 CHAIR MITCHELL: All right. With that,

1 gentlemen, you may step down. And I do not believe
2 that I am awaiting any motions from your counsel.

3 MR. JEFFRIES: We did not file any exhibits,
4 so I think we're good.

5 CHAIR MITCHELL: Okay.

6 (The witnesses are excused)

7 CHAIR MITCHELL: Mr. Jeffries, I will take a
8 motion from you as to -- well, I'll take a motion at
9 the appropriate time from either of you all as to the
10 materials filed to initiate the docket.

11 At this point in time we are now -- it's my
12 understanding we're now with Ullico. Mr. Trathen, you
13 may call your witness.

14 MR. TRATHEN: Thank you, Madam Chair. UIHH
15 would call Sonia Axter.

16 CHAIR MITCHELL: Ms. Axter, there you are.
17 Would you raise your right hand, please, ma'am?.

18 SONIA AXTER;

19 having been duly affirmed,

20 testified as follows:

21 CHAIR MITCHELL: Thank you. Mr. Trathen?

22 DIRECT EXAMINATION BY MR. TRATHEN:

23 Q Good morning, Ms. Axter. Could you please state
24 your name and business address for the record?

1 A Yes. Good morning. My name is Sonia Axter. My
2 business address is 111 South Whacker Drive,
3 Suite 3925, Chicago, Illinois 60606.

4 Q And did you cause to be filed in this proceeding
5 on January 27 of 2021, direct testimony
6 consisting of 21 pages and no exhibits?

7 A I did.

8 Q Do you have any corrections that you need to make
9 to that testimony?

10 A I do not.

11 Q And if I asked you those same questions from the
12 prefiled submission today, would your answers be
13 the same?

14 A Yes, my answers would be the same.

15 MR. TRATHEN: Madam Chair, I would ask that
16 Ms. Axter's direct testimony consisting of 21 pages be
17 admitted into the evidence in this proceeding and
18 copied into the record as if given orally from the
19 stand.

20 CHAIR MITCHELL: Mr. Trathen, hearing no
21 objection to your motion, the 21 pages of the
22 testimony prefiled by Witness Axter will be copied
23 into the record as if given orally from the stand.

24 (WHEREUPON, the prefiled direct

1 testimony of SONIA AXTER is copied
2 into the record as if given orally
3 from the stand.)
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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 SONIA AXTER****January 27, 2021****OFFICIAL COPY****Jan 19 2021**

1 **INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
3 **ADDRESS.**

4 A. My name is Sonia Axter, and I am a Vice President of UIF GP, LLC ("UIF GP"),
5 which is the general partner of the Ullico Infrastructure Master Fund, LP (together
6 with UIF GP, "UIF or the "Fund"). I am also a Vice President of Ullico
7 Infrastructure Hearthstone Holdco, LLC ("UIHH"). My business address is 111
8 South Wacker Drive, Suite 3925, Chicago, IL 60606.

9 **Q. PLEASE DESCRIBE YOUR JOB RESPONSIBILITIES.**

10 A. I am a founder, senior partner, and head of asset management for the Fund and a
11 senior partner on the investment team. My job responsibilities primarily include
12 overseeing the management and performance of each of the portfolio investments
13 of the Fund. I am on the board of directors for the majority of our investments and
14 participate to a varying degree in the day-to-day management of these assets.

15 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
16 **BACKGROUND.**

17 A. I earned a B.S. in Civil Engineering from the University of Washington, and an
18 M.B.A. from Stanford Graduate School of Business. I have been in my current
19 position since 2009. I have 25 years of experience in infrastructure asset
20 management, development, principal ownership, and project management. Before
21 joining UIF, I was a senior member of Deutsche Bank's alternatives investment
22 group and performed both acquisitions and asset management of infrastructure
23 assets. I was also a senior member of Bechtel Enterprises, which is the

1 infrastructure finance and development arm of Bechtel Group Inc. Prior to business
2 school, I spent seven years as a Project Manager and Project Engineer on a range
3 of transport, utility, and environmentally-impacted civil construction projects for
4 the Pacific Northwest division of Granite Construction Company.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

6 A. I am testifying on behalf of UIF GP, LLC, which is the general partner of the. Ullico
7 Infrastructure Master Fund, L.P. The Ullico Infrastructure Master Fund, L.P., in
8 turn, owns UIHH. A diagram of the proposed entity structure is provided as Exhibit
9 C to the Joint Application.

10 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION OR ANY**
11 **OTHER STATE PUBLIC SERVICE COMMISSION?**

12 A. No.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. The purpose of my testimony is to provide the Commission with the information
16 necessary to review and approve UIHH's acquisition of GEP Bison Holdings, Inc.
17 ("GBH") and to describe the impact of that acquisition on GBH's subsidiaries,
18 including Hearthstone Utilities Inc. ("HUI") and Frontier Natural Gas Company
19 ("Frontier"). Specifically, I will:

- 20 • Provide background regarding UIF, our knowledge and expertise, and our
21 management philosophies.
- 22 • Discuss the Stock Purchase and Sale Agreement ("SPSA") and our rationale
23 for acquiring GBH.

- 1 • Describe UIF's financial condition and organizational structure, along with its
- 2 ability to successfully oversee the management of and provide capital to
- 3 support operations of and investments in HUI and its subsidiaries.
- 4 • Discuss the effect of this transaction on HUI's regulated utility subsidiaries.
- 5 • Finally, I will explain why UIHH's acquisition of GBH meets the
- 6 Commission's standards for approval.

7 **BACKGROUND REGARDING UIF**

8 **Q. PLEASE PROVIDE THE COMMISSION WITH A BRIEF BACKGROUND**
9 **AND HISTORY OF UIF.**

10 A. Ullico Infrastructure Master Fund, L.P. is an infrastructure investment vehicle
11 created and managed by UIF GP, LLC under the Ullico affiliated group. The Ullico
12 affiliated group has grown out of the original founding of the Union Labor Life
13 Insurance Company in 1927. UIF was formed in 2012 to provide institutional
14 investors the opportunity to pool resources to make long-term investments into the
15 ownership, maintenance and refurbishment of the nation's infrastructure.
16 Accordingly, UIF raises capital primarily from U.S. pension funds and makes
17 investments in U.S. and Canada-based infrastructure businesses that provide
18 essential services to communities, governments, and businesses.

19 UIF's investment vehicle is structured as an open-ended fund and, as such,
20 does not have a defined term of existence (it is perpetual). This structural feature
21 allows the Fund to invest for the long-term, ideally for the useful life of the assets,
22 and therefore to align the long-term interests of its investors with the long-term
23 interests of the communities and public counterparties of the infrastructure

1 businesses in which it invests. UIF is committed to a buy-and-hold strategy for its
2 portfolio investments. Since 2012, UIF has made 18 investments across the
3 transportation, energy, and utilities sectors in the U.S. and in Canada (an average
4 of 2 to 4 investments per year, including follow-on investments). A description of
5 some of the investments is provided later in my testimony.

6 To date, UIF has secured more than \$3 billion in commitments from third-
7 party investors (an average of \$300 million per year) and continues to pursue and
8 raise new capital on a daily basis. These commitments, including over \$2 billion of
9 invested capital, come from well capitalized institutional investors, which consist
10 primarily of domestic pension funds. Currently the Fund has nearly \$1 billion of
11 un-invested committed capital. The perpetual nature of the Fund's capital supply
12 has allowed the Fund to make approximately ten follow-on investments in its
13 existing portfolio. UIF's willingness and ability to make additional or follow-on
14 investment at a reasonable return in its existing portfolio aligns well with the
15 anticipated need for access to funds for ongoing capital and operational needs of
16 GBH's operating companies, including Frontier.

17 UIF has been and intends to continue to be a long-term investor, which
18 seeks opportunities to invest in long-life infrastructure assets that provide long-term
19 stable returns. UIF has never sold an investment in which it was the majority owner.
20 In its history, UIF has only exited two small minority investments as the result of
21 decisions that were driven by the majority partner in each case. Well-established,
22 long standing regulated utilities, such as those owned by GBH, are ideally suited
23 for UIF's long-term investment strategy. The indefinite life of the Fund matches

1 the perpetual life and obligation to serve of regulated public utilities better than
2 funds with fixed lives.

3 **Q. WHAT INVESTMENTS HAS UIF MADE IN INFRASTRUCTURE,**
4 **ENERGY, AND UTILITY ASSETS?**

5 A. UIF has made and maintains the following investments in energy and utility assets:

- 6 • UIF's first investment in November 2012 was a 30-year concession to
7 manage and operate a water and wastewater utility in Rialto, California that
8 serves the City of Rialto (population 100,000).
- 9 • In 2014, UIF purchased an interest in the Neptune Regional Transmission
10 System, a 65-mile, 660 MW high-voltage direct-current submarine
11 transmission cable connecting New Jersey and Long Island, New York, and
12 has since made multiple follow-on investments in Neptune.
- 13 • UIF has investments in three combined-cycle natural gas electric generating
14 facilities: the 700 MW Carroll County Energy in Ohio, the 785 MW
15 Towantic Energy in Connecticut, and the 751 MW West Deptford Energy
16 in New Jersey.
- 17 • UIF has investments in six U.S. and Canada-based renewable energy
18 portfolios totaling over 3.3 GW: a 69 MW operating wind farm in Hawaii;
19 two portfolios of operational solar assets in Ontario, Canada; investments
20 in two U.S.-based solar and wind generation portfolios managed by D. E.
21 Shaw Renewable Investments, L.L.C., one a 1,118 MW portfolio and the
22 other a 750 MW portfolio; as well as an investment in a 1.3 GW U.S.-based

1 portfolio of over 70 wind and solar assets alongside affiliates of Alberta
2 Investment Management Corporation and The AES Corporation.

- 3 • UIF is an investor in Southern Star Central Gas Pipeline, Inc., a FERC
4 regulated interstate natural gas transmission pipeline system operating in
5 the central United States, alongside Caisse de dépôt et placement du Québec
6 (CDPQ).
- 7 • UIF is an investor in AES Southland Energy, LLC, a 1.4 GW portfolio of
8 two combined-cycle gas generation assets and two battery energy storage
9 assets located in California and Arizona contracted under long-term power
10 purchase agreements with investment grade utilities.

11 UIF has made and maintains the following investments in other essential
12 infrastructure assets:

- 13 • UIF is an investor in Autopistas Metropolitanas de Puerto Rico, LLC, a toll
14 road concessionaire operating highways PR-22 and PR-5 in Puerto Rico
15 under a long-term concession.
- 16 • UIF is an investor in TierPoint, a national provider of data center colocation
17 and managed services through a network of hub cities across the United
18 States.
- 19 • UIF is an investor in Student Transportation Inc., the third largest student
20 busing company in the U.S. and Canada focused on the home-to-school
21 transport sector, alongside Caisse de dépôt et placement du Québec
22 (CDPQ).

- UIF is an investor in Tidewater Transportation & Terminals, an intermodal transportation business serving waterways in the Pacific Northwest region of the United States and Canada.

Q. PLEASE DESCRIBE UIF'S CORPORATE MISSION AND VISION.

A. Essential infrastructure businesses, such as Frontier and the other subsidiaries of GBH, are the bedrock of every community across the U.S. and Canada. UIF's corporate mission and vision is to invest patient, long-term capital into these core infrastructure assets in a manner that brings experienced ownership, stability, a long-term vision, consistently available capital, access to best-in-class operating partners and a commitment to the economic success of the communities local to each investment. Relative to other infrastructure investment managers, UIF attracts philosophically aligned institutional investors whose goals are consistent with UIF's long-term horizon and conservative investment strategy. The open-ended structure enables the Fund to match the term of its investments with the life of the assets and provides UIF with perpetual access to new capital to meet the ongoing needs of Ullico Infrastructure Master Fund, L.P.'s subsidiary operating companies. Specific to GBH, the indefinite life of the Fund and UIF's access to capital align with the perpetual obligation to serve the interests of the regulated utilities' customers, the communities in which the utilities operate, and the utilities' workforce.

THE TRANSACTION

Q. PLEASE EXPLAIN THE STRUCTURE OF UIF'S PROPOSED ACQUISITION OF GBH.

1 A. On December 22, 2020, GBH's current controlling owner, GEPIF II ECHO AIV,
2 L.P., entered into a Stock Purchase and Sale Agreement ("SPSA") with UIHH, a
3 company formed by UIF specifically for the purpose of acquiring GBH and its
4 subsidiaries, including HUI and Frontier (the "Transaction"). Under the SPSA,
5 UIHH will acquire from GEPIF II ECHO AIV, L.P., all of the common stock of
6 GBH.

7 **Q. WHAT DUE DILIGENCE WAS DONE BY UIF REGARDING GBH AND**
8 **ITS REGULATED UTILITIES?**

9 A. UIF conducted a thorough and comprehensive due diligence process on GBH and
10 its subsidiaries. We engaged a number of subject-matter expert advisors, including
11 Leidos Engineering, LLC with respect to technical due diligence and capital
12 expenditure assessment; PA Consulting Group, Inc. with respect to market and
13 regulatory due diligence; PricewaterhouseCoopers LLP with respect to accounting
14 and tax due diligence; Aon Risk Services Northeast, Inc. with respect to insurance
15 due diligence; and Milbank LLP with respect to legal review and general corporate
16 due diligence. In addition, we have engaged local counsel in each jurisdiction in
17 which GHB has holdings to evaluate the respective businesses: Crowley Fleck
18 PLLP with respect to Montana operations regulatory and local matters due
19 diligence; Taft Stettinius & Hollister with respect to Indiana and Ohio operations
20 regulatory and local matters due diligence; Drummond Woodsum with respect to
21 Maine operations regulatory and local matters due diligence; and, Brooks, Pierce,
22 McLendon, Humphrey & Leonard, LLP with respect to North Carolina operations
23 regulatory and local matters due diligence.

1 The due diligence process consisted of extensive reviews of documents in
2 the public domain and provided by HUI management as well as multiple phone
3 conferences and virtual meetings among HUI management, UIF, and our advisors.

4 The due diligence process provided further clarity on, among other things, customer
5 and regulatory relationships, operating practices, exposure to legal risks and any
6 pending litigation, quality of earnings and financial reporting practices, as well as
7 asset management and safety standards.

8 **Q. WHY DOES UIF WANT TO ACQUIRE GBH AND ITS SUBSIDIARIES?**

9 A. As a long-term core infrastructure investor, UIF looks for stable and essential
10 companies to acquire and own. UIF sees stability and essentiality in GBH and its
11 utility subsidiaries due to UIF's broad outlook on the natural gas sector in general,
12 and regulated distribution systems in particular. This Transaction allows UIF to
13 invest in a group of companies with a strong mix of non-regulated and regulated
14 operations expected to generate reasonable rates of return, long-term stable cash
15 flows, and where the target business benefits from UIF's long-term view of
16 ownership and community alignment.

17 The acquisition of GBH will provide UIF and its investors with an
18 opportunity to own stable, regulated and unregulated energy businesses and it offers
19 the opportunity to pair UIF's desire to increase its investment in these type of assets
20 over time with the systems' ongoing and likely increasing capital needs.

21 As discussed in more detail below, UIF believes that HUI and its
22 subsidiaries will benefit from UIF's acquisition of GBH through access to
23 consistent follow-on capital provided by investors whose interests align with the

1 long-term success of the systems. This will provide Frontier access to the capital
2 necessary to appropriately and timely address safety and reliability of the system as
3 well as access to serve any growth in customers in the existing service territory or
4 to expand to new service territories where economically feasible. UIF will offer
5 capital to allow Frontier to pursue necessary system upgrades, address any
6 infrastructure replacement, as well as enhance customer service.

7 **UIF'S FINANCIAL CONDITION AND ABILITY TO SUCCESSFULLY**
8 **OPERATE AND MANAGE GBH'S REGULATED UTILITIES**
9

10 **Q. PLEASE DESCRIBE UIF'S FINANCIAL CONDITION AND WHETHER IT**
11 **HAS SUFFICIENT FINANCIAL RESOURCES TO ACQUIRE GBH AND**
12 **ITS REGULATED UTILITIES.**

13 A. Currently, UIF has \$3.26 billion in commitments, with \$2.34 billion of invested
14 capital, and \$918 million of available capital. UIF also has a demonstrated history
15 of fund raising and established access to a pool of investors, whose commitment to
16 the Fund is largely predicated on UIF's strategy of making long-term investments.

17 **Q. HOW WILL UIF FUND THE ACQUISITION?**

18 A. While UIF has sufficient capital to complete the acquisition with all equity, it is
19 currently planning to fund ownership of HUI with a combination of equity from the
20 Fund's available capital, incremental acquisition debt from the placement of
21 investment grade private placement notes at HUI, and the continuation of HUI's
22 current financings.

23 Continuation of HUI's current financings requires change of control
24 consent from the current lenders: TIAA/Nuveen and Bank of America. It is
25 anticipated that HUI's current lenders will consent. In the event consent is not

1 received and HUI's current financings need to be replaced with new debt facilities,
2 UIF does not anticipate any changes to the existing, Commission-approved
3 intercompany notes and will commit to maintaining (or reducing) the current
4 quantum and interest rate of the intercompany notes at financial close.

5 UIF believes funding the Transaction with both equity and debt creates
6 better alignment among utility stakeholders such that it leaves UIF with more
7 available capital to continue to invest in HUI and its subsidiaries as needed in the
8 future, it promotes a long-term investment horizon consistent with the term of the
9 debt, and it creates added focus for the investors with the need to continue to
10 implement best practices and effectively manage the enterprise in order to maintain
11 an investment grade rating. UIF has worked with a rating agency to obtain a private
12 investment grade indicative rating for the contemplated incremental acquisition
13 debt and plans to pursue a formal rating prior to closing the acquisition. Closing of
14 the Transaction, however, is not contingent upon obtaining acquisition financing.

15 **Q. PLEASE EXPLAIN UIF'S EXPERIENCE MANAGING INVESTMENTS IN**
16 **ENERGY INFRASTRUCTURE AND REGULATED ASSETS.**

17 A. As discussed above, UIF has experience acquiring, owning and financing a mixture
18 of energy related firms. As an investor, UIF has a well-established practice of
19 supporting and enhancing existing management of acquired businesses. UIF relies
20 on the current management of the invested entity while also identifying and
21 engaging additional individuals with the experience needed to safely and efficiently
22 manage and operate our businesses. As mentioned above, if the acquisition of GBH
23 is approved, we do not anticipate any changes to utility management or operations.

1 UIF will also inherit an existing contract with Luvian Partners, the current executive
2 management service team, which does not terminate until December 31, 2022, to
3 maintain further continuity of operations.

4 **Q. PLEASE EXPLAIN UIF'S MANAGEMENT PHILOSOPHY FOR THE**
5 **PROPOSED ACQUISITION OF GBH AND ITS SUBSIDIARIES.**

6 A. UIF's management philosophy is to ensure that GBH and its subsidiaries continue
7 to provide safe, reliable, and quality service to its customers. UIF believes this will
8 be best accomplished by maintaining the strong existing local management and
9 operating teams, transitioning over time from a third party executive management
10 firm to a dedicated, full-time executive management team that has long-term
11 alignment, and by providing consistent and strong financial governance of the
12 utilities. Post-acquisition, we anticipate that the current management team of HUI
13 and each of its subsidiary regulated utilities in Indiana, Maine, Montana, North
14 Carolina, and Ohio, including the management of Frontier, will remain unchanged.
15 We believe the utility operations are being satisfactorily addressed and
16 management and operations decisions should remain with the utilities' respective
17 executive teams.

18 UIF anticipates that the third-party executive management firm Luvian
19 Partners, which provides access to experienced public utility managers, will
20 continue overseeing the management of HUI as their existing contract does not
21 terminate until December 31, 2022. Luvian Partners team has an extensive
22 background in operating regulated utilities and is a team of utility executives with
23 significant experience in operations, finance, regulation, human resources and

1 M&A with a track record of strong performance in multiple states, and Luvian
2 Partners has been involved in HUI's management since 2017. Luvian Partners will
3 continue to work with the HUI leadership team to ensure consistent and quality
4 interactions with their public utility executive teams and the utilities' regulators. It
5 is UIF's goal to continue to use the opportunity provided by the remaining term of
6 the Luvian Partners contract to evaluate the ongoing needs of the various companies
7 and to identify and implement a strategy for effective long-term management.

8 Additionally, to support its acquisition of GBH and its subsidiaries, UIF has
9 engaged Morgan O'Brien, a seasoned utility executive with extensive experience
10 leading and managing rate regulated electric and gas LDC operations in the United
11 States. Mr. O'Brien has more than 30 years of experience in the regulated public
12 utility industry, including serving as the Chief Executive Officer of Peoples Natural
13 Gas Company LLC and Peoples Gas Company LLC, and Duquesne Light
14 Company, all of which are public utilities regulated by the Pennsylvania Public
15 Utility Commission. Mr. O'Brien will assist UIF in assuring that the utilities will
16 continue to be run safely and efficiently. Being a good utility requires strict
17 adherence to all regulatory requirements, including any Commission orders
18 applying to the utility. But UIF's goal is to go beyond strict compliance and
19 become a leader on energy issues in the communities and states in which the
20 utilities operate. Where appropriate, we look forward to regular dialog and
21 engagement with the Commission, the Public Staff, and other stakeholders about
22 ongoing and evolving energy and utility issues. UIF plans on being a leader in

1 responding to customer expectations, needs and wants, as well as responding to the
2 ever-changing landscape of energy development, delivery and usage.

3 To ensure proper governance, UIF will establish a board of directors built
4 around best practices in corporate governance. A balance of independent directors
5 and UIF managers will be organized in order to serve the company, effective with
6 the closing of the Transaction. It is planned that the independent directors will
7 complement the board's experience and skill sets including direct utility
8 experience.

9 **EFFECT OF ACQUISITION ON HUI'S REGULATED UTILITIES**

10 **Q. WILL UIF'S ACQUISITION OF GBH NEGATIVELY AFFECT HUI AND**
11 **ITS REGULATED UTILITIES?**

12 A. No. We do not expect any negative effect on HUI or its regulated utility
13 subsidiaries as a result of UIF's acquisition of GBH. UIF will commit to be bound
14 by all regulatory commitments currently in effect, to the extent those commitments
15 are applicable under UIF's ownership. There will be no changes to customer rates
16 because of the Transaction. Specifically, UIF commits it will not seek recovery
17 from customers for any transaction costs associated with the Transaction. And as
18 previously outlined there will be no changes to the underlying provision of services
19 to customers.

20 **Q. WHAT BENEFITS WILL UIF'S ACQUISITION OF GBH BRING TO HUI**
21 **AND ITS REGULATED UTILITIES AND THEIR CUSTOMERS?**

22 A. A primary benefit of the Transaction is UIF's access to capital and a long-term
23 alignment between UIF, the regulated utilities, and their customers. These utility

1 businesses require access to on-going capital in order to maintain the safety and
2 integrity of their systems. These on-going capital needs are in addition to capital
3 needs to make investments in service improvements and efficiencies as well as the
4 additional capital needs for expansion of the current services.

5 UIF's investment vehicle is a long-term and open-ended fund, as opposed
6 to a fund with a finite life. That means it has available to it a ready source of capital
7 for follow-on investment as needed for any additional capital investment, to address
8 necessary maintenance, safety concerns or other shortcomings, and to increase the
9 useful life of the asset. Importantly, capital decisions will be evaluated based on the
10 useful life of the asset, not on short-term incentives, creating significantly more
11 alignment with the interests of the customers and local community. Additionally,
12 as discussed previously, UIF prioritizes long-term alignment with the needs of the
13 communities it serves and the workforce it employs over maximization of short
14 term gains. UIF's and its employees' interests completely align with that of the
15 communities it serves through these utilities. Serving a growing and prosperous
16 community that embraces and brings along everyone is in the best interest of all.

17 **Q. WHAT IMMEDIATE EFFECT, IF ANY, WILL THERE BE ON THE**
18 **CUSTOMERS OF HUI'S REGULATED UTILITY SUBSIDIARIES AS A**
19 **RESULT OF THE TRANSACTION?**

20 **A.** UIF does not anticipate any immediate direct impact to customers of the regulated
21 utilities such as Frontier. However, we believe our investment in the HUI regulated
22 utilities will maintain continued safety and reliability initiatives of the regulated
23 utilities.

1 **Q. HOW WILL THE TRANSACTION AFFECT THE OPERATIONS OR**
2 **MANAGEMENT OF HUI?**

3 A. As explained earlier, UIF does not intend to have any immediate impact on the
4 utility operations. UIF will retain the current management team, including the
5 experienced public utility management team from Luvian Partners, to maintain
6 continuity in the leadership at HUI and support UIF.

7 **Q. AS A RESULT OF THE PROPOSED TRANSACTION, WILL UIF**
8 **CHANGE OR AFFECT THE DAILY MANAGEMENT OF FRONTIER?**

9 A. UIF has no plans to change the current management of Frontier.

10 **Q. WILL THE TRANSACTION NEGATIVELY AFFECT FRONTIER'S**
11 **EMPLOYEES?**

12 A. We do not anticipate any negative effects on Frontier's employees as a result of the
13 Transaction. One question that might arise is whether UIF, because of its origins,
14 would try to unionize the utilities' workforce. UIF is neutral with respect to union
15 organization of the utilities' workforce, and management strongly believes that
16 union organization is the will and option of the respective local workforce.
17 Importantly, UIF will not seek to maximize its returns by reducing the existing
18 workforce. Management's priority will be providing good quality jobs with benefits
19 and promoting quality workmanship, access to training, community enhancement
20 and workplace safety. Additionally, UIF has a progressive commitment to
21 supporting minority owned businesses and to partner with workforce development
22 providers to encourage diverse workforce development.

1 **Q. DO YOU ANTICIPATE ANY IMPACT TO ANY OF THE EXISTING**
2 **UTILITY SERVICE CENTERS AS A RESULT OF THE TRANSACTION?**

3 A. We do not anticipate there will be any impact to any of the existing utility service
4 centers or its main office location in Elkin, North Carolina.

5 **Q. WILL UIF MAKE ANY IMMEDIATE CHANGES TO THE UTILITIES AS**
6 **A RESULT OF THE TRANSACTION?**

7 A. No. Our intent is that the utilities in each state will continue business as usual. We
8 are going to continue operations, financing, investments, regulatory compliance,
9 safety, filed tariffs, rates and customer service as the utilities do now. Going
10 forward, we will look to implement improvements where possible as any business
11 should, while ensuring that GBH and its subsidiaries remain in compliance with all
12 relevant state rules, regulations, and orders.

13 **Q. DOES UIF ANTICIPATE ANY CAPITAL INFUSION INTO GBH OR ITS**
14 **SUBSIDIARIES AS A RESULT OF THE TRANSACTION?**

15 A. We do not anticipate any immediate capital infusions into GBH as a direct result of
16 the Transaction. However, we will be actively looking to find projects into which
17 we can deploy equity that provide the opportunity to expand service to unserved
18 customers and new service territories where extensions are economically feasible,
19 pursue necessary system upgrades, address any infrastructure replacement, and
20 enhance customer service.

21 **Q. WHAT, IF ANY, BENEFITS WILL THE ACQUISITION HAVE FOR**
22 **LOCAL COMMUNITIES AND THE PUBLIC IN GENERAL?**

1 A. Our plan is to protect the local employees as well as continue to support the local
2 businesses through our day-to-day operations. In addition, we will look to further
3 engage in economic development efforts by partnering with local leaders to
4 enhance current efforts. We will ask for a deeper engagement of our team to suggest
5 any changes to our current offerings which may better support economic
6 development in the region. And as we have done with our other investments, we
7 would expect to continue with support for local charities that serve families in need.
8 However, we will also explore opportunities for us to further engage with local
9 leaders, charities and workforce development providers to address the unique
10 economic challenges in each of the communities served, including any presented
11 by COVID-19 impacts.

12 **COMMISSION'S STANDARDS FOR APPROVAL**

13 **Q. WHAT IS YOUR UNDERSTANDING OF THE STANDARDS THAT NEED**
14 **TO BE MET FOR THE COMMISSION TO APPROVE THE**
15 **TRANSACTION?**

16 A. My understanding is that G.S. § 62-111(a) provides that the Commission shall
17 approve the transaction if the Commission finds that it is justified by the public
18 convenience and necessity. In this regard, it is also my understanding that the
19 Commission has adopted a three-prong test to determine if the transaction meets
20 this statutory standard and that those three prongs are whether: (i) the transaction
21 will have no adverse impact on North Carolina retail ratepayers; (ii) the utility's
22 customers are protected as much as possible from potential costs and risks resulting

1 from the transaction; and (iii) there are sufficient benefits from the proposed
2 transaction to offset the potential costs and risks.

3 **Q. DOES THE PROPOSED TRANSACTION MEETS THESE STANDARDS?**

4 A. Yes, in my opinion, it does for several reasons.

5 First, broadly speaking, the Transaction is in the public interest, as UIF will
6 maintain and build upon the successful management of HUI since it was acquired
7 by the BlackRock investment fund in 2017. I have outlined herein the commitment
8 we will bring to this team to help families who are struggling in a more effective
9 manner and to engage broadly with local leaders in economic development efforts.

10 Second, Frontier's customers will not be harmed as a result of the
11 Transaction. Not only do I believe this Transaction presents only benefits to
12 Frontier's customers—and does not present any "costs" or "risks"—but UIF has
13 also agreed that it will not pass along the costs of the Transaction to ratepayers.

14 Third, I believe the benefits of the Transaction do not just offset costs of the
15 Transaction, but rather outweigh any such costs. Those benefits, which are detailed
16 in the Cost-Benefit Analysis attached to the Joint Application, include:

- 17 • Alignment of the interests between investors and ratepayers.
- 18 • Continued access to capital.
- 19 • Financial stability.
- 20 • Management stability and experience.
- 21 • Improved service, safety, and investments.
- 22 • Retaining local office and management in Elkin, North Carolina.

- 1 • Sustained ability to facilitate infrastructure expansion and economic
- 2 development efforts.
- 3 • No changes in rate, charges, or terms and conditions of service.
- 4 • A reduction of fixed costs per ratepayer as Frontier grows.
- 5 • Greater emphasis on focused, long-term-oriented management as part of our
- 6 ownership approach will provide significant future benefits to customers
- 7 and help create our identity as a leader in innovation.

8 **Q. WILL UIF REQUEST THAT ANY CHANGES BE MADE TO FRONTIER’S**
9 **CURRENT DIVIDEND POLICIES FOLLOWING THE TRANSACTION?**

10 A. UIF will continue to follow the rules and requirements pertaining to dividends in
11 each state where it operates. Any change in the existing dividend policies will be
12 made in a manner consistent with the applicable rules and regulations, including
13 Commission notification or approval if required.

14 **Q. WILL THE COMMISSION RETAIN APPROPRIATE REGULATORY**
15 **OVERSIGHT OVER FRONTIER FOLLOWING UIF’S ACQUISITION OF**
16 **GBH?**

17 A. Yes. The Transaction will not affect the Commission’s jurisdiction over Frontier,
18 and the Commission will continue to exercise the supervision and authority over
19 the North Carolina utilities under the powers granted to it by North Carolina statute.
20 UIF’s acquisition of GBH will not affect any of the regulatory conditions
21 previously approved by the Commission, to the extent those commitments are
22 applicable under UIF’s ownership.

1 **Q. WILL UIF ATTEMPT TO REQUIRE ANY OF HUI'S REGULATED**
2 **UTILITIES TO SEEK TO INCLUDE OR RECOVER ITS ACQUISITION**
3 **PREMIUM OR ANY TRANSACTION COSTS IN THEIR RATES?**

4 A. No. The acquisition premium (i.e., amount of the purchase price above book value)
5 and any transaction costs associated with the Transaction will not be included in
6 Frontier's rates.

7 **Q. DO THESE ASPECTS OF THE PROPOSED TRANSACTION SUPPORT**
8 **APPROVAL OF THE PROPOSED TRANSACTION?**

9 A. Yes. In my view, each of these factors, which are also identified and discussed in
10 the Cost-Benefit Analysis attached to the Joint Application in this Docket, support
11 the conclusion that the Transaction is justified by public convenience and necessity.
12 In particular, they establish that (i) the Transaction will have no adverse impact on
13 ratepayers, (ii) the utility's customers are protected as much as possible from
14 potential costs and risks resulting from the Transaction, and (iii) there are sufficient
15 benefits from the Transaction to offset the potential costs and risks.

16 **Q. WHAT OTHER APPROVALS ARE NEEDED WITH RESPECT TO UIF'S**
17 **ACQUISITION OF HUI?**

18 A. Approval of the Transaction by the Montana Public Service Commission, the
19 Public Utilities Commission of Ohio, and the Maine Public Utilities Commission
20 is needed and is being sought concurrently with our application to this Commission.

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

22 A. Yes.

1 BY MR. TRATHEN:

2 Q Ms. Axter, did you also cause to be filed in this
3 proceeding on June 15 of 2021, rebuttal testimony
4 consisting of four pages and no exhibits?

5 A Yes, I did.

6 Q Do you have any corrections to that rebuttal
7 testimony?

8 A No, I do not.

9 Q And if I asked you those same questions today,
10 would your answers be the same?

11 A Yes, they would.

12 MR. TRATHEN: Madam Chair, I'd ask that
13 Ms. Axter's rebuttal testimony consisting of four
14 pages be admitted into evidence in this proceeding and
15 copied into the record as if given orally from the
16 stand.

17 CHAIR MITCHELL: Hearing no objections to
18 your motion, the testimony -- the rebuttal testimony
19 of Witness Axter consisting of three pages filed in
20 this docket on June 15th shall be copied into the
21 record as if given orally from the stand.

22 (WHEREUPON, the prefiled rebuttal
23 testimony of SONIA AXTER is copied
24 into the record as if given orally

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from the stand.)

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)

REBUTTAL TESTIMONY
OF
TESTIMONY OF SONIA AXTER
June 15, 2021

OFFICIAL COPY**Jul 19 2021**

1 **INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
3 **ADDRESS.**

4 A. My name is Sonia Axter, and I am a Vice President of UIF GP, LLC (“UIF GP”),
5 which is the general partner of the Ullico Infrastructure Master Fund, LP (together
6 with UIF GP, “UIF or the “Fund”). I am also a Vice President of Ullico
7 Infrastructure Hearthstone Holdco, LLC (“UIHH”). My business address is 111
8 South Wacker Drive, Suite 3925, Chicago, IL 60606.

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?**

10 A. Yes, I prefiled testimony in this proceeding on January 27, 2021.

11 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

12 A. I am testifying on behalf of UIF GP, which is the general partner of the Ullico
13 Infrastructure Master Fund, L.P. The Ullico Infrastructure Master Fund, L.P., in
14 turn, owns UIHH.

15 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
16 **PROCEEDING?**

17 A. The purpose of my rebuttal testimony is to respond to matters raised in the joint
18 direct testimony of Public Staff witnesses Julie Perry, Neha Patel and John R.
19 Hinton. These matters involve the agreement between the UIHH and Frontier
20 Natural Gas Company (collectively the “Applicants”) and the Public Staff to the
21 Regulatory Conditions to be applicable to UIHH’s proposed acquisition of GEP
22 Bison Holdings, Inc. (“GBH”) and GBH’s subsidiaries, including Hearthstone
23 Utilities Inc. (“HUI”) and Frontier Natural Gas Company (“Frontier”).

1 **Q. WHAT MATTERS WOULD YOU LIKE TO DISCUSS REGARDING THE**
2 **REGULATORY CONDITIONS FILED BY THE PUBLIC STAFF?**

3 A. I would like to describe the process that led to those Regulatory Conditions and
4 explain UIHH's position with respect to those conditions.

5 **Q. PLEASE DESCRIBE THE PROCESS THAT WAS UNDERTAKEN BY THE**
6 **APPLICANTS AND THE PUBLIC STAFF IN FORMULATING THE**
7 **REGULATORY CONDITIONS ATTACHED TO THE PUBLIC STAFF'S**
8 **JOINT TESTIMONY.**

9 A. Following the filing of the application in this proceeding, the Public Staff undertook
10 a very detailed analysis of UIHH's proposed acquisition GBH and its subsidiary,
11 Frontier. That investigation involved the issuance of 13 sets of data requests by the
12 Public Staff containing in the aggregate more than 125 interrogatories and requests
13 for production of documents. It also involved a virtual meeting during which the
14 proposed acquisition and its potential impacts on North Carolina customers were
15 discussed. Following this investigation, the Applicants and the Public Staff engaged
16 in settlement discussions aimed at reaching agreement on regulatory conditions that
17 would support the Public Staff's conclusion that the proposed acquisition was in
18 the public interest. These discussions were marked by substantial compromises by
19 all parties in order to reach agreement on the Regulatory Conditions attached to the
20 Public Staff's joint testimony.

21 **Q. DOES UIHH SUPPORT THE REGULATORY CONDITIONS PROPOSED**
22 **BY THE PUBLIC STAFF?**

1 A. Yes. We believe that the agreed-upon Regulatory Conditions are balanced and
2 adequate to protect the interests of ratepayers and the Commission with respect to
3 the proposed acquisition and to ensure that the transaction will meet the
4 Commission's enunciated standards for approval of proposed utility transactions.

5 **Q. WHAT ARE YOU ASKING THE COMMISSION TO DO WITH THE**
6 **PROPOSED REGULATORY CONDITIONS?**

7 A. We are asking that the Commission approve the proposed transaction in this docket
8 subject to the agreed Regulatory Conditions filed by the Public Staff.

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

10 A. Yes.

1 MR. TRATHEN: And Madam Chair, while we're
2 moving items into the record, should we go ahead and
3 move the Application and exhibits into evidence?

4 CHAIR MITCHELL: Please do.

5 MR. TRATHEN: I'd like to move admission
6 into evidence the Joint Application of Frontier
7 Natural Gas Company and Ullico Infrastructure
8 Hearthstone Holdco, LLC for approval of the sale of
9 transfer of stock filed with the Commission in this
10 proceeding on January 27, 2021, which includes four
11 exhibits.

12 CHAIR MITCHELL: Okay. Mr. Trathen, the --
13 hearing no objection to that motion, the Joint
14 Application of Frontier Natural Gas Company and Ullico
15 Hearthstone Holdco, LLC, filed in this docket on
16 January 27, 2021, will be admitted into evidence. I
17 will note that one of the exhibits to the Application
18 is identified as confidential and ask that it be
19 treated as such in the record.

20 MR. TRATHEN: Thank you very much.

21 (WHEREUPON, Joint Application of
22 Frontier Natural Gas Company and
23 Ullico Infrastructure Hearthstone
24 Holdco, LLC, and Exhibits A-D are

1 admitted into evidence.

2 Confidential filed under seal.)

3 MR. TRATHEN: Madam Chair, we had also
4 prepared a summary of direct and rebuttal testimony
5 from Ms. Axter which has been distributed to the
6 parties. Consistent with the prior panel, we'd be
7 happy to give that or dispense with it as you see fit.

8 CHAIR MITCHELL: No need for the witness to
9 provide the summary at this point in time as we've
10 been provided in advance and have reviewed it. So,
11 let's go ahead and proceed with questions for the
12 witness.

13 MR. TRATHEN: Okay. Thank you. The witness
14 is available for cross examination.

15 CHAIR MITCHELL: All right. My notes
16 indicate there is no cross for this witness, but I
17 just want to confirm that with you, Ms. Culpepper, Ms.
18 Jost.

19 MS. CULPEPPER: That is correct.

20 CHAIR MITCHELL: Okay. We will proceed
21 directly to questions from the Commission.

22 Ms. Axter, I do have a few for you, so bear
23 with me here.

24 THE WITNESS: No problem.

1 CHAIR MITCHELL: Okay. And Mr. Trathen, I'd
2 ask that you go on mute just to -- there you go --
3 just to minimize interference.

4 EXAMINATION BY CHAIR MITCHELL:

5 Q Ms. Axter, you testify, I believe it's page 4 of
6 your testimony, that Frontier will have access to
7 the funds, nearly \$1 billion of available capital
8 on reasonable terms. Can you help us understand
9 generally what those terms would be when you
10 describe them as reasonable? What are the terms?

11 A Sure. First, I would just update that since
12 January we've raised an additional \$550 million
13 of available capital for new investments and
14 follow-on. We have made investments of another
15 \$380 million. Of that, roughly \$70 million is in
16 follow-on investments in our existing portfolio.
17 So the new net number of available capital is
18 roughly \$1.1 billion.

19 The process generally for
20 follow-on investments, that capital is available
21 for our entire portfolio. We've done 11 now
22 follow-on investments with significance. I think
23 that Fred articulated it well in the annual
24 process and the five-year planning process for

1 CapX and recycling of cash flow within the
2 Company will remain consistent with it as it is
3 today and that capital approval process will be
4 consistent with as it is today.

5 In our new leadership and the
6 transition from Luvian to Mr. Morgan O'Brien and
7 the full-time executive management team, the
8 capital process as it occurs today with HUI
9 approving recommendations Frontier will remain
10 consistent. I think he and his team will look
11 for opportunities to improve support, but
12 generally the procedures will remain in place.
13 So, Frontier will be the decision maker and the
14 recommender for its business planning purposes.

15 I think in the course of what we
16 see as the future for Frontier and its expansion
17 opportunities there may be capital needs that
18 rise beyond the operating cash flow levels of the
19 Utility and they would look to UIF for follow-on
20 equity investments to make that capital available
21 for those investments.

22 And generally the process there is
23 we have an investment committee at UIF, the same
24 investment committee that has approved to the

1 overall investment and purchase of HUI and
2 Frontier within that. And we -- you know, we
3 look for, you know, investment opportunities that
4 are consistent with the business plan for
5 Frontier that are -- do not increase or decrease
6 the level of operating risk or within the
7 abilities of the Utility to implement that have a
8 level of return consistent with our overall
9 expectations of return for the investment. So we
10 would prepare kind of an analysis of those things
11 for the investment committee to be -- to review.

12 The way our investment committee
13 works, they look to me and my team as the
14 experts. I would look to Kevin and Fred and
15 their team as the experts to develop that -- the
16 basis for the recommendations and we would put
17 that forward to our investment committee. And
18 the investment committee really is looking to see
19 that it's consistent with our overall
20 expectations for the investment and is generally
21 supportive of those. So, we have had very good
22 success in follow-on investments and are looking
23 to be a long-term owner that's extremely
24 supportive of these types of opportunities.

1 Q Thank you for that response. Following on there,
2 you just indicated that the fund intends to be a
3 long-term owner. I understand that the fund is
4 an open-ended fund or the investment to be able
5 to fund is open-ended. This has been the case, I
6 think at least as I understand the testimony,
7 since 2012 the fund's inception. Is there any --
8 is this the long-term plan for the fund to be
9 open-ended? Is there plans to end the -- do you
10 all have plans at this point in time to end the
11 fund or have a targeted date?

12 A No, there is no targeted date. It's a fund
13 that's designed to operate in perpetuity.

14 Q Okay.

15 A It's kind of a hard concept, but our investors,
16 you know, what we have described to them as the
17 business model for the fund is to invest on a buy
18 and hold basis for the long term in US and
19 Canadian assets primarily in the US. So we have
20 investors -- we have nearly 250 limited partners
21 that are seeking exactly that. They are
22 primarily US-based pension funds that have
23 long-term obligations to pensioners. They'd like
24 to invest in steady, reliable businesses that

1 are, you know, kind of lower risk, and they have
2 expected -- you know, kind of an expected
3 performance over the years, in industries like
4 LDCs where in the kind of fundamental to core
5 infrastructure in the US.

6 I apologize. My dog has come down
7 with a little bit of congestion. So that's not
8 me, it's Bear. I apologize for that.

9 Q No problem.

10 A Because he's sick, he's sitting next to me.

11 So that's a commitment we've made
12 to our investors. They have pensioners that are
13 working today contributing their retirement
14 dollars towards, you know, their future
15 retirement in 30 - 40 years, and these types of
16 investments are an ideal alignment for that.

17 In the infrastructure there are
18 not very many open-ended funds. When we started
19 in 2012, I think we were a bit of a revolutionary
20 model. There have been a lot of replications of
21 that since then. We believe it's the best way to
22 invest in infrastructure. It aligns us with the
23 needs of the local community with you as a
24 Commission, and the, you know, the Utility

1 itself. These should be designed -- these should
2 be invested in in the long term to create that
3 stability to create the incentive to have good
4 relationships with the Utility Commission, with
5 the local community, to be investing in the local
6 community, and this structure allows us to that.
7 We have no plans to sell. We have no plans to
8 terminate the fund. As I indicated, we are
9 continually fundraising and continually making
10 new investments.

11 So the structure in our view that
12 meets the needs of our customers, our clients,
13 and it also best meets the needs of our
14 investments.

15 Q Okay. Thank you for that explanation. That's
16 helpful. Turning for a minute to the
17 cost-benefit analysis that was submitted as an
18 exhibit to in support of the Application. The
19 analysis, and I can point you directly to it, but
20 just, you can also just, you know, accept this
21 subject to check, but the analysis identifies
22 improved service, safety, and investments as well
23 as sustained ability to facilitate infrastructure
24 expansion as benefits of this transaction.

1 Have you all -- are you in a
2 position or have you all come to the point where
3 you've identified a specific amount that the fund
4 will commit towards those types of improvements
5 at Frontier?

6 A We're not in a position to commit a specific
7 amount. Consistent with Fred's testimony
8 earlier, we're absolutely supportive of the
9 current budget and the five-year plan. We've had
10 conversations specifically about those
11 obligations, the commitments to safety and
12 integrity, and are fully supportive of that.
13 We're very interested in seeing growth of the
14 Utility, you know, good financial health of the
15 Utility, and so making investments and being
16 there to support in whatever capacity financially
17 is needed for those things on a prudent basis.
18 We are obligated and very interested in doing
19 that.

20 And, in addition, we're interested
21 in understanding the concerns and priorities of
22 the Commission and making sure that those are
23 incorporated into the long-term planning and the
24 budgeting process as well.

1 Q I assume that you're aware of the settlement
2 between, involving Frontier Natural Gas that was
3 filed in G-40, Sub 142?

4 A Yes, I'm aware of that.

5 Q Obviously, you know, I believe you heard my
6 questions of Mr. Steele and Mr. Degenstein. Over
7 the past several years much work has gone into
8 working with the Company to get into compliance
9 with state and federal regulations and
10 establishing good working relationships between
11 the Company and its regulators. Do you foresee
12 anything -- well, let me just ask you an
13 open-ended question.

14 Obviously, continuing the progress
15 that has been made here is of critical
16 significance to this Commission, do you have
17 anything you want to say about that?

18 A I would echo what Fred said that it's -- we're
19 really pleased with the progress that's been made
20 and the direction and that increased
21 communication and coordination has brought about.
22 We're absolutely supportive of that, see that as
23 a fundamental part of our role in supporting that
24 going forward. I think those are some of the

1 highest priorities that, you know, we will have
2 as an honor going forward.

3 Q Thank you, Ms. Axter. All right. A couple of
4 questions for you about the acquisition premium.
5 I just want to make sure I'm clear on the plans
6 for recovery of the acquisition premium. Page 20
7 of the Application states that none of the
8 acquisition premium paid for GBH will be
9 recovered from Frontier's customers. But then
10 the cost-benefit analysis indicates that the
11 acquisition premium will be absorbed entirely by
12 UIF, spread across all of HUI's businesses and
13 jurisdictions rather than, you know, only from
14 North Carolina.

15 So if it's spread across all
16 jurisdictions, won't that mean Frontier is still
17 absorbing some of the premium?

18 A No. Frontier will not be absorbing any of the
19 premium. None of the utilities will be absorbing
20 any of the premium. I think from a tax
21 perspective for UIF and our obligation to pay
22 taxes, I think that there's a basis there, but
23 there is no -- there will be no pushdown of the
24 cost of the transaction to the Utility.

1 Q Are you in a position to tell us how much
2 leverage will be placed on HUI to fund the
3 transaction?

4 A I think without the confidentiality protection, I
5 can't specifically say. I think from the
6 documentation we provided we're at the lower end
7 of the range. We indicated would potentially be
8 a target. We're looking for, you know, a good,
9 long term in the 15 to 20 year, you know, fixed
10 rate that at the corporate level that cost would
11 be not, you know, absorbed at all by Frontier.
12 And we're looking to establish that in line with
13 kind of general in a debt/equity ratio that's
14 consistent with other utilities of this size.

15 Q Thank you. Could an investor's decision to leave
16 the fund cause you all to sell assets if that
17 happens?

18 A No. The way our fund works we have as I stated
19 previously nearly 250 investors. That means that
20 on average they are 15 million or so from each
21 investor. We have individual investors that are
22 larger than that. They have an obligation of at
23 least a four-year commitment to the fund. And
24 then after that period they could redeem their

1 capital.

2 Regardless of all those things, I
3 just state those facts because we have, you know,
4 smaller investors than other types of funds and
5 we're not -- if you think of it as a customer
6 base, we're extremely diverse and we don't have
7 exposure to one of our investors.

8 That said, as a fund we are not
9 obligated at any point to sell an investment. We
10 have an incoming queue of capital. If we have a
11 single investor that wanted to recycle, they
12 would be redeemed from that and replaced with a
13 new investor. If there was not an incoming of
14 queue of capital, which we've never had a period
15 like that, but if there was not, then we would
16 still not be forced to sell the assets.

17 The fund was designed for us to be
18 able to hold the assets for the useful life and
19 that's what we intend to do.

20 Q You discussed briefly, I think in response to the
21 first question I asked you, the additional
22 capital that y'all have raised I think since
23 y'all filed this Application in January. Are you
24 all -- are you all continually seeking investor

1 commitments, seeking to attract capital, or at
2 some point in time will you cease to do that?

3 A We are continually seeking new investor capital.
4 We have fundraising activities going on at all
5 times. I was actually at a client review meeting
6 yesterday with the potential for new investment.
7 So it's an ongoing obligation of the fund. It's
8 like the life of the fund, it's done in
9 perpetuity, so we're continuously fundraising and
10 adding new capital to the fund.

11 Q Thank you for that. Last question that I have
12 for you. You heard my questions and Commissioner
13 Brown-Bland's questions about current group of
14 managers within HUI and specifically at Frontier.
15 Do you have anything to add to the responses I
16 received from Mr. Degenstein and Mr. Steele about
17 plans for Frontier management?

18 A The only thing I would add -- I think their
19 answers were spot on. The only thing I would add
20 is that in our underwriting of this investment
21 and evaluating this opportunity we had a chance
22 to meet with the different management groups.
23 It's a part of the Company that we value greatly.
24 We think the existing leadership teams within

1 each utility are exemplary and are very -- we
2 ascribe a lot of value to, you know, to them
3 individually, and so Fred and his team are no
4 exception to that.

5 We've had opportunities to meet
6 virtually with them. I think we've shared some
7 of our notes from that. We've been extremely
8 impressed by the management team. I think some
9 of the things I'm most excited about is the high
10 level of communication with the Commission, the
11 work done on the gas supply, I think with Taylor
12 Younger, and the operations team is exemplary.
13 So we're very excited about the staff at North
14 Carolina, at Frontier.

15 I understand one of the
16 Commission's concern is the level of staffing.
17 That's something that, you know, we'll embrace as
18 a concern of ours. As Fred said, with growth
19 we'll meet that with new employees. But we
20 intend to keep the existing management team in
21 place. We're very happy with them. I think it's
22 something to be proud of.

23 Q That's helpful. Thank you for that response.
24 Actually, one last question for you then I'll

1 turn it over to my colleagues.

2 Your testimony discusses Luvian
3 Partners and Mr. O'Brien. From what I can tell,
4 there's going to be a transition away from Luvian
5 to Mr. O'Brien. Where does he fit into -- who is
6 he actually advising? How does he fit into sort
7 of leadership and direction here?

8 A So the Luvian contract runs through the end of
9 2022, and so that -- we intend to continue to
10 work with them through that. Luvian's contract
11 provides for the role of chief executive officer,
12 CEO, and CFO as the primary two positions there
13 within that contract.

14 Mr. O'Brien as of the transaction
15 currently, he's advising us. But as of the
16 transaction he will become the executive chairman
17 of the board in that period while Luvian is still
18 in position. And as Luvian, the contract
19 expires, Mr. O'Brien would become the CEO of HUI,
20 so he'll work with the existing executive team
21 that is at HUI which includes Mr. Degenstein and
22 a few others. But he will perform the role of
23 CEO for the long term going forward.

24 Q Okay.

1 A And he will be a full-time employee of HUI.

2 Q Okay. Got it. Thank you.

3 CHAIR MITCHELL: That's all for me. I'll
4 pause here to see if Commissioners have any questions
5 for Ms. Axter before we turn it over to counsel.

6 COMMISSIONER BROWN-BLAND: Chair Mitchell, I
7 have just a couple.

8 CHAIR MITCHELL: All right, Commissioner
9 Brown-Bland.

10 COMMISSIONER BROWN-BLAND: And actually you
11 just pretty much stole my question on Luvian.

12 EXAMINATION BY COMMISSIONER BROWN-BLAND:

13 Q But I do want to understand still a little better
14 about Mr. O'Brien. So where is -- what's the
15 process? He's just coming on board? He's
16 starting? Is he already involved?

17 A Yes, he's already involved. He's probably on
18 this call today listening in. He's been actively
19 involved in supporting Ullico and the acquisition
20 process and the transition process through the
21 regulatory process. His resume speaks for
22 himself. He's a very seasoned professional,
23 direct experience in CEO of gas utility, and I
24 think is very excited about the opportunity that,

1 you know, HUI and Frontier present.

2 You know, he is -- from day one he
3 will be the executive chairman. There is a CEO
4 in place already through Luvian, so he'll work
5 with the existing leadership team of Luvian, with
6 the existing management team at HUI which
7 includes Mr. Degenstein, and then obviously with
8 the different utilities and learning about those
9 businesses, being prepared to take over as CEO
10 within roughly one year of his, you know, of his
11 role as executive director. Sorry. As executive
12 chairman.

13 So, I'm really excited. He is a
14 first-class human being and I think somebody who
15 is really well positioned to kind of step into
16 the transitional role that Luvian's placed and
17 they've done a great job. Our view is that I
18 want somebody who is going to be in place for the
19 long term as the CEO and set a leadership tone
20 and direction for this Company. I think
21 Mr. O'Brien is the perfect person to do that.

22 As I understand it, this is his
23 last job, so he's here for the long term. He's
24 going to build a management team around him to

1 complement the existing team that's there and
2 some of the functional roles that need to be
3 replaced with Luvian leaving. But he's also, you
4 know, brings a lot of experience on the
5 technology side and, you know, working within
6 communities. I think he's worked for companies
7 that have had multiple utilities such as HUI, so
8 I think, you know, we'll feel the positive impact
9 of his presence pretty quickly.

10 Q And do you envision that his time commitment to
11 Frontier in terms of parsing it up among the
12 other utilities, et cetera, that it will be about
13 the same level that Frontier has had in terms of
14 Luvian's time?

15 A I don't have a great sense of how Luvian has
16 split their time. I know that Frontier in its
17 growth opportunities, you know, between infill
18 and expansion will command kind of priority of
19 his time. I think initially it's going to be an
20 area he'll focus on significantly. So my guess
21 would be a disproportionate amount of his time
22 will be focused on Frontier.

23 I know he specifically is really
24 pleased with the grant work that Fred Steele has

1 done. That's the really the one area within the
2 Company where that is occurring, so the benefit
3 of that and the growth opportunity and the
4 relationship with the communities that that
5 provides is really meaningful to him, so I think
6 he'll be focusing on assisting Fred and
7 supporting him in continuing that effort. It's
8 been -- I think it's really something that he
9 sees as very important. So again, that will give
10 him a bit more focus on the Frontier utility
11 overall.

12 Q Thank you. And are you aware from that at
13 least -- that this Commission is of a view that
14 under our statutory authority the parent
15 companies or companies such as yours, once this
16 transaction is approved if it is, would be as a
17 result of that transaction subject to this
18 Commission's jurisdiction?

19 A Yes, I'm aware of that.

20 Q All right. And then when there's a discussion
21 about and it's in your testimony about this being
22 a long-term investment and intends to be, and you
23 spoke to some extent with Chair Mitchell about
24 that, but just -- and maybe because there's the

1 investment side and the operation side, you know,
2 and the regulatory piece, we might be seeing this
3 different, but I remember I had this discussion
4 with the last ownership change. So maybe another
5 way for me to ask what we're looking at is if we
6 were to look out, just expectations, I know
7 nothing is ever in stone, but expectations, would
8 you expect to be 10 years out to still be the
9 owner of this Frontier today?

10 A There is not -- there is no doubt in my mind
11 we'll be the owner 10 years out. We are
12 specifically designed and it's no -- to be an
13 open-ended fund, it's a very complicated thing to
14 manage. It increase cost on our side. I know my
15 COO, I give her fits because of that, but we
16 created the fund so that we could be a long-term
17 owner. Most of the industry they are closed-end
18 private equity funds, and I know I'll get in
19 trouble for saying this, but their goal is to,
20 you know, get in, you know, increase value and
21 get out in a defined period of time. On average
22 that works out to be four to seven years. My
23 goal is to, you know, buy exemplary businesses
24 and own them for the useful life of the asset.

1 We just are fundamentally designed and structured
2 and philosophically minded differently.

3 So I intend to be here in 10
4 years. We underwrote the investment for 30
5 years. That is as far out as we even go where
6 the cash flow actually is recognized today. We
7 intend to be an owner longer than that. So I
8 think unfortunately you're stuck with me, you
9 know, for the long term, so -- but yes, we'll be
10 here. And I know that you've heard that before
11 and that frustrates me but I really intend to
12 change your mind on that and give you that
13 reliability and consistency that I know you're
14 seeking.

15 Q Thank you for those assurances and that
16 testimony. And I don't know that we ought not to
17 get your four-legged friend's name in the record
18 since he made an appearance. But thank you for
19 being here with us today.

20 A Thank you, Commissioner Brown-Bland.

21 CHAIR MITCHELL: Any other questions from
22 Commissioners? All right. Commissioner Duffley?

23 COMMISSIONER DUFFLEY: I don't have a
24 question. But Commissioner Brown-Bland, I thought I

1 heard the dog's name was Bear, so we all hope that
2 Bear feels better.

3 THE WITNESS: Thank you.

4 CHAIR MITCHELL: Let's turn to counsel and
5 see if there are questions on Commission's questions.
6 Ms. Culpepper?

7 MS. CULPEPPER: No questions.

8 CHAIR MITCHELL: Okay. Mr. Jeffries?

9 MR. JEFFRIES: No questions from me.

10 CHAIR MITCHELL: And Mr. Trathen?

11 MR. TRATHEN: I have no questions.

12 CHAIR MITCHELL: Okay. Well, Ms. Axter, it
13 looks like you are done for the day. We appreciate
14 your being here with us today and your testimony. You
15 may step down.

16 THE WITNESS: Thank you.

17 (The witness is excused)

18 CHAIR MITCHELL: And Ms. Culpepper and Ms.
19 Jost, Public Staff may call their witnesses.

20 MS. CULPEPPER: The Public Staff calls Julie
21 Perry, Neha Patel, and John Hinton.

22 CHAIR MITCHELL: All right. Did we get
23 Mr. Hinton on the line? Oh, there he is. And I see
24 Ms. Perry. And Ms. Patel, where are you? There she

1 is. Okay. Would you all please raise your right
2 hands?

3 JULIE G. PERRY, NEHA PATEL, and JOHN R. HINTON;

4 having been duly affirmed,

5 testified as follows:

6 CHAIR MITCHELL: Ms. Culpepper, you may
7 proceed.

8 DIRECT EXAMINATION BY MS. CULPEPPER:

9 Q Ms. Perry, please state your name, business
10 address, and present position for the record.

11 A (Perry) My name is Julie Grimsley Perry. My
12 business address is 430 North Salisbury Street,
13 Raleigh, North Carolina, and my present position
14 is the Accounting Manager of the Natural Gas and
15 Transportation section in the Accounting Division
16 of the Public Staff.

17 Q Ms. Patel, please state your name, business
18 address, and present position for the record.

19 A (Patel) Good morning. My name is Neha Patel. My
20 business address is 430 North Salisbury Street,
21 Raleigh, North Carolina. My present position is
22 Manager of the Natural Gas Section for the Energy
23 Division of the Public Staff. Thank you.

24 Q Mr. Hinton, please state your name, business

1 address, and present position for the record.

2 A (Hinton) (Inaudible).

3 Q Mr. Hinton, you're on mute.

4 A (Inaudible).

5 Q We still can't hear you.

6 CHAIR MITCHELL: All right. We have an
7 issue with Mr. Hinton's audio. Mr. Hinton, can you
8 say something to see if we can hear you?

9 THE WITNESS: (Hinton) (Inaudible).

10 CHAIR MITCHELL: Still unable to hear.

11 John, were you able to do a sound check with
12 Mr. Hinton when he joined us?

13 MR. MCCOY: Unfortunately no.

14 CHAIR MITCHELL: Okay. At this point in
15 time why don't we take a recess, 10 minutes, and let's
16 see if we can get Mr. Hinton's audio into working
17 condition. It's 11:18. Let's take 12 minutes. Let's
18 go back on the record at 11:30. Thank you.

19 (A recess was taken from 11:18 a.m. to 11:30 a.m.)

20 CHAIR MITCHELL: Let's go back on the
21 record, please.

22 Mr. Hinton, speak out so we can confirm that
23 we can hear you.

24 MR. HINTON: Yes. This is John Hinton.

1 CHAIR MITCHELL: Great. All right. We are
2 ready to go. Ms. Culpepper, I believe we're with you.

3 MS. CULPEPPER: Thank you.

4 BY MS. CULPEPPER:

5 Q Mr. Hinton, please state your name, business
6 address, and present position.

7 A (Hinton) My name is John Robert Hinton. I'm
8 Director of the Economic Research Division of the
9 Public Staff. Our business address is 430 North
10 Salisbury Street, Raleigh, North Carolina 27609 I
11 believe, or 27603.

12 Q These questions will be directed to Ms. Perry.
13 On June 8, 2021 did the panel prepare and cause
14 to be filed in this docket confidential and
15 redacted versions of joint testimony consisting
16 of 17 pages, three appendices, and one exhibit?

17 A (Perry) Yes, we did.

18 Q And for the record, portions of the testimony are
19 marked confidential; is that correct?

20 A Yes, that's correct.

21 Q On June 21, 2021, did the Public Staff file a
22 revised Attachment A to Exhibit 1?

23 A Yes, we did. And basically it was just to change
24 the docket numbers from the old merger to the new

1 merger so nothing substantive.

2 Q Do you have any corrections to your testimony?

3 A Actually I do. If you could look on page 16 of
4 our panel testimony, on line 3, it's sort of a
5 heading. It says "The Regulatory Conditions
6 16-23 and 25-37", and really you should delete
7 "16-23" and the word "and". And it should only
8 read "Regulatory Conditions 25-37".

9 Q If you were asked the questions as corrected
10 today, would your answers be the same?

11 A Yes, they would.

12 MS. CULPEPPER: I move that the prefiled
13 joint testimony consisting of 17 pages and three
14 appendices as corrected be copied into the record as
15 if given orally from the stand. And I request that
16 the confidentiality designations on pages 6 and 7 of
17 the joint testimony be preserved in the record as
18 marked.

19 CHAIR MITCHELL: Hearing no objection to
20 your motion, Ms. Culpepper, it is allowed.

21 MS. CULPEPPER: Thank you. I also move that
22 Exhibit 1 captioned as "Regulatory Conditions" and
23 Revised Attachment A to Exhibit 1 be identified as
24 marked when filed and entered into evidence.

1 CHAIR MITCHELL: Exhibit 1 will be
2 identified as it was marked when prefiled. I'll hold
3 on admitting it into the record for now, Ms.
4 Culpepper.

5 MS. CULPEPPER: Okay. Thank you.

6 (WHEREUPON, Exhibit 1 and Revised
7 Attachment A are marked for
8 identification as prefiled.)

9 (WHEREUPON, the prefiled joint
10 testimony, as corrected, of JULIE
11 G. PERRY, NEHA PATEL, and JOHN R.
12 HINTON and Appendices A, B and C
13 are copied into the record as if
14 given orally from the stand.)
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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-40, SUB 160

In the Matter of
Joint Application of Frontier Natural) JOINT TESTIMONY OF
Gas Company and Ullico Infrastructure) JULIE G. PERRY,
Hearthstone Holdco, LLC, for Approval) NEHA PATEL,
of the Sale and Transfer of Stock) AND JOHN R. HINTON

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Jul 19 2021

PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

JOINT TESTIMONY OF

JULIE G. PERRY, NEHA PATEL, AND JOHN R. HINTON

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. G-40, SUB 160

JUNE 8, 2021

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

3 A. My name is Julie G. Perry, and my business address is 430 North
4 Salisbury Street, Raleigh, North Carolina. I am the Accounting
5 Manager of the Natural Gas and Transportation Section in the
6 Accounting Division of the Public Staff. My qualifications and
7 experience are provided in Appendix A.

8 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
9 **PRESENT POSITION.**

10 A. My name is Neha Patel, and my business address is 430 North
11 Salisbury Street, Raleigh, North Carolina. I am the Manager of the
12 Natural Gas Section of the Energy Division of the Public Staff. My
13 qualifications and experience are provided in Appendix B.

14 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
15 **PRESENT POSITION.**

1 A. My name is John R. Hinton, and my business address is 430 North
2 Salisbury Street, Raleigh, North Carolina. I am the Director of the
3 Economic Research Division of the Public Staff. My qualifications
4 and experience are provided in Appendix C.

5 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY IN**
6 **THIS PROCEEDING.**

7 A. The purpose of our testimony is to present the results of the Public
8 Staff's investigation of the application filed on January 27, 2021
9 (Application), by Frontier Natural Gas Company (Frontier) and Ullico
10 Infrastructure Hearthstone Holdco, LLC (UIHH) (collectively the
11 Applicants), pursuant to N.C. Gen. Stat. § 62-111 for approval of the
12 sale and transfer of stock. More specifically, the Applicants seek (1)
13 authorization for UIHH, a special purpose "merger" subsidiary, to
14 acquire 100% of the stock of GEP Bison Holdings, Inc. (GBH), the
15 parent of Hearthstone Utilities, Inc. (HUI), which is itself the current
16 indirect parent company of Frontier, pursuant to the Stock Purchase
17 and Sale Agreement (Merger Agreement) attached to the Application
18 as Confidential Exhibit B (Merger); and (2) authorization and/or
19 waiver as is necessary and appropriate to effect the proposed
20 transaction.

21 In our testimony, we describe the scope of the Public Staff's
22 investigation of the proposed Merger; discuss the balancing of costs

1 and benefits of the proposed business combination; describe the
2 primary reasons for and major provisions of the Merger-related
3 Regulatory Conditions recommended by the Public Staff, which are
4 attached hereto as Exhibit 1 (Regulatory Conditions); and present
5 the Public Staff's recommendation regarding Commission approval
6 of the transaction.

7 **Q. PLEASE DESCRIBE THE PUBLIC STAFF'S INVESTIGATION.**

8 A. A task force of accountants, engineers, attorneys, and financial
9 analysts conducted an investigation of the proposed Merger. We
10 reviewed the Application to assess potential costs and benefits of the
11 Merger, analyzed the complex and multiple levels of business
12 entities in the proposed ownership chain above Frontier and HUI,
13 and reviewed past merger transactions and Frontier's net book value
14 to determine the appropriate level of rate base going forward. In the
15 course of our investigation, we submitted data requests to the
16 Applicants and reviewed the responses to those data requests. The
17 Public Staff also reviewed the merger applications and related data
18 requests and responses filed in other HUI jurisdictions, as well as the
19 Applicants' submissions to the Federal Trade Commission and the
20 U.S. Department of Justice pursuant to the Hart-Scott-Rodino
21 Antitrust Improvements Act.

1 **Q. WHY IS IT IMPORTANT TO IDENTIFY AND BALANCE THE**
2 **COSTS AND BENEFITS OF A PROPOSED MERGER OR**
3 **BUSINESS COMBINATION?**

4 A. N.C.G.S. § 62-111(a) provides that no merger or combination
5 affecting any public utility shall be made through acquisition or
6 control by stock purchase or otherwise, except after Commission
7 approval, which “shall be given if justified by the public convenience
8 and necessity.”

9 As explained in the Order Approving Merger Subject to Regulatory
10 Conditions and Code of Conduct issued September 29, 2016, in
11 Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682
12 (Duke/Piedmont Merger Order):

13 In prior merger proceedings the Commission has
14 established a three-part test for determining whether a
15 proposed utility merger is justified by the public
16 convenience and necessity. That test is (1) whether the
17 merger would have an adverse impact on the rates and
18 services provided by the merging utilities; (2) whether
19 ratepayers would be protected as much as possible
20 from potential costs and risks of the merger; and (3)
21 whether the merger would result in sufficient benefits to
22 offset potential costs and risks. See Order Approving
23 Merger Subject to Regulatory Conditions and Code of
24 Conduct (Duke/Progress Merger Order), issued June
25 29, 2012, in Docket Nos. E-2, Sub 998 and E-7, Sub
26 986, aff’d, In re Duke Energy Corp., 232 N.C. App. 573,
27 755 S.E.2d 382 (2014). These questions are related to
28 one another and together establish a reasoned
29 framework upon which utility mergers may be
30 evaluated. In making these assessments, the
31 Commission has also examined factors such as
32 whether service quality will be maintained or improved,
33 the extent to which costs can be lowered and rates can

1 be maintained or reduced, and whether effective
 2 regulation of the merging utilities will be maintained. See
 3 Order Approving Merger and Issuance of Securities,
 4 issued April 22, 1997, in Docket No. E-7, Sub 596.

5 Duke/Piedmont Merger Order, p. 68.

6 **Q. WHAT ARE THE REQUIREMENTS OF THE COMMISSION'S**
 7 **ORDER REQUIRING FILING OF ANALYSES ISSUED**
 8 **NOVEMBER 2, 2000, IN DOCKET NO. M-100, SUB 129 (M-100,**
 9 **SUB 129 ORDER)?**

10 A. The M-100, Sub 129 Order requires that merger applications within
 11 the electric or natural gas industries be accompanied by a market
 12 power analysis and a cost-benefit analysis. An investigation and
 13 verification of the cost-benefit analysis and market power analysis is
 14 an essential part of the Commission's consideration of a proposed
 15 merger and facilitates the application of the statutory standard for
 16 approval. The Applicants in this proceeding submitted a cost-benefit
 17 analysis (Cost-Benefit Analysis), but not a market power analysis.
 18 According to the Application, given the relative size of Frontier's
 19 North Carolina operations and the lack of any other Ullico
 20 Infrastructure Fund¹ (or the Fund) - owned operations served by
 21 Frontier or in proximity to Frontier's service territory, there is no
 22 possibility that the Merger will enhance or increase either Frontier's

¹ Ullico Infrastructure Master Fund, L.P. (UIF) and its general partner UIF GP, LLC (UIF GP) are collectively referred to as the Ullico Infrastructure Fund or the Fund in the Application and in this testimony. In the proposed Regulatory Conditions, these entities are collectively referred to as "the Parent Entities."

1 or the Fund's market power in any relevant retail or wholesale
 2 market. Frontier, therefore, requested a waiver of the requirement to
 3 file a market power analysis, as would otherwise be required by the
 4 M-100, Sub 129 Order.

5 The Public Staff reviewed the Application and other information
 6 provided by the Applicants, and we performed research on the
 7 market power issue. After conducting that research, the Public Staff
 8 determined that it was reasonable for the market power analysis
 9 requirement to be waived in this proceeding, and recommended that
 10 the Commission issue an order granting a waiver of the requirement
 11 to file a market power analysis and stating that the Application
 12 satisfies the requirements of the M-100, Sub 129 Order. The
 13 Commission issued such an order on March 31, 2021. The Cost-
 14 Benefit Analysis is discussed later in our testimony.

15 **Q. PLEASE DESCRIBE THE PROPOSED TRANSACTION.²**

16 A. UIHH proposes to pay (i) the total purchase price of [BEGIN
 17 CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL], less (ii)
 18 debt at HUI of [BEGIN CONFIDENTIAL] [REDACTED] [END
 19 CONFIDENTIAL], minus HUI book equity value of [BEGIN
 20 CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL], both from
 21 the December 31, 2020 Balance Sheet, which results in a [BEGIN

² A corporate organizational chart showing the post-Merger corporate structure is attached to the Application as Exhibit C.

1 **CONFIDENTIAL** [REDACTED] **[END CONFIDENTIAL]** acquisition
2 premium. Per the Application and supporting testimony, Frontier has
3 stated that it will not seek to recover the acquisition premium from its
4 North Carolina ratepayers.

5 Upon the close of the Merger, HUI will become a wholly-owned direct
6 subsidiary of UIHH. According to the Application, there is no proposal
7 to change Frontier's rates, terms, or conditions of service;
8 management; or operational structure as a result of the proposed
9 transaction.

10 **Q. PLEASE DESCRIBE FRONTIER.**

11 A. Frontier is a North Carolina local distribution company (LDC) that
12 provides natural gas service to approximately 4,400 customers in
13 Wilkes, Surry, Yadkin, Watauga, Ashe, and Warren counties.
14 Frontier began providing service in 1998. Frontier's annual customer
15 growth rate has been approximately 7% over the past five years, as
16 compared to approximately 2% annual growth for the other LDCs in
17 the state.

18 Frontier is a wholly owned subsidiary of PHC Utilities, Inc. (PHC),
19 and PHC is wholly owned by HUI. HUI is a holding company and the
20 indirect parent of several natural gas utilities serving approximately
21 82,000 customers in Indiana, Montana, North Carolina, Ohio, and
22 Maine. HUI is owned by GBH, which is owned by an infrastructure

1 fund managed by an investment management subsidiary of
2 BlackRock, Inc. PHC and GBH are intermediary holding companies
3 which do not have employees, do not provide utility service in any of
4 the states in which their utility subsidiaries operate, and do not make
5 operational, regulatory, or financial decisions for any of the operating
6 utilities they hold, including Frontier.

7 **Q. PLEASE DESCRIBE THE ULLICO CORPORATE STRUCTURE.**

8 A. As stated above, UIHH is a special purpose entity established for the
9 purpose of acquiring GBH and its subsidiaries, including HUI and
10 Frontier. UIHH is a wholly-owned subsidiary of UIF.

11 Under the Merger Agreement, the transaction represents an
12 acquisition of GBH by the Ullico Infrastructure Fund through its newly
13 formed subsidiary UIHH, whereby GBH will become a wholly owned
14 subsidiary of UIHH. Following the Merger, GBH and all of its
15 subsidiaries, including PHC and Frontier, will remain as currently
16 structured, but will become indirectly wholly-owned subsidiaries of
17 UIHH. UIF is an infrastructure investment vehicle created and
18 managed under the Ullico Affiliated Group. The Union Labor Life
19 Insurance Company established the Ullico Affiliated Group to provide
20 institutional investors the opportunity to make long-term investments,
21 on a commingled basis, into the ownership, maintenance, and
22 refurbishment of the nation's infrastructure.

1 **Q. PLEASE EXPLAIN THE PRIMARY REASONS FOR AND THE**
2 **MAJOR PROVISIONS OF THE REGULATORY CONDITIONS**
3 **RECOMMENDED BY THE PUBLIC STAFF.**

4 A. As a result of its investigation, the Public Staff developed its
5 recommended Regulatory Conditions, which it believes are
6 necessary to ensure that the Merger meets the Commission's three-
7 part test for determining whether a proposed utility merger is justified
8 by the public convenience and necessity and serves the public
9 interest. The following is a description of the major provisions of our
10 recommended Regulatory Conditions:

11 **Applicability of the Regulatory Conditions**

12 The Regulatory Conditions apply jointly and severally to UIHH, GBH,
13 HUI, PHC, and Frontier (as well as any successor entities).

14 **Commitment of the Parent Entities**

15 The Regulatory Conditions set forth the commitments of UIF GP and
16 UIF, as well as any additional or successor entities with control over
17 any of UIHH, GBH, HUI, PHC, or Frontier (collectively the Parent
18 Entities). The Parent Entities acknowledge and consent to the
19 Regulatory Conditions agreed and entered into by UIHH, GBH, HUI,
20 PHC, and Frontier (collectively the Subsidiary Entities). The Parent
21 Entities further commit not to cause the Subsidiary Entities to violate
22 such Regulatory Conditions, nor to prevent the Subsidiary Entities

1 from taking action to comply with the Regulatory Conditions, for so
2 long as such Regulatory Conditions remain in effect and are
3 applicable to the Subsidiary Entities.

4 **Definition of Affiliate**

5 The Regulatory Conditions state that “Affiliate” shall mean UIHH and
6 any business entity of which ten percent (10%) or more is owned
7 or controlled, directly or indirectly, by UIHH, including, but not
8 limited to, Frontier, PHC, HUI, and GBH.

9 **Regulatory Conditions 1-3: Compliance with Prior Stipulation**
10 **and Regulatory Conditions**

11 These recommended Regulatory Conditions state that Frontier shall
12 continue to remain bound by the terms and conditions of the
13 Stipulation entered into with the Public Staff on June 27, 2014, as
14 amended on September 14, 2015 (collectively, the Sub 124
15 Stipulation), the regulatory conditions attached to the Commission’s
16 Order Granting Conditional Approvals issued August 2, 2016, in
17 Docket No. G-40, Sub 133 (Sub 133 Regulatory Conditions), to the
18 extent that those terms and conditions are ongoing and are not
19 clearly superseded by the Regulatory Conditions approved in this
20 proceeding, and the Agreement and Stipulation of Settlement
21 entered into with Commission Staff, and the modification thereto
22 (collectively, the Sub 142 Stipulation). As the terms and conditions

1 of the Sub 124 and Sub 142 Stipulations were previously agreed to
2 by Frontier, and the Sub 133 Regulatory Conditions and Sub 142
3 Stipulation were determined to be appropriate by the Commission,
4 they should not be abandoned because of new ownership.

5 **Regulatory Conditions 4-23: Ratepayer Protection from**
6 **Potential Costs and Risks Associated with the Merger**

7 These Regulatory Conditions are primarily designed to protect
8 Frontier's ratepayers as much as reasonably possible from potential
9 costs and risks associated with the Merger. Regulatory Condition 4
10 provides that, for regulatory accounting, reporting, and ratemaking
11 purposes, Frontier's rate base as of the Merger closing date will be
12 set at the net book value as of December 31, 2020, as reported in
13 Frontier's financial statements and in its NCUC Form G.S.-1
14 Quarterly Financial and Operational Data Reports provided to the
15 Public Staff and the Commission, plus charges and credits incurred
16 in the normal course of utility business between that date and the
17 Merger closing date. Regulatory Condition 4 effectively prohibits
18 recapture of (1) any past negative acquisition adjustments or asset
19 impairment write downs from prior Frontier mergers, or (2) any
20 portion of the acquisition premium resulting from this proceeding or
21 from past mergers.

1 Regulatory Conditions 5-8 also address removing the impact of all
2 direct and indirect Merger-related costs from Frontier's rates and
3 charges, including (1) estimated transaction fees (such as
4 investment banker and legal fees for transaction structuring, financial
5 market analysis, and fairness opinions based on formal agreements
6 with investment bankers) of \$9.0 million associated with this Merger;
7 and (2) the estimated change-of-control payments (such as merger-
8 related bonuses and/or other severance or personnel type
9 arrangements) that are attributable to the Merger.

10 These recommended Regulatory Conditions are also intended to
11 support the continued viability of Frontier and to insulate and protect
12 Frontier and its North Carolina ratepayers from financial risks of
13 Affiliates. They provide for protections regarding dividend
14 distributions, maintenance of the level of Frontier's common equity
15 capital, and notices of certain investments, default or bankruptcy,
16 and service company formation.

17 Regulatory Conditions 9, 10, 11, and 15 relate to ring fencing.
18 Condition 10 prohibits Frontier from paying any distribution in excess
19 of 100% of Frontier's net income. Based on data responses from the
20 Applicants, the projected cash flow statements provided in this
21 proceeding indicate that Frontier will pay distributions up to 100% of
22 net income during the next five years. While this percentage may be

1 higher than some other LDCs, this policy has been previously
2 approved by this Commission and in other jurisdictions, and we
3 believe it is reasonable for Frontier. Condition 11 protects ratepayers
4 in the event of a downgrade of HUI's or Frontier's long-term debt by
5 a formal credit rating agency or an indicative credit rating associated
6 with a private placement of debt.

7 Regulatory Condition 15 requires that Frontier maintain common
8 equity capital equal to or greater than 45% of total adjusted capital.
9 A common equity capitalization ratio of 45% represents a reasonable
10 minimal level of equity capitalization relative to other LDCs. The
11 projected capital structure provided by Frontier anticipates that by
12 year end 2021 the equity ratio will be 67%, and it is anticipated to
13 decrease to only 48% during the next five years; therefore, the Public
14 Staff does not expect the Merger will lead to any undue financial risk.

15 HUI is not publicly traded and does not make filings with the
16 Securities and Exchange Commission (SEC). A publicly owned and
17 traded corporation makes routine annual and quarterly SEC filings
18 that may describe business operations, a history of events,
19 operational and financial conditions, and insight into any risk, as well
20 as the company's management team and legal proceedings.
21 Notification filings describing unscheduled events such as a
22 bankruptcy, material impairment, completion of acquisition or

1 disposition of assets, departures or appointments of executives, and
2 other events of importance may also be filed with the SEC. In order
3 to address risks and concerns regarding such information no longer
4 being publicly available, Regulatory Conditions 12-14 include
5 provisions that provide for the Commission and the Public Staff to
6 receive the type of information contained in SEC filings.

7 **Regulatory Condition 24: Merger Benefits are Sufficient to**
8 **Offset any Potential Costs and Risks**

9 This Regulatory Condition is designed to provide immediate and
10 tangible benefits to Frontier's ratepayers that will help ensure that the
11 benefits of the Merger will be sufficient to offset potential costs and
12 risks. The Cost-Benefit Analysis states that the Merger will give
13 Frontier the ability to access long-term and consistent capital needed
14 to meet economically feasible customer growth opportunities and
15 ongoing system requirements, and that it will provide industry
16 expertise along with financial stability. The Applicants explained in
17 testimony that while there is no anticipated need for any immediate
18 capital infusion into GBH as a direct result of the Merger, the owners
19 will be looking to find projects to deploy equity that provides the
20 opportunity to expand service to unserved areas and new service
21 territories where extensions are economically feasible, pursue
22 necessary system upgrades, address any infrastructure
23 replacement, and enhance customer service.

1 The Cost-Benefit Analysis states that not all anticipated Merger
2 benefits can be reasonably or readily quantified at this time. The
3 Applicants provided data request responses to the Public Staff that
4 recognize estimated merger-related savings associated with a
5 reduction in HUI's normalized executive management costs (post
6 2022). Therefore, in order to ensure that the Commission's three-part
7 test for determining whether a proposed utility merger is justified by
8 the public convenience and necessity is met, Frontier shall credit a
9 total of \$200,000 to its North Carolina customers through two bill
10 credits in the amount of \$100,000. The first \$100,000 shall be
11 refunded through a one-time bill credit to be completed by January
12 1, 2022, or as soon as practicable after the transaction is
13 consummated. The second \$100,000 shall be refunded through a
14 one-time bill credit to be completed by January 1, 2023.

15 The bill credits shall be allocated to the rate schedules by the non-
16 gas cost margin of each rate schedule. The total allocated credits in
17 each rate class will be divided by the total volume of gas from the
18 latest 12 calendar months of usage prior to the date of closing that is
19 available to arrive at a unit credit rate for each rate schedule.
20 Customers within each rate class will be credited an amount equal
21 to the class unit credit rate times each individual customer's volume
22 from the latest 12 calendar months available. Within 30 days after

1 each bill credit is completed, Frontier shall file a report with the
2 Commission detailing the amount of the bill credit by rate schedule.

ktm

3 **Regulatory Conditions ~~16-23~~ and 25-37: No Adverse Impact on**
4 **Rates and Services**

5 These Regulatory Conditions are primarily designed to obtain a
6 commitment from the new ownership that there will be no adverse
7 impact on the rates and services provided by Frontier to its North
8 Carolina ratepayers due to the Merger. They provide that after the
9 close of the Merger, Frontier shall continue its commitment to provide
10 safe, reliable, and affordable natural gas service, maintain a level of
11 capital and operational support in North Carolina necessary to
12 provide safe, efficient, and reliable service at reasonable rates, and
13 budget and expend sufficient funds in order for its integrity
14 management program to be in compliance with all federal gas
15 pipeline safety laws and regulations. These Regulatory Conditions
16 also require that Frontier (1) comply with all regulatory reporting
17 requirements; (2) maintain sufficient, adequately trained personnel
18 to ensure that regulatory reporting requirements are complied with in
19 a timely and accurate manner; (3) maintain compliance with all
20 federal gas pipeline safety laws and regulations and complete the
21 required system enhancements and reporting as agreed to in the
22 Sub 142 Stipulation; (4) require staffing for operational,
23 maintenance, customer service, and safety personnel; and (5)

1 require certain notifications to the Public Staff when there is any
2 change in regulatory or operational personnel at the
3 management/supervisor level.

4 These Regulatory Conditions also govern relationships and
5 transactions between Frontier and its Affiliates, including the
6 allocation of costs, the transfer pricing provisions that govern
7 affiliated transactions, and the filing of affiliated transaction reports
8 and agreements with the Commission.

9 **Q. DO THE APPLICANTS AGREE WITH THE REGULATORY**
10 **CONDITIONS?**

11 A. Yes. The Applicants have indicated to the Public Staff that they agree
12 with all the Regulatory Conditions.

13 **Q. WHAT IS THE PUBLIC STAFF'S RECOMMENDATION WITH**
14 **REGARD TO THE PROPOSED MERGER?**

15 A. The Public Staff recommends that the proposed Merger be
16 approved, subject to the provisions of the Regulatory Conditions.

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

18 A. Yes.

APPENDIX A

QUALIFICATIONS AND EXPERIENCE**JULIE G. PERRY**

I graduated from North Carolina State University in 1989 with a Bachelor of Arts degree in Accounting and I am a Certified Public Accountant.

Prior to joining the Public Staff, I was employed by the North Carolina State Auditor's Office. My duties there involved the performance of financial and operational audits of various state agencies, community colleges, and Clerks of Court.

I joined the Public Staff in September 1990, and was promoted to Supervisor of the Natural Gas Section in the Accounting Division in September 2000. I was promoted to Accounting Manager – Natural Gas & Transportation effective December 1, 2016. I have performed numerous audits and/or presented testimony and exhibits before the Commission addressing a wide range of natural gas topics.

Additionally, I have filed testimony and exhibits in numerous water rate cases and performed investigations and analyses addressing a wide range of topics and issues related to the water, electric, transportation, and telephone industries.

APPENDIX B

QUALIFICATIONS AND EXPERIENCE

NEHA PATEL

I graduated from University Of Mumbai in 1995 with a Bachelor of Science degree in Electronic Engineering. I began working as a Utilities Engineer with the Natural Gas Division of the Public Staff in spring of 2014. In 2020, I became Manager of the Natural Gas Section of the Energy Division.

I have worked on Purchase Gas Cost Adjustment Procedures, Tariff Filings, Customer Utilization Trackers, Special Contract Review and Analysis, Weather Normalization Adjustments, Customer Complaint Resolutions, Integrity Management Riders, Franchise Exchange Filings, Compressed Natural Gas Special Contracts, Peak Day Demand and Capacity Calculations, Fuel and Electric Usage Trackers, Gas Resellers, Annual Review of Gas Cost Proceedings, Renewable Natural Gas Filings, Cost of Service Study, General Rate Case Proceedings, and Rate Design.

QUALIFICATIONS AND EXPERIENCE**JOHN ROBERT HINTON**

I received a Bachelor of Science degree in Economics from the University of North Carolina at Wilmington in 1980 and a Master of Economics degree from North Carolina State University in 1983. I joined the Public Staff in May of 1985. I filed testimony on the long-range electrical forecast in Docket No. E-100, Sub 50. In 1986, 1989, and 1992, I developed the long-range forecasts of peak demand for electricity in North Carolina. I filed testimony on electricity weather normalization in Docket Nos. E-7, Sub 620, E-2, Sub 833, and E-7, Sub 989. I filed testimony on customer growth and the level of funding for nuclear decommissioning costs in Docket No. E-2, Sub 1023. I filed testimony on the level of funding for nuclear decommissioning costs in Docket Nos. E-7, Subs 1026, and 1146. I have filed testimony on the Integrated Resource Plans (IRPs) in Docket No. E-100, Subs 114 and 125, and I have reviewed numerous peak demand and energy sales forecasts and the resource expansion plans filed in electric utilities' annual IRPs and IRP updates.

I have been the lead analyst for the Public Staff in numerous avoided cost proceedings, filing testimony in Docket No. E-100, Subs 106, 136, 140, 148. I have filed a Statement of Position in the arbitration case involving EPCOR and Progress Energy Carolinas in Docket No. E-2, Sub 966. I filed testimony on avoided costs in DSM/EE rider cases in Docket Nos. E-7, Sub 1130, E-2, Sub 1145, E-7, Sub 1230, and E-2, Sub 1252.

APPENDIX C
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I have filed testimony on the issuance of certificates of public convenience and necessity (CPCNs) in Docket Nos. E-2, Sub 669; SP-132, Sub 0; E-7, Sub 790; E-7, Sub 791; and E-7, Sub 1134.

I have filed testimony on the issue of fair rate of return in Docket Nos. E-22, Sub 333; E-22, Sub 412; P-26, Sub 93; P-12, Sub 89; G-21, Sub 293; P-31, Sub 125; G-5, Sub 327; G-5, Sub 386; G-9, Sub 351; P-100, Sub 133b; P-100, Sub 133d (1997 and 2002); G-21, Sub 442; W-778, Sub 31; W-218, Sub 319; E-22, Sub 532; and several smaller water utility rate cases. I have filed testimony on credit metrics and the risk of a credit downgrade in Docket No. E-7, Sub 1146.

I have filed testimony on the hedging of natural gas prices in Docket No. E-2, Subs 1001 and 1018. I have filed testimony on the expansion of natural gas in Docket No. G-5, Subs 337 and 372. I performed the financial analysis in the two audit reports on Mid-South Water Systems, Inc., Docket No. W-100, Sub 21. I testified in the application to transfer of the CPCN from North Topsail Water and Sewer, Inc. to Utilities, Inc., in Docket No. W-1000, Sub 5. I have filed testimony on weather normalization of water sales in Docket No. W-274, Sub 160.

With regard to the 1996 Safe Drinking Water Act, I was a member of the Small Systems Working Group that reported to the National Drinking Water Advisory Council of the U.S. Environmental Protection Agency. I have published an article in the National Regulatory Research Institute's Quarterly Bulletin entitled Evaluating Water Utility Financial Capacity.

1 MS. CULPEPPER: The witnesses are available
2 for cross and Commission questions.

3 CHAIR MITCHELL: My notes indicate there is
4 no cross for the Public Staff witnesses but I'd like
5 to confirm that with counsel. Mr. Trathen? Mr.
6 Jeffries?

7 MR. JEFFRIES: That's correct, Chair
8 Mitchell.

9 MR. TRATHEN: And I have no cross either.

10 CHAIR MITCHELL: So, there is no cross for
11 the Public Staff witnesses. Questions from
12 Commissioners?

13 COMMISSIONER BROWN-BLAND: Chair Mitchell, I
14 have one.

15 CHAIR MITCHELL: Okay.

16 COMMISSIONER BROWN-BLAND: And I'll just
17 direct it to the entire panel.

18 CHAIR MITCHELL: All right.

19 EXAMINATION BY COMMISSIONER BROWN-BLAND:

20 Q And it's just a follow up of what I was asking
21 Mr. Steele about your annual meetings. Can you
22 discuss them? And from your vantage point are
23 they useful? And have you been able to uncover,
24 you know, matters of concern, matters of praise,

1 those kinds of things?

2 A (Perry) I'll try to take a stab at it if that's
3 okay. So we do meet regularly with Frontier and
4 all the other LDCs honestly every year with these
5 mergers, and so it really is helpful. I mean, if
6 there is an ongoing docket just that we have
7 questions about or they have questions about,
8 it's a great way to kind of do the back and
9 forth. We have met with them on contracts they
10 were getting ready to file. We've met with them
11 on the tariff provisions as they mentioned.
12 We'll talk about where they're looking to go,
13 prospective projects that they're looking at,
14 anything that's happened. I think they had, you
15 know, a line break here and there and they would
16 fill us in on how that went and what response
17 they had. Just things that we don't see in the
18 normal course of business.

19 As far as going into like the
20 annual reviews, usually our meetings are held in
21 November/December, and so usually we've got some
22 annual review discussions to be held. With covid
23 it was a little bit moved back.

24 We really work with them a lot. I

1 mean as he said, they hear from Julie a lot.
2 They probably hear from Neha a lot as well. But
3 they're really good to work with and they've
4 really done a good job. We did mention -- I will
5 mention we saw Al Harms at these meetings,
6 everyone of them, so that -- he was working for
7 Luvian's group at that point in time, so he was
8 invited and that was helpful for him to see our
9 perspective in North Carolina, you know, as far
10 as the other jurisdictions.

11 So I think the meetings have been
12 very helpful and we've gotten back and forth a
13 lot of information and follow up.

14 Q Mr. Hinton or Ms. Patel, do you want to add
15 anything?

16 A (Patel) They do have a wonderful team to work
17 with. Taylor Younger and Nathan Bell, any
18 questions we have had they have always been spot
19 on in communicating that back with us.

20 Q Thank you.

21 A (Hinton) The Economic Research Division doesn't
22 really attend those meetings to be honest with
23 you.

24 Q All right. And so from what I'm hearing from

1 Ms. Perry, is it fair to say you, the Public
2 Staff has a pretty good level of oversight of the
3 Company and the Company's activities?

4 A (Perry) Yes, I would say so. And plus all of
5 these filing requirements you saw in Exhibit A
6 are all things that we -- they help us with that
7 oversight. You know, if they do have an
8 organizational change, if they do have something
9 happen in another jurisdiction, they do report
10 that to us which is very helpful as far as how
11 the information is relayed to us.

12 And Fred Steele and Nathan are
13 really good about picking up the phone to Neha or
14 myself and just let us know what's going on if
15 there is something going on, so yeah.

16 Q So we've heard that, you know, there's constant
17 communication and constant contact, which from my
18 view anyway is a good thing, but is that
19 distinguishable in any way from the Sub 136
20 requirement and the continuing requirement should
21 this transaction be approved for the annual
22 meeting? Do you treat that annual meeting as
23 something different?

24 A Yes. That's more formal. I mean, that's more

1 higher level. You know, we deal with the
2 deferred gas cost accounts every month and we
3 have these earning files and we have different
4 calculations that my group is running, you know,
5 monthly, and so if we have questions, concerns,
6 want to understand something, you know, we're
7 picking up the phone. Or the annual review gas
8 cost last three to four months, you know, we're
9 picking up the phone or we're emailing mainly,
10 you know, for that. So the annual meetings are
11 really like what they're looking to do. If they
12 have a question about what they want to do with
13 tariffs. If they are talking, you know, if
14 they've had some personnel changes,
15 organizational changes, you know, that type of
16 thing, you know, or getting some feedback from us
17 on what they want to do, can they do it. You
18 know, that type thing. So I think it's more high
19 level than that.

20 Q And then is it -- I know covid upset some
21 schedules probably from, you know, here or there.
22 Maybe not with the Public Staff. But is it the
23 case that this annual meeting that was envisioned
24 from the Sub 136, is that always in January for

1 Frontier?

2 A I have to go back and look, but I'm pretty sure
3 it's like the November/December timeframe. But
4 we were in the middle of the annual review with
5 Frontier at that point, so it really was fine.
6 It was probably a very good time to have it,
7 because it was --

8 Q Do you -- do you combine it with the -- is that
9 typical even with the other LDCs? Is it combined
10 with their annual gas cost review?

11 A Not necessarily, no. That just happened to be a
12 thing and they wanted to do some tariff changes
13 and they were trying to understand if they should
14 do it in the annual review or if they should do
15 it outside the annual review. So that's the only
16 reason why I say that. But it was during the
17 same timeframe that we were having a lot of
18 communications with them, so --

19 Usually I believe, and Ms.
20 Culpepper could correct me, I think it's usually
21 in like November/December, but maybe I'm even
22 missing that one a little bit.

23 Q And we heard from Mr. Steele that there's a
24 Public Staff team; is that correct? And Mr.

1 Hinton is not part of that team; is that what I
2 understand?

3 A Well, he's welcome to attend. We will send him
4 an invite at the next meeting for sure. He has
5 attended many meetings with Frontier regarding
6 their net present value studies, their
7 feasibility studies, how they add customers.
8 Mr. Hinton has been very much involved in those
9 meetings, so he's around. He's just -- but we
10 will invite him next time for sure, so --

11 A (Hinton) Now, I attend the annual meetings but
12 just not the more regular monthly meetings or
13 monthly conversations that doesn't involve me.

14 Q Yes. I don't think he wants me to have this
15 interpreted as a request for an invitation, so
16 that's fine. That's fine.

17 COMMISSIONER BROWN-BLAND: That's all I have
18 right now, Chair Mitchell. Thank you.

19 CHAIR MITCHELL: All right. Questions from
20 other Commissioners?

21 (No response)

22 Okay. I have a few for you all. I'll just
23 direct them to the panel and any of you all can
24 answer.

1 EXAMINATION BY CHAIR MITCHELL:

2 Q I assume you all heard Mr. Steele's testimony
3 about customer growth and expansion into unserved
4 areas and you all have touched on that to a
5 certain extent in your testimony. But do you all
6 believe the Company is doing what it needs to do,
7 everything that can be done to grow its customer
8 base?

9 A (Patel) Yes. The Company has been -- we have
10 been receiving calls just recently from customers
11 wanting services, and Frontier has been reaching
12 out to those customers for running feasibility
13 studies to provide service to those customers.
14 As Mr. Fred Steele mentioned, they do have about
15 11 communities that they are targeting to provide
16 service to who've never had natural gas service
17 before. They have alternate fuel. And the
18 Company is making progress in talks of trying to
19 run studies to provide service to those
20 communities.

21 A (Hinton) I'll add that, you know, their customer
22 growth rate as you know is pretty high. It's 7
23 percent or thereabouts. In time, my office will
24 be looking at their feasibility studies for these

1 small line extensions. We're doing that with the
2 other LDCs. We just haven't got around to
3 reviewing their companies to make sure they're
4 looking at it in a reasonable financial
5 framework.

6 A (Perry) And I'll just add to that. I've looked
7 at it on the commercial side and the industrial
8 when they're adding a commercial and/or
9 industrial customer and they're using a model
10 that Bob has looked at and so have I, so that we
11 know that -- at least mainly we know what the
12 assumptions they're using. And I think they're
13 trying to get service and when they do connect to
14 customers they are actually adding customers
15 along the way. So we are seeing that they're not
16 just putting in this anchor tenant and saying,
17 okay, this is the infeasible part or the feasible
18 part or this is the CIAC. They are including the
19 residential and small commercial customers along
20 the line, which is a good assumption that we
21 would want them to do in these models. And I
22 think right now they've got a couple going where
23 they're actually pretty good extensions in their
24 service territory. So hopefully we'll see them

1 continue to add customers the next five years in
2 these 11 areas they're looking at.

3 Q Thank you for those responses. Okay. My next
4 question has to do with the \$200,000 credit that
5 the Company has agreed to provide to its North
6 Carolina customers. Can you all help us
7 understand how you derived or how the Company
8 derived at that number?

9 A So that's my area. But we, of course -- okay.
10 So when we were looking at data -- I mean,
11 there's nothing quantified in the cost-benefit
12 study, just FYI. If you look, there's no
13 quantifiable savings. This isn't really a merger
14 based on synergies and savings, you know, as
15 we've seen.

16 But as in other mergers, as you
17 look down the road, maybe not in the near term as
18 we've talked about, there are going to be some
19 synergies I think when the Luvian group
20 transitions out and the executive team with
21 Mr. O'Brien coming in, they are expecting some
22 savings. And so -- but that is going to also be
23 in 2023 or beyond. Okay.

24 So I think one part of our

1 three-part merger test is sufficient benefits to
2 outweigh the risk of cost and, you know, in the
3 merger even though the cost is not supposed to be
4 recovered. We thought tangible immediate
5 benefits based on data request responses we got
6 from the companies where these dollars are coming
7 from. Okay. But they may not be realized until
8 one team is out and one team is in. And we did
9 it over a two-year period, because we knew they
10 weren't immediate. Okay.

11 This is very similar to what we
12 did in Piedmont. We had a two-year savings going
13 back to the beginning of the first January after
14 the Merger Order came out and then we had one for
15 the next year. So we sort of did the same thing
16 in that merger as well, just kind of phasing in,
17 giving them some benefits but over a two-year
18 period.

19 And then maybe once they
20 integrate, you know, then we'll see what happens
21 with them. But it takes a while for a company to
22 integrate once they merge, so --

23 Does that help at all?

24 Q It does. Thank you for your response. All

1 right. Last question I have for you all has to
2 do with the distribution policy. And you all
3 mentioned it on pages 12 and 13 of your
4 testimony. Can you talk some -- can you all help
5 us or just provide the history of that
6 distribution policy and the Public Staff's
7 support for that policy?

8 A (Hinton) The 100 percent dividends is a cap that
9 we've established in this filing and we've
10 previously used that cap. It's not a dividend
11 payout ratio preferred policy that we're
12 recommending to the companies. You know, even
13 the distributions can't -- have to be no greater
14 than the net income of that year over a two-year
15 period.

16 It's just a ring fencing
17 protection so that capital is not extracted from
18 Frontier. That's the primary purpose. And I can
19 say that three of the four other jurisdictions
20 have that same ring fencing protection. Maine
21 uses an 80 percent cap on their distributions.

22 I just don't feel -- I just felt
23 that that was adequate. So we didn't feel -- and
24 motivated them to raise it or lower it to 80

1 percent per se. We felt that having that plus
2 the other conditions would give us advance
3 warning if things were going awry with HUI or
4 Ullico and we'd be alerted to that. But we felt
5 that was an adequate ring fencing protection.

6 Q Okay. Thank you, Mr. Hinton.

7 CHAIR MITCHELL: That's all I have for the
8 Public Staff. I'll pause to see if any other
9 Commissioners have questions for the panel.

10 (Pause).

11 I'm not seeing any, so I'll turn it over to
12 counsel. Mr. Jeffries, Mr. Trathen, you all have
13 questions on Commissioner's questions?

14 MR. JEFFRIES: No questions, Chair Mitchell.

15 MR. TRATHEN: No questions, Chair Mitchell.

16 CHAIR MITCHELL: Ms. Culpepper?

17 MS. CULPEPPER: No questions.

18 CHAIR MITCHELL: Well, Mr. Hinton,
19 Ms. Perry, Ms. Patel, thank you very much for your
20 participation in this proceeding for being with us
21 here today and answering our questions. You all are
22 done for the morning and you may step down.

23 (The witnesses are excused)

24 CHAIR MITCHELL: Ms. Culpepper, I'll

1 entertain a motion from you.

2 MS. CULPEPPER: We would move admission of
3 Exhibit 1 with the Revised Attachment A.

4 CHAIR MITCHELL: All right. Hearing no
5 objection to your motion, Exhibit 1 as revised to the
6 Public Staff's testimony will be admitted into
7 evidence in the proceeding.

8 (WHEREUPON, Exhibit 1 and Revised
9 Attachment A is admitted into
10 evidence.)

11 CHAIR MITCHELL: With that, we've come to
12 the end of our hearing today. Before we adjourn, any
13 procedural matters for my attention from counsel?

14 MS. CULPEPPER: No, ma'am.

15 MR. TRATHEN: None from Ullico.

16 CHAIR MITCHELL: Hearing none, as we
17 typically do we will take post-hearing submittals 30
18 days -- no later than 30 days from the notice of the
19 mailing of the transcript. Of course, submit them as
20 soon as you all would like to do so. And with that,
21 we will be adjourned. Thank you very much everybody.

22 (The proceedings were adjourned)
23
24

C E R T I F I C A T E

I, KIM T. MITCHELL, DO HEREBY CERTIFY that
the Proceedings in the above-captioned matter were
taken before me, that I did report in stenographic
shorthand the Proceedings set forth herein, and the
foregoing pages are a true and correct transcription
to the best of my ability.

Kim T. Mitchell

Kim T. Mitchell
Court Reporter