

State of North Carolina
North Carolina Utilities Commission

Docket No. G-40, Sub 142

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION:

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

DIRECT TESTIMONY

OF

FRED A. STEELE

October 4, 2017

1 **Q. Please state your name, occupation, and business address.**

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

5 **Q. Please describe your educational and professional background.**

6 A. I have a B.S. degree in Accounting from Ohio University, and I hold an Ohio
7 Certified Public Accountant certificate. I have been employed by Frontier since
8 March 24, 2014. During the time of my employment with Frontier, my duties and
9 experience have been focused on operations, natural gas supply, system
10 development, accounting, and rates. I became President/General Manager of
11 Frontier in September 2014.

12 **Q. What is the purpose of this testimony?**

13 A. The purpose of my testimony is to address the matters identified in the
14 Commission's Order Scheduling Show Cause Hearing filed in this Docket No. G-
15 40, Sub 142 ("Show Cause Order") and in the Commission's Pipeline Safety
16 Staff's ("Pipeline Safety") testimony filed in this proceeding on August 25, 2017
17 ("Staff Testimony"). My testimony also addresses the history of Frontier's efforts
18 to develop an Integrity Management Plan ("IMP") in compliance with Subpart O,
19 Part 192 of Title 49 of the Code of Federal Regulations and to implement that
20 plan.

21 **Q. How is your testimony organized?**

22 A. My testimony is broken down into five sections, as follows:

- 1 I. Introduction
- 2 II. Description of Frontier's IMP plan
- 3 III. Asserted Deficiencies in Frontier's IMP Compliance
- 4 IV. Frontier's Remediation Plan
- 5 V. Penalty Assessment

6 **Q. Are there any other witnesses filing testimony on behalf of Frontier?**

7 A. Yes. Mickey Grewal, Gas Natural Inc.'s ("GNI") Director of Engineering and
8 Rodney Myers, Associate Vice President of Energy and Infrastructure of
9 AECOM, an independent engineering firm, are both presenting testimony on
10 behalf of Frontier in this proceeding.

11 **I. INTRODUCTION**

12 **Q. Can you please provide a brief overview of the Company's position with**
13 **respect to the matters set forth in the Show Cause Order and Staff**
14 **Testimony?**

15 A. Yes. We obviously regret that the Commission felt the need to address Frontier's
16 integrity management plan issues through the current proceeding and do not
17 dispute that there has been a level of failure to fully comply with our Integrity
18 Management Plan ("IMP") obligations. This level of non-compliance is not
19 acceptable to the Company and we know that it is not acceptable to the
20 Commission as well. I can absolutely assure the Commission, however, that such
21 failure has not been either intentional or the product of some plan to maximize
22 profits by Frontier. Instead, the Company has suffered from management and
23 employee turnover during most of the period discussed in Staff's Testimony. This

1 resulted in missed PHMSA IMP compliance items due to lack of continuity of
2 leadership, consistency of staff, and lost records, which may be due, in part, to the
3 relocation of the FNG headquarters.

4 In this regard, I want to be absolutely clear with the Commission that we
5 do not consider these facts to be an excuse for our failure to be fully compliant
6 with our IMP plan. I do believe, however, that the Commission deserves (and
7 needs) to understand the facts of how we got to where we are today in evaluating
8 an appropriate remedy in this docket.

9 I also think it is critically important for the Commission to understand
10 where we are headed with regard to PHMSA IMP compliance. As the
11 Commission is aware, Frontier has recently been acquired and its new owners
12 have committed, as part of the merger settlement, to address the safety and
13 compliance matters that prompted this docket, including the commitment to
14 expend the necessary capital to become fully compliant. The filing of this docket
15 has accelerated our focus and commitment to compliance reflected in the agreed
16 Regulatory Conditions in Docket No. G-40, Sub 136 filed on May 2, 2017. As I
17 will explain below, we are well on our way to becoming fully compliant on an
18 accelerated timetable and our new owners have fully committed to spending the
19 money necessary to accomplish this task at the earliest possible moment.

20 Finally, while we understand that the Commission may feel that some
21 level of penalty is appropriate in this proceeding, the level of penalty proposed by
22 Safety Staff is not appropriate in our view because: (i) it is highly
23 disproportionate to both the level of non-compliance and the relative harm

1 associated with that non-compliance; (ii) it would impede Frontier's ability to
2 become compliant on an accelerated basis because it would require essentially all
3 available net income from Frontier's operations for an entire year to pay the
4 penalty thereby rendering that income unavailable for other purposes; and (iii) it
5 could threaten the economic viability of Frontier as a going concern. These
6 matters are discussed in more detail below.

7 **II. DESCRIPTION OF FRONTIER'S IMP PLAN**

8 **Q. Please give a brief history of the development of the Frontier Integrity**
9 **Management Program.**

10 **A.** Although it occurred many years before I came to the Company, it is my
11 understanding that Frontier developed and implemented its Integrity Management
12 Program (or "IMP") in 2004 as required by the U.S Department of Transportation
13 Pipeline and Hazardous Materials Safety Administration ("PHMSA") pursuant to
14 its rules issued on February 14, 2004 for transmission pipeline operators subject
15 to 49 CFR Part 192.

16 **Q. Please describe the purpose of an Integrity Management Program for a gas**
17 **transmission provider.**

18 **A.** The objectives of an Integrity Management Program are to improve safety
19 through the assessment of natural gas transmission pipelines in High Consequence
20 Areas (HCA's), improve integrity management systems within companies
21 operating gas transmission pipelines, improve or aide the government's role in
22 reviewing the adequacy of integrity programs and plans, and provide increased
23 public assurance in pipeline safety.

1 **Q. Who has the authority to enforce gas pipeline safety standards under 49**
2 **CFR, Parts 191, 192, and 193 (PHMSA) regulations?**

3 A. The primary authority for enforcement lies with the United States Department of
4 Transportation's Pipeline and Hazardous Materials Safety Administration
5 (PHMSA); however, in our case the North Carolina Utilities Commission has
6 entered into an agreement pursuant to the provisions of Title 49 of the United
7 States Code Sec. 60105 and North Carolina General Statute § 62-50 which grants
8 the Commission the authority to enforce federal pipeline safety standards with
9 regard to all natural gas pipelines regulated by the Commission within the State
10 of North Carolina.

11 **Q. Do you agree with Staff testimony that Frontier is subject to PHMSA and**
12 **North Carolina safety requirements in operating its system?**

13 A. Yes.

14 **Q. Were you involved in the development of the Integrity Management Plan in**
15 **2004?**

16 A. No. I became President and General Manager in September of 2014. My
17 understanding is that Frontier's Integrity Management Program was prepared by
18 Structural Integrity Associates, Inc., reviewed by Allen Casstevens, Frontier's
19 Integrity Program Manager, and ultimately approved by Dave Householder,
20 Operations Manager, and Greg Pittillo, Vice President.

21 **Q. After the initial development and implementation of the Integrity**
22 **Management Program at Frontier, were there other employees of Frontier**

1 **who had the responsibility of providing the processes, guidance, and**
2 **documentation requirements for the Frontier IMP?**

3 A. In reviewing the business records of Frontier and based on information I have
4 learned from others, the individuals responsible for managing Frontier's IMP
5 historically include Dave Shipley, Raymond Fischer, Adam Theriault, Gary
6 Moore, and Anna Williams.

7 **Q. Who currently manages Frontier's IMP?**

8 A. The following individuals (along with their titles as specified in the IMP plan and
9 the year they came to work for Frontier) currently manage Frontier's IMP:
10 Centralized Workload Manager, Regina Davis (2010); Integrity Management
11 Program Manager, Josh Wagoner (2002); Engineer, Drew Waravdekar (2017);
12 and Fred A Steele, President/General Manager (2014). Additionally, although not
13 named as a specific individual with responsibility for Frontier's IMP plan, we
14 recently hired another engineer, Taylor Badgett, who will assist with all aspects of
15 compliance as it relates to pipeline safety and the related reporting requirements.

16 **Q. Is Frontier's IMP compliance effort now adequately staffed with these**
17 **employees?**

18 A. Yes it is, but with a continued focus on training for these individuals as they gain
19 experience in their jobs.

20 **Q. Does Frontier also rely on GNI for engineering expertise?**

21 A. Yes. GNI now has a total of seven engineers in divisions or subsidiaries other
22 than Frontier who have multiple years of experience and who can provide advice,

1 assistance and guidance with the processes and documentation requirements of
2 Frontier's Integrity Management Program.

3 **Q. Do you anticipate working with specific engineers at GNI going forward on**
4 **IMP related issues?**

5 A. Yes. Frontier has and will continue to work closely with and have access to GNI
6 Chief Operating Officer, Kevin Degenstein, as well as Director of Engineering,
7 Mickey Grewal, with regards to IMP.

8 **Q. Does Frontier anticipate the use of any additional professional resources as it**
9 **relates to its Integrity Management Program?**

10 A. Yes. Frontier has recently retained AECOM, an engineering firm with significant
11 experience in the area of natural gas integrity management programs and
12 requirements. AECOM will focus on helping us achieve full compliance with
13 PHMSA IMP standards and will also help us evaluate our IMP and determine
14 what changes, if any, Frontier may want or need to make to ensure that Frontier is
15 in full compliance with all current applicable PHMSA IMP regulations going
16 forward.

17 **III. ASSERTED DEFICIENCIES IN FRONTIER'S IMP COMPLIANCE**

18 **Q. The Order Scheduling Show Cause Hearing in this docket identifies specific**
19 **deficiencies in Frontier's Integrity Management Program; can you please**
20 **identify those specific deficiencies?**

21 A. Yes. The specific deficiencies identified in the Show Cause Order and discussed
22 in Staff's testimony include:

1 1. Failure to maintain a quality assurance process as part of our IMP in potential
2 violation of 49 CFR § 192.911.

3 2. Inadequacy of training/comprehension of Frontier's personnel responsible for
4 managing its IMP plan and lack of qualifications/training for Frontier's
5 employees responsible for administering Frontier's external corrosion direct
6 assessment protocols in potential violation of 49 CFR § 192.915.

7 3. Failure to conduct certain baseline assessments and reassessments of
8 transmission pipeline segments in potential violation of 49 CFR § 192.937.

9 **Q. Can you briefly summarize Frontier's position as to each of these potential**
10 **violations of the PHMSA regulations?**

11 A. Yes. With regard to our quality assurance processes, and based upon the
12 information I have been able to glean from the Company's records and prior
13 employees, there has been a level of failure in maintaining a quality assurance
14 process as part of our IMP. This appears to be the result, in part, of turn-over in
15 management and staff, as discussed further below. With regard to the training
16 and qualifications of our IMP personnel, we have scheduled IMP training with
17 Structural Integrity Associates, Inc., ARC GIS training for six Frontier IMP
18 personnel in October, Syneri, and NACE I training in November for our
19 engineers. With regard to baseline assessments and reassessments of our
20 transmission lines, I would agree that Frontier does not appear to be in full
21 compliance with the PHMSA IMP regulations in this regard and we are working
22 expeditiously to remedy this issue. I would like to note that we voluntarily
23 brought this area of non-compliance to Commission Safety Staff's attention when

1 records could not be found, because we consider these assessments very important
2 and take pipeline and public safety very seriously.

3 **Q. Can you please explain how you became aware that Frontier's IMP activities**
4 **might not be fully compliant with its plan or with prevailing PHMSA**
5 **regulations?**

6 A. Yes. I became President and Manager General of Frontier in September of 2014
7 at which time I became responsible for all aspects of the Company's operations,
8 including management of its IMP. Approximately 12 months ago, when I was
9 reviewing the processes, guidance, and documentation requirements of the
10 Frontier Integrity Management Program, Josh Wagoner – Frontier's Integrity
11 Management Program Manager - brought to my attention that he was unable to
12 locate records confirming that baseline reassessments for the gas transmission line
13 segments T-3 and T-7 had been performed as required by PHMSA IMP
14 regulations.

15 **Q. What was your initial response to this disclosure concerning the inability to**
16 **locate the records relating to the reassessments for T-3 and T-7?**

17 A. My first response was to review the records that Frontier did have available --
18 both in paper copy and electronically. I was aware that those reassessments were
19 required by PHMSA regulations and was confident that the reassessments had
20 been performed by a third-party engineering firm, and believed we would find the
21 supporting documentation that indicated such. After an extensive but
22 unproductive search of Frontier's records, we contacted some of the individuals
23 who had been previously responsible for the Frontier IMP implementation to

1 inquire as to their recollections of any reassessment of lines T-3 and T-7. These
2 individuals included Dave Shipley, Ray Fischer, Adam Theriault, Gary Moore,
3 Dave Householder, Lloyd Selman, Terry Talbert, and Dan Campbell. In these
4 conversations we were informed that baseline assessments and reassessments had
5 been performed and that the supporting documentation should be located at the
6 Frontier office. After those discussions, we then contacted the engineering firms
7 Mears Group, Inc. and Southern Cathodic, who were likely candidates to have
8 conducted such reassessments and asked them to search their records on behalf of
9 Frontier to determine whether and when the reassessment of transmission lines T-
10 3 and T-7 had been accomplished.

11 **Q. What were the results of the records search by Mears Group, Inc. and**
12 **Southern Cathodic?**

13 A. Both Mears and Southern Cathodic reported that their records did not reflect any
14 reassessments of transmission lines T-3 and T-7.

15 **Q. What did you do next?**

16 A. Frontier continued its records search to try to locate documentation of the baseline
17 assessments but more importantly began a broader evaluation of its IMP and prior
18 compliance processes, guidance, and documentation to more generally determine
19 what steps needed to be taken to rectify any other deficiencies in Frontier's
20 compliance with its IMP. We also began an immediate review of the previous
21 communications between the North Carolina Division of Pipeline Safety and
22 Frontier as they related to earlier Frontier IMP inspections to determine what had
23 been communicated between Frontier and Pipeline Safety.

1 **Q. What did you learn from this review?**

2 A. On or about November 15-17, 2010, representatives of Pipeline Safety met with
3 Dave Shipley, Raymond Fisher, and Anna Williams. In a December 1, 2010
4 letter from Mr. Isley to Ray Fisher, Pipeline Safety stated that Frontier had
5 addressed most of the issues identified during an earlier inspection, but that there
6 were other potential issues that needed to be addressed. A copy of this
7 correspondence is attached to my testimony as Exhibit FAS-1. These issues
8 included the need to incorporate an ICDA plan into the IMP. Mr. Fisher, on
9 behalf of Frontier, responded and agreed that those deficiencies would be
10 addressed prior to Pipeline Safety representatives returning for a follow-up
11 inspection in 2011.

12 **Q. What happened next?**

13 A. Frontier's records do not reflect what the Company may have done (or failed to
14 do) with respect to the matters discussed in Mr. Fisher's correspondence nor do
15 they reflect a follow-up inspection in 2011. In fact, Frontier's records do not
16 reflect any further interaction with Safety Staff at all until 2017 when we were
17 notified of an IMP inspection scheduled to occur in February 2017.

18 **Q. Has Frontier made any further determinations as a result of your continued**
19 **search of its records?**

20 A. Yes. After a further exhaustive search of the Frontier records, which began in
21 September 2016 and has continued since that point in time, we were unable to
22 confirm the existence of documentation establishing that baseline assessments for
23 a number of our transmission lines had been completed. Based on the failure to

1 find records confirming that such assessments had, in fact, been previously
2 performed (even though reported as completed), we determined on or about
3 February 8, 2017 to perform new baseline assessments on transmission line
4 segments T-3, T-7, and on or about August 21, 2017 to perform new baseline
5 assessments on transmission line segments T-2, T-8, T-10, T-12 and T-13 in 2017
6 utilizing the External Corrosion Direct Assessment method to ensure proper
7 documentation and records retention.

8 **Q. Are you certain whether or not baseline assessments on these lines were ever**
9 **performed originally?**

10 A. We are not certain. They should have been performed no later than 2012 and we
11 have some information from prior employees that indicates they were performed,
12 and Safety Staff's direct testimony in this proceeding also seems to indicate that
13 they were performed, but we cannot locate confirmatory documentation. In the
14 face of this obvious documentation issue, we made the only rational decision we
15 could, which was to proceed with new baseline assessments of these facilities.

16 **Q. When will these baseline assessments be completed?**

17 A. These assessments are scheduled to be completed on or before December 20,
18 2017.

19 **Q. Have you hired an engineering firm to perform these baseline assessments?**

20 A. Yes. Frontier has hired EN Engineering to perform the External Corrosion Direct
21 Assessments on the aforementioned segments.

22 **Q. In your review of the Frontier IMP and the direct testimony of the**
23 **Commission's Pipeline Safety Section what have you determined as it relates**

1 **to the covered segments that were to be assessed using the Internal Corrosion**
2 **Direct Assessment method?**

3 A. In my review of the Frontier IMP Table 5.2 Summary BAP it clearly states that
4 two HCA's of pipeline segments T-3 and T-7, 301 Greenway and 701 Westpark,
5 were to have used the Internal Corrosion Direct Assessment method as part of the
6 assessment process, in addition to ECDA. Curiously, there is no start date defined
7 in Table 5.2 for the HCA section of 301 Greenway and 701 Westpark and we
8 have not been able to locate any documentation that would indicate that an ICDA
9 has been performed on these segments.

10 **Q. What is Frontier's plan to address and resolve this issue?**

11 A. We are proceeding with the performance of Internal Corrosion Direct
12 Assessments of pipeline segments T-3 and T-7 in appropriate locations to be
13 completed on or before May 31, 2018.

14 **Q. Once Frontier has completed the ECDA's in 2017 do you have any additional**
15 **ECDA's that will need to be performed?**

16 A. Yes. Frontier performed an ECDA on its pipeline segment T-1 in 2011. In
17 reviewing the Frontier IMP it is due for reassessment in 2018 and we have
18 determined that the reassessment will include both ECDA and ICDA.

19 **Q. When you were hired, did you realize that Frontier's IMP had not been**
20 **updated and that there was no documentation of the follow-up from the 2010**
21 **inspection?**

22 A. No. When I was hired, I reviewed Frontier's Integrity Management Plan, DIMP,
23 Drug and Alcohol, Emergency Plan, and Operating and Maintenance Plan. I also

1 asked specific questions of those employees who were then responsible for the
2 implementation of the plans regarding Frontier's compliance. In addition, I
3 conduct regular weekly meetings (and more often as necessary) to discuss all
4 aspects of Frontier's operations, construction, safety, accounting, marketing,
5 customer service and compliance. At the time I was hired, I believed that Frontier
6 was in compliance with applicable regulations with respect to the above-
7 mentioned plans.

8 **Q. When did you realize that Frontier's compliance with those plans might be**
9 **questionable?**

10 A. It was not until Josh Wagoner became responsible for parts of Frontier's Integrity
11 Management Program in July 2016 and we began our records review, that I had
12 any indication that Frontier may not have performed required baseline
13 assessments and/or reassessments required by its IMP. And it was not until we
14 completed our initial research, which began in late 2016 and continued into 2017,
15 that we realized that the work that should have been done in 2011 may not have
16 been completed. It was during this period that we began to take steps to both
17 further assess the status of Frontier's IMP compliance and to start a process to
18 become compliant. Shortly after we made these realizations and began to take
19 steps to remediate them, we received the Safety Staff's notice of violation.

20 **Q. Did Frontier have interactions with Safety Staff prior to the issuance of the**
21 **Commission's Show Cause Order?**

22 A. Yes, we had significant interactions with Safety Staff during the first six months
23 of this year regarding the status of our IMP compliance and deficiencies they had

1 identified with that compliance. These interactions involved multiple meetings,
2 telephone calls and correspondence both before and after the Notice of Violation.

3 **Q. Did the Notice of Violation surprise you?**

4 A. No. We expected it and, in fact, we provided some of the information about non-
5 compliance upon which the Notice was based.

6 **Q. What was the purpose of the interactions with Safety Staff during this**
7 **period?**

8 A. We were working with Staff to address the non-compliance issues we had
9 mutually discovered regarding Frontier's IMP. We were endeavoring to be as
10 proactive and forthright as possible regarding the current status of our plan
11 compliance and efforts to fix deficiencies in compliance and I believed that we
12 were making progress in that regard. Attached to my testimony as Exhibit FAS-2
13 is an example of the type of discussion going on between Frontier and Staff
14 during this period.

15 **Q. Were you surprised to see the Commission's Show Cause Order in this**
16 **docket?**

17 A. We were – not because we felt it was unjustified – but because we believed we
18 had a workable process ongoing with Safety Staff to address our acknowledged
19 compliance deficiencies.

20 **Q. Could you address the possible violation of 49 CFR § 192.911 referenced in**
21 **the Commission's show-cause order for failure to maintain a quality**
22 **assurance process?**

1 A. What I can say about that is that Frontier's records do not contain adequate
2 information to provide meaningful input on that issue during the period 2011
3 through early 2016 -- which is the period prior to the time I became fully
4 cognizant of the issues Frontier had with IMP compliance and prior to the time
5 Mr. Wagoner took over his responsibilities for IMP compliance. I can tell you
6 that since Mr. Wagoner and I became aware of the issues with IMP compliance
7 beginning approximately 11 months ago, we have been highly focused on
8 identifying and curing deficiencies in Frontier's conformance with its IMP and
9 will remain focused on those issues, including quality assurance going forward.

10 **Q. You have referenced Frontier's records and recordkeeping in your**
11 **testimony; what are your observations about Frontier's recordkeeping**
12 **before your coming to Frontier?**

13 A. I don't have any personal knowledge with respect to activities undertaken by
14 Frontier before I became employed by Frontier but the state of recordkeeping by
15 the Company at the time I got there was not what I would have expected nor what
16 we have implemented since I became President. I suspect that this fact was likely
17 related to the change in staff, management turbulence, and the office relocation,
18 all of which caused disruption in normal business practices

19 **Q. Could you also address the possible violation of 49 CFR 192.915 for failure to**
20 **maintain trained and/or qualified personnel for management of Frontier's**
21 **IMP and execution of Frontier's ECDA protocol identified in the**
22 **Commission's Show Cause Order?**

1 A. We disagree with that contention. With respect to IMP, and based upon my
2 review, it appears that Frontier did have qualified people in its employment from
3 the time period of 2011 through July of 2016. The only time period in which that
4 was not true was from July of 2016 through June of 2017 when Frontier did not
5 have a qualified engineer or technical services employee with direct IMP
6 experience but was actively searching for such an employee. That position was
7 filled with the hiring of Mr. Waravdekar in June of 2017. During the time Mr.
8 Waravdekar's position was being advertised, Frontier had access to Mr.
9 Degenstein and Mr. Grewal, both of whom are qualified engineers.

10 **IV. FRONTIER'S REMEDIATION PLAN**

11 **Q. In your prior testimony you mentioned a number of steps Frontier is taking**
12 **to address both deficiencies mentioned in the Show Cause Order and other**
13 **documentary holes in Frontier's records, could you please place these efforts**
14 **in context for the Commission?**

15 A. Yes. As I mentioned above, we are going well beyond the scope of simply
16 addressing the matters identified in the Staff's Notice of Violation and the
17 Commission's Show Cause Order. We are engaging in a process with the help of
18 experienced outside engineering experts (AECOM) to completely reexamine our
19 IMP plan and the processes and procedures necessary to become (and to stay)
20 fully compliant with PHMSA IMP pipeline safety regulations and requirements.
21 The high-level plan, which is currently being executed, is summarized on Exhibit
22 FAS-3 attached hereto. This plan goes well beyond the specific concerns raised
23 in the Show Cause Order and also goes beyond the commitments set forth in

1 paragraph 14 of the agreed Regulatory Conditions adopted in Docket No. G-40,
2 Sub 136.

3 **Q. Should the Commission be concerned with Frontier's future compliance with**
4 **its IMP and PHMSA regulations based on this plan?**

5 A. I fully expect the Commission and Safety Staff to closely monitor our compliance
6 with the plans and actions I have discussed in my testimony but those plans and
7 actions, when implemented, should resolve any concerns about future compliance
8 with PHMSA regulations. We would anticipate and welcome regular reporting to
9 Safety Staff and the Commission over the achievement of the objectives outlined
10 in my testimony and in Exhibit FAS-3.

11 **Q. Do you have anything else to add to your testimony regarding efforts to**
12 **remedy the shortcomings identified in this docket with respect to Frontier's**
13 **IMP compliance?**

14 A. Yes. I would like to apologize to the Commission again for the fact that this
15 proceeding was necessary and I would also like to convey to the Commission that
16 in the recent interactions that I have had with the new owners, directors, and
17 officers of Frontier, GNI and FR Bison, it has been made very clear to me that
18 they fully support any necessary efforts to address safety and compliance issues
19 fully and as rapidly as possible. I have been assured of their support for the hiring
20 of employees with the necessary qualifications and skills and for their training to
21 understand and comply with all applicable regulations issued from PHMSA and
22 to their commitment to spend the required dollars to ensure compliance going
23 forward.

1 **V. PENALTY ASSESSMENT**

2 **Q. Please describe the penalty Safety Staff has proposed in this docket.**

3 A. As I understand it, Safety Staff has recommended the maximum penalty available
4 under federal law for violations of PHMSA integrity management regulations.
5 This penalty is \$2,090,022.

6 **Q. Do you believe that this proposed penalty is reasonable?**

7 A. No I do not. I think it is not reasonable for a number of reasons.

8 **Q. Could you explain those reasons to the Commission?**

9 A. Yes. My concerns with the Safety Staff's proposed penalty include the following:

10 Relative Culpability. We acknowledge that Frontier is out of compliance
11 with its IMP plan and PHMSA regulations and have acknowledged such for the
12 last 10-12 months. We even self-reported some of those areas of non-compliance
13 to Safety Staff ourselves. We have also been working diligently to address these
14 areas of non-compliance both internally and with outside engineering firms. Most
15 of these areas of non-compliance have their genesis in the actions taken (or not
16 taken) by the predecessors of the Frontier employees who currently manage our
17 IMP plan. Since Frontier discovered these areas of non-compliance, we have
18 been working openly, cooperatively, and transparently with Safety Staff in pursuit
19 of remedies for the matters at issue in this docket. I acknowledge that this fact
20 does not provide a basis for a "free pass" to Frontier on the assessment of a
21 penalty for past non-compliance but it also doesn't, in my mind at least, provide a
22 basis for the assessment of the maximum statutory penalty possible. Assessing
23 the maximum penalty possible against people who have been diligently, earnestly,

1 and in good faith trying to fix a bad situation (non-compliance) which they
2 inherited seems inappropriate and excessive.

3 Lack of Intentionality Around IMP Deficiencies. I acknowledge that the
4 matters upon which Frontier has been deficient with respect to IMP compliance
5 are serious. This is particularly true with respect to the failure to undertake and/or
6 properly document the baseline assessments and reassessments of its transmission
7 pipelines segments discussed previously. Having said that, I know of no evidence
8 to suggest that these deficiencies were intentional or the result of some strategy to
9 maximize revenues at the expense of safety – which appears to be implied in the
10 Safety Staff’s testimony. In my experience, I have never been asked to cut any
11 safety related budget items or spending since I have been employed by Frontier.
12 To my knowledge, Staff’s implication that non-compliance was financially
13 motivated is wholly speculative and I can attest, without reservation, that it is
14 absolutely untrue as to the period of time since I have been President of Frontier.

15 Disproportionate Impact on Frontier and Undesirable Consequences of
16 Assessing the Maximum Penalty. The size of the proposed penalty relative to the
17 size of Frontier’s operations also calls into question the purpose of the proposed
18 maximum penalty. Frontier serves roughly 3,600 customers in North Carolina
19 and generates annual net income in the range of \$2,000,000. Under Safety Staff’s
20 proposed penalty, Frontier would be assessed an amount that is essentially
21 equivalent to the entire economic value of its operations for a year. This type of
22 assessment would cause dire economic consequences for the Company and would
23 fundamentally threaten its existence as an economically viable entity. It would

1 also be, proportionally, by orders of magnitude the biggest penalty this
2 Commission has ever considered assessing. Even if the Company could survive a
3 penalty of this magnitude, it would plainly inhibit the Company's ability to
4 continue to address and cure the deficiencies upon which this docket is based –
5 which would be completely counter-productive to the goal of ensuring that
6 Frontier is compliant. In addition, any significant penalty will impair Frontier's
7 ability to continue to contribute capital for the expansion of service to customers
8 within its assigned service territory. I make these points not to argue that a
9 penalty should not be assessed but to provide some context to the Commission
10 with respect to the size of the proposed penalty.

11 Disruption of the Expressed Public Interest Inherent in Attaining
12 Compliance. As the Commission is aware, Frontier has recently been acquired
13 and, as I have testified above, its new owners are committed to fixing the
14 compliance deficiencies that have arisen under prior management and ownership.
15 Assessing the Company with an enormous penalty based primarily upon the
16 actions of prior owners and management seems unduly punitive but also fails to
17 allow the new ownership an opportunity to make good on its commitments to fix
18 the compliance issues that prompted this proceeding. Those commitments are
19 clearly reflected in the provisions of Regulatory Condition 14 from the merger
20 docket (G-40, Sub 136) and in the testimony from witnesses in that proceeding.
21 My assumption is that the Commission's primary goal in this proceeding is to
22 motivate Frontier to become compliant and I believe that my testimony and the
23 testimony of Frontier's other witnesses clearly indicate that Frontier is not only

1 motivated to that end but is fully engaged in the processes to make that result a
2 reality. Trying to achieve that goal at the same time it has to bear the impacts of a
3 very, very significant penalty would make the achievement of that shared goal
4 much more difficult.

5 Actual Impact on Public Safety. To the best of my knowledge, Frontier's
6 compliance deficiencies have not caused or resulted in any actual physical
7 damage or enhanced risk to its customers or the public at large. Obviously,
8 Frontier's IMP and the PHMSA regulations are designed to ensure public safety
9 associated with natural gas transmission operations over the long-term. To the
10 extent that we are out of compliance, that creates the possibility of higher risk to
11 our customers and the public. In this case, thankfully, I am not aware of any
12 actual damage to property or persons to which our non-compliance contributed.
13 This is likely the result of the relative newness of Frontier's system – it is much
14 younger than the larger natural gas distribution systems in the State. In any event,
15 there is no evidence to suggest that Frontier's IMP compliance issues contributed
16 to actual injuries to the public, which would suggest, in my opinion at least, that
17 the maximum statutory penalty is excessive in this instance.

18 **Q. Do you have any other comments to add regarding Safety Staff's penalty**
19 **proposal?**

20 A. Yes. I would ask that the Commission consider allowing Frontier's new
21 management and ownership a reasonable period of time to implement the plans
22 they have to become fully compliant as described above and to withhold assessing
23 a substantial penalty until that process is complete. Frontier recognizes the need

1 to expend between \$1.5 million and \$3 million in the near term to address
2 PHMSA compliance and to accomplish the actions recommended by Safety Staff.
3 The imposition of a large penalty at this point in time will impair the Company's
4 plans and impede its ability to obtain its goals.

5 **Q. Are you suggesting that the Commission withhold all penalties pending**
6 **completion of this process?**

7 A. No. I fully understand that the Commission may feel compelled to assess a
8 penalty against Frontier as part of the initial resolution of this proceeding. I am
9 simply asking that the Commission consider all of the facts, and the factors I have
10 discussed above, in formulating any near term penalty and also consider holding
11 any additional substantial penalties in reserve until Frontier's new
12 management/ownership has a chance to prove its commitment to remedy the
13 issues that caused this docket to be initiated in the first place.

14 **Q. Does this conclude your testimony at this time?**

15 A. Yes.

16



State of North Carolina
Utilities Commission

4325 Mail Service Center
Raleigh, NC 27699-4325

December 1, 2010

COMMISSIONERS
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LUCY T. ALLEN

Mr. Raymond Fischer
Vice President and General Manager
Frontier Natural Gas.
1927 North Bridge Street
Elkin, North Carolina 28621

Dear Mr. Fischer:

Enclosed is a copy of the Integrity Management inspection report for the natural gas transmission facilities operated by Frontier Natural Gas Company in North Carolina. The inspection was conducted by Mr. Stephen F. Hurbanek, and Mr. John Hall, November 15 thru 17, 2010 and was in reference to 49 CFR, Part 192. The inspection included a review of required record keeping and inspections performed in the field to determine compliance with the Code.

A review of the report indicates that Frontier Natural Gas has corrected most potential issues identified in the 2009 inspection. However this inspection revealed that Frontier has potential issues in the following areas:

The following Protocols have potential issues outstanding:

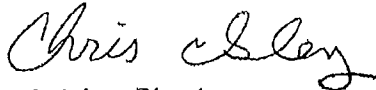
- D.06 a-c ICDA Programmatic Requirements*
- D.07 a-e Dry Gas ICDA, Preassessment, Region Identification and use of model*
- D.08 Dry Gas ICDA Direct Exam a-e*
- D.09 Dry Gas ICDA Post Assessment a-d*
- D.10 Wet Gas ICDA Programmatic Requirements a-b*
- F.01 Periodic Evaluations b-d*
- H.07 Automatic Shut Off Valves or Remote Controlled Valves a*
- K.02 Attributes of Change Process a*
- L. Quality Assurance b-c*

-2-

At a meeting with Mr. Hurbanek and Mr. Hall November 17, 2010 it was agreed that Frontier would correct all the deficiencies in their Integrity Management Program and record keeping within 8 months of this inspection. At that time Mr. Hurbanek and Mr. Hall will conduct a follow-up inspection.

We appreciate the cooperation during this inspection, and if you have any questions concerning the inspection or the report, please contact our office at 919-733-6000.

Sincerely,

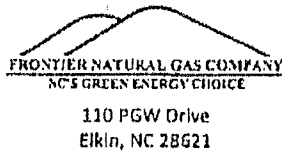
A handwritten signature in cursive script that reads "Chris Isley".

Chris Isley, Director
Pipeline Safety Section

Cl:sh
Enclosure

OFFICIAL COPY

Oct 04 2017



March 23, 2017

Mr. Stephen Wood, Director
Pipeline Safety Section
4325 Mail Service Center
Raleigh, NC 27699-4300

Dear Mr. Wood,

In the North Carolina Utilities Commission Pipeline Safety Section's ("NCUC Pipeline Safety Section") letter of February 23, 2017, the NCUC Pipeline Safety Section requested that Frontier Natural Gas Company ("Frontier") provide a comprehensive and detailed plan for completing the actions required by the NCUC Pipeline Safety Section, including a time frame for completing the action, regarding Frontier's Integrity Management Program. Frontier's response with a comprehensive and detailed plan to address each required action is as follows:

- I. Appropriate personnel must become acquainted with the IMP rule and Frontier's IMP plan and processes; personnel qualifications per 192.915.

Response: Frontier has determined that the following individuals have the experience, have the personnel qualifications per 192.915 to fulfill the responsibilities in Table 1.1: Responsibilities and Qualifications within Frontier's IMP plan, and are the appropriate personnel to meet the criteria required:

Integrity Management Program Manager -- Josh Wagoner
Data Analyst -- Ted Gambill
Compliance Coordinator -- Regina Davis
President/General Manager -- Fred Steele

In addition to the qualified individuals listed above who are identified specifically as being responsible for the IMP plan, Frontier will utilize individuals within Gas Natural, Inc. ("GNI") who have the qualifications and experience to comply with the responsibilities required per 192.915, on an as-needed basis. There currently are five engineers within GNI and its operating utilities, and two of those five engineers hold the PE designation and have experience relating to IMP. Frontier can utilize those engineers for additional support as needed. Frontier continues its efforts to hire a degreed engineer, and once hired, that engineer will become familiar with the IMP rule and Frontier's IMP plan and processes. Frontier has received fifty applications to date, and has interviewed seven of the potential candidates.

II. Review the transmission system per requirements of the Frontier IMP written plan to update and verify High Consequence Areas.

Response: Frontier's employees that are listed above have reviewed, and will continue to review, the requirements of section 2.4 of the Frontier IMP written plan. The following actions have taken place to date:

- 2.4.1 Engineering Identification of Transmission Lines. Frontier has identified all Transmission Lines in accordance with CFR § 192.3.
- 2.4.2 Calculation of Potential Impact Radius. Frontier has calculated and reviewed the Potential Impact Radius for each transmission line in each district utilizing the equation: $PIR = 0.69 * (p*d^2)^{0.5}$.
- 2.4.3 Identified Sites from Public Agencies. Frontier has notified and updated public officials and other agencies for meeting the requirements of this section of the IMP plan. Frontier has received some response from contacted agencies with data that validates our findings.
- 2.4.4 Identification of Potential HCA's based on Population Density. Frontier has determined the number of houses or building residences using the Potential Impact Radius on the Potential HCA pipeline maps.
- 2.4.5 Identification of HCA's Based on Identified Sites. Frontier uses method #2 as identified in CFR § 192.903. Frontier has field confirmed the entire transmission line and identified potential HCA's.
- 2.4.6 Develop Maps of Potential HCA Sites. Maps of the Potential HCA Sites along the transmission lines were used to field confirm the Identified Sites.
- 2.4.7 Field Verification of Identified Sites. Engineering and Operations has verified the Identified sites on all transmission lines. Form HCA-2 was used to document the location and the type of site.
- 2.4.8 Submittal of Data to Engineering. Frontier has completed HCA-2 Forms and submitted to the Data Analyst.
- 2.4.9 Creation or Update of Master HCA List. Frontier is updating the Master HCA List. Revisions, including additions and deletions, of HCA's Identified from the field confirmation are currently being recorded on the Frontier Master HCA List.

III. Verify applicable threats and the risk analysis, and develop a schedule for assessing pipe in HCA's. Overdue segments requires an accelerated full assessment.

Response: Frontier has evaluated and has updated its list of High Consequence Areas. Frontier has contacted third party contractors seeking a Request for Proposal to perform the full assessment in 2017 for transmission pipeline segments. Those segments include T-2, T-3, T-7, T-8, T-10, T-12, and T-13, for an estimated footage of 9.3 miles. Frontier is also requesting proposals for the transmission segment, T-1, that is due in 2018. Frontier has met with one third party contractor to date to discuss the data required of Frontier in order to provide a cost estimate for the Request for Proposal. Based on this discussion with the third party contractor, the time frame to begin will potentially be in August 2017.

Frontier recognizes that the regulation of natural gas transmission pipelines is dynamic and continually evolving and that PHSMA continues to issue Advisory Bulletins as it relates to pipeline safety regarding natural gas transmission lines. Frontier will stay abreast of these Advisory Bulletins to evaluate and implement them as they relate to its transmission lines. Frontier will comply with PHSMA pronouncements once they are implemented by PHSMA.

IV. Implement the Geographic Information System (GIS) and any software necessary to support IMP processes including program documentation.

Response: Frontier has installed an ESRI Geographic Information System. Frontier will be implementing software to support IMP processes, including program documentation. Frontier employees who are responsible for the Integrity Management Program have begun taking both off-site courses and online training courses, and they will be taking additional training relating to the ESRI Geographic Information System in order to utilize the ESRI Geographic Information System as it relates to IMP.

V. Provide the appropriate resources to support the requirements of Frontier IMP including staff, tools, and training.

Response: Frontier will provide the appropriate resources to support the requirements of the Frontier IMP plan which includes staff, tools, and training. In addition, Frontier employees who are responsible for the Integrity Management Program have begun taking off-site courses and online training courses, and they will be taking additional training relating to the ESRI Geographic Information System in order to utilize the ESRI Geographic Information System as it relates to IMP. Frontier will participate in NCUC Pipeline Safety Section's planned IMP seminar training programs and company specific inspector trainings to be offered by the NCUC Pipeline Safety Section.

VI. Develop a Continuity Plan to ensure that safety plans and program processes such as the Frontier IMP will be carried out when key personnel transition away from program roles.

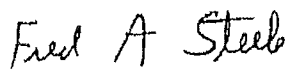
In addition to those individuals listed above in response to Action I, Frontier will continue to develop and train other individuals within Frontier to ensure that safety plans and program processes, such as the Frontier IMP, will be carried out when key personnel transition away from program roles. Frontier has addressed the continuity plan in that it has multiple individuals currently addressing safety plans and processes, such as the IMP plan, which will address the loss of key personnel going forward.

Additionally, pursuant to our discussion and your request of March 21, 2017, Frontier is in agreement with submitting a monthly report that will be entitled "Monthly Pipeline Safety and Compliance Report" until December 31, 2018 or a mutually agreed upon date. The purpose of this report is to provide information to the Pipeline Safety Section of Frontier's progress as to the various bullet points outlined within this letter.

Should the NCUC Pipeline Safety Section after reviewing Frontier's response of a comprehensive and detailed plan as outlined in this letter determine that another meeting be required to discuss this plan in

greater depth Frontier would like to schedule such meeting at the NCUC Pipeline Safety Section earliest convenience.

Sincerely,
Frontier Natural Gas Company

A handwritten signature in black ink that reads "Fred A Steele". The signature is written in a cursive, slightly informal style.

Fred A. Steele, President

Exhibit FAS-3

Frontier Natural Gas IMP Remediation Scope of Work

2017 Work

- 2.1 FNGC and AECOM to develop a scope of work as to review, critique and to recommend best practices specific to the FNGC IMP by October 15, 2017.
 - 2.1.1 Will include a recommendation from the AECOM as to the how to proceed with performing the required ICDA's in the current IMP for Greenway and West Park. The final report from AECOM would be completed by December 2017. To minimize the risk of customer impact due to reduced capacity, ICDA work will be conducted after March 20, 2018 but before October 31, 2018 pending contractor availability and the acquisition of land rights for the required workspace. FNGC and AECOM will meet in January 2018 and present the report and its findings to the NC Commission Staff. FNGC will also have a 5-year capital budget for all IMP required system modifications and remediation, as applicable.
- 2.2 Perform direct assessment on T-3 and T-7 as recommended in the EN Engineering by October 30, 2017. Final report will be due by March 31, 2018. Any anomalies, if discovered, will be remediated consistent with 49 CFR Part 192.
- 2.3 Award the contract for ECDA's on T-2, T-8, T-10 T-12 and T-13 by September 30, 2017.
- 2.4 Initiate the early sending of the RFP to engineering firms for proposals for the ECDA on T-1 by December 2017.

2018 Work

- 2.5 Perform direct assessment on T-2, T-8, T-10, T-12 and T-13 by December 15, 2017. Final report will be due by March 31, 2018. Any anomalies, if discovered, will be remediated consistent with 49 CFR Part 192.
- 2.6 Complete reassessment ECDA indirect surveys on T-1 by March 30, 2018. Final report will be due by June 30, 2018. Any anomalies, if discovered, will be remediated consistent with 49 CFR Part 192.

Risk and Mitigation

This is a single feed system. Meeting schedule deadlines are highly dependent on qualified assessment contractor availability, acquisition of required land rights, permitting by governmental and regulatory authorities and other factors outside the control of FNGC and AECOM. Impacts of schedule delays outside of the control of FNGC and AECOM will be mitigated by beginning work on these items immediately.