

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. G-40, SUB 142

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

This Settlement Agreement is entered by and between Frontier Natural Gas Company (Frontier), and the Pipeline Safety Section of the Operations Division, North Carolina Utilities Commission (Staff) (collectively, Stipulating Parties).

WHEREAS, Frontier is a natural gas local distribution company regulated pursuant to Chapter 62 of the North Carolina General Statutes and subject to the requirements of Subpart O of the provisions of Title 49, Part 192, Code of Federal Regulations (Integrity Management Regulations); and

WHEREAS, Frontier is the subject of the pending show cause proceeding in the above-captioned docket for alleged failures to comply with certain provisions of the Integrity Management Regulations; and

WHEREAS, the Stipulating Parties are the only parties of record in this docket; and

WHEREAS, after extensive discussions, the Stipulating Parties have reached a Settlement Agreement (Settlement), the terms and conditions of which are set forth below, that resolves all issues and claims in this docket; and

WHEREAS, the Stipulating Parties believe that the terms and conditions of the Settlement serve the interests of Frontier's customers and the public.

NOW, THEREFORE, the undersigned Stipulating Parties, in consideration of the premises and in settlement and compromise of their respective litigation positions in this proceeding, do hereby agree to a settlement of the disputes between them in this docket.

I. BACKGROUND

On July 14, 2017, the North Carolina Utilities Commission (Commission) issued an Order Scheduling Show Cause Hearing in Docket No.G-40, Sub 142. The Order, among other things, required the Staff to file direct testimony on or before September 5, 2017, required Frontier and any intervenors in the docket to file testimony on or before September 25, 2017, and scheduled a hearing in this matter for October 16, 2017.

On August 25, 2017, the Staff filed the joint direct testimony and exhibits of John S. Hall, Harry C. Bryant, III and Stephen P. Wood.

On October 4, 2017, after obtaining two extensions of time, Frontier filed direct testimony and exhibits of Fred A. Steele, direct testimony and exhibit of Narinder (Mickey) Grewal, and direct testimony of Rodney Myers.

II. TERMS OF AGREEMENT

1. The intent of this Settlement Agreement is to resolve all issues between Frontier and the Staff in Docket No. G-40, Sub 142 relating to Frontier's compliance with federal Integrity Management Regulations and a penalty for prior non-compliance with such regulations.

2. This Settlement Agreement consists of the following material agreements of the Stipulating Parties with respect to the outstanding issues in this proceeding:

A. Prior to September 1, 2018, or as soon as practicable based on contractor availability and acquisition of necessary property rights, Frontier will have at least a representative portion of its transmission system inspected by means of an advanced in-line inspection tool, commonly known as a “smart pig.”

B. Prior to July 1, 2018, with the assistance of an outside consultant, Frontier will conduct an emergency response simulation exercise that follows the protocol for addressing a non-weather related breach in a portion of Frontier’s transmission pipeline near the Transco take-off, during a period of peak, heat-sensitive demand.

C. Frontier will complete all of the work and will comply with the reporting requirements as specified in the schedule attached hereto as Exhibit A and incorporated by reference herein.

D. In addition to the amounts expended to comply with points A. through C. above, Frontier will expend up to the amount of \$2.0 to \$3.0 million in identifying and implementing system changes to enhance Frontier’s system reliability and public safety in the case of a pipeline breach under peak day or near peak day conditions. Frontier will engage in a cooperative process with the Commission Staff for the purpose of meeting this requirement. The parameters of this process shall include:

- (i) A meeting between Staff and Frontier, to be held within sixty (60) days after approval of this Settlement by the Commission, in which Staff and Frontier will discuss ideas, issues, and concerns related to the potential enhancement of Frontier’s system as contemplated by this Section 2.D. To the extent workable, the Stipulating Parties will align the time table for this cooperative process with the time table for Frontier’s compliance with Regulatory Condition No.

14 of the Commission's Order Approving Merger Subject to Regulatory Conditions (Merger Order), Docket No. G-40, Sub 136 (August 1, 2017).

(ii) The evaluation and identification by Frontier of possible measures to achieve the desired enhancements to system reliability and safety under the conditions described above.

(iii) The submission to Staff of specific measures proposed by Frontier to achieve the goals cited above no later than 180 days after completion of the emergency response simulation exercise provided for in Section 2.B. above, along with the projected costs for the construction/implementation of such measures and a proposed timeline for such construction/implementation.

(iv) Discussions with Staff regarding the proposed measures. Further, Frontier hereby commits to seriously consider any input from Staff regarding those measures.

(v) The \$2.0 to \$3.0 million expended pursuant to this provision will be consistent with sound engineering practices and the efficient enhancement of Frontier's system reliability and safety, it being the parties' intention that measures to enhance system reliability and safety be rational, cost-effective, and sound from an engineering perspective. In the event of any dispute regarding whether Frontier has complied with this provision, which the Stipulating Parties are unable to resolve between themselves, the dispute shall be submitted to the Commission for resolution prior to the construction of any improvements.

(vi) Pipeline looping shall not be included in the measures utilized to enhance system reliability or safety unless specifically agreed to by the Stipulating Parties. Expenditures under this provision shall also not be used for the purpose of achieving IMP compliance unless such compliance is an ancillary effect of the system enhancement and Staff specifically agrees that such expenditures shall qualify under this provision.

(vii) Frontier will file, within three (3) months after completion of construction of the system enhancements contemplated above, a report in Docket No. G-40, Sub 142 providing the details of the work completed and an itemized accounting of all monies spent on such work.

E. Frontier will pay a civil penalty of Two Hundred Thousand Dollars (\$200,000).

3. The Stipulating Parties agree to support this settlement in the evidence and proposed orders they submit to the Commission in this proceeding, to waive cross-examination of each other's witnesses, and to stipulate that all pre-filed testimony and exhibits of the Stipulating Parties may be received into evidence.

4. This Settlement Agreement is the product of give-and-take negotiations, and no portion of this Agreement shall be binding on the Stipulating Parties unless the entire Agreement is accepted by the Commission.

5. This Settlement Agreement shall be effective upon execution by the Stipulating Parties and shall be interpreted according to North Carolina law.

Agreed and stipulated to this the 12TH day of October, 2017.

Frontier Natural Gas Company

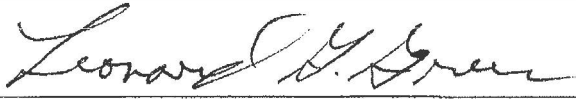
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EXHIBIT A
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Section 1 - Scope of Work

2017 Work

1.1 Frontier and its present engineering consultant, AECOM, or other engineering consultant, will develop a scope of work as to review, critique and to recommend best practices specific to Frontier's Integrity Management Program (IMP) by October 15, 2017.

1.1.1 The above scope of work will include a recommendation from 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. Frontier and AECOM will meet in January 2018 and present the report and its findings to the North Carolina Utilities Commission Staff. Frontier will also have a 5-year capital budget for all IMP required system modifications and remediation, as applicable.

1.2 Perform direct assessment on T-3 and T-7 as recommended in the EN Engineering Indirect Inspection report, due October 30, 2017, subject to Permit and Scheduling. Final report inclusive of Direct Examination and Post Assessment will be due by March 31, 2018. Any anomalies, if discovered, will be remediated consistent with 49 CFR Part 192.

1.3 Award the contract for the ECDA's on T-2, T-8, T-10, T-12 and T-13 by September 30, 2017.

1.4 Initiate the early sending of the RFP to engineering firms for proposals for the ECDA on T-1 by December 2017.

1.5 Perform direct assessment on T-2, T-8, T-10, T-12 and T-13 as recommended in the EN Engineering Indirect Inspection Report, due December 15, 2017, subject to Permit and Scheduling. Final report inclusive of Direct Examination and Post Assessment will be due by March 31, 2018. Any anomalies, if discovered, will be remediated consistent with 49 CFR Part 192.

2018 Work

1.6 Final reports on all direct assessments will be due by March 31, 2018, subject to Permit and Scheduling. Any anomalies, if discovered, will be remediated consistent with 49 CFR Part 192.

1.7 Complete reassessment ECDA indirect surveys on T-1 by March 30, 2018. Final report will be due by June 30, 2018 subject to Permit and Scheduling. 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 of the control of Frontier and AECOM. Impacts of schedule delays outside of the control of Frontier and AECOM will be mitigated by beginning work on these items immediately.

Section 2 - Required Continuous Reporting

2.1 Frontier agrees to submit a monthly progress report to the North Carolina Utilities Commission Staff on or before the 10th day each month beginning with September 2017 until all work in Section 1 above is completed.

2.2 AECOM will monitor and audit the monthly progress report to the North Carolina Utilities Commission Staff and report any deviation(s) from the schedule outlined in Section 1 above.

2.3 The North Carolina Utilities Commission Staff reserves the right to initiate a Show Cause hearing if it believes that Frontier is not proceeding in completing the Scope of Work as outlined in Section 1 above in the timeline submitted.