

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF MAGNUM HUNTER)	
RESOURCES CORPORATION, NGAS)	
HUNTER, LLC, MAGNUM HUNTER)	CASE NO.
PRODUCTION, INC. AND SENTRA)	2014-00043
CORPORATION FOR APPROVAL OF)	
PROPOSED REORGANIZATION)	

ORDER

On February 11, 2014, Magnum Hunter Resources Corporation ("MHR"), NGAS Hunter, LLC ("NGAS"), Magnum Hunter Production, Inc. ("MHP") and Sentra Corporation ("Sentra") (collectively referred to as the "Applicants") submitted a joint application ("Application") requesting Commission approval of a corporate reorganization that will result in a change in the direct ownership and control of Sentra. A review of the Application revealed that it did not meet the minimum filing requirements of 807 KAR 5:001, Section 14(2), and a notice of filing deficiencies was issued.¹ On February 26, 2014, the Applicants provided additional information, which cured the deficiencies.² The Application was considered filed as of February 26, 2014.³ On April 1, 2014, the Commission extended its review of this matter for an additional 60 days, during which time the Applicants responded to a Commission Staff request for

¹ Letter from Linda Faulkner, Filings Division Director, Public Service Commission, to Shela Thacker, Sentra Corporation c/o Magnum Hunter (Feb. 20, 2014).

² Letter from Francis J. Mellen, Jr., counsel for the Applicants, to Jeff Derouen, Executive Director, Public Service Commission (Feb. 26, 2014).

³ Letter from Linda Faulkner, Filings Division Director, Public Service Commission, to Shela Thacker, Sentra Corporation c/o Magnum Hunter (Mar. 17, 2014).

information ("Staff's Request"). There are no intervenors in this case. The case now stands submitted for decision. By this Order, the Commission grants approval of the requested corporate reorganization.

PARTIES TO THE TRANSACTION

Sentra is a corporation organized, validly existing and in good standing under the laws of Kentucky,⁴ with a business address of 120 Prosperous Place, Suite 201, Lexington, Kentucky 40509.⁵ Sentra owns and operates a distribution system for the retail sale of natural gas to approximately 223 residential, commercial, and industrial customers⁶ in south central Kentucky and is a utility under the jurisdiction of the Commission.⁷ Sentra is a wholly owned subsidiary of MHP.⁸ MHP is a corporation organized, validly existing and in good standing under the laws of Kentucky and is a wholly owned subsidiary of NGAS.⁹ NGAS is a limited liability company organized, validly existing and in good standing under the laws of Delaware and is a wholly owned subsidiary of MHR.¹⁰ MHR is a publicly held, New York Stock Exchange-listed corporation, validly existing and in good standing under the laws of Delaware.¹¹ MHR is

⁴ Application at 3.

⁵ Sentra's Response to Staff's Request (filed Apr. 23, 2014), Item 12.

⁶ Annual Report of Sentra Corporation to the Kentucky Public Service Commission for the Year Ended December 31, 2012 at 9.

⁷ Case No. 97-429, *A Petition of Sentra Corporation for a Certificate of Convenience and Necessity to Construct and Operate a Natural Gas Distribution System* (Ky. PSC Nov. 17, 1998).

⁸ Application at 3.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

engaged in the exploration for and the exploitation, acquisition, development, and production of crude oil and natural gas in the United States and Canada,¹² with its business operations currently focused in three North American shale resource opportunities, namely the Marcellus Shale in West Virginia and Ohio; the Utica Shale in southeastern Ohio and western West Virginia; and the Williston Basin/Bakken Shale in North Dakota and Saskatchewan, Canada.¹³ MHR is also engaged in midstream and oilfield services operations, primarily in West Virginia, Ohio, and Texas.¹⁴

OVERVIEW OF THE TRANSACTION

The proposed corporate reorganization will cause MHR, which now indirectly owns and controls Sentra through NGAS and MHP, to own and control Sentra as a direct, wholly owned subsidiary.¹⁵ To accomplish this, MHP will transfer all of Sentra's stock to NGAS, which will then transfer the stock to MHR.¹⁶ The Applicants state that MHR has identified a number of non-core properties, which it believes represent approximately \$100 million to \$200 million in aggregate value, for possible divestiture in 2014.¹⁷ The business purpose of the proposed reorganization is to allow MHR to change the organizational structure of certain of its direct and indirect subsidiaries to facilitate the possible divestitures.¹⁸ Although not included in the Application and not

¹² *Id.* at 4.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.* at 1.

¹⁶ *Id.* at 4.

¹⁷ *Id.* at 7.

¹⁸ *Id.*

approved by this Order, Sentra has acknowledged that the utility is included in this possible divestiture.¹⁹

Applicants state that the proposed change in the form of ownership “will not result in any change in the operations of Sentra in Kentucky . . . [and] will not have any impact on Sentra’s customers or the public.”²⁰ According to the Applicants, the day-to-day operations of Sentra will remain under the oversight of the same managers who are currently responsible for those operations, and the proposed reorganization will not have any impact on Sentra’s Kentucky-based employees.²¹ Sentra will continue to bill its Kentucky customers at its approved tariffed rates, and the reorganized corporate structure is not expected to have any financial or other impact on Sentra’s ratepayers.²²

STATUTORY STANDARDS

KRS 278.020(5) provides that:

No person shall acquire or transfer ownership of, or control, or the right to control, any utility under the jurisdiction of the commission by sale of assets, transfer of stock, or otherwise, or abandon the same, without prior approval by the commission. The commission shall grant its approval if the person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service.

In addition, KRS 278.020(6) provides that no entity “shall acquire control, either directly or indirectly, of any utility furnishing utility service in this state, without having first obtained the approval of the commission.” The same statute further provides that, “[t]he commission shall approve any proposed acquisition when it finds that the same is

¹⁹ Sentra’s Response to Staff’s Request (filed Apr. 23, 2014), Item 8.

²⁰ Direct testimony of James W. Denny, III, page 4.

²¹ *Id.* at 5.

²² Application at 8.

to be made in accordance with law, for a proper purpose and is consistent with the public interest.” There are a limited number of exceptions to the need for prior approval under KRS 278.020(6). Those exceptions, set forth in KRS 278.020(7)(b), include the transfer of stock to effectuate a corporate reorganization where the acquirer already controls, is controlled by, or is under common control with, the utility. Although the parameters of the proposed stock transfer may fit within the statutory exception to KRS 278.020(6), Applicants acknowledge that this exception does not apply to the need for Commission approval pursuant to KRS 278.020(5).²³

KRS 278.218 also requires Commission approval prior to the acquisition or transfer of certain utility assets. It specifically states:

- (1) No person shall acquire or transfer ownership of or control, or the right to control, any assets that are owned by a utility as defined under KRS 278.010(3)(a) without prior approval of the commission, if the assets have an original book value of one million dollars (\$1,000,000) or more and;
 - (a) The assets are to be transferred by the utility for reasons other than obsolescence; or
 - (b) The assets will continue to be used to provide the same or similar service to the utility or its customers.

Where applicable, the Commission shall grant its approval if the transaction is for a “proper purpose and is consistent with the public interest.” Applicants maintain that the applicability of this provision to the current application is not entirely clear, but suggest that it does not apply, as the proposed reorganization will not involve a sale and

²³ Application at 7, footnote 5.

purchase of Sentra's "assets" as such, although it will result in a change in the direct ownership and control of Sentra."²⁴

DISCUSSION

The Applicants contend that the transfer of Sentra's stock from MHP to NGAS and the subsequent transfer of Sentra's stock from NGAS to MHR satisfy all applicable requirements of KRS Chapter 278. Applicants specifically note that MHR, a publically held, New York Stock Exchange-listed corporation that has substantial resources and financial capabilities, has the financial ability to cause Sentra to continue to provide safe and reliable service to Sentra's customers after the completion of the proposed reorganization.²⁵

The business operations of Sentra, MHP, and NGAS are all currently conducted through MHR's Appalachian Basin Division ("Appalachian Basin"), which is led by James W. Denny, III.²⁶ Mr. Denny has 43 years of oil and gas industry-related experience, has been employed by MHR since 2008,²⁷ and is responsible for the overall management and performance of MHR's operations in the Appalachian Basin.²⁸ The management of MHR is led by Gary C. Evans, the Chairman and Chief Executive

²⁴ *Id.*

²⁵ Application at 5. MHR's Annual Report for the period ended December 31, 2012 filed with the U.S. Securities and Exchange Commission on June 14, 2013, estimated proved resources of approximately 61.6 million barrels of oil equivalent with a PV-10 value of \$753.4 million (SEC basis) and \$809.0 million (NYMEX basis). As of May 1, 2013, MHR had approximately 338,800 net leasehold acres in its core operating areas and had total financial liquidity of approximately \$380 million, including cash on hand of approximately \$115 million. As of June 1, 2013, MHR also owned 10 million shares of common stock of Penn Virginia Corporation with a market value of \$42.3 million.

²⁶ *Id.* at 6.

²⁷ Direct testimony of James W. Denny, III, page 1.

²⁸ *Id.* at 1-2.

Officer, who has over 25 years of experience in the oil and gas industry.²⁹ Joseph C. Daches serves as MHR's Senior Vice President and Chief Financial Officer and has over 20 years of regulatory compliance, financial reporting and technical accounting, primarily within the energy industry.³⁰ There will not be a change of MHR's management structure once Sentra is a direct, wholly owned subsidiary of MHR,³¹ and Sentra will continue the employment of its two current full-time employees located in Kentucky.³²

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed corporate reorganization meets the standards set forth in KRS Chapter 278. The Applicants have provided sufficient evidence to support their assertion that Sentra, as a wholly owned subsidiary of MHR, will have the financial ability to provide reasonable service to Sentra's customers.

Given the management and energy-related experience and expertise of the current principals and employees of MHR and Sentra, all of whom will be retained following the proposed corporate reorganization, the Commission finds that there are demonstrated managerial and technical abilities necessary to provide reasonable service, and that both the level and quality of service currently received by Sentra customers will be maintained. The Commission also finds that, pursuant to KRS 278.020(7)(b), the proposed transaction is exempt from the provisions of KRS 278.020(6), as Sentra will be acquired by MHR, which currently indirectly controls it.

²⁹ Application at 5.

³⁰ *Id.* at 6.

³¹ Sentra's Response to Staff's Request, Item 2.

³² *Id.*, Item 12.

Further, the Commission finds that KRS 278.218 specifically applies to the acquisition or transfer of ownership of or control, or the right to control certain utility assets that are used or to be used in the generation, production, transmission or distribution of electricity. Since Sentra has not proposed to transfer any assets used or to be used by an electric utility in Kentucky, KRS 278.218 is not applicable herein. Finally, the Commission finds that any divestiture of Sentra, beyond what is described herein, is specifically not approved by this Order.

IT IS THEREFORE ORDERED that:

1. The proposed transfer of Sentra's stock from MHP to NGAS and from NGAS to MHR, as described in the Application, is approved.

2. The Applicants shall notify the Commission in writing within seven days of the reorganization's being completed. If it has not been completed within six months of the date of this Order, the Applicants shall provide a written status report to the Commission every 30 days thereafter.

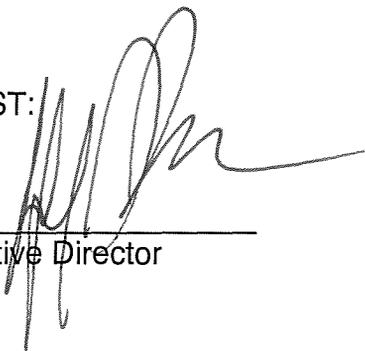
3. Any documents filed pursuant to ordering paragraph No. 2 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

4. Following the completion of the approved corporate reorganization, MHR shall not transfer ownership of, or control, or the right to control Sentra, by sale of assets, transfer of stock, or otherwise, or abandon the same, without prior approval by the Commission.

By the Commission

ENTERED 
MAY 20 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2014-00043

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