

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF KENTUCKY FRONTIER)	
GAS, LLC AND PUBLIC GAS COMPANY FOR)	CASE NO.
APPROVAL OF TRANSFER AND ACQUISITION)	2015-00299
OF ASSETS AND FINANCING)	

ORDER

Kentucky Frontier Gas, LLC ("Frontier") and Public Gas Company ("Public"), collectively ("Applicants"), have applied for Commission approval of (1) Frontier's acquisition of Public's natural gas distribution assets, and (2) Frontier's financing of the acquisition. Finding that Frontier meets the requirements of both its acquisition request and its financing request, the Commission will approve these requests with this Order.

PROCEDURE

On August 31, 2015, Frontier tendered its application seeking authority to acquire the assets of Public and to issue evidences of indebtedness to finance the proposed acquisition. The application was found to be deficient. The deficiencies were cured on September 4, 2015, and the application was deemed filed as of that date.

There have been no intervenors in this case. Frontier has responded to two sets of information requests from Commission Staff ("Staff"). The record is now complete and the case stands submitted for a decision.

FINDINGS OF FACT

The Commission, based on the evidence of record and being otherwise sufficiently advised, finds that:

1. Frontier is a limited liability company organized under the laws of Colorado and authorized to conduct business in Kentucky. Frontier currently operates a natural gas distribution system subject to Commission regulation. Frontier has owned and operated local distribution companies in Kentucky since 2008. Frontier has consolidated 11 natural gas companies into Frontier. It has approximately 4,000 distribution and farm tap customers in Floyd, Knott, Lawrence, Letcher, Magoffin, Martin, Morgan, Perry, and Pike counties.

2. Public is a Kentucky corporation and is a wholly owned subsidiary of Gas Natural, Inc. operating a natural gas distribution company subject to Commission regulation. Public has approximately 1,728 distribution and farm tap customers in Breathitt, Jackson, Lawrence, Lee, Magoffin, Morgan, and Wolfe counties.

3. Frontier acquired East Kentucky Utilities (Floyd County Gas), Mike Little Gas company, Belfry Gas, and Alert Gas Farm Tap System pursuant to the Commission's approval in Case No. 2008-00394.¹

4. Frontier acquired the stock of Auxier Road Gas Company pursuant to the Commission's approval in Case No. 2009-00442.²

5. Frontier acquired the assets formerly owned by People's Gas Company, Inc. pursuant to the Commission's approval in Case No. 2009-00492.³

¹ Case No. 2008-00394, *Application of Kentucky Frontier Gas, LLC for Approval of Financing and Transfer of Control* (Ky. PSC Nov. 25, 2008).

² Case No. 2009-00442, *Application of Kentucky Frontier Gas Company, LLC for Approval of Transfer of Auxier Road Corporation Stock* (Ky. PSC Feb. 22, 2010).

³ Case No. 2009-00492, *Application of Kentucky Frontier Gas Company, LLC for Approval of Transfer of People's Gas Company Assets* (Ky. PSC Jan. 29, 2010).

6. Frontier acquired the stock of Cow Creek Gas, Inc. (formerly Sigma Gas Company) and Dema Gas Company, Inc. pursuant to the Commission's approval in Case No. 2010-00076.⁴

7. Frontier acquired the assets formerly owned by B.T.U. Gas Company pursuant to the Commission's approval in Case No. 2012-00099.⁵

8. Frontier has entered into a purchase contract with Public for the acquisition of all of its natural gas distribution assets. The purchase price is \$1,900,000. Frontier will hold substantially all of Public's natural gas distribution assets after the acquisition.⁶

9. Frontier has applied for a commercial loan from Community Trust Bank of Pikeville, Kentucky ("CTB"), in an amount of \$1,500,000, that will enable Frontier to acquire Public's assets. Frontier stated that the proposed loan and terms are not yet approved by CTB and the loan is not yet guaranteed by the Small Business Administration ("SBA"). CTB has stated that terms will likely entail a 5 percent Annual Percentage Rate for 15 years.⁷

10. Frontier does not propose any immediate changes to the rates, regulations, or conditions of service to Public, and has submitted an Adoption Notice for the Public tariff. Frontier anticipates that Public's current tariff and rates will remain in

⁴ Case No. 2010-00076, *Application of Kentucky Frontier Gas Company, LLC for Approval of Transfer of Stock of Cow Creek Gas, Inc., Dema Gas Company, Inc., Purchase of Farm Tap and Royalty Gas Customers of Interstate Natural Gas Company and Transfer of a Portion of DLR Enterprises, Inc. Pipeline to Cow Creek Gas, Inc.* (Ky. PSC May 7, 2010).

⁵ Case No. 2012-00099, *Application of Kentucky Frontier Gas, LLC for Approval of Transfer of Assets of the Former B.T.U. Gas Company and Approval of Financing of Acquisition* (Ky. PSC June 1, 2012).

⁶ Section 1.02 of the purchase contract addresses the excluded assets such as any real estate owned by the Seller or any of the assets set forth in Section 1.02 of the Disclosure Schedules.

⁷ Response to Item 14.b. of the Initial Request for Information of Staff.

effect until consolidated with its existing tariff in a future rate proceeding. It is Frontier's intention to continue to file a separate Gas Cost Adjustment filing to recover Public's cost of gas until the tariffs are consolidated.

11. KRS 278.020(5) provides that "[n]o person shall acquire or transfer ownership of, or control, or the right to control, any utility under jurisdiction of the commission . . . without prior approval of the commission."

12. Frontier is a "person" for purposes of KRS Chapter 278.⁸ Since Frontier is a person and proposes to acquire ownership of Public's assets, this statute is applicable and Commission approval of the proposed transfer is required.

13. KRS 278.020(6) provides that "[n]o individual, group, syndicate, general or limited partnership, association, corporation, joint stock company, trust, or other entity (an 'acquirer'), whether or not organized under the laws of this state, 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."

14. KRS 278.300(1) provides that "[n]o utility shall issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person until it has been authorized to do so by order of the Commission."

15. Frontier's management has extensive experience in the operation and management of gas distribution systems. It has the financial, technical, and managerial abilities to provide reasonable service to the customers on Public's system.

16. The proposed acquisition is in accordance with the law, for a proper purpose and is consistent with the public interest.

⁸ KRS 278.010(2).

17. Frontier's proposed financing from CTB is for lawful objects within the corporate purposes of Frontier, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purposes, and should therefore be approved.

18. Frontier will be responsible for filing Public's 2015 annual report with the Commission and for paying the 2015 Commission assessment of Public.

IT IS THEREFORE ORDERED that:

1. Frontier's acquisition of Public is approved.
2. Within 20 days of the completion of the acquisition approved herein, Frontier shall notify the Commission in writing of the completion thereof.
3. Frontier is authorized to enter into the commercial loan agreement with CTB as described in its application and to use the proceeds to finance the acquisition of Public's assets.
4. The proceeds from the transaction authorized herein shall be used only for the lawful purposes set out in the application.
5. Frontier shall, within 30 days from the date of finalizing the loan agreement with CTB authorized herein, file with the Commission a statement setting forth the date of execution and the details concerning the financing, including the date of maturity and the interest rate.
6. Frontier shall prepare and file Public's 2015 Annual Report with the Commission and be responsible for paying the amount Public is assessed in 2015 for the operation of the Commission.

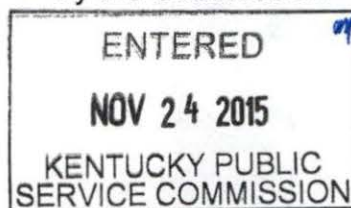
7. Within 20 days of the completion of the proposed transfer, Frontier shall file the journal entries it proposes to record the approved acquisition. The acquisition shall be recorded in accordance with the Uniform System of Accounts.

8. Nothing in this Order shall be construed as authorizing ratemaking treatment of the difference between their net book value and the purchase price of the assets Frontier is acquiring from Public. The issue of ratemaking treatment is deferred until a future Frontier rate proceeding.

9. Any document filed in the future pursuant to ordering paragraphs 2 and 5 herein shall reference this case number and shall be retained in the utility's general correspondence file.

10. Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission



ATTEST:



Executive Director

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