

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY	)	CASE NO.
FRONTIER GAS, LLC FOR APPROVAL OF	)	2020-00241
TRANSFER OF OWNERSHIP INTERESTS	)	

ORDER

On July 31, 2020, Kentucky Frontier Gas, LLC (Kentucky Frontier) and its members, Steven Shute, Robert Oxford, and Industrial Gas Services, Inc. (IGS) (collectively, Joint Applicants) submitted a joint application for an order approving the transfer of IGS's and Mr. Oxford's interest in Kentucky Frontier to Mr. Shute. The Commission issued an Order continuing the application for 60 days pursuant to KRS 278.020(7). On September 10, 2020, Joint Applicants responded to Commission Staff's First Request for Information. Joint Applicants supplemented their responses on October 27, 2020. There are no intervenors in this proceeding and the matter now stands before the Commission for a decision on the merits.

BACKGROUND

Kentucky Frontier is a limited liability company (LLC) formed on August 25, 2005, that operates natural gas distribution systems and pipelines in Kentucky. Kentucky Frontier serves approximately 5,500 distribution and farm-tap customers located in Breathitt, Floyd, Johnson, Knott, Lawrence, Lee, Letcher, Magoffin, Martin, Morgan, Perry, Pike, and Wolfe counties.<sup>1</sup>

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<sup>1</sup> Application at 2.

Steven Shute is the managing member of Kentucky Frontier, and IGS and Robert Oxford are both non-managing members.<sup>2</sup> IGS is a Colorado corporation that is controlled by Mr. Oxford.<sup>3</sup> IGS owns approximately 5.9 percent of Kentucky Frontier and Mr. Oxford, individually, owns approximately 19.6 percent.<sup>4</sup> Mr. Shute owns the remaining interest in Kentucky Frontier.<sup>5</sup> IGS and Mr. Oxford have agreed to sell and assign their interest in Kentucky Frontier to Mr. Shute pursuant to a written agreement attached to the application. The transfer will be personally financed by Mr. Shute with no financial liability or obligations assumed by Kentucky Frontier.<sup>6</sup>

Joint Applicants assert that the proposed ownership transfer will not have any effect on the daily operations at Frontier and indicate that Mr. Shute will continue to be the managing member of the LLC. Joint Applicants note that Mr. Shute has been a member-owner of Kentucky Frontier since its inception and has been the managing member for several years.<sup>7</sup>

Joint Applicants contend that Mr. Shute has had a long history in the design, financing, construction, operation, management, and ownership in natural gas and propane pipelines and distribution. Mr. Shute is a professional engineer with several decades of experience in the natural gas industry. He spent three years working for

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<sup>2</sup> Joint Applicant's Response to Commission Staff's First Request for Information (Response to Staff's First Request) (filed Sept. 10, 2020), Items 4, 5, and 6.

<sup>3</sup> Response to Staff's First Request (filed Sept. 10, 2020), Items 1 and 3.

<sup>4</sup> Application at 1.

<sup>5</sup> Application at 1–2; *see also* Response to Staff's First Request (filed Sept. 10, 2020), Item 3.

<sup>6</sup> Application at 2–3, Exhibit 1.

<sup>7</sup> Application at 3.

Conoco's petroleum & natural gas pipeline divisions. Mr. Shute spent 11 years with Kansas-Nebraska Natural Gas in various technical and executive positions, including as general manager and chief engineer of a division with over 25,000 meters.<sup>8</sup> Mr. Shute has cofounded several gas-utilities, including Kentucky Frontier, and is the sole owner and executive of Pinedale Natural Gas in Wyoming, and is CEO or COO of several other gas companies.<sup>9</sup>

Joint Applicants note that all current employees will remain and all operations will continue as currently managed.<sup>10</sup> Joint Applicants assert that Kentucky Frontier has built a cohesive team that does most of the day-to-day management and operation, with guidance from Mr. Shute, and they state that the expectation is that the team could handle most challenges outside of the presence of Mr. Shute or Mr. Oxford.<sup>11</sup>

Joint Applicants indicate that Robert Oxford did perform some work directly for Frontier as a consultant through IGS on specific projects in planning, engineering, administration, and regulatory matters. However, Joint Applicants note that Mr. Oxford has not been extensively involved in the day to day management or operation of Kentucky Frontier for a couple of years and indicate that Mr. Oxford will continue to be available, if necessary, to consult with Kentucky Frontier if there is a specific need.<sup>12</sup>

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<sup>8</sup> Response to Staff's First Request (filed Sept. 10, 2020), Item 11.

<sup>9</sup> *Id.*

<sup>10</sup> Application at 3.

<sup>11</sup> Response to Staff's First Request (filed Sept. 10, 2020), Item 11.

<sup>12</sup> *Id.*, Items 5 and 6.

Joint Applicants state that no rate adjustment is being proposed as a result of transfer<sup>13</sup> and assert that the ownership transfer will not result in a default on the terms and conditions of any of Kentucky Frontier's existing debt.<sup>14</sup> Joint Applicants further contend that the transfer will not prevent them from raising capital to continue operations, because Kentucky Frontier's credit is currently based on its financial status.<sup>15</sup> They indicate that Frontier does currently have three outstanding loans secured, in part, by personal guarantees from Mr. Shute, Mr. Oxford, and IGS. However, Joint Applicants presented evidence that the lenders and underwriters have agreed to release Mr. Oxford and IGS from their personal guarantees upon the transfer of ownership.<sup>16</sup>

#### DISCUSSION

KRS 278.020(6) 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.<sup>17</sup>

KRS 278.020(7) similarly 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." That statute further provides that the Commission "shall

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<sup>13</sup> Application at 3, paragraph 7.

<sup>14</sup> Response to Staff's First Request, Item 9.

<sup>15</sup> Response to Staff's First Request, Item 10.

<sup>16</sup> See Response to Staff's First Request, Items 9 and 10; Supplemental Response to Commission Staff's Request for Information (filed Oct. 27, 2020), Item 10.

<sup>17</sup> KRS 278.020(6).

approve any proposed acquisition when it finds that the same is to be made in accordance with law, for a proper purpose and is consistent with the public interest.”<sup>18</sup>

The Commission finds that the proposed transfer in this matter meets the standards set forth in KRS Chapter 278. Mr. Shute is currently the majority owner and managing member of Kentucky Frontier, and Mr. Oxford has played a limited role recently due to his age, so control and oversight of Kentucky Frontier will not be materially affected by the proposed transfer. Mr. Shute is a licensed engineer with significant experience in the gas distribution industry. Kentucky Frontier will also retain its current employees despite the transfer, and Joint Applicants indicated that those employees can carry out day to day operations without Mr. Shute’s direct oversight. Additionally, based on the evidence presented by Joint Applicants, Kentucky Frontier’s credit should not be affected by the transfer. Thus, having reviewed the record and being otherwise sufficiently advised, the Commission finds that Mr. Shute has the financial, technical, and managerial abilities to provide reasonable service and that the transfer is for a proper purpose and is consistent with the public interest.

IT IS THEREFORE ORDERED that:

1. The proposed transfer of Robert Oxford and IGS’s interest in Kentucky Frontier to Steven Shute, pursuant to the terms of the agreement, is approved, subject to the conditions set forth in ordering paragraphs 2 through 4, as of the date of this Order.
2. Steven Shute shall notify the Commission in writing of the closing of the transaction with ten days of the closing.

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<sup>18</sup> KRS 278.020(7).

3. If the transaction does not close within 90 days of the date of this Order, Mr. Shute shall file with the Commission a report on the status of the efforts to complete the transfer.

4. Any material revision to the proposed transaction shall be approved by the Commission in order for the amendment to be effective.

5. Any documents filed pursuant to ordering paragraphs 2, 3, and 4 shall reference this case number and shall be retained in the post-case correspondence file.

6. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon a showing of good cause for such an extension.

7. The case shall be closed and removed from the Commission's docket.

By the Commission

ENTERED  
NOV 25 2020 rCS  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
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Deputy Executive Director

Case No. 2020-00241

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