

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

DEC 22 2009

PUBLIC SERVICE  
COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY FRONTIER GAS )  
COMPANY, LLC FOR APPROVAL OF TRANSFER )CASE NO.  
OF AUXIER ROAD CORPORATION STOCK ) 2009-00442

**AMENDED PETITION FOR TRANSFER OF STOCK**  
**AND APPROVAL OF FINANCING**

Kentucky Frontier Gas Company, LLC (Frontier), by counsel, amends its petition for an order approving the transfer of certain shares of Auxier Road Gas Company stock pursuant to KRS 278.020(5).to include a request for approval of financing of the acquisition pursuant to KRS 278.300.

In support of its petition the following information is provided. All information included in the original petition, including responses to the Commission's order of December 4, 2009 is incorporated by reference.

1. Auxier Road is a Kentucky corporation, with a mailing address of Box 785, Prestonsburg, KY 41653.

2. Auxier Road is operating as a natural gas utility pursuant to KRS Chapter 278;

3. Auxier Road is a privately held stock corporation. Its articles of incorporation were previously filed in Case No. 9318.

4. The stock of Auxier Road is owned by the following individuals:

<u>Shareholder</u>	<u>Number of Shares</u>	
		<u>Percentage</u>
Sallye Branham	942.86	94.3%

William D. Branham	57.14	5.7%
<b>Total</b>	<b>1000.00</b>	<b>100%</b>

5. Kentucky Frontier Gas, LLC is a Colorado company authorized to do business in Kentucky. Its address is 4891 Independence St., Wheat Ridge CO 80033. Managing partners are Robert Oxford and Steven Shute. A copy of its articles organization and its certificate to operate in Kentucky were filed in Case No. 2008-00394. It owns and operates East Kentucky Gas (Floyd County Gas), Belfrey Gas, Alert Gas Farm Tap System, and Mike Little Gas Company pursuant to the order in Case No. 2008-00394 issued on November 25, 2008. Descriptions of its operating procedures, personnel and management qualifications were included in that application and are incorporated by reference.

6. An agreement for the transfer of stock from Sallye Branham to Frontier was attached to the initial application.

7. Pursuant to KRS 278.020, Frontier and Auxier Road request authorization to transfer the shares of Ms. Branham's stock and her controlling interest of Auxier Road to Frontier.

8. The transfer will have no effect on the ability of Auxier Road to continue to operate or finance the operations of its natural gas service in Kentucky. The present office and field personnel will remain in place. Frontier has adequate gas supply agreements to continue to purchase gas and to assure continued adequate supply. The transfer of stock will have no impact on the current financial, managerial or technical ability of either company to operate.

9. No rate change is being requested at this time. Frontier proposes to adopt the currently approved General Rates and tariffs of Auxier. Frontier

anticipates these rates will stay in effect until consolidated with its other gas utilities.

10. Frontier has the technical, managerial and financial ability to operate Auxier as reflected in its current Kentucky gas operations. Its current financial activities are reflected on the attached Complex Loan Presentation, which was submitted to Community Trust Bank as part of the loan application, exhibit 1.

11. The transfer of this stock is in accord with law, is in the public interest and is for a proper purpose.

12. Kentucky Frontier debt to acquire Auxier's stock will be secured through a commercial bank loan with Community Trust Bank of Pikeville, KY. The terms are expected to be \$1,746,400 at WSJ prime plus 1% APR with a floor of 6% amortized over 15 years. Additional equity of \$484,000 will be contributed by Frontier. The allocation of debt to equity for the acquisition of the stock will be 80/40 debt/equity. See exhibit 2.

13. The proceeds of equity and debt financing will be used to finance the acquisition of stock reflected in the agreement. A portion of the proposed financing will be allocated to the acquisition of other utility assets. Approximately \$550,000 of the proposed debt will be available to acquire other gas facilities that Frontier is negotiating to purchase. Because of the availability of financing and the expected finalization of the acquisition, Frontier included the funds in this transaction. A separate application for the acquisition and financing of those additional facilities will be filed when the agreement is finalized. Because that transaction is not final, the name of the company has been redacted from the attached exhibits.

14. The proceeds of the financing are not being used to refund any outstanding obligations. The CTB note held by Auxier is included in this financing and Frontier will pay Auxier the balance of the note.

15. Kentucky Frontier's business plan is generally reflected in the loan

statements, description of proposed operations and other information provided in exhibit 1.

16. A description of the original cost of the property to be acquired by Frontier can be found in the PSC Annual Reports of Auxier, which are incorporated by reference. The cost to Kentucky Frontier of the property is described above.

17. Kentucky Frontier is an LLC and has no stock.

18. No stock is to be issued in conjunction with this financing.

19. The other debt to be issued and debt outstanding, amount, interest rate and security are described in exhibits 1 and 2.

20. The proceeds of the financing are to be used to finance the acquisition of Auxier stock.

21. The proceeds of the financing are not being used to refund any outstanding obligations.

22. There is no preferred stock issued.

23. There are no mortgages.

24. There are no bonds issued or to be issued by Kentucky Frontier.

25. Notes are described in paragraph 12 and exhibits 1 and 2.

26. There are no other debts.

27. No dividends have been paid by Kentucky Frontier in the last five years.

28. A balance sheet and income statement is attached as exhibit 3.

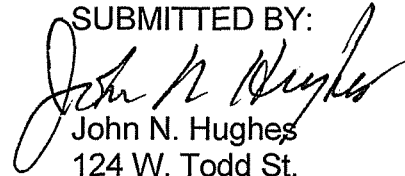
29. Maps have been provided in response to the Commission's order of December 4, 2009.

30. USoA accounts will be provided after closing.

Frontier has the financial, technical and managerial ability to continue to operate Auxier. It is in the public interest for this transfer of stock and related financing to be approved.

For these reasons, Frontier requests that the transfer be approved pursuant to KRS 278.020 and the financing be approved pursuant to KRS 278.300.

SUBMITTED BY:

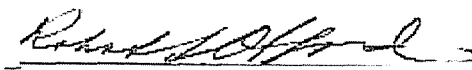


John N. Hughes  
124 W. Todd St.  
Frankfort, KY 40601  
502-227-7270

Attorney for  
Applicant


AFFIDAVIT

Affiant, Robert J. Oxford, after being first sworn, deposes and says he is authorized on behalf of the Kentucky Frontier, LLC to file this application, that the statements are true and correct to the best of his knowledge and belief except as to those matters that are based on information provided to him and as to those he believes to be true and correct.



Robert J. Oxford

This instrument was produced, signed and sworn by Robert Oxford to be his act and deed the 21 day of December, 2009.



Notary Public

My Commission expires: 10/25/2010

EXHIBIT 1



MARKET: PIKEVILLE

# Complex Loan Presentation

OFFICER: STEVE BELCHER

DATE: NOVEMBER 19, 2009

Regional Loan Committee
Date:
Action:
Secretary:

Senior Loan Committee
Date:
Action:
Secretary:

## DEAL SUMMARY

**BORROWER:** Kentucky Frontier Gas, LLC  
4891 Independence St. # 200  
Wheat Ridge, CO 80033-6714

**TAX ID:** [REDACTED]  
**Net Worth**

Industrial Gas Services, Inc.  
4891 Independence St. # 200  
Wheat Ridge, CO 80033-6714

**TAX ID:** [REDACTED]  
**Net Worth**

**ORGANIZATION TYPE:** Kentucky Limited Liability Company  
Colorado Corporation

**NAICS CODE:** [REDACTED]

**GUARANTORS:** Robert J. Oxford  
5862 McIntyre Ct.  
Golden, CO 80403

**BEACON SCORE:** 768      **TAX ID:** [REDACTED]  
**Net Worth** 03/30/09  
**2008 AGI**

Steven E. Shute  
P.O. Box 1054  
Glenwood Springs, CO 81602

**BEACON SCORE:** 787      **TAX ID:** [REDACTED]  
**Net Worth** 03/31/09  
**2008 AGI**

Larry Rich  
104 Sand Castle Dr.  
Emerald Island, NC 28594

**BEACON SCORE:** 806      **TAX ID:** [REDACTED]  
**Net Worth** 7/31/08  
**2008 AGI** \$

**LOAN REQUESTED:** \$1,746,400

**USDA GUARANTEED:** \$1,571,760  
**UNGUARANTEED:** \$ 174,640

**PAYMENT TERMS:** 180 monthly payments

**INTEREST RATE:** WSJ + 1 with a floor of 6%

**USDA FEES:** USDA Fee 1%

**BANK FEES:** 0-1%

**LOAN PURPOSE:** Acquisition of up to three (3) Local Distribution Companies (LLCs) and related rural "farm tap" customers. The consolidated utility distributes natural gas to residential, commercial, and industrial customers through



existing distribution systems. Frontier currently has about 2200 meters, mostly in Floyd and Pike Counties near the cities of Prestonsburg and Pikeville. Annual sales are averaging about 140,000 mcf of gas and \$1.5MM in revenues.

**USE OF FUNDS:**

**Project Description** Purchase Auxier Road Gas Company, [REDACTED] Gas Company, [REDACTED] Company, and rural Farm Taps.

**Sources and Uses of Funds Schedule**

Sources of Funds		Uses of Funds	
USDA Guaranteed Loan	1,746,400	Purchase Gas Systems Auxier Road [REDACTED]	\$1,633,000 \$550,000 \$2,183,000
Equity	480,918	USDA Guarantee Fee (Loan amount X Per Cent Guarantee X 1%)	15,718
		Legal and Closing Fees	6,000
		Bank Origination Fee	17,600
		Appraisal Fees	5,000
<b>Total</b>	<b>2,227,318</b>	<b>Total</b>	<b>2,227,318</b>

**Note: Total Sources of Funds must be equal to the Total Uses of Funds**  
Closing fees will be paid by borrower

**USDA LOAN GUARANTEE:** 90%-"ARRA"-Stimulus Program

**COLLATERAL:** USDA B & I Guaranty of 90%  
First lien on all assets of borrower, including but not limited to:  
Gas lines, meters, easements  
Assignment of Rents & Income If applicable  
Assignment of Stock If applicable

**USDA MINIMUM TANGIBLE BALANCE SHEET EQUITY:** The Co-Borrowers Consolidated Tangible Net worth (TNW) at closing is projected to be at least 10% in accordance with Generally Accepted Accounting Principles, which meets the minimum requirements for TNW required by USDA.

**COLLATERAL VALUE:** Purchase Auxier Road Gas Company \*\$1,633,000  
Purchase [REDACTED] \$ 550,000  
Total Purchase Price \$2,183,000

\*loan in the name of Auxier Road with CTB will be paid from sale proceeds

**LTV:** Not to exceed 80% of appraisal value

**COLLATERAL ANALYSIS:** Based upon a equity injection of \$484,440, 90% USDA guaranty, income producing collateral the loans may be considered adequately collateralized.

**FDICIA EXCEPTION:** None

**TOTAL POTENTIAL EXPOSURE:** \$ \_\_\_\_\_ **TOTAL DEPOSITS:** \$677,589 as of 04/01/09

**LOAN GRADE:** Pass 1 on \$1,584,000 based upon 90% USDA, Pass 3 on \$176,000 based upon projected DSCR of \_\_\_x for 2009, down payment \$484,000, excellent individual beacon scores.

**ENVIRONMENTAL RISK:** N/A

**REG O APPLIES:** N/A

**LOAN POLICY EXCEPTIONS:** None

**KEY TERM LOAN COVENANTS:** Compliance with USDA Loan Authorization

### CREDIT DISCUSSION

**GUARANTOR:**  
(Financial Statement Date and Net Worth)

Robert J. Oxford  
5862 McIntyre Ct.  
Golden, CO 80403

BEACON SCORE: [REDACTED]  
Net Worth 03/30/09  
2008 AGI \$

TAX ID: [REDACTED]

Steven E. Shute  
P.O. Box 1054  
Glenwood Springs, CO 81602

BEACON SCORE: [REDACTED]  
Net Worth 03/31/09  
2008 AGI \$

TAX ID: [REDACTED]

Larry Rich  
104 Sand Castle Dr.  
Emerald Island, NC 28594

BEACON SCORE: [REDACTED]  
Net Worth:  
2008 AGI

TAX ID: [REDACTED]

**USDA REQUIRED LOAN COVENANTS:**

- (i) Prohibition against assuming liabilities or obligations of others.
- (ii) Restriction on dividend payments.
- (iii) Limitation on the purchase or sale of equipment and fixed assets.
- (iv) Limitation on compensation of officers and owners.
- (v) Minimum working capital or current ratio requirement.
- (vi) Maximum debt-to-net worth ratio.
- (vii) Restrictions concerning consolidations, mergers, or other circumstances.
- (viii) Limitations on selling the business without the concurrence of the lender.
- (ix) Repayment and amortization of the loan.
- (x) List of collateral and lien priority for the loan including a list of persons and corporations guaranteeing the loan with a schedule for providing the lender with personal and corporate financial statements. Financial statements on the corporate and personal guarantors must be updated at least annually.
- (xi) Type and frequency of financial statements to be required for the duration of the loan.

- (xii) The Natural Loan Agreement between the lender and borrower will contain any additional requirements imposed by the Agency in its Conditional Commitment.
- (xiii) A section within the Loan Agreement will be established at this time for the later insertion of any necessary measures by the borrower to avoid or reduce adverse environmental impacts from this proposal's construction or operation. Such measures, if necessary, will be determined by the Agency through the completion of the environmental review process.

**BACKGROUND:**

Kentucky Frontier Gas, LLC is a Colorado limited Liability Company authorized to do business in Kentucky. Robert Oxford, Larry Rich, and Steve Shute are the Managing Members. Frontier is an LLC formed in 2005 for the purpose of acquiring and operating several small natural gas utilities located in eastern Kentucky.

Frontier holds all assets and liabilities of all companies acquired.

Frontier LLC members will hold the following ownership (percentages may vary slightly) :

a. Industrial Gas Services, Inc. (IGS) (10%) was created by Robert J. Oxford (Bob) in 1972. IGS works to provide energy solutions to large industrial customers, including drilling and exploration, delivery pipelines and gas transportation and management services. From 1994-98, Bob Oxford was a founder and principal of Frontier Energy, a gas utility start-up serving 7 counties in northwestern North Carolina. Through IGS, Bob (30%) has worked on numerous other gas gathering, processing and distribution projects.

IGS has surveyed over 100 rural and small town communities in the U.S. that do not have natural gas service. As the result of these surveys, IGS formed three joint venture utility companies, Frontier Energy, Ozark Natural Gas Company, and Penny Natural Gas, LLC.

b. Larry Rich (20%) has an MBA and was formerly a regional operations manager with a large southeastern gas utility. He helped with initial construction and operation of Frontier Energy in NC.

c. Steven Shute (40%) is a registered professional engineer and owner / operator of several small gas utilities including Pinedale Natural Gas, and was co-founder of Frontier Energy in NC.

Kentucky Frontier has studied about 10 small gas distribution companies in eastern Kentucky. These utilities are all similar: they serve 400 to 1,100 customers, mostly small residential and commercial accounts; annual gas volume has not reached a critical mass to achieve profitability; and most have negative equity and large debts. Due to chronic operating losses, these utilities are unable to pay their loans or form capital to market their services or expand systems; they are only marginally able to comply with federal and state regulations for pipeline safety, training and utility reporting; and there is little or no prospect for significant change in their financial outlook.

Purchase prices are based on the industry standard of \$1,000 per meter, plus other factors such as gas volume and growth potential. The resulting purchase prices are about 2 times Book Value, which is another industry standard for acquiring existing utility systems. The combined Frontier Gas entity also significantly exceeds the standard gas utility valuation of ten times EBITDA.

The consolidation of these utilities is expected to create a critical mass which is financially viable. Many utility functions such as billing, accounting, customer calls, emergency response, operator training and regulatory compliance will be enhanced by a common, central organization.

The acquired companies will be managed by experienced gas distribution personnel. Preliminary management assignments are as follows:

Bob Oxford, a Managing Member based in Colorado, will oversee all financial, gas management and acquisition matters. Bob started IGS in 1972 to build pipelines, drill wells and supply large industrial users who were once captive to their gas utility.

Steven Shute, a Managing Member, will oversee all technical and operations matters and will serve as Chief Engineer. Since 1991, he has helped start up numerous small gas utilities, including Pinedale Natural Gas (see [pinedalegas.com](http://pinedalegas.com)).

Larry Rich, as a Managing Member, will serve as General Manager of utility operations. He will be based in the Frontier central office near Prestonsburg, and will manage all day-to-day operations of the consolidated company. Larry was a district manager for Piedmont Natural Gas in NC, and later worked with Oxford and Shute on several projects, including the large startup Frontier Energy in North Carolina, now owned by Energy West. Larry Rich will be manage Regulatory Matters and be responsible for US DOT pipeline safety compliance matters. He will oversee the company DOT compliance operations and records, will interface with Kentucky PSC safety personnel, and will administer the company Operator Qualification training and certification plan and all other DOT-required tasks.

Frontier intends to operate the utilities centrally. Operating personnel will be assigned to work on any of the acquired entities. Frontier will maintain distinct billing rates and financial reporting for each separate utility at least for the initial 2 years.

The effect of Frontier ownership should be at least transparent to the system customers; and in fact should improve customer service. It is anticipated that the same operators will run the system and the same phone number will ring into a Prestonsburg-area office. Customer records will be kept electronically and be available at a moment's notice, as contrasted with old paper records.

Frontier plans to operate each utility at existing rates for at least 18-24 months, then to file a consolidated rate case to combine all utilities into a common rate schedule. With economies of scale, the combined rate should be less than the existing rates charged by these companies, and will be more than competitive with heating oil, propane, and electricity.

Frontier expects to fund the initial project in the following amounts.

a.	Cash Equity by partners	\$484,000
b.	New Commercial debt	\$ 1,760,000

Under PSC rules in KY as in most states, a gas utility simply transports gas or electricity for a fee, not unlike UPS or Fedex. The utility doesn't store or mark-up the product. The gas purchase costs paid to the Producer are almost simultaneously reimbursed to the utility by the Customer, with just a few days of float. The utility recovers the full cost of the gas through a Commodity Balancing Account, which tracks price increases and decreases and periodically adjusts the price to the consumer to zero out the CBA balance. If the CBA is run as it should be, there is no risk to the utility from price volatility.

#### PROJECTS:

Frontier acquired, effective December 1, 2008, 100% ownership in the Floyd County Gas system (aka East Kentucky Utilities), Mike Little Gas Company, Belfry Gas system, and the farm taps of Kinzer Drilling Company and Alert Gas and Oil Company. Frontier has operated the gas systems of these companies and served their former residential and commercial customers, numbering over 2000, for twelve months. Frontier projects a net profit of over \$200,000 through December, 2009 on gross revenue of over \$1,500,000. Customer stability has remained strong, with the usual dip in numbers during the summer and the usual reconnections this fall. Frontier created three new jobs in Floyd and Pike counties in 2009, and expects to maintain an additional 3 jobs with the proposed acquisition of Auxier Road Gas Company, ██████ Gas Company, and ██████ Gas Company. Frontier's hourly wages, exceeding \$12 per hour, for technicians, administrators, and clerks are above average. The company personnel handbook outlines the benefits provided to employees. The Member-owners provide management for the company and have a four bedroom townhouse that provides lodging and executive offices for them in Prestonsburg. Frontier's operations manager and staff plan to move into Auxier Road Gas Company's office building and shop and will lease these spacious, modern facilities from Sallye Branham at the market rate of \$18,000 per year.

Frontier purchases its gas from Quality Gas (a Kinzer company), EQT, and Columbia. The Auxier Road and ██████ systems are connected by a 6 inch

pipeline and utilize two new suppliers to Frontier, Interstate Gas and Jefferson Pipeline. This will enhance Frontier's gas supply and reinforces its commitment to purchase east Kentucky gas whenever possible. Frontier has been able to buy most of its gas at a lower price than other gas distribution companies in the area. The Kentucky Public Service Company allows gas distributors to pass through to their customers the actual cost of gas from their suppliers. Gas costs are adjusted quarterly.

**MANAGEMENT:**

Steven Shute. BS Electrical Engineering, Kansas State University. Professional Engineer in 3 states. Mr. Shute worked with Conoco's petroleum and natural gas pipeline divisions for 3 years. He spent 11 years with KN Energy in technical and executive positions. KN (Kansas-Nebraska Natural Gas, now GE Source Gas) operates utilities with about 250,000 customers. Mr. Shute was General Manager and Chief Engineer of a KN division with 25,000 meters.

In 1991 Mr. Shute founded Pipeline Solutions, Inc. (PSI) and has served as consultant, founder and owner of several small gas utilities nationwide. Following are some of those projects:

Pinedale Natural Gas in Wyoming, inc. 1993, 1100 customers, 50% owned.  
Town of Walden, Colorado, started 1994; PNG operates this system, 900 meters.  
Frontier Energy, North Carolina, started 1995; sold interest in 1998.  
Wendover Gas, Utah-Nevada; started 1997, 800 meters, consultant.  
Alpine Gas, California, started 2000, 1200 meters, consultant, minor interest.

Larry Rich BA Management, Guilford College; MBA Babcock School of Management, Wake Forest University. Mr. Rich has been employed in the natural gas industry for over 30 years, including 20 years with Piedmont Natural Gas Company as manager of operations of Greensboro and High Point, North Carolina gas systems.

Most recently Mr. Rich was employed in the start up construction and operations of Frontier Energy, a new gas utility in North Carolina reported as the largest start up gas utility project in the U.S. in 35 years. Mr. Rich has been employed as a consultant by Heath and Associates on numerous gas distribution projects, and in 2003-2004 was a consultant for Coos County, Oregon, in the design and construction of a 60 mile 12" gas pipeline.

**PROJECT:**

How can Frontier make money when these companies have done so poorly?

- Each

**EMPLOYMENT / JOB  
CRATION / RETENTION:**

The proposed financing will enable the Borrower to retain 5 existing and create \_\_\_\_ existing jobs with an average hourly wage of \$ \_\_\_\_ + all medical benefits.

**CASH FLOW:**

Frontier provided financial statements for 12/31/05-12/31/08. Frontier was formed to manage the acquisition of the proposed six utilities. Frontier was contract operator for the Floyd County and Mike Little Gas systems for over a year prior to closing on the acquisitions. The company reported only nominal income and a net loss at 12/31/08 of \$20,000.

**CREDIT RISK ANALYSIS:**

**WEAKNESSES:**

1. Collateral which is mitigated by an SBA Guaranty

**STRENGTHS:**

1. 75% SBA guaranty
2. Credit history of individuals
3. Management Experience
4. Equity injection of \$150,000
5. Projected DSCR \_\_\_\_x

**RECOMMENDATION:** Approval

EXHIBIT 2





Larry Rich  
104 Sand Castle Dr.  
Emerald Island, N.C. 28594

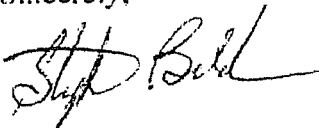
8. FEES: USDA Fee 1% subject to approval by USDA.  
Bank Fee: 1%  
All fees shall be deemed duly earned upon acceptance of this Commitment by the Borrower and shall be paid at loan closing.
9. PURPOSE: To purchase (2) two Local Distribution Companies:  
Auxier Road Gas Company and ██████████ Gas Company.
10. FEES AND COSTS: Borrower will pay all fees and costs related to the loan or otherwise incurred by the Bank, even in the event the loan does not close for any reason including, but not limited to: title opinions, title insurance, document preparation, mortgage and security interest perfection, and appraisals.
11. OTHER INSURANCE: Where applicable Hazard and Physical Damage Insurance, acceptable to the Bank and naming the Bank as Lender's Loss Payable/mortgagee, with a 30-day minimum cancellation notice provision shall be in full force and effect prior to the loan closing.
12. PERMITS: All operating, permits and state approvals necessary to manage and operate the individual local distribution companies, including but not limited to approval from Kentucky Public Service Commission.
13. LOAN AGREEMENT: Subject to the negotiation of a definitive loan agreement satisfactory to the Bank, and all other loan documents as approved by the Bank's counsel. Compliance with all USDA covenants as set out in the conditional commitment and loan authorization approval.  
  
Subject to a 90% USDA guaranty approval.
14. FINANCIAL CONDITION: Provided no substantial adverse changes have occurred in the financial positions of the Borrower or the Guarantors since their application for this loan and that the financial statements the Bank has already received are complete and accurate.
15. COLLATERAL: The Borrower shall provide the Bank with all necessary leases, assignments and related assets, that the Bank may request pertaining to Kentucky Frontier Gas, Auxier Road Gas Company and ██████████ Gas Company.
16. Acceptable Business Plan
17. Acceptable Historical, Proforma and Projected Financial Statements prepared in accordance with GAAP reflecting a minimum tangible Balance Sheet equity of 20% as of the Closing.

18. Compliance with comments from the Kentucky State Clearinghouse.
19. USDA Required Certifications included in the "Application for Loan Guarantee" and related documents.
20. This Commitment Letter shall terminate on December 22, 2009, unless accepted by the Borrower. If this commitment is accepted, the loan closing must occur by February 15, 2010. If the loan does not close by that date, the commitment shall expire and the Borrower shall not be entitled to any refund of the loan origination fee already paid.

All understandings and agreements previously made between the parties hereto are merged into this agreement which fully expresses the agreement with neither party relying upon any statement or representation made by the other not embodied in this agreement. This agreement may not be changed orally, and may not be assigned by the Borrower.

Please review this commitment, and if it meets your approval, please sign the acceptance below and return one originally executed copy to me.

Sincerely,



Stephen Belcher  
Senior Vice President

SB/smc

I/we hereby acknowledge the acceptance of the terms of the aforementioned loan commitment.

**"BORROWER"**

KENTUCKY FRONTIER GAS, LLC

BY: Rebecca [Signature]

TITLE: Member Manager

DATE: Dec. 18, 2009

"GUARANTORS

Robert J. Oxford  
ROBERT J. OXFORD  
Date: Dec. 18, 2009

\_\_\_\_\_  
STEVEN E. SHUTE  
Date: \_\_\_\_\_

Larry Rich  
LARRY RICH  
Date: 12-18-09

INDUSTRIAL GAS SERVICES, INC.

BY: Robert J. Oxford

TITLE: GEO

DATE: Dec. 18, 2009

State of Kentucky  
County of Floyd

The foregoing instrument was acknowledged before me this 18th day of December, 2009 by Robert J. Oxford, GEO, of Kentucky  
Frontier Gas, LLC.

John R. Caldwell  
Notary Public  
My Commission Expires: 2-18-2011

State of Kentucky  
County of Floyd

The foregoing instrument was acknowledged before me this 18th day of December, 2009 by Robert J. Oxford.

John R. Caldwell  
Notary Public  
My Commission Expires: 2-18-2011

State of \_\_\_\_\_  
County of \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2009 by Steven E. Shute.

\_\_\_\_\_  
Notary Public  
My Commission Expires: \_\_\_\_\_

State of Kentucky  
County of Floyd

The foregoing instrument was acknowledged before me this 18<sup>th</sup> day of December, 2009 by Larry Rich.

Joe R. Caldwell  
\_\_\_\_\_  
Notary Public  
My Commission Expires: 8-18-2011

State of Kentucky  
County of Floyd

The foregoing instrument was acknowledged before me this 18<sup>th</sup> day of December, 2009 by Robert J. Oxford, CEO, of **Industrial Gas Services, Inc.**

Joe R. Caldwell  
\_\_\_\_\_  
Notary Public  
My Commission Expires: 8-18-2011

**EXHIBIT 3**

9:31 AM  
 11/13/09  
 Accrual Basis

**Kentucky Frontier Gas, LLC**  
**Balance Sheet**  
 As of November 13, 2009

Nov 13, 09

<b>ASSETS</b>		
<b>Current Assets</b>		
<b>Checking/Savings</b>		
131 · Cash - Bank Accounts		
131.1 · CityWide Bank Oper # 000980029	1,886.84	
131.2 · Comm Trust Bank Oper 4002506337	2,406.41	
131.3 · Comm Trust Payroll #4002507509	2,670.95	
131.4 · Comm Trust Escrow #4002506345	175,430.03	
131.5 · Comm Trust Mon Makt #4002540542	109,377.94	
<b>Total 131 · Cash - Bank Accounts</b>	291,772.17	
<b>Total Checking/Savings</b>	291,772.17	
<b>Accounts Receivable</b>		
143 · Other Accounts Receivable	24,702.50	
<b>Total Accounts Receivable</b>	24,702.50	
<b>Other Current Assets</b>		
141 · Notes Receivable	33,524.86	
173 · Organizational Account		
Start Up Costs	51,292.17	
<b>Total 173 · Organizational Account</b>	51,292.17	
<b>Total Other Current Assets</b>	84,817.03	
<b>Total Current Assets</b>	401,291.70	
<b>Fixed Assets</b>		
101 · Utility Plant		
General Plant Assets		
392.1 · Transportation Equipment		
1996 Ford F-150	5,300.00	
2005 Toyota	12,500.00	
<b>Total 392.1 · Transportation Equipment</b>	17,800.00	
<b>Total General Plant Assets</b>	17,800.00	
101.1 · East Kentucky Utility Plant	940,000.00	
101.2 · Mike Little Gas Plant		
Columbia Gas Deposit	8,905.00	
101.2 · Mike Little Gas Plant - Other	302,000.00	
<b>Total 101.2 · Mike Little Gas Plant</b>	310,905.00	
101.3 · Belfry Utility Plant	502,000.00	
101.4 · Alert Farm Taps Utility Plant	250,000.00	
<b>Total 101 · Utility Plant</b>	2,020,705.00	
<b>Total Fixed Assets</b>	2,020,705.00	
<b>TOTAL ASSETS</b>	2,421,996.70	
<b>LIABILITIES &amp; EQUITY</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
<b>Accounts Payable</b>		
232 · Accounts Payable	4,720.62	
<b>Total Accounts Payable</b>	4,720.62	
<b>Other Current Liabilities</b>		
223 · Notes Payable to Assoc Co - IGS	27,505.60	
235 · Customer Deposits/Retainers	-1,646.44	
236 · Payroll Liabilities	2,670.96	
<b>Total Other Current Liabilities</b>	28,530.12	
<b>Total Current Liabilities</b>	33,250.74	
<b>Long Term Liabilities</b>		

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Kentucky Frontier Gas, LLC  
**Balance Sheet**  
As of November 13, 2009

	Nov 13, 09
224 · Long Term Liability	
224.1 · Community Trust Bank Loan	1,422,114.99
<b>Total 224 · Long Term Liability</b>	<b>1,422,114.99</b>
<b>Total Long Term Liabilities</b>	<b>1,422,114.99</b>
<b>Total Liabilities</b>	<b>1,455,365.73</b>
<b>Equity</b>	
211.1 · Partner One Equity - RJO	
208.1 · Partner One Investments	262,500.00
<b>Total 211.1 · Partner One Equity - RJO</b>	<b>262,500.00</b>
211.2 · Partner Two Equity - SS	
208.2 · Partner Two Investments	350,000.00
<b>Total 211.2 · Partner Two Equity - SS</b>	<b>350,000.00</b>
211.3 · Partner Three Equity - LR	
208.3 · Partner Three Investments	101,805.15
<b>Total 211.3 · Partner Three Equity - LR</b>	<b>101,805.15</b>
211.4 · Partner Four Equity - IGS	
208.4 · Partner Four Investments	87,500.00
<b>Total 211.4 · Partner Four Equity - IGS</b>	<b>87,500.00</b>
216 · Retained Earnings	-6,652.60
Net Income	171,478.42
<b>Total Equity</b>	<b>966,630.97</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>2,421,996.70</b>

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**Kentucky Frontier Gas, LLC**  
**Profit & Loss**  
 January 1 through November 13, 2009

	Jan 1 - Nov 13, 09
<b>Income</b>	
419 · Interest Income	2,722.87
480 · Residential Sales	1,466,685.45
481 · Commercial & Industrial Sales	22,175.59
<b>Total Income</b>	1,491,583.91
<b>Cost of Goods Sold</b>	
800 · Gas Supply Expenses	
804 · Natural Gas Purchases & Transp	846,584.52
<b>Total 800 · Gas Supply Expenses</b>	846,584.52
<b>Total COGS</b>	846,584.52
<b>Gross Profit</b>	644,999.39
<b>Expense</b>	
408 · Taxes Other Than Income Taxes	
408.1 · Payroll Taxes Expenses	10,229.02
408.2 · Sales Tax	
408.21 · Penalty	812.14
408.22 · Interest	0.00
408.2 · Sales Tax - Other	11,707.29
<b>Total 408.2 · Sales Tax</b>	12,519.43
408.3 · Property Tax	1,094.86
408 · Taxes Other Than Income Taxes - Other	1,589.77
<b>Total 408 · Taxes Other Than Income Taxes</b>	25,433.08
409 · Income Taxes	
409.3 · Other State Income Taxes	268.06
<b>Total 409 · Income Taxes</b>	268.06
427 · Interest on Long-Term Debt	46,462.37
66900 · Reconciliation Discrepancies	-32.54
870 · DISTRIBUTION EXPENSES	
871 · DISTRIBUTION OPERATION	
874 · Mains & Services Expenses	856.92
876 · Meas & Reg Station Exp - Indus	46.22
878 · Meter & House Regulator Exp	
878.2 · Uniforms	568.03
878 · Meter & House Regulator Exp - Other	17,834.20
<b>Total 878 · Meter &amp; House Regulator Exp</b>	18,402.23
879 · Customer Installations Exp	1,081.49
880 · Other Expenses	1,352.35
881 · Rents	11,000.00
<b>Total 871 · DISTRIBUTION OPERATION</b>	32,739.21
884 · DISTRIBUTION MAINTENANCE	
887 · Maintenance of Mains	63,276.36
890 · Maint of Meas & Reg Sta Equ - I	10.00
892 · Maintenance of Services	21,578.09
893 · Maint of Meters & House Reg	1,541.30
894 · Maint of Other Equipment	1,050.46
<b>Total 884 · DISTRIBUTION MAINTENANCE</b>	87,456.21
<b>Total 870 · DISTRIBUTION EXPENSES</b>	120,195.42
900 · CUSTOMER ACCOUNTS EXPENSES	
900.1 · CUSTOMER ACCT OPERATION	
902 · Meter Reading Exp	22,641.14
903 · Customer Records & Collec Exp	59,697.92
905 · Misc Customer Accounts Exp	1,789.17
<b>Total 900.1 · CUSTOMER ACCT OPERATION</b>	84,128.23
<b>Total 900 · CUSTOMER ACCOUNTS EXPENSES</b>	84,128.23



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**Kentucky Frontier Gas, LLC**  
**Profit & Loss**  
 January 1 through November 13, 2009

	Jan 1 - Nov 13, 09
<b>906 · CUSTOMER SERVICE &amp; INFORMATION</b>	
<b>906.1 · C S &amp; I OPERATION</b>	
909 · Inform & Instruc Advert Exp	
909.1 · Web Support	1,118.40
909 · Inform & Instruc Advert Exp - Other	1,072.64
<b>Total 909 · Inform &amp; Instruc Advert Exp</b>	2,191.04
910 · Misc Cust Serv & Infor Exp	4,913.75
906.1 · C S & I OPERATION - Other	16.92
<b>Total 906.1 · C S &amp; I OPERATION</b>	7,121.71
<b>Total 906 · CUSTOMER SERVICE &amp; INFORMATION</b>	7,121.71
<b>918 · ADMINISTRATIVE &amp; GENERAL EXP</b>	
<b>919 · ADMIN &amp; GEN OPERATION</b>	
920 · Admin & General Salaries	1,081.70
921 · Office Supplies and Expenses	
921.1 · Office Equipment	1,211.09
921 · Office Supplies and Expenses - Other	5,548.99
<b>Total 921 · Office Supplies and Expenses</b>	6,760.08
923 · Outside Services Employed	
923.1 · Outside Services - Manager	56,956.15
923.2 · Outside Services - Accounting	20,329.50
923.3 · Outside Services - Engineering	338.50
923.4 · Outside Services - Legal	15,693.06
<b>Total 923 · Outside Services Employed</b>	93,317.21
924 · Insurance	
924.2 · General Liability Insurance	6,854.00
924.3 · Life Insurance	1,200.15
924.5 · Worker's Compensation	1,435.09
<b>Total 924 · Insurance</b>	9,489.24
930.2 · Miscellaneous General Expenses	
930.21 · Bank Service Charges	1,861.70
930.22 · Cleaning/Janitorial	436.29
930.235 · Drug Testing	600.00
930.24 · Dues and Subscriptions	898.09
930.25 · Licenses & Permits	1,379.46
930.26 · Payroll Administration Expenses	1,187.91
930.27 · Postage and Delivery	7,591.41
930.28 · Printing and Reproduction	105.02
930.29 · Reimbursed Expenses	
Airline	1,634.69
Cell Phone	224.51
Emp share of FICA	1,549.12
Insurance	375.00
Lodging	7,145.22
Meals	1,612.65
Mileage	4,943.67
Parking/Gas	217.74
Postage	594.10
Rental Car	702.12
Supplies	194.56
930.29 · Reimbursed Expenses - Other	869.26
<b>Total 930.29 · Reimbursed Expenses</b>	20,062.64
930.30 · Telephone and Fax	6,362.73
930.31 · Training	1,206.64
930.32 · Utilities	2,587.67
<b>Total 930.2 · Miscellaneous General Expenses</b>	44,279.56
931 · Rents	4,500.00
<b>Total 919 · ADMIN &amp; GEN OPERATION</b>	159,427.79

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**Kentucky Frontier Gas, LLC**  
**Profit & Loss**  
 January 1 through November 13, 2009

	Jan 1 - Nov 13, 09
<b>Total 918 · ADMINISTRATIVE &amp; GENERAL EXP</b>	159,427.79
<b>932 · MAINTENANCE OF GENERAL PLANT</b>	
<b>932.1 · Repairs</b>	
Building Repairs	1,168.98
<b>Equipment Repairs</b>	
<b>Transportation Equipment</b>	
Vehicle 101	793.90
Vehicle 102	885.40
Vehicle 201	776.48
Vehicle 202	941.90
Transportation Equipment - Other	1,575.17
<b>Total Transportation Equipment</b>	4,972.85
<b>Equipment Repairs - Other</b>	4,201.30
<b>Total Equipment Repairs</b>	9,174.15
<b>932.1 · Repairs - Other</b>	150.00
<b>Total 932.1 · Repairs</b>	10,493.13
<b>932.2 · Depreciation Expense</b>	32.02
<b>932.3 · Tools &amp; Equipment</b>	7,121.40
<b>932.4 · Transportaion Equipment Fuel</b>	
Vehicle 101	1,429.51
Vehicle 102	1,690.53
Vehicle 201	105.01
Vehicle 202	563.37
<b>932.4 · Transportaion Equipment Fuel - Other</b>	9,081.88
<b>Total 932.4 · Transportaion Equipment Fuel</b>	12,870.30
<b>Total 932 · MAINTENANCE OF GENERAL PLANT</b>	30,516.85
<b>Total Expense</b>	473,520.97
<b>Net Income</b>	171,478.42