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PROFESSIONAL SERVICE CORPORATION
124 WEST TODD STREET
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January 20, 2010

RECEIVED

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

JAN 20 2010

PUBLIC SERVICE
COMMISSION

Re: Case No. 2009-00442

Dear Mr. Derouen:

Please file the attached corrected exhibits 1 and 2, which should replace the original exhibits attached to the Amended Petition filed on December 22, 2009. The original exhibits failed to completely redact information that should not be publicly disclosed.

If you have any questions, please contact me.

Submitted by:


John N Hughes

124 West Todd St.

Frankfort, KY 40601

502 227-7270

Attorney for Kentucky Frontier Gas,
LLC

EXHIBIT 1



MARKET: PIKEVILLE

DATE: NOVEMBER 19, 2009

Complex Loan Presentation

OFFICER: STEVE BELCHER

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

Last Revised: 2004/02/02

Provided By:
Credit Administration

LN-00037

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 |
| Total | 2,227,318 | Total | 2,227,318 |

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 final 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).

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, [REDACTED] Gas Company, and [REDACTED] 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 [REDACTED] systems are connected by a 6 inch

pipeline and utilize two new suppliers to Frontier, Interstate Gas and Jefferson Pipeline. This will enhance Frontier' 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



**Community
Trust Bank, Inc.**

P.O. Box 2937
Pikeville, Kentucky 41502-2937
606-737-1134

building communities built on trust

346 North Main Street
Pikeville, Kentucky 41501-1101

COMMERCIAL LOAN COMMITMENT

Date: December 15, 2009

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

RE: Purpose: Purchase two (2) Gas Systems:
(herein, the "Purchase" Auxier Road Gas Company
[REDACTED] Gas Company ✓

Dear Mr. Oxford, Mr. Shute and Mr. Rich:

We are pleased to inform you that your application for financing for the above mention Purchase (herein, the "Loan") has been approved by Community Trust Bank, Inc. (herein, the "Bank"), subject to the following terms, conditions and requirements.

1. **BORROWER:** Kentucky Frontier Gas, LLC
2. **AMOUNT:** \$1,746,400 to be structured as one loan under 2 notes:
\$1,571,760
\$174,640
Evidenced by the promissory note (s) of the borrower.
3. **TERM:** 15 Years
4. **INTEREST RATE:** WSJ+1 with a floor of 6% Variable Rate
5. **REPAYMENT:** The loan shall have monthly interest and principal payments based on a 15-year amortization. The initial monthly payment shall be as follows:
Note 1: \$13,500
Note 2: \$1,500
Combined payment of \$15,000.
6. **CORPORATE GUARANTOR:** Industrial Gas Service, Inc.
4891 Independence St. #200
Wheat Ridge, CO. 80033-6714
7. **INDIVIDUAL GUARANTORS**

| | |
|-------------------|-----------------------------|
| Robert J. Oxford | Steven E. Shute |
| 5862 McIntyre Ct. | P. O. Box 1054 |
| Golden, CO. 80403 | Glenwood Springs, CO. 81602 |

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 [REDACTED] 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.

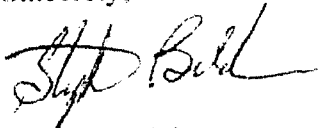
Subject to a 90% USDA guaranty approval.
14. FINANCIAL CONDITION: Provided no substantial adverse changes have occurred in the financial positions of the Borrower or the Guarantors since their application for this loan and that the financial statements the Bank has already received are complete and accurate.
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 [REDACTED] 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,



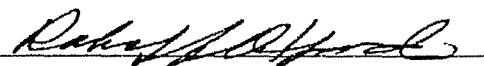
Stephen Belcher
Senior Vice President

SB/smc

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

"BORROWER"

KENTUCKY FRONTIER GAS, LLC

BY: 

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: 8-18-2011

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: 8-18-2011

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 18th 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 18th day of December, 2009 by Robert T. Oxford, CEO, of **Industrial Gas Services, Inc.**

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