

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF SENTRA)	
CORPORATION, A WHOLLY OWNED)	
SUBSIDIARY OF BLUE RIDGE MOUNTAIN)	CASE NO.
RESOURCES, INC., AND SENTRA RESOURCES)	2018-00107
LLC FOR THE TRANSFER AND ACQUISITION OF)	
STOCK AND FINANCING)	

ORDER

On March 16, 2018, Sentra Corporation (Sentra), its parent Blue Ridge Mountain Resources, Inc. (BRMR), and Sentra Resources LLC (Sentra Resources) (collectively Joint Applicants) jointly filed an application for approval of the transfer and acquisition of ownership and control of Sentra from BRMR to Sentra Resources, and for authorization of financing. Sentra Resources proposes to acquire all outstanding stock of Sentra from BRMR. Sentra Resources also requests authority to execute notes to finance the transaction (Acquisition Note) and open a line of credit for the operation of Sentra (Line of Credit).

PROCEDURE

On March 29, 2018, by order, the Commission found that an investigation would be necessary, which could not be completed by May 16, 2018, and pursuant to KRS 278.020(6) continued the application for 60 additional days, up to and including July 15, 2018. A formal evidentiary hearing was held on June 19, 2018. Joint Applicants responded to two rounds of discovery prior to the June 19, 2018 hearing and one round

of post-hearing discovery. There are no intervenors. This matter now stands submitted to the Commission for a decision.

DISCUSSION

Sentra is a Kentucky corporation wholly owned by BRMR and has no subsidiaries. Sentra was formed on May 22, 1992, and is in good standing to operate in Kentucky. It is a regulated natural gas distribution company serving approximately 200 customers in Monroe County. Sentra Resources is a Kentucky Limited Liability Company formed on November 13, 2017, in order to carry out the proposed transaction.

According to the terms of the Stock Purchase Agreement between Sentra Resources and BRMR dated March 6, 2018, Sentra Resources will own all of the issued and outstanding shares of Sentra stock and the transaction will result in a change of the direct ownership and control of Sentra, a jurisdictional utility. Sentra will continue to own and operate the gas distribution system. Sentra Resources has obtained a commitment letter for a loan to finance the acquisition. Joint Applicants requested that the Commission approve the proposed transaction pursuant to KRS 278.020(6) and KRS 278.020(7).

Approval Pursuant to KRS 278.020(6)

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.

Sentra Resources has shown that it has the necessary financial ability to operate the subject utility. Sentra Resources will utilize the revenue that is generated through the sale of natural gas to continue and maintain the operation of Sentra. Sentra Resources has negotiated a Line of Credit with Edmonton State Bank in the amount of \$100,000. Accordingly, Sentra Resources will have access to additional funds to operate the utility, if necessary. Additionally, Sentra Resources will have the ability to obtain loans to ensure that it has access to additional funds to operate the utility, if necessary.

Sentra Resources has shown that it has the necessary technical and managerial ability to operate the subject utility. Wesley Dustin Cleary, Dan Bryant, and Randy Darren Cleary, the three members of Sentra Resources, will participate in the management and operation of Sentra. The record reflects that these individuals each have experience in testing, repairing, maintaining, and constructing natural gas lines. They hold certifications relating to the operation, repair, and replacement of natural gas lines, as well as installation and testing of gas meters and service lines. Additionally, they have experience in all facets of the operation and management of companies owned by them, including but not limited to budgeting, contracts and purchase orders, personnel, materials and installation, safety and safety programs, and environmental compliance. No Sentra employee will be terminated as a result of this transaction. Sentra will retain the two field and maintenance personnel that currently operate Sentra on a day-to-day basis and work on system maintenance and system safety. Sentra will hire two employees, one with experience in construction and safety, and the other with experience in billing and collection.

Based on the above, Sentra has shown that it possesses the “financial, technical, and managerial abilities to provide reasonable service,” as required by KRS 278.020(6).

Approval Pursuant to KRS 278.020(7)

KRS 278.020(7) provides, in relevant part, that the Commission shall approve a proposed acquisition of control upon a finding that the proposed transaction is “made in accordance with law, for a proper purpose and is consistent with the public interest.”

Here, Joint Applicants contend that the proposed transaction has received all necessary company and government approvals, and therefore will be made in accordance with the law. The proposed transaction has been approved by BRMR's board of directors. The Commission's regulatory approval is required for the closing. There are no other regulatory approvals necessary for the closing of the transaction.

Sentra Resources avers that the proposed transaction is consistent with the public interest and will not adversely affect Sentra's customers and that any modification of its rates will be in accordance with Kentucky law. The transaction will result in the transfer of control of Sentra to a new owner that has asserted that it will continue to focus on maintaining safe, reliable natural gas distribution. It will be a locally owned company that has the knowledge of, and an interest in the communities it serves. Because of its local connections, it states that it will be responsive to the needs of Sentra's customers.

The Commission has held that the public interest standard of KRS 278.020(7) requires that either the transfer will not adversely affect the existing level of utility service or rates or that any potentially adverse effects can be avoided through the Commission's

imposition of reasonable conditions on the acquiring party.¹ The acquiring party should also demonstrate that the proposed transfer is likely to benefit the public through improved service quality, enhanced service reliability, the availability of additional services, lower rates, or a reduction in utility expenses to provide present services.² Such benefits, however, need not be immediate or readily quantifiable.³ Two of the three members of Sentra Resources testified at the hearing in this matter that their acquisition of Sentra would benefit Sentra and its customers due to their plan to implement cost and quality control measures to ensure that their customers get the best rate. Sentra Resources has detailed how the proposed transaction will benefit Sentra's customers and thus satisfies the proper purpose criteria because the proposed transaction will permit Sentra to continue to meet its commitment to provide reasonable service to its customers.

Proposed Financing

Sentra Resources seeks Commission authority, pursuant to KRS 278.300, to execute two loans with Edmonton State Bank (Bank), the Acquisition Note and the Line of Credit. Sentra Resources has stated that no acquisition premium will exist or be recovered through the rates of Sentra.

The Acquisition Note of \$50,000 would have a principal repayment tenor of ten years. The Line of Credit of \$100,000 would have a principal repayment tenor of five years. Both notes would have an annually variable interest rate of 1.0 percent above the

¹ Case No. 2002-00018, *Application for Approval of the Transfer of Control of Kentucky American Water Company to RWE Aktiengesellschaft and Thames Water Aqua Holdings GmbH* (Ky. PSC May 30, 2002), Order at 7.

² *Id.*

³ *Id.*

prime rate as quoted in the Wall Street Journal.⁴ The Commission is empowered to “regulate utilities and enforce the provisions of this [KRS 278] chapter.”⁵ Pursuant to KRS 278.300(1), “[n]o utility shall issue any securities or evidences of indebtedness . . . until it has been authored so to do by order of the commission.” Here, it is Sentra that is providing utility service to or for the public, not Sentra Resources. Because Sentra Resources is not a utility under the jurisdiction of the Commission, the Commission lacks authority to approve the Acquisition Note or Line of Credit to be issued to Sentra Resources. Therefore, approval of the Acquisition Note is denied.

However, the Line of Credit is for lawful objects within the corporate purposes of Sentra, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved, subject to the condition that the line of credit be issued either by the Bank to Sentra or by Sentra Resources to Sentra, on the same terms and conditions as those set forth in the Bank line of credit.

Other

Approval of the joint application transferring the Sentra system would also constitute the approval to serve customers as a local distribution utility subject to the jurisdiction of the Commission pursuant to KRS Chapter 278. Any entity functioning as a regulated utility is required to conform to the law and operate according to the regulations as contained in 807 KAR Chapter 5, including 807 KAR 5:022 and 5:027 for gas

⁴ Application, Exhibit 2.

⁵ KRS 278.040(1).

distribution utilities. Such utilities must be specifically knowledgeable of, among other statutes, KRS 278.160, which requires each utility to file with the Commission a tariff showing all rates and conditions of service; KRS 278.180, which specifies procedures required for a change in rates; and KRS 278.300, which requires prior approval for issuances of securities or evidences of indebtedness, or assumption of obligations or liabilities.

The Uniform System of Accounts Prescribed for Natural Gas Companies (USoA) requires each utility to keep its accounts and records to be able to furnish accurately and expeditiously statements of all transactions with associated companies. This includes, but is not limited to, any invoices and billing statements concerning transactions between the utility and its affiliate. In addition, KRS 278.2201 through 2219 prohibit cross-subsidization and require cost allocation for companies such as Sentra that have non-regulated affiliates.

Annual Reports

Joint Applicants requested approval of the transfer within 60 days of their application. The Commission's granting of that request within the time period specified in KRS 278.020(7) means that Sentra will be owned and operated by two entities for the calendar year 2018. Such a split as to ownership of the utility system requires that BRMR provide Sentra Resources with sufficient financial information covering January 1, 2018, through the date of transfer to ensure that Sentra is able to file a complete and accurate 2018 annual report by the March 31, 2019 due date to the delay of Sentra in filing its 2017 Annual Report, we will use this occasion to emphasize the necessity for reports to be filed

on a timely basis.⁶ We will further remind Joint Applicants that failure to obey an Order of the Commission shall result in the offender being subject to civil penalties.⁷ Pursuant to 807 KAR 5:006, Section 4(2), reports are to be filed using the Commission's electronic filing system. For further information, the parties may e-mail PSC.Reports@ky.gov.

FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed acquisition should be approved. Sentra Resources and Sentra will have the financial ability to provide reasonable service to Sentra's customers, and will have the managerial and technical abilities necessary to provide reasonable service and that both the level and quality of service currently received by Sentra's customers will be maintained. The proposed transaction will be made in accordance with the law, does not violate any statutory prohibition, and is consistent with the public interest.

Further, as discussed above, the Commission finds that the proposed financing should be approved in part and denied in part.

IT IS THEREFORE ORDERED that:

1. The proposed transfer and acquisition of Sentra by Sentra Resources as set forth in the application is approved.
2. The request for approval of the Acquisition Note and Line of Credit is denied in part and granted in part.
3. Approval of the Acquisition Note is denied.

⁶ Information on annual reports for small natural gas utilities may be viewed on the Commission's website under Utility Information/Utility Forms/Annual Report Forms.

⁷ KRS 278.990.

4. Approval of the Letter of Credit is granted, subject to the modification set forth herein.

5. Within five days of the consummation of the approved acquisition, Sentra shall file written notice setting forth the date that the acquisition was completed.

6. Within seven days of the completion of the approved acquisition, Sentra shall file a copy of the First Amendment to the Stock Purchase Agreement.

7. Within 30 days of the completion of the approved acquisition, Sentra shall file a cost allocation manual.

8. Within ten days of the completion of the approved acquisition, Sentra shall file proof of liability insurance.

9. Within 60 days of the completion of the approved acquisition, Sentra shall file an evaluation of possible gas suppliers.

10. Within 30 days of the completion of the approved acquisition, Sentra shall file a schedule outlining the dates it intends to file Purchased Gas Adjustment applications in conformity with Sentra's Purchased Gas Cost Adjustment tariff.

11. Within 60 days of the completion of the approved acquisition, Sentra shall comply with 49 CFR 191.22 and 192.805.

12. Within 30 days of the date of entry of this Order, BRMR shall file the Annual Report for Calendar Year 2017 Gas Distribution System with the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration as required by 49 CFR 191.11 and shall provide Sentra the necessary financial information to enable Sentra to file its 2018 annual report to the Commission.

13. Documents filed in the future pursuant to ordering paragraphs 5 through 12 shall reference this case number and shall be retained in the utility's general correspondence file.

14. Sentra shall serve customers as a local distribution utility subject to the jurisdiction of the Commission pursuant to KRS Chapter 278.

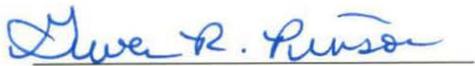
15. Sentra, as a regulated utility, shall conform to the law and operate according to the regulations as contained in 807 KAR Chapter 5.

16. This case is closed and removed from the Commission's docket.

By the Commission

ENTERED
JUL 12 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


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