**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

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IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR AUTHORIZATION TO TRANSFER CERTAIN NATURAL GAS PIPELINE ASSETS THROUGH A FACILITIES EXCHANGE WITH KERR-McGEE GATHERING LLC.	**DOCKET NO. 03A-120G**

STIPULATION AND AGREEMENT IN RESOLUTION OF PROCEEDING

This Stipulation and Agreement ("Stipulation") is entered into by and between Public Service Company of Colorado ("Public Service" or "Company"), the Staff of The Public Utilities Commission of the State of Colorado ("Staff") and the Colorado Office of Consumer Counsel ("OCC"). Public Service, Staff and OCC are referred to herein individually as "Party" and collectively as "Parties." This Stipulation addresses the Application by Public Service in this docket for authorization to transfer certain natural gas pipeline facilities to Kerr-McGee Gathering LLC ("Application"). The Parties state that through this Stipulation all of the concerns and questions of Staff and OCC raised by the Application have been resolved or otherwise answered. Accordingly, the Application should be processed and approved on an expedited basis as a noncontested and unopposed application without hearing and without further notice in accordance with C.R.S. § 40-6-109(5) and Rule 24 of the Commission's Rules of Practice and Procedure.

I. PROCEDURAL BACKGROUND

1. On March 27, 2003, Public Service filed an Application pursuant to C.R.S. § 40-5-105 and Rule 55 of the Commission's Rules of Practice and Procedure, 4 C.C.R 723-1-55, for authorization to transfer to Kerr-McGee Gathering LLC ("Kerr-McGee") 10.9 miles of 8-inch diameter natural gas pipeline, and appurtenant facilities, located in Weld County, Colorado (referred to as the "Brighton-to-Erie 8-inch Pipeline"), in accordance with the terms and conditions of a Facilities Exchange Agreement between Public Service and Kerr-McGee dated November 18, 2002, which was attached as Appendix 4 to the Application.[1] Pursuant to the exchange transaction, Public Service proposes to convey the Brighton-to-Erie 8-inch Pipeline to Kerr-McGee and acquire in exchange from Kerr-McGee approximately 4.2 miles of various 12-inch, 8-inch and 4-inch natural gas pipelines located in Weld and Adams Counties, Colorado ("Kerr-McGee Pipelines").[2] As additional consideration, Public Service has agreed to waive Kerr-McGee's obligation to reimburse Public Service for new interconnection and measurement facilities previously constructed by Public Service to provide for additional natural gas deliveries from Kerr-McGee's Fort Lupton gas processing plant.

2. To show that the proposed transfer is in the public interest,[3] Public Service explained in its Application that the Brighton-to-Erie 8-inch Pipeline is currently not being used to provide service to any customers and its abandonment will not result in the interruption of

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1 A complete description of the Brighton-to-Erie 8-inch Pipeline and a map depicting its location are contained in Schedules F and G, respectively, to the Facilities Exchange Agreement.

2 A complete description of the Kerr-McGee Pipelines and a map depicting their location are contained in Schedules A and B, respectively, to the Facilities Exchange Agreement.

3 The Parties note that under Rule 723-1-55(c)(12) of the Commission's Rules of Practice and Procedure, the applicant is required to show merely that the proposed asset transfer "is not contrary to the public interest."

service or shortfall in capacity necessary to serve any of Public Service's customers. The Application asserted that the proposed exchange transaction effectively provides for the transfer of certain underutilized natural gas pipelines owned by Public Service and Kerr-McGee that have greater commercial usefulness and economic value in the hands of the other and will permit those pipeline facilities to better serve each other's needs. On the one hand, the Brighton-to-Erie 8-inch Pipeline does not and will not provide system capacity necessary to serve Public Service's customers for at least five years. On the other hand, Public Service has an immediate need to extend its system and to provide additional pipeline capacity in the vicinity of Brighton where the Kerr-McGee Pipelines are located in order to meet the growing customer requirements in the areas surrounding Brighton. Public Service further stated that without the acquisition of the Kerr-McGee Pipelines, Public Service will be required to construct a new 12-inch gas pipeline in approximately the same location as the Kerr-McGee Pipelines at a cost of approximately $1,000,000 in order to meet the growing system requirements in the environs of Brighton for the upcoming 2003-04 winter heating season. Because this will treated as a no fee exchange, the journal entries which Public Service proposes to record to reflect the proposed transaction will have no net balance sheet or income statement impact.

3. In its Application, Public Service requested that the Commission shorten the notice period and set the Application for expedited procedures in accordance with C.R.S. § 40-6-109(5) and Rule 24 of the Commission's Rules of Practice and Procedure, in anticipation that the Application would not be opposed.

4. On April 4, 2003, the Commission issued its "Notice of Application Filed" in this docket, which, among other things, gave public notice of the filing of Public Service's Application and directed that interested persons desiring to intervene file interventions on or

before April 14, 2003. Also on April 4, 2003, Staff served a series of audit requests on Public Service seeking additional information and clarification in regard to the Application. Public Service provided written responses to these audit requests to Staff on April 9, 2003.

5. On April 14, 2003, Staff and OCC each filed a notice of intervention and request for hearing.

6. By minute entry entered at its open meeting on April 23, 2003, the Commission deemed Public Service's Application complete as of April 29, 2003 and referred the matter to an administrative law judge for further proceedings.

7. On May 2, 2003, representatives of Public Service, Staff and the OCC met to discuss questions and concerns of Staff and the OCC with respect to the Application, details about the facilities proposed to be exchanged, and aspects of the larger transaction between Public Service and Kerr-McGee in which the Brighton-to-Erie 8-inch Pipeline is a part. The discussions and sharing of information undertaken by the Parties in this proceeding ultimately resulted in the Parties reaching a settlement of all of the issues that were or could have been contested in this docket.

II. POINTS OF CLARIFICATION AND AGREEMENT

8. The following stipulation of facts and agreements is presented in order to supplement and clarify the record in this proceeding without a hearing, and to reflect the resolution of Staff's and OCC's questions and concerns and the agreement of the Parties in connection therewith:

9. Public Service acquired the Brighton-to-Erie 8-inch Pipeline on May 1, 2001 from K N Gas Gathering, Inc. ("KNGG") as part of a larger transaction approved by the Commission

in Docket No. 00A-415G, in which Public Service purchased from KNGG certain gas pipeline facilities referred to therein as the Golden Pipeline and NARCO Pipeline.[4] The Golden Pipeline is a 28-mile long, mostly 12-inch diameter pipeline extending from Erie, Colorado, to Golden and Wheat Ridge, Colorado, where it historically has delivered natural gas to several industrial end use and domestic facilities owned by Coors Energy Company ("Coors Energy"), CoorsTek, Inc. ("CoorsTek"), and Trigen-Nations Energy Company, L.L.L.P. ("Trigen"), and their predecessors. The Commission previously determined that the Golden Pipeline is a public utility facility in two separate proceedings: Public Service Company of Colorado v. Trigen-Nations Energy Company, L.L.L.P., Docket No. 97F-241G and Re: Investigation of K N Gas Gathering, Inc., Docket No. 98C-414G.[5] Prior to its acquisition by Public Service in 2001, the NARCO Pipeline consisted of approximately 33 miles of various diameter pipelines designed to deliver natural gas from the tailgate of the North American Resources Company's ("NARCO") Fort Lupton gas processing plant to its interconnection with the Golden Pipeline near Erie. The Brighton-to-Erie 8-inch Pipeline is a substantial portion of what was then the NARCO Pipeline.[6]

10. In their Joint Application filed in Docket No. 00A-415G, KNGG requested authorization pursuant to C.R.S. § 40-5-105 to transfer the Golden Pipeline and NARCO Pipeline by sale to Public Service, and Public Service requested authorization pursuant to C.R.S.

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4 See Decision Nos. C01-37, mailed January 12, 2001, and C01-296, mailed March 27, 2001, in Docket No. 00A-415G.

5 See K N Gas Gathering, Inc., Decision No. C99-1330 (December 13, 1999), reh'g denied, Decision No. C00-76 (January 21, 2000); reh'g denied, Decision No. C00-451 (May 2, 2000); Public Service Company of Colorado v. Trigen-Nations Energy Company, L.L.L.P., Decision No. C98-687 (July 17, 1998), reh'g denied, Decision No. C98-1084 (November 6, 1998), reh'g granted in part and denied in part, Decision No. C98-1308 (December 24, 1998).

6 The particular pipeline segments that comprise the Brighton-to-Erie 8-inch Pipeline were not referred to as the Brighton-to-Erie 8-inch Pipeline in Docket No. 00A-415G.

§ 40-3-104.3 to continue to provide gas transportation service to Coors Energy, CoorsTek and Trigen, without reference to its tariff, pursuant to the terms of existing long-term contracts that were in place between KNGG and these customers.[7] In addition, Public Service requested that the Commission approve Public Service's integration of the pipelines as part of its overall system operations. In support of this request, Public Service announced that it planned to physically separate the NARCO Pipeline from the Golden Pipeline at the Erie interconnect. See Testimony of Kurtis J. Haeger, Transcript of October 26, 2000 Hearing in Docket No. 00A-415G, pp. 17-20, 36, and 45-49. Public Service had previously provided gas transportation service to certain of the Golden Pipeline customers at its own Erie interconnection with the Golden Pipeline prior to KNGG's completion and connection of the NARCO Pipeline in late 1997. Public Service proposed to re-institute deliveries through the Erie interconnect using its existing Front Range pipeline system, thereby obviating the need for continuing this service through the NARCO Pipeline. See Testimony of Kurtis J. Haeger, Transcript of October 26, 2000 Hearing in Docket No. 00A-415G, pp. 52-53.

11. As part of its economic justification for acquiring the pipeline facilities from KNGG, Public Service planned to use the NARCO Pipeline for purposes other than to provide gas transportation service to the Golden Pipeline customers. Certain of these plans were cited by the Commission in Decision No. C01-0037, mailed January 12, 2001, and reaffirmed in Decision No. C01-296, mailed March 27, 2001, wherein the Commission found the transfer of the Golden

7 Public Service and KNGG filed the joint application in furtherance of a global settlement between Public Service, KNGG and certain of KNGG's affiliates which put to rest years of controversy and litigation before the Commission and state courts. For nearly four years prior to the application in Docket No. 00A-415G, Public Service, KNGG, and Trigen, as the former owner of the Golden Pipeline, had been embroiled in litigation before this Commission and the Colorado district courts surrounding the Commission's jurisdiction over the Golden Pipeline operations.

Pipeline and the NARCO Pipeline to be in the public interest:

> 8. The NARCO Pipeline would benefit the Public Service system. Public Service could forego establishing a line to serve the Tri-Town area, saving a capital cost of $540,000. Should the Leyden gas storage facility be shut down, Public Service will need additional capacity and balancing capability in the area of the NARCO Pipeline. Portions of the NARCO Pipeline will be converted to intermediate pressure and used as an additional distribution line. There is potential to serve a new electric generating facility to be located at Barr Lake. Obtaining the NARCO facilities could save $750,000 in future capital expenditures. Public Service has also received an indication that another party is interested in buying a three-mile section of the NARCO Pipeline.

Decision No. C01-0037, p 7 ¶ 8.

12. In its Application in the instant docket, Public Service disclosed that the party interested in buying the three-mile section of the NARCO Pipeline, as referenced in the above quote, was HS Resources, Inc., predecessor-in-interest to Kerr-McGee. The Facilities Exchange Agreement is the culmination of subsequent negotiations between Public Service and HS Resources, Inc., and subsequently Kerr-McGee, relating to portions of the NARCO Pipeline. Public Service states that by effecting an exchange of the Brighton-to-Erie 8-inch Pipeline and the Kerr-McGee Pipelines, Public Service can realize greater system and operational benefits than originally contemplated through a simple sale of a three-mile section of the NARCO Pipeline.

13. Another cited benefit of Public Service acquisition of the NARCO Pipeline in Docket No. 00A-415G was cost savings related to Public Service's construction of a new delivery point under its gas transportation service agreement with Kinder Morgan Inc. (then K N Energy, Inc.) to serve Kinder Morgan's Tri-Town gas distribution system in and around the Towns of Firestone, Evanston, Frederick, and Dacono, Colorado. This city gate delivery point is located in Section 34, T2N-R67W, Weld County, Colorado, and is referred to as the Sandy Hill

Delivery Point. While the Joint Application in Docket No. 00A-415G was pending, and in anticipation that Public Service would acquire the NARCO Pipeline, KNGG commenced new emergency gas transportation service to the Sandy Hill Delivery Point, which had been constructed in late 2000 by Public Service. Such new gas transportation service provided for deliveries using the NARCO Pipeline to the new Sandy Hill Delivery Point in order to meet the growing peak day capacity needs of the Tri-Town area for the 2000-2001 winter heating season and thereafter.[8] Public Service assumed this new service upon the acquisition of the KNGG facilities. As referenced in the quoted language from Commission Decision No. C01-0037 above, the acquisition of the NARCO Pipeline saved Public Service $540,000 in capital costs related to the construction of this new delivery point.

14. Once Public Service acquired the KNGG facilities in May 2001, the Brighton-to-Erie 8-inch Pipeline initially continued to be used to provide gas transportation service to the Golden Pipeline customers and to provide deliveries to the Sandy Hill meter station, the new city gate delivery point to Kinder Morgan, Inc.'s Tri-Town service area. Public Service changed the configuration of these pipelines shortly after their acquisition such that Public Service's deliveries to the Golden Pipeline customers would no longer physically require the use of the NARCO Pipeline. While the facilities comprising the Golden Pipeline continue to serve the same four historical customers, physical deliveries into the Golden Pipeline now flow via Public Service's high pressure system through the Erie interconnect located in Section 30, T1N-R68W, Weld County, Colorado. Within days after its acquisition by Public Service, the NARCO

8 Authorization for KNGG to commence this new service was granted pursuant to the Commission's emergency authority on a temporary basis for 45 days in Decision No. R00-1351-I (mailed November 28, 2000) and extended by 90 days in Decision No. C01-0064 (mailed January 24, 2001).

Pipeline was disconnected from the Golden Pipeline and was put to different uses as part of Public Service's integrated transmission and distribution system. After this initial disconnection, the Brighton-to-Erie 8-inch Pipeline ceased being used to provide gas transportation service to the Golden Pipeline at the Erie interconnect and was used only to provide gas transportation service to the Sandy Hill Meter Station for Kinder Morgan, Inc.'s Tri-Town distribution system.

15. Approximately one year later, Public Service cut over the 6-mile long, 10-inch north-south pipeline lateral serving the Sandy Hill Delivery Point, disconnecting it from the Brighton-to-Erie 8-inch Pipeline and connecting it to Public Service's existing Roundup-to-Yosemite 16-inch Pipeline. As such, the Brighton-to-Erie 8-inch Pipeline has not been used by Public Service to provide service to any customer since May 2002. Therefore, Public Service does not believe that a request for abandonment of the Brighton-to-Erie 8-inch Pipeline is necessary. Based on the reconfiguration of the NARCO Pipeline facilities as described above, the Brighton-to-Erie 8-inch Pipeline has become redundant of existing pipeline capacity. Since 1980, Public Service has operated a 16-inch pipeline[9] (the Roundup-to-Yosemite 16-inch Pipeline referred to above) that lies ½ mile south and parallels the entire length of the Brighton-to-Erie 8-inch Pipeline. Based on the Company's current facility plans, the Brighton-to-Erie 8-inch Pipeline will not provide system capacity necessary to serve Public Service's customers for at least five years. On the other hand, Public Service has an immediate need to extend its system

9 The Roundup-to-Yosemite pipeline was purchased from the Adolph Coors Company in May of 1980. It consists of approximately 36 miles of 12-inch and 9.6 miles of 16-inch high pressure pipeline that extends from the Roundup Storage Field to the Yosemite Blend Plant. Like sections of the Roundup-to-Yosemite Pipeline and the Brighton-to-Erie 8-inch Pipeline would have the following capacities, based on 700 psig at the inlet and 575 psig at the Yosemite Blend Plant:

Roundup-to-Yosemite Pipeline – 175,100 Dth/day
Brighton-to-Erie 8-inch Pipeline – 39,040 Dth/day

and for additional pipeline capacity in the vicinity of Brighton where the Kerr-McGee Pipelines are located in order to meet the growing customer requirements in the areas surrounding Brighton. In addition, Kerr-McGee has an immediate need for the Brighton-to-Erie 8-inch Pipeline and plans to place the pipeline into nonregulated natural gas gathering service.

Reconciliation of the Various Segments of the NARCO Pipeline and the Facilities Proposed to Be Transferred to Kerr-McGee.

16. Staff and OCC requested that Public Service reconcile the various pipeline segments that were acquired from KNGG as part of the NARCO Pipeline and the facilities proposed to be transferred to Kerr-McGee pursuant to the instant Application.

17. As described in the Schedule A to the Purchase and Sale Agreement Between Public Service and KNGG, the following NARCO Pipeline facilities were acquired by Public Service on May 1, 2001, with the shaded pipeline segments (Segments E, G and H) reflecting the segments comprising the Brighton-to-Erie 8-inch Pipeline:

> The NARCO Pipeline consists of approximately 33 miles of various diameter pipelines, three meter stations, two odorization facilities and other appurtenant facilities all located in Weld County, Colorado, commencing at the interconnection at the tailgate of the North American Resources Company's ("NARCO") Fort Lupton Gas Processing Plant, located in the SW¼ of Section 11, T2N-R66W, and extending to its interconnection with the Golden Pipeline at the Erie Station, located in the NE¼ of Section 31, T1N-R68W, Weld County, Colorado, including the following pipeline segments and facilities:
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> A. 0.37 miles of 8-inch pipeline extending south and west from the tailgate of the NARCO Fort Lupton plant, SW¼ of Section 11, T2N-R66W, to the NW¼ of Section 14, T2N-R66W, along with associated meter station and odorization facilities;
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> B. 6.5 miles of 12-inch pipeline extending south from the NW¼ of Section 14, T2N-R66W to the NW¼ of Section 14, T1N-R66W;

C. 1.1 miles of 10-inch pipeline extending southwest from the take-off valve in Section 34, T1N-R66W to the Thermo Power Plant in Section 34, T1N-R66W, along with associated meter station;

D. 4.0 miles of 12-inch pipeline extending south from the NW¼ of Section 14, T1N-R66W to the Weld County line in Section 34, T1N-R66W;

E. 7.0 miles of 8-inch pipeline extending west from the take-off valve in Section 27, T1N-R66W to the valve set in the SE¼ of Section 28, T1N-R67W;

F. 6.0 miles of 10-inch pipeline extending north from the valve set in the SE¼ of Section 28, T1N-R67W to the Duke Energy Field Services, Inc. Spindle Gas Processing Plant in the SW¼ of Section 34, T2N-R67W;

G. 1.5 miles of 8-inch pipeline extending west from the valve set in the SE¼ of Section 28, T1N-R67W to Section 32, T1N-R67W;

H. 2.4 miles of 8-inch pipeline extending west from Section 32, T1N-R67W to Section 25, T1N-R68W;

I. 5.5 miles 4-inch pipeline extending west from Section 25, T1N-R68W to the Erie Station in Section 30, T1N-R68W, along with associated meter station and odorization facilities;

J. 0.2 miles 3-inch pipeline in NW¼ of Section 15, T1N-R66W.

18. References to the various NARCO Pipeline segments identified above as Segments A through J will be used in the remainder of this Stipulation when discussing the specific facilities at issue. For purposes of summary, Segments B and D represent the north-south 12-inch pipeline that obviated the need for Public Service to construct new pipeline facilities in 2001 to add needed capacity and operational balancing capability in part due to the abandonment of the Leyden Gas Storage Facility, at a capital cost savings of approximately $750,000. Segment F represents the 6-mile, 10-inch pipeline lateral that now interconnects

Kinder Morgan's Tri-Town distribution system at the Sandy Hill Delivery Point. Segment I represents the 4-inch westernmost segment of the NARCO Pipeline which Public Service has since converted to low-pressure gas distribution service.

19. Thus, only the easternmost 10.9 miles of the east-west portion of the NARCO Pipeline (Segments E, G and H), referred to as the Brighton-to-Erie 8-inch Pipeline in the instant application, is proposed to be transferred to Kerr-McGee. None of the north-south portions of the NARCO Pipeline, including both the 10.5 miles of 12-inch pipeline extending south from the NARCO Plant (Segments B and D) and the 6 miles of 10-inch pipeline extending north from the Brighton-to-Erie 8-inch Pipeline to the Sandy Hill Meter Station serving Kinder Morgan's Tri-Town distribution system (Segment F), are proposed to be transferred. These north-south pipelines have been fully integrated into Public Service's system and are currently being used to provide service to Public Service's customers. Likewise, the proposed transfer does not include the westernmost 5.5 mile long, 4-inch diameter segment of the former NARCO Pipeline that extends between the valve set at the former Coors Plant and the Erie Meter Station (Segment I), which is now being used to provide low-pressure gas distribution service.

Clarification of Public Service's Operations and Service to Customers Before and After the Proposed Transfer.

20. In its Application, Public Service stated that the Brighton-to-Erie 8-inch Pipeline is currently not being used to provide service to any Public Service customers and its abandonment will not result in the interruption of service or shortfall in capacity necessary to serve any of Applicant's customers. Staff requested additional explanation and clarification as to why the transfer of the Brighton-to-Erie 8-inch Pipeline to Kerr-McGee would not affect service to existing or future customers. In particular, Staff requested clarification of the operation of

Public Service's natural gas pipeline system in the vicinity of the Brighton-to-Erie 8-inch Pipeline, both before and after its proposed transfer to Kerr-McGee.

21. As explained in the background section above, Public Service temporarily used the Brighton-to-Erie 8-inch Pipeline to provide the service to four gas transportation customers, namely, Coors Energy, CoorsTek, Trigen and Kinder Morgan. The service to the three Golden Pipeline customers (Coors Energy, CoorsTek and Trigen) lasted only days in May 2001, from the date Public Service acquired the facilities from KNGG until the date Public Service re-established deliveries to the Golden Pipeline through its Erie interconnection. The service to Kinder Morgan's Tri-Town distribution system at the Sandy Hill Delivery Point lasted approximately one year, until May 2002, when Public Service tied the 6-mile long, 10-inch diameter, north-south lateral (Segment F) which it acquired from KNGG to its Roundup-to-Yosemite 16-inch Pipeline. Consequently, all service to these four customers are continuing and will continue to be provided through other portions of Public Service's pipeline system. No service is currently being provided to any customer over the Brighton-to-Erie 8-inch Pipeline, and no such service has been provided since May 2002.

22. In addition to the explanation set forth in the background section above, Public Service clarifies that even before the acquisition of the NARCO Pipeline in 2001, it has had sufficient east-west gas transmission capacity along the corridor where the Brighton-to-Erie 8-inch Pipeline is located to serve anticipated system load growth on this area of its system. Public Service represents that the Brighton-to-Erie 8-inch Pipeline is duplicative of and redundant to Public Service's Roundup-to-Yosemite 16-inch Pipeline, which is located approximately ½ miles south and runs about parallel for the full length of the Brighton-to-Erie 8-inch Pipeline. Based on Public Service's current facility plans, which are based on a five-year planning horizon, the

Brighton-to-Erie 8-inch Pipeline would not provide any system capacity that is necessary to serve Public Service's customers.

23. Public Service hereby represents and attests that it has no current plans to construct a transmission pipeline which loops the Roundup-to-Yosemite 16-inch Pipeline or which would otherwise replace the capacity of the Brighton-to-Erie 8-inch Pipeline and that there is no need for such capacity within at least the next five year planning horizon. Public Service also represents and attests that it presently has no knowledge of any future industrial development along this pipeline corridor that would present the need for additional pipeline capacity in this area. In order to provide additional assurance that existing east-west pipeline capacity is sufficient in this area to serve Public Service's system needs in the foreseeable future without the Brighton-to-Erie 8-inch Pipeline, Public Service agrees that, for the period July 1, 2003 through June 30, 2008, before commencing construction of a new east-west pipeline providing similar capacity to and located within one mile north or south of the location of the Brighton-to-Erie 8-inch Pipeline, if such capacity is necessary to serve normal load growth on Public Service's system, Public Service shall file an application requesting the Commission's authority to construct such facilities.[10] If, during the same five-year period, Public Service intends to construct a similar pipeline as described in the foregoing sentence to serve a contract customer, Public Service shall advise the Commission's Chief of Fixed Utilities in writing at least 60 days prior to the commencement of any such planned construction. A contract customer is a potential gas transportation service customer, or an existing customer with a potential to

10 The reason an agreement for Public Service to apply for a certificate of public convenience and necessity is necessary for the construction of facilities similar to the Brighton-to-Erie 8-inch Pipeline is that extension of the local distribution system in the ordinary course of business does not require approval by the Commission. *See* C.R.S. § 40-5-105.

significantly expand its load requirements, who has an alternative pipeline provider or an alternative fuel option or is considering siting its proposed or expanded industrial facility in another state. The parties agree that in the unlikely event that construction of a new east-west pipeline which loops the Roundup-to-Yosemite 16-inch Pipeline or which would otherwise replace the capacity of the Brighton-to-Erie 8-inch Pipeline is necessary to serve such a contract customer during the referenced 5-year period, the parties reserve the right to address the prudence of such construction and the appropriate cost assignment (if any) of such construction.

Clarification of Relationship of Facilities to Be Transferred to the Justification and System Benefits Cited in Docket No. 00A-415G.

24. Staff expressed its concern that some of the facilities proposed to be transferred to Kerr-McGee was cited by Public Service in Docket No. 00A-415G, and relied upon by the Commission in that docket, as providing system and customer benefits which justified, at least in part, the Commission's approval of the acquisition of the facilities from KNGG. Staff also questioned whether Public Service had ever represented that any of the facilities proposed to be transferred to Kerr-McGee were to become an integral part of Public Service's system and used to justify the purchase of the Golden Pipeline and/or the decommissioning of the Leyden Gas Storage Facility.

25. Public Service represents that all of the cost savings and economic benefits cited by Public Service and at least potentially relied upon by the Commission in Docket No. 00A-415G related to other portions of the NARCO Pipeline, and not to any of the facilities proposed in this docket to be transferred to Kerr-McGee. Specifically, the $540,000 in capital cost savings cited in Docket No. 00A-415G related solely to the 6-mile, 10-inch north-south lateral (Segment F) that is now providing service to Kinder-Morgan's Tri-Town distribution area. Similarly, the

$750,000 in cited capital cost savings related to the 10.5 miles of north-south 12-inch pipeline acquired (Segments B and D).

26. While Public Service requested specific authority to "integrate" all of the facilities into its system and operations, the purpose of this was to allow Public Service to cut up the NARCO Pipeline and use its various parts for more beneficial purposes. The only reference to the replacement of the Leyden Gas Storage Facility in regard to these facilities was the increased need for capacity and additional operational flexibility in the form of system balancing capacity created by the planned abandonment of the Leyden Gas Storage Facility that would be satisfied in part by Public Service's acquisition of Segments B and D.

Economics of the Proposed Exchange.

27. Both Staff and the OCC had serious concerns that, under the Facilities Exchange Agreement, Public Service may be giving up facilities and other consideration that have a significantly greater market value than the facilities which Public Service would be receiving in return. Staff was particularly concerned that the estimated replacement cost of the Brighton-to-Erie 8-inch Pipeline is $2,145,000, whereas the replacement cost of the Kerr-McGee Pipelines that Public Service is to receive in exchange is only $978,000. *See* Attachment A. Staff and OCC also requested further details concerning the obligations of Kerr-McGee with respect to reimbursement of Public Service's costs in constructing the new receipt point at Kerr-McGee's Fort Lupton gas processing plant.

28. Public Service advocates that the relative replacement costs of the pipelines proposed to be exchanged under the Facilities Exchange Agreement are not indicative of the actual market values of these facilities in place. The replacement cost reflects the estimated cost of new pipeline facilities of the same diameter and length as the pipelines under consideration.

As allocated by Public Service from the purchase price of $1.75 million related to the Golden Pipeline and NARCO Pipeline facilities, the net book value for the Brighton-to-Erie 8-inch Pipeline is $245,997.75. Although similar information is not available for the Kerr-McGee Pipelines, Kerr-McGee acquired the Kerr-McGee Pipelines as part of a very large transaction in which it acquired 1600 miles of pipeline from KNGG at significantly less than replacement cost. Thus, neither Public Service nor Kerr-McGee paid replacement value for the facilities which they propose to exchange, but instead purchased them from KNGG for something quite substantially less.

29. Public Service further advocates that replacement cost does not reflect the actual value of the facilities in the location where they are situated. The vicinity served by the Brighton-to-Erie 8-inch Pipeline is mostly rural, agricultural land flanked by some small towns, whereas the Kerr-McGee Pipelines to be acquired are located in an area of rapid population growth and commercial development. The cost of acquiring pipeline right-of-way in the location of the Kerr-McGee Pipelines is higher than in the location of the Brighton-to-Erie 8-inch Pipeline.[11] Moreover, Public Service places little economic value on the east-west capacity offered by the Brighton-to-Erie 8-inch Pipeline, as Public Service currently has ample pipeline capacity in this geographic area to serve its needs. Conversely, Public Service places significant value on the capacity offered by the Kerr-McGee Pipelines, because they are in a location where Public Service has a current need for such capacity. In fact, Public Service has an immediate

11 Public Service's estimate for acquiring right-of-way in the vicinity of the Kerr-McGee Pipelines is $21,780 per acre, whereas the estimate for acquiring right-of-way in the vicinity of the Brighton-to-Erie 8-inch Pipeline is $12,500 per acre.

need to construct facilities at a cost estimated to be $1,000,000[12] to provide comparable capacity in the same location as the Kerr-McGee Pipelines if the proposed facilities exchange is not consummated by this summer. In contrast, Kerr-McGee has represented that it has no immediate need for pipeline capacity in either location.

30. The Application states that no money will change hands, however, part of the consideration provided by Public Service to Kerr-McGee is the waiver of Kerr-McGee's obligation to reimburse Public Service for the cost of constructing measurement and appurtenant receipt point facilities at the tailgate of Kerr-McGee's Fort Lupton gas processing plant. These facilities were constructed by Public Service in late 2001. The facilities are, and will continue to be, owned and operated by Public Service. Public Service has explained that Kerr-McGee had expanded the throughput capacity of its Fort Lupton Plant and requested additional receipt point capacity to deliver gas into Public Service's system than was provided by the previous receipt point facilities. Public Service explained that, in these types of situations, Public Service requires that the operator of the upstream system requesting additional receipt point facilities, in this case, Kerr-McGee, reimburse Public Service for 100% of its estimated construction costs. Public Service estimated that its construction costs would be $367,844, and that, with the gross-up for the income taxes, Kerr-McGee would be required to reimburse Public Service $593,410. Public Service has explained that it did not ultimately incur the full $367,844 in constructing the Fort Lupton receipt point. In fact, Public Service incurred only $130,000 in out of pocket costs, as it did not purchase a new meter run but rather had used a meter run that was on hand in inventory. This is the same meter run that was previously acquired from KNGG, had been used

12 Actual cost may be less if Public Service uses material from existing inventory.

as a receipt point meter station for deliveries into the NARCO Pipeline from the NARCO Plant, but was redundant to existing Public Service receipt point facilities at the NARCO Plant, and is identified in the description of Segment A above. Public Service assigned $39,375 to the meter run (out of the $1.75 million total purchase price of the facilities acquired from KNGG) before it was retired from service and placed in inventory. Thus, the total actual cost to Public Service to construct the Fort Lupton receipt point facilities was $169,375.

31. Public Service represents that Public Service's customers will benefit from the proposed exchange of facilities. These benefits can be seen from an analysis of the effect on the Company's net plant investment that would be included in the Company's recoverable rate base in future rate cases. Pursuant to this analysis, Public Service states that the rate base impact of going forward with the proposed exchange would result in less net plant investment and less recoverable rate base, than if the proposed exchange did not go forward and Public Service were instead required to construct new pipeline facilities in the vicinity of the Kerr-McGee Pipelines.

Net Plant Investment (Rate Base) Impact	With Exchange	Without Exchange
Construction Cost of Ft Lupton Receipt Point	$169,375	$169,375
Less: Contribution in aid of construction from K-M	- 0 –	(169,375)
Net Book Cost of Brighton-to-Erie 8-inch Pipeline	- 0 –	245,998
Net Book Cost of Kerr-McGee Pipelines	$245,998	- 0 –
Cost of New North-South Brighton Pipeline	- 0 –	1,000,000
Total Impact	$415,373	$1,245,998

In sum, Public Service will save a net amount of $830,625 ($1,245,998 less $415,373) in plant investment that would otherwise be included in recoverable rate base in future cost of service rate cases. Accordingly, the proposed transaction results in a net economic benefit to Public Service and, ultimately, to its customers.

The Public Interest and Approval of the Application.

32. The Parties acknowledge and agree that through this Stipulation all of the

concerns and questions of Staff and OCC raised by the Application have been resolved or otherwise answered. The Parties agree that the Application should be granted consistent with the above terms, conditions, and clarifications to which the Parties have agreed. The Parties agree that, with this Stipulation, the proposed transfer to Kerr-McGee of the Brighton-to-Erie 8-inch Pipeline pursuant to the Facilities Exchange Agreement is in the public interest and the Application of Public Service should be approved. The Parties further agree that the Application should be processed and approved on an expedited basis as a noncontested and unopposed application without hearing and without further notice in accordance with C.R.S. § 40-6-109(5).

IV. GENERAL PROVISIONS

33. The Parties hereto agree that this Stipulation should be approved, in its entirety, subject to the terms and conditions provided herein.

34. The Parties state that approval and implementation of the clarifications and agreements reflected in this Stipulation will result in savings to all concerned by avoiding litigation, and that the results of such compromises are a just and reasonable resolution of this proceeding. Each party hereto pledges its support of this Stipulation and urges the Commission to approve same without modification. For those Parties hereto for whom this Stipulation is executed by counsel, such counsel states that it has authority to execute this Stipulation on behalf of its client(s).

35. This Stipulation shall not become effective until the issuance of a final Commission order approving the Stipulation Approval of this Stipulation by the Commission shall constitute a determination that the Stipulation represents a just, equitable and reasonable resolution of all issues which were or could have been contested between the Parties hereto in

this proceeding. Notwithstanding the resolution of the issues set forth in this Stipulation, none of the methodologies or ratemaking principles herein contained shall be deemed by the Parties to constitute a settled practice or precedent in any future proceeding, and nothing herein shall constitute a waiver by any party with respect to any matter not specifically addresses herein. Further, by entering into this Stipulation, no party shall be deemed to have agreed to any specific principles or method of ratemaking.

37. Except as otherwise provided herein, neither anything said, admitted or acknowledged in the negotiations leading up to the execution of said Stipulation, the settlement terms and conditions contained in this Stipulation, nor the Stipulation itself, may be used in this or any other administrative or court proceeding by any of the Parties hereto.

38. The Parties agree to a waiver of compliance with any requirements of the Commission's Rules and Regulations to the extent necessary to permit all provisions of this Stipulation to be carried out and effectuated.

Dated this 19th day of June, 2003

Respectfully submitted,

PUBLIC SERVICE COMPANY OF COLORADO

By: ______________________
Fredric C. Stoffel
Vice President, Policy Development
Xcel Energy Services Inc.

Approved As To Form:

____
James D. Albright, #18685
Assistant General Counsel
Xcel Energy Services Inc.
1225 17th Street, Suite 900
Denver, CO 80202

Attorney for Public Service Company of Colorado

STAFF OF THE PUBLIC UTILITIES COMMISSION

By: _______________________
Billy Kwan
Energy Analyst

Approved As To Form:

____
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Assistant Attorney General
Office of the Attorney General
Business and Licensing Section
1525 Sherman St., 5th Floor
Denver, CO 80203

Attorney for the Staff of the Colorado
Public Utilities Commission

COLORADO OFFICE OF CONSUMER COUNSEL

By: _______________________
James G. Greenwood
Rate/Financial Analyst

Approved As To Form:

____
Stephen W. Southwick, #30389
First Assistant Attorney General
Office of the Attorney General
1525 Sherman St., 5th Floor
Denver, CO 80203

Attorney for the Colorado Office of
Consumer Counsel

ATTACHMENT A

The replacement value of the Brighton-to-Erie 8-inch Pipeline is estimated as follows:

10.9 miles of 8" high pressure pipeline at $24,000/inch-mile		$2,100,000
Three main line valve sets		45,000
	Total	$2,145,000

The replacement value of the KMG Pipelines is estimated as follows:

2 miles of 12" high pressure pipeline at $25,000/inch-mile		$600,000
1.4 miles of 8" high pressure pipeline at $25,000/inch-mile		280,000
0.9 miles of 4" high pressure pipeline at $25,000/inch-mile		90,000
Tie-in		8,000
	Total	$978,000

CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of June, 2003, an original and three (3) copies of the foregoing **"STIPULATION AND AGREEMENT IN RESOLUTION OF PROCEEDING"** were hand delivered to:

Bruce Smith, Director
Colorado Public Utilities Commission
1580 Logan OL2
Denver, CO 80203

and copies were e-mailed, faxed, hand delivered, or placed in the United States Mail, addressed to:

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First Assistant Attorney General
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Yrene A. Nuñez