

ROCKY MOUNTAIN NATURAL GAS LLC

ADVICE LETTER NO. 59

STATEMENT OF NATURE, REASONS AND BASIS

APPENDIX A

ROCKY MOUNTAIN NATURAL GAS LLC  
STATEMENT OF NATURE, REASONS AND BASIS

By its filing, Rocky Mountain Natural Gas LLC (Rocky Mountain or the Company) is proposing to revise its Colorado Gas Tariff Volume No. 2 as detailed herein. The first principal change would require releases of capacity subscribed under Rate Schedule GRS-1 to firm, on-system shippers taking service under Rate Schedule FTS-1 under specified circumstances. The second principal change would revise the reservation, non-gas commodity, authorized overrun and unauthorized overrun charges applicable to firm, on-system shippers served under Rate Schedule FTS-1, with respect to service rendered using released Rate Schedule GRS-1 capacity, to be equivalent to the corresponding rates paid by buyers under Rate Schedule GRS-1. (The rates applicable to service rendered utilizing non-released capacity are unchanged from their current levels.) The third principal change would provide for the establishment and publication of annual and monthly system management plans, which could be updated as appropriate through a system management plan year. The remaining substantive revisions proposed by Rocky Mountain represent changes to various provisions of Rate Schedule FTS-1 to recognize the effect of the system management plans.

This filing is being made pursuant to the Stipulation and Agreement, specifically, Article II.L. and Attachment C, approved by the Colorado Public Utilities Commission (Commission) in Docket No. 06A-533G by its Decision No. C07-0247. Each tariff sheet bears a proposed effective date of October 1, 2007.

Background

Rocky Mountain operates an intrastate pipeline on Colorado's Western Slope. With the

exception of a single, long-time, large-volume customer directly connected to its system, Rocky Mountain does not provide service directly to end-users. Rather, it provides resale service to an affiliate, SourceGas Distribution LLC (SourceGas), which, in turn, provides end-use retail distribution service on the Western Slope. Rocky Mountain also provides firm and interruptible transportation service to a small number of on-system and off-system customers. “On-system” refers to those customers whose end-use delivery points either are on the Rocky Mountain or SourceGas Western Slope systems. “Off-system” refers to those customers whose delivery points are to receipt points onto other pipeline systems, such as TransColorado Gas Transmission Company, Northwest Pipeline Corporation, Public Service Company of Colorado, Colorado Interstate Gas Company and Questar Pipeline Company.

Traditionally, Rocky Mountain’s primary service has been the General Resale Service that it provides to support the sales service provided by SourceGas to end-users on the western slope of Colorado. Transportation service has been offered, and historically has existed, on the Rocky Mountain system only to the extent that it does not interfere with the resale service. This priority given to resale service is recognized in Section 21 of the General Terms and Conditions of the Tariff adopted by Rocky Mountain, which provides that resale service customers always have the first call on capacity available on the Rocky Mountain system.

During the course of Docket No. 06A-533G, certain existing and would-be shippers on the Rocky Mountain system raised the issue whether shippers could receive access to additional capacity for transportation service on the Rocky Mountain system. As a resolution of that issue, Rocky Mountain agreed to make the instant tariff filing, by which it is proposing a means to allow for the requested access to capacity that can be used to provide transportation service, with

a proposed effective date that would permit such service to occur during the upcoming 2007-2008 heating season. This filing is made in compliance with that agreement.

### Capacity Release Provisions

Rocky Mountain is proposing to increase access to transportation service capacity by providing for releases of General Resale Service capacity to shippers under specified circumstances. The proposed capacity release provisions are contained in Section 22 of the General Terms and Conditions, commencing on Sheet No. 90 accompanying Advice Letter No. 59. In summary form, that section provides that a General Resale Service customer serving a non-residential end-use party who wishes to convert to transportation service on that customer's system, must release capacity to the shipper chosen by the end-use party to provide the requested transportation service. Rocky Mountain will determine the amount of capacity to be released using end-user data provided to it by SourceGas. The customer's Contract Demand then is reduced by the amount of released capacity effective on the date that the release becomes effective, with the selected shipper taking that capacity and paying the applicable rates for its reservation and use.

Except for the upcoming 2007-2008 heating season, which requires notice by October 15, 2007, Rocky Mountain must be notified of capacity releases under Section 22 by February 15 of a year for the conversion to become effective on June 1 of that year. Such notice is required in order to allow Rocky Mountain, and the affected General Resale Service customer, to take conversions into account in their gas supply planning activities. The exception for the 2007-2008 heating season is being offered in order to implement the program consistent with the Stipulation approved in Docket No. 06A-533G.

Releases of Rate Schedule GRS-1 capacity also will be made where Rocky Mountain determines that an existing on-system shipper does not hold adequate capacity on the Rocky Mountain system to serve the peak day requirements of the End-Use Parties on whose behalf the shipper is transporting gas on the Company's system. Rocky Mountain again will determine the amount of capacity to be released using end-user data provided to it by SourceGas. The purpose of this revision is to match capacity with anticipated customer requirements under design day conditions and to more appropriately assign cost responsibility for capacity.

The basic principles to be used in determining the amount of GRS-1 capacity to be released are as follows: For existing transport customers: due to the existence of electronic flow measurement (EFM) at delivery points and end-use meters, actual daily consumption is available and will be correlated to the local weather events and design day conditions. Analysis will be used to determine the correlation between customer usage and heating degree days, which in turn is used to determine the appropriate design day requirements. In appropriate cases, other factors that are not directly related to temperature variations, are considered in the determination, including occupancy rates, use of gas for snow melt and other pertinent factors. For existing sales service customers: these customers do not have EFM at the end-use meter, and therefore the Company and SourceGas do not maintain actual daily consumption. Rocky Mountain therefore will use bill cycle volumes, correlated to bill cycle weather, and adjusted for appropriate other pertinent factors and design day conditions. For new customers: these customers also do not have EFM at the end-use meter, and therefore the Company and SourceGas do not maintain actual daily consumption. The Company therefore will base peak

requirements on anticipated connected load adjusted for appropriate other pertinent factors and design day conditions.

Additional conditions applicable to the capacity releases provided for in proposed Section 22 are that the Company and the so-called Capacity Release Shipper have executed a new or revised service agreement providing for the transportation service under Rate Schedule FTS-1; that the Capacity Release Shipper has posted a bond with, or provided a letter of credit to, the Company that is adequate to permit Rocky Mountain to fulfill the Capacity Release Shipper's obligations under the Service agreement in case of a default by the latter; and that released capacity will revert back to the General Resale Service customer or be transferred to another shipper only based upon a decision by the end-use party to convert back to sales service or to switch shippers. Notice of such a change once again must be provided to Rocky Mountain by February 15 of a year for the change to become effective on June 1 of that year.

Corresponding revisions are made to Section 4.2.a. of Rate Schedule GRS-1, on Sheet No. 14, and to Section 5.3.a. of Rate Schedule FTS-1, on Sheet No. 24, to allow adjustments to a General Resale Service customer's contract demand and a shipper's Maximum Daily Transportation Quantity, as a result of releases, returns or transfers of capacity effected under Section 22.

#### Firm, On-System Transportation Service Rates

By its filing, Rocky Mountain is proposing to revise the Statement of Rates applicable to Rate Schedule FTS-1, on Sheet No. 10, so as to provide for the applicable rate for on-system transportation service which utilizes capacity released under Section 22 of the General Terms and Conditions. This rate differs from those rates charged to other firm transportation service.

Under this proposal, firm, on-system shippers utilizing capacity released under said Section 22 would pay reservation charges, non-gas commodity charges, and authorized overrun and unauthorized overrun charges that are equivalent to the Rate Schedule GRS-1 rates for the corresponding charges applicable to that rate schedule, while all other shippers with service agreements that do not utilize released Rate Schedule GRS-1 capacity would continue to pay the rates currently set forth on Sheet No. 10 for Rate Schedule FTS-1.

Rocky Mountain does not project any material impact on revenues resulting from this filing.

#### System Management Plans

By its filing, Rocky Mountain is proposing a provision which would require the establishment and publication of annual and monthly system management plans, commencing on Sheet No. 92 accompanying Advice Letter No. 59. The plans would be established and made available on or before April 1 of each calendar year, and can be updated by the Company as appropriate over the course of a System Management Year (defined as the twelve months commencing on June 1 of each calendar year). Each plan will establish system management requirements, including allocations of total storage activity among Rate Schedule GRS-1 customers and firm, on-system, Rate Schedule FTS-1 customers. Each of these customers will be given an annual and monthly plan, which will include requirements for daily activity thereunder. The purpose of the plans is to assure adequate working gas quantities are available and to optimize the use of storage to the extent that it is operationally feasible in order to allow flowing gas to be baseloaded, as well as to optimize the use of available system capacity.

Implementation of system management plans, with their requirements for daily and monthly activity, requires corresponding changes to several provisions of Rate Schedule FTS-1 to account for the requirements of those plans. The affected provisions are: Section 5.3.e., addressing monthly balancing requirements, on Sheet No. 27; Section 7.1.g., addressing Scheduled Quantities, on Sheet No. 33; Section 7.1.h., addressing Inaccurate Nominations, on Sheet No. 33A; and Section 7.1.i., addressing daily balancing fees, on Sheet No. 34.

#### Miscellaneous Revisions

By its filing, Rocky Mountain is proposing to take the definitions of on-system and off-system shippers out of Section 5.3.e. of Rate Schedule FTS-1, and relocate them to the definitions section of the General Terms and Conditions, on Sheet No. 55. Rocky Mountain also is proposing to expand the definition of shipper, on Sheet No. 57, to include the concepts of a Capacity Release Shipper or an Other Shipper, which terms are important in applying the proper rates to firm, on-system transportation service customers under Rate Schedule FTS-1. Rocky Mountain also is proposing to amend the table of contents, on Sheet No. 2, in order to identify the subject matter of new Sections 22 and 22A of the General Terms and Conditions.