BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

Docket No. 02A-522G

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN NATURAL GAS COMPANY FOR AN ORDER APPROVING GAS COST ADJUSTMENT AND TARIFF CHANGES TO BECOME EFFECTIVE 11-1-02

Docket No. 02A-524G

IN THE MATTER OF THE APPLICATION OF KINDER MORGAN, INC. FOR AN ORDER APPROVING GAS COST ADJUSTMENT AND TARIFF CHANGES TO BECOME EFFECTIVE 11-1-02

Docket No. 02I-620G

IN THE MATTER OF RATES PROPOSED BY ROCKY MOUNTAIN NATURAL GAS COMPANY IN ADVICE LETTER NO. 49

Docket No. 02I-621G

IN THE MATTER OF RATES PROPOSED BY KINDER MORGAN, INC., IN ADVICE LETTER NO. 192

STIPULATION AND SETTLEMENT AGREEMENT

Rocky Mountain Natural Gas Company (Rocky Mountain) and Kinder Morgan, Inc. (KMI) (hereinafter referred to jointly as Applicants), Staff of the Colorado Public Utilities Commission (Staff), and the Colorado Office of Consumer Counsel (OCC) (all hereinafter collectively referred to as the Parties), enter into this Stipulation and Settlement Agreement (Agreement) and stipulate and agree to all of the terms and conditions set forth herein. The

Parties agree and request that the Colorado Public Utilities Commission (Commission) issue an order adopting and approving the terms and conditions of this Agreement.

The only other intervenors in these consolidated Dockets, the Cities of Aspen and Glenwood Springs, the Towns of Basalt, Collbran, Cedaredge, Eagle, Naturita, Nucla, Olathe, Paonia, and Telluride, and the Counties of Delta, Eagle, Montrose, Pitkin, and San Miguel (collectively, Local Government Intervenors), and Jack J. Grynberg (Grynberg), have been involved in the settlement negotiations and have reviewed this Agreement. While they are not signatory parties to this Agreement, Grynberg and the Local Government Intervenors support or do not oppose the terms of this Agreement.

LITIGATION BACKGROUND

1. This matter comes before the Commission for approval of tariffs reflecting a court approved Settlement Agreement, dated February 8, 2002 (Settlement Agreement) (Appendix C to Applicant's filing) of the cost of natural gas delivered to Colorado Western Slope customers. The proper price for that gas has been the subject of years of litigation in various proceedings before state and federal courts and agencies between Rocky Mountain and Grynberg. The litigation primarily concerned the proper price to be paid Grynberg under the terms of a Gas Purchase Contract dated July 14, 1975, between Grynberg and Rocky Mountain, pursuant to which Grynberg agreed to sell and Rocky Mountain agreed to buy natural gas from the Blue Gravel Field in Moffat County, Colorado (1975 Contract), as amended in 1977 (1977 Amendment) and 1984 (1984 Amendment) in light of significant changes in federal law concerning the regulation and ultimate deregulation of well gas prices.

2. The long running dispute arose from the 1975 Contract, as amended. Grynberg asserted that Rocky Mountain was obligated to pay higher prices allowed under the Natural Gas

Policy Act, 15 U.S.C. §§ 3301-3320 (1978) (NGPA)[1] for gas delivered under the 1975 Contract. The NGPA, enacted by Congress in 1978, three years after the 1975 Contract, established a very complex regulatory regime of maximum lawful prices, and for the first time extended federal pricing regulations to wellhead gas sales in intrastate commerce as well as interstate commerce. Rocky Mountain maintained that Grynberg was not entitled to higher prices allowed under the NGPA because Grynberg had much earlier sold gas from one well in the Blue Gravel Field to an interstate purchaser, Mountain Fuel Supply Company, under a 1968 contract (1968 Contract). Grynberg had not obtained abandonment of the well from the FERC as was required under federal regulations at that time. Rocky Mountain asserted that Grynberg had dedicated additional acreage to interstate commerce under the 1968 Contract. Under the NGPA, an earlier interstate dedication would have limited Grynberg to a lower price for the gas sold from the dedicated acreage. Much of the litigation revolved around the impact of this earlier 1968 Contract on the price Grynberg could receive under federal pricing regulations for the gas sold to Rocky Mountain under the 1975 Contract. Rocky Mountain resisted Grynberg's claims that he should receive the highest price allowed under the NGPA, *i.e.* the § 107 price.

3. In early 2002, Rocky Mountain and Grynberg were finally able to achieve a global settlement, the Settlement Agreement, of all litigation that had been brought in various state and federal forums. In the end, the settlement was for an amount far less than the § 107 price, and less than the § 102 price. The settlement also provided for applicable prejudgment interest at the lower statutory rate rather than at a higher moratory interest rate claimed by Grynberg. This settlement was found reasonable and prudent by a Special Master (Appendix D

[1] Enacted on November 9, 1978, the Natural Gas Policy Act, 15 U.S.C. §§ 3301-3320 (1978), established maximum lawful prices (MLP) that could be charged for various categories of gas. As pertinent here, § 102 established the MLP for first sales of natural gas not dedicated to interstate commerce, 15 U.S.C. § 3312; § 104 established a much lower MLP for natural gas that was dedicated to interstate commerce on or before the date of enactment, 15 U.S.C. § 3314; § 105 specified the MLP for first sales of gas under existing intrastate contracts, 15 U.S.C. § 3315; and § 107 specified the MLP for gas that was difficult to produce, 15 U.S.C. § 3317.

to the Applicant's filing) appointed to review its terms, and his finding was adopted and independently supported by United States District Judge Edward Nottingham (Appendix E to the Applicant's filing). The settlement established a substantially lower price than Grynberg had demanded.

THE 1975 CONTRACT

4. At the time of the 1975 Contract, natural gas was in very short supply throughout the nation and more particularly on the Western Slope of Colorado. Rocky Mountain, like most natural gas utilities, was short of gas and from time to time had been forced to impose moratoria on new connections. The gas reserves contracted to Rocky Mountain at that time were not substantial and Rocky Mountain believed it would soon be unable to meet its customers' growing requirements.

5. The 1975 Contract was entered three years before enactment of the NGPA. At the time of the 1975 Contract, the Federal Power Commission (the predecessor to the Federal Energy Regulatory Commission (FERC)) regulated natural gas sold in interstate commerce by publication of "area rates." Intrastate gas sales (like sales to Rocky Mountain) were unregulated and producers, because of their bargaining leverage, were always able to obtain prices equivalent to the applicable area rate and most often equivalent to the highest price paid by anyone in the region, pursuant to "favored nations" clauses in their contracts.

6. The 1975 Contract contained a favored nations clause, which provided that during the term of the agreement, Grynberg would be entitled to receive the highest price being paid by any pipeline or utility to any producer for natural gas in a nine-county area of western Colorado. This price increase could be triggered on an annual basis by a request by Grynberg to redetermine the price. The 1975 Contract was for a twenty year term, although Grynberg had

made claims that it was for a longer term. Rocky Mountain successfully defended against this claim, and the settlement reflects a twenty-year term.

The 1977 and 1984 Amendments

7. In 1977 Grynberg first demanded that the price of his gas be redetermined, to match the then applicable area rate. The 1975 Contract contained a typical clause providing that the Seller may request a price redetermination annually. The contract was subsequently amended in 1977 to provide for a newly redetermined price of $1.45 per Mcf with quarterly escalations thereafter of 1 cent per Mcf subject to Commission regulation and pass through. The redetermined prices were thereafter reflected in Rocky Mountain's rates pursuant to Commission approval. In the early 1980s, following passage of the NGPA, Grynberg again sought a price increase to the highest price being paid in the nine-county area. Rocky Mountain refused because the NGPA applied price ceilings to both interstate and intrastate gas, and Rocky Mountain did not believe Grynberg was entitled to the price he was claiming. In 1982, Grynberg filed a lawsuit, *Grynberg v. Rocky Mountain Natural Gas Co., Inc.*, Case No. 82-CV-117 (Moffat Cty. Dist. Ct.) (Grynberg I). The Commission intervened in the lawsuit in opposition to Grynberg's § 107 price claim but did not contest his request that he receive § 102 prices. Grynberg and Rocky Mountain settled this case by the 1984 Amendment, which gave Grynberg the right to receive the § 102 price for all gas produced during the remainder of the 1975 Contract, reserving to Grynberg his right to claim the higher NGPA § 107 price, if he so qualified.

THE LITIGATION

8. In 1987, after the market price for gas had collapsed and Rocky Mountain had discovered the earlier 1968 Contract, Grynberg filed a second lawsuit alleging pricing, mismeasurement and take or pay claims. *Grynberg v. Rocky Mountain Natural Gas Co., Inc.,* Case No. 87-CV-165 (Moffat Cty. Dist. Ct.) (Grynberg II). This case was tried and Grynberg was awarded the lower price, as Rocky Mountain argued, for the one well that was located on the previously dedicated acreage, but the higher § 102 price which Grynberg sought for all gas from wells off that acreage. Grynberg also received certain take or pay damages, but lost his measurement claims.

9. After judgment was entered in Grynberg II, Congress amended the NGPA by enacting the Wellhead Decontrol Act of 1989 (Decontrol Act). The Decontrol Act allowed parties to a natural gas contract to negotiate to allow early decontrol of prices after July 26, 1989. After drilling a number of new wells on the previously dedicated acreage, Grynberg asked Rocky Mountain to decontrol his gas and pay a higher price for all of his wells, citing the Decontrol Act. When Rocky Mountain refused, Grynberg filed the third lawsuit between the parties in 1990. *Grynberg v. Rocky Mountain Natural Gas Co., Inc.,* Case No. 90-CV-3686 (Jefferson Cty. Dist. Ct.) (Grynberg III).

10. Rocky Mountain prevailed in the District Court in Grynberg III. Subsequently, that decision was reversed by the Colorado Court of Appeals. *Grynberg v. Rocky Mountain Natural Gas Co, Inc.,* Case No. 93-CA-0925, *cert. denied* (Colo. Ct. App. 1995). On remand following the 1995 Colorado Court of Appeals Decision, the Jefferson County District Court entered summary judgment in Grynberg's favor, ruling that he was entitled to receive at least the §102 price for all gas sold to Rocky Mountain.

11. Following the 1995 Colorado Court of Appeals Decision, Rocky Mountain and KMI sought permission from the Commission to begin to recover the increased purchase gas costs arising from Grynberg's claims in the litigation between the parties. The Commission in Decision No. C95-1097 (dated November 1, 1995) ruled that pass through was premature and should await final resolution of the litigation, either by judicial decision, admission of liability, or final settlement, but stated that "[Applicants] shall not be prejudiced or adversely affected by reason of their compliance with the Decision and Order..." The Commission never disallowed the pass through of any sums that Rocky Mountain paid to Grynberg during the term of the 1975 Contract, including the earlier payment of NGPA §102 prices for certain gas pursuant to the 1984 Amendment.

12. Grynberg filed his federal lawsuit, the fourth between the parties, in 1992 (Grynberg IV), seeking the higher price and other damages for the period following the cut off for claims in Grynberg III. This case was stayed for a number of years, in hopes that decisions in the earlier litigation would lead to resolution of this case. In the fall of 1996, shortly after the stay in Grynberg IV was lifted, the parties engaged in a three-day mediation with a senior United States District Judge from Ohio, The Honorable Richard McQuade. An agreement was entered into between Rocky Mountain and Grynberg pursuant to that mediation effort whereby Rocky Mountain made a $10.4 million purchase gas cost payment to Grynberg, representing part of Grynberg's pricing claims. Rocky Mountain advised the Commission that the $10.4 million payment had been made and the Commission again held, in Decision No. R98-830 (issued August 27, 1998), that until a final judgment or settlement of the Contract claims was reached, it was premature to begin the pass through process.

13. Rocky Mountain was unwilling to pay Grynberg the higher amounts he was demanding in the mediation and, as result, the pending litigation continued in the various forums

as well as in a new state court action Rocky Mountain filed in Moffat County (when the parties disputed whether the terms of the contract expired in 1996), *Rocky Mountain Natural Gas Co., Inc. v. Grynberg*, Case No. 96-CV-49 (Grynberg V), and in Arapahoe County (when a dispute arose over the validity of the 1977 pricing amendment), *Rocky Mountain Natural Gas Co., Inc. v. Grynberg,* Case No. 97-CV-236 (Grynberg VI). The state court cases were all ultimately stayed following a May 7, 1998 decision of the Colorado Court of Appeals in Grynberg V. *Rocky Mountain Natural Gas Co., Inc. v. Grynberg,* Case No. 97-CA-0183 (Colo. Ct. App. 1998). The Colorado Court of Appeals directed that all state court proceedings should be stayed pending the outcome of the FERC proceedings and the federal Grynberg IV proceeding. The federal court interpreted this decision as reflecting the Colorado Court of Appeal's intention that the federal court would achieve a full and final resolution of all disputes between the parties.

THE FERC PROCEEDINGS

14. During the prior decade, commencing with Rocky Mountain's discovery in 1986 of Grynberg's 1968 interstate contract, extensive simultaneous proceedings were also being conducted at the FERC regarding the scope of Grynberg's dedication under the 1968 Contract. Initially, Rocky Mountain obtained a ruling from the FERC that Grynberg had dedicated all or part of six sections to the earlier 1968 Contract, but the Court of Appeals for the D.C. Circuit reversed, holding the dedication clause to be ambiguous. On remand Grynberg prevailed, but the Court of Appeals for the D.C. Circuit reversed again. While the scope of the dedication was being resolved, the FERC was also asked to decide whether Grynberg was just honestly mistaken about the dedication and, therefore, equitably entitled to "retroactive abandonment" of whatever dedication Grynberg had made. If retroactive abandonment were granted, Grynberg would be entitled to at least the §102 price regardless of the scope of the earlier dedication. That issue was

also decided and reversed. These large swings regarding who prevailed on these issues contributed to continued uncertainty, the inability of the parties to reach a settlement and a constant conflict between the decisions of the Colorado Courts and the FERC. When one party prevailed in Colorado it was undercut by another finding at the FERC and vice versa. In light of the multiple locations in which proceedings were taking place and the different decisions at different times on different issues, the Colorado Court of Appeals referral of all cases to the federal court and Judge Nottingham's relentless insistence that the parties attempt to reach a global settlement was not only understandable but laudable.

THE FEDERAL COURT RULINGS AND THE SETTLEMENT AGREEMENT

15. In an Order and Memorandum of Decision dated February 5, 1999, the federal court granted Grynberg summary judgment on his claim for the § 102 price, ruling that the 1995 Colorado Court of Appeals Decision and subsequent order on remand should be accorded *res judicata*. Under these decisions, the federal court held, Rocky Mountain became obligated to pay at least the § 102 price for all gas produced under the 1975 Contract.

16. By order dated December 10, 1999, by oral ruling on December 20, 2001, and on January 16, 2002 the federal court rejected Rocky Mountain and KMI's efforts to reverse this decision based upon subsequent rulings by the FERC. On February 8, 2002, Grynberg, Rocky Mountain and KMI reached a global settlement of all the actions by executing the Settlement Agreement. The parties agreed that the amount due and owing to Grynberg for purchase gas costs under the 1975 Contract was thirty-two million four hundred fifty thousand dollars ($32,450,000). The parties also agreed that Grynberg would convey his interest in the Blue Gravel Field to Rocky Mountain, and Rocky Mountain would dedicate the production from the Blue Gravel Field to its customers.

THE SPECIAL MASTER REPORT AND THE COURT'S FINDINGS

17. As a prerequisite to court approval of the settlement, the federal court appointed a Special Master, former Colorado Supreme Court Chief Justice Honorable William H. Erickson, to determine if the settlement was reasonable and prudent. The Special Master conducted an extensive review of the litigation and considered all of the issues, claims and defenses advanced by the parties. Representatives of Staff, the OCC and the western slope communities were advised of the settlement and the Special Master's review, and they were invited to attend sessions with the Special Master. Certain of the representatives attended presentations made to the Special Master by Applicants and Grynberg. In his February 20, 2002 Report, Findings and Analysis, the Special Master specifically found:

a. Rocky Mountain, KMI, and their customers faced a substantial risk that the 1975 Contract, as amended, would be interpreted to require payments substantially in excess of the purchase gas costs of $32.45 million to which the parties agreed in the Settlement Agreement;

b. under the controlling orders, Rocky Mountain and KMI are obligated to pay Grynberg at least the § 102 price under the 1984 Amendment, and possibly, the even higher § 107 price;

c. Grynberg's § 102 purchase gas cost claims in the 1990 case, as of January 1, 2001, are between approximately $6 million and $33 million for the period prior to April 16, 1991 (depending upon the prejudgment interest rate to be applied);

d. in the federal case, Grynberg's separate § 102 purchase gas cost claims as of January 1, 2001, including claims for BTU and volume adjustment and claims regarding the term of the Contract, are between approximately $35 million and in excess of $393 million depending on price, contract term, and prejudgment interest rate; and

e. if these costs were calculated using the § 107 price, they would be substantially higher.

18. The Special Master also acknowledged that both parties would likely appeal from any adverse rulings following a trial and that this would simply postpone for several more years the final resolution of the parties' dispute. Such a postponement, in turn, would mean that the

amount of purchase gas costs subject to pass through would remain premature and speculative, and would further delay the Commission's final resolution of this issue.

19. In conclusion, the Special Master wrote:

> Taking all of these considerations into account, the Special Master has no doubt that Rocky Mountain's and Kinder Morgan's decision to enter into the Settlement Agreement was prudent. The settlement enables them to resolve this dispute with Grynberg fully and fairly, and to avoid substantial costs and risks involved in continuing the litigation between the parties. Resolving these lawsuits on these terms, at this juncture, is an eminently reasonable and prudent action to take.
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> ....
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> The settlement is the result of the parties' extensive arms' length negotiations, with the able and effective assistance of Magistrate Judge Watanabe, and the effective assistance of counsel for the parties. It achieves the global resolution of more than a decade of litigation raised in four separate lawsuits and pursued in four trial courts and two appellate courts, with no end in sight. From the history of the litigation, an appeal of any adverse decision in any of these suits is certain -- and it is apparent that even an appeal might not bring the kind of final, satisfactory resolution that this settlement achieves. Thus, the settlement is fully consistent with the 1998 Colorado Court of Appeals decision in the 1996 Case, in which the Court of Appeals stayed state court proceedings with the expectation that the proceedings in this Court would resolve many of the disputes between the parties. In accomplishing a global resolution of *all* of the parties' disputes, the settlement more than fulfills the Court of Appeals' expectation. Finally, the settlement enables Rocky Mountain, Kinder Morgan, and their customers to avoid the very substantial risks and costs inherent in continuing to pursue the defense of the purchase gas cost claims and counterclaims.

20. Following the Special Master's recommendations, the federal court entered an order on March 13, 2002, accepting the Special Master's Report, Findings and Analysis. The federal court not only adopted the findings of the Special Master, but also independently found:

a. Rocky Mountain and Kinder Morgan acted prudently in entering into the Settlement Agreement;

b. the terms of the Settlement Agreement are prudent, fair, and reasonable to Rocky Mountain's and Kinder Morgan's customers; and

c. the Settlement Agreement should be approved and the litigation actions be dismissed.

21. Following entry of this order, the various litigation actions were dismissed with prejudice and this proceeding was initiated before the Commission.

PROCEDURAL BACKGROUND BEFORE THE COMMISSION

22. Litigation in connection with the 1975 Contract began in 1982. On August 31, 1995 Rocky Mountain filed with the Commission its Advice Letter No. 20. In the tariff filing accompanying Advice Letter No. 20, Rocky Mountain proposed to commence recovery, through its Gas Cost Adjustment (GCA) mechanism, of amounts estimated to be owed to Grynberg as a result of the recent Colorado Court of Appeals' decision in *Grynberg v. Rocky Mountain Natural Gas Co., Inc.,* Case No. 93-CA-0925, *cert. denied* (Colo. Ct. App. 1995), which reversed the trial court and held in favor of Grynberg on certain pricing claims. Also on August 31, 1995 KMI (then known as Rocky Mountain Natural Gas Division of KN Energy, Inc.) filed its Advice Letter No. 353, filing tariff matter in its GCA in which it sought to pass through any increased gas cost authorized for Rocky Mountain. The proceedings involving Rocky Mountain and KMI were assigned Docket Nos. 95S-462G and 95S-463G, respectively.

23. The OCC intervened in Docket Nos. 95S-462G and 95S-463G and alleged that efforts to commence the collection of these estimated gas costs were at that time speculative and premature. In response to that assertion, Rocky Mountain and KMI filed their Petition for a Declaratory Order. On October 27, 1995, all of the parties to these two dockets (the same parties as are parties in the present proceedings) joined in filing a Stipulation and Agreement Regarding Timing of the Assertion of Parts or All of the Possible Grynberg Costs or Liabilities.

24. By Decision No. C95-1097 (dated November 1, 1995), the Commission granted the Petition for a Declaratory Order, finding as follows:

> The Commission finds and declares that the tariff filings containing the assertion at the present time of the potential cost arising out of the Grynberg litigation are speculative and premature. The proper time to make a tariff filing to assert this

> cost would be when there is (i) a final mandate or judgment, (ii) judicial or administrative decisions which cannot be appealed, (iii) admissions as to some or all of the liability, or (iv) settlements of some or all of the liability.
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> ....
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> Rocky Company [Rocky Mountain] and Rocky Division [KMI] shall not be prejudiced or adversely effected by reason of their compliance with this Decision and Order ... .

25. As part of mediation efforts in 1996, KMI made a recoupable payment of $10.4 million to Grynberg. Rocky Mountain and KMI then petitioned the Commission for a further Declaratory Order as to whether that payment by KMI to Grynberg triggered one of the conditions in Decision No. C95-1097. This petition was assigned Docket No. 97D-300G where in Decision No. R98-830 (dated August 27, 1998), an Administrative Law Judge ordered:

> The ultimate sum of money due to Mr. Grynberg for underpaid gas purchases going back several years is still not known and certain, and thus the period of time in which KN Energy, Inc. [KMI], has to recover said sums of money as outlined in Decision No. C95-1097 has not begun to run.

This Decision of the ALJ became the Order of the Commission by operation of law.

26. On September 30, 2002 Rocky Mountain and KMI commenced the present proceedings by filing the following pleadings:

a. An Application and Petition of Rocky Mountain for an order (i) approving proposed GCA and Transportation Rate Adjustment (TRA) rates and tariffs to be effective November 1, 2002, including recovery of costs arising from a final judicial settlement of litigated gas costs, (ii) approving a rate mitigation plan including a fifteen (15) year amortization of litigated gas costs applying equally to sales and transportation rates with carrying costs, and (iii) waiving certain provisions of applicable rules and tariffs as needed to grant the authorizations requested in the Application and Petition. This filing included Rocky Mountain's opening direct testimony and exhibits.

b. Rocky Mountain's Advice Letter No. 49 with the justification, notice and required supporting data included in the Application and Petition of Rocky Mountain described in Paragraph 5(a) above.

c. An Application and Petition for KMI seeking an order approving proposed GCA tariffs to be effective November 1, 2002 and waiving certain provisions of applicable rules and tariffs as needed to grant the authorizations which were requested. This filing included KMI's opening direct testimony and exhibits.

d. KMI's Advice Letter No. 193 (corrected to show No. 192) with the justification, notice and data required in support of the tariff matter submitted with that Advice Letter included in the Application and Petition referred to in Paragraph 5(c).

e. A Motion of Rocky Mountain asking for (i) expedited authorization to use the 30-day filing procedures in making its 2002 GCA Application, (ii) waiver of GCA rules, if necessary, and (iii) requesting waiver of response time to the Motion.

f. A Motion of KMI asking for (i) expedited authorization to use 30-day filing procedures in making its 2002 GCA Application, (ii) waiver of GCA rules, if necessary, and (iii) requesting waiver of response time to the Motion.

27. The Commission assigned Docket No. 02A-522G to the Application and Petition of Rocky Mountain and by Notice of Application Filed gave notice and shortened the time period within which any interested person could seek to intervene to fifteen (15) days or until October 17, 2002. This Notice was sent to all persons, firms and corporations whom the Commission deemed might have an interest in these proceedings.

28. The Commission assigned Docket No. 02A-524G to the Application and Petition of KMI and by Notice of Application Filed gave notice and shortened the time within which any person could seek intervention in the proceeding to fifteen (15) days or until October 17, 2002.

This Notice was sent to all persons, firms and corporations the Commission deemed might have an interest in these proceedings.

29. On October 3, 2002, Rocky Mountain and KMI filed a joint Motion asking the Commission to consolidate the proceedings involving KMI and Rocky Mountain in Docket Nos. 02A-522G and 02A-524G and the yet undocketed proceedings in Advice Letter No. 49 and Advice Letter No. 192 filed by Rocky Mountain and KMI, respectively. The Applicants also asked the Commission to waive response time to this Motion.

30. On October 11, 2002, Rocky Mountain and KMI filed a Motion asking that the tariff matter filed with Advice Letter No. 49 and Advice Letter No. 192 be allowed to become effective on the scheduled effective date of November 1, 2002, subject to refund, during any investigation.

31. On October 11, 2002, the OCC filed its Notice of Intervention and Request for Hearing in Docket No. 02A-524G.

32. On October 16, 2002, Grynberg filed his Notice of Intervention of Right or in the Alternative a Petition for Leave to Intervene in Docket No. 02A-522G.

33. KMI filed an Errata Notice on October 16, 2002 correcting the number of its Advice Letter from No. 193 to No. 192 and advising the Commission as to the method by which KMI had given notice to its customers of the filing of its Advice Letter, Petition and Application.

34. On October 17, 2002, the Local Government Intervenors filed their collective Petition to Intervene, Protest and Request for Hearing in Docket Nos. 02A-522G and 02A-524G.

35. The Commission, by Decision No. C02-1153 (mailed October 18, 2002), entered in Docket Nos. 02A-522G and 02A-524G, denied Rocky Mountain and KMI's Request for the Commission to Waive Response Time to their Motion seeking consolidation of these Dockets.

36. On October 18, 2002, both Rocky Mountain and KMI filed Proof of Service in each of their Dockets attesting to the manner in which they gave notice to their customers of the pendancy of these tariff filings and other pleadings.

37. On October 21, 2002, the Local Government Intervenors filed their opposition to the motion of Rocky Mountain and KMI to permit the tariff material in their respective Advice Letters to become effective November 1, 2002, subject to refund.

38. On October 23, 2002, KMI and Rocky Mountain filed a Motion to be allowed to file a reply to the opposition of the Local Government Intervenors which also contained a request for waiver of response time to the Motion and include the tendered reply.

39. On October 24, 2002, in a letter addressed to Commission Director Bruce N. Smith, KMI and Rocky Mountain agreed to accept the burden of proof and the burden of going forward in any subsequently commenced investigation in the event the Commission permitted the tariff matter filed by them to become effective on November 1, 2002. KMI and Rocky Mountain agreed to make refunds of any sums disallowed upon the conclusion of any investigation and hearing ordered by the Commission as to those tariffs. This letter also waived the time limits within which a decision must be made.

40. By Minute entry on October 30, 2002, the Commission deemed the Applications filed by Rocky Mountain and KMI complete.

41. The tariff matter accompanying Rocky Mountain's Advice Letter No. 49 and KMI's Advice Letter No. 192 became effective as scheduled on November 1, 2002 and have been in effect continuously from that date without change.

42. In Decision C02-1343 (mailed November 29, 2002) entered in Docket 02I-620G, the Commission commenced an investigation of the lawfulness of the tariff matter filed with

Rocky Mountain's Advice Letter No. 49. It noted that Rocky Mountain would assume the burden of going forward and the burden of proof in the proceeding.

43. By Decision No. C02-1344 (mailed November 29, 2002) entered in Docket No. 02I-621G, the Commission commenced an investigation of the tariff matter filed with the Commission by KMI's Advice Letter No. 192. That Order noted that KMI would assume the burden of going forward and the burden of proof in the proceeding.

44. By Decision C02-1342 (mailed on November 29, 2002) entered in Dockets 02A-522G, 02A-524G and in the just commenced Docket No. 02I-620G and 02I-621G, the Commission granted the motions of KMI and Rocky Mountain to use the 30-day filing procedure in making their 2002 GCA Application; granted the Motion to Consolidate all of the proceedings filed by KMI and Rocky Mountain; permitted the tariff matter filed with Advice Letter No. 49 and Advice Letter 192, respectively, to become effective November 1, 2002 subject to refund; and granted the petitions to intervene of the Local Government Intervenors and Grynberg. The Commission also granted Rocky Mountain and KMI's motion to be allowed to file a reply to the opposition of the Local Government Intervenors. After ruling on all of these matters, the Commission assigned these consolidated Dockets to an Administrative Law Judge for further proceedings.

45. On December 4, 2002, the OCC filed its Notice of Intervention of Right and Request for Hearing in both Docket Nos. 02I-620G and 02I-621G.

46. On December 11, 2002, Grynberg filed his Notice of Intervention of Right and a Request for Hearing in both Docket Nos. 02I-620G and 02I-621G.

47. On December 16, 2002, Staff filed its Notice of Intervention and Request for Hearing in all four of the Dockets in this proceeding.

48. The proceeding was assigned to Administrative Law Judge Mana L. Jennings-Fader who entered an Interim Order dated December 20, 2002 scheduling a prehearing conference. That prehearing conference was held as scheduled on January 9, 2003.

49. In her Interim Order in Decision R03-0430-I (mailed January 10, 2003), Administrative Law Judge Jennings-Fader established prehearing procedures, fixed various filing dates and set the matter for further pre-hearing conference to be held on June 16, 2003. The hearing was assigned for June 23 through June 27, 2003 and July 9 through July 11, 2003.

50. As requested by the Administrative Law Judge, Rocky Mountain and KMI on February 10, 2003 made a filing to identify specific GCA rules (4 CCR 723-8) that would need to be waived in order to implement the proposed rates, including the rate mitigation plan.

51. The OCC moved the Commission for an amendment to the procedural schedule previously established by the Administrative Law Judge. The motion was unopposed and was granted by the Judge in Decision No. R03-0363-I (mailed April 8, 2003). Various filing dates were changed by the Order.

52. On April 24, 2003 Staff filed an Unopposed Motion to Vacate Procedural Schedule. The purpose of this Motion was to give the parties to these proceedings an opportunity to complete the finalization of a proposed settlement agreement. The parties advised the Administrative Law Judge that they had reached an agreement in principle as to such stipulation and agreement. By Decision No. R03-437-I (mailed April 25, 2003), the Judge vacated the existing procedural schedule including both the further pre-hearing conference and the hearing dates. The parties were ordered to file a written stipulation on or before May 16, 2003.

53. On May 12, 2003 Staff filed a further Unopposed Motion for Extension of Time seeking additional time within which the parties could file their final stipulation. In

consideration of that Motion, by Decision No. R03-0505-I (mailed May 13, 2003), the Administrative Law Judge extended the date within which the parties may file a written stipulation until May 30, 2003.

54. On May 29, 2003, Applicants filed an unopposed motion to reschedule the filing date for the stipulation to June 20, 2003, and to set the date for hearing on the stipulation for July 14, 2003. By Decision No. R03-0590-I (mailed May 30, 2003), the Administrative Law Judge granted the unopposed motion.

APPLICANTS' SETTLEMENT PRINCIPLES

55. Rocky Mountain and KMI have agreed to a settlement in this proceeding in order to remove uncertainty and bring this matter to a final conclusion. Applicants filed extensive testimony with their Applications showing that they have acted prudently to defend against numerous claims and lawsuits advanced by Grynberg over a number of years regarding the proper cost of gas delivered to Applicants' western slope customers. Applicants expended very substantial amounts of internal resources and unreimbursed outside legal costs in order to achieve a final settlement of the Grynberg litigation. The settlement established a cost of purchased gas that: i) was consistent with applicable federal laws and regulations regarding wellhead pricing for natural gas, and with various rulings of state and federal courts and the FERC; ii) was less than the settlement offers that Rocky Mountain advanced to Grynberg six years earlier; and iii) was many millions of dollars less than Grynberg's litigation claims. Applicants' diligent defense against Grynberg's claims have saved customers millions of dollars in purchased gas costs. These savings are even greater when the time value of the customers' money is taken into consideration. (*See* prefiled Direct Testimony of Dr. Charles Cichetti). The savings are further compounded in light of the fact that Applicants have not sought to recover

through rates the many millions of dollars of litigation costs they have incurred. As part of this Agreement, Applicants have agreed not to seek recovery of such costs in the future.

56. Applicants believe that if this matter were to go to hearing, the evidence would clearly show that they have acted prudently and in good faith in obtaining needed gas supplies for their customers and that through their prudent actions they avoided gas supply curtailments that plagued the country at various times over the term of the Grynberg contract. The Grynberg gas supply enabled Applicants to maintain adequate service to fuel the rapid growth and economic vitality of the western slope. Applicants also acted prudently in defending their customers from higher pricing claims advanced by Grynberg. The final settlement amount for litigated purchased gas costs was substantially less than what Grynberg was claiming in total with respect to his NGPA § 102 pricing claims. Grynberg had also filed pricing claims that were considerably higher than his § 102 claims. Rocky Mountain and KMI do not make any profit on the purchase and sale of the gas they buy on behalf of their customers since under Commission regulation their cost of gas, subject to prudence review, is passed through to customers dollar for dollar. The long and expensive legal battle that Rocky Mountain and KMI undertook was done for the benefit of their customers.

57. As indicated above, Rocky Mountain obtained favorable rulings at various stages of the legal battles with Grynberg. The Commission encouraged and assisted Rocky Mountain in its litigation efforts through *amicus* pleadings that supported Rocky Mountain's position. When the first adverse decision was rendered by the Colorado Court of Appeals in 1995, which reversed the favorable verdict Rocky Mountain obtained in trial at the district court, Rocky Mountain immediately made a filing with Commission as described above, and was essentially directed to come back to the Commission to file an application to commence rate recovery after a final resolution was achieved. If this matter were to go to hearing, Applicants would assert that

pursuant to their prudent actions and the Commission's prior orders, they are entitled to receive full GCA cost recovery of the purchase gas cost payments made to Grynberg, including the costs associated with their 1996 mediation efforts and their continuing litigation efforts that achieved a more favorable settlement for their customers. In order to settle this present proceeding, however, Applicants have agreed to accept approximately $15 million dollars less than they filed for, including amounts that would have properly compensated them pursuant to the Commission's prior orders for the carrying costs they incurred by making the $10.4 million dollar purchase gas cost payment to Grynberg in 1996, and for delaying collection of that amount until after the final settlement in 2002. Absent this Settlement Agreement, Applicants would assert the position that the Commission's prior order, which stated that Applicants would not be adversely affected or prejudiced by continuing their litigation efforts, should be given effect, and that Applicants should not be penalized for delaying the commencement of their 1996 gas costs payment to Grynberg in order to ultimately achieve a more favorable settlement for their customers. Applicants have also agreed to absorb many millions of dollars in litigation costs and not to seek recovery of such costs in future proceedings.

58. Applicants believe that their Grynberg purchase gas costs payments that were paid and became final in 2002 pursuant to the court approved settlement are properly recoverable through their GCA as filed. Applicants further believe that the fifteen-year rate mitigation plan that they have agreed to implement, with carrying costs equivalent to KMI's imbedded cost of long-term debt, is reasonable and in the public interest. As part of this Agreement, Applicants have agreed to Staff's and OCC's proposal that would provide for full recovery of the Settlement Amount (defined in Section 66) through a rate rider rather than a GCA surcharge, as described below.

STAFF'S AND THE OCC'S SETTLEMENT PRINCIPLES

59. As indicated above, Grynberg and Rocky Mountain have engaged in more than a decade of litigation (Grynberg Litigation) over the price to be paid for natural gas under a 1975 Gas Purchase Contract. Grynberg and Rocky Mountain have resolved the Grynberg Litigation in a court-approved settlement agreement.

60. Given the extensive background of this unusual case, Staff and the OCC have determined that the Grynberg Litigation is extraordinary, according to criteria set forth in Accounting Principles Board Opinion 30, "Reporting the Results of Operations and Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions – Criteria for Extraordinary Items" (APB 30).[2] Paragraph 20 of APB 30 states:

> Extraordinary items are events and transactions that are distinguished by their unusual nature *and* by the infrequency of their occurrence. Thus, *both* of the following criteria should be met to classify an event or transaction as an extraordinary item:
>
> *Unusual nature* – the underlying event or transaction should posses a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates. [internal reference omitted]
>
> *Infrequency of occurrence* – the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. [internal reference omitted]

61. Staff and the OCC view the Grynberg Litigation as an extraordinary event, in accordance with APB 30, because it is both unusual and infrequent. The event underlying the Grynberg Litigation was a price dispute arising out of a contractual agreement. In the opinion of Staff and the OCC, the factual background of this case and the price dispute based on the contract are highly unusual. Furthermore, in Staff's and the OCC's experience, a litigated

dispute that involves Colorado regulated distribution utilities, which spans more than a decade, and that arose over a contractually established price is infrequent and, in fact, unprecedented. Neither Staff nor the OCC reasonably expect a situation similar to the Grynberg Litigation to recur in the foreseeable future.

62. In consideration of the background of the Grynberg Litigation, Staff's and the OCC's concerns in this proceeding were based on the following underlying issues:

a. Payment Numbers 1, 2, and 3 (listed below) made by Rocky Mountain were for Grynberg litigation gas costs that reflect an embedded 8% statutory interest component (*see* Watson Exhibit No. 6 and KMI audit response PUC-3-b, attached hereto as Appendices B and C, respectively).

Payment #1 - 9/19/1996	$10,467,222
Payment #2 - 4/4/2002	$6,425,000
Payment #3 - 4/10/2002	$15,625,000
Total Payment Amount	$32,517,222

b. Grynberg's conveyance of the Blue Gravel Field to Rocky Mountain as part of the Settlement Agreement, and the dedication of the gas from that Field to Rocky Mountain and KMI's customers at cost may provide benefits to ratepayers. However, Staff is unable to ascertain the amount and timing of such benefits. It is Staff's understanding that there was a difference in litigation positions between Rocky Mountain and Grynberg. For example, one Rocky Mountain expert provided a preliminary report based upon information provided by Grynberg suggesting that the Blue Gravel Field has high operating costs, high well abandonment costs, and future capital costs that could result in a negative future net revenue of $1,986,322 (KMI document RM-0543).

[2] A copy of the relevant portion of APB 30 is attached hereto as Appendix A.

Conversely, Grynberg experts suggested in documents not filed in these Dockets that the Blue Gravel Field has substantial recoverable reserves of approximately 4 Bcf and a positive future net revenue of approximately $18 million.

c. The ratepayers, Rocky Mountain, and KMI would be best served if this proceeding could be resolved without further litigation, thereby lessening the financial impact of this extraordinary situation.

63. Based on the above concerns, it is Staff's and the OCC's position that Applicants' **allowable gas costs** should be determined as follows:

a. Recoverable litigation gas costs should be calculated to include payment numbers 1-3, listed above.

b. Payment No. 3 should be reduced by an amount reflecting the reduction Grynberg would have received if the negotiated principal amount had been paid in 1996.

64. Staff's and the OCC's position concerning the **interest calculation** on Applicants' allowable gas costs is:

a. The interest rate to be applied to recoverable litigation gas costs should approximate the current interest rate applied to the annual Ten Year U.S. Treasury Bonds.

b. No interim interest (*i.e.*, interest calculated for the period of September 19, 1996 to March 2002) should be allowed on Payment Number 1 because it: (i) includes an imbedded 8% statutory interest component; (ii) was made without Commission review and approval; and (iii) compound interest is inconsistent with Commission practice.

65. Taking into consideration APB 30 and the unusual background of the Grynberg Litigation, Staff and the OCC entered into negotiations with the Applicants to settle this matter. Staff and the OCC believe this Agreement satisfies their principles because the Agreement will minimize additional future financial impacts on ratepayers, avoid rate shock through a

reasonable mitigation plan, provide reasonable recovery of purchase gas cost payments made by Applicants, not allow any recovery for Applicants' interim carrying costs, not allow any recovery for Applicants' substantial litigation costs, and bring this matter to a final resolution without the risk, uncertainty, and cost of further litigation. For the foregoing reasons, Staff and the OCC also believe this Agreement is a just and reasonable settlement for ratepayers and the Applicants.

SPECIFIC TERMS AND CONDITIONS OF AGREEMENT

66. Applicants filed to recover in their rates $3,967,322 dollars per year of litigated Grynberg purchase gas costs and rate mitigation plan interest costs, for a total of $59,509,836 over the fifteen-year rate mitigation amortization period. The Parties agree that the amount to be recovered by Applicants over the same fifteen-year period in their rates will be reduced by 25% to a total of $44,625,000 (Settlement Amount).

67. The Parties agree that the Applicants may treat the Settlement Amount as consisting of $30,173,472 in allowable gas cost recovery and $14,451,528 of allowable interest recovery. The Parties further agree that Applicants may consider the $30,173,472 of allowable gas cost payments as consisting of a gas cost payment amount made in 1996 of $10,467,222, a gas cost payment amount made in 2002 of $6,425,000, and a gas cost payment to be released from escrow to Grynberg in the amount of $13,281,250.

68. Rocky Mountain began recovery of the Settlement Amount as a Litigated Gas Cost Surcharge Component of its GCA that went into effect on November 1, 2002, pursuant to Advice Letter No. 49, which was subject to a Burden Letter as authorized by the Commission in Decision No. C02-1342 in the instant Dockets. The remaining balance of the Settlement Amount (Remaining Balance) shall be recovered by Rocky Mountain over a fourteen-year period commencing on November 1, 2003. The Remaining Balance shall be recovered as a Litigated

Settlement Special Rate Surcharge (LSSRS) to be applied to Rocky Mountain's sales and transportation rates until Rocky Mountain has recovered the entire Settlement Amount. The LSSRS shall terminate once the entire Settlement Amount has been fully recovered by Rocky Mountain. The LSSRS shall be accounted for as set forth in this Agreement and in Applicants' tariffs.

69. The Parties agree that Rocky Mountain shall account for the LSSRS as follows:

a. An appropriate FERC subaccount shall be established to record the entire Settlement Amount, reduced by the first year collections, beginning November 1, 2003, and to record the LSSRS revenues recovered for the duration of the LSSRS recovery period; and

b. Rocky Mountain shall annually provide an attachment to its Annual Report to the Commission. The attachment shall identify the following: (i) the original Settlement Amount allowed for recovery; (ii) total annual revenue recovered for the reported calendar year period; (iii) accumulated revenues recovered by year, as of the annual period being reported; (iv) total volumes sold or transported during the same calendar year period reported for the annual revenue recovery; and (v) the Settlement Amount balance remaining to be recovered.

70. The LSSRS shall terminate in the same month that full recovery of the entire Settlement Amount is completed. Subject to the Commission's approval of this Agreement, the Parties agree that Applicants shall individually file advice letters to remove the LSSRSs from rates on not less than one day's notice. Any over or under-recovered balance of the Settlement Amount remaining at the end of the fourteen-year collection period shall be debited or credited to Applicants' Account 191.

71. The calculation of the LSSRS is attached hereto as Appendix D. To the extent that Rocky Mountain has only one resale customer, KMI-Western Slope Rate Area, the per unit surcharge of the LSSRS for Rocky Mountain has been calculated based on the Remaining Balance, divided by the total throughput on Rocky Mountain related to KMI-Western Slope Rate Area sales and transportation customers for the fourteen-year period of recovery of the Remaining Balance. The total throughput on KMI is the sum total of the projected end-use KMI sales and transportation customer consumption, as estimated for each year of the fourteen-year recovery period. If the actual on system throughput for KMI-Western Slope Rate Area is higher than the projection used in Appendix D, the recovery period of the Remaining Balance will be less than fourteen (14) years. Since KMI is the conduit from which Rocky Mountain recovers the LSSRS, the Parties agree that KMI shall be authorized to establish commensurate rates in its tariffs to collect and flow through the LSSRS that it pays to Rocky Mountain. Attached hereto as Appendix E are the proposed tariffs for Rocky Mountain and KMI which set forth appropriate tariff language which will govern the recovery of the Remaining Balance through the LSSRS. The language of KMI's LSSRS tariff shall be identical, in all aspects, to the language contained in Rocky Mountain's LSSRS tariff.

72. In the unlikely event there is a change in the LSSRS tariffs for Rocky Mountain or KMI, Rocky Mountain and KMI agree that similar changes shall be made concurrently for the other entity. This provision shall be reflected in Rocky Mountain's and KMI's LSSRS tariffs.

73. No legal fees or other litigation costs from the Grynberg Litigation shall be recovered in rates, either through this proceeding or through any other future proceeding related to rates.

74. The transfer of Blue Gravel Field assets by Grynberg to Rocky Mountain was part of the court-approved settlement of the Grynberg Litigation, resulting in the Settlement Amount.

Rocky Mountain represents that the Settlement Amount contains no payments made for the Blue Gravel Field assets. As a result, Rocky Mountain has no book value costs to record in its plant accounts relating to the Blue Gravel Field assets.

75. The Blue Gravel Field will be owned and operated by an affiliate of Rocky Mountain, which will keep separate accounting records for costs related to the Blue Gravel Field. The production from the Blue Gravel Field will be dedicated to Rocky Mountain. The gas supply from the Blue Gravel Field will be used to serve KMI's western slope customers. Gas production from the Blue Gravel Field will be sold to Rocky Mountain "at cost" under a gas purchase contract and the purchase cost of such gas will be reflected in Rocky Mountain's gas cost adjustment filings, subject to applicable Commission regulations, including the Commission's GCA and Cost Allocation Rules.

76. Commencing November 1, 2002, the initial price for gas under this gas purchase contract is $0.75 per Dth. The price will be adjusted annually to reflect the affiliate's reasonable and necessary direct costs of operating the Blue Gravel Field, including but not limited to: costs of constructing, maintaining, and operating production, gathering, compression, and treating facilities; abandonment and clean-up costs; taxes; royalty payments; and any other production related costs. Any capitalized costs incurred by the affiliate, in association with the affiliate's further capital investment in the Blue Gravel Field, will be borne by the affiliate. The books and records of the affiliate of Rocky Mountain that owned and operated the Blue Gravel Field will be subject to audit and inspection by Staff. Since the sale of gas to Rocky Mountain is at cost, the price shall not contain any profit margin for the affiliate and shall never exceed the fair market prices which Rocky Mountain pays third party suppliers for similarly situated gas supplies. The price for gas acquired annually under this gas purchase contract will be subject to prudency review by Staff and OCC under the Commission's GCA rules.

77. Rocky Mountain will convey to an affiliate by way of an assignment and bill of sale at no cost all of Rocky Mountain's right, title and interest in the oil and gas leases in the Blue Gravel field and personal property, including production, treating, compression, and gathering facilities in the field, which it recently received by assignment and sale from Grynberg pursuant the litigation Settlement Agreement. A condition of the conveyance will be the execution of a gas purchase contract dedicating the gas production from the Blue Gravel field for the benefit of KMI's western slope customers as described above. The assets to be conveyed are gas production assets which have never been regulated by the Commission and have never been included in Rocky Mountain's rate base. No service to any utility customers will be terminated or adversely affected as a result of the conveyance. Commission approval of this Stipulation and Settlement Agreement shall constitute such authorization as may required, if any, for Rocky Mountain to proceed with the conveyance of the Blue Gravel field as provided herein without further application to the Commission.

78. The spreadsheets in attached Appendix D show the calculation of the LSSRS of $0.2699 per Mcf for Rocky Mountain and $0.0218 per ccf for KMI. This amount represents an approximate 26% reduction in the currently effective surcharge component of Rocky Mountain's GCA and TRA of $0.3658 per Mcf. The recalculated surcharge rate of $0.2699 per Mcf reflects adjustments for actual and projected recoveries through the GCA/TRA period ending October 31, 2003. Rocky Mountain shall file to replace its Litigated Gas Cost Surcharge Component of $0.3658 per Mcf with the new LSSRS to be effective at the same time as its next annual GCA/TRA filing on November 1, 2003, which filing shall include the projected amounts recovered to that point in time pursuant to the currently effective Litigated Gas Cost Surcharge Component. KMI shall, in turn, file to implement its LSSRS to reflect Rocky Mountain's

passthrough to KMI of Rocky Mountain's LSSRS to be effective at the same time as KMI's next annual GCA filing on November 1, 2003.

79. The Parties acknowledge that specific language must be added to Rocky Mountain's and KMI's tariffs for the purpose of setting forth the rates, recovery period, expiration date, deadline for filing updates, and terms and conditions of the LSSRS. Such language has been developed and is set forth in Appendix E attached hereto. The Parties agree that Rocky Mountain and KMI shall be authorized, on not less than one day's notice, to place these tariff provisions into effect by filing, individually, an Advice Letter that shall constitute a compliance filing by Rocky Mountain and KMI.

GENERAL TERMS AND CONDITIONS OF AGREEMENT

80. The Parties agree to submit this Stipulation and Settlement Agreement to the Commission expeditiously so that its approval and related rate authorizations may be obtained, without material change, within a reasonable period of time. To that end, the Parties each agree to proceed in good faith with reasonable best efforts to obtain Commission approval of this Agreement, and to each do all that is reasonably necessary to obtain such approval, including, but not limited to, introducing testimony and evidence in support of this Agreement, appearing at all hearings, and filing all necessary pleadings and documents.

81. All records of this proceeding, including the Application, pleadings, testimony, exhibits and other evidence, decisions and orders of the Administrative Law Judge, are incorporated in this Agreement by reference.

82. This Agreement shall become effective as of the date it is made and entered, provided, however, that any party hereto may revoke and withdraw from the Agreement if it is not approved by a final Commission order without any material modification of the terms and conditions of this Agreement. In the event the Commission issues a final order that materially

modifies the terms and conditions of this Agreement in a manner that is unacceptable to any party, that party shall have the right to revoke and withdraw from this Agreement. Such party desiring to revoke and withdraw from the Agreement shall so notify the Commission in writing, and shall also notify the Parties hereto in writing or by e-mail, within two business days following the issuance of a final Commission order modifying this Agreement. Such notice shall identify the specific provisions of the Commission's final order which the party concludes are an unacceptable and material modification of this Agreement. The withdrawal of a party shall not automatically terminate this Agreement as to any other Parties, but any other party may also withdraw within two business days of receiving another party's Notice of Withdrawal.

83. The Parties agree that approval by the Commission of this Agreement shall constitute a determination that the Agreement represents a just, equitable and reasonable resolution of all issues that were or could have been contested among the Parties in this proceeding.

84. The Parties agree that the compromises, stipulations, and agreements set forth herein that were reached by means of a negotiated settlement are in the public interest and the terms and conditions of this Agreement, and the rates resulting from this Agreement, are prudent, just and reasonable, and in the public interest.

85. Except as otherwise specifically agreed upon in this Agreement, nothing contained herein shall be deemed to constitute a settled practice or legal precedent for the purposes of any other proceeding that does not involve the matters agreed upon in this Agreement.

86. This Agreement may be executed in counterparts, all of which, when taken together, shall constitute the entire Agreement with respect to the issues addressed by this Agreement.

This Stipulation and Settlement Agreement is made and entered into this ____ day of June, 2003.

KINDER MORGAN, INC.
ROCKY MOUNTAIN NATURAL GAS COMPANY

By: _____
Daniel E. Watson
President of Kinder Morgan Retail
And Rocky Mountain Natural Gas Company

Approved:

OFFICE OF CONSUMER COUNSEL
STATE OF COLORADO

By: _____
James Greenwood
Rate / Financial Analyst

Approved as to form:

KEN SALAZAR
Attorney General

By: _____
STEPHEN W. SOUTHWICK, 30389
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Attorneys for the Colorado Office of
Consumer Counsel

This Stipulation and Settlement Agreement is made and entered into this 20th day of June, 2003.

KINDER MORGAN, INC.
ROCKY MOUNTAIN NATURAL GAS COMPANY

By: _____
Daniel E. Watson
President of Kinder Morgan Retail
And Rocky Mountain Natural Gas Company

Approved:

OFFICE OF CONSUMER COUNSEL
STATE OF COLORADO

By: James Greenwood
James Greenwood
Rate / Financial Analyst
by Stephen W Southwick

Approved as to form:

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Attorney General

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STAFF OF THE COLORADO
PUBLIC UTILITIES COMMISSION

By: _____
Sandra Johnson Jones
Rate/Financial Analyst IV

Approved as to form:

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Attorney General

By: _____
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Appendices

Appendix A ..... Accounting Principles Board Opinion 30

Appendix B ..... Watson Exhibit No. 6

Appendix C ..... KMI audit response PUC-3-b

Appendix D ..... Calculation of LSSRS

Appendix E ..... Proposed tariff sheets

APPENDIX A

Financial Accounting Standards Board

Original Pronouncements

2002/2003 Edition

Accounting Standards

as of June 1, 2002

Volume III

AICPA Pronouncements
FASB Interpretations
FASB Concepts Statements
FASB Technical Bulletins
Topical Index/Appendixes

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measurement date to the disposal date, and the estimated proceeds or salvage to be realized by disposal. For purposes of applying this Opinion, the *disposal date* is the date of closing the sale if the disposal is by sale or the date that operations cease if the disposal is by abandonment.

15. *Determination of Gain or Loss on Disposal of a Segment of a Business.* If a loss is expected from the proposed sale or abandonment of a segment, the estimated loss should be provided for at the measurement date.[5] If a gain is expected, it should be recognized when realized, which ordinarily is the disposal date. The determination of whether a gain or a loss results from the disposal of a segment of a business should be made at the measurement date based on estimates at that date of the net realizable value of the segment after giving consideration to any estimated costs and expenses directly associated with the disposal and, if a plan of disposal is to be carried out over a period of time and contemplates continuing operations during that period, to any estimated income or losses from operations. If it is expected that net losses from operations will be incurred between the measurement date and the expected disposal date, the computation of the gain or loss on disposal should also include an estimate of such amounts. If it is expected that income will be generated from operations during that period the computation of the gain or loss should include the estimated income, limited however to the amount of any loss otherwise recognizable from the disposal; any remainder should be accounted for as income when realized. The Board believes that the estimated amounts of income or loss from operations of a segment between measurement date and disposal date included in the determination of loss on disposal should be limited to those amounts that can be projected with reasonable accuracy. In the usual circumstance, it would be expected that the plan of disposal would be carried out within a period of one year from the measurement date and that such projections of operating income or loss would not cover a period exceeding approximately one year.[6]

16. Gain or loss from the disposal of a segment of a business should not include adjustments, costs, and expenses associated with normal business activities that should have been recognized on a going-concern basis up to the measurement date, such as adjustments of accruals on long-term contracts or write-down or write-off of receivables, inventories, property, plant, and equipment used in the business, equipment leased to others, deferred research and development costs, or other intangible assets. However, such adjustments, costs, and expenses which (a) are clearly a *direct* result of the decision to dispose of the segment and (b) are clearly not the adjustments of carrying amounts or costs, or expenses that should have been recognized on a going-concern basis prior to the measurement date should be included in determining the gain or loss on disposal. Results of operations before the measurement date should not be included in the gain or loss on disposal.

17. Costs and expenses *directly* associated with the decision to dispose include items such as severance pay, additional pension costs, employee relocation expenses, and future rentals on long-term leases to the extent they are not offset by sub-lease rentals.

18. *Disclosure.* In addition to the amounts that should be disclosed in the financial statements (paragraph 8), the notes to financial statements for the period encompassing the measurement date should disclose:

a. the identity of the segment of business that has been or will be discontinued,
b. the expected disposal date, if known (see paragraph 14),
c. the expected manner of disposal,
d. a description of the remaining assets and liabilities of the segment at the balance sheet date,[7] and
e. the income or loss from operations and any proceeds from disposal of the segment during the period from the measurement date to the date of the balance sheet.

For periods subsequent to the measurement date and including the period of disposal, notes to the financial statements should disclose the information listed in (a), (b), (c), and (d) above and also the information listed in (e) above compared with the prior estimates.

Criteria for Extraordinary Items

19. Judgment is required to segregate in the income statement the effects of events or transactions that are extraordinary items (as required by paragraph

[5] If financial statements for a date prior to the measurement date have not been issued, and the expected loss provides evidence of conditions that existed at the date of such statements and affects estimates inherent in the process of preparing them, the financial statements should be adjusted for any change in estimates resulting from the use of such evidence. (See Statement on Auditing Standards No. 1, *Codification of Auditing Standards and Procedures*, paragraph 560.03.)

[6] When disposal is estimated to be completed within one year and subsequently is revised to a longer period of time, any revision of the net realizable value of the segment should be treated as a change in estimate (see paragraph 25).

[7] Consideration should be given to disclosing this information by segregation in the balance sheet of the net assets and liabilities (current and noncurrent) of the discontinued segment. Only liabilities which will be assumed by others should be designated as liabilities of the discontinued segment. If the loss on disposal cannot be estimated within reasonable limits, this fact should be disclosed.

Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions APB 30

[1]. The Board concludes that an event or transaction should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion.

20. Extraordinary items are events and transactions that are distinguished by their unusual nature *and* by the infrequency of their occurrence. Thus, *both* of the following criteria should be met to classify an event or transaction as an extraordinary item:

a. *Unusual nature*—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates. (See discussion in paragraph 21.)
b. *Infrequency of occurrence*—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. (See discussion in paragraph 22.)

21. *Unusual Nature.* The specific characteristics of the entity, such as type and scope of operations, lines of business, and operating policies should be considered in determining ordinary and typical activities of an entity. The environment in which an entity operates is a primary consideration in determining whether an underlying event or transaction is abnormal and significantly different from the ordinary and typical activities of the entity. The environment of an entity includes such factors as the characteristics of the industry or industries in which it operates, the geographical location of its operations, and the nature and extent of governmental regulation. Thus, an event or transaction may be unusual in nature for one entity but not for another because of differences in their respective environments. Unusual nature is not established by the fact that an event or transaction is beyond the control of management.

22. *Infrequency of Occurrence.* For purposes of this Opinion, an event or transaction of a type not reasonably expected to recur in the foreseeable future is considered to occur infrequently. Determining the probability of recurrence of a particular event or transaction in the foreseeable future should take into account the environment in which an entity operates. Accordingly, a specific transaction of one entity might meet that criterion and a similar transaction of another entity might not because of different probabilities of recurrence. The past occurrence of an event or transaction for a particular entity provides evidence to assess the probability of recurrence of that type of event or transaction in the foreseeable future. By definition, extraordinary items occur infrequently. However, mere infrequency of occurrence of a particular event or transaction does not alone imply that its effects should be classified as extraordinary. An event or transaction of a type that occurs frequently in the environment in which the entity operates cannot, by definition, be considered as extraordinary, regardless of its financial effect.

23. Certain gains and losses should not be reported as extraordinary items because they are usual in nature or may be expected to recur as a consequence of customary and continuing business activities. Examples include:

a. Write-down or write-off of receivables, inventories, equipment leased to others, deferred research and development costs, or other intangible assets.
b. Gains or losses from exchange or translation of foreign currencies, including those relating to major devaluations and revaluations.
c. Gains or losses on disposal of a segment of a business.
d. Other gains or losses from sale or abandonment of property, plant, or equipment used in the business.
e. Effects of a strike, including those against competitors and major suppliers.
f. Adjustment of accruals on long-term contracts.

In rare situations, an event or transaction may occur that clearly meets both criteria specified in paragraph 20 of this Opinion and thus gives rise to an extraordinary gain or loss that includes one or more of the gains or losses enumerated above. In these circumstances, gains or losses such as (a) and (d) above should be included in the extraordinary item if they are a direct result of a major casualty (such as an earthquake), an expropriation, or a prohibition under a newly enacted law or regulation that clearly meets both criteria specified in paragraph 20. However, any portion of such losses which would have resulted from a valuation of assets on a going concern basis should not be included in the extraordinary items. Disposals of a segment of a business should be accounted for pursuant to paragraph 13 and presented in the income statement pursuant to paragraph 8 even though the circumstances of the disposal meet the criteria specified in paragraph 20.

24. *Materiality.* The effect of an extraordinary event or transaction should be classified separately in the income statement in the manner described in paragraph 11 if it is material in relation to income before extraordinary items or to the trend of annual earnings before extraordinary items, or is material

APPENDIX B

Section 102 comparison at 8% Interest

Summary - Price Comparisons on wells in the Blue Gravel field.

(b)	('c)	(d)	(e)	(f)	(g)	(h)	(i)
Well Name	Total MCF	Mmbtu	Total Revenues Paid	Est. Revenues based on Sec102	Diff. Between actual and est. Sec102 rev.	Interest Due @ 8%	Current Months Difference + Interest
1-23	205,168	231,118	$927,884	$1,255,107	$327,223	$365,175	$563,146
1-24	0	0	$0	$0	$0	$0	$0
4-24	50,732	55,914	$108,141	$403,060	$294,919	$263,410	$558,329
5-24	203,471	225,340	$433,965	$1,628,457	$1,194,492	$1,059,737	$2,254,230
6-24	233,888	258,704	$504,069	$1,868,253	$1,364,184	$1,212,088	$2,576,272
1-25	413,056	460,008	$402,674	$2,522,351	$2,119,677	$3,321,153	$5,440,830
2-25	174,201	197,330	$801,370	$1,176,050	$374,681	$353,159	$727,840
4-25	585,086	657,289	$1,638,061	$4,435,405	$2,797,344	$2,786,452	$5,583,797
5-25	16,223	18,141	$46,658	$112,239	$65,581	$83,405	$148,986
6-25	45,007	49,937	$99,803	$383,949	$284,145	$209,166	$493,311
7-25	326,195	358,503	$664,010	$2,554,484	$1,890,474	$1,746,749	$3,637,222
1-26	658,136	741,623	$3,190,115	$4,038,850	$848,735	$1,053,875	$1,902,609
2-26	307,080	348,237	$623,537	$2,452,718	$1,829,181	$1,743,139	$3,572,319
3-35	66,104	74,606	$147,210	$558,502	$411,292	$328,658	$739,949
4-35	6,193	7,156	$14,312	$58,357	$44,045	$26,667	$70,712
5-35	26,672	30,178	$60,354	$231,764	$171,410	$126,589	$298,000
1-36	43,779	48,931	$148,924	$335,087	$186,162	$155,029	$341,191
2-36	180	203	$985	$1,043	$58	$101	$159
3-36	25,983	28,315	$56,628	$207,312	$150,684	$128,427	$279,111
5-36	83,649	92,756	$185,515	$687,633	$502,118	$412,650	$914,768
6-36	1,855	1,823	$3,646	$13,239	$9,593	$8,374	$17,966
9-36	279,205	306,779	$612,060	$2,224,313	$1,612,253	$1,413,599	$3,025,852
10-36	367,343	401,631	$792,823	$2,926,793	$2,133,970	$1,845,171	$3,979,141
Total	**4,119,206**	**4,594,522**	**$11,462,745**	**$30,074,966**	**$18,612,221**	**$18,642,773**	**$37,125,742**

EXHIBIT
WATSON EX. 6

APPENDIX C

PUC-3-b Unless otherwise provided in a. Please provide workpapers, supporting documents, spreadsheets that form the basis for and show the calculation of the $10.4 million recoupable payment made to Mr. Grynberg in 1996 pursuant to a mediation agreement.

***Response to* PUC-3-b**

The response to 3a. does contain information showing the basis for and calculation of the $10.4 million payment made in 1996. The $10.4 million payment was arrived at based upon a finding by former federal district judge Richard McQuade (Dist. Indiana) and represented one-half of the estimated minimum NGPA § 102 price liability at the time. Based on rulings by the Colorado Court of Appeals (cert. denied), as well as at the FERC, it has been held that RMNG was obligated to pay at least § 102 prices on all gas from the Blue Gravel Field from 1984, except for one well. This exposure was estimated to be over $20 million at the time the mediation occurred. Mr. Grynberg was also claiming a prejudgment interest rate well above the statutory 8% rate, based upon the Colorado Statute providing moratory interest, on all pricing claims. Rocky Mountain wished both to reach a prudent settlement of the litigation as well as to stop the accumulation of prejudgment interest. As a result, RMNG tendered one-half of the § 102 pricing claim for Grynberg to hold subject to the final outcome of the litigation or final settlement in an effort to obtain Grynberg's participation in a formal mediation to settle all litigation. The § 102 pricing claim on September 13, 1996 with prejudgment interest at 8% was $20,934,444. *See*, Damage calculation spreadsheet dated September 1996 attached hereto as production number RM-0640. The $10,467,222 payment was calculated by simply dividing the $20,934,444 by two. The resulting $10.4 million was paid to Grynberg as payment for gas costs for gas delivered to our customers. Rocky Mountain then made a filing with the PUC regarding recovery of that gas cost payment and was advised to refile with the Commission when the litigation was finally resolved and the payment was no longer subject to refund. As Mr. Haun testified to, at pps. 21-26, the Commission was fully advised of the various Court and FERC proceedings, the mediation, the payment of $10.4 million and the question of when these costs should be passed through. *See*, Testimony of S. Wesley Haun; *Haun Exhibit No. 12*, Chart of Grynberg's Damage Calculations dated November 5, 1996; *Haun Exhibit 14*, May 25, 1995 Colorado Court of Appeals Decision; *Haun Exhibit 15*, Grynberg v. FERC, 71 F.3d. 413 (1995); *Haun Exhibit 16*, Rocky Mountain's Advice Letter No. 20; *Haun Exhibit 17* , Rocky Divisions Advice Letter No. 353; Rocky GCA Application Appendix A, Decision Approving Stipulation and Agreement, Issuing Declaratory Order; *Haun Exhibit 20*, April 1996 FERC Order Granting Grynberg Retroactive Abandonment; Colorado Supreme Court Denial of Certiorari; Correspondence from Kinder Morgan to Judge McQuade advising him of the approximate $20.8 million valuation of the § 102 pricing claim and the agreement to pay Grynberg half, and Letter Agreement between Kinder Morgan and Grynberg regarding the payment of the $10,467,222 attached hereto with production numbers RM-0641-RM0644; *Haun Exhibit 26*, Confidential Annex dated October 8, 1997, Docket No. 97D-300G.

APPENDIX D

Docket No. 02A-522G et al.
Rocky Mountain Natural Gas Company et a
Revised Sheet No. 1 to Appendix D to
Stipulation and Settlement Agreement
filed June 20, 2003

Rocky Mountain Natural Gas Company
Summary of Litigated Gas Cost Surcharge Calculation
Proposed to be Effective November 1, 2003
Thru October 31, 2017

Line No.	Description (1)	Period or Reference (2)	Amount (3)
	Litigated Gas Cost Payments and Interest to Recover		
1	Payment #1 - 9/19/1996		$10,467,222
2	Payment #2 - 4/4/2002		$6,425,000
3	Payment #3 - 4/10/2002 Less Settlement of 15%		$13,281,250
4	Total Litigated Gas Cost Payments		$30,173,472
5	Allowable Interest Recovery Amount Over 14 Year Period	Begins 11/1/2003	$14,451,528
6	Total 15 Year Recovery Amount		$44,625,000
	Year #1 Collections Beginning November 1, 2002		
7	Total Litigated Gas Cost Payments		$30,173,472
8	Actual Sales + Transport Collections	11/1/2002-2/28/2003	$1,490,350
9	Estimated Sales + Transport Collections	3/1/2003-10/31/2003	$1,163,354
10	Total Sales + Transport Collections	11/1/2002-10/31/2003	$2,653,704
11	Total Principal Amount Balance	November 1, 2003	$27,519,768
	Balance to Collect		
12	Total 15 Year Recovery Amount	Line 6	$44,625,000
13	Total Sales + Transport Collections	Line 10	$2,653,704
14	Total Amount Including Interest to Collect During Period	11/1/2003-10/31/2017	$41,971,296
15	**Total Projected Volumes (Mcf)**	11/1/2003-10/31/2017	155,484,617
16	**Current Surcharge Rate per Mcf Effective November 1, 2002**		**$0.3658**
17	**Proposed Surcharge Rate per Mcf to be Effective November 1, 2003**	Line 14 / Line 15	**$0.2699**
18	**Rate Change per Mcf Proposed to be Effective November 1, 2003**		**($0.0959)**
19	**Total Amount Collected During Period November 1, 2002 - October 31, 2017**	Line 10 + Line 14	**$44,625,000**

Rocky Mountain Natural Gas Company
15 Year Annual Volume Projections (Mcf)
November, 2002-October, 2003 thru
November, 2016-October, 2017

Individual District Projected Sales Volumes

Year	Aspen	Delta	Eagle	Glenwood	Montrose	Telluride	Total Sales Volumes	Total Sales Growth %	Projected Transportation Volumes	Total Volumes
11/02-10/03	1,740,034	775,455	1,305,589	996,400	906,892	596,169	6,320,539	5.08%	857,000	7,177,539
11/03-10/04	1,811,723	784,450	1,453,251	1,032,769	932,466	633,430	6,648,089	5.18%	900,536	7,548,625
11/04-10/05	1,886,366	793,550	1,617,614	1,070,465	958,762	673,019	6,999,776	5.29%	946,283	7,946,058
11/05-10/06	1,964,085	802,755	1,800,566	1,109,537	985,799	715,083	7,377,824	5.40%	994,354	8,372,178
11/06-10/07	2,045,005	812,067	2,004,210	1,150,035	1,013,599	759,775	7,784,690	5.51%	1,044,867	8,829,558
11/07-10/08	2,129,259	821,487	2,230,886	1,192,011	1,042,182	807,261	8,223,086	5.63%	1,097,946	9,321,033
11/08-10/09	2,216,985	831,016	2,483,199	1,235,519	1,071,572	857,715	8,696,006	5.75%	1,153,722	9,849,728
11/09-10/10	2,308,324	840,656	2,764,049	1,280,616	1,101,790	911,322	9,206,758	5.87%	1,212,331	10,419,089
11/10-10/11	2,403,427	850,408	3,076,663	1,327,358	1,132,860	968,280	9,758,997	6.00%	1,273,918	11,032,914
11/11-10/12	2,502,449	860,272	3,424,634	1,375,807	1,164,807	1,028,797	10,356,766	6.13%	1,338,633	11,695,399
11/12-10/13	2,605,550	870,252	3,811,980	1,426,024	1,197,655	1,093,097	11,004,536	6.25%	1,406,635	12,411,172
11/13-10/14	2,712,898	880,346	4,243,092	1,478,074	1,231,428	1,161,416	11,707,255	6.39%	1,478,092	13,185,347
11/14-10/15	2,824,670	890,558	4,722,986	1,532,023	1,266,155	1,234,004	12,470,397	6.52%	1,553,179	14,023,576
11/15-10/16	2,941,046	900,889	5,257,156	1,587,942	1,301,860	1,311,130	13,300,023	6.65%	1,632,081	14,932,104
11/16-10/17	3,062,217	911,339	5,851,740	1,645,902	1,338,573	1,393,075	14,202,847	6.79%	1,714,991	15,917,837
15 Year Total	**35,154,038**	**12,625,501**	**46,047,596**	**19,440,481**	**16,646,399**	**14,143,573**	**144,057,588**		**18,604,567**	**162,662,156**

Annual Growth Projection Percentages

Aspen	**4.12%**
Delta	**1.16%**
Eagle	**11.31%**
Glenwood	**3.65%**
Montrose	**2.82%**
Telluride	**6.25%**
Transportation	**5.08%**

155,484,617
14 years volume

Kinder Morgan, Inc.
Western Slope Rate Area
Projected Jurisdictional Sales
November 2002 thru May 2003

Line	Month	Residential Projected Sales Mcf @ 14.73	Commercial Projected Sales Mcf @ 14.73	Total Projected Sales Mcf @ 14.73	Total Projected Sales Ccf @ LBP	Transport Volumes	857,000
	(1)	(2)	(3)	(4)	(5)		
1	November, 2002	466,035	210,951	676,986	8,401,014	91,792	Nov-02
2	December	650,901	294,085	944,986	11,726,743	128,130	Dec-02
3	January, 2003	721,674	326,001	1,047,675	13,001,055	142,054	Jan-03
4	February	581,865	268,456	850,321	10,552,004	115,295	Feb-03
5	March	468,998	214,057	683,055	8,476,327	92,615	Mar-03
6	April	372,238	168,400	540,638	6,709,012	73,305	Apr-03
7	May	244,225	113,027	357,252	4,433,296	48,440	May-03
8	June	0	0	0	0	0	Jun-03
9	July	0	0	0	0	0	Jul-03
10	August	0	0	0	0	0	Aug-03
11	September	0	0	0	0	0	Sep-03
12	October	0	0	0	0	0	Oct-03
13	TOTAL	3,505,936	1,594,977	5,100,913	63,299,451	691,631	

Kinder Morgan, Inc.
Western Slope Rate Area
Projected Jurisdictional Sales
June 2003 thru October 2003

Line	Month	Residential Projected Sales Mcf @ 14.73	Commercial Projected Sales Mcf @ 14.73	Total Projected Sales Mcf @ 14.73	Total Projected Sales Ccf @ LBP	Transport Volumes	857,000
	(1)	(2)	(3)	(4)	(5)		
1	November, 2002	0	0	0	0	0	Nov-02
2	December	0	0	0	0	0	Dec-02
3	January, 2003	0	0	0	0	0	Jan-03
4	February	0	0	0	0	0	Feb-03
5	March	0	0	0	0	0	Mar-03
6	April	0	0	0	0	0	Apr-03
7	May	0	0	0	0	0	May-03
8	June	143,529	72,204	215,733	2,677,125	29,251	Jun-03
9	July	113,184	62,090	175,274	2,175,051	23,765	Jul-03
10	August	115,385	63,705	179,090	2,222,406	24,283	Aug-03
11	September	159,830	80,540	240,370	2,982,856	32,592	Sep-03
12	October	278,666	130,493	409,159	5,077,432	55,478	Oct-03
13	TOTAL	810,594	409,032	1,219,626	15,134,870	165,369	

Kinder Morgan, Inc.
Western Slope Rate Area
Projected Jurisdictional Sales
November 2002 thru October 2003

Line	Month	Residential Projected Sales Mcf @ 14.73	Commercial Projected Sales Mcf @ 14.73	Total Projected Sales Mcf @ 14.73	Total Projected Sales Ccf @ LBP	% to total	Transport Volumes	857,000
	(1)	(2)	(3)	(4)	(5)			
1	November, 2002	466,035	210,951	676,986	8,401,014	10.71%	91,792	Nov-02
2	December	650,901	294,085	944,986	11,726,743	14.95%	128,130	Dec-02
3	January, 2003	721,674	326,001	1,047,675	13,001,055	16.58%	142,054	Jan-03
4	February	581,865	268,456	850,321	10,552,004	13.45%	115,295	Feb-03
5	March	468,998	214,057	683,055	8,476,327	10.81%	92,615	Mar-03
6	April	372,238	168,400	540,638	6,709,012	8.55%	73,305	Apr-03
7	May	244,225	113,027	357,252	4,433,296	5.65%	48,440	May-03
8	June	143,529	72,204	215,733	2,677,125	3.41%	29,251	Jun-03
9	July	113,184	62,090	175,274	2,175,051	2.77%	23,765	Jul-03
10	August	115,385	63,705	179,090	2,222,406	2.83%	24,283	Aug-03
11	September	159,830	80,540	240,370	2,982,856	3.80%	32,592	Sep-03
12	October	278,666	130,493	409,159	5,077,432	6.47%	55,478	Oct-03
13	TOTAL	4,316,530	2,004,009	6,320,539	78,434,321	100.00%	857,000	

3/03-5/03 Total Volumes	1,795,305
Estimated Collection Amount (*0.3658)	$656,723
6/03-10/03 Total Volumes	1,384,995
Estimated Collection Amount (*0.3658)	$506,631
3/03-10/03 Total Volumes	3,180,300
Estimated Collection Amount (*0.3658)	$1,163,354
11/02-10/03 Total Volumes	7,177,539
Estimated Collection Amount (*0.3658)	$2,625,544

Kinder Morgan, Inc.
Western Slope Rate Area
14 Years Projected Volumes

Line	Month	Projected Sales Mcf @ 14.73	Projected Transportation Mcf @ 14.73	Total Projected Volumes Mcf @ 14.73	Total Projected Volumes Ccf @ LBP
	(1)	(2)	(3)	(4)	(5)
1	11/2003 - 10/2004	6,648,089	900,536	7,548,625	93,674,174
2	11/2004 - 10/2005	6,999,776	946,283	7,946,058	98,606,100
3	11/2005 - 10/2006	7,377,824	994,354	8,372,178	103,894,002
4	11/2006 - 10/2007	7,784,690	1,044,867	8,829,558	109,569,826
5	11/2007 - 10/2008	8,223,086	1,097,946	9,321,033	115,668,757
6	11/2008 - 10/2009	8,696,006	1,153,722	9,849,728	122,229,568
7	11/2009 - 10/2010	9,206,758	1,212,331	10,419,089	129,295,010
8	11/2010 - 10/2011	9,758,997	1,273,918	11,032,914	136,912,239
9	11/2011 - 10/2012	10,356,766	1,338,633	11,695,399	145,133,295
10	11/2012 - 10/2013	11,004,536	1,406,635	12,411,172	154,015,633
11	11/2013 - 10/2014	11,707,255	1,478,092	13,185,347	163,622,715
12	11/2014 - 10/2015	12,470,397	1,553,179	14,023,576	174,024,661
13	11/2015 - 10/2016	13,300,023	1,632,081	14,932,104	185,298,978
14	11/2016 - 10/2017	14,202,847	1,714,991	15,917,837	197,531,373
15	Total 14 Years	137,737,049	17,747,567	155,484,617	1,929,476,329

Docket No. 02A-522G et al.
Rocky Mountain Natural Gas Company et
Revised Sheet No. 5 to Appendix D to
Stipulation and Settlement Agreement
filed June 20, 2003

Kinder Morgan, Inc. - Western Slope Rate Area
Summary of Litigated Gas Cost Surcharge Calculation
Proposed to be Effective November 1, 2003
Thru October 31, 2017

Line No.	Description (1)	Period or Reference (2)	Amount (3)
	Litigated Gas Cost Payments and Interest to Recover		
1	Payment #1 - 9/19/1996		$10,467,222
2	Payment #2 - 4/4/2002		$6,425,000
3	Payment #3 - 4/10/2002 Less Settlement of 15%		$13,281,250
4	Total Litigated Gas Cost Payments		$30,173,472
5	Allowable Interest Recovery Amount Over 14 Year Period	Begins 11/1/2003	$14,451,528
6	Total 15 Year Recovery Amount		$44,625,000
	Year #1 Collections Beginning November 1, 2002		
7	Total Litigated Gas Cost Payments		$30,173,472
8	Actual Sales + Transport Collections	11/1/2002-2/28/2003	$1,490,350
9	Estimated Sales + Transport Collections	3/1/2003-10/31/2003	$1,163,354
10	Total Sales + Transport Collections	11/1/2002-10/31/2003	$2,653,704
11	Total Principal Amount Balance	November 1, 2003	$27,519,768
	Balance to Collect		
12	Total 15 Year Recovery Amount	Line 6	$44,625,000
13	Total Sales + Transport Collections	Line 10	$2,653,704
14	Total Amount Including Interest to Collect During Period	11/1/2003-10/31/2017	$41,971,296
15	**Total Projected Volumes (Ccf)**	11/1/2003-10/31/2017	1,929,476,329
16	**Proposed Surcharge Rate per Ccf to be Effective November 1, 2003**	Line 14 / Line 15	**$0.0218**
17	**Total Amount Collected During Period November 1, 2002 - October 31, 2017**	Line 10 + Line 14	**$44,625,000**

APPENDIX E

Rocky Mountain Natural Gas Company
name of utility

Colo. PUC No.2

First Revised Sheet No. 1
Cancels Original Sheet No. 1

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Advice Letter No. 50

Bentley W. Breland
Signature of Issuing Officer

Issue Date: June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date: November 1, 2003

Rocky Mountain Natural Gas Company
name of utility

Colo. PUC No. 2

Tenth Revised Sheet No. 8
Cancels Ninth Revised Sheet No. 8

RATE SCHEDULE GRS-1

Type of Charge	Tariff Rate $	Gas Cost Adjustment Current* $	Gas Cost Adjustment Cumulative** $	Rate After Adjustment $	
Demand Charge					
Per Mcf of Contract Demand per Month	5.8846			5.8846	
Litigated Settlement Special Rate Surcharge ("LSSRS") 4/					
Per Mcf delivered per Monthly Billing Period	0.2699			0.2699	
Commodity Charge					
Per Mcf delivered per Monthly Billing Period	4.1595	(0.5916)	0.1484	4.3079	R
Authorized Overruns					
Per Mcf delivered per Monthly Billing Period	2.0357 3/				
Unauthorized Overruns					
Per Mcf in excess of Tolerance delivered per Monthly Billing Period	6.0000 3/				
Base Gas Cost and Adjustments					
Base Gas Cost	2.4637	0.2682	0.7454	3.2091	
Gas Cost Recovery Adjustment	---	(0.8598)	(0.5970)	(0.5970)	R
Total	2.4637	(0.5916)	0.1484	2.6121	R

Notes:

1/ The current GCA is the rate change from the last GCA filing.

2/ The cumulative GCA is the rate change from the stated Tariff rate.

3/ Plus the highest spot gas price listed in Gas Daily's Daily Price Survey relative to Colorado Interstate Gas Company, Northwest Pipeline Corporation and Questar Pipeline Company, applicable to the "Rockies" (Rocky Mountain) region, for the Day that the unauthorized overrun occurred.

4/ Pursuant to Section 7A of the General Terms and Conditions of this Tariff.

Advice Letter No. 50

Bentley W. Breland
Signature of Issuing Officer

Issue Date: June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date: November 1, 2003

Rocky Mountain Natural Gas Company
name of utility

Colo. PUC No. 2

Ninth Revised Sheet No. 8A
Cancels Eighth Revised Sheet No. 8A

Category Cost Determination

Rate Schedule	Commodity Charge $	Distribution Charge $	Upstream Pipeline Charge $	Total Commodity Charge 1/ $	LSSRS 3/ $	Demand Charge 2/ $	
GRS-1	2.5585	1.6958	0.0536	4.3079	0.2699	5.8846	R

1/ per Mcf delivered per Monthly Billing Period, plus the LSSRS if applicable.

2/ per Mcf of Contract Demand per Month

3/ Litigated Settlement Special Rate Surcharge (LSSRS) per Mcf delivered per Monthly Billing Period; applied pursuant to Section 7A of the General Terms and Conditions of this Tariff.

Advice Letter No. 50

Bentley W. Breland
Signature of Issuing Officer

Issue Date: June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date: November 1, 2003

Rocky Mountain Natural Gas Company
name of utility

Colo. PUC No. 2

Third Revised Sheet No. 10
Cancels Second Revised Sheet No. 10

RATE SCHEDULES FTS-1 AND ITS-1

Rate Schedule	Type of Service	Type of Charge	Maximum Rate 1/ $	Minimum Rate 1/ $	
FTS-1	Firm	Reservation Charge (Per Mcf of MDTQ per Month)	4.6720	0.3042	
		Commodity Charge (Per Mcf delivered per Monthly Billing Period)	0.9127 3/	0.0325	R
		Authorized Overruns (Per Mcf delivered per Monthly Billing Period)	1.2128 3/	0.0425	I
		Unauthorized Overruns (Per Mcf in excess of Tolerance delivered per Monthly Billing Period)	6.0000 2/		
ITS-1	Interruptible	Commodity Charge (Per Mcf delivered per Monthly Billing Period)	0.9127 3/	0.03252	R
		Unauthorized Overruns (Per Mcf in excess of Tolerance delivered per Monthly Billing Period)	6.0000 2/		

Notes

1/ Rates are stated in Mcf at a Pressure Base of 14.73 p.s.i.a.

2/ Plus the highest spot gas price listed in Gas Daily's Daily Price Survey relative to Colorado Interstate Gas Company, Northwest Pipeline Corporation and Questar Pipeline Company, applicable to the "Rockies" (Rocky Mountain) region, for the Day that the unauthorized overrun occurred.

3/ Amount includes LSSRS of $0.2699, pursuant to Section 7A of the General Terms and Conditions of this Tariff.

Advice Letter No. 50

Bentley W. Breland
Signature of Issuing Officer

Issue Date: June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date: November 1, 2003

Rocky Mountain Natural Gas Company
name of utility

Colo. PUC No. 2

First Revised Sheet No. 17A
Cancels Original Sheet No. 17A

This page is reserved for future use.

Advice Letter No. 50

Bentley W. Breland
Signature of Issuing Officer

Issue Date: June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date: November 1, 2003

Rocky Mountain Natural Gas Company
name of utility

Colo. PUC No. 2

Fourth Revised Sheet No. 68
Cancels Third Revised Sheet No. 68

GENERAL TERMS AND CONDITIONS

2. The resulting projected gas cost will be divided by the Forecasted Sales Gas Quantity (adjusted for deviations from normal and other changes) for the same period.

3. A GCA will be determined annually for the twelve months ended June 30 (The Accumulation Period) by determining the difference between the forecasted cost of gas and the actual cost of gas as was recovered during the accumulation period. The difference will be the amount over- or under-recovered for the accumulation period. This amount, plus any amounts not amortized at June 30 relating to prior periods, plus interest, if any, will be amortized over the 12 month period commencing November 1.

4. Rates will be calculated to the nearest tenth mil ($0.0001) per thousand cubic feet in order to reflect the GCA rate adjustments on the same basis as the Company's rates are stated.

5. The Total GCA will be determined using the following formula:

Total GCA = (A + B) - C

A = Current Gas Cost as calculated in 1 and 2 above.

B = Deferred Gas Cost as calculated in 3 above.

C = Base Gas Cost as reflected in Base Rates.

6. For purposes of gas sold by the Company during the period through June 30, 2005, the Current Gas Cost and Deferred Gas Cost as calculated and referred to in this Section (c) may include all prudently incurred costs forecasted or actually incurred and revenues forecasted or actually received by the Company in connection with establishing a price collar with financial derivative instruments, undertaken to limit price volatility with respect to gas purchased for distribution to the Company's Colorado ratepayers.

For purposes of this Section, a price collar is defined as a range of prices which are intended to provide a net gas cost of not more than a stated maximum and not less than a stated minimum, to be established for specific gas volumes and specific time periods pursuant to the process described herein. A price collar will be established by simultaneously purchasing a financial call option(s) above prevailing market prices and selling a financial put option(s) below prevailing market prices from the same counter-party. Depending on actual market prices of gas for a particular month, for the quantities of gas covered under a financial derivative instrument for such month, a one time financial settlement payment may be received by the Company from trading counter-parties if the market price exceeds an agreed upon ceiling price, or a one time financial settlement payment may be made by the Company to the trading counter-parties if the market price falls below an agreed upon floor price. The receipt or disbursement of such financial payments shall be credited or debited to Account 191 and reflected in the Company's GCA filings. Such activity shall be undertaken for hedging purposes only. All financial transactions shall be tied directly to physical gas purchasing activities. Speculative transactions not tied directly to physical gas purchasing activities shall not be included in GCA filings. The Company shall maintain risk management trading procedures and policies to govern and oversee risk management practices and trading personnel.

Advice Letter No. 50

Bentley W. Breland
Signature of Issuing Officer

Issue Date: June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date: November 1, 2003

Rocky Mountain Natural Gas Company
name of utility

Colo. PUC No. 2

Second Revised Sheet No. 69A
Cancels First Revised Sheet No. 69A

GENERAL TERMS AND CONDITIONS

(j) Accounting Requirements:

Subsequent to the effective date of this clause, the Company shall maintain in FERC Account 191 a continuing monthly comparison of the actual cost of gas as shown on the books and records of the Company, exclusive of refunds, and the cost recovery for the same month calculated by multiplying the volumes sold during said month by the currently effective rate for purchase gas. The Company shall maintain an over/under account for each separate gas cost adjustment for the under-recovered or over-recovered purchased gas costs on a monthly basis. Applicable FERC accounts as described in 18 C.F.R., Part 201 (with Kinder Morgan, Inc.'s specific internal account numbers noted) to be used for purposes of calculating account 191 entries, are as follows:

BALANCE SHEET:
Accounts 117 and 164 including subaccounts

INCOME STATEMENT:
Accounts 480 through 485 including subaccounts
Kinder Morgan Account 489245 - Revenues for Transporting Gas to Residential Customers
Kinder Morgan Account 489248 - Revenues for Transporting Gas to Commercial Customers
Kinder Morgan Account 489250 - Revenues for Transporting Gas to Industrial Customers

OPERATION AND MAINTENANCE EXPENSES:
Accounts 800 through 808 and 813 including subaccounts

7A. LITIGATED SETTLEMENT SPECIAL RATE SURCHARGE (LSSRS)

(a) Description. As provided for by Commission Decision No. _____ mailed on _____, and entered in Dockets 02A-522G, 02A-524G, 02I-620G and 02I-621G, the Litigated Settlement Special Rate Surcharge (LSSRS) shall be applied to the Company's sales rates (Rate Schedule GRS-1) and transportation rates (Rate Schedules FTS-1 and ITS-1), until the Company has recovered the entire Settlement Amount. The balances of the Settlement Amount shall be recovered by the Company over a fourteen (14)-year period commencing November 1, 2003. The LSSRS shall terminate at the earlier of October 31, 2017, or once the entire Settlement Amount has been fully recovered by the Company.

(b) Procedures. The LSSRS shall be accounted for as follows:

i. An appropriate Federal Energy Regulatory Commission (FERC) sub-account shall be established to record the entire Settlement Amount, reduced by first-year collections, as of November 1, 2003, and to record the LSSRS revenues recovered for the duration of the LSSRS recovery period;

Advice Letter No. 50 — Bentley W. Breland, Signature of Issuing Officer — Issue Date: June 20, 2003

Decision or Authority No. _____ — Vice President, Title — Effective Date: November 1, 2003

Rocky Mountain Natural Gas Company
name of utility

Colo. PUC No. 2

Original Sheet No. 69B

GENERAL TERMS AND CONDITIONS

ii. The Company shall annually provide an attachment to its Annual Report to the Commission. The attachment shall identify the following:

a. the original settlement amount allowed for recovery;
b. total annual revenue recovered for the reported calendar year period;
c. accumulated revenues recovered by year, as of the annual period being reported;
d. total volumes sold or transported during the same calendar year period reported for the annual revenue recovery; and
e. the settlement amount balance remaining to be recovered;

iii. The LSSRS shall terminate in the same month that full recovery of the entire settlement amount is completed. The Company shall file an advice letter to remove the LSSRS from rates on not less than one (1) day's notice. Any over- or under-recovered balance of the settlement amount remaining ~~at the end of the fourteen (14) year collection period~~ shall be debited or credited to the Company's Account 191, ~~at that time to the end that LSSRS be completely recovered but not over-recovered~~;

iv. The LSSRS surcharge for the Company has been calculated to be $0.2699 per Mcf. This calculation (pursuant to the Stipulation and Agreement contained in Docket No. 02A-522G, et al.) was based on the Remaining Balance, divided by the estimated total throughput on Rocky Mountain Natural Gas Company related to KMI-Western Slope Rate Area sales and transportation customers for the fourteen (14)-year period of recovery of the Remaining Balance. The total throughput on KMI is the sum total of the projected end-use KMI sales and transportation customer consumption, as estimated for each year of the fourteen (14)-year recovery period.

v. As the LSSRS pertains to transportation rates, if and when the Company discounts the rates applicable to service rendered under the transportation rate schedules contained in this effective Tariff, the LSSRS component shall be discounted prior to the discounting of any other component of the applicable maximum rate. The Company shall only attribute to the Settlement Amount the amounts actually collected pursuant to the application of the LSSRS. Company shall maintain sufficient books and records for the determination of all amounts actually collected, including any amounts collected on discounted transactions.

vi. The language of Rocky Mountain Natural Gas Company's LSSRS tariff provisions shall be consistent, in all aspects, to the language contained in the tariff of its sole wholesale customer, Western Slope rate area of Kinder Morgan, Inc. (KMI) In case of changes in tariff language concerning the LSSRS for KMI, similar changes shall be made concurrently for Rocky Mountain Natural Gas Company. The LSSRS shall be collected only once from the end-use customers even though the LSSRS is flowed through both KMI and Rocky Mountain Natural Gas Company.

Advice Letter No. 50

Bentley W. Breland
Signature of Issuing Officer

Issue Date: June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date: November 1, 2003

Rocky Mountain Natural Gas Company
name of utility

Colo. PUC No. 2

Second Revised Sheet No. 70
Cancels First Revised Sheet No. 70

GENERAL TERMS AND CONDITIONS

8. SPECIAL CONTRACT RATE

A Customer may request in writing that the Company provide service to it under a special contract rate. If it so elects, the Company may file an application with the Colorado PUC under Section 40-3-104.3, C.R.S., and the Colorado PUC's rules addressing such applications promulgated at 4 Code of Colorado Regulations 723-10, seeking an order authorizing the requested special contract rate.

9. BILLING AND PAYMENT

9.1 Billing Period. Bills will be rendered at the conclusion of each Monthly Billing Period at the applicable rates shown in this Tariff, and shall be due and payable on the due date shown on the bill. Said due date shall be no earlier than ten (10) days subsequent to the issuance of the bills. Bills not paid within twenty-five (25) days of said bill date shall be considered delinquent.

9.2 Customer Obligations Concerning Meter Readings and Other Billing Information.

a. When information necessary for billing purposes is in the control of the Customer, such information shall be delivered to the Company by the Customer on or before the tenth Day of the Month following the Month which most closely corresponds to the Monthly Billing Period in which the service was provided.

b. In situations where the regular meter readings cannot be made by the Company, the Company may request the Customer to read the Gas meter at regular intervals approximating a month. If so directed by the Company, the Customer shall read the Company's or the Customer's meter each Day at the time specified in the Service Agreement, or as otherwise directed by the Company, and report such reading to the Company. Meter readings may be called in or mailed in using the prepaid postage card, as appropriate. Meter readings provided by Customers may be used by the Company for billing purposes, but they do not constitute actual meter readings unless and until the Company has verified their accuracy.

Kinder Morgan, Inc.
name of utility

Colo. PUC No. 6
First Revised Sheet No. 3
Cancels Original Sheet No. 3

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SYMBOL LEGEND

I – Increase
D – Decrease
C – Change
N – New Text

Advice Letter No. 200

Bentley W. Breland
Signature of Issuing Officer

Issue Date June 20, 2003

Decision or
Authority No._____

Vice President
Title

Effective Date November 1, 2003

Kinder Morgan, Inc.
name of utility

Colo. PUC No. 6
Third Revised Sheet No. 27
Cancels Second Revised Sheet No. 27

(Western Slope & North Central Colorado)
Sales Service Rate Schedule

(Rate Title or Number)

Company Rate Code

RATE

Rate Schedule	Type of Charge	Base Tariff Rate $	LSSRS 1/ $	Gas Cost Current $	Adjustment Cumulative $	Rate After Adjustment $
	North Central					
E-1	Monthly Demand Charge					
	Residential	5.00		--	--	5.00
	Commercial	10.00		--	--	10.00
	Commodity ($ per ccf					
	Residential	0.3943		0.0833	0.0839	0.4782
	Commercial	0.3728		0.0833	0.0839	0.4567
E-2	Monthly Demand Charge	100.00				100.00
	Commodity ($ per ccf @ 14.65 psia)	0.3464		0.0833	0.0839	0.4303
	Western Slope					
D-1R	Monthly Demand Charge	5.00		--	--	5.00
	Commodity ($ per ccf)	0.5116	0.0218	(0.0176)	0.0432	0.5766
D-1C	Monthly Demand Charge	10.00		--	--	10.00
	Commodity ($ per ccf)	0.4761	0.0218	(0.0176)	0.0432	0.5411
D-2	Monthly Demand Charge	160.00		--	--	160.00
	Commodity ($ per ccf)	0.4623	0.0218	(0.0176)	0.0432	0.5273
D-10	Monthly Demand Charge	160.00		--	--	160.00
	Commodity ($ per ccf @ 14.65 psia)	0.4123	0.0268	(0.0176)	0.0432	0.4823

The base tariff commodity rates shown on this tariff sheet are subject to adjustment for changes in Seller's cost of gas as provided for by the Gas Cost Adjustment tariff commencing on Sheet No. 39A. The above rates reflect a gas cost as follows:

Rate Schedule	Base Gas Cost and Adjustments				
E-1	Base Gas Cost	0.2452	0.0453	0.1040	0.3492
E-2	Gas Cost Recovery Adjustment	--	0.0380	(0.0201)	(0.0201)
	Total North Central	0.2452	0.0833	0.0839	0.3291
D-1R	Base Gas Cost	0.3750	(0.0518)	0.0420	0.4170
D-1C	Gas Cost Recovery Adjustment	--	0.0342	0.0012	0.0012
D-2					
D-10	Total Western Slope	0.3750	(0.0176)	0.0432	0.4182

The current GCA is the rate change from the last GCA filing.
The cumulative GCA is the rate change from the base tariff rate.

1/ Pursuant to Sheet No. 39D of this Tariff.

Advice Letter No. 200

Decision or
Authority No. _____

Bentley W. Breland
Signature of Issuing Officer

Vice President
Title

Issue Date June 20, 2003

Effective Date November 1, 2003

Kinder Morgan, Inc.
name of utility

Colo. PUC No. 6
Third Revised Sheet No. 28
Cancels Second Revised Sheet No. 28

Category Cost Determination

Western Slope & North Central Colorado

Rate Schedule	Commodity Charge $	Distribution Charge $	Upstream Pipeline Charge $	Total Commodity Charge 1/ $	Customer Charge 2/ $
D-1R	0.2093 3/	0.1366	0.2307	0.5766	5.00
D-1C	0.2093 3/	0.1011	0.2307	0.5411	10.00
D-2	0.2093 3/	0.0873	0.2307	0.5273	160.00
D-10	0.2143 3/	0.0373	0.2307	0.4823	160.00
E-1R	0.3002	0.1491	0.0289	0.4782	5.00
E-1C	0.3002	0.1276	0.0289	0.4567	10.00
E-2	0.3002	0.1012	0.0289	0.4303	100.00

1/ per ccf delivered

2/ Monthly Demand Charge

3/ Includes Litigated Settlement Special Rate Surcharge (LSSRS) Amount of $0.0218 per ccf @ LPB and $0.0268 per ccf @ 14.65 psi delivered pressure pursuant to Sheet No. 39D of this Tariff.

Advice Letter No. 200

Bentley W. Breland
Signature of Issuing Officer

Issue Date June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date November 1, 2003

Kinder Morgan, Inc.
name of utility

Colo. PUC No. 6
Third Revised Sheet No. 39B
Cancels Second Revised Sheet No. 39B

Rules, Regulations or Extension Policy

Gas Cost Adjustment – Western Slope & North Central Colorado - continued

2. The resulting projected gas cost will be divided by projected sales (adjusted for deviations from normal and other changes) for the same period.

3. A Gas Cost Adjustment will be determined annually for the twelve months ended June 30 (The Accumulation Period) by determining the difference between the actual cost of gas and the cost of gas actually recovered during the accumulation period. The difference will be the amount over or under-recovered for the accumulation period. This amount, plus any remaining unamortized amount at June 30 relating to prior periods, plus interest, if any, will be amortized over the 12 month period commencing November 1.

4. Rates will be calculated to the nearest tenth mill ($.0001) per thousand cubic feet.

5. The Total Gas Cost Adjustment will be determined using the following formula:

$$\text{Gas Cost Adjustment} = \frac{A}{D} + \frac{B}{D} - C$$

A = Cost of purchased gas as computed in 1. above.

B = Ccf sales as specified in 2. above.

C = Unit Cost of Gas reflected in currently effective rates.

D = Amount as specified in 3 above.

6. For purposes of gas sold by the Company during the period through June 30, 2005, the Current Gas Cost and Deferred Gas Cost as calculated and referred to in this Section (c) may include all prudently incurred costs forecasted or actually incurred and revenues forecasted or actually received by the Company in connection with establishing a price collar with financial derivative instruments, undertaken to limit price volatility with respect to gas purchased for distribution to the Company's Colorado ratepayers.

Advice Letter No. 200

Bentley W. Breland
Signature of Issuing Officer

Issue Date June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date November 1, 2003

Kinder Morgan, Inc.
name of utility

Colo. PUC No. 6
Original Sheet No. 39D

Rules, Regulations or Extension Policy

LITIGATED SETTLEMENT SPECIAL RATE SURCHARGE (LSSRS)

(a) Description. As provided for by Commission Decision No. ____ mailed on ____, and entered in Dockets 02A-522G, 02A-524G, 02I-620G and 02I-621G, the Litigated Settlement Special Rate Surcharge (LSSRS) shall be applied to the Company's sales rates (Rate Schedule GRS-1) and transportation rates (Rate Schedules FTS-1 and ITS-1), until the Company has recovered the entire Settlement Amount. The balances of the Settlement Amount shall be recovered by the Company over a fourteen (14)-year period commencing November 1, 2003. The LSSRS shall terminate at the earlier of October 31, 2017, or once the entire Settlement Amount has been fully recovered by the Company.

(b) Procedures. The LSSRS shall be accounted for as follows:

i. An appropriate Federal Energy Regulatory Commission (FERC) sub-account shall be established to record the entire Settlement Amount, reduced by first-year collections, as of November 1, 2003, and to record the LSSRS revenues recovered for the duration of the LSSRS recovery period;

ii. The Company shall annually provide an attachment to its Annual Report to the Commission. The attachment shall identify the following:

a. the original settlement amount allowed for recovery;
b. total annual revenue recovered for the reported calendar year period;
c. accumulated revenues recovered by year, as of the annual period being reported;
d. total volumes sold or transported during the same calendar year period reported for the annual revenue recovery; and
e. the settlement amount balance remaining to be recovered;

iii. The LSSRS shall terminate in the same month that full recovery of the entire settlement amount is completed. The Company shall file an advice letter to remove the LSSRS from rates on not less than one (1) day's notice. Any over- or under-recovered balance of the settlement amount remaining ~~at the end of the fourteen (14) year collection period~~ shall be debited or credited to the Company's Account 191, ~~at that time to the end that LSSRS be completely recovered but not over-recovered~~;

iv. The LSSRS surcharge for the Company has been calculated to be $0.2180 per Mcf @ LPB for sales customers and $0.2699 per Mcf @ 14.73 psi for transportation customers under maximum rate. This calculation (pursuant to the Stipulation and Agreement contained in Docket No. 02A-522G, et al.) was based on the Remaining Balance, divided by the estimated total throughput on Rocky Mountain Natural Gas Company related to KMI-Western Slope Rate Area sales and transportation customers for the fourteen (14)-year period of recovery of the Remaining Balance. The total throughput on KMI is the sum total of the projected end-use KMI sales and transportation customer consumption, as estimated for each year of the fourteen (14)-year recovery period.

Advice Letter No. 200

Bentley W. Breland
Signature of Issuing Officer

Issue Date June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date November 1, 2003

Kinder Morgan, Inc.
name of utility

Colo. PUC No. 6
Original Sheet No. 39E

Rules, Regulations or Extension Policy

LITIGATED SETTLEMENT SPECIAL RATE SURCHARGE (LSSRS) (Cont.)

v. As the LSSRS pertains to transportation rates, if and when the Company discounts the rates applicable to service rendered under the transportation rate schedules contained in this effective Tariff, the LSSRS component shall be discounted prior to the discounting of any other component of the applicable maximum rate. The Company shall only attribute to the Settlement Amount the amounts actually collected pursuant to the application of the LSSRS. Company shall maintain sufficient books and records for the determination of all amounts actually collected, including any amounts collected on discounted transactions.

vi. The language of KMI's LSSRS tariff provisions shall be consistent, in all aspects, to the language contained in the tariff of its interconnecting pipeline, Rocky Mountain Natural Gas Company (Rocky Mountain). In case of changes in tariff language concerning the LSSRS for Rocky Mountain, similar changes shall be made concurrently for KMI. The LSSRS shall be collected only once from the end-use customers even though the LSSRS is flowed through both KMI and Rocky Mountain.

(Remainder of this Sheet intentionally left blank.)

Advice Letter No. 200

Decision or
Authority No. _____

Bentley W. Breland
Signature of Issuing Officer

Vice President
Title

Issue Date June 20, 2003

Effective Date November 1, 2003

Kinder Morgan, Inc.
name of utility

Colo. PUC No. 6
First Revised Sheet No. 80
Cancels Original Sheet No. 80

Transportation Service Rate Schedule
(Western Slope and North Central Colorado)

(Rate Title or Number)

Company Rate Code

RATE

Rate Schedule	Service Area	Type of Charge	Maximum Rate $	Minimum Rate $
Rates are Stated in Mcf at a Pressure Base of 14.73 psia				
GTS E-1	North Central	Monthly Customer Charge (Per meter per month)		
		Residential	5.00	5.00
		Commercial	10.00	10.00
		Commodity Charge (All use per month, per Mcf)		
		Residential	1.7603	1.1000
		Commercial	1.5065	0.1000
GTS E-2	Northern Central	Monthly Customer Charge (Per meter per month)	10.00	10.00
		Commodity Charge (All use per month, per Mcf)	1.0175	0.1000
GTS D-1R	Western Slope	Monthly Customer Charge (Per meter per month)	5.00	5.00
		Commodity Charge (All use per month, per Mcf)	1.9870 1/	0.1000
GTS D-1C	Western Slope	Monthly Customer Charge (Per meter per month)	10.00	10.00
		Commodity Charge (All use per month, per Mcf)	1.5408 1/	0.1000

1/ Includes Litigated Settlement Special Rate Surcharge Amount of $0.2699 per Mcf delivered, pursuant to Sheet No. 39D of this Tariff.

Advice Letter No. 200

Bentley W. Breland
Signature of Issuing Officer

Issue Date June 20, 2003

Decision or
Authority No. _____

Vice President
Title

Effective Date November 1, 2003

Kinder Morgan, Inc.
name of utility

Colo. PUC No. 6
First Revised Sheet No. 81
Cancels Original Sheet No. 81

Transportation Service Rate Schedule
(Western Slope and North Central Colorado)

(Rate Title or Number)

Company Rate Code: RATE

Rate Schedule	Service Area	Type of Charge	Maximum Rate $	Minimum Rate $
Rates are Stated in Mcf at a Pressure Base of 14.73 psia				
GTS D-2	Western Slope	Monthly Customer Charge (Per meter per month)	10.00	10.00
		Commodity Charge (All use per month, per Mcf)	1.3673 1/	0.1000
GTS D-10	Western Slope	Monthly Customer Charge (Per meter per month)	10.00	10.00
		Commodity Charge (All use per month, per Mcf)	0.6449 1/	0.1000

Conversion Factor - Local to 14.73 psia Pressure Base

Location	Absolute Pressure	Conversion Factor
Aspen	11.22	0.761711
Basalt	11.22	0.761711
Carbondale	11.94	0.81059
Cedaredge	11.94	0.816701
Collbran	12.03	0.816701
Crawford	12.58	0.854039
Dacono	12.47	0.846572
Delta	12.58	0.854039
Eagle	11.77	0.799050
Edwards	11.77	0.799050
Evanston	12.50	0.848608
Firestone	12.52	0.849966
Frederick	12.50	0.848608
Glenwood Springs	12.15	0.824847
Gypsum	11.89	0.807196
Hotchkiss	12.03	0.816701
Montrose	12.12	0.822811
Naturita	12.33	0.837067
Norwood	11.66	0.791582
Nucla	12.12	0.822811
Olathe	12.31	0.835709
Orchard City	12.31	0.835709
Paonia	12.19	0.827563
Sawpit	11.25	0.763747
Snowmass	11.22	0.761711
Snowmass Village	11.22	0.761711
Telluride	10.94	0.742702
Wellington	12.39	0.841141

1/ Includes Litigated Settlement Special Rate Surcharge Amount of $0.2699 per Mcf delivered, pursuant to Sheet No. 39D of this Tariff.

Advice Letter No. 200

Bentley W. Breland
Signature of Issuing Officer

Issue Date June 20, 2003

Decision or Authority No. _____

Vice President
Title

Effective Date November 1, 2003