

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 04L-529G

IN THE MATTER OF THE APPLICATION OF K N ENERGY, A DIVISION OF KINDER MORGAN, INC., FOR AN ORDER AUTHORIZING IT TO EFFECT CERTAIN REVISIONS IN GAS RATES UPON LESS THAN STATUTORY NOTICE.

**COMMISSION ORDER AUTHORIZING
REVISIONS OF GAS RATES**

Mailed Date: October 27, 2004
Adopted Date: October 27, 2004

I. BY THE COMMISSION

A. Statement

1. On October 18, 2004, Kinder Morgan, Inc. (Applicant or KMI), filed a verified application. Applicant seeks a Commission order authorizing it, without formal hearing, and on less-than-statutory notice, to place into effect on November 1, 2004, tariffs resulting in a change to its existing natural gas rates on file with the Commission.

2. Pursuant to 4 *Code of Colorado Regulations* (CCR) 723-16-3 of the Commission's Rules Governing the Treatment of Confidential Information, Applicant has filed under seal material that is highly confidential, proprietary, and market-sensitive. Gas Cost Adjustment (GCA) Exhibit 2, specifically, Schedule 2A – the North Central Rate Area, Schedule 2A – the North Eastern Rate Area, Schedule 2A – the Western Slope Rate Area, and Exhibit 13 – the North Eastern Rate Area are marked “Confidential – Do Not Copy.”

3. The proposed tariffs are attached to the application, and affect Applicant's customers in its certificated areas of North Eastern, North Central, and Western Slope, Colorado.

4. This application for authority to increase rates is made under § 40-3-104(2), C.R.S., and Rule 41.5 of the *Commission's Rules of Practice and Procedure*, 4 CCR 723-1.

B. Findings of Fact and Conclusions

5. Applicant is an operating public utility subject to the jurisdiction of this Commission and is engaged in, the purchase, distribution, transportation, and sale of natural gas for domestic, mechanical, or public uses in various certificated areas within the State of Colorado.

6. Applicant's natural gas requirements are transported by Kinder Morgan Interstate Gas Transmission LLC (KMIGT) for the North Eastern rate area and by Public Service Company of Colorado for the North Central rate area. The majority of Applicant's natural gas supply for the North Eastern and North Central rate areas is purchased from wellhead sources. Applicant obtains its natural gas supply for the Western Slope rate area through wholesale purchase transportation from Rocky Mountain Natural Gas Company.

7. Transportation rates of KMIGT are regulated by the Federal Energy Regulatory Commission. This Commission has no jurisdiction over the transportation rates of interstate pipeline company KMIGT and wholesale rates of suppliers, but it expects Applicant to negotiate the lowest prices for supplies of natural gas that are consistent with the provisions of the Natural Gas Policy Act of 1978, 15 U.S.C. §§ 3301-3432 (Public Law 95-621), and applicable federal regulations or determinations made under applicable federal regulations.

8. The Commission's GCA Rules require that K N Energy, a Division of Kinder Morgan, Inc. revise its GCA rates to be effective on October 1 of each year. *See* 4 CCR 723-8-2.1. The Commission granted Applicant a one-time waiver of the GCA filing date in Decision No. C04-

1156 (Docket No. 04M-485G) to November 1. The instant filing is intended to comply with that decision.

9. The purpose of the revision of Applicant's gas rates is to reflect a change in the level of natural gas costs charged Applicant based on rates to be in effect November 1, 2004, applied to normalized purchase and sales volumes during the test period, and to adjust for previous over- or under- collections of purchase gas costs as of June 30, 2004. The revision of Applicant's gas rates apply to Transportation Rate Adjustments as well.

10. The revisions amount to an annualized increase of \$25,512,564 to Applicant's customers in Colorado. The changes are an increase of \$2,996,775 for North Eastern, an increase of \$2,428,813 for North Central, and an increase of \$20,086,976 for Western Slope certificated areas, respectively.

11. The proposed tariffs, attached as Appendix A, will increase total revenues by \$2,996,775 for the North Eastern Rate Area, which is an increase of 34.87 percent, and will increase total revenues by \$22,515,789 for the North Central and Western Slope Rate Areas, which is an increase of 48.73 percent.

12. Applicant anticipates that the adjustment in the requested GCAs will bring future gas cost recovery amounts more closely in line with the predicted future price of gas.

13. For the North East Rate Area, Applicant's last authorized rate of return on rate base was 11.42 percent and its last authorized rate of return on equity was 13.00 percent. Without the GCA rate revision to pass on increased gas cost, Applicant's rate of return on rate base would be (97.70) percent and its rate of return on equity would be (216.62) percent. If this increase is approved, Applicant's rate of return on rate base will be 4.73 percent and its rate of

return on equity will be 2.09 percent. For the North Central and Western Slope rate areas, Applicant's last authorized rate of return on rate base was 9.89 percent and its last authorized rate of return on equity was 11.25 percent. Without the GCA rate revision to pass on increased gas cost, Applicant's rate of return on rate base would be (30.73) percent and its rate of return on equity would be (73.63) percent. If this increase is approved, Applicant's rate of return on rate base will be 6.46 percent and its rate of return on equity will be 5.79 percent. Although Applicant is not allowed to earn a return on any GCA costs, Applicant has shown good cause for expedited passthrough of increases in GCA costs in light of the significant impact of these costs on its financial integrity.

14. Applicant has Commission approval of a tariff provision that allows KMI the use of certain financial instruments to produce a price range, or collars, around the current market price of gas. These collars effectively limit the amount of price volatility that can be experienced for gas purchases subject to the collar by placing upper and lower bounds on the net price payable for gas using puts and calls. There are no up-front transaction fees associated with the purchases of these costless collars, as the premiums for the sales of puts and the purchases of calls approximately offset one another. Applicant represents that it has implemented in this GCA Application, the risk management tools currently available in the marketplace, as authorized in its tariffs, to reduce the potential for gas price volatility during the upcoming heating season. As part of the Gas Purchase Report, Applicant should report the transaction costs and provide price comparisons to index, gains, and losses, information on volumes each month for which the gas price volatility risk management tools are used.

15. Applicant shall arrange for notice of publication of the proposed rate in conformance with Rule 41(e) of the Commission's Rules of Practice and Procedure, 4 CCR 723-1 within three days after the filing of this application. The filing of this application has been or will be brought to the attention of Applicant's affected customers by publication in *The Akron News-Reporter*, *Cheyenne Wells Record/Range Ledger*, *Greeley Daily Tribune*, *Haxtun Herald*, *Holyoke Enterprise*, *Julesburg Advocate*, *The Sterling Journal-Advocate*, *Wray Gazette*, and *Yuma Pioneer* (North Eastern rate area); and in *Aspen Daily News*, *Daily Planet*, *Delta County Independent*, *The Denver Post*, *Eagle Valley Enterprise*, *Farmer-Miner*, *Glenwood Post*, *Jackson County Star*, *Montrose Daily Press*, *San Miguel Basin Forum*, and *Snowmass Sun* (North Central and Western Slope rate areas), newspapers of circulation in the areas affected.

16. The proposed increase in rates will substantially recover only Applicant's increased cost of gas.

17. Good cause exists for the Commission to allow the proposed increases on less-than-statutory notice.

II. ORDER

A. The Commission Orders That:

1. The application filed by Kinder Morgan, Inc. for authority to change tariffs on less-than-statutory notice is granted.

2. Kinder Morgan, Inc. is authorized to file, on not less than one day's notice, the tariffs attached as Appendix A and made a part of this Order. These tariffs shall be effective for actual gas sales on or after their effective date of November 1, 2004.

3. This Order is effective on its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
October 27, 2004.**

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

Commissioners