

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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STATE OF
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APPLICATION OF PUBLIC SERVICE COMPANY)
OF COLORADO FOR RELIEF FROM CERTAIN)
TERMS AND CONDITIONS OF THE STIPULA-)
TION AND AGREEMENT ADOPTED IN DOCKET)
NO. 92A-352G PERTAINING TO THE HOLDING) DOCKET NO. 04A-275G
OF GAS GATHERING CAPACITY UPSTREAM OF)
ITS TIFFANY COMPRESSOR STATION IN LA)
PLATA COUNTY, COLORADO.)

STIPULATION AND AGREEMENT
IN RESOLUTION OF PROCEEDING

This Stipulation and Agreement in Resolution of Proceeding ("Stipulation") is entered into by and among Public Service Company of Colorado ("Public Service" or "Company"), Kinder Morgan, Inc. ("Kinder Morgan"), Atmos Energy Corporation ("Atmos"), and the Staff of the Public Utilities Commission ("Staff") (collectively referred to herein as the "Parties"). The Parties hereby state that they have resolved by settlement all issues that were or could have been raised by the Parties pertaining to the authorizations and relief requested by Public Service in its Application in this proceeding. This Stipulation and Agreement ("Stipulation") sets forth all of the terms and conditions of such settlement. The Parties to this Stipulation state that reaching agreement as set forth herein by means of a negotiated settlement rather than through a formal adversarial process is in the public interest and, therefore, the compromises and settlements reflected in this Stipulation are in the public interest.

I. BACKGROUND

1. On May 27, 2004, Public Service filed an Application in this docket requesting a Commission order granting Public Service relief from certain requirements imposed by Decision No. R92-1526, issued December 7, 1992, in Docket No. 92A-352G, and the underlying Stipulation and Agreement approved by the Commission therein (the "1992 Stipulation"). In particular, Public Service requested that it be relieved of the requirement under the 1992 Stipulation to continue to contract for and hold firm gas gathering capacity on and over the gas gathering system located upstream of Public Service's Tiffany Compressor Station in La Plata County, Colorado. In addition, Public Service requested relief from all related requirements under the 1992 Stipulation, applicable to this gas gathering capacity and the regulatory treatment of the costs thereof, to the extent necessary to allow Public Service to recover these upstream gathering costs in its Gas Cost Adjustment mechanism in the same manner as the costs for all other upstream services incurred by Public Service. Public Service served a copy of its Application on all signatory parties to the 1992 Stipulation, to the extent each such party still exists, as well as any known successor to such party.

2. On June 2, 2004, the Commission issued its "Notice of Application Filed" in Docket No. 04A-275G. Timely petitions to intervene were filed by Atmos and Kinder Morgan. Staff of the Public Utilities Commission filed a timely Notice of Intervention and Entry of Appearance. Public Service filed its direct testimony and exhibits on August 5, 2004. By minute entry at the Commission's July 15, 2004 open meeting, the Application was deemed complete as of July 19, 2004.

3. In Docket No. 92A-352G, Public Service and its former wholly-owned, intrastate pipeline subsidiary, Western Gas Supply Company ("WestGas"), jointly requested Commission authorization to transfer certain gathering assets -- including what is now the Red Cedar gathering system -- to allow for their planned ultimate sale to third parties. Red Cedar Gathering Company ("Red Cedar"), an unaffiliated third party, ultimately purchased the gathering facilities in 1994 and now owns and operates the facilities. Pursuant to the authorizations granted by the Commission in Docket No. 92A-352G, WestGas was merged into Public Service effective January 1, 1993.

4. In the 1992 Stipulation, the parties agreed to the transfer of the gathering assets, but Public Service was required to notify the parties of any subsequent sale of the facilities in order to allow for the filing of a complaint as to the proper disposition of the sales proceeds. With respect to the proposed transfer of the gathering facilities later purchased by Red Cedar, the parties agreed to the transfer subject to a series of conditions "intended to keep the cost allocation and rate design treatment of the facilities ... on a comparable basis with the cost allocation and rate design treatment of the other gathering facilities owned by Public Service or WestGas which are not being transferred." One of the conditions was that, effective upon the date of the transfer, Public Service would be required to contract with the owner of the gathering system for firm gathering capacity of up to 20,000 Mcf per day (at 14.65 psia) for deliveries to the Tiffany Compressor Station and up to 450 Mcf per day (at 14.65 psia) for delivery to the transmission facilities serving the Town of Bayfield. The 1992 Stipulation further provided that Public Service should continue to contract for firm gathering

capacity on the transferred facilities for so long as Public Service continued to own the downstream pipeline facilities.

5. With respect to rate recovery, the 1992 Stipulation provided that in Public Service's next rate case (which was filed in 1993 in Docket No. 93S-001EG), Public Service would deduct the book value of gathering facilities to be transferred from the cost of service, make all corresponding adjustments to rate base and the income statement, and include the contracted-for gathering costs related to the capacity Public Service was required to continue to hold on those facilities. The 1992 Stipulation provided that, in Public Service's subsequent rate cases, Public Service could propose a different rate design treatment for its contracted-for gathering capacity costs related to the transferred facilities, but until otherwise authorized by the Commission, Public Service would apply the same rate design treatment for these gathering costs as for the gathering costs related to gathering facilities which it owns.

6. From the time Red Cedar acquired the subject gathering facilities until October 1, 2003, the effective date of the current Red Cedar agreement, Public Service contracted for and held gathering capacity on the Red Cedar gathering facilities upstream of the Tiffany Compressor Station. Effective October 1, 2003, Public Service was no longer able to contract for such gas gathering capacity, but was permitted only to subscribe to gas transportation capacity from the La Boca central delivery point on Red Cedar's system, located approximately seven miles upstream of Public Service's system, to the Tiffany Compressor Station. As a result, Public Service, as well as gas transportation customers on Public Service's system that purchase their own gas supplies on Red Cedar, no longer could purchase their gas

supplies from producers or marketers at wellhead locations, but instead had to start purchasing their supplies on the Red Cedar system at the La Boca central delivery point. From the La Boca point, the purchased gas supplies must be transported to Public Service's Tiffany Compressor Station over the Red Cedar capacity contracted for by Public Service.

7. In its Application and direct testimony, Public Service stated that, due to changed circumstances occurring during the course of the past 12 years over which Public Service had little or no control, it is no longer possible to hold such gas gathering capacity as contemplated by the terms of the 1992 Stipulation. Public Service explained that, in November 2003, Public Service entered into a new agreement with Red Cedar which differs substantially from previous agreements for service over these facilities, inasmuch as it: (1) no longer provides for Public Service to hold capacity back to wellhead points on the Red Cedar gathering system, but rather only back to a central delivery point on Red Cedar's system, the La Boca Point, located approximately seven miles upstream of the Tiffany Compressor Station; (2) provides for a 50% increase in delivery capacity from Red Cedar at the Tiffany Compressor Station interconnect from 20,657 MMBtu per day to 31,000 MMBtu per day; and (3) requires Red Cedar to install compression facilities to provide for the increased delivery capacity and pressure. Public Service contended that, because Red Cedar refused to allow Public Service to hold gathering capacity over the former WestGas facilities as required by the 1992 Stipulation, the nature of the service over these facilities changed from that contemplated by the parties to the 1992 Stipulation.

8. In its Application, Public Service proposed to treat the upstream costs incurred under the Red Cedar Agreement for transportation from the La Boca central delivery point on

Red Cedar's system the same as other "Upstream Services" costs in accordance with the Commission's Gas Cost Adjustment ("GCA") Rules, particularly Rule 723-8-3.29, and Public Service's GCA tariff. Under the Commission's GCA Rules, utilities are permitted to recover their Upstream Services costs through the GCA mechanism to the extent they are not included in the Base Gas Cost. Public Service asserted that, based on the original rate treatment agreed to under the 1992 Stipulation, it has included the costs incurred under previous Red Cedar agreements as part of its base rates for gas service, but, for various reasons, it did not include any Red Cedar costs in the development of the revenue requirements upon which its current base rates for natural gas service were derived in Docket No. 02S-315EG, which became effective July 1, 2003. As such, Public Service contends that these costs are no longer part of Public Service's Base Gas Cost and thus became eligible for recovery as Upstream Costs in Public Service's GCA effective July 1, 2003. Inasmuch as base rate recovery of these costs ceased upon the effective date of the new rates approved in Docket No. 02S-315EG, Public Service requested such additional relief from the 1992 Stipulation, as the Commission may deem necessary, to allow Public Service to include such Upstream Services costs in its GCA recovery mechanism effective July 1, 2003.

9. After substantial audit performed by Staff, and prior to the date for the filing of answer testimony, the Parties met and discussed their issues and terms of a possible settlement. After several subsequent discussions, Public Service and Staff resolved all of the issues between them by settlement, the terms of which are reflected in the Stipulation and Agreement between Public Service and Staff filed in this proceeding on October 27, 2004 ("October 27 Stipulation"). Although involved in the settlement discussions and familiar

with the principle terms of the settlement reached as between Public Service and Staff, Atmos and KMI elected not to join in the October 27 Stipulation.

10. On October 29, 2004, Kinder Morgan filed answering testimony pointing out that the changes in the capacity held by Public Service under its agreement with Red Cedar directly resulted in increased costs to Kinder Morgan in the form of higher gas prices, alleged that Public Service had an unfair advantage in its procurement of gas supplies in the area and recommended certain remedies for the Commission to address these concerns. Kinder Morgan requested that the Commission recognize, for prudence review purposes, that the increased costs borne by Kinder Morgan were the result of the changes in the agreement between Red Cedar and Public Service, which was outside of Kinder Morgan's control. Kinder Morgan also took exception to paragraph 27 of the October 27 Stipulation, wherein Public Service and Staff agreed that either of them could request that the Commission direct Kinder Morgan and Atmos to hold their own Red Cedar capacity upstream of Tiffany.

11. On November 18, 2004, Atmos and Staff filed cross answer testimony and Public Service filed rebuttal testimony. Atmos's testimony was mostly directed at the October 27 Stipulation. Atmos observed that the market for natural gas supplies on the Red Cedar system changed as a result of the changes effected under the agreement between Public Service and Red Cedar and that, as a result, Atmos could be required to pay more for its natural gas supplies. Like Kinder Morgan, Atmos also raised concerns with paragraph 27 of the October 27 Stipulation. Staff's cross answer testimony was directed at the answering testimony filed by Kinder Morgan, essentially opposing Kinder Morgan's request that the Commission address the prudence of Kinder Morgan incurring increased costs as a result of

the changes under the agreement between Public Service and Red Cedar. In its rebuttal testimony, Public Service addressed Kinder Morgan's allegations with respect to the negotiations leading up to its new agreement with Red Cedar and recommended that the Commission rule that Public Service be completely relieved of any obligation to continue to hold Red Cedar capacity to transport gas supplies on behalf of downstream gas transportation customers.

12. On December 9, 2004, Administrative Law Judge Willam J. Fritzell issued an interim order (Decision No. R04-1467-I) denying Public Service's motion to strike certain answering testimony of Kinder Morgan's witnesses, denying Kinder Morgan's motion to strike certain rebuttal testimony of Public Service's witness, and denied Kinder Morgan's motion to set aside and modify a previous interim order denying Kinder Morgan's motion to compel Public Service to produce certain discovery. Afterwards, the Parties commenced discussions to pursue the possibility of settling the remaining issues in this proceeding. This Stipulation and Agreement in Resolution of Proceeding is the result of those discussions.

II. ISSUES RESOLVED BY SETTLEMENT

13. This Stipulation represents the results of settlement discussions between and among the Parties and resolves all of the issues which were or could have been contested among the Parties in this docket. As a result, this is a comprehensive resolution of the issues in this proceeding. This Stipulation supersedes the Stipulation and Agreement entered into between Public Service and Staff which was filed in this docket on October 27, 2004. Accordingly, the Parties agree that the October 27 Stipulation and Agreement should be

withdrawn and further, the Parties urge the Commission to approve this Stipulation and Agreement in Resolution of Proceeding in its entirety.

A. Recovery of Red Cedar Costs Through Public Service's GCA.

14. The Parties agree that effective November 1, 2004 and prospectively thereafter, Public Service shall be authorized to include in its GCA rates the Red Cedar costs incurred by Public Service on and after November 1, 2004. Consistent with the method prescribed in Docket No. 92A-352G of recovery of Red Cedar costs in Public Service's base rates and the fact that Red Cedar capacity continues to be crucial to Public Service's overall gas system operations, Public Service shall make allocation/assignment of the Red Cedar costs in the GCA to all customers, including the transportation class, with the exception that Red Cedar costs will not continue to be allocated to off-system Federal Energy Regulatory Commission ("FERC") transportation customers. Attached hereto as Appendix A is a summary of the changes in capacity subscription as well as the estimated changes in embedded Red Cedar costs in rates.

15. The Parties further agree that the Red Cedar costs incurred by Public Service from July 1, 2003 through October 31, 2004, may be recovered by Public Service in the GCA. These accrued Red Cedar costs have been booked in Account 803¹ as gas costs since July 1, 2003, and so are included in the Account 191 balances upon which the Deferred Gas Cost component of the GCA is based. The inclusion of these costs in the Account No. 191 results in the netting of these accrued Red Cedar costs against current GCA revenues. At the

time this Stipulation was entered into, the Deferred Gas Cost component of Public Service's GCA rates were based on an Account No. 191 balance that included only two months of Red Cedar costs. The Deferred Gas Cost rate component primarily impacts GCA sales customers, and not transportation customers. In regard to the Red Cedar costs that were accrued, Staff believes that the more appropriate treatment of these accrued costs is to allocate or assign a representative portion to the transportation class on a *pro forma* basis, as if a separate deferred gas cost sub-account for the Red Cedar costs were established on July 1, 2003. Accordingly, the *pro forma* accrued amount will be deducted from Account 191 for the purpose of determining the Deferred Gas Cost rate component and added to the forecasted amount of the Red Cedar costs as a direct assignment before allocation of Red Cedar costs for the purpose of determining the Current Gas Cost rate component is made to customers in the Public Service's October GCA filing to be effective November 1, 2004.

16. The Parties recognize that the Red Cedar costs should not continue to accrue without any means for recovery, while other issues in this proceeding raised by other intervening parties proceed to hearing. In the event Public Service elects to include the Red Cedar costs as gas costs in its Gas Cost Adjustment filings prior to the issuance of a final Commission order in this proceeding, Staff agrees not to lodge an opposition to the inclusion of such costs in the GCA, provided Public Service makes the following statement in its GCA Application:

¹ As explained by Public Service, the Red Cedar costs were booked in Account 807 prior to July 1, 2003, in order to assure that they were excluded from the costs included in the GCA.

Public Service has included upstream services costs projected to be incurred during the GCA Effective Period under its gas gathering agreement with Red Cedar. Public Service further represents that certain past costs incurred under the Red Cedar agreement are also reflected in the Account No. 191 (deferred gas cost) balance. To properly reflect the apportionment of Red Cedar deferred costs between transportation and sales customers, the Company has removed these costs from the Deferred Gas Costs for purposes of calculating the Deferred Gas Cost rate and treated them as Current Gas Costs herein. The recovery by Public Service of these costs through the GCA is the subject of an application filed by Public Service on May 27, 2004 in Docket No. 04A-275G. That proceeding is ongoing. Accordingly, Public Service acknowledges that any proposed recovery by Public Service of the subject Red Cedar costs in this GCA is subject to any and all future orders by the Commission in Docket No. 04A-275G regarding the appropriateness and amount of such recovery, and that future refunds and/or GCA adjustments to reflect the Commission's subsequent determination of the appropriateness of GCA recovery of these costs may be required.

Any and all Red Cedar costs included in Public Service's GCAs shall continue to be subject to the terms of this Stipulation and the Commission's prudence standard.

B. Continuation of Customer Protection Safeguards Inherent in Base Rate Treatment.

17. It is Staff's understanding that the 1992 Stipulation in Docket No. 92A-352G to allow recovery of Red Cedar costs in base rates was to protect ratepayers from rate stacking and from additional costs that could result from an inflated asset price in the sale of the Tiffany Gathering System to a third party. Customers were protected under that Stipulation because they would continue to pay for the use of the Tiffany Gathering System as if it was still owned and operated by the Company. The effect of rate stacking resulting from higher charges from the new owner/operator of the Tiffany Gathering System (i.e., Red

Cedar) would be minimized until the next rate case since revenue recovery of the Red Cedar costs was capped in the rate case in Docket No. 93S-001EG.

18. The subsequent sale of the Ignacio Gathering System (including the Tiffany Gathering System) to Red Cedar resulted in a gain. Such gain was shared with Public Service's customers by way of a refund pursuant to Decision No. C95-905 in Docket No. 95A-409G, wherein the Commission approved a settlement between the Colorado Office of Consumer Counsel and the Company. As a result, Public Service's customers already received partial benefits from the sale of the Tiffany Gathering System to Red Cedar. Staff is satisfied that Public Service has upheld its commitments and abided by the 1992 Stipulation for over a decade. Public Service assures Staff that the proposed shift has not resulted in higher costs than would otherwise have been the case and that it will continue to procure capacity, through Red Cedar or any other entity, upstream of its Southern/Mountain system at least cost. For purposes of settlement, Staff has agreed, although reluctantly, to a shift of the recovery of the Red Cedar costs from base rates to the GCA, since Public Service's captive customers were not only afforded the rate protection for over a decade, but were also provided by way of a refund partial benefits from the sale of the Tiffany Gathering System.

19. Although the agreed-to shift from base rate recovery to GCA recovery effective July 1, 2003 would mean dollar-for-dollar pass-through of the Red Cedar costs upon less than statutory notice filings, customer protection safeguards will remain in place, but issues regarding the propriety of revenue recovery will fall under prudence review of the GCA instead of base rates in a rate case. In consideration of the agreement to change recovery of revenue for Red Cedar costs through an automatic adjustment mechanism, Public

Service agrees that it shall address all variances or changes to the level of service or rates for service under the current Red Cedar contract in its Gas Purchase Plan ("GPP") and Gas Purchase Report ("GPR"). In the case of the GPP, Public Service must discuss any such changes from the prior Gas Purchase Year. In the case of the GPR, Public Service must discuss any variances in the contracted capacity or rates in comparison to the projections reflected in the corresponding GPP.

20. Public Service agrees that the failure by the Company to address the variances or changes to the level of service or rates for service under the current Red Cedar contract in the GPP and GPR would preclude the Company from raising defenses based on any information not previously disclosed in any GPP or GPR to a challenge by Staff in a prudence review, and may result in disallowance of the variances in question in the recovery of Red Cedar costs. Other than the variance, Staff may challenge and Public Service can defend the entirety of the Red Cedar costs. Such agreement shall not apply to the GCA prudence proceeding covering Public Service's GPR for the Gas Purchase Year July 1, 2003 through June 30, 2004, anticipated to be filed on or before October 1, 2004.

C. Assurance of No Double Recovery of Red Cedar Costs by Public Service.

21. In each of Public Service's four Phase I gas rate cases (Docket Nos. 93S-001EG, 96S-290G, 98S-518G, and 00S-422G) filed after the merger docket in Docket No. 92A-352G, the Company included the Red Cedar gathering costs in its revenue requirements used to derive its effective base rates. It is the Company's representation that the Red Cedar gathering costs were not included as part of its gas department revenue

requirements in Docket No. 02S-315EG, and that the issue of the Red Cedar gathering costs was not raised by the Company as an issue in the rate case.

22. Staff's position is that, as a matter of general practice, the Company uses per-book numbers in developing its proposed revenue requirements in rate cases. Because the Company in Docket No. 02S-315EG failed to propose an adjustment to remove the Red Cedar gathering costs from its revenue requirements, Staff questions whether such revenue requirements, in fact, excluded the Red Cedar costs. Staff believes that the instant application by Public Service to recover revenue outside of a rate case, given the 1992 Stipulation requirement to base rate the Red Cedar costs, is tantamount to piece-meal ratemaking. In addition, if the Company's base rates were developed from approved revenue requirements in Docket No. 02S-315EG that included the Red Cedar costs, then the Company's proposal to recover Red Cedar gathering costs in its GCA would result in double recovery of costs.

23. By way of explanation, the Company states that it inadvertently did not include such costs in the revenue requirements in the rate case Docket No. 02S-315EG. As a result, Public Service failed to raise the proposal to move Red Cedar costs from base rates into the GCA as an issue in the rate case. Although Staff agrees with the Company that its rate case models indicate that no Red Cedar costs have been included as a separate line item in base rates, Staff has not performed a comprehensive audit of the per book numbers to trace and determine whether these costs could have come into the approved revenue requirements through some alternative accounting and Staff would not be able to do so absent a re-opening of the rate case and performing a comprehensive audit. Given Public Service's desire to

include the Red Cedar costs in the upcoming GCA filing to be effective November 1, 2004, time will not permit Staff to perform the necessary comprehensive audit. The Parties agree it is not in the public interest to re-open the rate case for this purpose alone.

24. Since it is difficult, if not impossible, for Staff to affirmatively determine that there is no double recovery, the Company agrees that Staff is not precluded from raising the issue of double recovery of Red Cedar gathering costs at a later date. In addition, Public Service agrees to a refund obligation in the event it is ever determined that Public Service, in fact, has included Red Cedar costs in its base rates pursuant to its last rate case, Docket No. 02S-315EG. The refund obligation will be based on the level of Red Cedar costs determined to have been included in the revenue requirements upon which the Commission-approved rate rider was derived, applied to actual sales and transportation volumes to the which the rate rider was applied during the period of over collection, plus interest at the Commission-approved customer deposit rate.

D. Public Service's Future Obligation to Subscribe to and Hold Capacity on the Red Cedar Gathering System.

25. Public Service will continue to subscribe to capacity on the Red Cedar system to meet its operational needs and the needs of its customers and to include Red Cedar costs as part of its relevant system wide costs in developing its rates for the applicable rate schedules. This agreement will not limit the ability of any transportation customer to separately contract for Red Cedar capacity on the LaBoca-to-Tiffany pipeline segment to the extent these customers prefer to sign up for capacity on their own, either through contract directly with Red Cedar or through assignment from the Company. However, such customers shall not

receive any discount or other credit from the Company for not using part of Public Service's subscribed capacity on Red Cedar. The Company will proportionally reduce its capacity under the Red Cedar contract to reflect any such third party subscription of capacity on Red Cedar.

26. The Parties recognize that the other two parties in this proceeding, Atmos and Kinder Morgan, are the two largest firm gas transportation customers of Public Service receiving deliveries from Public Service's Southern/Mountain system. Atmos and Kinder Morgan are both natural gas public utilities regulated by the Commission and subscribe to gas transportation service over Public Service's Southern/Mountain system in order to meet the gas supply requirements of their respective downstream gas distribution systems. Atmos and Kinder Morgan purchase significant quantities of gas supplies at the LaBoca central delivery point which must be transported over the capacity held by Public Service under its agreement with Red Cedar. As such, Atmos and Kinder Morgan continue to receive economic and other benefits from Public Service holding Red Cedar capacity on their behalf and the rate treatment provided for in this Stipulation.

27. Public Service has a continuing obligation to hold capacity on the Red Cedar system to meet its operational needs and the needs of its customers until such time that it has constructed its own facilities or subscribed to capacity on another upstream pipeline system to meet its system requirements. However, Public Service believes that it should not be required to hold capacity on Red Cedar that is solely necessary to transport gas supplies for its gas transportation customers to which Public Service does not have title. This is in contrast to gas which Public Service buys on Red Cedar and ships across the La Boca to

Tiffany pipeline segment to serve its sales customers, for pressure maintenance, to balance its system, and to serve the backup supply needs of its gas transportation customers. Because it must purchase this gas, Public Service owns (i.e., has title to) the gas that is transported over the Red Cedar capacity between La Boca and Tiffany.

28. When the gathering system now owned by Red Cedar was part of Public Service's system, transportation customers were able to use that capacity. Said arrangement was preserved in the 1992 Stipulation and the costs incurred by Public Service for Red Cedar gathering were included in Public Service's base rates as if the facilities were still owed and operated by Public Service. Since the costs incurred by Public Service for Red Cedar gathering have been removed from base rates and put into the GCA, the Parties recognize that, except for the requirements under the 1992 Stipulation, the capacity on Red Cedar is similar to other upstream service capacity held by Public Service. Public Service does not hold any upstream capacity anywhere else on its system which downstream gas transportation customers are permitted to use to have their gas supplies transported.

29. There is some disagreement among the Parties whether Public Service requested in its Application to be completely relieved of the obligation to hold upstream Red Cedar capacity for the purpose of transporting gas supplies on behalf of downstream gas transportation customers. Nevertheless, Kinder Morgan and Atmos hereby acknowledge receipt of notice of such request and agree that, subject to the terms of this Stipulation, Public Service shall no longer have the obligation to hold capacity on Red Cedar on their behalf on and after October 1, 2010.

30. Prior to the expiration of the Red Cedar Gathering Agreement on October 1, 2010, Public Service's obligation to subscribe to and hold capacity on Red Cedar (from La Boca to Tiffany) shall include capacity on Red Cedar necessary to transport gas supplies purchased at or upstream of La Boca by Public Service's gas transportation customers and to which Public Service does not have title. Public Service agrees not to seek Commission authorization to be relieved of this obligation before October 1, 2010. On and after October 1, 2010, Public Service shall not be obligated to subscribe to and hold capacity on the Red Cedar upstream of the Tiffany compressor in order to transport gas to its system to which it does not have title. After that date, Public Service will not schedule gas quantities nominated by gas transportation customers for receipt by Public Service at Tiffany unless that gas is to be transported to Tiffany by Red Cedar under a separate contract in which Public Service is not the shipper.

31. Atmos and Kinder Morgan agree with the method and the end result of the allocation/assignment of Red Cedar costs described in ¶14 of this Stipulation. Public Service has incorporated forecasted Red Cedar costs in its monthly GCAs effective November 1, 2004, which amount is expected to stay the same for eleven months. With respect to the continuing Red Cedar costs incurred by Public Service prior to October 1, 2010, the method of allocating or incorporating these costs on an annual basis in Public Service's GCA shall not be changed. If the method were to change, it shall not be changed in a manner that would assign a disproportionate level of the Red Cedar costs to Kinder Morgan or Atmos, but rather will result in GCA rates that affect Kinder Morgan or Atmos in the same manner as all other gas transportation customers on Public Service's system.

32. On or before October 1, 2008, Public Service shall convene a planning meeting to be held in Public Service's Denver, Colorado offices, to review and discuss gas supply and capacity options upstream of the Tiffany Compressor Station and the related operational requirements of Public Service's system in anticipation of the expiration of the Red Cedar agreement on October 1, 2010. Public Service shall provide 30 days advance written notice of such meeting to the signatories of this Stipulation, or their successors. Said written notice shall also be provided to all other firm gas transportation customers that have nominated quantities of gas for receipt at the Tiffany Station within the prior twelve months. Public Service, Kinder Morgan and Atmos each agrees that, during the period prior to October 1, 2008, before it approaches Red Cedar to open negotiations that may result in an agreement for capacity on the Red Cedar gathering system for the period after October 1, 2010, such Party will notify the other two Parties in writing of its intention to do so at least thirty (30) days in advance of any such negotiations.

33. The Parties agree that Public Service should be granted relief from the 1992 Stipulation in the WestGas merger proceeding in Docket No. 92A-352G, as requested by Public Service in its Application, to the extent necessary to effect the terms of this Stipulation.

III. IMPLEMENTATION AND PROCEDURAL SCHEDULE

34. This Stipulation shall not become effective until the issuance of a final Commission Order which accepts and approves this Stipulation as to all of its terms and conditions. In the event that the Commission imposes modified terms or conditions which

are unacceptable to any party hereto, that party shall so notify the other Parties to this Stipulation in a timely manner. If this Stipulation is not approved in its entirety or is approved by the Commission with modified terms or conditions which are unacceptable to any party hereto, then this Stipulation shall be considered null and void and of no force and effect in this or any other proceeding. In the event that this Stipulation is not approved, this Stipulation, the terms and conditions, as well as the negotiations or discussions undertaken in conjunction with the Stipulation, shall not be admissible into evidence in this or any other proceeding.

35. Approval by the Commission of this Stipulation shall constitute a determination that the Stipulation represents a just, equitable and reasonable resolution of all issues which were or could have been contested between the Parties hereto in this proceeding. Notwithstanding the resolution of the issues set forth in this Stipulation, none of the methodologies or ratemaking principles herein contained shall be deemed by the Parties to constitute a settled practice or precedent in any future proceeding, and nothing herein shall constitute a waiver by any party with respect to any matter not specifically addressed herein. Further, by entering into this Stipulation, no party shall be deemed to have agreed to any principle or method of ratemaking or rate design.

36. The Parties to this Stipulation state that reaching agreement as set forth herein by means of a negotiated settlement rather than through a formal adversarial process is in the public interest and that the results of the compromises and settlements reflected by and in this Stipulation are just, reasonable and in the public interest.

37. This Stipulation may be executed in counterparts, each of which when taken together shall constitute the entire Stipulation.


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

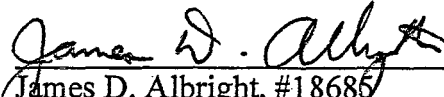
Dated this 21st day of December, 2004.

Respectfully submitted,

PUBLIC SERVICE COMPANY OF COLORADO

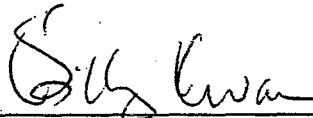
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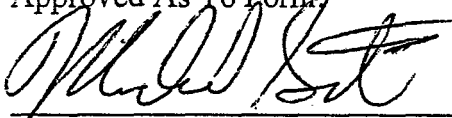
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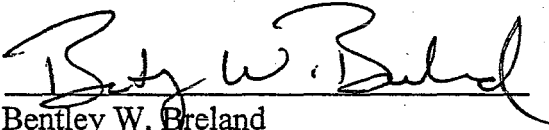
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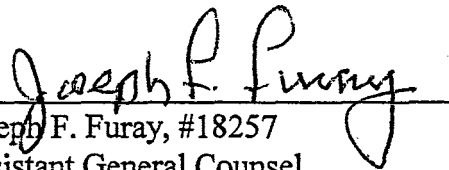
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KINDER MORGAN, INC.

Approved As To Form:


By: 
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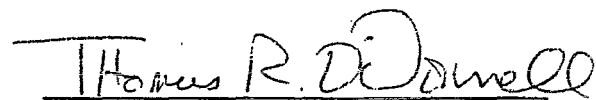

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APPENDIX A

**ANALYSIS OF THE COSTS, CAPACITY, AND ESTIMATED RATE IMPACT
BETWEEN THE PREVIOUS RED CEDAR CONTRACT
AND THE NEW RED CEDAR CONTRACT**

Attachment A
Docket No. 04A-275G
Decision No. R05-0199
Page 24 Of 26

**TABLE 1
COMPARISON OF CONTRACT CAPACITY AND ANNUAL COST**

	<u>PREVIOUS RED CEDAR CONTRACT</u>	<u>NEW RED CEDAR CONTRACT</u>	<u>PERCENT CHANGE</u>
TOTAL CONTRACT COST	\$2,027,883 <u>/1</u>	\$2,252,409 <u>/2</u>	11%
CONTRACT CAPACITY PER DAY IN DTH	20,657	31,000	50%

/1 Test Year 1999 Phase I Rate Case Docket No. 00S-422G Pro Forma Red Cedar Base Rate Revenue Requirement.

/2 Cost forecast for June 2004 Gas Purchase Plan, Public Service's Direct Testimony in this docket, and Public Service's October 15, 2004 GCA Application.

**TABLE 2
COMPARISON OF ESTIMATED RATE IMPACT:
GCA TREATMENT OF CURRENT RED CEDAR COSTS VS.
BASE RATE TREATMENT OF TEST YEAR RED CEDAR COSTS**

<u>CUSTOMER CLASS</u>	<u>SERVICE</u>	<u>TARIFF TYPE</u>	<u>BASE RATES ONLY DOCKET NO. 99S-609G PHASE II</u>	<u>DOCKET NO. 00S-422G JUNE 30, 2003 IMPLIED RED CEDAR RATES <u>/3</u></u>	<u>OCTOBER 15, 2004 GCA RED CEDAR GATHERING RATES WITHOUT DEFERRED RED CEDAR COSTS <u>/5</u></u>	<u>GCA MINUS BASE RATES <u>/4</u></u>
<u>COLUMN</u>	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>(D = C x .0076)</u>	<u>(E)</u>	<u>(F = E - D)</u>
RG	SERVICE AND FACILITY (\$ per month)	BASE	9.00	0.07		-0.07
	COMMODITY (\$ per Dth)	BOTH	0.9770	0.0074	0.0120	0.0046
CG	SERVICE AND FACILITY (\$ per month)	BASE	16.20	0.12		-0.12
	COMMODITY (\$ per Dth)	BOTH	0.9170	0.0070	0.0120	0.0050
IG	SERVICE AND FACILITY (\$ per month)	BASE	90.00	0.68		-0.68
	ON-PEAK DEMAND (\$ per Dth)	BOTH - Voluntary	6.5800	0.0500	0.0500	0.0000
	COMMODITY (\$ per Dth)	BOTH	0.4360	0.0033	0.0080	0.0047
TF	SERVICE AND FACILITY (\$ per month)	BASE	60.00	0.46		-0.46
	FIRM CAPACITY RESERVATION (\$ per Dth)	BASE	4.0700	0.0309		-0.0309
	FIRM SUPPLY RESERVATION (\$ per Dth)	GCA - Voluntary			0.0500	0.0500
	TRANSPORTATION (\$ per Dth)	BOTH	0.2500	0.0019	0.0080	0.0061
	BACKUP SUPPLY COMMODITY (\$ per Dth)	BOTH - Voluntary	0.4360	0.0033		-0.0033
TI	SERVICE AND FACILITY (\$ per month)	BASE	195.00	1.48		-1.48
	ON-PEAK DEMAND (\$ per Dth)	BOTH - Voluntary	6.5800	0.0500	0.0500	0.0000
	TRANSPORTATION (\$ per Dth)	BOTH	0.4360	0.0033	0.0080	0.0047
	BACKUP SUPPLY COMMODITY (\$ per Dth)	BOTH - Voluntary	0.4360	0.0033		-0.0033
FERC	OFF-SYSTEM TRANSPORTATION	BASE		<u>/5</u>	<u>/6</u>	

**TABLE 3
CALCULATION OF IMPLIED RED CEDAR REVENUE RIDER EFFECTIVE JUNE 30, 2003
(These calculations are necessary to estimate the "Implied" Docket No. 00S-422G Red Cedar Rates above.)**

	<u>TY1999 Rate Case Docket No. 00S-422G</u>	<u>June 30, 2003</u>	<u>June 30, 2003</u>	<u>Total</u>
	<u>Pro Forma Base Rate Revenue</u>	<u>GRSA Rider %</u>	<u>Rider \$</u>	
Rate Case With Red Cedar	\$266,679,534	4.360%	\$11,627,228	\$278,306,762
Red Cedar Pro Forma Gathering Fee	\$2,027,883	0.760%	\$2,027,883	\$2,027,883

/3 Due to the effect of the inclusion of Red Cedar costs on the derivation of the CPUC jurisdictional base rate rider, and the application of the rider to all of the CPUC jurisdiction base rates, the Company's Service and Facility charges include revenue recovery for the Red Cedar costs.

/4 The elimination of the Red Cedar costs from base rates will not result in an additional reduction in the Service and Facility Charge; the base rate decrease is offset by an increase in the GCA.

/5 In Public Service's Docket No. 99S-609G Phase II rate case, 0.2% of the Red Cedar costs were allocated to the Company's FERC off-system transportation business. However, there is no base rate developed for FERC off-system transportation.

/6 There are no FERC off-system transportation costs included in the Company's the GCA.

CERTIFICATE OF SERVICE

I hereby certify that on this 22nd day of December 2004, an original and three (3) copies of the foregoing **"STIPULATION AND AGREEMENT IN RESOLUTION OF PROCEEDING"** were hand-delivered to:

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

and a copy was either hand-delivered or placed in the United States mail, first-class postage prepaid, to the following:

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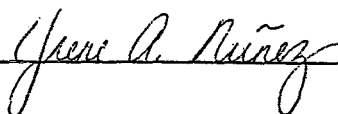
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A handwritten signature in cursive script, reading "Juan A. Ruiz", is written over a horizontal line.