

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

2005 AUG 24 PM 3: 16

IN THE MATTER OF THE APPLICATION
OF COLORADO NATURAL GAS, INC. FOR
AN ORDER AUTHORIZING THE TRANSFER
OF STOCK.

DOCKET NO. 05A-225G

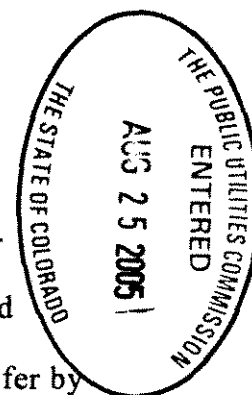
STIPULATION AND AGREEMENT

This Stipulation and Agreement ("Stipulation" or "Agreement") is entered into by and between Colorado Natural Gas, Inc. ("CNG") and the Staff of the Public Utilities Commission of the State of Colorado ("Staff"). CNG and Staff are referred to herein collectively as the "Parties" and individually as a "Party." Each Party to this Stipulation pledges its support of this Stipulation and states that each will defend the settlement reached by the Parties as reflected herein.

Background

1. On May 25, 2005, CNG filed a Verified Application in the above-captioned matter pursuant to Rule 55 of the Commission's Rules of Practice and Procedure. By its application, CNG requests Commission approval of the transfer by CNG's common stockholders of 100% of their equity securities in CNG to a newly created entity known as CNG Holdings, Inc. in exchange for 100% of the equity securities in that entity.

2. On June 1, 2005 the Commission issued a Deficiency Letter to CNG relative to its application, indicating that CNG's application set forth conclusory statements on certain points rather than factual statements as required by the



Commission's Rules of Practice and Procedure. On June 20, 2005, CNG filed its Verified Supplement to Verified Application in order to address the issues described in the Deficiency Letter.

3. On June 6, 2005, Staff issued a series of Audit Questions to CNG designed to provide Staff with a more thorough understanding of the stock transfer at issue and the corporate structure that lies at the heart of the transfer. On or about June 10, 2005, CNG provided its response to Staff's request.

4. On or about June 27, 2005, Staff submitted its Notice of Intervention, Entry of Appearance, Notice Pursuant to Rule 9(d) and Request for Hearing in this matter. No other interventions were received in this docket.

Settlement Discussion

5. Thereafter, Staff undertook a review of CNG's application, as supplemented, as well as CNG's responses to Staff's Audit Questions. Thereafter, representatives of CNG and Staff met to discuss the issues raised in CNG's filing and Staff's concerns relative thereto.

6. Those discussions and the sharing of information in this proceeding have resulted in a settlement between the Parties of all issues that were or could have been raised in this docket. Staff notes it has relied on CNG's representations made in its Audit Responses and discussions with Staff as the basis for entering into this Agreement. Consequently, Staff hereby states that it has no objection to a Commission order approving the transfer of CNG equity securities as requested in CNG's application, as supplemented.

Corporate Structure of CNG Holdings, Inc.

7. CNG Holdings, Inc. is the holding company of CNG and other subsidiaries. During its review in this proceeding, Staff was unable to reconcile certain conflicting information speaking to the legal relationship between an entity by the name of Missouri Gas Utility ("MGU") and CNG's parent company, CNG Holdings, Inc. Staff correctly noted that in certain instances¹ MGU was referred to as a wholly-owned subsidiary of CNG Holdings, Inc. (thus making it an affiliate of CNG) and in other instances Staff was advised that MGU was not a wholly-owned subsidiary of CNG Holdings, Inc. CNG hereby represents to Staff and the Commission that the latter statement is in fact correct. Missouri Gas Utility is not yet a wholly-owned subsidiary of CNG Holdings, Inc. CNG further represents to Staff and the Commission that the confusion on this issue was created as a result the timing of certain of the statements to which Staff referred, as well as by the content of CNG Holdings, Inc.'s filing with the Securities & Exchange Commission ("SEC") in a proceeding wherein CNG Holdings, Inc. seeks a SEC determination regarding holding company status under the Public Utility Holding Company Act ("PUHCA"). CNG notes, however, that while today MGU is not a wholly-owned subsidiary of CNG Holdings, Inc., it is the intention of CNG Holdings, Inc. that MGU ultimately become a wholly-owned subsidiary, which CNG anticipates will occur later in 2005, assuming all necessary SEC approvals have been received.

8. With specific regard to CNG Holdings, Inc.'s filing for a determination regarding its status under PUHCA, CNG agrees that it shall keep Staff apprised of the status of that proceeding by way of monthly written updates to Staff to be submitted on or before the first day of each calendar month and concluding with a final written report

¹ MGU represented to the Missouri Public Service Commission in its application that MGU is a subsidiary of CNG Holdings, Inc.

advising Staff of the SEC's final action on the request. This will ensure that Staff is able to monitor that proceeding, if it so chooses.

Corporation Allocation Issues and Affiliate Transactions

9. Staff has raised the concern that under a corporate structure whereby CNG is a wholly-owned subsidiary of CNG Holdings, Inc. (which as indicated above will likely include MGU as a sister affiliate to CNG in the future), care must be taken to avoid the possibility that inappropriate cross subsidies could occur among and between the various entities. In this regard, CNG agrees that it will take (or will cause to be taken) the following steps to ensure that there are no such cross subsidies.

10. CNG will cause CNG Holdings, Inc. to allocate its corporate costs based on factors that accurately represent, to the maximum extent possible, corporate involvement in the corporate services provided and the actual business unit beneficiaries of the incurred costs. In addition, CNG will cause CNG Holdings, Inc. to maintain data related to transactions and corporate allocation of costs as between CNG Holdings, Inc. and CNG (and any future affiliated entity) in order that Staff may from time to time ascertain CNG's fulfillment of this commitment.

11. CNG Holdings will maintain data related to affiliate transactions and corporate allocation of costs between regulated and nonregulated operations of CNG Holdings, Inc. CNG Holdings will allocate corporate costs based on factors that faithfully and accurately represent, to the greatest extent possible, corporate involvement in the corporate services provided and the actual business unit beneficiaries of the incurred costs. CNG Holdings and CNG agree to make available to Staff, at reasonable times and places, all books and records and employees and officers of CNG

Holdings and any affiliate, division or subsidiary of CNG Holdings that engages in transactions with CNG.

12. Although CNG has not been required to file, and thus the Commission has not approved, a cost allocation manual (CAM) for CNG concerning cost assignment and allocation, CNG agrees that it shall comply with the Commission's rules concerning cost assignment and allocation for gas utilities, as same may be amended from time to time.

Insulation of CNG

13. CNG agrees that Colorado customers shall not bear any increased capital costs or operating expenses as a result of CNG Holdings, Inc.'s activities. CNG agrees that it shall bear the burden of proof on this issue, should it become an issue .

14. In order that Colorado customers may be insulated from the activities of CNG Holdings, Inc., CNG agrees that is shall be owned and operated as a separate subsidiary of CNG Holding, Inc. In addition, CNG Holdings, Inc. and CNG shall not, without Commission approval, directly or indirectly allow any debt of CNG Holdings, Inc., or any of its affiliate or subsidiary companies, to be recourse to CNG nor pledge CNG equity as collateral or securities for the debt of CNG Holdings, Inc., or any of its affiliate or subsidiary companies. CNG further agrees that it shall not, either directly or indirectly, enter into any "make-well" agreements, or guarantee the notes, debentures, debt obligations or other securities of CNG Holdings, Inc., or any of its affiliate or subsidiary companies, without having obtained in advance any required Commission approval. Likewise, CNG shall not adopt, indemnify, guarantee or assume responsibility for payment of either directly or indirectly, any of the current or future

liabilities of CNG Holdings, Inc., or any of its affiliate or subsidiary companies, without having obtained in advance any required Commission approval.

15. CNG further agrees that CNG Holdings and CNG shall not, directly or indirectly, give, transfer, invest, contribute or loan to CNG Holdings, Inc., or any of its affiliate or subsidiary companies, any equities or cash without having obtained in advance any required Commission approval. CNG Holdings and CNG shall not transfer to CNG Holdings, Inc., or any of its affiliate or subsidiary companies, directly or indirectly, assets necessary and useful in providing service to CNG's Colorado customers without having obtained in advance any required Commission approval.

16. CNG Holdings shall not, either directly or indirectly through an affiliate or subsidiary, expand its activities with respect to the operation of an energy marketing and trading business without approval from the Commission. These requirements shall apply until the Commission determines that the requirements are no longer needed.

Jurisdictional Entities of CNG Holdings, Inc.

17. In addition to MGU, CNG Government Services, Inc., Colorado's Best Heating & Appliances, LLC, Colorado's Best Plumbing and Heating, LLC and Wolf Creek Energy, LLC, CNG Holdings, Inc. has ownership and control in two water operations in Colorado.² CNG Holdings, Inc. acknowledges that it has been advised by Staff as to the jurisdictional nature of water utility service and that Staff has suggested that CNG should either file applications for Certificate of Public Convenience and Necessity with proposed tariffs or in the alternative, petition for a declaratory order that the two water utilities are not jurisdictional to the Commission.

² Attached as Appendix A to this Stipulation and Agreement is a list of operating entities owned or controlled by CNG Holdings, Inc.

Public Interest

18. CNG represents that the reorganization and stock transfer is not contrary to the public interest. CNG agrees to certain safeguards, as articulated herein, to insulate CNG from the activities and financial consequences of CNG Holdings, Inc. CNG further agrees, also as articulated herein, to certain cost allocation requirements that properly segregate costs among entities within CNG Holdings, Inc. CNG Holdings and CNG agree to an audit by Staff of all books and records and employees and officers of CNG Holdings and any affiliate, division or subsidiary of CNG Holdings that engages in transactions with CNG. Given this agreement, Staff has no objection to a Commission order approving the transfer of CNG equity securities as requested in CNG's application, as supplemented.

Compliance with Terms of Stipulation and Agreement

19. This Agreement shall not become effective until the issuance of a final Commission order approving the Agreement, which order does not contain any modification of the terms and conditions of this Agreement that is unacceptable to the Parties hereto. In the event the Commission modifies this Agreement in a manner unacceptable to any Party hereto, that Party shall have the right to withdraw from this Agreement and proceed to hearing on some or all of the issues that may be appropriately raised by that Party in this docket under a new procedural schedule. The withdrawing Party shall notify the Commission, and the other Party to this Agreement, in writing within ten (10) days of the date of the Commission order that the Party is withdrawing from the Agreement (such notice being referred to as the "Notice"). A Party who properly serves a Notice shall have and be entitled to exercise all rights the Party would have had in the absence of the Party's agreeing to this Agreement. Hearing shall be scheduled on an expedited basis, as soon as practicable.

20. In the event that this Agreement is not approved, or is approved with conditions that are unacceptable to any Party who subsequently withdraws, the negotiations or discussions undertaken in conjunction with the Agreement shall not be admissible into evidence in this or any other proceeding. Moreover, in such an event, except as may be specifically provided for herein, neither anything said, admitted or acknowledged in the negotiations leading up to the execution of this Stipulation, nor the settlement terms and conditions contained herein, nor the Stipulation itself may be used in this or any other administrative or court proceeding by any of the Parties hereto, or otherwise.

21. 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, except as otherwise specifically noted in this Agreement. Each Party hereto pledges its support of this Agreement and urges the Commission to approve same, without modification.

22. Except as otherwise specifically agreed upon in this Agreement, nothing contained herein shall be deemed as constituting a settled practice or of precedential value for the purposes of any other proceeding, and by entering into this Agreement, no Party shall be deemed to have agreed to any specific principles of ratemaking.


23. 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.

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

Dated this 24th day of August, 2005.


APPROVED:

COLORADO NATURAL GAS, INC.

By: 
Michael Earnest, President
7810 Shafer Parkway,
Littleton, CO 80217
(720) 981-2117

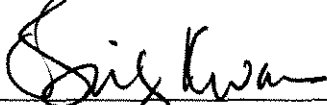
APPROVED AS TO FORM:

HOLLAND & HART LLP

By: 
Thomas R. O'Donnell, Reg. #15188
555 Seventeenth Street, Suite 3200
Denver, Colorado 80202-3979
(303) 295-8291
ATTORNEYS FOR COLORADO NATURAL GAS,
INC.

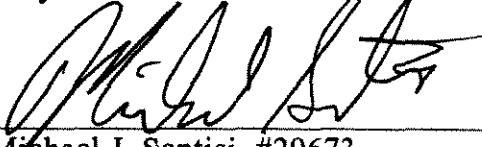
APPROVED:

STAFF OF THE PUBLIC UTILITIES
COMMISSION

By: 
Billy Kwan
Energy Analyst
1580 Logan St., OL2
Denver, CO 80203
(303) 894-2000

APPROVED AS TO FORM:

JOHN W. SUTHERS
Attorney General

By: 
Michael J. Santisi, #29673
Assistant Attorney General
1525 Sherman St., 5th Floor
Denver, CO 80203
(303) 866-3764
ATTORNEY FOR STAFF OF THE
PUBLIC UTILITIES COMMISSION OF
THE STATE OF COLORADO

CERTIFICATE OF SERVICE

I hereby certify that on this 24th day of August, 2005, an original and 3 true and correct copies of the foregoing document entitled **Stipulation and Agreement** was hand-delivered to:

Doug Dean, Director
Colorado Public Utilities Commission
1580 Logan OL2
Denver, CO 80203

And a copy was placed in the United States Mail, postage prepaid and addressed to:

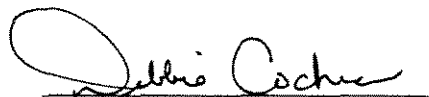
James Greenwood, Director
Office of Consumer Counsel
1580 Logan Street, Suite 740
Denver, CO 80203

Randy Garrouette
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203

Billy Kwan
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203

Robert Bergman
Advisory Staff
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203

Frank Shafer
Advisory Staff
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203



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

2005 SEP 12 PM 4:40

IN THE MATTER OF THE APPLICATION
OF COLORADO NATURAL GAS, INC. FOR
AN ORDER AUTHORIZING THE TRANSFER
OF STOCK.

)
) DOCKET NO. 05A-225G
)
)

SUPPLEMENT TO STIPULATION AND AGREEMENT

In response to the Interim Order of ALJ G. Harris Adams Requesting Clarification ("Interim Order"), Decision No. R05-1039-I, Colorado Natural Gas, Inc. ("CNG") and the Staff of the Public Utilities Commission of the State of Colorado ("Staff") hereby submit the instant Supplement to Stipulation and Agreement ("Supplement"). CNG and Staff are referred to herein collectively as the "Parties" and individually as a "Party."

1. The Interim Order observes that CNG Holdings, Inc. is neither a party to the August 24, 2005 Stipulation and Agreement among the Parties ("Stipulation"), nor is it a party to the above-captioned proceeding. Nevertheless, the Stipulation makes reference to certain affirmative obligations by CNG Holdings, Inc. (See, Paragraph Nos. 11, 14, 15, 16 and 18)

2. The Interim Order then goes on to pose the following questions: 1) How will CNG Holdings, Inc. be bound to perform the referenced obligations and how will same be enforced? 2) Do the Parties intend that the reference to "service" contained in Paragraph No. 15 of the Stipulation will be construed to mean all services or only

regulated services? and 3) Do the Parties intend to define the scope of the “activities” as that term is used in Paragraph No. 16 of the Stipulation?

3. In response to the referenced questions, the Parties state as follows. First, pursuant to the Affidavit attached hereto as Exhibit No. 1 and incorporated herein by this reference, which Affidavit has been executed by a duly authorized officer of CNG Holdings, Inc., CNG Holdings, Inc. agrees as a matter of contract to comply with and be bound by the provisions of Paragraph Nos. 11, 14, 15, 16 and 18 and that such provisions are enforceable according to their terms against CNG Holdings, Inc. Second, the Parties state that the reference to “service” contained in Paragraph No. 15 of the Stipulation is intended to relate to all services. Third, the Parties intend to leave the scope of “activities” as that term is used in Paragraph No. 16 of the Stipulation to be determined in the future.

4. Having provided the clarifications requested by the Interim Order, the Parties respectfully request that the Commission issue an Order approving, without modification, the Parties’ August 24, 2005 Stipulation and Agreement filed in this matter.

Dated this 12th day of September, 2005.

APPROVED:

COLORADO NATURAL GAS, INC.

By: Michael Earnest

Michael Earnest, President
7810 Shafer Parkway,
Littleton, CO 80217
(720) 981-2117

APPROVED AS TO FORM:

HOLLAND & HART LLP

By: Thomas R. O'Donnell

Thomas R. O'Donnell, Reg. #15188
555 Seventeenth Street, Suite 3200
Denver, Colorado 80202-3979
(303) 295-8291

ATTORNEYS FOR COLORADO NATURAL GAS,
INC.

APPROVED:

STAFF OF THE PUBLIC UTILITIES
COMMISSION

By: Billy Kwan

Billy Kwan
Energy Analyst
1580 Logan St., OL2
Denver, CO 80203
(303) 894-2000

APPROVED AS TO FORM:

JOHN W. SUTHERS
Attorney General

By: Michael J. Santisi

Michael J. Santisi, #29673
Assistant Attorney General
1525 Sherman St., 5th Floor
Denver, CO 80203
(303) 866-3764

ATTORNEY FOR STAFF OF THE
PUBLIC UTILITIES COMMISSION OF
THE STATE OF COLORADO

Dated this 12th day of September, 2005.

APPROVED:

COLORADO NATURAL GAS, INC.

By: _____
Michael Earnest, President
7810 Shaffer Parkway,
Littleton, CO 80217
(720) 981-2117


APPROVED AS TO FORM:

HOLLAND & HART LLP

By: _____
Thomas R. O'Donnell, Reg. #15188
555 Seventeenth Street, Suite 3200
Denver, Colorado 80202-3979
(303) 295-8291
ATTORNEYS FOR COLORADO NATURAL GAS,
INC.

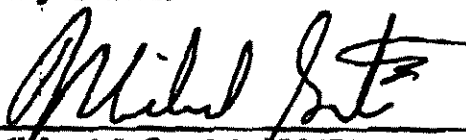
APPROVED:

**STAFF OF THE PUBLIC UTILITIES
COMMISSION**

By: 
Billy Kwan
Energy Analyst
1580 Logan St., OL2
Denver, CO 80203
(303) 894-2000

APPROVED AS TO FORM:

**JOHN W. SUTHERS
Attorney General**

By: 
Michael J. Santisi, #29673
Assistant Attorney General
1525 Sherman St., 5th Floor
Denver, CO 80203
(303) 866-3764
ATTORNEY FOR STAFF OF THE
PUBLIC UTILITIES COMMISSION OF
THE STATE OF COLORADO

CERTIFICATE OF SERVICE

I hereby certify that on this 12 day of September, 2005, an original and 3 true and correct copies of the foregoing document entitled **Supplement to Stipulation and Agreement** was hand-delivered to:

Doug Dean, Director
Colorado Public Utilities Commission
1580 Logan OL2
Denver, CO 80203

And a copy was placed in the United States Mail, postage prepaid and addressed to:

James Greenwood, Director
Office of Consumer Counsel
1580 Logan Street, Suite 740
Denver, CO 80203

Randy Garrouette
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203

Billy Kwan
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203

Robert Bergman
Advisory Staff
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203

Frank Shafer
Advisory Staff
Public Utilities Commission
1580 Logan Street, OL-2
Denver, CO 80203



EXHIBIT A

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

IN THE MATTER OF THE APPLICATION
OF COLORADO NATURAL GAS, INC. FOR
AN ORDER AUTHORIZING THE TRANSFER
OF STOCK.

DOCKET NO. 05A-225G

**AFFIDAVIT OF MICHAEL P. EARNEST ON BEHALF OF CNG
HOLDINGS, INC.**

State of Colorado)
) ss.
County of Jefferson)

I, Michael P. Earnest, being duly sworn upon my oath state as follows:

- 1) That I hold the position of Chief Executive Officer for CNG Holdings, Inc.;
- 2) That as Chief Executive Officer of CNG Holdings, Inc., I am duly authorized to bind such company;
- 3) That CNG Holdings, Inc. is the parent company of Colorado Natural Gas, Inc.;
- 4) That I have read the Stipulation and Agreement dated August 24, 2005 by and between Colorado Natural Gas, Inc. and the Staff of the Public Utilities Commission of the State of Colorado, with particular attention being paid to Paragraph Nos. 11, 14, 15, 16 and 18 thereof;
- 5) That CNG Holdings, Inc. agrees as a matter of contract to comply with and be bound by the provisions of Paragraph Nos. 11, 14, 15, 16 and 18 and that such provisions are enforceable according to their terms against CNG Holdings, Inc.


Michael P. Earnest

SUBSCRIBED AND SWORN to before me
on this 12th Day of September, 2005.


NOTARY PUBLIC



My commission expires 1/4, 2009