

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

IN THE MATTER OF THE JOINT APPLICATION OF )  
KINDER MORGAN, INC., ROCKY MOUNTAIN )  
NATURAL GAS COMPANY, KN )  
WATTENBERG TRANSMISSION LLC, AND )  
KINDER MORGAN RETAIL UTILITY HOLDCO LLC )  
FOR AUTHORIZATION AND APPROVAL OF THE )  
TRANSFER OF PUBLIC UTILITY ASSETS, )  
FACILITIES AND ASSOCIATED PROPERTIES OF )  
KINDER MORGAN INC., INCLUDING ALL )  
CERTIFICATES OF PUBLIC CONVENIENCE AND )  
NECESSITY RELATED THERETO, TO SOURCE ) DOCKET NO. 06A-533G  
GAS DISTRIBUTION LLC AND, THEREAFTER, )  
AUTHORIZING THE TRANSFER OF OWNERSHIP )  
AND CONTROL OF SOURCE GAS DISTRIBUTION )  
LLC, ROCKY MOUNTAIN NATURAL GAS )  
COMPANY AND KN WATTENBERG )  
TRANSMISSION LLC TO SOURCE GAS LLC AND )  
SOURCE GAS INC. )

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**STIPULATION AND AGREEMENT IN RESOLUTION OF PROCEEDINGS**

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This Stipulation and Agreement in Resolution of Proceedings (“Stipulation”) is entered into by and among Kinder Morgan, Inc. (“Kinder Morgan”), Rocky Mountain Natural Gas Company (“Rocky Mountain”), KN Wattenberg Transmission LLC (“KN Wattenberg”), Kinder Morgan Retail Utility Holdco LLC (“KMRUH”) and Source Gas Distribution LLC (“Source Gas Distribution”) (collectively, “KMI Utility Businesses”), Source Gas Holdings LLC (“Holdings”), Source Gas LLC (“Operating No. 1”), Source Gas Merger Co. (“MergerCo”), and Source Gas

Inc. (“Operating No. 2”) (collectively “Source Gas Businesses”<sup>1</sup>), Staff of the Public Utilities Commission of the State of Colorado (“Staff”), the Colorado Office of Consumer Counsel (“OCC”), A M Gas Transfer Corp. (“A M Gas”), Seminole Energy Services, LLC (“Seminole”), the Colorado Hotel and Lodging Association, Inc. (“CHLA”), and Cabot Oil & Gas Corporation (“Cabot”) (the aforementioned parties being collectively referred to herein as “Parties,” with the KMI Utility Businesses and the Source Gas Businesses being collectively referred to herein as the “Joint Applicants.”)<sup>2</sup> This Stipulation sets forth the terms and conditions by which the Parties have agreed to resolve all outstanding issues that have or could have been contested by the Parties relative to the Joint Applicants’ Verified Joint Application filed in the above-captioned docket on September 29, 2006.

The Parties state that the results of the compromises reflected herein are a just and reasonable resolution of this proceeding, that reaching agreement as set forth herein and implementation of the compromises and settlements reflected in this Stipulation will result in substantial savings to all concerned by establishing certainty and avoiding litigation. Each Party hereto pledges its support of this Stipulation and states that each will defend the settlement reached. Pursuant to Rule 1408 of the Public Utilities Commission of the State of Colorado (“Commission”) Rules of Practice and Procedure, the Parties respectfully request that the Commission approve this Stipulation, on an expedited basis, and without modification. For

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<sup>1</sup> An organizational chart is attached hereto as Attachment A so that the Commission may see how Source Gas Distribution, Rocky Mountain and KN Wattenberg will fit within the Source Gas Businesses after the transactions that are the subject of this proceeding close.

<sup>2</sup> While Public Service Company of Colorado is a party to this proceeding and raised certain operational concerns with the change in ownership of the KMI Utility Businesses, the Joint Applicants are authorized to say that those concerns have been resolved and that Public Service Company has no objection to the Commission’s approval of this Stipulation.

those Parties for whom this Stipulation is executed by counsel, such counsel states that (s)he has authority to execute this Stipulation on behalf of his/her client.

## I. INTRODUCTION

A. The Joint Applicants filed their Verified Joint Application in this proceeding on September 29, 2006, in which they seek, among other things, approval for the sale and transfer of all of Kinder Morgan's interest in the KMI Utility Businesses within the State of Colorado, including assets to certain of the Source Gas Businesses.

B. On October 4, 2006, the Commission issued its Notice in this proceeding. Thereafter, on November 8, 2006, the Commission adopted Decision No. C06-1324, in which the Commission determined that it would issue an initial decision in this proceeding and assigned the matter to an Administrative Law Judge.

C. Interventions were filed in this proceeding by Staff, the OCC, A M Gas, Seminole, CHLA, Cabot and PSCo.

D. Pursuant to Decision No. R06-1334-I, on November 28, 2006, presiding Administrative Law Judge Mana L. Jennings-Fader held a prehearing conference, at which the aforementioned interventions were granted and a procedural schedule was established to govern this docket. The specifics of such procedural schedule are set forth in Decision No. R06-1391-I, issued on November 29, 2006.

E. Thereafter, on December 2, 2006, the Parties met to begin discussing their individual perspectives on the issues presented in this proceeding. Those initial discussions proved beneficial, so the Parties agreed to pursue settlement of this matter in lieu of litigation.

F. On January 5, 2007, the Joint Applicants filed an unopposed motion seeking to modify the answer testimony filing date for Staff and intervenors in this proceeding in order to allow for settlement discussion among the Parties.

G. On January 8, 2007, ALJ Jennings-Fader issued Decision R06-0036-I in which she granted the unopposed motion.

H. Thereafter the Parties continued settlement discussions and were ultimately able to reach a comprehensive settlement. The terms and conditions of their settlement are embodied in this Stipulation which represents the Parties' resolution of all issues which were or could have been raised in this proceeding.

## II. TERMS OF SETTLEMENT

The following sets forth the terms and conditions of the Parties' agreement regarding all issues that were or could have been raised in this proceeding:

A. Expedited Approval of Verified Joint Application: Subject to provisions of Section II (B) through (Q) below, the Parties agree that the relief requested by the Joint Applicants in their Verified Joint Application, as modified herein, is appropriately granted by the Commission, and that such Verified Joint Application should be granted by the Commission, on an expedited basis, according to the terms thereof, as supplemented by this terms of this Stipulation. The Parties acknowledge and agree that the Joint Applicants' obligations under this Stipulation are subject to the Commission's approval of their Verified Joint Application filed in this proceeding upon terms and conditions that are acceptable to the Joint Applicants, in their sole discretion, and the closing of the transactions described in their Verified Joint Application.

B. Rates and Tariffs: The Parties acknowledge that the rates and terms and conditions of service for Source Gas Distribution and Rocky Mountain are not being changed as part of this proceeding, but rather, will remain as they are today, unless and until the Commission issues an order authorizing changes to such rates, terms and conditions of service. While such rates and terms and conditions of service are not at issue

in this proceeding, Source Gas Distribution, Rocky Mountain and KN Wattenberg agree to the use of the following principles in their respective next rate case proceedings.

C. Capital Structure and Cost of Debt: With regard to the capital structure of Source Gas Distribution, Rocky Mountain and KN Wattenberg, it is currently anticipated that none will issue stand-alone debt. Instead, it is anticipated that such debt will be housed at the utility holding company level (i.e. Source Gas LLC). So long as this is the case, Source Gas Distribution, Rocky Mountain and KN Wattenberg agree that in their respective next general rate case proceedings, to the extent they do not propose to use either their individual capital structures and cost of debt, or that of their parent, Source Gas LLC, they shall propose a capital structure and cost of debt for rate making purposes that are representative of capital structures and costs of debt for comparable utility companies in the United States.

Source Gas Distribution, Rocky Mountain and KN Wattenberg hereby affirmatively state that they understand that they bear the burden of proof in any such rate case proceeding to establish the reasonableness of any capital structure that they may propose. Source Gas Distribution, Rocky Mountain and KN Wattenberg likewise acknowledge that the Commission will be the ultimate decision maker regarding the capital structure approved for rate making purposes in such proceeding. Nothing in this Section II (C) shall serve to limit or restrict the positions that Staff or the OCC may choose to assert regarding the issues of rates, capital structure or cost of debt in any such rate case proceeding.

D. Dividend Policy: Except as otherwise authorized by the Commission, Source Gas Distribution, Rocky Mountain and KN Wattenberg agree that they will not make any

dividend payments to Source Gas LLC to the extent the payment of such a dividend would drop Source Gas Distribution's, Rocky Mountain's or KN Wattenberg's (as applicable) equity level below 40% of its total capitalization. In addition, Source Gas Distribution, Rocky Mountain and KN Wattenberg, as applicable, agree to notify the Commission of the following:

- a. Their intention to transfer more than 90 percent of Source Gas Distribution's, Rocky Mountain's or KN Wattenberg's earnings to Source Gas LLC over a six month period, at least 60 days before such a transfer;
- b. Their intention to declare a special cash dividend at least 30 days before declaring such dividend; and
- c. Payment of their most recent quarterly common stock cash dividend within 30 days after payment of each such dividend.

E. Ring Fencing Protections: Source Gas Distribution, Rocky Mountain, KN Wattenberg (collectively as well as individually to the extent such provisions are reasonably necessary for each individually in order to provide meaningful customer protection) and Source Gas LLC agree to implement and maintain the ring fencing protections as more particularly set forth in Attachment B hereto.

F. Credit Rating: Source Gas LLC shall endeavor to obtain an investment grade credit rating regarding Source Gas LLC debt that may be issued from time to time relative to acquisitions that are the subject of this proceeding. With regard thereto, and subject to preserving the confidentiality of such information, and subject further to not violating the terms of any agreement with or policy of the applicable credit rating

agency<sup>3</sup>, Source Gas LLC agrees to provide Staff and the OCC with access to information that is related to the then-current performance of Source Gas Distribution, Rocky Mountain and KN Wattenberg as Source Gas LLC may provide to or receive from credit rating agencies relative to Source Gas LLC's credit rating by such agency.<sup>4</sup>

G. Acquisition Premium and Transaction Costs: The Source Gas Businesses agree that any acquisition premium paid by the Source Gas Businesses for the KMI Utility Businesses that are the subject of this proceeding, as well as any transaction costs surrounding such sale transactions shall be excluded from the utility accounts for rate making and Commission financial reporting purposes and shall not be recovered from ratepayers. No later than 120 days after closing of the transactions that are the subject of this proceeding, the Source Gas Businesses agree to file with the Commission, and provide Staff and the OCC, on a confidential basis, the amount of the acquisition premium paid by the Source Gas Businesses for the KMI Utility Businesses.

H. Audited Financial Statements: On the first anniversary of the close of the sale transactions that are the subject of this proceeding or March 31, 2008, whichever comes later, or unless otherwise ordered by the Commission, Source Gas Distribution and Rocky Mountain shall submit audited 2007 financial statements setting forth Colorado-specific financial information as more particularly described in the Commission's Rules Regulating Natural Gas Utilities and Pipeline Operators, and, thereafter, shall continue to maintain audited Colorado-specific financial statements to the extent required by the Commission's rules and applicable laws. Source Gas Distribution further agrees that

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<sup>3</sup> Notwithstanding the foregoing, nothing herein shall be construed to limit the Commission's audit powers as set forth in C.R.S. §40-6-106.

included with its audited 2007 financials shall be a statement from its auditors to the effect that the books and records of Source Gas Distribution, as same exist on the date of closing of the sale from Kinder Morgan to Source Gas LLC, fully and fairly reflect the transfer of assets from Kinder Morgan to Source Gas Distribution as contemplated under the terms of the Purchase and Sale Agreement included as Appendix No. 2 to the Verified Joint Application filed in this proceeding by the Joint Applicants.

I. Comparison of Costs: No later than July 1, 2007, Source Gas Distribution and Rocky Mountain shall provide Staff and the OCC with a report that sets forth the prior annual (calendar year 2006) costs of service, including, but not limited to, utility plant, employee costs and costs related to corporate cost allocation for retail utility operations and such allocations to the Colorado-specific entities, incurred by such entities, when under the control of Kinder Morgan. Such report shall be provided as a “baseline” for comparison and informational purposes only by any party relative to any future annual cost of service which may be set forth by Source Gas Distribution or Rocky Mountain, and as such may be reported or proposed for use by such entities for ratemaking or Commission financial reporting purposes. Source Gas Distribution and Rocky Mountain shall bear the burden of proof in any financial reporting or ratemaking proceeding in order to justify the prudence of any changes in its costs of service, as such future costs may be compared to the 2006 baseline costs of service. Corporate cost allocation to the retail operations shall include but not be limited to the functions for Human Resources, Transmission Operations, Information Technology, Financial Management and Services, Procurement/Administration, Legal and Regulatory. If and at

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<sup>4</sup> Source Gas Distribution, Rocky Mountain and KN Wattenberg acknowledge that to the extent any or all of them intend to issue debt at the utility level, such issuance is subject to the Colorado Public Utilities Law and the

such time as the sales transactions that are the subject of this proceeding are approved in this Docket, direct costs will be incurred for Human Resources, Transmission Operations, Information Technology, Financial Management and Services, Procurement/Administration, Legal and Regulatory functions, and the amounts associated therewith will serve as the “baseline” as that term is used in this Section II (I).

J. Preparation of Cost Assignment and Allocation Manual: Source Gas Distribution and Rocky Mountain agree that they shall prepare a Cost Assignment and Allocation Manual consistent with the requirements of Rule 4503 of the Commission’s Rules Regulating Natural Gas Utilities and Pipeline Operators and shall submit same to the Commission for review on or before September 30, 2007. To the extent either Source Gas Distribution or Rocky Mountain require a waiver of Rule 4503 in order to allow for such filing to be made on or before September 30, 2007, it shall be their responsibility to shall seek such relief, and the Parties agree that they will not oppose a request for such relief. The Parties do not intend that Commission approval of this Stipulation shall constitute pre-approval of such a request for waiver.

K. Favored Nations: The Joint Applicants agree that the Commission shall have an opportunity and the authority to consider and adopt in Colorado any commitments or conditions to which the Joint Applicants have agreed, or with which they are required to comply, in Wyoming or Nebraska in the proceedings in such states relating to the transactions which are the subject of this proceeding, even if such commitments or conditions are agreed to or are required after the Commission enters its final order in this proceeding, and after the sales transactions that are the subject of this proceeding have closed. A Commission decision approving this Stipulation and granting the

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Commission’s rules promulgated pursuant thereto.

authorizations requested in the Verified Joint Application shall be given effect as a final order authorizing the Joint Applicants to proceed with closure of the transactions described in the Verified Joint Application, notwithstanding any subsequent supplemental decision that may be issued by the Commission adding further conditions or commitments pursuant to the favored nations provisions set forth in this Section II (K). To facilitate the Commission's consideration and adoption of any commitments and conditions from other jurisdictions, the Parties recommend that the Commission issue a final order accepting this Stipulation without modification and reserve in such order the explicit right of the Commission or any Party to initiate a separate proceeding for the limited purpose of adopting a supplement to this Stipulation in order to add (without modification of the language hereof, except such non-substantive changes as are necessary to make the commitment or condition applicable to Colorado) commitments or conditions accepted or ordered in Nebraska or Wyoming. In order to facilitate the process of determining the desirability or lack of desirability for any out-of-state commitments and conditions being adopted in Colorado, the Parties agree to and recommend the following process:

1. Within five calendar days after a stipulation with new or amended commitments is filed by the Joint Applicants with a commission in Wyoming or Nebraska, the Joint Applicants will file a copy of the stipulation and commitments with the Commission and serve it upon the Parties.
2. Within five calendar days after a commission in Wyoming or Nebraska issues an order that accepts a stipulation to which the Joint Applicants are a party, or otherwise imposes new or modified commitments or conditions, that order,

together with all commitments and conditions of any type agreed to by the Joint Applicants or ordered by the commission in such other state, will be filed with the Commission and served upon the Parties.

3. Within ten calendar days after the last such filings (“Final Filing”), one or more of the Parties may file with the Commission a response requesting that some or all of the commitments or conditions from Nebraska or Wyoming (without modification of the language thereof except such non-substantive changes as are necessary to make the commitment or condition applicable to Colorado) should be adopted in Colorado.

4. Within five calendar days after any such response filing, the Joint Applicants may file a reply with the Commission.

5. Not later than the Final Filing, the Joint Applicants will disclose to the Parties any written commitments or conditions made in Nebraska or Wyoming (between the date of the filing of the Stipulation and the receipt of the last state order in the transaction docket) intended to encourage approval of the transaction or avoidance of an objection thereto.

6. The Joint Applicants stipulate that, in the event a Party files a pleading in this docket for the purpose of adopting any commitment or condition in a stipulation to which the Joint Applicants are parties and which was adopted by final order of the regulatory commissions of either Wyoming or Nebraska, neither the KMI Utility Businesses nor the Source Gas Businesses will oppose adoption of the same commitment or condition to the extent it could reasonably be applied

in Colorado, so long as such adoption is without material modification of the language thereof.

L. Access to Capacity on Rocky Mountain: Rocky Mountain agrees that by June 30, 2007, it will make a filing with the Commission for the purpose of addressing access to capacity on the Rocky Mountain system, with a request that it be implemented in time for the 2007-2008 heating season.

M. Standard of Review: The Joint Applicants filed their Verified Joint Application pursuant to C.R.S. §40-5-105, which requires a showing that the subject transactions are not contrary to the public interest. The Joint Applicants' state that, among other things, the following aspects of the sale transactions that are the subject of this proceeding, as well as the terms of this Stipulation demonstrate the such transactions are not only not contrary to the public interest, they will in fact result in benefits to the consumers of Source Gas Distribution, Rocky Mountain and KN Wattenberg.

The Source Gas Businesses do not anticipate any material change in the operations or management of the KMI Utility Businesses upon the closing of the proposed transactions given that many, if not most, of the same personnel as those who currently manage the KMI Utility Businesses will continue in their present positions. This will result in stability that will inure to the benefit of the customers, the employees, the relevant municipalities and even the regulators. Moreover, with the exception of a name change of the current Kinder Morgan Retail operations to Source Gas Distribution. Source Gas Distribution will conduct its business in the same or similar manner concerning functions such as gas supply contracting and management, system operation and maintenance activities, safety and service reliability, customer service functions,

billing operations, and regulatory relationships. Source Gas Distribution will conduct business in the same or similar manner in its relationship with its work force. Source Gas Distribution does not contemplate a reduction in work force, nor is it anticipated that there will be any material change to the current employee benefits. Source Gas Distribution will continue to recognize the Communications Workers of America as the exclusive collective bargaining representative for bargaining unit employees..

The Joint Applicants recognize and agree that The Commission will continue to exercise the same degree of regulatory oversight over these utility operations as it does today. Consistent with the Joint Applicants' desire for a seamless transaction, the corporate headquarters and the books and records of Source Gas Distribution, Rocky Mountain and KN Wattenberg will continue to be located in Lakewood, Colorado.

As noted in the Verified Joint Application, Kinder Morgan has made the decision to sell its local gas utility assets in the United States. The Source Gas Businesses, on the other hand, have identified the energy industry generally and the natural gas distribution business specifically, as a preferred area for investment under a long-term, buy and hold philosophy. As a result, the ownership of Kinder Morgan's utility businesses will be in financially stable and capable hands.

In addition to foregoing, the Parties note that the commitments of Source Gas Distribution, Rocky Mountain and KN Wattenberg set forth herein will result in benefits to the customers. Specifically, As set forth in Attachment B to this Stipulation, significant ring-fencing provisions will be implemented, including no pledging of utility assets. Source Gas Distribution, Rocky Mountain and KN Wattenberg also agree to individual restrictions on dividend payouts so that their respective individual equity level

does not fall below 40% of their individual total capitalization. There are no such ring-fencing provisions or restrictions in effect currently. The Source Gas Businesses have also agreed not to seek recovery of any acquisition premium or transaction costs surrounding the subject transactions. They have also agreed to extend favored nations rights to the Commission and the Parties. Rocky Mountain has agreed to initiate a future proceeding to address access to capacity on the Rocky Mountain system. Each of these commitments will individually and collectively result in current and long-term benefits for the customers.

N. Adoption of Tariffs and Continuation of Service: Source Gas Distribution will adopt the tariffs of Kinder Morgan as same exist upon the date of closing of the sales transactions. Thereafter, Source Gas Distribution and Rocky Mountain agree that they will continue to take such steps as are reasonable in order allow these jurisdictional utilities to continue to provide safe and reliable natural gas service, (which includes sufficient system capacity), to their customers in a manner consistent with such utilities' Commission-approved tariffs and their rights and obligations as public utilities within the State of Colorado.

O. Accounting Entries: Source Gas Distribution, Rocky Mountain and KN Wattenberg will file Colorado-specific accounting entries in this docket within 120 days after closing of the sale transactions that are the subject of this proceeding reflecting such transactions.

P. Conversion of Rocky Mountain: The Joint Applicants' Verified Joint Application describes the process by which the Source Gas Businesses will acquire ownership of Rocky Mountain. More particularly, the Verified Joint Application

provides that Rocky Mountain will be acquired by merger with and into Source Gas Merger Co., with Rocky Mountain being the surviving entity. The Source Gas Businesses note, however, that subsequent to the filing of the Verified Joint Application, the Source Gas Businesses determined that it would be significantly more efficient for Kinder Morgan to convert Rocky Mountain from a Colorado corporation to a Colorado limited liability company. This would allow Source Gas LLC to simply acquire 100% of the membership interest in the converted Rocky Mountain, rather than undertaking the more complicated and cumbersome process of using a single purpose entity (i.e. Source Gas Merger Co.) for the purpose of merging with and into Rocky Mountain, with Rocky Mountain being the surviving entity. For these reasons, the Joint Applicants have agreed to modify their Purchase and Sale Agreement in order to accommodate this revised structure.

However, because this acquisition structure is different from that described in the Verified Joint Application, the Joint Applicants have requested that this Stipulation serve as a modification to the Verified Joint Application so as to request authorization for Source Gas LLC to acquire 100% of the membership interest in the to-be-converted Rocky Mountain, rather than authorizing the acquisition of Rocky Mountain by merger as requested in the Verified Joint Application. The Parties have no objection to the Stipulation serving as such a modification to the Verified Joint Application.

Q. Compliance Filing Obligations: Attachment C to this Stipulation sets forth the compliance filing obligations of Source Gas Distribution, Rocky Mountain and/or KN Wattenberg pursuant to the terms of this Stipulation.

### III. GENERAL TERMS AND CONDITIONS

This Stipulation reflects compromise and settlement of all issues raised or that could have been raised in this docket. This Stipulation shall be filed as soon as possible with the Commission for Commission approval and shall not become effective unless and until the Commission issues a final order approving the Stipulation. This Stipulation shall remain in effect until such time as there is a subsequent Commission authorized transfer or change of control affecting, as applicable, Source Gas Distribution, Rocky Mountain or KN Wattenberg or the public utility assets that are the subject of this proceeding, such that the Source Gas Businesses no longer own or control such utility entity(ies) or the associated jurisdictional public utility assets.

In the event the Commission should fail to approve this Stipulation, or should approve it with modification(s) that any Party deems material, then any Party to this Stipulation that is adversely affected by such action shall have the right to withdraw from this Stipulation upon providing written notice delivered to the Parties no later than three (3) business days after entry of the subject Commission order. Upon such withdrawal, the withdrawing Party shall be entitled to proceed fully with its participation in the above-captioned docket as if the Stipulation had not been entered into. Notwithstanding a Party's notice of intent to withdraw from the Stipulation, the Parties shall meet within three (3) business days from receipt of such notice of withdrawal for purposes of determining whether an alternative agreement can be reached or whether Commission proceedings in the captioned docket should go forward as if the Stipulation had never been filed.

Approval by the Commission of this Stipulation shall constitute a determination that the Stipulation represents a just, equitable and reasonable resolution of issues that were or could

have been contested among the parties in this proceeding. The Parties 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 in this Stipulation are in the public interest. Each Party hereto pledges its support of this Stipulation and urges the Commission to approve the Stipulation, in its entirety, subject to the terms and conditions provided herein.

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.

Except as otherwise provided herein, neither anything said, admitted or acknowledged in the negotiations leading up to the execution of said Stipulation, the settlement terms and conditions contained in this Stipulation, nor the Stipulation itself, may be used in this or any other administrative or court proceeding by any of the Parties hereto.

The Parties agree that the Joint Applicants' Verified Joint Application and supporting attachments, along with their pre-filed testimony and exhibits filed in this docket shall be admitted into evidence without cross-examination.

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.

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

DATED this 22<sup>nd</sup> day of January, 2007.

Respectfully submitted,

**SOURCE GAS BUSINESSES**

Approved as to form:

By: 

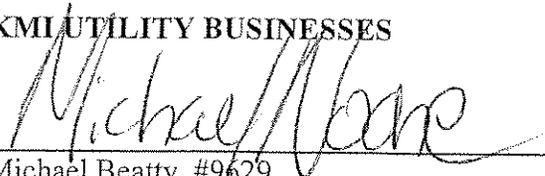
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**KMI UTILITY BUSINESSES**

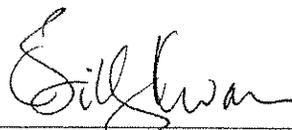


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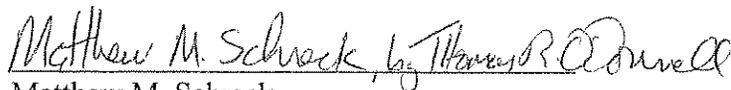
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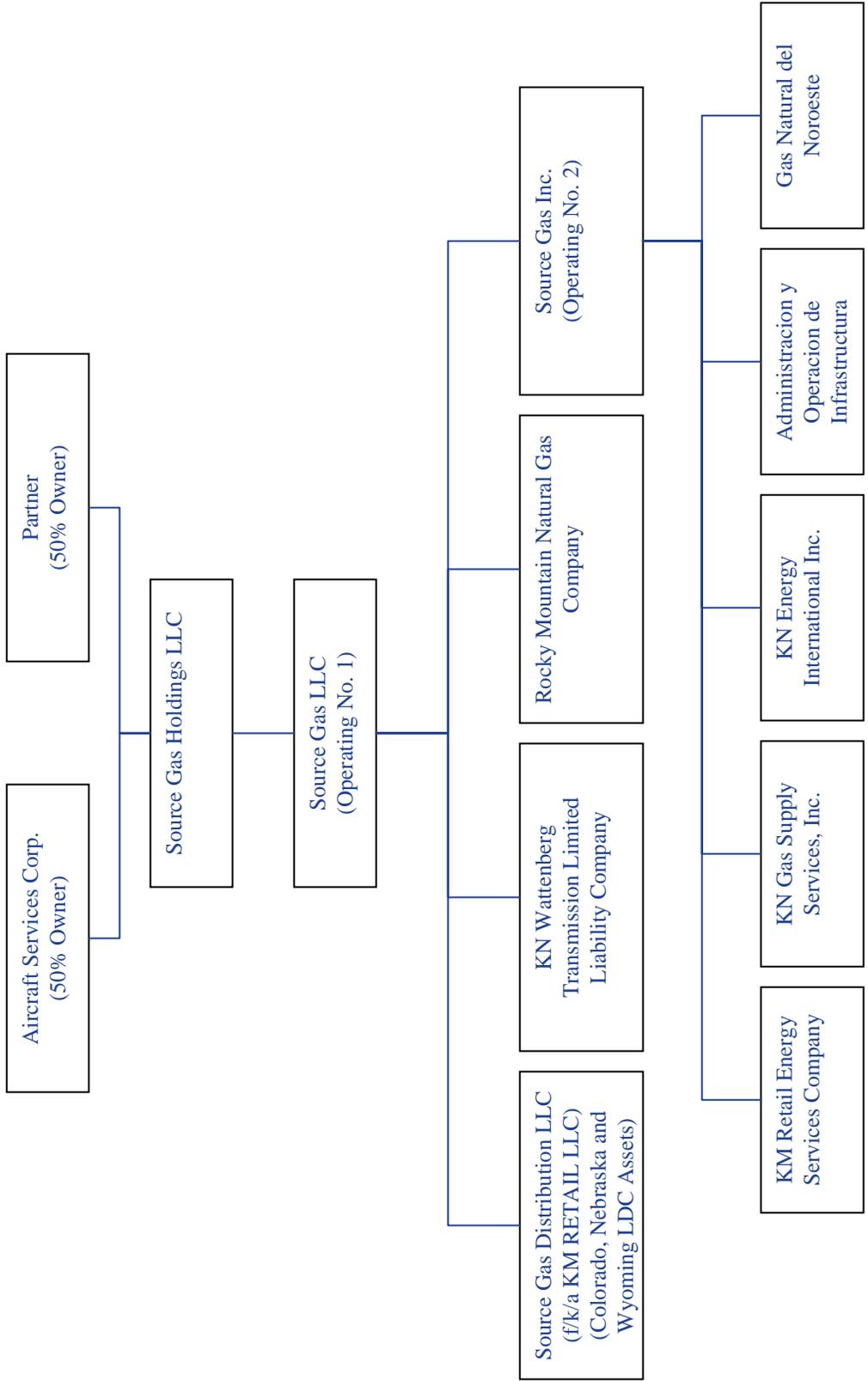
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Attorney for and on behalf of  
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**ATTACHMENT A**  
**(ORGANIZATIONAL CHART)**



## ATTACHMENT B

### SOURCE GAS LLC COMMITMENTS

- Will maintain separate books and records, system of accounts, financial statements and bank accounts.
- Will keep all financial books and records in the corporate offices. Financial books and records and state and federal utility regulatory filings and documents will continue to be available to the Commission, upon request.
- Will maintain its own accounting system.
- Will conduct its business in its own name and hold all of its assets in its own name.
- Will maintain its own office and telephone line separate and apart from its affiliates, although it may lease space from and share a phone line with an affiliate, having either a separate number or extension, and in furtherance thereof allocate fairly and reasonably any overhead for shared office space.
- Will use separate stationary, invoices and checks bearing its own name.
- Except for tax and accounting purposes, will at all times hold itself out to the public as a legal entity separate from any other person or entity and not identify itself as a division of any other person or entity.
- Will file its own tax returns, if any, as may be required under applicable law, and pay any taxes required to be paid under applicable law.
- Will have a board of directors, the composition of which in sum is unique from that of any other person.
- Will not commingle its assets with the assets of any other person or entity.
- Will pay its own liabilities only out of its own funds.
- Will pay the salaries of its own employees from its own funds.
- Will maintain an arm's length relationship with its affiliates.
- Will maintain adequate capital and an adequate number of employees in light of its contemplated business purposes.
- Will not hold out its credit as being available to satisfy the obligations of others, except in the case of subsidiary companies.
- Will not pledge its assets for the benefit of any other person or entity.
- Will not grant or permit to exist any lien, encumbrance, claim, security interest, pledge or other right in favor of any person or entity in its assets, other than immaterial liens or encumbrances in the ordinary course of business.
- Will not become or remain liable, directly or contingently, in connection with any indebtedness or other liability of any other person or entity, whether by guarantee, endorsement (other than endorsements of negotiable instruments for deposit or collection in the ordinary course of business), agreement to purchase or repurchase, agreement to supply or advance funds, or otherwise.
- Will not enter into, or be a party to, any transaction with any of its affiliates, except (A) in the ordinary course of business, (B) pursuant to the reasonable requirements and purposes of its business and (C) upon fair and reasonable terms (and, to the extent material, pursuant to written agreements) that are consistent with market terms of any such transactions entered into by unaffiliated parties.

- Will not make amendments, revisions or modifications to the ring-fencing structure, processes, etc. without 30 days prior notice to the Commission.
- Will not engage, directly or indirectly, in any business other than as permitted to be performed under the company's limited liability company operating agreement.
- Will file the final signed LLC agreement with the Commission within 30 days after the close of the transaction.

#### SOURCE GAS DISTRIBUTION LLC, ROCKY MOUNTAIN, AND KN WATTENBERG COMMITMENTS

- Will maintain separate books and records, system of accounts, financial statements and bank accounts.
- Will keep all financial books and records in the corporate offices. Financial books and records and state and federal utility regulatory filings and documents will continue to be available to the Commission, upon request.
- Will conduct its business in its own name and hold all of its assets in its own name.
- Will maintain its own office and telephone line separate and apart from its affiliates, although it may lease space from and share a phone line with an affiliate, having either a separate number or extension, and in furtherance thereof allocate fairly and reasonably any overhead for shared office space.
- Will use separate stationary, invoices and checks bearing its own name.
- Except for tax and accounting purposes, will at all times hold itself out to the public as a legal entity separate from any other person or entity and not identify itself as a division of any other person or entity.
- Will file its own tax returns, if any, as may be required under applicable law, and pay any taxes required to be paid under applicable law.
- Will have a board of directors, the composition of which in sum is unique from that of any other person.
- Will not commingle its assets with the assets of any other person or entity.
- Will pay its own liabilities only out of its own funds.
- Will not make any dividend payments to Source Gas LLC to the extent the payment of such a dividend would drop Source Gas Distribution's, Rocky Mountain's or KN Wattenberg's (as applicable) equity level below 40% of its total capitalization.
- Will pay the salaries of its own employees from its own funds.
- Will maintain an arm's length relationship with its affiliates.
- Will maintain adequate capital and an adequate number of employees in light of its contemplated business purposes.
- Will not hold out its credit as being available to satisfy the obligations of others, except in the case of subsidiary companies.
- Will not pledge its assets for the benefit of any other person or entity.
- Will not grant or permit to exist any lien, encumbrance, claim, security interest, pledge or other right in favor of any person or entity in its assets, other than immaterial liens or encumbrances in the ordinary course of business.

- Will not become or remain liable, directly or contingently, in connection with any indebtedness or other liability of any other person or entity, whether by guarantee, endorsement (other than endorsements of negotiable instruments for deposit or collection in the ordinary course of business), agreement to purchase or repurchase, agreement to supply or advance funds, or otherwise.
- Will not acquire any obligations or securities of its affiliates.
- Will not make or permit to remain outstanding any loan or advance to, or own or acquire (a) indebtedness issued by any other person or entity, or (b) any stock or securities of or interest in, any person or entity.
- Will not enter into, or be a party to, any transaction with any of its affiliates, except (A) in the ordinary course of business, (B) pursuant to the reasonable requirements and purposes of its business and (C) upon fair and reasonable terms (and, to the extent material, pursuant to written agreements) that are consistent with market terms of any such transactions entered into by unaffiliated parties.
- Will not make amendments, revisions or modifications to the ring-fencing structure, processes, etc. without prior Commission approval.
- Will not engage, directly or indirectly, in any business other than as permitted to be performed under the company's limited liability company operating agreement.
- Will file the final signed LLC agreement with the Commission within 30 days after the close of the transaction.
- Will not transfer its public utility assets, except in the ordinary course of business as permitted by law and regulation, without prior Commission approval.

**ATTACHMENT C**  
**(AS MODIFIED BY THE COMMISSION'S DECISION)**

<b>STIPULATION REFERENCE / ORDERING PARAGRAPH</b>	<b>EVENT/(RESPONSIBLE PARTY)</b>	<b>DATE</b>
Section II (G)	File with the Commission and provide Staff and the OCC with Confidential Statement Setting Forth Any Acquisition Premium. (Source Gas Distribution, Rocky Mountain, KN Wattenberg)	120 days of the closing, but no later than December 31, 2007.
Section II (J)	Filing Regarding Waiver of Filing Date (March 31, 2007) for Cost Assignment and Allocation Manual. (Source Gas Distribution, Rocky Mountain)	March 31, 2007
Section II (J)	Cost Assignment and Allocation Manual. (Source Gas Distribution, Rocky Mountain)	March 31, 2007 if no waiver granted, or September 30, 2007 if waiver is granted.
Section II (K)(1)	Filing Of Copy Of Wyoming Or Nebraska Stipulation With New or Amended Commitments. (Source Gas Distribution)	Five calendar days after a stipulation with new or amended commitments is filed by the Applicants with a Commission in Wyoming or Nebraska, but no later than December 31, 2007.
Section II (K)(2)	File and Service Upon the Parties Copy Of Wyoming Or Nebraska Order Accepting Stipulation With New or Amended Commitments. (Source Gas Distribution)	Five calendar days after a Commission in Wyoming or Nebraska issues an order that accepts a stipulation to which Applicants are a party, or otherwise imposes new or modified commitments, but no later than December 31, 2007.
Section II (N)	Adoption Notice on Tariffs. (Source Gas Distribution)	June 30, 2007
Section II (P) and Attachment B	File Signed LLC Agreement. (Source Gas LLC, Source Gas Distribution, Rocky Mountain, KN Wattenberg)	30 days of the closing, or no later than December 31, 2007.

Ordering Paragraph 19	Make a filing with the Commission of its Certificate of Good Standing issued by the Secretary of State to demonstrate that Source Gas Distribution, LLC is authorized to conduct business in Colorado. (Source Gas Distribution, LLC)	April 30, 2007
Ordering Paragraph 20	Make a filing using the Federal Energy Regulatory Commission Uniform System of Accounts (FERC USOA) accounts to set out the Colorado-specific accounting entries reflecting the Asset Sale. (Source Gas Distribution, Rocky Mountain, and KN Wattenberg)	On or before 120 days after closing of the Asset Sale, but no later than December 31, 2007.
Ordering Paragraph 21	Make a filing of the audited 2007 financial statements setting forth Colorado-specific financial information. (Source Gas Distribution and Rocky Mountain)	On or before the first anniversary of the close of the Asset Sale of March 31, 2008, but no later than December 31, 2008.
Ordering Paragraph 22	Include with its audited 2007 financials a statement from its auditors to the effect that the books and records of Source Gas Distribution, as they exist on the date of closing of the Asset Sale, fully and fairly reflect the transfer of assets from Kinder Morgan to Source Gas Distribution. (Source Gas Distribution)	On or before the first anniversary of the close of the Asset Sale of March 31, 2008, but no later than December 31, 2008.
Ordering Paragraph 23	Make an informational report to the Staff and OCC which sets out the Calendar Year 2006 costs of service incurred by Source Gas Distribution and Rocky Mountain when they were owned/operated by Kinder Morgan. (Source Gas Distribution and Rocky Mountain)	No later than July 1, 2007.
Ordering Paragraph 24	Rocky Mountain shall make a filing with the Commission for the purpose of addressing access to transportation capacity on the Rocky Mountain Natural Gas system. (Rocky Mountain)	On or before June 30, 2007.
Ordering Paragraph 25	Source Gas Distribution shall make a filing in this docket of the date on which the stipulation in Docket No. 06A-538G is no longer in effect pursuant to the provisions of ¶¶ 22 and 76 of that stipulation. (Source Gas Distribution)	14 days following the date on which the stipulation in Docket No. 06A-538G is no longer in effect, but no later than December 31, 2007.

Ordering Paragraph 26	The President of the Colorado Utilities shall come before the Commission at least annually in each of the first two calendar years following the sale of assets to discuss (a) corporate presence, status, plans, and commitments and (b) customer service issues. (Source Gas Distribution)	On or before December 31, 2007.
Ordering Paragraph 26	The Senior Executives of the Colorado Utilities shall come before the Staff and OCC at least annually in each of the first two calendar years following the sale of assets to discuss (a) regulatory issues, (b) customer service issues, and (c) issues discussed by the President of the Colorado Utilities. (Source Gas Distribution)	On or before December 31, 2007.
Ordering Paragraphs 27,28 and 29	Make an informational compliance filing in which it reports to the Commission its transaction costs associated with the Asset Sale. (Source Gas Distribution, Rocky Mountain, and KN Wattenberg)	With its first annual report filed with the Commission, but no later than December 31, 2009.
Ordering Paragraph 30	Source Gas LLC shall make an informational compliance filing which informs the Commission of the credit rating which Source Gas LLC obtains initially from each credit rating agency. (Source Gas Distribution)	30 days following its receipt of a credit rating, but no later than December 31, 2007.