

SOURCEGAS DISTRIBUTION LLC

ADVICE LETTER NO. 223

STATEMENT OF NATURE, REASONS AND BASIS

APPENDIX A

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STATEMENT OF NATURE, REASONS AND BASIS

By its filing, SourceGas Distribution LLC (SourceGas or the Company), the successor-in-interest to the retail natural gas distribution business of Kinder Morgan, Inc. (Kinder Morgan), is proposing to revise Kinder Morgan's Colorado Gas Tariff Volume No. 6 as detailed herein. The principal purpose of the tariff revisions is to implement provisions that provide for releases of capacity that SourceGas holds on its affiliate upstream pipeline, Rocky Mountain Natural Gas LLC (Rocky Mountain) in order to effectuate end-user sales customer conversion to transportation. The changes that SourceGas is proposing to the Kinder Morgan tariff complement corresponding changes to the Rocky Mountain tariff. They apply to SourceGas service to its Western Slope service territory only. Each tariff sheet bears a proposed effective date of October 1, 2007.

The first proposed change adds a new Section 9A to the General Terms and Conditions, on Sheet No. 118. That provision provides that SourceGas will release upstream pipeline capacity to end-use customers converting from sales service to transportation service, or to their designated agents, and shall accept returns of upstream pipeline capacity from such customers converting from transportation service to sales service, in accordance with the terms and conditions of Section 22 of the General Terms and Conditions in the Rocky Mountain tariff.

Proposed Section 22 of the Rocky Mountain tariff provides for capacity releases under either of the following two circumstances: First, capacity releases will be made in the event that a non-residential end-use party on the SourceGas Western Slope system wishes to convert to transportation service. Second, releases of capacity also will be made where Rocky Mountain

determines that an existing shipper does not hold adequate capacity on the that utility's system to serve the peak day requirements of the end-users on whose behalf the shipper is transporting gas on the Rocky Mountain system. Rocky Mountain will determine the amount of each capacity release, utilizing information provided to it by SourceGas. Capacity releases under the second circumstance will match capacity with anticipated customer requirements under design day conditions.

The second proposed revision adds a new Section 3.6 to the Distribution Transportation Service Rate Schedule, on Sheet No. 87B. That section details the process used to determine the Maximum Daily Service Quantity (MDSQ) applicable to each of its Western Slope Distribution Transportation Service Agreements, based upon the design day demand requirements of the end-use customer at each delivery point specified in the applicable Distribution Transportation Service Agreement, after accounting for the applicable Fuel Retention Quantity. "Design day" means the day upon which deliveries through the applicable delivery point are anticipated to be at their highest level in light of extreme weather conditions and other relevant factors. To the extent reasonably possible, these calculations are made based upon historical consumption data specific to the delivery point and utilize recognized statistical trending methodologies. The MDSQ must be stated in the Distribution Transportation Service Agreement.

The basic principles to be used in determining the MDSQ are as follows: For existing transport customers: due to the existence of electronic flow measurement (EFM) at delivery points and end-use meters, actual daily consumption is available and will be correlated to the local weather events and design day conditions. Analysis will be used to determine the correlation between customer usage and heating degree days, which in turn is used to determine

the appropriate design day requirements. In appropriate cases, other factors that are not directly related to temperature variations, are considered in the determination, including occupancy rates, use of gas for snow melt and other pertinent factors. For existing sales service customers: these customers do not have EFM at the end-use meter, and therefore SourceGas does not maintain actual daily consumption. SourceGas therefore will use bill cycle volumes, correlated to bill cycle weather, and adjusted for appropriate other pertinent factors and design day conditions. For new customers: these customers also do not have EFM at the end-use meter, and therefore SourceGas does not maintain actual daily consumption. SourceGas therefore will base peak requirements on anticipated connected load adjusted for appropriate other pertinent factors and design day conditions.

The third change proposed by this filing is the addition of a new Section 9 to the Distribution Transportation Service Rate Schedule, on Sheet No. 94. This section requires the consent of end-use parties taking transportation service on the Western Slope to consent to the release of MDSQ and other volume-related data to Rocky Mountain. Specifically, this provision allows SourceGas to provide Rocky Mountain with (a) a transportation service customer's overall MDSQ under the Service Agreement; (b) the Buyer's MDRQ (Maximum Daily Receipt Quantity) applicable to each primary receipt point(s) specified in the customer's Distribution Transportation Service Agreement, (c) the MDDQ (Maximum Daily Delivery Quantity) applicable to each primary delivery point(s) specified in said Distribution Transportation Service Agreement, (d) the volumetric data utilized in calculating the MDSQ, MDRQ and MDDQ quantities, and (3) the physical location of each delivery point specified in the Distribution Transportation Service Agreement. This information is required by Rocky Mountain to permit it

to determine the amount of capacity to be released by SourceGas under Section 22 of the General Terms and Conditions of the Rocky Mountain tariff.