

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

FILED
STATE OF COLORADO
PUBLIC UTILITIES COMMISSION
2010 NOV 1 11:17 AM
DENVER

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

IN THE MATTER OF ADVICE LETTER NO. 243)	
FILED BY SOURCEGAS DISTRIBUTION LLC)	
TO RECOVER THE INCREASED COSTS)	DOCKET NO. 10AL-455G
ASSOCIATED WITH PROVIDING NATURAL)	
GAS SERVICE TO COLORADO CUSTOMERS)	
TO BE EFFECTIVE ON AUGUST 1, 2010.)	

STIPULATION AND AGREEMENT IN RESOLUTION OF PROCEEDING

This Stipulation and Agreement in Resolution of Proceeding (the “Stipulation”) is entered into by and among SourceGas Distribution LLC, Staff of the Public Utilities Commission of the State of Colorado, the Colorado Office of Consumer Counsel, A M Gas Transfer Corp., Barton J. Levin, and the Town of Telluride, Colorado (respectively, the “Company,” “Staff,” “OCC,” “A M Gas,” “Levin” and “Telluride”; collectively, the “Parties”; and each individually, a “Party”). This Stipulation sets forth the terms and conditions by which the Parties have agreed to resolve all issues that have been or could have been contested in the general rate case proceeding in Docket No. 10AL-455G (the “Docket”) commenced by the Company’s filing of Advice Letter No. 243 and accompanying testimony and exhibits on June 24, 2010 (the “Company’s Filed Case”).

The Parties agree that the results of the compromises reflected herein are a just and reasonable resolution of the Docket, and that implementing the compromises and settlements reflected in this Stipulation will result in substantial savings to all concerned by establishing certainty and avoiding litigation. Each Party supports this Stipulation and agrees to defend the

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

settlement reached. The Parties respectfully request that the Public Utilities Commission of the State of Colorado ("Commission") approve this Stipulation pursuant to Rule 1408 of the Commission's Rules of Practice and Procedure without modification.

I. BACKGROUND

A. RATE CASE

1. On June 24, 2010, the Company filed Advice Letter No. 243, proposing to increase non-gas base rates and charges for the services that the Company renders in its two Base Rate Areas. The Company requested that the tariff sheets accompanying Advice Letter No. 243 become effective on August 1, 2010. In support of the increase in rates sought through Advice Letter No. 243, the Company included its direct testimony and exhibits.

2. By Decision No. C10-0774 (adopted July 22, 2010; mailed July 23, 2010), the Commission suspended the proposed tariff sheets for 120 days, through November 26, 2010, for investigation and hearing.

3. The OCC filed a Protest and Request for Hearing on July 6, 2010.

4. The OCC filed its Notice of Intervention and Entry of Appearance on July 29, 2010.

5. On July 30, 2010, Telluride filed its Motion to Intervene.

6. On August 2, 2010, Staff filed its Notice of Intervention as of Right, Entry of Appearance, Notice Pursuant to Rule 1007(a) and Rule 1403(b) and Request for Hearing.

7. By Decision No. R10-0868-I (mailed August 10, 2010), Administrative Law Judge ("Judge") Paul C. Gomez issued his Interim Order Setting Pre-Hearing Conference.

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

8. By Decision No. R10-0880-I (mailed August 12, 2010), Judge Gomez issued his Interim Order Granting Motion to Intervene of Telluride.

9. On August 17, 2010, A M Gas and Levin filed their Motion to Intervene.

10. By Decision No. R10-0959-I (mailed August 31, 2010), Judge Gomez issued his Interim Order Granting Motion to Intervene of A M Gas and Levin.

11. A pre-hearing conference was held on September 2, 2010.

12. By Decision No. R10-0971-I (mailed September 3, 2010), Judge Gomez issued his Interim Order Adopting Procedural Schedule and Further Suspending Effective Date of Tariff Sheets. The procedural schedule called for the filing of answer testimony on October 15, 2010; filing of rebuttal and cross-answer testimony on November 19, 2010; and the hearing on December 6-10, 2010. Pursuant to Section 40-6-111(1), C.R.S., Judge Gomez suspended the effective date of the proposed tariff sheets attached to Advice Letter No. 243 for an additional 90 days, through February 25, 2011.

13. On October 14, 2010, the Company and Staff filed their Agreement in Principle (the "Agreement").

14. On October 15, 2010, the OCC and A M Gas and Levin filed their answer testimony. Telluride did not file answer testimony.

B. SETTLEMENT NEGOTIATIONS AND AGREEMENT

1. The Company, Staff and OCC conducted meetings in late September and early October 2010, to discuss concepts and terms for a possible settlement. The Company and Staff entered into the Agreement, pursuant to which they agreed to the resolution of all issues, which

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

were or could have been raised by them in this proceeding. Section C.7 of the Agreement stated that the Company and Staff “welcome any other party to Docket No. 10AL-455G to sign and enter into the Agreement.” Subsequent to the filing of the Agreement, additional settlement discussions occurred among the Company, OCC and A M Gas and Levin. These discussions in turn resulted in additional discussions between the Company and Staff. This Stipulation reflects the results of all of those discussions, including some modification to the Agreement as filed. As well, it is a more comprehensive articulation of the Agreement, as thus modified.

2. This Stipulation incorporates Appendices A through D, appended hereto, which are identified as follows:

Appendix A – Settled Revenue Requirement

Appendix B – Summary of Effects of Settled Issues on Revenue Requirement

Appendix C – New General Rate Schedule Adjustment (GRSA) Provisions
in Colorado PUC No. 7 Tariff

Appendix D – Bill Impacts

II. TERMS OF SETTLEMENT

A. REVENUE REQUIREMENTS

The Parties have agreed upon a settled non-gas base rate revenue increase of \$2,814,365 based upon a test year ended December 31, 2009. The Parties note that this revenue increase is a 53% reduction from the revenue increase of \$6,042,185 requested in the Company’s Filed Case. The Parties have agreed to the specific resolution of the disputed issues concerning revenue requirements set forth in this Section II.A. The settled revenue requirement is set forth on

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

Appendix A to this Stipulation. A summary of the monetary effects of the settled issues on the revenue requirement is set forth on Appendix B to this Stipulation.

1. Rate Of Return On Equity, Capital Structure And Overall Rate Of Return On Rate Base

Background. In the Company's Filed Case, Company witness Dr. R. Charles Moyer presented direct testimony in support of the Company's proposed authorized return on equity of 12.00%. Staff negotiated with the Company for a 10.25% rate of return on equity, using the Company's filed weighted average cost of debt of 6.005% and capital structure of 49.52% debt and 50.48% equity. In the OCC's answer testimony, OCC witness PB Schechter requested that the Commission reflect a 9.00% rate of return on equity. In the answer testimony of A M Gas and Levin, their witness William B. Marcus requested that the Commission use a 8.971% overall rate of return on rate base, which includes a rate of return on equity of 8.75%, a capital structure of 52.00% debt and 48.00% equity, and a weighted average cost of debt of 6.000%. For the purpose of this Stipulation, A M Gas and Levin take no position on the specific settlement return on equity.

Resolution. The Parties agree that this settled revenue increase reflects an agreed rate of return on equity of 10.00%, the filed weighted average cost of debt of 6.005%, and the filed capital structure of 49.52% debt and 50.48% equity. These capital structure values result in an overall rate of return on rate base of 8.02%. The impact of the adjustment to the rate of return on equity is a \$2,070,095 decrease from the Company's Filed Case, as shown on Appendix B to this Stipulation.

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

2. Allowance For Funds Used During Construction

Background. In the Company's Filed Case, the Company did not propose an offset for Allowance for Funds Used During Construction ("AFUDC") associated with Construction Work In Progress ("CWIP"). Staff preferred including an AFUDC offset associated with CWIP.

Resolution. The AFUDC offset associated with CWIP shall be included in pro forma operating income in accordance with Commission policy,¹ and the Company shall calculate and capitalize on a monthly basis AFUDC on all projects included in CWIP as set forth below in Section II.B.1. The offset in the Company's Filed Case shall be \$50,000 rather than \$0. The impact of this adjustment is a \$50,000 decrease from the Company's Filed Case, as shown on Appendix B to this Stipulation.

3. Weather Normalization Revenue Adjustment

Background. In the Company's Filed Case, the Company included a weather normalization revenue adjustment of (\$313,237). Staff preferred the use of a different weather normalization revenue adjustment using its methodology and calculations.

Resolution. The Company's weather normalization revenue adjustment of (\$313,237) shall be adjusted by \$277,701 to (\$35,536). The impact of this adjustment is a \$277,701 decrease from the Company's Filed Case, as shown on Appendix B to this Stipulation.

4. PEACE Billing System

Background. In the Company's Filed Case, the Company sought rate base treatment for the portion of the original cost of fees associated with the PEACE billing system that has been

¹ Commission policy on AFUDC offset to CWIP as specified in Docket No. 93S-001EG, Decision No. C93-1346, pp. 39-41.

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

allocated to the Company's Colorado jurisdiction. Staff preferred that rate base treatment of these fees be determined using its calculations.

Resolution. The Company's revenue requirement shall be adjusted by (\$95,601) associated with the PEACE billing system. The impact of this adjustment is a \$95,601 decrease from the Company's Filed Case, as shown on Appendix B to this Stipulation.

5. Pipeline Integrity Activity

Background. In the Company's Filed Case, the Company requested \$484,000 in expected annual expense for pipeline integrity activity related to cross-bore inspections and remediation. Staff preferred that the Company receive one-half of this amount.

Resolution. The Company's \$484,000 expected annual expense for pipeline integrity activity related to cross-bore inspections and remediation shall be adjusted by (\$242,000) to \$242,000. The impact of this adjustment is a \$242,000 decrease from the Company's Filed Case, as shown on Appendix B to this Stipulation. The Company shall file an annual report as set forth below in Section II.B.2.

6. Rate Case Expense

Background. In the Company's Filed Case, the Company proposed to include \$382,128 of rate case expenses in Account 928 Regulatory Commission Expense. The Company proposed to establish a period of two years as the estimate of the time between rate case filings and to base the annual test year amount on the \$523,280 estimated cost of this rate case proceeding plus an amount of \$240,976 of claimed rate case expense allowed in the previous rate case. Staff preferred to remove rate case expenses from base rates and to recover the actual cost of this rate

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

case proceeding through a separate component of the General Rate Schedule Adjustment (“GRSA”) Rider. In the OCC’s answer testimony, OCC witness Dennis Senger requested that the Commission deny the Company’s request to recover rate case expense from its last rate case, adopt a rate case expense amount based only on expenses actually incurred through the end of the hearing in this proceeding, and use a three-year estimated rate case period to establish the test year amount to be used in establishing base rates.

Resolution. The Company’s rate case expense shall be removed from base rates. First, the \$240,976 portion of the rate case expense from the previous rate case, Docket No. 08S-108G, shall be adjusted by (\$240,976) to \$0. Second, the Company’s \$523,280 estimated cost of this rate case proceeding shall be adjusted by (\$523,280) to \$0. The actual cost of this rate case proceeding shall be recovered as set forth below in Section II.B.3. The impact of this two-part adjustment is a \$383,031 decrease from the Company’s Filed Case, as shown on Appendix B to this Stipulation.

7. Taxes Other Than Income

Background. In the Company’s Filed Case, the Company included fines and penalties associated with taxes other than income taxes to be recovered through the revenue requirement. Staff preferred removing fines and penalties from the taxes other than income taxes.

Resolution. The Company’s total adjusted amount of taxes other than income taxes of \$1,993,875 shall be adjusted by (\$5,004) to remove fines and penalties. The impact of this adjustment is a \$5,004 decrease from the Company’s Filed Case, as shown on Appendix B to this Stipulation.

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

8. Expenses Associated With Consumables And Advertising

Background. In the Company's Filed Case, the Company included certain expenses associated with consumables (i.e., food and beverages) and advertising. Staff preferred removing certain consumables and advertising expenses.

Resolution. The Company's operating expenses shall be adjusted by (\$34,564) to remove certain expenses associated with consumables and advertising, and the Company will record those expenses as set forth below in Section II.B.4. The impact of this adjustment is a \$34,564 decrease from the Company's Filed Case, as shown on Appendix B to this Stipulation.

9. Pro Forma Adjustment For Expected Increases Of Non-Labor, Non-Benefits Expenses Due To Expected Inflation

Background. In the Company's Filed Case, the Company included a pro forma adjustment for expected increases of non-labor, non-benefits expenses due to inflation. Staff preferred removing this pro forma adjustment.

Resolution. The Company's pro forma adjustment for expected increases of non-labor, non-benefits expenses due to expected inflation shall be adjusted by (\$69,824). The impact of this adjustment is a \$69,824 decrease from the Company's Filed Case, as shown on Appendix B to this Stipulation.

B. OTHER TERMS OF SETTLEMENT

1. Allowance For Funds Used During Construction

Background. In the Company's Filed Case, the Company did not propose an offset for AFUDC associated with CWIP. Staff preferred that the Company calculate and capitalize on a

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

monthly basis AFUDC on all projects included in CWIP and that the Company meet with Staff to discuss this topic.

Resolution. The Company will calculate and capitalize on a monthly basis AFUDC on all projects included in CWIP, in accordance with 18 CFR Part 201, Gas Plant Instruction 3.A, item (17) (AFUDC). The Company will meet with Staff, at Staff's request upon reasonable notice, to discuss the Company's current calculation and capitalization of AFUDC and the Company's compliance with 18 CFR Part 201, Gas Plant Instruction 3.A, item (17). If a Party wants to propose to change the manner in which the Company calculates and capitalizes AFUDC, that Party shall provide to the other Parties at least 20 calendar days' prior written notice of that Party's intention to propose such a change.

2. Report Of Pipeline Integrity Activity

Background. In the Company's Filed Case, the Company did not include any reporting requirements associated with its pipeline integrity activity related to cross-bore inspections and remediation. Staff preferred to require the Company to file an annual report of its pipeline integrity activity related to cross-bore inspections and remediation.

Resolution. On or before January 31, 2012, and annually on or before January 31st thereafter until the later of the Company filing a general rate case or the Company completing its pipeline integrity activity related to cross-bore inspections and remediation, the Company shall file a report of its pipeline integrity activity related to cross-bore inspections and remediation for the period December 1 through November 30 of the prior year. The report shall include the following information for each inspection: (i) the date of the inspection; (ii) the company that

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

conducted the inspection; (iii) the location of the inspection; (iv) the actual cost of the inspection (including invoices or other supporting documentation); (v) the findings of the inspection; (vi) a description of any remediation necessary as a result of the findings of the inspection; (vii) the date that any such remediation was completed; and (viii) the actual cost of any such remediation (including invoices or other supporting documentation).

3. Recovery Of Rate Case Expense

Background. In the Company's Filed Case, the Company proposed to recover rate case expense in base rates. In the OCC's answer testimony, OCC witness Dennis J. Senger reflected the recovery of rate case expense through base rates. Staff preferred for rate case expense to be recovered through a separate component of the GRSA Riders.

Resolution. The Company shall recover all actual costs of this rate case proceeding through a separate component of the GRSA Riders. The rate case expense component of the GRSA Riders shall be a regulatory asset of the actual rate case expense to be amortized over four years. The regulatory asset shall be recovered in a graduated adjustment of 10% in the first year, 20% in the second year, 30% in the third year and 40% in the fourth year until fully recovered. Upon full recovery, the rate case expense component of the GRSA Riders will terminate. If a rate case requesting an increase in the revenue requirement is filed by the Company prior to full recovery of such rate case expenses, then the Company agrees that it shall not include any such non-recovered rate case expenses in the subsequently filed rate case. The Company agrees to make a filing to modify the GRSA Riders as specified in this Stipulation with an effective date of each December 1 until the rate case expense component of the GRSA Riders has terminated.

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

The rate case expense component of the GRSA Riders shall be adjusted to 0% at the earlier of the fifth year or Commission approval of the next rate case requesting an increase in the revenue requirement. The Company shall submit to Staff the then-current actual rate case expense, including invoices, at least 30 days prior to implementation of the rate case expense component of the GRSA Riders. Any actual rate case expenses incurred after a submittal to Staff shall be accrued and included in the following year's submittal to Staff of the then-current actual rate case expense component of the GRSA Riders. If a Party wants to propose to change the manner in which the Company recovers rate case expense, that Party shall provide to the other Parties at least 20 calendar days' prior written notice of that Party's intention to propose such a change.

4. Recording Of Certain Expenses

Background. In the Company's Filed Case, the Company recorded expenses associated with consumables (i.e., food and beverages), holiday and retirement parties, employee awards, travel and advertising in various FERC Accounts. Staff preferred that consumables, holiday and retirement parties, employee awards, travel and advertising be recorded in certain specific FERC Accounts.

Resolution. The Company shall record in a subaccount of FERC Account No. 921 expenses associated with consumables, holiday and retirement parties, employee awards and travel. The Company shall record expenses associated with regulated advertising in FERC Account Nos. 909, 913 and 930.1. If a Party wants to propose to change the manner in which these expenses are recorded, that Party shall provide to the other Parties at least 20 calendar days' prior written notice of that Party's intention to propose such a change.

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

5. No Phase 2 Proceeding

The Company shall not file a Phase 2 proceeding related to this rate case proceeding.

6. Filing of Voluntary Choice Gas Program Plan

The Company will file in calendar year 2011 a voluntary Choice Gas Program Plan, in accordance with Section 40-2-122(3), C.R.S.

7. Colorado-Specific Information

The Company shall continue to maintain audited accounting data with Colorado-specific information.

8. All Other Matters

All other matters not specifically discussed in the Stipulation shall be implemented as originally filed in the Company's Filed Case.

**III. EFFECTIVE DATE OF SETTLEMENT RATES AND TERMS AND
CONDITIONS OF SERVICE**

The Parties agree to file a Joint Motion for Approval of Stipulation and Agreement in Resolution of Proceeding. The settlement in this case recognizes that the Company is currently not recovering its cost of service. Therefore, the Parties specifically request that the Company's new tariff sheets implementing the terms of this Stipulation shall take effect on December 1, 2010, in order to avoid further non-recovery of the Company's cost of service. The Parties recognize that the Judge has set aside Monday, November 8, 2010, for a hearing on this Stipulation, based upon the Parties' request that new rates take effect on December 1, 2010.

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

This Stipulation shall take effect upon its approval by the Commission. Nothing in this Stipulation shall be construed as precluding the Company from filing a general rate case to change the rates for its natural gas services at any time. Nothing in this Stipulation shall be construed to limit the Company from applying to the Commission for adjustment clauses or for any other change to the Company's rates, except as set forth above in Sections II.B.1, II.B.3 and II.B.4. Nothing in this Stipulation shall be construed to prevent the Staff of the Commission or any other party from seeking review by the Commission of the justness and reasonableness of the Company's natural gas service rates.

Except as provided in this paragraph and above in Sections II.B.1, II.B.3 and II.B.4, the provisions of this Stipulation shall terminate and have no continuing effect upon the effective date of the revised rates for natural gas services resulting from the Company's next revenue requirement rate case, whether initiated through the Company's filing of a rate case or a formal complaint. Where reference is made in the Stipulation to provisions that apply for a period of time, all such time period provisions of this Stipulation may be modified by a subsequent filing with the Commission or subsequent stipulation approved by the Commission.

IV. IMPLEMENTATION

This Stipulation shall not become effective until the issuance of a final Commission Order that does not modify this Stipulation in a manner that is unacceptable to any Party. In the event that a final Commission Order modifies this Stipulation in a manner that is unacceptable to any Party, that Party shall have the right to withdraw from this Stipulation (the "Withdrawing Party") and proceed to hearing on the issues that may be appropriately raised by the Withdrawing Party in this docket. If the Withdrawing Party is Staff, the Company will support a

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

motion by Staff requesting authority to file its answer testimony, which shall be the same testimony that Staff would have filed if no Agreement had been filed. The Withdrawing Party shall, within three business days of the mailed date of such a final Commission Order, notify the Commission and the other Parties by e-mail that the Party is withdrawing from the Stipulation and is ready to proceed to hearing; the e-mail notice shall designate the precise issue or issues on which the Withdrawing Party desires to proceed to hearing (the "Hearing Notice").

The withdrawal of a Party shall not automatically terminate this Stipulation as to any other Party. However, within three business days of the date of the Hearing Notice from the first Withdrawing Party, all Parties shall confer as to whether the unmodified aspects of the Stipulation remain in force and, if so, to arrive at a comprehensive list of issues that shall proceed to hearing and a list of issues that remain settled. Within five business days of the date of the Hearing Notice, the Parties shall file with the Commission a formal notice containing the list of issues that shall proceed to hearing and those issues that remain settled (the "Formal Notice"). The Parties who proceed to hearing shall have and be entitled to exercise all rights with respect to the issues that are heard that they would have had in the absence of this Stipulation. The Parties waive their right to a hearing only to the extent that the Commission approves this Stipulation either without modification or with their consent.

Hearing shall be scheduled on all of the issues designated in the Formal Notice as soon as practicable. In the event that this Stipulation 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 Stipulation shall not be admissible into evidence in this or any other proceeding, except as may be necessary in any proceeding to enforce this Stipulation.

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

The Parties agree that, upon final Commission approval of this Stipulation, either without modification or with their consent, the Company will make a filing with the Commission, on not less than one day's notice prior to the effective date ordered by the Commission. The filing will cite the order approving the Stipulation, either without modification or with the Parties' consent, and include the settlement rates, terms and conditions, and the new GRSA provisions set forth in Appendix C of this Stipulation (the "GRSA Provisions"), or modified versions thereof upon consent of the Parties, and the resultant tariff sheets. The Parties agree that the Commission's order should direct the Company to place into effect tariff sheets reflecting the settlement rates, terms and conditions, and the GRSA Provisions, or modified versions thereof upon consent of the Parties. The settlement rates, terms and conditions, and GRSA Provisions, or modified versions thereof upon consent of the Parties, shall then become the final rates, terms and conditions, and GRSA provisions to be effective as provided in Article III hereof and shall not be subject to refund. Such rates, terms and conditions, and GRSA provisions shall not be subject to modification except in accordance with the Public Utilities Law and the Commission's Rules and Regulations thereunder.

V. GENERAL TERMS AND CONDITIONS

The Parties agree that this Stipulation and the settlement rates, terms and conditions, and the GRSA Provisions and other methods contained in the Appendices, have been agreed to by the Parties solely for purposes of settlement and do not constitute a settled practice or otherwise have precedent-setting value in any future proceedings. The Parties shall not be deemed to have approved, accepted, agreed to, or consented to any concept, theory, or principle underlying or supposed to underlie any of the matters provided for in this Stipulation. Notwithstanding the

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

resolution of the issues set forth in this Stipulation, none of the methods or ratemaking principles contained herein 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. Nothing in this Stipulation shall preclude the Company from seeking prospective changes in its natural gas service rates by an appropriate filing with the Commission.

The Parties agree that all pre-filed testimony and exhibits filed in this docket shall be admitted into evidence without cross-examination.

This Stipulation reflects the compromise and settlement of all issues that were raised or that could have been raised in this docket. This Stipulation shall be filed as soon as possible with the Commission for its approval and shall not become effective unless and until the Commission issues a final order approving the Stipulation, either without modification or with the Parties' consent.

Approval by the Commission of this Stipulation, either without modification or with the Parties' consent, shall constitute a determination that the Stipulation, or the modified version of the Stipulation to which the Parties have consented, represents a just, equitable, and reasonable resolution of all 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.

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

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. As part of its support, each Party at the hearing addressing this Stipulation shall present one or more witnesses who will testify to the resolution of the proceeding achieved by this Stipulation being just and reasonable and in the public interest, and to this Stipulation resulting in just and reasonable rates for the utility service provided by the Company in Colorado. Such testimony shall specifically address the substantive provisions of this Stipulation.

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, which together shall constitute the entire Stipulation with respect to the issues addressed by this Stipulation.

For 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

DATED this 1st day of November, 2010.

Respectfully submitted,

SOURCEGAS DISTRIBUTION LLC

By: William N. Cantrell
William N. Cantrell
President and Chief Executive Officer
SourceGas Distribution LLC
370 Van Gordon Street, Suite 4000
Lakewood, CO 80228

Michael Noone
Michael Noone, #24719
General Counsel
Eric W. Nelsen, #40800
Deputy General Counsel – Regulatory Law
SourceGas Distribution LLC
370 Van Gordon Street, Suite 4000
Lakewood, CO 80228
Telephone: (303) 243-3425/3420
Fax: (303) 243-3608

and

Rebecca H. Noecker, #14845
Beatty & Wozniak, P.C.
216 16th Street, Suite 1100
Denver, CO 80202
Telephone: (303) 407-4499
Fax: (303) 407-4494

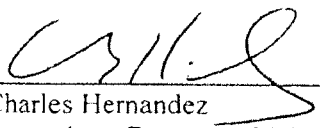
Attorneys for SourceGas Distribution LLC

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

STAFF OF THE COLORADO PUBLIC
UTILITIES COMMISSION

Approved as to form:

By: _____


Charles Hernandez
Supervisor, Energy and Water
Financial Analysis
Colorado Department of
Regulatory Agencies
Public Utilities Commission
1560 Broadway, Suite 250
Denver, CO 80202
Telephone: (303) 894-2535



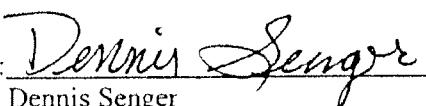
Jean S. Watson-Weidner, #21036
Emanuel Cocian, #36562
Assistant Attorneys General
Office of the Attorney General
Business and Licensing Section
1525 Sherman Street, 5th Floor
Denver, CO 80203
Telephone: (303) 866-5158/5141

Counsel for Staff of the Colorado Public
Utilities Commission

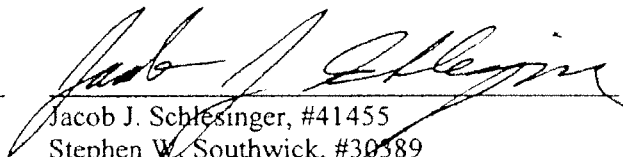
Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

**COLORADO OFFICE OF CONSUMER
COUNSEL**

Approved as to form:

By: 

Dennis Senger
Rate/Financial Analyst
Office of Consumer Counsel
1560 Broadway, Suite 200
Denver, CO 80202



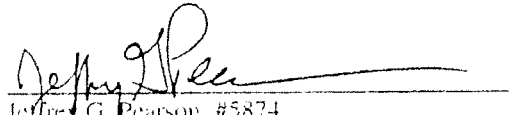
Jacob J. Schlesinger, #41455
Stephen W. Southwick, #30389
Assistant Attorneys General
Office of the Attorney General
1525 Sherman Street, 5th Floor
Denver, CO 80203
Telephone: (303) 866-5441/5869
Fax: (303) 866-5342
Attorneys for the Colorado Office of Consumer
Counsel

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

A M GAS TRANSFER CORP.
BARTON J. LEVIN

By: 

Barton J. Levin
President
A M Gas Transfer Corp.
P.O. Box 7941
Aspen, CO 81612-7941

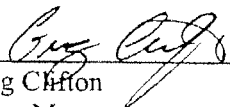


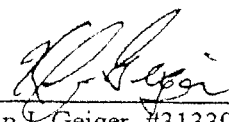
Jeffrey G. Pearson, #5874
Jeffrey G. Pearson, LLC
1570 Emerson Street
Denver, CO 80218
Telephone: (303) 832-5138
Fax: (303) 837-1557
Attorney for A M Gas Transfer Corp.
And Barton J. Levin

Stipulation and Agreement
SourceGas Distribution LLC, Docket No. 10AL-455G
November 1, 2010

TOWN OF TELLURIDE, COLORADO

By: _____


Greg Clifton
Town Manager
Town of Telluride
P.O. Box 397
113 West Columbia Avenue
Telluride, CO 81435


Kevin J. Geiger, #31339
Town Attorney
Town of Telluride
P.O. Box 397
113 West Columbia Avenue
Telluride, CO 81435
Telephone: (970) 728-2153
Fax: (970) 728-3078
Town Attorney for the Town of Telluride

SourceGas Distribution LLC - Colorado for Base Rate Area 1 and 2 Consolidated
Settled Revenue Requirement
For the Adjusted Test Year Ended December 31, 2009

Appendix A
Page 1 of 1

Line No.	Description	Base Rate Area 1	Base Rate Area 2	Total
	(A)	(B)	(C)	(D)
1	Net Jurisdictional Rate Base	\$109,811,971	\$17,287,083	\$127,099,054
2	Return on Rate Base	8.02%	8.02%	8.02%
3	Earnings Required	\$8,808,935	\$1,386,741	\$10,195,677
4	Test Year Net Jurisdictional Operating Earnings	\$7,118,858	\$1,341,442	\$8,460,301
5	Deficiency / (Excess)	\$1,690,077	\$45,299	\$1,735,376
6	Gross Up	1.613150	1.613150	1.613150
7	Revenue Increase / (Decrease) Excluding Whitewater	\$2,726,348	\$73,074	\$2,799,422
8	Whitewater Revenue Addition	\$14,943	\$0	\$14,943
9	Overall Revenue Increase / (Decrease)	\$2,741,291	\$73,074	\$2,814,365

Appendix B

Summary of Effects of Settled Issues on Revenue Requirement Docket No. 10AL-455G

	Total Company Impact to Revenue Requirement	Base Rate Area 1 Impact to Revenue Requirement	Base Rate Area 2 Impact to Revenue Requirement
1 Filed revenue requirement increase	\$6,042,185	\$5,439,270	\$602,915
2 ROE at 10.0% as currently authorized	(2,070,095)	(1,788,530)	(281,565)
3 Allowance for funds used during construction credit / construction work in progress	(50,000)	(40,685)	(9,315)
4 Weather normalized revenue	(277,701)	(235,824)	(41,877)
5 PEACE billing system	(95,601)	(75,764)	(19,837)
6 Cross bore expense	(242,000)	(166,932)	(75,068)
7 Rate case expense	(383,031)	(303,552)	(79,479)
8 Fines and penalties	(5,004)	(3,966)	(1,038)
9 Consumables and advertising	(34,564)	(27,392)	(7,172)
10 Non-labor, non-benefits inflation adjustment	<u>(69,824)</u>	<u>(55,336)</u>	<u>(14,488)</u>
11 Subtotal of Adjustments	(3,227,820)	(2,697,979)	(529,841)
12 Net revenue requirement increase	<u>\$2,814,365</u>	<u>\$2,741,291</u>	<u>\$73,074</u>

**SALES AND DISTRIBUTION TRANSPORTATION SERVICES
GENERAL RATE SCHEDULE ADJUSTMENT
PERCENTAGE SUMMARY TABLE**

Base Rate Area 1:

The charge for gas service calculated under Company's base rate schedules shall be increased by 8.63%.
Said increase shall not apply to charges determined by the Gas Cost Adjustment provision on Sheet No. 37.

Revenue Requirement Increase approved in Docket No. 10AL-455G	8.60%
Rate Case Expense – 12 Months beginning December 2010	<u>0.03%</u>
Total GRSA	8.63%

Base Rate Area 2:

The charge for gas service calculated under Company's base rate schedules shall be increased by 1.01%.
Said increase shall not apply to charges determined by the Gas Cost Adjustment provision on Sheet No. 37.

Revenue Requirement Increase approved in Docket No. 10AL-455G	0.91%
Rate Case Expense – 12 Months beginning December 2010	<u>0.03%</u>
Total GRSA	0.94%

Advice Letter No. 243

William N. Cantrell
Issuing Officer

Issue Date:

Decision or
Authority No.

President and CEO
Title

Effective Date: December 1, 2010

SourceGas Distribution LLC - Base Rate Area 1
Bill Impacts
For the Adjusted Test Year Ended December 31, 2009

Appendix D
Page 1 of 2

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
Line No	Description	Base Rate Area 1							
		Residential Sales	Small Commercial Sales	Large Commercial Sales	Irrigation, Crop Drying or Seasonal Sales	Residential Distribution Transportation	Small Commercial Distribution Transportation	Large Commercial Distribution Transportation	Irrigation, Crop Drying or Seasonal Distribution Transportation
1	<u>1. Average Weather Normalized Monthly Usage - therms</u>	87	135	1,166		2,957		5,989	5,979
2	<u>2. Current Rates</u>								
3	Cost of Gas - \$/therm _/1, _/2	0.5167	0.5167	0.5167	0.5167	0.5167	0.5167	0.5167	0.5167
4	Volumetric Charge - \$/therm	0.2282	0.1869	0.1544	0.0923	0.2282	0.1869	0.1544	0.0923
5	DSMCA Volumetric Rate - \$/therm	0.0048	0.0033	0.0027	0.0016	-	-	-	-
6	Customer Charge - \$/month	11.00	22.00	100.00	180.00	11.00	22.00	100.00	180.00
7	DSMCA Monthly Rate - \$/month	0.23	0.39	1.76	3.17	-	-	-	-
8	Administrative Charge - \$/month	-	-	-	-	175.00	175.00	175.00	175.00
9	<u>3. Current Average Monthly Bill - \$</u>	76.56	117.60	887.53		2,388.99		4,293.90	3,996.31
10	<u>4. Proposed GRSA Rider Percentage</u>	8.63%	8.63%	8.63%	8.63%	8.63%	8.63%	8.63%	8.63%
11	<u>5. Proposed GRSA Rates</u>								
12	Volumetric Charge - \$/therm (Line 4 x Line 10)	0.0197	0.0161	0.0133	0.0080	0.0197	0.0161	0.0133	0.0080
13	Customer Charge - \$/month (Line 6 x Line 10)	0.95	1.90	8.63	15.53	0.95	1.90	8.63	15.53
14	<u>6. Proposed Rates Including GRSA Rates</u>								
15	Cost of Gas - \$/therm	0.5167	0.5167	0.5167	0.5167	0.5167	0.5167	0.5167	0.5167
16	Volumetric Charge - \$/therm	0.2479	0.2030	0.1677	0.1003	0.2479	0.2030	0.1677	0.1003
17	DSMCA Volumetric Rate - \$/therm	0.0048	0.0033	0.0027	0.0016	-	-	-	-
18	Customer Charge - \$/month	11.95	23.90	108.63	195.53	11.95	23.90	108.63	195.53
19	DSMCA Monthly Rate - \$/month	0.23	0.39	1.76	3.17	-	-	-	-
20	Administrative Charge - \$/month	-	-	-	-	175.00	175.00	175.00	175.00
21	<u>7. Proposed Average Monthly Bill - \$</u>	79.22	121.66	911.67		2,448.20		4,382.18	4,059.68
22	<u>8. Proposed Change in Average Monthly Bill - \$</u>	2.67	4.07	24.14		59.21		88.28	63.36
23	<u>9. Proposed Change in Average Monthly Bill - %</u>	3.48%	3.46%	2.72%		2.48%		2.06%	1.59%

Notes:

- _/1 Cost of Gas is the weighted average cost of gas from the November 1, 2010 GCA and included the deferred component
_/2 Cost of Gas is for illustrative purposes only. SourceGas Distribution does not purchase gas for Distribution Transportation customers

SourceGas Distribution LLC - Base Rate Area 2
 Bill Impacts
 For the Adjusted Test Year Ended December 31, 2009

Appendix D
 Page 2 of 2

Line No	[A] Description	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
		Residential Sales	Small Commercial Sales	Large Commercial Sales	Irrigation, Crop Drying or Seasonal Sales	Base Rate Area 2 Residential Distribution Transportation	Small Commercial Distribution Transportation	Large Commercial Distribution Transportation	Irrigation, Crop Drying or Seasonal Distribution Transportation
1	<u>1. Average Weather Normalized Monthly Usage - therms</u>	63	110	1,469	442			16,715	
2	<u>2. Current Rates</u>								
3	Cost of Gas - \$/therm _/1, _/2	0.3900	0.3900	0.3900	0.3900	0.3900	0.3900	0.3900	0.3900
4	Volumetric Charge - \$/therm	0.2070	0.1424	0.1165	0.0702	0.2070	0.1424	0.1165	0.0702
5	DSMCA Volumetric Rate - \$/therm	0.0066	0.0038	0.0031	0.0019	-	-	-	-
6	Customer Charge - \$/month	10.00	20.00	100.00	40.00	10.00	20.00	100.00	40.00
7	DSMCA Monthly Rate - \$/month	0.32	0.54	2.68	1.07	-	-	-	-
8	Administrative Charge - \$/month	-	-	-	-	175.00	175.00	175.00	175.00
9	<u>3. Current Average Monthly Bill - \$</u>	48.41	79.32	851.23	245.52			8,741.26	
10	<u>4. Proposed GRSA Rider Percentage</u>	0.94%	0.94%	0.94%	0.94%	0.94%	0.94%	0.94%	0.94%
11	<u>5. Proposed GRSA Rates</u>								
12	Volumetric Charge - \$/therm (Line 4 x Line 10)	0.0019	0.0013	0.0011	0.0007	0.0019	0.0013	0.0011	0.0007
13	Customer Charge - \$/month (Line 6 x Line 10)	0.09	0.19	0.94	0.38	0.09	0.19	0.94	0.38
14	<u>6. Proposed Rates Including GRSA Rates</u>								
15	Cost of Gas - \$/therm	0.3900	0.3900	0.3900	0.3900	0.3900	0.3900	0.3900	0.3900
16	Volumetric Charge - \$/therm	0.2089	0.1437	0.1176	0.0709	0.2089	0.1437	0.1176	0.0709
17	DSMCA Volumetric Rate - \$/therm	0.0066	0.0038	0.0031	0.0019	-	-	-	-
18	Customer Charge - \$/month	10.09	20.19	100.94	40.38	10.09	20.19	100.94	40.38
19	DSMCA Monthly Rate - \$/month	0.32	0.54	2.68	1.07	-	-	-	-
20	Administrative Charge - \$/month	-	-	-	-	175.00	175.00	175.00	175.00
21	<u>7. Proposed Average Monthly Bill - \$</u>	48.62	79.65	853.78	246.21			8,760.59	
22	<u>8. Proposed Change in Average Monthly Bill - \$</u>	0.21	0.33	2.56	0.69			19.33	
23	<u>9. Proposed Change in Average Monthly Bill - %</u>	0.43%	0.42%	0.30%	0.28%			0.22%	

Notes:

- _/1 Cost of Gas is the weighted average cost of gas from the November 1, 2010 GCA and included the deferred component
 _/2 Cost of Gas is for illustrative purposes only. SourceGas Distribution does not purchase gas for Distribution Transportation customers