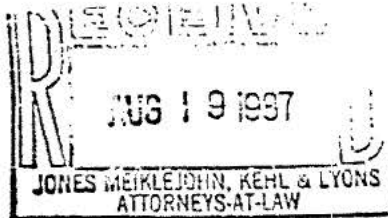


PUBLIC UTILITIES COMMISSION

MAILED

AUG 18 1987



(Decision No. C87-1114)

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

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IN THE MATTER OF THE APPLICATION OF )  
K N ENERGY, INC., AND ITS AFFILIATES )  
ROCKY MOUNTAIN NATURAL GAS COMPANY )  
AND TRANS-COLORADO PIPELINE COMPANY )  
(1) TO TRANSFER ASSETS AMONG )  
THEMSELVES IN A RESTRUCTURING; )  
(2) TO TRANSFER AND DIVIDE )  
CERTIFICATES OF PUBLIC )  
CONVENIENCE AND NECESSITY; )  
(3) TO REDESCRIBE THE CERTIFICATES )  
OF PUBLIC CONVENIENCE AND NECESSITY; )  
(4) FOR APPROVAL OF A PLAN FOR )  
AMORTIZATION OF ACQUISITION )  
ADJUSTMENT; AND (5) FOR )  
APPROVAL OF RESULTING TARIFF )  
PROVISIONS INCLUDING UNCHANGED )  
RETAIL RATES. )

APPLICATION NO. 38482

COMMISSION ORDER  
GRANTING APPLICATION

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August 10, 1987  
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Appearances:

Robert C. McHugh, Esq.  
of K N Energy, Inc.

T. J. Carroll III, Esq.  
of K N Energy, Inc.

Eugenia K. Helm, Esq.  
of K N Energy, Esq.

Alvin J. Meiklejohn, Jr., Esq.  
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For Applicants

S T A T E M E N T

BY THE COMMISSION:

By Application filed June 23, 1987, K N Energy, Inc., and its

wholly-owned subsidiary Rocky Mountain Natural Gas Company ( RMNG Company), and RMNG Company's wholly-owned subsidiary, Trans-Colorado Pipeline Company (Trans-Colorado), (hereinafter referred to collectively as Applicants) requested this Commission to authorize a number of actions. They desire (i) to restructure K N and its affiliates along functional lines, including as necessary, (A) the transfer of assets, liabilities and operations; (B) the transfer of certain certificates of public convenience and necessity (certificates) and the division of other such certificates; (C) the redescription and reissuance of the certificates, (ii) the approval of a plan to amortize an acquisition adjustment; (iii) the approval of the resulting tariff provisions which, as the result of an Amendment to Application discussed below, will result in reductions in the commodity component of the rate end to Western Slope Area consumers in the amount of 28.6 cents per Mcf; and (iv) that these transactions be approved for accounting purposes as of January 1, 1987.

As requested by this Commission, Applicants served copies of the Application on the Office of the Consumer Counsel (OCC). By Notice of Application filed Dated July 2, 1987, we notified all persons, firms, and corporations whom we thought might have an interest in the Application of its pendency before us. Time for intervening or otherwise participating in this proceeding expired on August 4, 1987. No one has intervened and except for an Amendment to Application which has been agreed to by OCC and Applicants, no other pleadings have been filed. As matters stand, the case is agreed and unopposed.

As indicated, copies of the Application were served on OCC. OCC states that it has made an independent analysis of this Application and has conferred on several occasions with representatives of Applicant. As a result of these conferences and negotiations, an Amendment to Application was filed with the Commission. The Amendment has been stipulated and agreed to by OCC. As amended, OCC has no objection to the Commission granting this Application.

In the application, Applicants advised that the working papers underlying the Application were available for inspection and review. Applicants also offered to allow any audit or verification of their books and records which this Commission might deem advisable. Our Staff conducted a limited audit of the books and records of Applicants. Both the Staff of OCC and our Staff accepted the opportunity to review the working papers.

In the Application, Applicants request that this matter be decided without hearing and on the modified procedure. That request was renewed by Applicants' "Motion Under Rule 24 for Modified Procedure and for Waiver of Response Time to this Motion," which was filed August 5, 1987. Both the Application and the Amendment to Application were filed under oath. The Application as amended is complete and accurate. As amended, OCC is satisfied and, in fact, stipulates and agrees to our grant of the authorizations sought. Where these conditions exist, § 40-6-109(5), C.R.S., and Rule 24 of our Rules of Practice and Procedure

contemplate that we may waive formal oral hearing and decide the case on the Application and Amendment to Application, both of which are verified and which taken together give ample, factual disclosure. We do not believe that the public interest otherwise requires a formal oral hearing. The Motion Under Rule 24 for Modified Procedure and for Waiver of Response Time to This Motion is granted.

#### FINDINGS OF FACT

The Commission finds as a fact:

(1) K N and Trans-Colorado are presently utilities to the jurisdiction of this Commission. After the restructuring which is proposed in this Application Rocky Mountain Natural Gas Division of K N Energy, Inc., and RMNG Company will be jurisdictional with the Commission. K N is a Kansas corporation qualified to do business within the State of Colorado. Its Colorado certificate of Authority and its Restated Articles of Incorporation as Amended are on file with the Commission. K N owns or controls 100 percent of the issued and outstanding capital stock of each of the other participants to this restructuring. This ownership is either direct or through other wholly-owned and controlled subsidiaries. RMNG Company is a Colorado corporation. Its Articles of Incorporation have been filed with this Commission. RMNG Company controls Trans-Colorado through stock ownership. Trans-Colorado is a Delaware corporation authorized to do business within the State of Colorado. Its Articles of Incorporation and its Colorado Certificate of Authority are filed with the Commission.

(2) The other K N affiliates which are parties to the restructuring are GASCO, Inc. (GASCO), which is a Colorado corporation; RMNG Gathering Company (RMNG Gathering), which is a Colorado corporation; and TCP Gathering Company (TCP Gathering), which is a Colorado corporation. GASCO, RMNG Gathering and TCP Gathering are not utilities which are subject to the jurisdiction of this Commission, nor will they be after the restructuring. They are parties to the restructuring and will transfer properties to or receive properties from the jurisdictional gas utilities referred to in Finding No. 1. They are all directly or indirectly wholly controlled by K N.

(3) K N performs substantial interstate and intrastate natural gas pipeline and utility service. It holds appropriate certificates of public convenience and necessity issued by the Federal Energy Regulatory Commission (FERC) to transact the business of a natural gas company in the States of Colorado, Kansas, Montana, Nebraska, Oklahoma, Texas, and Wyoming, transporting and distributing natural gas from and within the States of Colorado, Kansas, Nebraska, and Wyoming. It also holds the necessary certificates of convenience and necessity granted by the proper state regulatory authority to transact the business of a natural gas utility within the certain areas in the States of Colorado, Kansas, Wyoming, Nebraska, and Texas.

(4) K N has conducted natural gas utility operations in the northeastern quarter of Colorado since the early 1950's, pursuant to certificates granted to K N by this Commission. K N's northeastern Colorado service area includes certain areas within Logan, Morgan, Sedgewick, Washington, Weld, and Yuma Counties. It sells natural gas at retail in the communities of Akron, Eckley, Fleming, Haxtun, Holyoke, Iliff, Julesburg, Otis, Ovid, Paoli, Wray, and Yuma. K N's northeastern interstate Colorado system is not involved in this restructuring.

(5) K N acquired the utility properties of Rocky Mountain Natural Gas Company, Inc. (Rocky Mountain) through a "takeover" followed promptly by a merger. The takeover and resulting control were approved on March 25, 1986, by this Commission's Decision No. C86-346. K N notified the Commission on May 5, 1986, that it had completed the acquisition so as to allow a merger. Our Decision No. C86-792, dated June 24, 1986, authorized Rocky Mountain to merge into K N. That merger became effective on July 1, 1986, and we so notified on that date.

(6) The properties and natural gas business acquired from Rocky Mountain are now operated as the Rocky Mountain Natural Gas Division of K N Energy, Inc. (RMNG Division). RMNG Division performs natural gas transmission and distribution service pursuant to certificates issued by this Commission. At retail it serves the communities of Aspen, Basalt, Cahone, Carbondale, Cedaredge, Collbran, Delta, Dove creek, Eagle, Eckert, Edwards, Egnar, Glenwood Springs, Gypsum, Hotchkiss, Mesa, Molina, Montrose, Naturita, Nucla, Norwood, Olathe, Orchard City, Paonia, Placerville, Plateau City, Redvale, Snowmass Village, Telluride, and Woody Creek.

(7) The following Table I shows the number of customers served by RMNG Division during the month of January 1987. The number of customers shown for each community includes persons living within the municipal limits and the surrounding areas. Many retail customers are served directly from transmission lines.

TABLE 1

RMNG Division

Number of Customers by Community

January 1987

Walden Rate Area:

Walden	590
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North Central Rate Area:

Wellington	494
Frederick	381
Firestone	418
Dacono	935
Rural	632
Total	2,860

Western Slope Rate Area:

Aspen	3,177
Basalt	407
Carbondale	1,326
Cedaredge	557
Collbran	360
Delta	2,209
Dove Creek	297
Eagle	549
Edwards	419
Glenwood Springs	2,867
Gypsum	463
Hotchkiss	460
Montrose	4,014
Naturita	242
Nucla	260
Norwood	194
Olathe	473
Orchard City	525
Paonia	452
Snowmass Village	717
Telluride	305
Western Slope Total	20,273

TOTAL . . . . .	23,723
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(8) RMNG Division presently produces natural gas, performs gathering and transmission service, and sells natural gas at retail. To perform this service, RMNG Division transports and delivers natural gas through approximately 1,636 miles of underground pipelines. This mileage does not include any of the other K N system. RMNG Division estimates its natural gas reserves either under contract to it or owned by it to be in excess of 41 billion cubic feet. Based on 1986 requirements, this represents an approximate 10-3 years' supply. In addition to the underground pipelines and associated compressors, RMNG Division has the necessary metering and regulating equipment, other general plant, and ten office and warehouse buildings. RMNG Division also has interests in certain natural gas wells.

(9) Attached as Appendix 1 is a list of this Commission's decisions and orders granting RMNG Division certificates of public convenience and necessity (Certificates). To the extent that these Certificates were issued to RMNG Division's predecessor, they were transferred to RMNG Division by Decision No. C86-792, supra.

(10) GASCO and RMNG Gathering develop, produce and gather natural gas. GASCO is the owner and/or operator of a number of natural gas wells in Colorado and it owns all lessee rights to both the remaining reserves and the storage rights in the Wolf Creek Field. RMNG Gathering is a "small producer" subject to the jurisdiction of FERC. RMNG Gathering produces and gathers gas. It also purchases gas transported to it in pipelines of other interstate companies.

(11) By our Decision No. C87-1461, dated October 28, 1986, RMNG Company was authorized to acquire all of the issued and outstanding stock of Trans-Colorado. Study of economizing and of this restructuring commenced immediately. Trans-Colorado operates gathering and transmission service within the State of Colorado. It owns TCP Gathering which gathers gas in Utah, transports it into Colorado and delivers it to Trans-Colorado. Trans-Colorado purchases sour natural gas from various wells in San Juan County, Utah and San Miguel County, Colorado. This gas is processed and made marketable in Trans-Colorado's Slick Rock, Colorado facility. This processed gas, together with gas purchased at the Honaker Trail and Andy's Mesa Fields, is transported northeasterly through Trans-Colorado's 10-inch gas transmission line to the vicinity of Delta, Colorado, where it is purchased by RMNG Division. Trans-Colorado's entire production is dedicated to RMNG Division.

(12) Trans-Colorado's service is performed pursuant to Certificates issued by this Commission. Appendix 2 attached is a list of out decisions and orders granting those Certificates.

(13) The transfers among the K N affiliated companies will place the assets along the following functional lines: (i) existing distribution facilities will remain in RMNG Division; (ii) Western slope system gathering, transmission and storage facilities will be transferred to RMNG Company; (iii) production, liquids recovery and Bear Tooth and

Fawn Creek gathering facilities will be in GASCO; (iv) South Canyon and Bar-X area gathering facilities will remain in RMNG Gathering; and (v) gathering facilities upstream of the Slick Rock processing plant will remain in TCP Gathering.

(14) This new structure will organize the K N western slope system along functional lines. The new organization will be comparable to the remainder of the K N system. The transfers will accomplish substantial corporate and functional simplification.

(15) To effectuate this restructuring the following will be done:

(a) RMNG Division will retain the existing Walden and North Central rate areas, as well as the existing retail distribution facilities at Aspen, Basalt, Cahone, Carbondale, Cedaredge, Collbran, Delta, Dove Creek, Eagle, Eckert, Edwards, Egar, Glenwood Springs, Gypsum, Hotchkiss, Mesa, Molia, Montrose, Naturita, Nucla, Norwood, Olathe, Orchard City, Paonia, Placerville, Plateau City, Redvale, Snowmass Village, Telluride, and Woody Creek. RMNG Division will also retain certain other existing service lines and will continue to perform certain retail service along and from the RMNG Company transmission system. All of the "general plant" will remain in RMNG Division, including personnel housing located at the Slick Rock plant.

(b) RMNG Company will receive from RMNG Division all western slope system gathering and transmission facilities extending from each purchased gas well's Christmas tree to each town border station. RMNG Division surface facilities located at the Wolf Creek storage field and gas inventory will be transferred to RMNG Company. Trans-Colorado will be merged into RMNG Company, thereby transferring the Trans-Colorado pipeline system to RMNG Company. This will include the Slick Rock sweetening plant.

(c) GASCO will receive several assets from RMNG Division. These will include royalty and working interests in 45 wells in western Colorado, including the tangible and intangible costs attributable to them, RMNG Divisions' ten percent interest in the Fawn Creek gathering system in Rio Blanco County, and RMNG Divisions' 50 percent interest in the Piceance and Collbran liquids recovery units. GASCO will receive from RMNG Gathering all of its interests, ranging from 1.5 to 50 percent, in four wells in Mesa County. GASCO will also acquire the Slick Rock liquids recovery unit from Trans-Colorado.

(d) K N will retain its existing facilities in northeastern Colorado. Except for RMNG Gathering's Mesa County wells, RMNG Gathering and TCP Gathering will retain their existing facilities.

(16) RMNG Division requests authorization to transfer all of its Western Slope gathering system and transmission facilities as described in Appendix 3 to RMNG Company. The pipeline facilities to be transferred extend generally from each wellhead receipt point to each town border station delivery point. RMNG Division will also transfer to RMNG Company all of its surface facilities and gas storage inventory located at the Wolf Creek Storage Field.

(17) RMNG Division requests authorization to amend its existing certificates of public and necessity to effectuate the above described facility transfers. RMNG Division will retain its existing certificate authorizations to own and operate its existing distribution facilities and to provide direct retail service and to exercise franchise rights in all towns and areas in which RMNG Division is presently providing service.

(18) RMNG Division will continue to provide retail gas distribution service and exercise franchise rights or certificates in or around the cities and towns described in Findings No. (15)(a).

(19) With the exceptions of Cowdrey and Walden (Walden Rate Area), Wellington, Dacona, Firestone, and Frederick (Northcentral Rate Area), RMNG Company will own and operate all pipeline transmission facilities upstream from the town border stations at each of the above described towns. RMNG Division will own and operate all of the distribution facilities downstream from and including the town border stations.

(20) RMNG Division will retain its ownership, operation, and certificate authorizations with respect to the two isolated pipeline transmission systems in the Walden and North Central Rate Areas, neither of which are physically connected to, or served by, the integrated Western Slope transmission system which will be owned and operated by RMNG Company.

(21) RMNG Division will also retain its existing distribution service line ownership and certificate authorizations with respect to providing certain direct retail service in areas adjacent to the transmission and gathering system facilities of RMNG Company. Those direct sale taps on RMNG Company's transmission and gathering pipeline and laterals through which service is provided to RMNG Division customers will, after the transfers are effectuated, constitute wholesale delivery points from RMNG Company to RMNG Division.

(22) A part of Appendix 1 attached is a list of all existing RMNG Division certificates issued by the Commission which authorize RMNG Division to exercise franchise rights in the above identified towns for the purchase, distribution, and sale of gas in said towns and in the areas adjacent thereto. RMNG Division will retain all of the certificate authorizations identified on Appendix 1 so far as they relate to distribution facilities and service. To the extent that the certificates also authorize certain related transmission and/or gathering facilities



and operations upstream from the town border stations (excepting the Walden and North Central Rate Areas), RMNG Division requests that such transmission and/or gathering certificate authorizations as described in Appendix 3 be separated from RMNG Division's distribution certificate authorizations, and be transferred to RMNG Company. RMNG Division desires to retain certificate authorization to purchase, distribute, and sell gas in the areas adjacent to such transmission and gathering pipelines and laterals which will be owned and operated by RMNG Company.

(23) Another part of Appendix 1 is a list of all existing RMNG Division certificates of public-convenience and necessity authorizing RMNG Division to construct, install, maintain, and operate transmission and gathering systems for the purpose of supplying gas to various towns, cities and areas adjacent to the transmission and gathering pipelines. RMNG Division requests that these transmission and gathering certificate authorizations be transferred to RMNG Company. RMNG Division desires to retain certificate authorization to purchase, distribute and sell gas in the areas adjacent to such transmission and gathering lines which will be owned and operated by RMNG Company.

(24) Trans-Colorado requests authorization to transfer all of its pipeline system and facilities and its Slick Rock sweetening plant to RMNG Company. Trans-Colorado's Slick Rock natural gas processing plant will be transferred to GASCO. Trans-Colorado will be merged into RMNG Company and will thereafter cease to exist as a separate corporate entity. TCP Gathering will become a subsidiary of RMNG Company.

(25) Trans-Colorado requests authorization to transfer the part of the certificate authorizations on Appendix 2 which authorize transmission and/or gathering service to RMNG Company. Trans-Colorado requests the right to transfer the authority to perform certain retail and distribution service along and in the area of the pipeline to RMNG Company and RMNG Division. All direct sales taps on the transmission or gathering lines through which RMNG Division provides retail and distribution service will constitute wholesale delivery points from RMNG Company to RMNG Division.

(26) The pipeline to be transferred from Trans-Colorado to RMNG Company runs northeasterly from Slick Rock to a point of interconnection at Read Junction with a transmission pipeline presently owned by RMNG Division, but which will be owned by RMNG Company following approval of this Application.

(27) RMNG Division requests authorization to transfer to GASCO all of its royalty and working interests in gas wells in western Colorado, including all tangible and intangible costs attributable thereto and its 50 percent interest in the Piceance and Collbran liquids

recovery units. All of the gas production and reserves related to those well, which are presently dedicated to RMNG Division, will be dedicated to RMNG Company following this approval pursuant to Gas Purchase Contract Assignments.

(28) RMNG Division also requests authorization to transfer to GASCO all of RMNG Division's 10 percent interest in the Fawn Creek gathering system located in Rio Blanco County and RMNG Division's 100 percent interest in the Gar Mesa compressor.

(29) With the approval and authorization of the transfers by RMNG Division and Trans-Colorado to RMNG Company as described above, RMNG Company requests the issuance of a certificate authorizing RMNG Company to own and operate the above described facilities being transferred to it by RMNG Division and Trans-Colorado, and authorizing RMNG Company to sell natural gas along and from those facilities in accordance with its proposed tariff attached as Exhibit No. 23 to the Application, as amended.

(30) RMNG Division requests a redescribed certificate of public convenience and necessity authorizing it to perform the service and operate the facilities to be retained or acquired by it as described above and to sell natural gas along and from those facilities and the facilities of RMNG Company in accordance with its proposed tariff attached as Exhibit 21 to the Application, as amended.

(31) Balance sheets and proposed journal entries to give effect to the transaction and statements of retained earnings are attached to the Application. OCC and Applicants conferred and negotiated over certain elements in the statement of income for both RMNG Company and RMNG Division. Basically this concerned the working capital, the treatment of deferred taxes, and the amortization of the acquisition adjustment. All will be discussed more fully below. OCC and Applicants have reached a stipulation and agreement as to how these items and the necessary follow-on adjustments such as revenue requirements and income tax should be treated. The statement of income for these companies, as adjusted in accord with the stipulation and agreement, results in a reduced revenue requirement and a follow-on reduction of 28.6 cents per Mcf in the commodity component of the end rate to Western Slope Area consumers. The adjusted statement of income for RMNG Company is attached as Appendix 4. The adjusted statement of income for RMNG Division is attached as Appendix 5.

(32) K N's acquisition of Rocky Mountain and Trans-Colorado and their subsidiaries has already resulted in substantial public benefits and reduced costs. Some of these benefits can be quantified with dollar values and others cannot.

(a) Quantifiable cost reductions:

(i) K N's acquisition of Rocky Mountain and Trans-Colorado has resulted in annual cost savings (exclusive of gas and debt costs) of \$690,610. Of the overall annual savings of \$690,610, \$269,987 annually is attributable to savings respecting Trans-Colorado's operation and \$420,623 annually is attributable to Rocky Mountain operations.

(ii) This \$690,610 annual saving has been achieved by the elimination or reduction of unnecessary management and administrative personnel shareholder services, data processing functions and other administrative and general activities. Reduced costs have also been achieved in insurance. The following Table II summarizes these cost eliminations and reductions:

TABLE II

<u>Description</u>	<u>RMNG Division</u>	<u>RMNG Company</u>	<u>Total</u>
Elimination of duplicated administrative staff including related taxes and expenses	\$371,025	\$208,148	\$579,173
Employee benefits	(5,846)	5,921	75
Directors fees	99,885	27,155	127,040
Audit fees	69,819	18,981	88,800
Financial advisor fees	23,537	6,413	30,000
Actuarial fees	17,008	4,624	21,632
Shareholder services	78,676	21,389	100,065
Data processing costs	60,339	10,079	70,468
Insurance	10,390	151,717	162,107
Outside services, rents and other	15,873	23,098	38,971
Less: Corporate overhead and data processing allocation from K N	<u>(440,061)</u>	<u>(87,660)</u>	<u>(527,721)</u>
	<u>\$300,745</u>	<u>\$389,865</u>	<u>\$690,610</u>

(iii) This \$690,610 annual savings is exclusive of gas cost reduction occasioned by K N's aggressive "market out" operation and cost-of-money considerations. Both of those will be discussed below.

(iv) K N (RMNG Division and Trans-Colorado) has taken aggressive steps to substantially reduce the cost of gas. It is renegotiating the prices of purchased natural gas with all of its producers and suppliers. This is resulting in materially reduced gas costs.

(v) RMNG Division has obtained agreement for reduced gas prices from all but two suppliers. Formerly RMNG Division was paying \$3.00 per MMBTU, but effective April 1, 1987, it will pay \$2.00 per MMBTU.

(vi) Trans-Colorado is completing the same process. Formerly Trans-Colorado was paying in a range from \$2.25 per MMBTU to \$4.015 per MMBTU. It is completing negotiations for reductions to \$1.50 per MMBTU for sour gas, and \$2.00 per MMBTU for more marketable gas. Trans-Colorado's current market-out reductions became effective July 1, 1987.

(vii) In the western slope system at the present time the annual amount of the first round of "market out" gas cost reductions based on 1986 volumes is approximately \$2,557,000. RMNG Company will continue these efforts. It believes further gas cost savings to be possible.

(viii) The former Rocky Mountain and Trans-Colorado could not have achieved this magnitude of price concessions. While some portion of the gas cost reductions would have been realized by the former Rocky Mountain and Trans-Colorado, the cost savings would have been nothing of the scale achieved as a result of the K N acquisition. K N is much larger, operates over a bigger area, and has a materially stronger and more aggressive bargaining position than the former companies.

(ix) K N will be able to borrow money in the future at a lower cost than the former Rocky Mountain and Trans-Colorado. As of December 31, 1985, Rocky Mountain's and Trans-Colorado composite cost of debt was 12.29 percent, while K N's composite cost of debt was 10.35 percent. The size and economic strength of K N as compared to Rocky Mountain and Trans-Colorado dictates that this is a permanent factor. Immediately after the acquisition of Rocky Mountain, K N called and redeemed all of Rocky Mountain's outstanding debentures. They were too costly and had burdensome requirements. Rocky Mountain had an outstanding balance of \$322,000 of 10 percent convertible debentures due 1993, \$447,000 of 10 percent convertible debentures due 1999, and \$4,483,000 of 15.5 percent non-convertible debentures due 1993. All were called and redeemed. The former Rocky Mountain had difficulty borrowing large sums of money. K N's size and economic soundness assures that capital will be available.

(x) Under Rocky Mountain's and Trans-Colorado's depreciation rates formerly in effect, the combined net utility plant in service at December 31, 1986, would be fully depreciated in 16 years. In this restructuring Application, K N's lower depreciation rates are being requested. Under K N's depreciation rates the combined net utility plant in service would have a longer life and be fully depreciated in 21 years. Rocky Mountain and Trans-Colorado have an approximate 10.3 years' supply of estimated dedicated gas reserves, while the K N interstate pipeline system has nearly an 18-year supply. Table III details the changes in depreciation rates.

TABLE III

Percentage  
Depreciation Rates

	<u>K N</u>	<u>Rocky Mountain and Trans-Colorado</u>
Production & Gathering	4.10	5.00
Storage Facilities	3.60	5.00
Transmission	2.75	5.00
Distribution	2.75	3.00

(b) Unquantifiable Benefits:

(i) K N's size provides both scale opportunities and scale economies. Training and safety programs and supervision have been and will continue to be improved. K N's aggressive gas management program will assure adequate reserves into the future. K N's technical services are now available to the former Rocky Mountain and Trans-Colorado.

(ii) K N has substantial experience in providing natural gas service to small communities and isolated consumers located in a vast land area. Its service areas in northeastern Colorado, western Kansas and Nebraska, Wyoming and Texas clearly demonstrate this. This expertise is of great value in managing the Rocky Mountain properties. K N is able to provide safe, continuous and adequate service to these consumers at reasonable rates. K N has performed service to small communities and isolated consumers for in excess of fifty years. This has been done successfully and has permitted K N to build an organization which is thoroughly experienced in this type of operation.

(iii) The restructuring in this proceeding is to enable K N to further effectuate strong management and supervision over these operations. The remainder of the K N system is organized along the lines proposed here; thus, K N's western slope operations will be consistent with the remainder of the K N system.

(33) The public benefits of the transaction discussed above are summarized as follows:

<u>Description</u>	<u>Amount</u>
Merger savings	\$ 690,610
Change in depreciation rates	324,214
Gas cost reductions	<u>2,557,000</u>
Gross cost savings - annual	\$3,571,824

(34) Appendix 6 attached is a pro forma rate base calculation for both RMNG Division and RMNG Company. This pro forma rate base as of December 31, 1986, reflects certain changes agreed upon between OCC and Applicants as follows:

(a) In the exhibits accompanying the initial Application, Applicants had given effect in the consolidated capitalization to the matter of deferred taxes. OCC suggests, and the Applicants have agreed, to account for deferred taxes by reducing rate base in the amount of the deferred taxes specifically allocable to RMNG Division and RMNG Company. As of December 31, 1986, the amount of the deferred taxes is \$555,953 for RMNG Division, and \$764,731 for RMNG Company.

(b) The working capital allowance is being adjusted to reflect the factors in the "lead-lag" study recently performed by and applicable to the Public Service Company of Colorado.

(35) The acquisition of the two companies, Rocky Mountain and Trans-Colorado resulted in an acquisition adjustment of \$9,231,347.<sup>1</sup> This acquisition adjustment will end up on the books of RMNG Company--the transmission operation. This acquisition adjustment is not to be included in the rate base for ratemaking purposes.

(36) Section (11) of the original Application set forth the plan by Applicants for the amortization of the acquisition adjustment. Approval of the original plan of amortization would have resulted in the projected write-off of the acquisition adjustment for ratemaking purposes in 3.86 years. OCC and Applicants have conferred over the issue of the appropriate period for the write-off of the acquisition adjustment and now agree that the acquisition adjustment should be amortized over an 8-year period for both book and ratemaking purposes. This will result in an annual amortization charge of \$1,153,918, plus the necessary income tax follow-on adjustment. OCC agrees that it is appropriate for the Commission to approve this amended plan for amortization of the acquisition adjustment. The annual amortization charge of \$1,153,918 will remain fixed for eight years; the rates of RMNG Division and RMNG Company shall otherwise be subject to change, however, to reflect changes in all other elements of the cost-of-service in accordance with the Commission's policies and regulations. Furthermore, gas cost adjustment filings will be made to track actual gas costs on a dollar-for-dollar basis in accordance with RMNG Division and RMNG Company tariffs and the Commission's policies.

(37) Applicants agree to use the K N consolidated capitalization in connection with Colorado subsidiary and affiliate capitalization questions. OCC agrees that this is appropriate and consents to the Commission authorizing the tariffs reflecting the reduced revenue requirements occasioned by the above adjustments to become the tariffs of RMNG Company and RMNG Division until changed in accordance with law and this Commission's rules and regulations.

(38) The adjustments contained in the Amendment to Application will reduce the gas service revenue requirements of RMNG Division from \$25,217,670 as shown in the Application to \$23,952,601. The gas service revenue requirements for RMNG Company will change from \$17,291,433 to \$16,158,495. This is reflected on the attached Appendices 4 and 5. The resulting tariffs will be changed to reflect these reduced revenue requirements.

(39) RMNG Company and Division will file tariffs consistent with the pro forma tariff sheets attached as exhibits to the Amendment to Application, which will reduce existing retail end rates for Western Slope Area consumers, by \$0.0286 per Ccf, or \$.286 per Mcf.

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<sup>1</sup> After reduction for \$754,696 of unamortized investment tax credit.

### CONCLUSIONS ON FINDINGS OF FACT

Based on the findings of fact it is concluded that:

1. All of K N, RMNG Division, Trans-Colorado and RMNG Company are, or will be, natural gas utilities or pipeline corporations or both and, as such, are public utilities subject to the jurisdiction of this Commission. The transactions and restructuring requires our prior approval. Both the parties and the subject matter of this Application are subject to the Commission's jurisdiction.

2. The proposed restructuring as outlined above and set forth more fully in the Application is consistent with the public interest and should be authorized. To the extent that certificates are being divided, duplicated or extended, those divisions, duplications and extensions are required by the present and future public convenience and necessity.

3. RMNG Division should be authorized to transfer to RMNG Company those facilities described in Appendix 3 and the related certificates, or portions thereof, listed in Appendix 1. Trans-Colorado should be authorized to transfer the certificates and related facilities itemized on Appendix 2 to RMNG Company. RMNG Company should be authorized to own, operate and maintain the pipeline facilities described in Appendices 2 and 3 and to perform natural gas transmission and distribution service from and along such pipeline facilities.

4. RMNG Division should be authorized to retain those portions of the certificates itemized in Appendix 1, and related facilities, which will authorize RMNG Division to perform natural gas distribution service at all of its presently served cities and towns, areas adjacent to such cities and towns, along the pipeline facilities being transferred to RMNG Company as described in Appendices 2 and 3.

5. The transfer of assets and liabilities as set forth above and as more fully described in the Application is consistent with the public interest and will serve the public convenience and necessity and should be authorized and approved.

6. The plan for amortization of the acquisition adjustment set forth in the Amendment to Application as agreed to between Applicants and OCC is reasonable and should be authorized and approved. This will result in an annual amortization charge for both book and ratemaking purposes of \$1,153,918, plus the necessary income tax follow-on adjustments for a fixed period of eight years.

7. The proposed initial tariffs for RMNG Division and RMNG Company as attached to the Application, as amended by the Amendment to Application, resulting in a reduced commodity component of the end rate to Western Slope Area consumers in the amount of \$0.0286 per Ccf. (28.6 cents Mcf.) from the retail rates presently existing are just and reasonable and have not been shown to be otherwise unlawful, and should be authorized to be filed by RMNG Division and RMNG Company in accord with our Rules and Regulations.



8. The purchase gas adjustment provisions of the proposed tariffs of RMNG Division and RMNG Company, which will track gas cost changes dollar-for-dollar, are just and reasonable and should be authorized.

9. The request of Applicants to make the proposed restructuring effective for accounting purposes as of January 1, 1987, is consistent with the public interest and should be authorized.

10. The Application, as amended should be approved and authorized.

THEREFORE THE COMMISSION ORDERS THAT:

1. The proposed restructuring of K N Energy, Inc., and its affiliates as set forth herein and in the Application as amended is authorized and approved. The transfer of the assets and liabilities of the participating corporations in accord with the restructuring is authorized and approved.

2. Rocky Mountain Natural Gas Division of K N Energy, Inc., is authorized to transfer to Rocky Mountain Natural Gas Company those certificates, or portions thereof, which are described in Appendix 3 and which cover the facilities listed in Appendix 1.

3. Trans-Colorado Pipeline Company is authorized to transfer the certificates itemized on Appendix 2 to Rocky Mountain Natural Gas Company.

4. Rocky Mountain Natural Gas Company is hereby authorized to own, operate and maintain the natural gas pipeline facilities described in Appendices 2 and 3, and to perform natural gas transmission and distribution service from and along such natural gas pipeline facilities, and this Order shall be taken, deemed and held to be A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY THEREFOR.

5. Rocky Mountain Natural Gas Division of K N Energy, Inc., is authorized to retain those portions of the certificates itemized in Appendix 1 which are not being transferred herein, and to perform natural gas distribution service at all of its presently served cities and towns, areas adjacent to such cities and towns, and along the natural gas pipeline facilities described in Appendices 2 and 3; and this Order shall be taken, deemed and held to be A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY THEREFOR.

6. The acquisition adjustment net of investment tax credits shall be amortized by Rocky Mountain Natural Gas Company for both book and ratemaking purposes over a fixed period of eight years as set forth in the Application as amended. The annual amortization charge shall be in the amount of \$1,153,918, plus the necessary income tax follow-on adjustment.

7. Gas cost adjustments will be tracked dollar-for-dollar through the purchased gas adjustment provisions of the proposed tariffs of Rocky Mountain Natural Gas Division of K N Energy, Inc., and Rocky Mountain Natural Gas Company.



8. The restructuring may be made effective for accounting purposes as of January 1, 1987.

9. The proposed initial tariffs for Rocky Mountain Natural Gas Division of K N Energy, Inc. and Rocky Mountain Natural Gas Company, as attached to the Application and as amended by the Amendment to the Application, are approved and authorized to be filed with the Commission as the rates, charges, rules and regulations of those companies pursuant to law and the Rules and Regulations of this Commission.

10. The Application as amended is approved and authorized.

11. The corporations participating in the restructuring shall within 90 days of the effective date of this Decision and Order file with this Commission a report showing the various journal entries used to record the transaction. The report shall be submitted to the Chief of the Fixed Utilities section of this Commission.

12. Rocky Mountain Natural Gas Division of K N Energy, Inc., and Rocky Mountain Natural Gas Company shall operate the utility properties retained or acquired in accordance with law and the Rules and Regulations of this Commission unless prevented by an act of God, the public enemy, extreme conditions, or force majeure events beyond their control.

13. Rocky Mountain Natural Gas Division of K N Energy, Inc., and Rocky Mountain Natural Gas Company shall file annual reports with this Commission for the period from January 1, 1987, through December 31, 1987, and annually thereafter in accord with the Rules and Regulations of this Commission.

14. The restructuring may become effective only when Rocky Mountain Natural Gas Division of K N Energy, Inc., Rocky Mountain Natural Gas Company and Trans-Colorado Pipeline Company in writing have advised the Commission that the restructuring has been consummated and that Rocky Mountain Natural Gas Division of K N Energy, Inc., and Rocky Mountain Natural Gas Company have accepted and in the future will comply with the conditions and requirements of this Order to be by them kept and performed. Failure to file such written acceptance of the terms of this Order within 90 days from the effective date of this Order shall revoke the authority here granted to restructure the corporate entities as above described without further order on the part of the Commission unless the time shall be extended by the Commission upon proper application.

15. Upon the effectiveness of this Order, Rocky Mountain Natural Gas Division of K N Energy, Inc., Rocky Mountain Natural Gas Company and Trans-Colorado Pipeline Company shall file with the proper corporate authorities in the States of Delaware and Colorado all documents necessary to effectuate the restructuring herein authorized and approved. Copies of all documents filed with the corporate authorities of either Delaware or Colorado, and copies of any documents issued to the participating corporations by those authorities shall immediately be filed with the Commission.

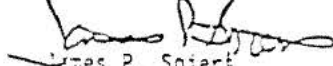
This Order is effective forthwith.

DONE IN OPEN MEETING the 10th day of August 1987.

(S E A L)



ATTEST: A TRUE COPY

  
James P. Spier  
Executive Secretary

THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

ARNOLD H. COOK

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RONALD L. LEHR

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Commissioners

COMMISSIONER ANDRA SCHMIDT ABSENT

jkm:7183A

K N ENERGY, INC.AREA CERTIFICATES & FRANCHISE ORDERS

<u>Town</u>	<u>App. No.</u>	<u>Dec. No.</u>	<u>Dated</u>
<u>Aspen</u> - "area adjacent" and "transmission and distribution"	18469	56857	7/21/61
Franchise renewal	38343	C87-503	4/15/87
<u>Avon</u> - a described area near Avon	35148	C83-1029	6/28/83
<u>Basalt</u> - "area adjacent" "transmission and distribution"	18468	56856	7/21/61
Franchise renewal	38343	C87-503	4/15/87
<u>Carbondale</u> "area adjacent" "transmission and distribution"	18467	56855	7/21/61
Franchise renewal	38343	C87-503	4/15/87
<u>Cedaredge</u> "area contiguous" "transmission and distribution"	17691	54571	6/27/60
Franchise renewal	38343	C87-503	4/15/87
<u>Collbran</u> - "area adjacent"; "transmission and distribution"	17693	54573	6/27/60
Franchise renewal	38343	C87-503	4/15/87
<u>Crawford</u>	38343	C87-503	4/15/87
<u>Delta</u> Original "contiguous" "transmission and distribution"	17683	54566	6/27/60
Franchise renewal	32451	C80-402	3/4/80
<u>Dacono</u>	18584	56884	7/26/61
Franchise renewal	38343	C87-503	4/15/87
<u>Frederick</u>	18584	56884	7/26/61
Franchise renewal	38343	C87-503	4/15/87

TRANSMISSION AND AREA CERTIFICATES

<u>Territory</u>	<u>App. No.</u>	<u>Dec. No.</u>	<u>Dated</u>
Counties of Mesa, Delta & Montrose to specified towns and adjacent to pipeline	17694	54,575	6/27/60
Counties of Mesa, Garfield, Eagle & Pitkin to specified communities and adjacent to pipeline	18471	56,831	7/13/61
Transmission from Big Hole to Piceance Creek to interconnect	26795	83,544	8/17/73
Transmission from Rock School to DeBeque; service along line with a notice requirement to Western Slope Gas	32437	R80-1167	6/12/80

<u>Town</u>	<u>App. No.</u>	<u>Dec. No.</u>	<u>Dated</u>
<u>Firestone</u>	18584	56884	7/26/61
"area adjacent"			
"transmission and distribution" from Erie			
Franchise renewal	38343	C87-503	4/15/87
<u>Dove Creek</u>	16557	51262	11/14/58
"area contiguous"			
Franchise renewal	38343	C87-503	4/15/87
<u>Glenwood Springs</u>	18470	56858	7/21/61
"area adjacent"			
"transmission and distribution"			
Franchise renewal	38343	C87-503	4/15/87
<u>Gypsum</u>	22433	69171	3/15/67
<u>Eagle</u>	22433	69171	3/15/67
"areas adjacent"			
"transmission and distribution"; trans- mission from Catherine's Store to Gypsum & Eagle & customers along line			
<u>Hotchkiss</u>	21997	67556	6/15/66
"areas adjacent"			
"transmission and distribution"; trans- mission from Austin to Hotchkiss and areas adjacent			
<u>Montrose</u>	17689	54569	6/27/60
City - "area adjacent"			
"transmission and distribution"; "area contiguous"			
Franchise renewal	32450	C80-403	3/4/80
<u>Naturita</u>	34327	C82-20	1/5/82
<u>Norwood</u>	35416	C83-577	4/12/83

<u>Town</u>	<u>App. No.</u>	<u>Dec. No.</u>	<u>Dated</u>
<u>Nucla</u>	34326	C81-2149	12/29/81
<u>Olathe</u>	17692	54572	6/27/60
"area adjacent"			
"transmission and distribution"			
Franchise renewal	38343	C87-503	4/15/87
<u>Orchard City</u>	17690	54570	6/27/60
"area contiguous"			
"transmission and distribution"			
Franchise renewal	38343	C87-503	4/15/87
<u>Paonia</u>	23753	73390	7/23/89
"adjacent areas";		73313	6/30/89
transmission line			
Hotchkiss to Paonia			
<u>Snowmass Village</u>	31101	C78-1232	9/19/78
<u>Walden</u> - "area	15593	48347	10/7/57
contiguous"; "trans-			
mission and distribution"			
Franchise renewal	38343	C87-503	4/15/87
<u>Telluride</u>	35571	C88-365	6/14/83
Propane and franchise	37673	C86-392	7/15/86
transmission line			
Redvale to Telluride			
<u>Wellington</u>	12934	42314	6/16/54
"environs and			
fringe area"			
Franchise renewal	32174	C79-1929	12/11/79

TRANS-COLORADO PIPELINE COMPANYTRANSMISSION AND AREA CERTIFICATES

<u>Territory</u>	<u>App. No.</u>	<u>Dec. No.</u>	<u>Dated</u>
Andy's Mesa to Delta	23236	71576	7/11/68
(no service along line—	24615	76391	12/2/70
but see App. 24831	24616	76391	12/2/70
below) and transfer.			
 Southeast Lisbon to	 24831	 77344	 4/8/71
Andy's Mesa Pipeline—	27472	86666	9/10/74
retail service along			
line and Andy's Mesa			
Pipeline and transfer.			

RMNG Division Facilities Being  
Transferred to  
Rocky Mountain Natural Gas Company

(1) The pipeline running generally from Collbran northeasterly to Carbondale, and all laterals connected thereto, including the major laterals extending to Glenwood Springs, the Wolf Creek Storage field, the Buzzard Creek field, and the Vega unit.

(2) The pipeline running generally from Carbondale northeasterly to a termination point east of Avon, and all laterals connected thereto.

(3) The pipeline running generally from Carbondale southeasterly to a termination point at Aspen, and all laterals connected thereto, including the major lateral to Snowmass Village.

(4) The pipeline running generally from Collbran south to a termination point at Montrose, and all laterals connected thereto, including the major laterals from Read Junction west to Delta and from Read Junction east to Hotchkiss and Paonia.

(5) The lateral running southeasterly from a point near Redvale to a termination point at Norwood, and all laterals connected thereto.

(6) The lateral running southeasterly from Section 25, T46N, R14W, Montrose County to Telluride, and all laterals connected thereto.

(7) The pipeline beginning at a point of interconnection with Northwest Pipeline Company in Section 15, T46N, R16W, Montrose, and running a) northeasterly to Nucla, and b) southeasterly to Naturita, and all laterals connected thereto.

(8) The pipeline running generally from Collbran east toward Shire Gulch and then North to the Big Hole field, and all laterals connected thereto, including the major laterals into the Plateau Creek field and towns of Mesa and Molina, to the Shire Gulch and Robert Canyon fields, to the Black Sulphur and Fawn Creek fields, and to the Lay Creek and Blue Gravel fields.



## APPENDIX 4

## ROCKY MOUNTAIN NATURAL GAS COMPANY

## Statement of Income

Year Ended December 31, 1986

	Per Books at 12/31/86 \$	Transfer from RMNG Division \$	Transfer from Trans- Colorado \$	AFUDC & Weather Norm. \$	Salary Incr. & FICA Taxes \$	Annual- ization \$	Deprec. & Merger Savings \$	Eliminations & Sale of Gas to Div. \$	Market-Outs and Amort. of Acq. Adj. \$	Int. & Income Taxes \$	Pro Forma \$
<b>OPERATING REVENUES:</b>											
Gas Sales - Residential	-	-	-	-	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-	-	-	-	-
Industrial	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	277,746	-	-	-	-	( 277,746)	-	-	-
Affiliates	-	-	6,645,585	-	-	-	-	9,512,910	-	-	16,158,495
	-	-	6,923,331	-	-	-	-	9,235,164	-	-	16,158,495
Other Revenues -	-	-	-	-	-	-	-	-	-	-	-
Misc. Service Revenues	-	-	-	-	-	-	-	-	-	-	-
Transportation Revenues	-	403,114	-	-	-	-	-	-	-	-	403,114
Liquid Products	-	-	-	-	-	-	-	-	-	-	-
Capitalized Interest	-	-	-	47,725	-	-	-	-	-	-	47,725
	-	403,114	6,923,331	47,725	-	-	-	9,235,164	-	-	16,609,334
<b>OPERATING EXPENSES:</b>											
Gas Purchases - Other	-	5,873,774	5,780,830	387,956	-	-	-	( 184,454)	(2,556,858)	-	9,301,248
- Affiliates	-	6,645,585	-	-	-	-	-	(6,645,585)	-	-	-
Gathering Costs	-	10,341	205,292	-	-	-	-	-	-	-	215,633
Storage Fees	-	357,466	-	-	-	-	-	-	-	-	357,466
Other Operations	-	918,165	495,946	-	5,169	99,817	(385,018)	-	-	-	1,164,179
Maintenance	-	333,923	80,405	-	1,009	-	-	-	-	-	415,936
Deprec., Deple. & Amort.	-	682,127	225,355	-	-	-	(304,185)	-	1,153,918	-	1,757,215
Taxes, other than Inc. Taxes	-	216,230	56,942	-	715	1,234	( 4,817)	-	-	-	250,304
Fed. & St. Income Taxes	(10,246)	-	43,121	-	-	-	-	-	-	1,344,002	1,376,877
	(10,246)	15,067,911	6,867,891	387,956	7,492	101,081	(691,050)	( 6,830,039)	(1,402,940)	1,344,002	13,839,058
	10,246	(11,661,797)	55,110	(310,211)	(7,492)	(101,081)	691,050	16,065,203	1,102,910	(1,344,002)	1,270,276
<b>OPERATING INCOME</b>											
<b>OTHER INCOME:</b>											
Merchandising and Jobbing	-	-	-	-	-	-	-	-	-	-	-
Interest Income	28	-	166,306	-	-	-	-	-	-	-	166,334
Miscellaneous	( 40)	-	-	-	-	-	-	-	-	( 62,028)	( 62,064)
	( 12)	-	166,306	-	-	-	-	-	-	( 62,028)	104,266
<b>INTEREST EXPENSE:</b>											
Long-Term Debt	-	-	150,160	-	-	-	-	-	-	( 150,160)	-
Other	22,263	( 47,725)	800	47,725	-	-	-	-	-	-	-

**ROCKY MOUNTAIN NATURAL GAS DIVISION OF K N**

Statement of Income  
Year Ended December 31, 1986

APPENDIX 5

	Per Books at 12/31/86 \$	Transfer to GASCO \$	Transfer to RMNG Company \$	AFUDC & Weather Normalization \$	Salary Incr. & FICA Taxes \$	Amort- ization \$	Deprec. & Merger Savings \$	Gas Purchase from Company \$	Int. & Income Taxes \$	Pro. Forma \$
<b>OPERATING REVENUES:</b>										
Gas Sales - Residential	12,452,674			(201,577)						12,251,097
Commercial	11,439,433			151,521						11,590,954
Industrial	203,884			( 96,331)						107,553
Other	-									-
Affiliates	-									-
	<u>21,095,991</u>	<u>-</u>	<u>-</u>	<u>(143,387)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,952,604</u>
Other Revenues -										
Misc. Service Revenues	91,632									91,632
Transportation Revenues	403,114		( 403,114)							-
Liquid Products	57,709	( 57,709)								-
Capitalized Interest	-									-
	<u>21,648,446</u>	<u>( 57,709)</u>	<u>( 403,114)</u>	<u>(143,387)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,044,236</u>
<b>OPERATING EXPENSES:</b>										
Gas Purchases - Other	7,003,592	140,889	(5,873,774)	( 77,264)						1,193,443
- Affiliates	6,645,585		(6,645,585)					16,158,495		16,158,495
Gathering Costs	10,341		( 10,341)							-
Storage Fees	357,466		( 357,466)							-
Other Operations	5,673,940	( 58,140)	( 948,465)		41,009	27,843	(283,028)			4,412,159
Maintenance	694,625		( 333,923)		3,767					364,469
Deprec., Deple. & Amort.	1,097,628	( 50,588)	( 682,127)				( 20,029)			311,954
Taxes, other than Inc. Taxes	549,932		( 216,230)		3,973	4,538	( 17,717)			321,496
Fed. & St. Income Taxes	487,200								( 137,820)	349,380
	<u>22,180,179</u>	<u>32,161</u>	<u>(15,067,911)</u>	<u>( 77,264)</u>	<u>48,749</u>	<u>32,381</u>	<u>(320,774)</u>	<u>16,158,495</u>	<u>( 137,820)</u>	<u>23,148,356</u>
<b>OPERATING INCOME</b>	<u>2,168,067</u>	<u>(89,870)</u>	<u>14,661,797</u>	<u>( 66,126)</u>	<u>(18,719)</u>	<u>(32,381)</u>	<u>320,774</u>	<u>(16,158,495)</u>	<u>137,820</u>	<u>895,637</u>
<b>OTHER INCOME:</b>										
Merchandising and Jobbing	5,984									5,984
Interest Income	226,273									226,273
Miscellaneous	152,251								( 121,540)	30,711
	<u>381,508</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 121,540)</u>	<u>260,968</u>
<b>INTEREST EXPENSE:</b>										
Long-Term Debt	570,921								( 570,921)	-
Other	1,381,015		47,725						(1,063,536)	367,204
	<u>1,951,936</u>	<u>-</u>	<u>47,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,634,457)</u>	<u>367,204</u>
<b>NET INCOME</b>	<u>598,639</u>	<u>(89,870)</u>	<u>14,617,072</u>	<u>( 66,126)</u>	<u>(18,719)</u>	<u>(32,381)</u>	<u>320,774</u>	<u>(16,158,495)</u>	<u>1,650,737</u>	<u>791,671</u>

1/ Includes 58,663 interest on customer deposits

K H ENERGY, INC. SUBSIDIARIES

Pro Forma Rate Base  
December 31, 1986

	<u>RMNG Division</u> <u>DISTRIBUTION</u>				<u>RMNG Company</u> <u>TRANSMISSION - Western Slope</u>			
	\$	\$	\$	\$	\$	\$	\$	\$
	<u>Western Slope</u>	<u>Walden</u>	<u>North Central</u>	<u>Total</u>	<u>From RMNG Division</u>	<u>From Trans-Colorado</u>	<u>Total</u>	<u>Combined</u>
Utility Plant in Service	11,852,552	456,623	1,292,540	13,601,715	18,910,948	4,642,378	23,553,326	37,155,041
Non-Utility Plant	( 93,317)	-	( 7,011)	( 90,318)	-	-	-	( 90,318)
Prepaid Insurance	3,791	146	413	4,350	6,315	95,872	102,187	106,537
Inventory - Propane	21,878	-	-	21,878	-	-	-	21,878
Plant Materials	111,711	4,882	15,991	135,584	95,763	12,046	107,809	243,393
Gas Stored (Note A)	-	-	-	-	3,252,851	-	3,252,851	3,252,851
Customer Advances (Note B)	( 349,957)	( 5,058)	( 14,317)	( 369,332)	-	-	-	( 369,332)
Reserve for D.D.&A.	( 4,798,878)	(252,617)	( 618,956)	( 5,670,351)	( 7,903,606)	(3,389,303)	(11,292,909)	(16,963,260)
Reserve for Deprec. (Non-Utility)	59,537	-	3,260	62,797	-	-	-	62,797
Deferred Taxes	( 475,310)	( 13,899)	( 66,711)	( 555,953)	( 771,566)	6,835	( 764,731)	( 1,320,681)
<b>SUB-TOTAL</b>	<b>6,344,957</b>	<b>190,077</b>	<b>605,306</b>	<b>7,140,340</b>	<b>13,590,705</b>	<b>1,367,828</b>	<b>14,958,533</b>	<b>22,098,873</b>
<b>Cash Working Capital:</b>		<u>Pro Forma Expense</u>	<u>Lag Factor</u>		<u>Pro Forma Expense</u>	<u>Lag Factor</u>		
Gas Purchases		17,351,938	1.75%	303,659	9,301,248	1.75%	162,772	466,431
Operations & Maintenance		4,777,628	7.05%	336,952	2,153,114	7.05%	151,871	488,826
Income Taxes		349,380	-6.36%	( 22,208)	1,376,877	-6.36%	( 87,520)	( 109,728)
Taxes Other than Income		324,496	-37.47%	( 121,600)	250,304	-37.47%	( 93,799)	( 215,398)
<b>RATE BASE</b>				<u>7,637,143</u>			<u>15,091,861</u>	<u>22,729,004</u>

Note A = Average of last 12 months' end inventory

Note B = 5-Year Average

\* Gas Plant Acquisition Adjustment is not included in Rate Base