

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 04L-532G

IN THE MATTER OF THE APPLICATION OF KINDER MORGAN, INC., FOR AN ORDER
AUTHORIZING IT TO EFFECT CERTAIN REVISIONS IN GAS RATES FOR THE
SOUTHERN COLORADO ARKANSAS VALLEY AND SOUTHERN COLORADO
WESTERN SLOPE AREAS UPON LESS THAN STATUTORY NOTICE.

**COMMISSION ORDER AUTHORIZING
REVISIONS OF GAS RATES**

Mailed Date: October 27, 2004
Adopted Date: October 27, 2004

I. BY THE COMMISSION

A. Statement

1. On October 18, 2004, Kinder Morgan, Inc. (Applicant or KMI), filed a verified application. Applicant seeks a Commission order authorizing it, without formal hearing and on less-than-statutory notice, to place into effect on November 1, 2004, tariffs resulting in a change to its existing natural gas rates on file with the Commission.

2. On October 25, 2003, Applicant amended Exhibit No. 5 which also affects Exhibit Nos. 1, 8, and 9.

3. In addition, pursuant to 4 *Code of Colorado Regulations* (CCR) 723-16-3 of the Commission's rules governing the treatment of confidential information, Applicant has filed under seal, material that is highly confidential, proprietary, and market-sensitive. Gas Cost Adjustment (GCA) Exhibit 2, specifically, Schedule 2A – the Southern Colorado Arkansas Valley

Rate Area, and Schedule 2A – the Southern Colorado Western Slope Rate Area are marked “Confidential – Do Not Copy.”

4. The proposed tariffs are attached to the application and affect Applicant's customers in, and in the vicinity of, La Junta, Rocky Ford, Swink, Ordway, Fowler, Manzanola, Las Animas, Crowley, Ft. Lyon, Olney Springs, Sugar City, and Cheraw, Colorado (Southern Colorado Arkansas Valley Rate Area). Also serviced are Pagosa Springs, Fairfield, Bayfield, and Gem Village, Colorado (Southern Colorado Western Slope Rate Area).

5. This application for authority to increase rates is made pursuant to § 40-3-104(2), C.R.S., and Rule 41.5 of the *Commission's Rules of Practice and Procedure*, 4 CCR 723-1.

B. Findings of Fact and Conclusions

6. Applicant is an operating public utility subject to the jurisdiction of this Commission and is engaged in, the purchase, distribution, transportation, and sale of natural gas for domestic, mechanical, or public uses in various certificated areas within the State of Colorado.

7. The majority of Applicant's natural gas requirements are purchased from various suppliers and subsequently transported for delivery to its Southern Colorado Arkansas Valley customers via Colorado Interstate Gas Company (CIG). Pipeline delivery services provided by CIG are regulated by the Federal Energy Regulatory Commission (FERC). Pipeline delivery services for its Southern Colorado Western Slope customers are provided by Public Service Company of Colorado (PSCo). Pipeline delivery services provided by PSCo are regulated by this Commission.

8. Transportation rates of CIG are regulated by the FERC. This Commission has no jurisdiction over the transportation rates of interstate pipeline company CIG and wholesale rates of suppliers, but it expects Applicant to negotiate the lowest prices for supplies of natural gas that are consistent with the provisions of the Natural Gas Policy Act of 1978, 15 U.S.C. §§ 3301-3432 (Public Law 95-621), and applicable federal regulations or determinations made under applicable federal regulations.

9. The Commission's GCA Rules require that KMI revise its GCA for the Southern Colorado Arkansas Valley and Southern Western Slope rates to be effective on October 1 of each year. *See* 4 CCR 723-8-2.2. The Commission granted Applicant a one-time waiver of the GCA filing date in Decision No. C04-1155 (Docket No. 04M-484G) to November 1. The instant filing is intended to comply with that decision.

10. The purpose of the revision of Applicant's gas rates is to reflect a change in the level of natural gas costs charged Applicant based on rates to be in effect November 1, 2004, applied to normalized purchase and sales volumes during the test period, and to adjust for previous over- or under-recovery of purchase gas costs as of June 30, 2004.

11. The effect of the revisions is an annualized increase of \$3,547,072 to Applicant's customers in Colorado. Specifically, the effect of the revisions is an increase of \$2,881,473 to customers in the Arkansas Valley System and an increase of \$665,599 to customers in the Western Slope System.

12. The proposed tariffs, attached as Appendix A, will increase annual revenues by \$3,547,072, which is an increase of 28.48 percent.

13. Applicant anticipates that the adjustment in the GCAs requested will bring future gas cost recovery amounts more closely in line with the predicted future price of gas.

14. Applicant's last authorized rate of return on rate base was 10.60 percent and its last authorized rate of return on equity was 12.30 percent. Without the GCA rate revision to pass on increased gas cost, Applicant's rate of return on rate base would be (25.46) percent and its rate of return on equity would be (62.37) percent. If this increase is approved, Applicant's rate of return on rate base will be 3.89 percent and its rate of return on equity will be 0.30 percent. Although Applicant is not allowed to earn a return on any GCA costs, Applicant has shown good cause for expedited passthrough of increases in GCA costs in light of the significant impact of these costs on its financial integrity.

15. Applicant has Commission approval of a tariff provision that allows KMI the use of certain financial instruments to produce a price range, or collars, around the current market price of gas. These collars effectively limit the amount of price volatility that can be experienced for gas purchases subject to the collar by placing upper and lower bounds on the net price payable for gas using puts and calls. There are no up-front transaction fees associated with the purchases of these costless collars, as the premiums for the sales of puts and the purchases of calls approximately offset one another. Applicant represents that it has implemented in this GCA Application the risk management tools currently available in the marketplace, as authorized in its tariffs, to reduce the potential for gas price volatility during the upcoming heating season. As part of the Gas Purchase Report, Applicant should report the transaction costs and provide price comparisons to index, gains, and losses, and information on volumes each month for which the gas price volatility risk management tools are used.

16. Applicant shall arrange for notice of publication of the proposed rate in conformance with Rule 41(e) of the Commission's Rules of Practice and Procedure, 4 CCR 723-1 within three days after the filing of this application. The filing of this application has been or will be brought to the attention of Applicant's affected customers by publication in the *Arkansas Valley Journal*, *Bent County Democrat*, *Fowler Tribune*, *Rocky Ford Daily Gazette*, *Ordway New Era*, *La Junta Tribune Democrat*, *Pagosa Springs Sun*, and *Durango Herald*, newspapers of circulation in the areas affected.

17. The proposed increase in rates will substantially recover only Applicant's increased cost of gas.

18. Good cause exists for the Commission to allow the proposed increases on less-than-statutory notice.

II. ORDER

A. The Commission Orders That:

1. The application, as amended, filed by Kinder Morgan, Inc. for authority to change tariffs on less-than-statutory notice is granted.

2. Kinder Morgan, Inc. is authorized to file on not less than one day's notice the tariffs attached as Appendix A and made a part of this Order. These tariffs shall be effective for actual gas sales on or after their effective date of November 1, 2004.

3. This Order is effective on its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
October 27, 2004.**

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

Commissioners