

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

Docket No. 02P-306G

IN THE MATTER OF THE GAS PURCHASE REPORT FOR KINDER MORGAN, INC. FOR  
THE GAS PURCHASE YEAR FROM JULY 1, 2002 THROUGH JUNE 30, 2003

**MOTION TO APPROVE STIPULATION AND SETTLEMENT AGREEMENT**

Kinder Morgan, Inc. (KMI) hereby moves the presiding administrative law judge (“ALJ”) for an order approving the attached Stipulation and Settlement Agreement (“Stipulation”) and closing the within docket. As grounds, KMI states:

1. On June 28, 2002, KMI filed its Submittal for Determination of Completeness of Gas Purchase Plan (“GPP”) “In the matter of Gas Purchase Plans and Gas Purchase Reports for Kinder Morgan, Inc. for the gas purchase year from July 1, 2002 through June 30, 2003”. This proceeding was assigned Docket No. 02P-306G. On October 17, 2003, KMI filed its Gas Purchase Report (GPR) as part of this Docket No. 02P-306G. Subsequent to its annual review of KMI’s GPR by the Staff of the Colorado Public Utilities Commission (“Staff”), and in a letter dated January 29, 2004, Staff informed KMI that it still had a concern regarding one remaining issue.

2. On February 11, 2004, in the Commission’s open meeting, Staff recommended that the Commission initiate a focused prudence review proceeding whereby the final outcome would be determined following the resolution of this issue.

3. Only KMI and Staff are parties in this docket. KMI and Staff engaged in numerous meetings and discussion, and KMI presented additional information to Staff. The

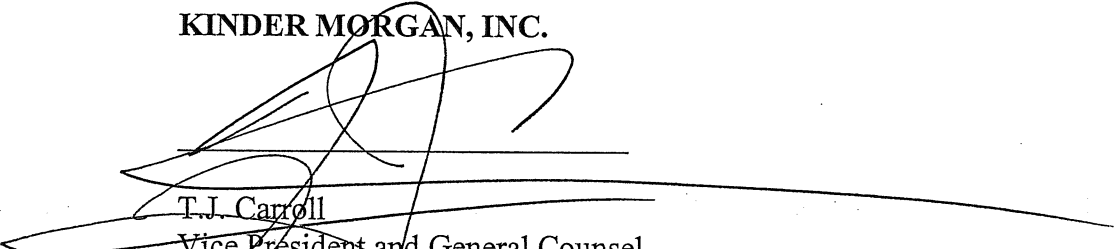
attached Stipulation and Settlement Agreement is the result of those efforts and reflects a resolution of all outstanding issues in this proceeding.

WHEREFORE, KMI respectfully requests that the ALJ enter an order approving the Stipulation and Settlement Agreement and closing the docket.

Dated this 11<sup>th</sup> day of June, 2004.

Respectfully submitted,

**KINDER MORGAN, INC.**



T.J. Carroll  
Vice President and General Counsel  
Kinder Morgan, Inc.  
370 Van Gordon Street  
P.O. Box 281304  
Lakewood, CO 80228  
(T) 303-763-3269  
(F) 303-763-3115  
Email: [tj\\_carroll@kindermorgan.com](mailto:tj_carroll@kindermorgan.com)

CERTIFICATE OF SERVICE

This is to certify that I have duly served the within MOTION TO APPROVE  
STIPULATION AND SETTLEMENT AGREEMENT upon all parties herein by hand  
delivery on this 11<sup>th</sup> day of June, 2004, addressed as follows:

Mr. Bentley W. Breland  
Vice President, Certificate and Rates  
Kinder Morgan, Inc.  
Post Office Box 281304  
Lakewood, Colorado 80228-8304

Ms. Sandra Johnson Jones  
Public Utilities Commission  
1580 Logan Street, OL-1  
Denver, Colorado 80203

Ms. Bridget McGee-Stiles  
Public Utilities Commission  
1580 Logan Street, OL-1  
Denver, Colorado 80203

Gary J. Albate

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

Docket No. 02P-306G

---

IN THE MATTER OF THE GAS PURCHASE REPORT FOR KINDER MORGAN, INC. FOR  
THE GAS PURCHASE YEAR FROM JULY 1, 2002 THROUGH JUNE 30, 2003.

---

### **STIPULATION AND SETTLEMENT AGREEMENT**

---

Kinder Morgan, Inc. (KMI) and the Staff of the Colorado Public Utilities Commission (Staff), hereinafter collectively referred to as the "Parties," enter into this Stipulation and Settlement Agreement (Agreement) and stipulate and agree to all of the terms and conditions set forth herein. The Parties agree and request that the Colorado Public Utilities Commission ("Commission") issue an order adopting and approving the terms and conditions of this Agreement.

### **BACKGROUND**

1. No other parties have intervened in this Docket.
2. On June 28, 2002, KMI filed its Submittal for Determination of Completeness of Gas Purchase Plan ("GPP") "In the matter of Gas Purchase Plans and Gas Purchase Reports for Kinder Morgan, Inc. for the gas purchase year from July 1, 2002 through June 30, 2003". This proceeding was assigned Docket No. 02P-306G. On October 17, 2003, KMI filed its Gas Purchase Report (GPR) as part of this Docket No. 02P-306G.
3. During Staff's annual review of KMI's GPR and beginning on November 6, 2003, Staff conducted substantial discovery with respect to the gas costs described in this proceeding,

- including related contracts, invoices, accounting entries, and the internal company policies, practices, and procedures regarding the gas supply administrative functions.
4. During the months of November 2003 through April 2004, KMI and Staff engaged in numerous meetings and discussion, and KMI presented additional information to Staff.
  5. In a letter dated January 29, 2004, Staff communicated that it still had a concern regarding one remaining issue. As described in this letter, Staff's concern "centered on how KMI can provide assurance to the Commission of the sufficiency of its internal control procedures given KMI's unified accounting system that allows all affiliates direct access to the entire accounting system".
  6. In a letter dated February 6, 2004, KMI informed Staff that it intended to engage Deloitte and Touche ("Deloitte") to perform a review of the accounting processes and controls that are currently in place and to the extent found necessary, provide comments as to any accounting procedures or controls that can be improved. KMI also committed to provide a copy of the report to Staff upon completion.
  7. On February 11, 2004, in the Commission's open meeting, Staff recommended that the Commission initiate a focused prudence review proceeding whereby the final outcome and resolution would be determined at the conclusion of this effort.
  8. On March 12, 2004, a copy of the Retail Gas Purchase Review of Deloitte and Touche LLP dated March 12, 2004 was provided to Staff.
  9. In a letter dated March 22, 2004, Staff communicated that the report did not adequately address all Staff concerns. KMI then directed Deloitte and Touche to address Staff's concerns and to issue a revised report.

10. On April 12, 2004, a copy of the revised and reissued Retail Gas Purchase Review of Deloitte and Touche LLP dated April 12, 2004 was provided to Staff.
11. The following sets forth the Agreement of the Parties with respect to the lone remaining issue raised by Staff.

### **AGREEMENT**

12. Specifically, to address Staff's concerns, KMI agreed with Staff and KMI has established and will continue to maintain a specific invoicing process between Rocky Mountain Natural Gas Company ("Rocky") and KMI. KMI has assigned specific employees that have and will continue to review and approve any invoices prior to the recording of accounting entries for payment of invoices to Rocky. In addition, KMI agreed and has established proper internal controls to assure that no improper access to its accounting systems is afforded to any affiliates. The Parties also agree that the revised and reissued Retail Gas Purchase Review of Deloitte and Touche LLP dated April 12, 2004, attached hereto as Exhibit A, addresses Staff's concerns and resolves the issues raised by Staff. As such, the Parties agree that the focused prudence review proceeding should hereby be closed.

### **GENERAL TERMS AND CONDITIONS OF AGREEMENT**

13. Notwithstanding the resolution of the issue set forth in this Agreement, none of the principles underlying this Agreement 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. This Agreement is entered into by the Parties solely for the purpose of settling the issue in this docket and is applicable only to this docket.

14. The terms and conditions of this Agreement are just and reasonable, in the public interest, and should be approved.
15. The Parties state that reaching agreement as set forth herein by means of a negotiated settlement, rather than by a contested hearing, is in the public interest.
16. In the event that the administrative law judge or Commission modifies any material term of this Agreement, which modification is unacceptable to any Party hereto, that Party shall so notify the other Party within 10 days after the decision becomes effective. In that event, this Agreement shall be considered null and void and of no force and effect in this or any other proceeding. In that event, this Agreement, its terms and conditions, and the negotiations or discussion undertaken in conjunction with this Agreement, shall not be admissible in evidence in this or any other proceeding.
17. The terms and conditions of this Agreement shall become effective on either (1) the date a recommended decision of the presiding administrative law judge approving this Agreement without modification of any material term which is unacceptable to any Party becomes the decision of the Commission by operation of law, or (2) the date a final decision of the Commission approving this Agreement without modification of any material terms which is unacceptable to any Party becomes effective.
18. Approval of this Agreement shall constitute a determination that this Agreement represents a just, equitable and reasonable resolution of all issues, which were or could have been contested by the Parties in this docket.

19. The Parties agree to a waiver of compliance with any Commission rule that may be necessary to permit all provisions of this Agreement to be carried out.
20. This Agreement may be executed in counterparts, each of which, when taken together, shall constitute the entire Agreement with respect to the issues addressed by this Agreement.

This Stipulation and Settlement Agreement is made and entered into this 11th day of June 2004.

**KINDER MORGAN, INC.**

By: Bentley W. Breland

Bentley W. Breland  
Vice President, Certificates and Rates  
Kinder Morgan, Inc.  
370 Van Gordon Street  
P.O. Box 281304  
Lakewood, CO 80228  
(T) (303) 763-3581  
(F) (303) 763-3116  
Email: [ben\\_breland@kindermorgan.com](mailto:ben_breland@kindermorgan.com)

**COMMISSION STAFF**

By: Sandra Johnson Jones

Name: Sandra Johnson Jones  
Title: Rate/Financial Analyst



## **Exhibit A**

# Kinder Morgan

Retail Gas Purchase Review  
April 12, 2004



9120-cir.pmd/4

April 12, 2004

Mr. Ken Glover  
Internal Audit Director  
Kinder Morgan  
One Allen Center  
500 Dallas, Suite 1000  
Houston, TX 77002

Dear Mr. Glover:

We were engaged, as part of our overall internal audit engagement with Kinder Morgan, Inc. (KMI), to specifically address the following issues which were identified by the Staff of the Public Utilities Commission of the State of Colorado (Staff) in letters addressed to KMI from the Staff dated January 13 and January 29, 2004:

- Kinder Morgan, Inc, Western Slope rate area does not receive an invoice from Rocky Mountain Natural Company for gas purchases.
- Kinder Morgan affiliates have direct access to the entire accounting system, specifically; any entity of Kinder Morgan can access the system and record entries on another entity's books.

We received copies of the letters described above and performed the procedures included within this report. The scope of our review was to address those specific issues raised by Staff in their January 13 and January 29, 2004, letters.

Our services were performed during February 2004 in accordance with the terms of the engagement letter dated January 30, 2004, and the applicable Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors.

Our report is organized into two sections. The Executive Summary section of this report provides our conclusion and a summary of our findings. The Detailed Observations section provides an overview of testing performed and provides our observations.

This report is intended solely for the information and use of management and the Board of Directors and should not be used for any other purpose. Kinder Morgan's external auditors and regulators may be provided with a copy of this report in connection with fulfilling their respective responsibilities.

Yours truly,

*Debitte : Touche LLP*

## Table of Contents

Executive Summary .....	4
Conclusion.....	4
Summary of Findings.....	5
Detailed Issues and Observations .....	6
1. Invoice Review and Processing .....	6
2. Volumetric Component of the Retail Billing.....	7
3. Rate Component of the Retail Billing .....	8
Appendix A: Acknowledgements.....	9

## Executive Summary

### Conclusion

To address the issues noted by the PUC, Internal Audit performed a review of the billing computation and invoicing processes for gas purchases by Kinder Morgan, Inc. (KMI or Retail) from Rocky Mountain Natural Gas Company (Rocky).

KMI and Rocky have established internal controls, which include formal invoicing procedures that address the PUC's concern regarding the invoicing process between KMI and Rocky. We obtained a copy of the invoice and the supporting documentation for February 2004.

KMI has enhanced their invoice processing procedures to address the PUC's concern around accounting system access by KMI affiliates. The enhanced procedures include:

- Two KMI employees reviewing the Rocky invoice prior to recording a journal entry in the accounting system. Both Will Meehl (Retail Director of Gas Supply and Shipper Services) and Janet Edwards (Retail Accountant) review the invoice.
- The journal entry for the invoice is now input into the accounting system by Janet Edwards (Retail Accountant). We obtained a system report listing the journal entry for the February 2004 invoice and noted that the transaction was input by Janet Edwards. Prior to this, the invoice amount was calculated, created and input into the KMI accounting system by a Rocky employee. This new process is designed to help ensure proper segregation of duties.
- Management evaluates the appropriateness of all non-routine journal entries. This would include the input of any journal entry by a non-Retail employee. The change in journal entry processing listed above will allow management to identify transactions not performed by KMI employees.

Based upon the results of our testing, it appears that Kinder Morgan has taken the appropriate steps to establish internal controls that address the PUC's concerns.

## **Summary of Findings**

### **Invoice Review and Processing**

To address the PUC's concerns, Retail and Rocky have revised their billing and invoice processing procedures. Since February of 2004, the following procedures have been in place:

- A Rocky Mountain Natural Gas Company invoice is created by Steve Zillinger (Rocky Mountain Natural Gas Accountant). The invoice and supporting documentation is provided to Retail.
- The invoice is reviewed and approved by Will Meehl (Retail Director of Gas Supply and Shipper Services).
- The approved invoice is reviewed and entered into the accounting system by Janet Edwards (Retail Accountant).

Based on the testing performed it appears that the above procedures are being followed.

### **Volumetric Component of Billing**

The volumetric component of the commodity billing is determined by summing the volumes measured at a number of predefined Town Border Stations (TBS) and Transportation meters. Due to the fact that Rocky has some Transportation meters physically located behind the TBS meters on the pipeline, some transportation volumes are subtracted from the TBS volumes. The net volume is used as the volumetric component in the commodity billing.

The invoices for 2002 and 2003 were accurately invoiced based on the meter listing being utilized by the accountant to calculate the billings. However, it was noted that a small number of point identification numbers (PIN) #'s should have been added to the listing for both the TBS and Transportation meters. Based upon management's analysis, the incorrect listing resulted in a total volumetric error for the two year period of less than .45%. Even though management does not consider this amount to be significant, they have revised their processes to address this issue.

### **Rate Component of Billing**

The rate component of the commodity billing is determined annually. Documentation is provided to the PUC to support the proposed rate. The documentation is reviewed and approved by the PUC. The approved rate is noted in the tariff.

Based on the testing performed it appears that the appropriate tariff rate was used in the invoice calculation from January 2003 through December 2003.

## **Detailed Issues and Observations**

### **1. Invoice Review and Processing**

Prior to December 2003, Steve Zillinger, a Rocky employee performed the following tasks: (1) calculated the gas sale amount, (2) booked the sale on Rocky's books and (3) booked the purchase on Retail's books. The function was performed by one individual in order to reduce overhead costs and ensure that the entries were equal in amount and recorded in the same period.

During a periodic review, the PUC questioned the above practice. In response to their comment, Retail revised their billing and payment processes. The process now entails the following steps:

- A Rocky Mountain Natural Gas Company invoice is created by Steve Zillinger (Rocky Mountain Natural Gas - Accountant). The invoice and supporting documentation is provided to Retail.
- The invoice is reviewed and approved by Will Meehl (Retail - Director of Gas Supply and Shipper Services).
- The approved invoice is further reviewed and entered into the accounting system by Janet Edwards (Retail - Accountant).

This process has been in place since February of 2004.

### **Testing Procedures:**

Internal Audit performed the following procedures:

- A. Requested a copy of the February 2004 invoice and supporting documentation.
- B. Requested the system entry records.

### **Testing Results:**

- A. Obtained the February 2004 invoice and supporting documentation.
- B. Obtained the information that documented that Janet Edwards reviewed and entered the approved invoice into the accounting system in February 2004.
- C. Additionally, based on inquiries of management, internal audit learned that management performs routine reviews of journal entries. Management evaluates the appropriateness of any non-routine journal entry. This would include the input of any journal entry by a non-Retail employee.

### **Management Actions:**

None required.

## **2. Volumetric Component of the Retail Billing**

The volumetric component of the commodity billing is determined by summing the volumes measured at a number of predefined Town Border Stations (TBS) and Transportation meters. Due to the fact that Rocky has some Transportation meters physically located behind the TBS meters on the pipeline, some transportation volumes are subtracted from the TBS volumes. The net volume is used as the volumetric component in the commodity billing.

As of February 2004, Steve Zillinger utilizes a report to extract the volume information for the TBS and Transportation meters from the DART ELM measurement database.

### **Testing Procedures:**

Internal Audit performed the following procedures:

- A. Requested a listing of the PIN #'s and volumes for TBS and Transportation meters utilized in the actual billing calculation for the period January 2003 through December 2003.
- B. Compared the extracted volume data to the volume data used to generate the original invoice.

### **Testing Results:**

- A. Obtained the requested volumes for the PIN #'s for both the TBS and Transportation meters.
- B. Compared the monthly extracted volumes for the PIN #'s to the volumes listed on the monthly invoices. The monthly volumes extracted from the measurement system agreed to the volumes listed on the monthly invoices.

However, through our discussions with management, internal audit noted that the process to communicate and update TBS and Transportation meters in the volumetric calculation was not being performed in a timely manner. As a result, a total volumetric error of less than .45% occurred during 2002 and 2003. Even though management does not consider this amount to be significant, they determined that the process required some revisions to help ensure the proper calculation of the volumetric component of the gas purchase billings.

### **Management Actions:**

As of February 2004, Management has revised the process to establish the universe of TBS and Transportation meters that should be used in the billing calculation as discussed above. An automated report has been created to help ensure that all relevant meters and prior period adjustments are included in the required calculation.



### 3. Rate Component of the Retail Billing

The rate component of the commodity billing is determined annually. Documentation is provided to the PUC to support the proposed rate. The documentation is reviewed and approved by the PUC. The approved rate is noted in the tariff.

#### Testing Procedures:

Internal Audit performed the following procedures:

- A. Requested a copy of the tariff rate sheet.
- B. Compared the rate information from the tariff sheet to the rate used to generate the original invoice.
- C. Recalculated the 2003 monthly billings utilizing the tariff rate and compared the recalculated total to the respective monthly invoice.

#### Testing Results:

- A. Obtained a copy of the tariff rate sheet.

Period	11/02 - 10/03	11/03 - 10/04
Commodity Rate	\$4.6737 per MCF	\$6.3821 per MCF
Demand Rate	\$5.8846 per MCF	\$5.8846 per MCF

- B. The rate information used on the invoice agreed to the rated listed in the tariff.
- C. The recalculated commodity and demand charges agreed to the invoice amounts.

#### Management Actions:

None required.

## **Appendix A: Acknowledgements**

### **Kinder Morgan Retail Management**

Ted Robinette, VP – Kinder Morgan Retail  
Will Meehl, Director – Kinder Morgan Retail  
Marilyn West, Manager – Kinder Morgan Retail  
Steve Zillinger, Accountant – Kinder Morgan Retail

### **Internal Audit Team**

Bill Kacal, Deloitte Partner  
William Stockland, Deloitte Director  
Patrick Bourgoyne, Deloitte Manager