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STATE OF COLORADO
PUBLIC UTILITIES COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF COLORADO

2007 JAN 16 PM 2: 10

IN THE MATTER OF THE VERIFIED JOINT)
APPLICATION OF KINDER MORGAN, INC.,)
ROCKY MOUNTAIN NATURAL GAS COMPANY,)
KN WATTENBERG TRANSMISSION L.L.C.,)
SOURCE GAS DISTRIBUTION, LLC)
KM RETAIL UTILITY HOLDCO, LLC, KNIGHT)
HOLDCO LLC, AND KNIGHT ACQUISITION CO.)
FOR APPROVAL OF A MANAGEMENT LED)
BUY-OUT TRANSACTION TO TAKE KINDER)
MORGAN, INC. PRIVATE AND APPROVAL OF AN)
INTERNAL RESTRUCTURING OF KINDER)
MORGAN'S PUBLIC UTILITY BUSINESSES)

DOCKET NO. 06A-538G

STIPULATION

This Stipulation ("Stipulation") is entered into by and among, Kinder Morgan, Inc. ("KMI"), Rocky Mountain Natural Gas Company ("Rocky Mountain"), K N Wattenberg Transmission LLC ("K N Wattenberg"), Source Gas Distribution LLC ("SGD"), (Rocky Mountain, K N Wattenberg, and SGD for purposes of this Stipulation are hereinafter jointly referred to as "the Colorado Utilities"), KM Retail Utility Holdco LLC ("KMRUH"), Knight Holdco LLC ("Knight Holdco"), and Knight Acquisition Co. ("Knight Acquisition"), (collectively referred to as "Joint Applicants"), and Staff of the Public Utilities Commission of Colorado ("Staff"), the Colorado Office of Consumer Counsel ("OCC"), A M Gas Transfer Corp., Seminole Energy Services, LLC, and the Colorado Hotel and Lodging Association, Inc. (all collectively referred to as the "Parties").

I. INTRODUCTION

1. The terms and conditions of this Stipulation are set forth herein. The Parties agree that this Stipulation represents a fair, just, reasonable compromise of the issues raised in

this proceeding, and that this Stipulation is in the public interest. The Parties, therefore, recommend that the Commission approve the Stipulation and all of its terms and conditions.

II. BACKGROUND

2. On October 3, 2006, Kinder Morgan, Inc., Rocky Mountain Natural Gas Company, KN Wattenberg Transmission LLC, KM Retail Utility Holdco, LLC, Source Gas Distribution LLC, Knight Holdco LLC, and Knight Acquisition Co.¹ filed a Verified Joint Application (“Application”) in the above captioned docket requesting an order of the Commission approving a reorganization pursuant to which KMI would become a privately held company pursuant to a Management Buy-Out Transaction, together with an internal corporate restructuring involving the transfer of KMI’s jurisdictional public utility assets and certificate authorities to SGD. Attached hereto as **Appendix A** is a corporate organization chart showing how KMI and the Colorado Utilities will be structured after the restructuring.

3. The purpose of the internal restructuring and transfer of utility assets is to legally separate those utility assets from KMI’s other businesses. The restructuring will facilitate the Commission’s regulation of those utility assets and will provide for customer protections to be put in place which are intended to protect utility assets from any potential affects associated with KMI’s non-utility businesses.

4. The purpose of the Management Buy-Out for Kinder Morgan is to enable its stockholders to immediately realize the value of their investment in Kinder Morgan through their receipt of the per share merger consideration of \$107.50, representing a premium of approximately 27.4 % to the closing price on the last trading day before the public announcement of the transaction. Upon consummation of the Management Buy-Out it is expected that the

¹ Knight Holdco LLC (Knight Holdco) and Knight Acquisition Co. (Knight Acquisition), collectively, are referred to as Knight.

operations of Kinder Morgan will be conducted substantially as they are currently being conducted, except that Kinder Morgan's stock will cease to be publicly traded.

5. Contemporaneously with the filing of the Application, KMI, Rocky Mountain, K N Wattenberg, and KMRUH, together with other entities, have filed a separate application in Docket No. 06A-533G (the "GE Transaction") for authorization and approval of the transfer of public utility assets, facilities and associated properties of KMI including all certificates of public convenience and necessity related thereto, to SGD and, thereafter, authorizing the transfer of ownership and control of SGD, Rocky Mountain, and K N Wattenberg to Source Gas, LLC ("SG") and Source Gas, Inc. ("SGI").

6. The Joint Applicants also seek Commission approval of an internal restructuring of KMI's public utility businesses, as set out in the Application. With the Application, the Joint Applicants filed the direct testimony and exhibits of Daniel E. Watson and of Kimberly A. Dang. This filing commenced this proceeding.

7. On October 11, 2006, the Commission issued a public Notice of Application, which was published and broadcast in various media throughout the state in compliance with applicable legal requirements.

8. By Decision No. C06-1325, the Commission found that it would issue an initial decision and assigned this proceeding to an Administrative Law Judge (ALJ) for hearing.

9. On November 3, 2006, A M Gas Transfer Corp. filed a Petition to Intervene. No party opposed this petition, which was granted at the prehearing conference held on November 28, 2006.

10. On November 3, 2006, the Colorado Hotel and Lodging Association, Inc. filed a Petition for Leave to Intervene. No party opposed this petition, which was granted at the prehearing conference held on November 28, 2006.

11. On November 3, 2006, Seminole Energy Services, LLC filed a Petition for Leave to Intervene. No party opposed this petition, which was granted at the prehearing conference held on November 28, 2006.

12. On November 13, 2006, the Colorado Office of Consumer Counsel (“OCC”) filed an Intervention of Right and Request for Hearing.

13. On November 17, 2006, Staff of the Commission (“Staff”) filed a Notice of Intervention, Notice Pursuant to Rule 1007(a), and Request for Hearing. Staff intervened of right.

14. No other person has sought to intervene in this proceeding.

15. Pursuant to Decision No. R06-1334-I, the ALJ held a prehearing conference in this proceeding on November 28, 2006. All Parties were present, were represented by counsel, and participated in the prehearing conference.

16. At the prehearing conference, the Parties addressed the issue of whether this proceeding should be consolidated with Docket No. 06A-533G. Joint Applicants argued in opposition to such a consolidation, and all Intervenors agreed with Joint Applicants. The ALJ found that the standards set out in Rule 4 *Code of Colorado Regulations* (CCR) 723-1-1402, which governs consolidation, had not been met. Consequently, the ALJ determined that there would be no consolidation of this case with Docket No. 06A-533G.

17. The Parties offered a proposed procedural schedule, to which they all agreed. After review of the proffered schedule, the ALJ accepted the proposal. In doing so, the ALJ

noted that the schedule appears to allow sufficient time for the Commission to issue its initial decision in this proceeding on or before March 8, 2007, which is the expiration of the initial 120-day period for issuance of a Commission decision in this matter. Section 40-6-109.5, C.R.S. The ALJ advised the Joint Applicants that the statute gives the Commission the discretion to extend that time period up to an additional 90 days, although that the Commission will attempt to issue its initial decision within the 120-day period.

18. On January 5, 2007, the Joint Applicants filed a motion to modify the procedural schedule, which was joined or not opposed by all the Parties to this case in which the Joint Applicants advised the ALJ that settlement discussions were ongoing and that the parties had agreed to move the Commission for a change in the date Answer testimony was due, such that the Answer testimony would be due on January 12, 2007, so that the parties could have more time to reach agreement and draft a stipulation and settlement agreement. On January 8, 2007, the ALJ issued Decision R07-0035-I in which the ALJ granted the unopposed motion to change the date for Answer testimony until January 12, 2007. The Parties continued settlement discussions.

19. Representatives of Applicants, Staff, and the OCC met on a number of occasions. Additional information was provided by Applicants to Staff and the OCC in those meetings. Issues were identified and settlement discussions were conducted with a view toward reaching resolution of the Application in this case.

20. Based upon the settlement discussions among the Parties, the Parties agree to the following terms:

III. EXPEDITED APPROVAL REQUEST

21. The MBO Transaction involves over \$22 billion of debt financing and equity investments which substantially affect Joint Applicants and others. In a transaction of this size

and nature time is of the essence and any delays in closure can result in substantial economic and business impacts, and create disruptions and uncertainties. KMI's shareholders approved the MBO Transaction in a special meeting on December 19, 2006. Expedited regulatory approval following shareholder approval is of critical importance to the Joint Applicants and their stakeholders. The Parties to this Stipulation therefore request that the Application be approved forthwith in accordance with the terms and conditions set forth in this Stipulation, and that the Commission enter an expedited final approval order by January 25, 2007, or as soon thereafter as possible.

IV. EFFECTIVE DATE AND TERM OF STIPULATION

22. This Stipulation sets forth the terms and conditions applicable to the proposed reorganization and management buy-out of KMI (the "MBO Transaction") as set forth in the Application in this docket proceeding. A separate application is also pending before the Commission seeking approval to sell KMI's jurisdictional gas utility interests as set forth in Docket No.06A-533G. This Stipulation is intended to address only the terms and conditions of KMI's ownership of the utility business after the MBO Transaction to the extent that business may continue to be indirectly owned and controlled by KMI prior to consummation of the GE Transaction. This Stipulation is designed to fully address the issues peculiar to the MBO Transaction, including increased leverage at the parent company level and an expected downgrade in credit rating. Upon Commission approval and closure of the GE Transaction or any other sale of the Colorado Utilities, the terms and conditions of this Stipulation would have no further force or effect and would be replaced in their entirety by such terms and conditions as may be set forth in the Commission's order approving the GE Transaction or such other sale.

V. INTERNAL REORGANIZATION

23. With respect to KMI's internal reorganization as set forth in the Application, following the receipt of all necessary state regulatory approvals in Colorado, Nebraska, and Wyoming, KMI shall transfer all of its public utility assets subject to the Commission's jurisdiction to SGD at book value.

24. There will be no loss, goodwill, regulatory assets, acquisition premium or acquisition adjustment recorded on the books of KMI or SGD, and none shall be reflected or recovered in rates to customers.

25. KMI intends to effect its internal reorganization by utilizing existing internal resources. The transfer of the assets will require involvement of various KMI departments, including accounting, legal, land & right-of-way, information technology, etc., with some assistance from KMI's outside accounting and legal advisors. To the extent any type or kind of transaction fees and costs have been or are incurred to effect the internal transfer of assets from KMI to SGD by Applicants and related parties and the MBO of KMI, all such costs will be excluded from utility accounts of the Colorado Utilities used in rate making and Commission financial reporting, and shall not be recovered from utility customers now or in the future.

26. Attached hereto as **Appendix B** is a list, by FERC Account, of the utility assets as of December 31, 2005, which are being transferred by KMI to SGD. SGD, Rocky Mountain, and KN Wattenberg will file their respective accounting entries regarding the transactions described in the Application within one hundred and twenty (120) days of the close of those transactions. SGD shall adopt and ratify the accounting books and records of KMI reflecting the book value transfer of KMI's jurisdictional public utility assets to SGD in accordance with generally accepted accounting principals ("GAAPs") and uniform system of accounts ("USOAs").

27. The Colorado Utilities shall not transfer their public utility assets except in the ordinary course of business as permitted by law and regulation without prior Commission approval.

28. SGD will adopt the existing tariffs of KMI. The Colorado Utilities will provide safe, adequate and reliable service in accordance with the terms, conditions and rates currently set forth in those tariffs, and in accordance with any revisions in its tariff as the Commission may authorize and require in the future.

29. Adequate staffing and corporate presence will continue to be maintained in Colorado by the Colorado Utilities, consistent with the provision of safe and reliable service, and cost-effective operations. No changes outside of the ordinary course of business or inconsistent with prudent, safe, and reliable, service and operations will occur as a result of the internal reorganization to transfer the jurisdictional utility assets of KMI to its indirect subsidiary, SGD, or as a result of the MBO Transaction. Applicants represent there shall be no increase in indirect costs to the Colorado Utilities, outside of cost increases in the ordinary course of business, compared to existing corporate overhead cost allocations as a result of the internal reorganization and the MBO Transaction.

30. No later than July 1, 2007, the Colorado Utilities shall provide Staff and the OCC with a report that sets forth the prior annual (calendar year 2006) costs of service, including, but not limited to, utility plant, employee costs and costs related to corporate cost allocation for retail utility operations and such allocations to the Colorado-specific entities, incurred by such entities, when under the control of Kinder Morgan before the MBO. Such report shall be provided as a "baseline" for comparison and informational purposes only by any party relative to any future annual cost of service which may be set forth by the Colorado Utilities regarding corporate cost

allocation for retail utility operations from Kinder Morgan after the MBO. The Colorado Utilities shall bear the burden of proof in any financial reporting or ratemaking proceeding in order to justify the prudence of any changes in its costs of service, as such future costs may be compared to the 2006 baseline costs of service. With respect to corporate cost allocation to the retail operations, the report shall include but not be limited to the functions for Human Resources, Transmission Operations, Information Technology, Financial Management and Services, Procurement/Administration, Legal and Regulatory.

31. No changes outside of the ordinary course of business or inconsistent with prudent, safe, and reliable, service and operations will be made in the operations, administration, shared services, or employee levels regarding the Colorado Utilities in providing gas utility services for a period of two years following Commission approval of the Application without first filing an application for approval of such changes.

32. The Parties do not expect that the jurisdictional utility cost-of-service will be materially affected by the internal reorganization and MBO Transaction. The Colorado Utilities therefore commit that to the extent they file a rate case within two years from the date of the Commission's approval of the Application in accordance with the Commission rules, they will make an affirmative showing in such rate case, and bear the burden of proof in that regard, that their cost-of-service has not been materially affected by the internal restructuring or MBO Transaction proposed in the Application.

33. Rocky Mountain Natural Gas Company agrees that by June 30, 2007, it will make a filing with the Commission for the purpose of addressing access to capacity on the Rocky Mountain system, with a request that it be implemented in time for the 2007-2008 heating season.

VI. KMI AFFILIATE TRANSACTIONS

34. No transactions costs or fees related to the KMI MBO Transaction shall be reflected in the books, records, or tariffs of the Colorado Utilities and none of such costs shall be allocated, assigned, charged, or otherwise recovered in any manner from the Colorado Utilities or their utility customers now or in the future.

35. SGD and Rocky Mountain agree that they shall prepare a Cost Assignment and Allocation Manual consistent with the requirements of Rule 4503 of the Commission's Rules Regulating Natural Gas Utilities and Pipeline Operators and shall submit same to the Commission for review on or before September 30, 2007. To the extent either Source Gas Distribution or Rocky Mountain require a waiver of Rule 4503 in order to allow for such filing to be made on or before September 30, 2007, it shall be their responsibility to shall seek such relief, and the Parties agree that they will not oppose a request for such relief.

36. Any diversified holdings and investments (e.g., non-utility business or foreign utilities) of KMI Affiliates² following approval of the transaction will not be held by SGD or a subsidiary of the Colorado Utilities. This condition will not prohibit KMI Affiliates, other than the Colorado Utilities, from holding diversified businesses.

VII. RING FENCING

37. In order to secure and protect KMRUH and the Colorado utilities, including their customers, from any potential impacts related to their affiliation with KMI Affiliates, the ring-fencing conditions set forth in this Section VII shall be effective at the time of the closing of the MBO Transaction.

² The term "KMI Affiliates" means KMI, all of its direct and indirect subsidiaries, and Knight Holdco.

38. The Colorado Utilities agree to implement and maintain the ring fencing protections as more particularly set forth in **Appendix C** hereto. No amendments, revisions or modifications that would change the substance or meaning of the ring fencing protections will be made to the provisions set forth in **Appendix C** without prior notice to, and authorization of, the Commission.

39. The Colorado Utilities will maintain their own accounting books and records separate from KMI Affiliates. None of the debts incurred in the MBO will accrue to the Colorado Utilities.

40. The Colorado Utilities will maintain separate debt and preferred stock, if any, from KMI, provided that after the Management Buy-Out KMI may contribute equity capital, in which case paid-in capital for the Colorado Utilities would increase, or make loans to the Colorado Utilities, or KMRUH, subject to the terms of this Stipulation and applicable legal requirements. The Colorado Utilities have no plans to issue public debt, but to the extent that they should ever decide to do so, the Colorado Utilities would only issue public debt subject to and upon Commission approval, and would maintain their own credit rating from Moody's and S&P or their successor rating agencies.³ With regard thereto, and subject to preserving the confidentiality of such information, the Colorado Utilities agree to provide Staff and the OCC with access to such relevant information as it may provide to or receive from credit rating agencies relative to their credit rating by such agency.⁴

41. Except as may be otherwise authorized by the Commission, each of the Colorado Utilities agrees that it will not make any dividend payment to the extent the payment of such a

³ KMI's debt rating at the time of filing the Application was BBB.

⁴ The Colorado Utilities acknowledge that to the extent any or all of them intend to issue debt at the utility level, such issuance is subject to the Colorado Public Utilities Law and the Commission's rules promulgated pursuant thereto.

dividend would reduce its stockholder's equity capital below 40% of Total Capital. Total Capital is defined a stockholder's equity and debt.

42. Neither the Colorado Utilities nor their subsidiaries, if any, will, without the prior approval of the Commission, make loans or transfer funds to KMI Affiliates, or assume any obligation or liability as guarantor, endorser, surety or otherwise for KMI Affiliates; provided that this condition will not prevent the Colorado Utilities, to the extent allowed by law, from making loans or transferring funds to a subsidiary of the Colorado Utilities or assuming any obligation or liability on behalf of a subsidiary of the Colorado Utilities; and further provided that this condition will not prevent the Colorado Utilities from making dividend payments, interest payments, or other fund transfers for services rendered, that are in conformance with law and the provisions of this Stipulation, or related to KMRUH's function as the public utility holding company of the Colorado Utilities. KMI Affiliates, except for KMRUH to the extent required to secure loans for the use and benefit of the Colorado Utilities, will not pledge the assets of the business of the Colorado Utilities as collateral for any securities which KMI Affiliates, excluding KMRUH, the Colorado Utilities' or their subsidiaries, if any, may issue.

43. The Colorado Utilities will not advocate for a higher cost of capital as compared to what their cost of capital would have been, using Commission standards, if they were obtaining capital in public markets on a stand alone basis.

44. In the event that the Colorado Utilities obtain a loan from any KMI Affiliate, the Colorado Utilities will, in any subsequent rate proceeding demonstrate that the debt obligation interest, terms, and conditions are comparable to or less than what the Colorado Utilities could have obtained in the market at the time the debt was obtained by the Colorado Utilities, that the loan is on reasonable terms and without markup to KMRUH's (their holding company) cost of

funds, and that the debt procurement will not interfere with any ring-fencing mechanisms that secure the Colorado Utilities.

45. The Colorado Utilities will notify the Commission and obtain any required approvals prior to issuing securities in compliance with applicable laws and regulations.

VIII. ACCESS TO INFORMATION

46. All the Colorado Utilities' and KMRUH's financial books and records will be kept in Lakewood, Colorado. The Colorado Utilities' and KMRUH's financial books and records, and state and federal utility regulatory filings and documents, will continue to be available to the Commission, upon request, in accordance with applicable legal requirements and practices.

47. To the extent a lawful need and right exists to access books of account, records, board minutes, documents, information provided to or by credit rating agencies, and data of the KMI Affiliates, including any joint and common cost allocation, or which pertain to transactions between the Colorado Utilities and KMI Affiliates, or which are otherwise materially relevant to the business of the Colorado Utilities and are expected to materially impact the Colorado Utilities, such access will be provided to the Commission on a confidential basis in accordance with applicable legal and regulatory requirements. A failure by any KMI Affiliate to grant such access would be a basis for potential disallowance of costs for rate making purposes to the extent any information, including information provided in financial reports to the Commission, for which access has been denied was necessary and required to support the existence and prudence of such costs. The KMI Affiliates shall retain any books and records relevant to the business of the Colorado Utilities consistent with the manner and time periods set forth by the Federal

Energy Regulatory Commission's USOA record retention requirements that are applicable to the Colorado Utilities' books and records.

48. The KMI Affiliates will make their employees, officers, directors, and agents available, to testify before the Commission to provide information relevant to matters within the jurisdiction of the Commission.

49. The Commission or its agents may audit the accounting records of KMI Affiliates that are the basis for any cost allocations or assignments of direct or shared costs to the Colorado Utilities, to determine the reasonableness and amount of the costs and allocation factors used to allocate and assign costs to the Colorado Utilities, and the KMI Affiliates shall cooperate fully with such audits. A failure by any KMI Affiliate to fully cooperate and allow such audits would be a basis for potential disallowance of costs for rate making purposes to the extent any information, including information provided in financial reports to the Commission, for which audit review has been denied was necessary and required to support the existence and prudence of such costs.

50. The President of the Colorado Utilities will come before the Commission at least annually to discuss (1) corporate presence status, plans and commitments, and (2) customer service issues. Senior executives of the Colorado Utilities will also arrange to meet at least annually with the Commission's Staff and the OCC to discuss regulatory and customer service issues, including the issues discussed at the meetings between the President of the Colorado Utilities and the Commission.

51. Any confidential information required by this Stipulation to be provided to the OCC, Staff, or the Commission in the future shall be properly designated and marked as "confidential information" by the providing party, and shall be treated accordingly and protected

from disclosure in accordance with the Commission's confidentiality rules as set forth at 4 CCR 723-1100-1102.

IX. FAVORED NATIONS

52. The Applicants agree that the Commission shall have an opportunity and the authority to consider and adopt in Colorado any commitments or conditions to which the Applicants have agreed, or with which the Applicants are required to comply, in Wyoming or Nebraska in the proceedings in such states relating to the Applicants' applications for approval of the internal reorganization and MBO Transaction, even if such commitments and conditions are agreed to or required after the Commission enters its final order in this docket, and after the MBO Transaction has closed.

53. A Commission decision approving this Stipulation and granting the authorizations requested by the Application shall be given effect as a final order authorizing Applicants to proceed with closure of the internal reorganization and MBO Transaction, notwithstanding any subsequent supplemental decision that may be issued by the Commission adding further conditions or commitments pursuant to these favored nations provisions.

54. To facilitate the Commission's consideration and adoption of any commitments and conditions from other jurisdictions, the Parties urge the Commission to issue a final order accepting this Stipulation as soon as possible, and to reserve in such order the explicit right to initiate a separate proceeding on its own motion for the limited purpose of adopting a supplement to this Stipulation to add (without modification of the language hereof, except such non-substantive changes as are necessary to make the commitment or condition applicable to Colorado) commitments and conditions accepted or ordered in Nebraska or Wyoming. To provide input to the Commission to facilitate its decision regarding the desirability or lack of

desirability for any out-of-state commitments and conditions to be adopted in Colorado, the

Parties agree to and recommend the following process:

- (a) Within five calendar days after a stipulation with new or amended commitments is filed by the Applicants with a commission in Wyoming or Nebraska, Applicants will file a copy of the stipulation and commitments with the Commission and serve it upon the Parties.
- (b) Within five calendar days after a commission in Wyoming or Nebraska issues an order that accepts a stipulation to which Applicants are a party, or otherwise imposes new or modified commitments or conditions, that order, together with all commitments and conditions of any type agreed to by Applicants or ordered by the commission in such other state, will be filed with the Commission and served upon the Parties.
- (c) Within ten calendar days after the last such filings (“Final Filing”), the Parties may file with the Commission a response requesting that some or all of the covenants, commitments and conditions from Nebraska or Wyoming (without modification of the language thereof except such non-substantive changes as are necessary to make the commitment or condition applicable to Colorado) should be adopted in Colorado.
- (d) Within five calendar days after any such response filing, Applicants may file a reply with the Commission.
- (e) Not later than the Final Filing, Applicants will disclose to the Parties any written commitments, conditions or covenants made in Nebraska or Wyoming (between the date of the filing of the Stipulation and the receipt of the last state order in the

transaction docket) intended to encourage approval of the transaction or avoidance of an objection thereto.

- (f) KMI and SGD stipulate that, in the event a party files a pleading in this docket for the purpose of adopting any commitment or condition in a stipulation to which KMI and SGD are parties and which was adopted by final order of the regulatory commissions of either Wyoming or Nebraska, neither KMI nor SGD will oppose adoption of the same commitment or condition to the extent it could reasonably be applied in Colorado, so long as such adoption is without material modification of the language thereof.

X. PUBLIC INTEREST

55. Granting the Application subject to the terms and conditions of this Stipulation is not contrary to the public interest and approval of the proposed internal reorganization and MBO Transaction in accordance with the terms and conditions of the Application and this Stipulation is not contrary to the public interest, and the transactions will result in consumer benefits as set forth in the Application and this Stipulation, and as further set forth below in this section.

56. The internal restructuring and transfer of utility assets will, for the first time, effectuate a legal separation of utility assets from Kinder Morgan's other businesses. The public utility natural gas distribution assets of Kinder Morgan have long been held within Kinder Morgan along with other non-utility assets and businesses. The proposed restructuring will legally separate those assets into a company whose only business purpose will be to provide natural gas distribution service as a public utility subject to the jurisdiction of state regulatory commissions. The separation of these assets into their own public utility company will facilitate the Commission's regulation of those utility assets and provide, for the first time, certain "ring

fencing” protections to be put in place with respect to those assets as described in this Stipulation and in attached **Appendix C**.

57. There will be no loss, goodwill, acquisition premium or acquisition adjustment recorded on the books of the Colorado Utilities, and none shall be reflected or recovered in rates to customers.

58. There will be no negative impact on customer service or rates of KMI customers, as SGD will adopt and continue to operate in accord with the existing approved tariffs of KMI.

59. There will be no negative impact on customer service or rates of Rocky Mountain or KN Wattenberg, as they will both continue to operate in accord with their existing tariffs and/or service contracts.

60. The Colorado Utilities will continue to provide safe, reliable, and reasonably priced utility service to its customers. They are fit, willing and able in terms of experience, management, resources, financial strength and otherwise to properly operate the utility properties and to perform the services authorized by Commission CPCN’s.

61. No changes outside of the ordinary course of business or inconsistent with prudent, safe, and reliable, service and operations are planned or expected concerning operations, administration, shared services, personnel or positions as a result of the internal reorganization to transfer the jurisdictional utility assets of KMI to its indirect subsidiary, SGD, or as a result of the MBO Transaction.

62. There will be no increase in costs to the Colorado Utilities, outside of cost increases in the ordinary course of business, compared to existing corporate overhead cost allocations as a result of the internal reorganization and the MBO Transaction.

63. As set forth in this Stipulation and Appendix C, significant ring-fencing provisions will be implemented, including no pledging of utility assets and limitations on dividend payouts so that equity capital does not fall below 40% of Total Capital. There are no such ring-fencing provisions or restrictions in effect currently.

64. The Colorado Utilities will maintain separate books and records and Colorado specific audited financial information will be provided for the first time. Access to the books as records of the Colorado Utilities and the KMI Affiliates will be provided in accordance with the terms of this Stipulation.

65. No transaction costs or fees will be recovered from customers.

66. The Colorado Utilities have agreed they will not advocate for a higher cost of capital as compared to what their cost of capital would have been, using Commission standards, if they were obtaining capital in public markets on a stand alone basis. This commitment does not presently exist.

67. Rocky Mountain Natural Gas Company agrees that by June 30, 2007, it will make a filing with the Commission for the purpose of addressing access to capacity on the Rocky Mountain system, with a request that it be implemented in time for the 2007-2008 heating season.

68. Pursuant to a favored nations provision, the Commission will have an opportunity and the authority to consider and adopt in Colorado any commitments or conditions to which the Applicants have agreed, or with which the Applicants are required to comply, in Wyoming or Nebraska in the proceedings in such states relating to the Applicants' applications for approval of the internal reorganization and MBO Transaction.

XI. GENERAL TERMS

69. The Parties submit this Stipulation to the Commission and request that it be approved in its entirety. Approval of the proposed internal reorganization and MBO Transaction in accordance with the terms and conditions of the Application and this Stipulation is not contrary to the public interest. The Parties shall fully support this Stipulation before the Commission, and no Party shall appeal, seek rehearing, reargument, or reconsideration of any portion of this Stipulation or Order approving the same, provided that the stipulation is adopted in its entirety

70. The Parties agree that this Stipulation represents a compromise of the positions of the Parties in this case. Other than the above referenced positions and any testimony filed in support of the approval of this Stipulation, and except to the extent necessary for a Party to explain before the Commission its own statements and positions with respect to the Stipulation, all negotiations relating to this Stipulation shall not be admissible in evidence in this or any other proceeding regarding this subject matter.

71. The parties understand that each and every provision of this Stipulation is subject to a full and independent review by the Commission in such evidentiary proceedings as it may deem necessary and appropriate in order to hear testimony, receive evidence, cross examine witnesses, and hear arguments and statements of position from all interested parties. This Stipulation shall not become effective unless and until the Commission determines that the Stipulation should be approved. Likewise, the parties hereto reserve the opportunity to consider any changes or modification to this Stipulation which the Commission might make. In the event the Commission does not approve this Stipulation, makes a material change to this Stipulation, imposes an additional material condition or requirement, or if this Stipulation is otherwise disapproved in whole or in material part by any court of competent jurisdiction, then any Party to

this Stipulation adversely affected by such action shall have the right to withdraw from this Stipulation. Prior to such withdrawal each Party shall be entitled, but not obligated, to seek reconsideration and or rehearing of the Commission's order.

72. Upon withdrawal from this Stipulation by a Party in accordance with the terms and conditions stated herein, no Party to this Stipulation shall thereafter be prejudiced by the terms of this Stipulation. Each Party shall be entitled to proceed fully with its participation in the above docket proceedings as if the Stipulation had not been filed, and the terms of Stipulation shall be void and of no further force or effect. In the event of a withdrawal the Parties agree to request that the Stipulation be struck from the record of this case and be given no consideration or evidentiary weight. The withdrawing Party shall notify the Commission and all other Parties in writing of its intent to withdraw, such notice to be given by mail, e-mail or fax, to be received within three business days of the Commission or court decision. The Parties will meet within five business days of the notice of withdrawal for purposes of determining whether an alternative agreement can be reached or whether Commission proceedings in the captioned dockets should go forward as if the Stipulation had never been filed.

73. No Party shall be bound, benefited or prejudiced by any position asserted in the negotiation of this Stipulation, except to the extent expressly stated herein, nor shall this Stipulation be construed as a waiver of the rights of any Party unless such rights are expressly waived herein. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory or principle of regulation or cost recovery. No Party shall be deemed to have agreed that any method, theory or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other proceeding in the future. No findings of fact

or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

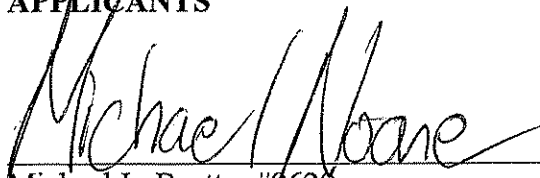
74. Applicants are not requesting in this proceeding a determination of the prudence, just and reasonable character, rate or ratemaking treatment, or public interest of any investments, expenditures or actions referenced in the Commitments, and the Parties in appropriate proceedings may take such positions regarding the prudence, just and reasonable character, rate or ratemaking treatment, or public interest of the investments, expenditures or actions as they deem appropriate.

75. The obligations of the Applicants under this Stipulation are subject to the Commission's approval of the Application in this docket on terms and conditions acceptable to the Applicants, in their sole discretion, and the closing of the transactions described in the Application.

76. This Stipulation shall terminate and be of no further force or effect if and when a Commission authorized transfer or change of control affecting SGD or the public utility assets that are the subject of this Application occurs, and KMI no longer owns or controls SGD or its jurisdictional public utility assets, which would include Commission approval and closing of the pending application and GE Transaction before the Commission in Docket No. 06A-533G.

Made and entered this 16th day of January, 2007.

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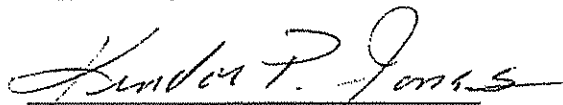
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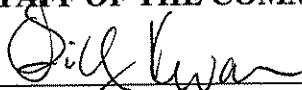
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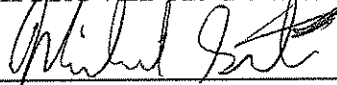
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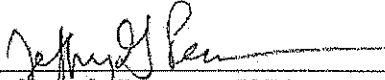
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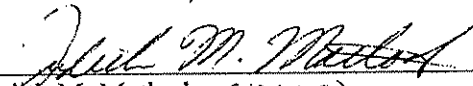
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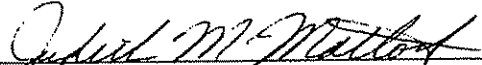
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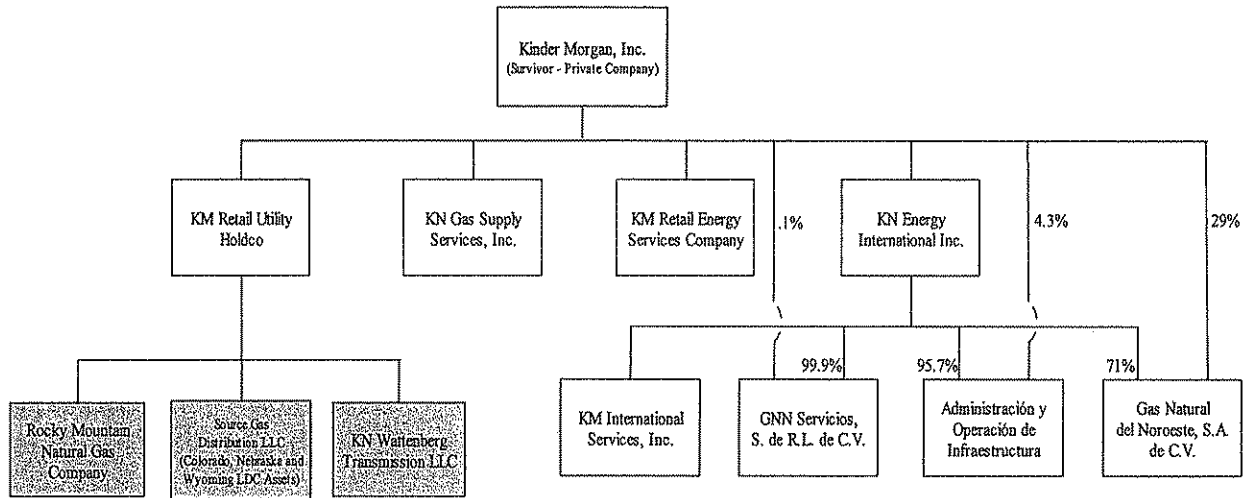
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APPENDIX A



CPUC Regulated Entities 

Appendix 1
Verified Joint App.

APPENDIX B

Formation of Source Gas Distribution LLC
and Transfer of Retail Assets
(Amounts as of December 31, 2005)

FERC Account	Title of Account	Source Gas Dist. LLC Prior to Transfer of Assets	Transfer of KM Retail Assets	"Pro Forma" Balance Sheet
	UTILITY PLANT			
106	Gas Plant in Service		464,265,963	464,265,963
106	Completed Construction - Not Classified		51,493	51,493
107	Construction Work in Progress		15,943,365	15,943,365
108	Accumulated Provision for Depreciation		(206,666,244)	(206,666,244)
111	Accum. Provision for Amort. and Depletion		(558,153)	(558,153)
114	Acquisition Adjustments		454,385	454,385
117.1	Gas Stored - Base Gas		6,945,029	6,945,029
	Total Utility Plant	-	280,485,869	280,405,888
	OTHER PROPERTY AND INVESTMENTS			
121	Nonutility Property		834,091	834,091
122	Accumulated Provision for Depreciation of Nonutility Property		(834,091)	(834,091)
	Total Other Property and Investments	-	-	-
	CURRENT AND ACCRUED ASSETS			
131	Cash		3,451,274	3,451,274
142	Customer Accounts Receivable		25,795,378	25,795,378
143	Other Accounts Receivable		609,425	609,425
144	Accumulated Provision for Uncollectible Accounts - Cr.		(737,092)	(737,092)
146	Accounts Receivable from Associated Companies		-	-
151	Plant Materials and Operating Supplies		2,514,370	2,514,370
155	Merchandise		967,352	967,352
163	Stores Expense Undistributed		172,987	172,987
164	Gas Stored - Current		9,011,075	9,011,075
173	Accrued Utility Revenues		15,945,418	15,945,418
174	Miscellaneous Current and Accrued Assets		35,295	35,295
176	Derivative Instrument Assets - Hedges		7,784,033	7,784,033
	Total Current and Accrued Assets	-	85,548,515	85,548,515
	DEFERRED DEBITS			
162.3	Other Regulatory Assets		856,439	856,439
164	Clearing Accounts		(2,300,769)	(2,300,769)

Appendix G
Verified Joint App.

186	Miscellaneous Deferred Debits	2,663,752	2,663,752
190	Accumulated Deferred Income Taxes	5,381,844	5,381,844
191	Unrecovered Purchased Gas Costs	(4,682,371)	(4,682,371)
	Total Deferred Debits	1,918,875	1,918,875
	Total Assets and Other Debits	347,873,258	347,873,258
PROPRIETARY CAPITAL			
201	Common Stock Issued	-	-
211	Miscellaneous Paid-In Capital	160,958,731	160,958,731
216	Retained Earnings	94,284,985	94,284,985
219	Accumulated Other Comprehensive Income	(2,624,769)	(2,624,769)
	Total Proprietary Capital	252,618,947	252,618,947
NONCURRENT LIABILITIES			
230	Asset Retirement Obligations	128,701	128,701
	Total Noncurrent Liabilities	128,701	128,701
CURRENT AND ACCRUED LIABILITIES			
232	Accounts Payable	26,422,633	26,422,633
235	Customer Deposits	5,037,177	5,037,177
236	Taxes Accrued	10,271,765	10,271,765
237	Interest Accrued	888,324	888,324
241	Tax Collections Payable	1,406,181	1,406,181
242	Miscellaneous Current and Accrued Liabilities	333,345	333,345
245	Derivative Instrument Liabilities - Hedges	11,835,779	11,835,779
	Total Current and Accrued Liabilities	56,195,204	56,195,204
DEFERRED CREDITS			
252	Customer Advances for Construction	5,658,878	5,658,878
253	Other Deferred Credits	624,167	624,167
254	Other Regulatory Liabilities	1,173,531	1,173,531
282	Accumulated Deferred Income Taxes - Other Property	30,792,745	30,792,745
283	Accumulated Deferred Income Taxes - Other	681,085	681,085
	Total Deferred Credits	38,930,406	38,930,406
	Total Liabilities and Other Credits	347,873,258	347,873,258

Formation of KM Retail Utility Holdco LLC
and Transfer of Assets
(Amounts as of December 31, 2005)

FERC Account	Title of Account	KM Retail Utility Holdco LLC Prior to Transfer of Assets	Transfer of Equity Interests From KMI Parent Company to KM Retail Utility Holdco LLC	* Pro Forma Balance Sheet
	INVESTMENTS			
123.1	Investment in Subsidiary Companies - Source Gas Dist LLC		252,618,947	252,618,947
123.1	Investment in Subsidiary Companies - Rocky Mtn Natural Gas Co.		65,812,181	65,812,181
123.1	Investment in Subsidiary Companies - KN Wakenburg Transmission LLC		518,087	518,087
	Total Investments	-	318,947,215	318,947,215
	CURRENT AND ACCRUED ASSETS			
148	Accounts Receivable from Associated Companies	-	-	-
	Total Current and Accrued Assets	-	318,947,215	318,947,215
	Total Assets and Other Debits	-	-	-
	PROPRIETARY CAPITAL			
201	Common Stock Issued	-	318,947,215	318,947,215
211	Miscellaneous Paid-In Capital	-	318,947,215	318,947,215
	Total Proprietary Capital	-	318,947,215	318,947,215
	Total Liabilities and Other Credits	-	-	-

APPENDIX C

RING FENCING PROVISIONS

The following ring fencing provisions shall be applied by Source Gas Distribution LLC, Rocky Mountain Natural Gas Company, and KN Wattenberg Transmission Company L.L.C., unless otherwise approved by the Commission:

- Will maintain separate books and records, system of accounts, financial statements and bank accounts.
- Will keep all financial books and records in the corporate offices. Financial books and records and state and federal utility regulatory filings and documents will continue to be available to the Commission, upon request.
- Will maintain its own accounting system or secured access on a shared system.
- Will conduct its business in its own name and hold all of its assets in its own name.
- Will maintain its own office and telephone line separate and apart from its affiliates, although it may lease or be assigned space from and share a phone line with an affiliate, having either a separate number or extension, and in furtherance thereof allocate fairly and reasonably any overhead for shared office space.
- Will use separate stationary, invoices and checks bearing its own name.
- Except for tax and accounting purposes, will at all times hold itself out to the public as a legal entity separate from any other person or entity and not identify itself as a division of any other person or entity.
- Will file its own tax returns, if any, or be included in corporate consolidated tax return filings, and pay any taxes required to be paid under applicable law..
- Will have a board of directors, the composition of which in sum is unique from that of any other person.
- Will not commingle its assets with the assets of any other person or entity.
- Will pay its own liabilities only out of its own funds.
- Will limit dividend payouts so that equity capital does not fall below 40% of Total Capital.
- Will pay the salaries of its own employees from its own funds.
- Will maintain an arm's length relationship with its affiliates, provided that it may utilize shared corporate services, employees and facilities with KMI Affiliates in compliance with applicable law and subject to affiliate transaction and cost allocation requirements.
- Will maintain adequate capital and an adequate number of employees in light of its contemplated business purposes to the extent required by applicable law.
- Will not hold out its credit as being available to satisfy the obligations of others, except in the case of subsidiary companies.
- Will not pledge its assets for the benefit of any other person or entity.
- Will not grant or permit to exist any lien, encumbrance, claim, security interest, pledge or other right in favor of any person or entity in its assets, other than immaterial liens or encumbrances in the ordinary course of business.

- Will not become or remain liable, directly or contingently, in connection with any indebtedness or other liability of any other person or entity, whether by guarantee, endorsement (other than endorsements of negotiable instruments for deposit or collection in the ordinary course of business), agreement to purchase or repurchase, agreement to supply or advance funds, or otherwise.
- Will not enter into, or be a party to, any transaction with any of its affiliates, except (A) in the ordinary course of business, (B) pursuant to the reasonable requirements and purposes of its business and (C) upon fair and reasonable terms (and, to the extent material, pursuant to written agreements) that are consistent with market terms of any such transactions entered into by unaffiliated parties.
- Will not make amendments, revisions or modifications to the ring-fencing structure, processes, etc. without approval of the Commission.
- Will not engage, directly or indirectly, in any business other than as permitted to be performed under the company's articles of incorporation, by laws or limited liability company operating agreement.