

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

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IN THE MATTER OF THE APPLICATION OF)
COLORADO NATURAL GAS, INC. AND)
EASTERN COLORADO UTILITY CO., FOR AN)
ORDER APPROVING THE TRANSFER OF)
CONTROL AND OWNERSHIP OF EASTERN)
COLORADO UTILITY CO.'S STOCK AND)
ASSETS, FOR CLARIFICATION OF THE)
BOUNDARIES OF EASTERN COLORADO)
UTILITY CO.'S SERVICE TERRITORY AND)
FOR APPROVAL OF A CAPITAL)
EXPENDITURE RIDER)

DOCKET NO. 10A-916G

AMENDED STIPULATION AND SETTLEMENT AGREEMENT

COME NOW Eastern Colorado Utility Co. ("Eastern") and Colorado Natural Gas, Inc. ("CNG") (collectively referred to as "Joint Applicants"), by their attorneys Holland & Hart LLP, the Colorado Office of Consumer Counsel ("OCC"), and Trial Staff of the Colorado Public Utilities Commission ("Staff"), by and through their respective counsel, and submit this Amended Stipulation and Settlement Agreement ("Settlement Agreement") to the Commission in resolution of all issues that have been, or could have been, raised by the Parties to this Settlement Agreement, and in support thereof, state the following:

INTRODUCTION

Eastern is engaged in the distribution and sale of natural gas to the public in the vicinity of Byers, Strasburg, Bennett, Watkins, Deer Trail, Kit Carson, and Sheridan Lake, Colorado. Eastern provides service to approximately 3,800 residential and commercial customers in the

A PORTION OF THIS DOCUMENT HAS BEEN FILED UNDER SEAL

above-referenced areas. Eastern holds appropriate Certificates of Public Convenience and Necessity (“CPCN” or “Certificates”) from the Commission to transact business as a natural gas public utility in the above-referenced service territory.

In the second quarter of 2010, Eastern determined that it would offer all of its Colorado Public Utilities Commission jurisdictional facilities, certificates and related properties for sale. A few preliminary indications of interest for Eastern’s assets were made during the course of the bidding process as well as a non-binding bid. Eastern selected CNG as the purchaser and began the negotiation of a Stock Purchase Agreement (“SPA”) with CNG. This process culminated in the execution of an SPA, a copy of which was filed as Confidential Exhibit No. 5 with the Application, which commenced this docket.

By a Verified Joint Application filed with the Commission on December 7, 2010, Eastern and CNG collectively requested Commission approval of the transfer of ownership and control of all of Eastern’s stock and natural gas public utility assets to CNG through the acquisition transaction described in greater detail in the Joint Application. Joint Applicants also sought an order from the Commission confirming the legal description of the current Eastern service territory identified in its existing Certificates. Finally, the Joint Applicants sought Commission approval of a temporary Capital Expenditure Rider intended to enable CNG to recover capital expenditures which it intends to make after Commission approval of the Verified Joint Application and transfer of Eastern’s stock to CNG until these costs can be included in its base rates through a Phase One rate case currently scheduled to be filed in 2014.

CNG is a natural gas distribution company providing natural gas sales, distribution and transportation services to approximately 14,200 residential and commercial customers in various

service territories throughout Colorado. CNG holds appropriate CPCNs from the Commission to transact business as a natural gas public utility, and by this Joint Application, seeks to add the Eastern service territory to its territories within which it provides distribution and transportation services as a Local Distribution Company (“LDC”).

STATEMENT OF THE CASE

As described above, Eastern and CNG have requested a Commission order approving the transfer of ownership and control of all of Eastern’s stock and natural gas public utility assets to CNG. After the closing of the acquisition transaction by CNG of Eastern, Eastern operations will be merged into CNG and become a new operating division, similar to the other current operating divisions of CNG. The Joint Applicants also seek an order confirming the legal description of Eastern’s current Commission authorized service territory identified in its existing CPCNs. Lastly, Joint Applicants seek approval of a temporary Capital Expenditure Rider by the Commission enabling CNG to recover its anticipated capital expenditures to be made following Commission approval of this Application.

Accompanying the Joint Application filed with the Commission on December 7, 2010, was a Joint Motion for Shortened Notice Period in which Eastern and CNG requested that the Commission shorten the notice period to ten days in order to enable Joint Applicants to expedite the closing of this transaction. By Decision No. C10-1307 mailed December 8, 2010, the Commission shortened the notice period in this docket to December 20, 2010.

Accompanying the Verified Joint Application and Motion for Shortened Notice Period was the pre-filed Direct Testimony of Michael P. Earnest, Michelle A. Moorman, and Timothy R. Johnston on behalf of CNG. Certain exhibits were attached to the CNG testimonies.

Also filed with the Verified Joint Application was the Direct Testimony of Marlene Fields on behalf of Eastern.

On December 15, 2010, Staff filed its Entry of Appearance and Notice pursuant to Rule 1007(a) and Rule 1403(b) and Request for Hearing. On December 17, 2010, OCC filed its Intervention and Request for Hearing. Finally, on December 20, 2010, Public Service Company of Colorado (“PSCo”) filed its Intervention and Request for Hearing in this Docket.

While the interventions of both Staff and OCC raised questions regarding the substantive aspects of the SPA and Capital Expenditure Rider, Public Service’s intervention was limited to the Joint Applicants’ request for clarification of Eastern’s certificated service territory. Public Service asserted that its service territory adjacent to Eastern’s existing service territory was a disputed territory and urged the Commission to hold a hearing for the purpose of determining whether Eastern’s service territory could be clarified as a part of this docket. As described further below, Public Service and the Joint Applicants have resolved Public Services’ issues through an agreement to file subsequent CPCN applications for Public Service and CNG requesting that the commission clarify the service territory boundaries, as more fully discussed in the accompanying Motion for Leave to Restrictively Amend Application and for Waiver of Response Time filed concurrently with this Settlement Agreement.

Following the filing of interventions by Staff and OCC, CNG and Eastern began a series of meetings with Staff and OCC for the purpose of describing in more detail the benefits of the proposed acquisition of Eastern’s stock and Commission jurisdictional assets by CNG. During the course of those discussions, Staff and OCC reached agreement with the Joint Applicants on a settlement of the issues raised by Staff and OCC, which the Parties to this Settlement Agreement

now seek to memorialize herein and offer to the Commission for approval and a grant of the Application filed by Joint Applicants consistent with the terms and conditions and of this Settlement Agreement.

SETTLEMENT AGREEMENT

1. As described above, Eastern and CNG entered into an SPA reflecting the terms and conditions and purchase of Eastern's stock and accompanying utility assets by CNG. That original SPA was filed with the Commission along with the Verified Joint Application as Confidential Exhibit 5. Pursuant to subsequent negotiations between Eastern and CNG, an amendment to the SPA has been executed by the Joint Applicants. Attached hereto as Confidential Settlement Exhibit 1 is a copy of Amendment No. 1 to the SPA governing the terms and conditions now in effect for CNG's acquisition of Eastern's stock and accompanying utility assets. The SPA and Amendment No. 1 to the SPA will control the acquisition of Eastern's stock by CNG and the rights, responsibilities, and obligations of the Joint Applicants going forward, upon Commission approval of this Application.

2. Subsequent to the filing of the Joint Application, Staff and OCC raised certain questions about the calculation of the purchase price for the ECU stock and accompanying utility assets. As a result of negotiations with Staff and OCC, the Joint Applicants engaged in discussions concerning the components of the purchase price to be paid by CNG. The Joint Applicants reached a resolution of this issue by entering into Amendment No. 1 to the SPA referred to in Paragraph No. 1 above. The net effect of the additional negotiations between the Joint Applicants is a transaction amount totaling [REDACTED] comprised of a purchase price of [REDACTED] [REDACTED] for the stock and accompanying utility assets plus [REDACTED] in net working

Colorado State Records

capital. CNG will assume all contractual obligations and liabilities of ECU under the SPA as amended. A copy of Amendment No. 1 to the SPA as well as Eastern's December 31, 2010 balance sheet from which the net working capital figure was determined have been shared with both Staff and OCC, who have reviewed these documents as part of the settlement negotiations process leading to this Settlement Agreement.

3. In addition to purchasing the stock and assets of Eastern, CNG is proposing to make capital expenditures of approximately \$3.85 million over the immediate 24-month time period subsequent to Commission approval of this Settlement Agreement and the closing of the acquisition of Eastern's stock and accompanying assets by CNG. Both Staff and OCC have reviewed CNG's proposed capital expenditures for the purpose of upgrading and refurbishing Eastern's existing facilities and the parties acknowledge the need for such upgrades while reserving the right to review the actual expenditures made by CNG in the improvement of the Eastern division's facilities. Attached hereto as Confidential Settlement Exhibit 2 – Capital Expenditure Estimate and Rate Rider Calculation is an updated Exhibit MAM-1 to the original application which shows the breakout of estimated \$3.85 million costs, the annual usage over which the estimated \$3.85 million costs will be applied, a breakout of costs by project, the temporary Capital Expenditure Rider on a per CCF basis, and a brief explanation of each project. Attached hereto as Settlement Exhibit 3 is the proposed tariff sheet to implement the temporary Capital Expenditure Rider, which would be filed as a compliance tariff on not less than 5-days notice following Commission approval of this Settlement Agreement. Attached as Settlement Exhibit 4 is an updated customer impact study, which shows the change in customer bills as a result of implementing the Capital Expenditure Rider.

4. As part of the capital expenditures proposed by CNG, all retail meters will be upgraded to temperature compensated meters with Encoder/Receiver/Transmission/System (“ERTS”) along with the replacement of certain pipe and other facilities identified during CNG’s due diligence as needing replacement in order to bring the Eastern facilities into compliance with CPUC standards. The proposed improvements are intended to improve public safety and to enhance the reliability of the Eastern system to the benefit of Eastern’s existing, and CNG’s future customers. CNG anticipates that it will take approximately 18 to 24 months for it to complete the anticipated upgrade of Eastern’s facilities, once Commission approval is obtained and the transaction closes.

5. As more fully described in the Application and accompanying testimony of CNG witnesses Johnston and Moorman¹, the proposed temporary Capital Expenditure Rider to be implemented upon its approval by the Commission as part of its grant of this Application will become effective following the filing of the necessary compliance tariffs in which the temporary Capital Expenditure Rider is reflected. CNG agrees to file a report with the Commission identifying its actual expenditures as compared to the projected expenditures which CNG anticipates making during its improvements of Eastern’s physical plant, as soon as such expenditures are complete, but in any case no later than December 31, 2012. CNG also agrees to recalculate and true-up the Capital Expenditure Rider based on the actual expenditures shown in this report, and to file tariff changes to implement this true-up within 30 days of the filing of the report, but in any case no later than December 31, 2012. While CNG’s due diligence and reasonable estimates are that approximately \$3.85 million of capital will be required to upgrade Eastern’s existing facilities as described above, CNG intends to spend only the amounts

¹ As part of this Settlement Agreement, the Parties stipulate to the admission of the Direct Testimony and Exhibits of Eastern and CNG filed with this Application.

necessary to bring Eastern's system into alignment with the PUC's standards. Staff and OCC, by their participation in this Settlement Agreement, acknowledge the appropriateness of CNG's proposed physical plant improvements, but reserve their rights to argue the prudence of the incurred costs as compared to the estimated costs should material variances result.

6. Staff and OCC agree that CNG may begin charging and collecting its proposed temporary Capital Expenditure Rider upon Commission approval of this Settlement Agreement and the granting of this Application and the filing of compliance tariffs reflecting the implementation of the temporary Capital Expenditure Rider. While the Staff and OCC acknowledge the need for CNG to undertake the proposed system improvements, Staff and OCC take the position that implementation of the temporary Capital Expenditure Rider prior to, and during the capital expenditure phase is unique treatment, but warranted in this case due to what was learned through CNG's due diligence. The Joint Applicants acknowledge that this is a "one time only" agreement by Staff and OCC to the propriety of this type of treatment of capital expenditure riders and is not intended to provide any precedent or standard for future dockets involving either CNG or other jurisdictional utilities regulated by the Commission. Staff and OCC's agreement to this proposed regulatory treatment of CNG's proposed capital expenditures pursuant to the temporary Capital Expenditure Rider is acknowledged as special regulatory treatment and in no way reflects Staff or OCC's agreement to similar treatment of capital expenditures in the future by either CNG or other regulated utilities.

7. Following Commission approval of this Settlement Agreement and closing the acquisition, CNG intends to merge the corporate entity of Eastern into CNG and operate the Eastern system as a separate division of CNG. The operation of Eastern as a separate division of CNG would endure at least through the capital expenditure program described above, as well as

for a 12-month period following the conclusion of the capital expenditure program anticipated by CNG as part of this transaction. CNG anticipates that the capital expenditures necessary for the Eastern system as anticipated will require approximately 18 to 24 months of time to complete. At the conclusion of the capital expenditure program, CNG proposes that it operate the newly refurbished Eastern division for a calendar 12-month period to enable it to test and determine the effect of its capital expenditures, as well as provide CNG with a test year for rate making purposes.

8. During the capital expenditure program and the 12-month operating period proposed in this Settlement Agreement, CNG agrees that it will use a rate of return of 8.46% in its operations and accounting of the acquired Eastern division. This rate of return will only be applied to the capital expenditures made by CNG through the temporary Capital Expenditure Rider. At the conclusion of the 12-month operations period, CNG agrees to file a rate case in 2014 or 12 months after the conclusion of the Capital Expenditure period, whichever is later, for the purpose of incorporating the Eastern division and investments into its rate base, thereby enabling it to discontinue the recovery of capital expenditures pursuant to the Capital Expenditure Rider proposed by the Joint Applicants in this Application. Having reviewed CNG's proposed capital expenditure plan, the temporary Capital Expenditure Rider and CNG's proposed implementation of these provisions, Staff and OCC hereby agree to the process and procedures proposed by CNG while reserving all rights to review and investigate the accuracy of CNG's expenditures and accounting treatment and actual earning levels at any time. Staff and OCC reserve all of their rights to investigate all aspects of CNG's accounting for the capital expenditure program at any time.

9. In the Joint Application, CNG originally proposed a ten year freeze of base rates. CNG, by entering into this Settlement Agreement, withdraws the request for a rate freeze based upon the agreement reached by the Parties in paragraph 10 below. In the event that Staff or OCC believe that CNG is over earning beyond its authorized rate of return in its operation of the Eastern division, Staff and OCC retain the right to file a show cause or complaint case regarding CNG's alleged overearnings at any time.

10. As described above, CNG will file a base rate case in 2014 utilizing a historic 2013 test year, assuming that it is successful in completing the capital expenditure program described herein in time to have a full 12-month 2013 test year completed. In any case, CNG will file a base rate case no later than 12 full months after the conclusion of the capital expenditure program. CNG proposes that the rates resulting from the proposed 2014 rate case would become effective in 2015 and remain in effect until such time as CNG determines the need to file subsequent ratemaking dockets. To the extent that modification of this proposed schedule is necessary, given the timing of CNG's capital expenditure program, CNG agrees to keep Staff and OCC apprised of its progress in its implementation of the proposed capital expenditure program by the filing of annual reports detailing the progress made by CNG in the capital expenditure program.

11. As a result of PSCo's intervention and opposition to the clarification of the Eastern service territory sought by Joint Applicants, CNG, Eastern and PSCo have met to confer on the description of Eastern's existing service territory. In resolution of Public Service's issue in this docket, CNG and Eastern respectfully request leave to withdraw the request for clarification contained in the Verified Joint Application and agree to remove this issue from the instant docket and request that the Commission clarify the territorial issues in separate

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applications for CPCNs to be filed by CNG and PSCo. To accomplish this objective, Joint Applicants are filing a Joint Motion to Restrictively Amend the Application and for Waiver of Response Time contemporaneous with this Settlement Agreement. As a result of Eastern's and CNG's agreement to amend the Joint Verified Application and request Commission permission to delete the request for clarification of Eastern's service territory in this docket, Public Service's interests in this proceeding are satisfied and its intervention and request for hearing may be considered withdrawn by the Commission upon approval of this Settlement Agreement.

12. Consistent with paragraph 11, Public Service and CNG agree that each will file applications for Certificates of Public Convenience and Necessity to certify their respective service territories and effectuate the clarification originally sought by the Joint Applicants in this docket. Public Service and CNG agree that the filing of applications for CPCNs is an appropriate methodology by which the service territory boundaries of both PSCo and Eastern can be resolved and settled by the Commission going forward.

13. All Parties agree that CNG shall separately maintain a set of regulatory books and records for the new "ECU Division."

14. All Parties agree that CNG will adopt ECU's current base rates for the ECU Division and that the ECU Division will have its own separate DSMCA and GCA rates.

15. All Parties agree that CNG's regulatory Cost Allocation Manual will be updated to reflect the new ECU Division within 180 days following closing.

16. All Parties agree that the Appendix A for the ECU Division will separately identify through specific subaccounts:

- the assets
- income taxes
- depreciation
- property taxes
- revenues attributable to the Cap-Ex Rider
- the amount of the equity attributable to the Acquisition Premium
- the annual amortization of the Acquisition Premium

17. All Parties agree that the Appendix A for CNG's new ECU Division will include a separate calculation of its returns (ROE and RORB), excluding the effect of the equity attributable to the Acquisition Premium and the annual amortization of the Acquisition Premium.

18. All Parties agree that CNG shall file with the Commission the final purchase price and the final accounting entries for the regulatory books and records of its ECU Division within 60 days of closing.

19. All Parties agree that the future regulatory treatment of any recovery of any of the Acquisition Premium paid and the regulatory treatment of the associated equity attributable to the Acquisition Premium will be determined in a future rate case.

20. Eastern, CNG, Staff and OCC agree that the purchase of the stock and utility assets of Eastern by CNG as proposed in the Joint Application and as amended by this Settlement Agreement and the Joint Applicants' Motion to Restrictively Amend Application is in the public interest.

GENERAL PROVISIONS

21. Without waiving any of their positions stated in this case, Eastern, CNG, Staff, and OCC desire to end further uncertainty and litigation by entering into this Settlement Agreement. Accordingly, these Parties hereby agree to be bound to the terms of this Settlement Agreement.

22. This Settlement Agreement is a settlement of disputed and compromised claims and, accordingly, this Settlement Agreement is made for settlement purposes only. No Party hereto concedes the validity or correctness of any regulatory principle or methodology directly or indirectly incorporated in this Stipulation. No precedential effect or other significance, except as may be necessary to enforce this Settlement Agreement or a Commission Order concerning this Settlement Agreement, may be attached to any principle or methodology contained in this Settlement Agreement. All witnesses of the Parties to this Settlement Agreement will support all aspects of the Settlement Agreement embodied in this document in any hearing conducted to determine whether the Commission should approve this Settlement Agreement and the corresponding Application. Each Party hereto also agrees that, except as expressly provided in this Settlement Agreement, it will take no action in any administrative or judicial proceeding which would have the effect directly or indirectly of contravening the provisions this Settlement Agreement. Without prejudice to the foregoing, the Parties hereto expressly reserve the right to advocate positions different from those stated in this Settlement Agreement in any proceeding other than one necessary to obtain approval of or enforce this Settlement Agreement or a Commission Order approving this Settlement Agreement. Nothing in this Settlement Agreement shall constitute a waiver by any Party hereto with respect to any matter not specifically addressed in this Settlement Agreement.

23. This Settlement Agreement shall not become effective until the Commission issues a final order approving the Settlement Agreement which order does not contain any modification of the terms and conditions of this Settlement Agreement that are unacceptable to any of the Parties hereto. In the event the Commission modifies this Settlement Agreement in a manner unacceptable to any Party hereto, that Party may withdraw from the Settlement Agreement and shall so notify the Commission and the other Parties to this Settlement Agreement in writing within 10 days of the date of the Commission order. In the event the Party exercises its right to withdraw from the Settlement Agreement, this Settlement Agreement shall be null and void and of no effect in this or any other proceedings.

24. In the event this Settlement Agreement becomes null and void or in the event the Commission does not approve this Settlement Agreement, this Settlement Agreement as well as the negotiations undertaken in conjunction with the Settlement Agreement shall not be admissible into evidence in these or any other proceedings.

25. The Parties hereto state that they have reached this Settlement Agreement by means of a negotiated process that is in the public interest and that the results reflected in this Settlement Agreement are just, reasonable, and in the public interest. Approval by the Commission of this Settlement Agreement shall constitute a determination that the Settlement Agreement represents a just, equitable, and reasonable resolution of all issues which were or could have been contested by the Parties with respect to this Application.

26. This Settlement Agreement is an integrated agreement and may not be altered by the unilateral determination of any Party hereto.

27. This Settlement Agreement may be executed in separate counterparts, including facsimile. The counterparts taken together shall constitute the Settlement Agreement. The Parties hereto represent that the signatories to the Settlement Agreement have full authority to bind their respective Parties to the terms of the Settlement Agreement.

WHEREFORE, the Parties to this Settlement Agreement respectfully submit this Amended Stipulation and Settlement Agreement for approval by the Commission and request that the Commission grant such approval.

Dated this 2nd day of March, 2011

Respectfully submitted,


HOLLAND & HART LLP

By: 

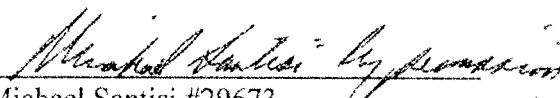
Mark A. Davidson, #10364
555 17th Street, Suite 3200
Denver, CO 80202-3979
Telephone: (303) 295-8572
Fax: (303)-295-8261
madavidson@hollandhart.com

**ATTORNEYS FOR COLORADO
NATURAL GAS, INC. AND
EASTERN COLORADO UTILITY CO.**

APPROVED AS TO FORM:



Charles Hernandez
Staff of the Public Utilities
Commission of the State of Colorado
1560 Broadway, Suite 250
Denver, CO 80202

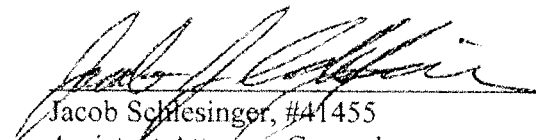


Michael Santisi #29673
Assistant Attorney General
1525 Sherman Street, 7th Floor
Denver, CO 80203

APPROVED AS TO FORM:



Frank Shafer
Colorado Office of Consumer Counsel
1560 Broadway, Suite 200
Denver, CO 80202



Jacob Schfesinger, #41455
Assistant Attorney General
1525 Sherman Street, 7th Floor
Denver, CO 80203

Colorado Public Utilities Commission

CERTIFICATE OF SERVICE

I hereby certify that on this 2nd day of March, 2011, the foregoing **AMENDED STIPULATION AND SETTLEMENT AGREEMENT** was e-filed with the Colorado Public Utilities Commission.

And a copy was electronically served in Adobe.pdf format to the following:

William Levis, Director
Office of Consumer Counsel
1560 Broadway, Suite 200
Denver, CO 80202
Bill.levis@dora.state.co.us

Stephen W. Southwick
First Assistant Attorney General
Office of Consumer Counsel
1525 Sherman Street, 7th Floor
Denver, CO 80203
Stephen.southwick@state.co.us

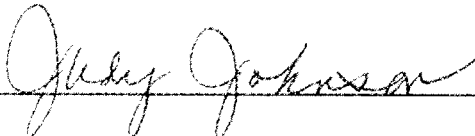
Jacob Schlesinger
Office of Consumer Counsel
1525 Sherman Street, 7th Floor
Denver, CO 80203
Jacob.schlesinger@state.co.us

Michael Santisi
Assistant Attorney General
1525 Sherman Street, 7th Floor
Denver, CO 80203
Michael.Santisi@state.co.us

Frank Shafer
Office of Consumer Counsel
1560 Broadway, Suite 200
Denver, CO 80202
Frank.Shafer@dora.state.co.us

Charles Hernandez
Staff of the Colorado Public Utilities Commission
1560 Broadway, Suite 250
Denver, CO 80202
Charles.Hernandez@dora.state.co.us

Karl Kunzie
Staff of the Colorado Public Utilities Commission
1560 Broadway, Suite 250
Denver, CO 80202
Karl.Kunzie@dora.stat.co.us



Judy Johnson

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**Customer Impact Study
 Current ECU Rates and Capital Expenditure Rider**

	Current Rates Per Therm	Proposed Rates Per Therm	Percentage Change	
Residential	\$0.6427	\$0.7847	22.09%	
Commercial	\$0.6427	\$0.7847	22.09%	
Large Commercial	\$0.6427	\$0.7847	22.09%	

	Current Average Annual Bill	Proposed Average Annual Bill	Percentage Change	Average Monthly Increase
Residential	\$680.80	\$808.68	18.78%	\$10.66
Commercial	\$955.47	\$1,140.06	19.32%	\$15.38
Large Commercial	\$12,407.57	\$15,082.65	21.56%	\$222.92

	Current Average Peak Month Bill	Proposed Average Peak Month Bill	Percentage Change
Residential	\$202.14	\$224.26	10.95%
Commercial	\$253.79	\$283.35	11.65%
Large Commercial	\$2,238.71	\$2,667.06	19.13%

	S&F Charges (per month)	Number of Meters	Annual Usage (ccfs)	Annual Usage Per Customer (ccf)	Peak Month Usage (ccf)
Residential	\$ 8.50	3,236	2,914,250	901	156
Commercial	\$ 10.00	549	713,665	1,300	208
Large Commercial	\$ 25.00	33	621,674	18,839	3,017

	Distribution Charge (per ccf)	Commodity Tariff (per ccf)	Up-stream Transport (per ccf)	Cap Ex Rider (per ccf)
Residential	\$0.15800	\$0.43460	\$0.05010	\$0.14200
Commercial	\$0.15800	\$0.43460	\$0.05010	\$0.14200
Large Commercial	\$0.15800	\$0.43460	\$0.05010	\$0.14200

Confidential Settlement Exhibit 1
Amendment No. 1 to the Stock Purchase Agreement

CONFIDENTIAL SETTLEMENT EXHIBIT 1
AMENDMENT NO. 1 TO THE STOCK PURCHASE AGREEMENT

Confidential Settlement Exhibit 2

Capital Expenditure Estimate and Rate Rider Calculation

CONFIDENTIAL SETTLEMENT EXHIBIT 2

Settlement Exhibit 3

EASTERN COLORADO UTILITY CO.
 58801 East Highway 36
 Strasburg, CO 80136

CO PUC No. 1

Original

Sheet No. 4

Sheet No. _____

NATURAL GAS RATES
Capital Expenditure Rider

The Company shall include as a volumetric rate for all rate schedules an amount as approved by the Commission to recover the costs associated with the necessary capital expenditures for the natural gas system as a result of the acquisition of the Company by Colorado Natural Gas, Inc.

Maximum Rate, per CCF \$0.142

Colorado Public Utilities Commission

Advice Letter
 Number _____ Executive Officer _____

Issue Date _____

Effective
 Number _____

Date _____

