

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the joint) Application No. NG-0039
application of Kinder Morgan,)
Inc., Houston, Texas; KM Retail)
Utilities Holdco LLC, Houston,)
Texas; Source Gas Distribution)
LLC, Lakewood, Colorado, Source)
Gas Holdings LLC, Stamford,)
Connecticut; and Source Gas LLC,)
Stamford, Connecticut; seeking) APPROVED
approval of (1) the proposed)
transfer of Kinder Morgan, Inc.'s)
Nebraska Certificate of Con-)
venience and utility assets to)
Source Gas Distribution LLC; and)
(2) the proposed change of)
control of Source Gas)
Distribution LLC from Kinder)
Morgan, Inc. to Source Gas LLC.) Entered: February 27, 2007

APPEARANCES :

For the Applicant Source
Gas Companies:
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For the Public Advocate:
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For the Applicant KM Companies:
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For the Commission:
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1200 N Street
Lincoln, NE 68509

And

Bud Becker
Kinder Morgan, Inc.
370 Van Gordon Street
Lakewood, CO 80228

BY THE COMMISSION:

On September 29, 2006, an Application was filed with the Nebraska Public Service Commission (the "Commission") by Kinder Morgan, Inc. ("Kinder Morgan"), KM Retail Utilities Holdco LLC ("KM Retail Holdco")(collectively "Kinder Morgan"), Source Gas Distribution LLC f/k/a KM Retail LLC ("Source Gas Distribution") (together with Kinder Morgan, the "KM Companies"), Source Gas Holdings LLC ("Source Gas Holdings"), and Source Gas LLC ("Source Gas") (collectively the "Source Gas Companies" and together with the KM Companies, the "Applicants"), seeking approval of (1) the proposed transfer of Kinder Morgan's Nebraska Certificate of Public Convenience and Nebraska retail utility assets to Source Gas Distribution, and (2) the proposed change of control of Source Gas Distribution from Kinder Morgan to the Source Gas Companies (collectively "the Transaction").

Notice of the Application was published in *The Daily Record*, Omaha, Nebraska, on October 4, 2006. A Petition for formal intervention was timely filed by the Public Advocate. A Petition for informal intervention was timely filed by Cornerstone Energy, Inc. Both petitions were granted by the Commission in an order issued in the above-captioned docket on November 21, 2006.

On February 12, 2006, the Applicants and Public Advocate filed with the Commission a Joint Stipulation containing Conditions of Approval ("Joint Stipulation") and resolving all issues in this proceeding between the parties. A hearing was held on the above-captioned Application on February 14, 2007, in the Commission Hearing Room, Lincoln, Nebraska. Appearances at the hearing are indicated above.

THE PARTIES:

Kinder Morgan provides retail natural gas distribution service to approximately 94,000 customers in about 180 Nebraska municipalities, located primarily in the western two-thirds of the state. Kinder Morgan's retail distribution operations in Nebraska employ approximately 230 persons.

Source Gas Holdings is presently owned by a subsidiary of General Electric Company ("GE"). GE operates many businesses including power, aviation, entertainment, medical services and also consumer and commercial financing. GE Energy Financial Services ("GEEFS") is a wholly-owned subsidiary of GE that has been in existence in one form or another for nearly 30 years and

is the entity through which GE manages its financial investments in the energy industry. Currently, GEEFS manages an asset base in excess of \$13 billion in a wide variety of energy businesses and assets, including electric power plants, electric transmission systems, natural gas pipelines, natural gas gathering and processing systems, oil and gas reserves, and water and wastewater systems.

Source Gas Holdings owns 100 percent of the equity interest in Source Gas, which in turn owns 100 percent of the equity interest in Source Gas Distribution. Concurrent with the Transaction described herein, up to 50 percent of the interest in Source Gas Holdings will be sold to Alinda Investments LLC ("Alinda"), a Delaware limited liability company. Alinda is backed by a U.S.-based institutional fund that makes long-term investments in essential infrastructure assets that support communities, business and government.

THE TRANSACTION:

Kinder Morgan has entered into a Purchase and Sale Agreement, pursuant to which Kinder Morgan will sell, among other things, its retail utility business in Nebraska, Wyoming and Colorado to Source Gas LLC.

The sale and transfer of the Kinder Morgan's retail utility business will be effectuated through a series of transactions culminating in the ultimate ownership of the business by Source Gas, LLC. Currently, Kinder Morgan's retail local distribution facilities and operations have been operated as part of a business unit of Kinder Morgan called KM Retail, and not as a separate stand-alone entity. In order that such facilities and operations may be sold, Kinder Morgan will first transfer these retail facilities and operations into a separate legal entity known as Source Gas Distribution, LLC. Kinder Morgan will then sell 100 percent of its ownership interest in this new Kinder Morgan entity to the Source Gas, LLC.

E V I D E N C E

In support of their Application, the Applicants offered the pre-filed testimony of Daniel E. Watson, President of Kinder Morgan Retail, and James F. Burgoyne, Managing Director of GEEFS. Mr. Watson and Ben Breland, Vice-President of Regulatory for Kinder Morgan, along with John Shepherd, Managing Director of GEEFS, also testified at the hearing on behalf of Applicants.

On behalf of the Public and the ratepayers of Kinder Morgan, the Public Advocate, Roger Cox, offered the pre-filed testimony of William L. Glahn, a consultant with Dahlen, Berg Consulting, Inc. Further, Mr. Cox testified at the hearing concerning the Application in the above-captioned matter.

Mr. Shepherd offered testimony on behalf of GEEFS and the Source Gas Companies and explained that GE follows a buy-and-hold philosophy and focuses its investments in companies that demonstrate long-term stability and potential for growth. He explained the ownership structure that would result from the Transaction, with Source Gas owning 100 percent of the ownership interest in the retail utility, Source Gas Distribution. Source Gas will be wholly owned by Source Gas Holdings, which in turn will be owned by a subsidiary of GE and its affiliate GEEFS, and Alinda, an investment company with a similar long-term investment philosophy. Mr. Shepherd explained that GE was buying not only utility assets, but also an experienced management team and operational personnel. He noted that GE expects the utility operations to continue to operate seamlessly after the Transaction, and believes that Source Gas Distribution presents opportunities for growth in the retail natural gas business, which should create even greater economies of scale for the current utility.

Mr. Watson testified regarding the effect of the Transaction on the utility's ongoing operations in Nebraska. Mr. Watson will continue as the President of the utility, Source Gas Distribution, after the closing of the Transaction. Mr. Watson further testified that the new utility will adopt Kinder Morgan's current tariffs, and that no changes to rates and terms and conditions of service will occur as a result of the Transaction. Mr. Watson testified that most or all of the utility's current management team will remain with Source Gas Distribution after the Transaction, and any personnel changes at the sub-management level are expected to be minimal, and in any event would not have a material impact on service to customers, or on the cost of service.

Mr. Watson stated that very little will change in the utility's day-to-day operation as a result of the Transaction. Mr. Watson further testified that no acquisition, transaction, or premium costs as a result of the Transaction will be recovered through rates or passed on to the ratepayers. Mr. Watson does not expect the Transaction to affect the utility's

access to capital or cost of capital and the utility's capital structure and cost of capital for ratemaking purposes will remain materially unchanged. Mr. Watson testified that in his opinion, the Transaction is in the public interest and will not adversely affect the utility's ability to serve its ratepayers.

Mr. Breland, the manager of regulatory affairs for Kinder Morgan and the prospective Chief Financial Officer of Source Gas Distribution, testified regarding certain financial implications of the Transaction. Mr. Breland reiterated that no acquisition premium or other adjustments will be recovered through rates or passed on to ratepayers as a result of the Transaction. Further, Mr. Breland stated that no assets of the Nebraska gas operation will be pledged as security or used as collateral for any financing associated with the operations of the jurisdictional utility. Mr. Breland continued that the costs associated with the operation of the jurisdictional utility assets in Nebraska will not be materially affected as a result of the Transaction. Mr. Breland also addressed some of the questions posed to the Applicants by the staff consultant.

Mr. Cox commented on the Transaction and the testimony of Mr. Glahn. Mr. Glahn's initial testimony set forth a list of concerns he identified for the Public Advocate. Mr. Glahn's supplemental testimony stated that those concerns had been satisfactorily addressed. Mr. Cox stated that both the Public Advocate and the consultant, Mr. Glahn, had no objection to the approval of the Application by the Commission and the finding by the Commission that the Transaction would be consistent with the public interest and would not adversely affect the ability of the utility to serve its Nebraska ratepayers.

Mr. Jay Boyle, representing Local 7476 of the Communications Workers of America, also appeared and commented during the public comment portion of the hearing. Mr. Boyle stated that Local 7476 represents certain bargaining unit employees of Kinder Morgan, some of whom will become employees of Source Gas Distribution as a result of the Transaction. Mr. Boyle commented in favor of the Transaction, stating that the union's support came as a result of meetings with the management of Kinder Morgan and Source Gas Companies over the last couple of months. Mr. Boyle stated further that the union was impressed with the Applicant's various filings, including the representation that Source Gas Distribution intended to make minimal personnel changes at the sub-management level and would assume the

current collective bargaining agreement between Kinder Morgan and the union.

The Applicants and the intervenors, entered into a joint stipulated agreement prior to the February 14, 2007 hearing. In the Joint Stipulation, the Applicants recommend approval of the application and the Public Advocate and Cornerstone offer no objection to the Commission approving the Application. Further, all remaining issues between the parties in the above-captioned proceeding were resolved in the Joint Stipulation. The Joint Stipulation, signed by all parties, was admitted into evidence at the February 14, 2007 hearing. The Joint Stipulation is attached to this Order as **Exhibit A** and is incorporated into the terms of this order.

O P I N I O N A N D F I N D I N G S

The State Natural Gas Regulation Act (the "Act") Neb. Rev. Stat. §§ 66-1801, et seq., requires Commission approval for the reorganization or change of control of any jurisdictional utility serving customers in Nebraska. Specifically, the Act provides:

The commission shall not approve any proposed reorganization or change of control if the commission finds, after public notice and public hearing, that the reorganization or change of control will adversely affect the utility's ability to serve its ratepayers. Neb. Rev. Stat. § 66-1828(1)(2003 Supp.).

Likewise, the Act requires Commission approval for the transfer of any franchise or certificate of convenience granted to a jurisdictional utility serving customers in Nebraska. Specifically, the Act provides:

No franchise or certificate of convenience granted to a jurisdictional utility shall be assigned, transferred, or leased unless the assignment, transfer, or lease has been approved by the commission as being consistent with the public interest. Neb. Rev. Stat. § 66-1821 (2003 Supp.).

The Applicants assert that the proposed transfer of control will benefit the customers of Kinder Morgan in a variety of ways. The Source Gas Companies view the local distribution utility business as a tremendous investment opportunity. The

Source Gas Companies state in the joint Application that they intend to use the acquisition of Kinder Morgan's natural gas distribution segment as a platform upon which to grow. The Source Gas Companies state that they are interested in long-term investments and intend Source Gas Distribution to be a strong player in the Nebraska gas distribution business for years to come.

The Source Gas Companies bring a solid financial foundation and access to substantial capital resources for the benefit of the local distribution system in Nebraska and state they intend to offer opportunity to expand and grow. GEEFS is investing its own capital in the Kinder Morgan assets and will be looking for ways to grow the Source Gas Companies over time and therefore, state that there is no pressure to quickly return cash to third-party investors. GEEFS core investment strategy is a buy-and-hold strategy. Because of the indirect involvement of GE and its subsidiary GEEFS, the Applicants expect the Transaction to have a positive impact on the bond ratings and financing costs going forward. The long-term investment philosophy, coupled with the significant financial resources will create a favorable environment for growth and expansion across Kinder Morgan's retail service areas.

The Source Gas Companies intend to create a corporate structure that will establish a level of separation around its companies, a measure of protection called "ring fencing." These protections will help ensure that the financial strength and integrity of the utility operations will not be adversely impacted by the actions of its parent. Source Gas will obtain a separate investment grade credit rating from its affiliates, which will be consistent with other entities within its peer group.

Additionally, Source Gas Distribution will adopt all of the Nebraska tariffs setting forth rates, charges, rules and regulations currently on file with the Commission for Kinder Morgan. The Applicants stated that there are no plans to change in any material way the management team currently operating the retail business. Further, the Applicants will not seek cost recovery from Nebraska ratepayers of any transaction or transition costs related to the transactions.

Finally, the Applicants state that they do not anticipate any material change in the operations due to the proposed Transaction. The quality of service, the day-to-day operation of the utility, current gas supply contracting and management, systems operation, maintenance activities, safety, customer service and billing operations will all remain unchanged.

The Applicants also offered testimony regarding the inter-relation of this Application in the above-captioned Docket and the Application of Kinder Morgan, Inc. in Docket No. NG-0040 currently pending before the Commission. The approvals sought in Docket No. NG-0040 concern Kinder Morgan's proposal to become a private enterprise wholly owned and managed by a group of investors led by Richard Kinder, Kinder Morgan's Chairman and CEO. Any order entered in relation to Docket No. NG-0040 and the Stipulation therein would become moot if the Transaction which is the subject of the Application in the above-captioned Docket is consummated.

Based on the evidence, we find that the transaction will not adversely affect the ability of Kinder Morgan to serve its ratepayers and is consistent with the public interest. The Application should be granted.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that the Application in Docket No. NG-0039 be and is hereby, approved.

IT IS FURTHER ORDERED that the Joint Stipulation attached to this order as **Exhibit A**, be and is hereby approved, and Applicants shall comply with all applicable terms and conditions in the Stipulation set forth in **Exhibit A**.

IT IS FURTHER ORDERED that should the Transaction between Kinder Morgan and the Source Gas Companies which is the subject of the above-captioned proceeding not be consummated, then this order and the Joint Stipulation attached hereto as **Exhibit A** shall be of no force and effect and that the order entered by this Commission in Docket No. NG-0040 shall in such instance govern the matters addressed therein.

Application No. NG-0039

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MADE AND ENTERED at Lincoln, Nebraska, this 27th day of February, 2007.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Gerald L. Vap

Rene C. Bayle

Tim Johnson

//s// Rod Johnson

//s// Frank E. Landis

Chairman:

Rod Johnson

ATTEST:

AdS Pollock

Executive Director