

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of Kinder Morgan,) Application No. NG-0040
Inc., Houston, Texas; KM Retail)
Utilities Holdco LLC, Houston,)
Texas; Source Gas Distribution)
LLC, Lakewood, Colorado,)
seeking approval of asset) APPROVED
transfer of jurisdictional)
utility assets.)
) Entered: February 27, 2007

APPEARANCES:

For the Applicants:
Stephen M. Bruckner
FRASER STRYKER PC LLO
500 Energy Plaza
409 S. 17th Street
Omaha, NE 68102

Public Advocate:
Roger P. Cox
HARDING SHULTZ & DOWNS
800 Lincoln Square
121 South 13th Street
Lincoln, NE 68501

And

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

For the Commission:
Nichole A. Underhill
300 The Atrium
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Lincoln, NE 68509

BY THE COMMISSION:

On October 3, 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") and Source Gas Distribution LLC f/k/a KM Retail LLC ("Source Gas Distribution") seeking approval of (1) the proposed transfer of Kinder Morgan's Nebraska franchises and certificate of convenience and Nebraska retail jurisdictional utility assets to Source Gas Distribution (the "Asset Transfer"), and (2) the proposed change of control of Source Gas Distribution resulting from the Merger Agreement entered into among Kinder Morgan, Knight Holdco, LLC, and Knight Acquisition Company pursuant to which Kinder Morgan will become a privately-owned company (the "Buy-Out Transaction").

Notice of the Application was published in *The Daily Record*, Omaha, Nebraska, on October 6, 2006. A Petition for formal intervention was timely filed by the Public Advocate and was 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 Stipulation containing Conditions of Approval ("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.

KM Retail Holdco is a wholly-owned subsidiary of Kinder Morgan and Source Gas Distribution is a limited liability company and wholly-owned indirect subsidiary of Kinder Morgan established under Delaware law.

THE TRANSACTION:

In connection with the Asset Transfer, the jurisdictional utility assets of Kinder Morgan's local natural gas distribution business in Nebraska, Wyoming, and Colorado will be transferred to Source Gas Distribution. All membership interests in Source Gas Distribution are wholly owned by KM Retail Holdco, and would continue to be so owned after the Asset Transfer. After the Asset Transfer, Source Gas Distribution would become the "jurisdictional utility" under the State Natural Gas Regulation Act (the "Act") Neb. Rev. Stat. §§ 66-1801, et seq., replacing Kinder Morgan.

On August 28, 2006, Kinder Morgan, Knight Holdco and Knight Acquisition signed a merger agreement pursuant to which, if certain conditions are satisfied or waived, Knight Acquisition will be merged into Kinder Morgan, with Kinder Morgan continuing as the surviving company in the merger. Immediately following the merger, Kinder Morgan will become a privately-held company, wholly owned by Knights Holdco or one or more of its subsidiaries. Immediately following the merger, Knight Holdco will be owned by entities and individuals of the Investor Group, which includes current and former directors or officers of Kinder Morgan. Kinder Morgan proposes to consummate the Asset Transfer in connection with the Buy-Out Transaction.

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 Kimberly A. Dang, Chief Financial Officer of Kinder Morgan, Inc.

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. Watson and TJ Carroll, Vice President of Kinder Morgan, also testified at the hearing on behalf of Applicants. By agreement of the parties, the testimony at the hearing in Docket No. NG-0039 regarding the Asset Transfer was incorporated and received into evidence in support of the above-captioned Application.

Mr. Watson testified regarding the effect of the Asset Transfer and Buy-Out Transaction on the utility's ongoing operations in Nebraska. Mr. Watson testified that Source Gas Distribution 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 Asset Transfer or Buy-Out Transaction. Mr. Watson also testified that the management of Kinder Morgan and the utility operations is not expected to change as a result of the Asset Transfer or Buy-Out Transaction. Mr. Watson will continue as President of the utility operations after the transactions are completed, and his current retail utility management team will continue in their respective roles. Mr. Watson testified that very little will change in the utility's day-to-day operation as a result of the Asset Transfer and Buy-Out Transaction, aside from the utility's name change to Source Gas Distribution.

Mr. Watson further testified that no changes in the utility facilities, offices and headquarters will occur as a result of these transactions. He also explained that the books and records of the Kinder Morgan Retail unit will be transferred to and assumed by Source Gas Distribution upon closing of the Asset Transfer, and Source Gas Distribution will assume any accumulated deferred income tax expense as part of that book transfer. Mr. Watson further testified that no acquisition, transaction, or premium costs as a result of the subject transactions will be

recovered through rates or passed on to the ratepayers. He further stated that the transactions will not 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 also answered the questions posed by the Commission's consultant, GDS, regarding the transactions described in the Application.

Finally, Mr. Watson testified that the Asset Transfer, including the transfer of Kinder Morgan's franchises and certificate of convenience, is in the public interest, and the Buy-Out Transaction will not adversely affect the ability of the utility to serve its ratepayers.

In his testimony, Mr. Carroll explained in detail the nature of the Buy-Out Transaction, emphasizing that the Buy-Out Transaction would result in a change of ownership of Kinder Morgan from a publicly-owned to privately-owned business, but not a change in the ownership, management or operation of the retail utility.

Mr. Cox commented concerning the Asset Transfer and Buy-Out Transaction and the testimony of Mr. Glahn. Mr. Cox stated that both the Public Advocate and the consultant, Mr. Glahn, did not object to the approval of the Application by the Commission and the finding by the Commission that the Asset Transfer and Buy-Out Transaction would not adversely affect Nebraska ratepayers or the ability of the utility to serve its ratepayers.

The Applicants and the Public Advocate, entered into a stipulated agreement prior to the February 14, 2007 hearing. In the Stipulation, the Applicants recommend approval of the application and the Public Advocate offers no objection to the Commission approving the Application. Further, all remaining issues between the parties in the above-captioned proceeding were resolved in the Stipulation. The Stipulation, signed by all parties, was admitted into evidence at the February 14, 2007 hearing. The 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 the Commission to approve 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 of 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.).

With limited exceptions, Kinder Morgan's current management team and employees will continue in their positions after the Asset Transfer and the Buy-Out Transaction. Kinder Morgan's experience in the management and operation of a retail natural gas distribution utility will remain.

The Applicants state that Kinder Morgan's Nebraska utility operations will continue to have access to adequate capital. The transfer of Kinder Morgan's public utility assets into a separate legal entity, Source Gas Distribution, will provide a level of separation between the public utility business and Kinder Morgan's non-utility businesses, providing financial stability and protection for the ratepayers of Kinder Morgan.

Additionally, the Applicants stated that there will be no change in any of the rates or terms and conditions of Kinder Morgan's current Nebraska Gas Tariff as a result of the Asset Transfer or Buy-Out Transaction. 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 the proposed Asset Transfer and Buy-Out Transaction will result in no changes to Kinder Morgan's quality of service and 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.

Separate and distinct from the approval sought in the above-captioned proceeding, Kinder Morgan has entered into an agreement to sell its ownership interest in its local utility business in Nebraska, Wyoming and Colorado, and other assets, to Source Gas LLC, an entity affiliated with the General Electric Company ("GE"). Commission approval of the sale of Kinder Morgan's utility business to the GE entity are the subject of an Application, Docket No. NG-0039, pending before the Commission. If the sale of Kinder Morgan's utility business to the GE entity is consummated, then the relief sought by the Applicants herein will become moot and this order will be of no force and effect. Should the sale of Kinder Morgan's utility business to the GE entity not be consummated, however, then the order entered in Docket No. NG-0039 by this Commission will be of no force and effect and this order will govern the Asset Transfer and Buy-Out Transaction.

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-0040 be and is hereby, approved.

IT IS FURTHER ORDERED that the 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**.

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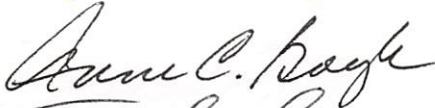
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IT IS FURTHER ORDERED that upon consummation of the transactions between Kinder Morgan and the Source Gas Companies which are the subject of the proceedings in Docket No. NG-0039, this order and the Stipulation attached hereto as **Exhibit A** shall be of no force and effect. Should said transaction not be consummated, this order shall in such instance govern the matters addressed herein.

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

NEBRASKA PUBLIC SERVICE COMMISSION

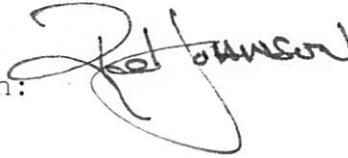
COMMISSIONERS CONCURRING:



//s// Rod Johnson

//s// Frank E. Landis

Chairman:



ATTEST:



Executive Director