

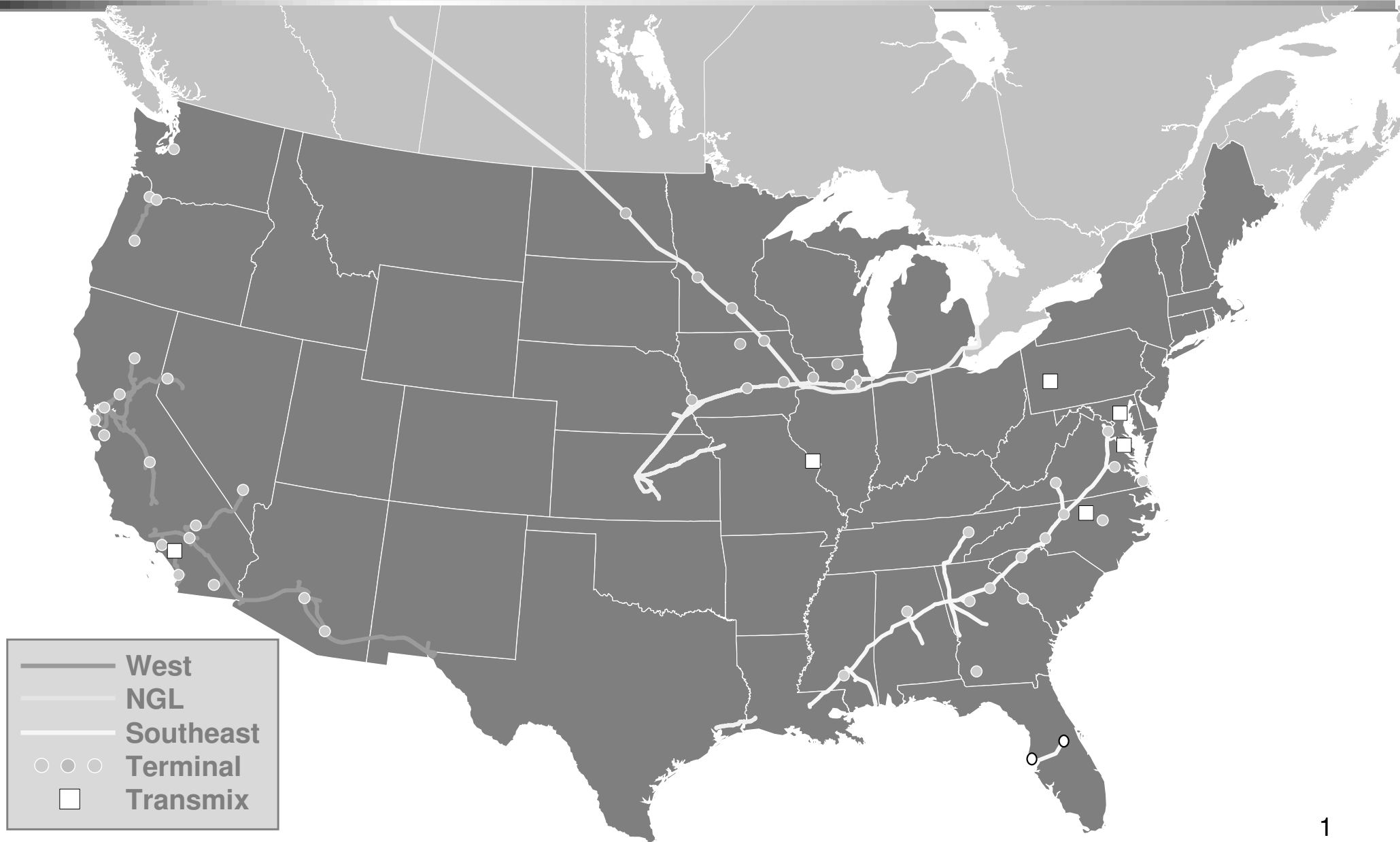
# Products Pipelines

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*Tom Bannigan*

*President Products Pipeline Group*

# Products Pipelines Assets



# Fundamental Demand Drivers in Place

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## ■ Demographics of Markets Served

- Population Growth
- Urban Congestion
- Suburban Spread

## ■ Price/Demand

## ■ Modest Inroads of Hybrids/Alternative Fuel Vehicles

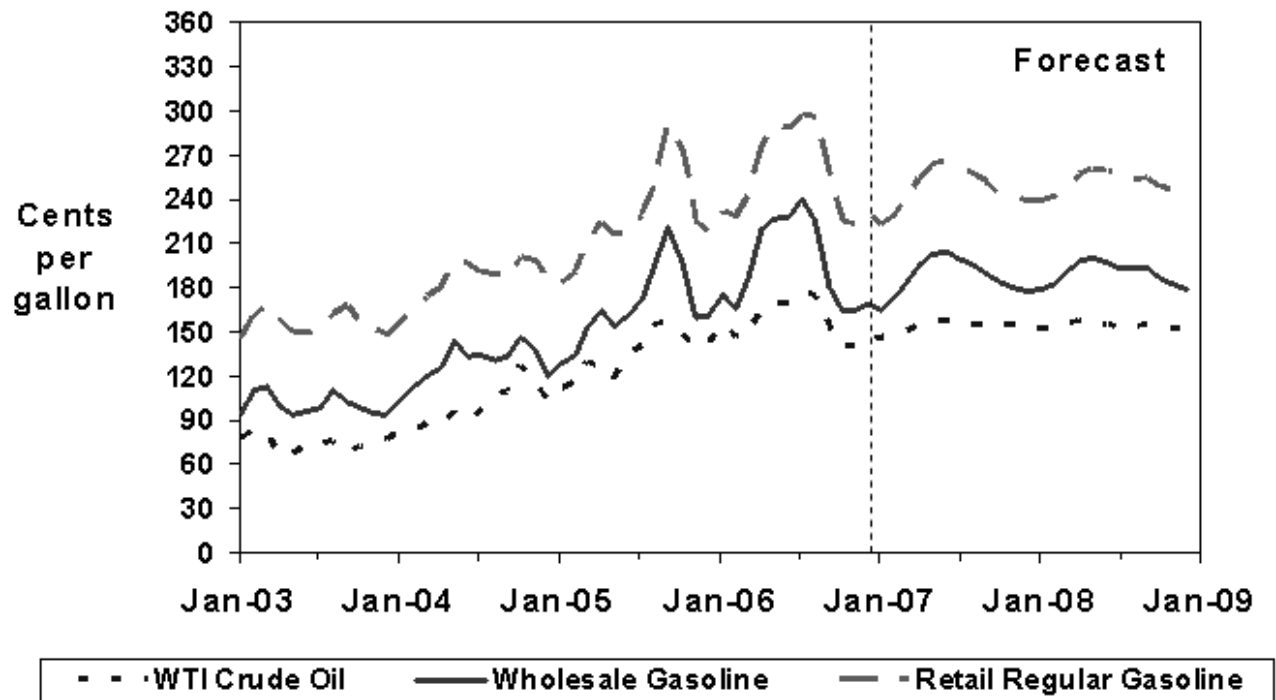
- % of Hybrids on Road
- U.S. Fleet Turnover

## ■ Biofuels Present Additional Opportunities

- Storage
- Blending/Injection
- Pipeline Transportation

# Price Projections

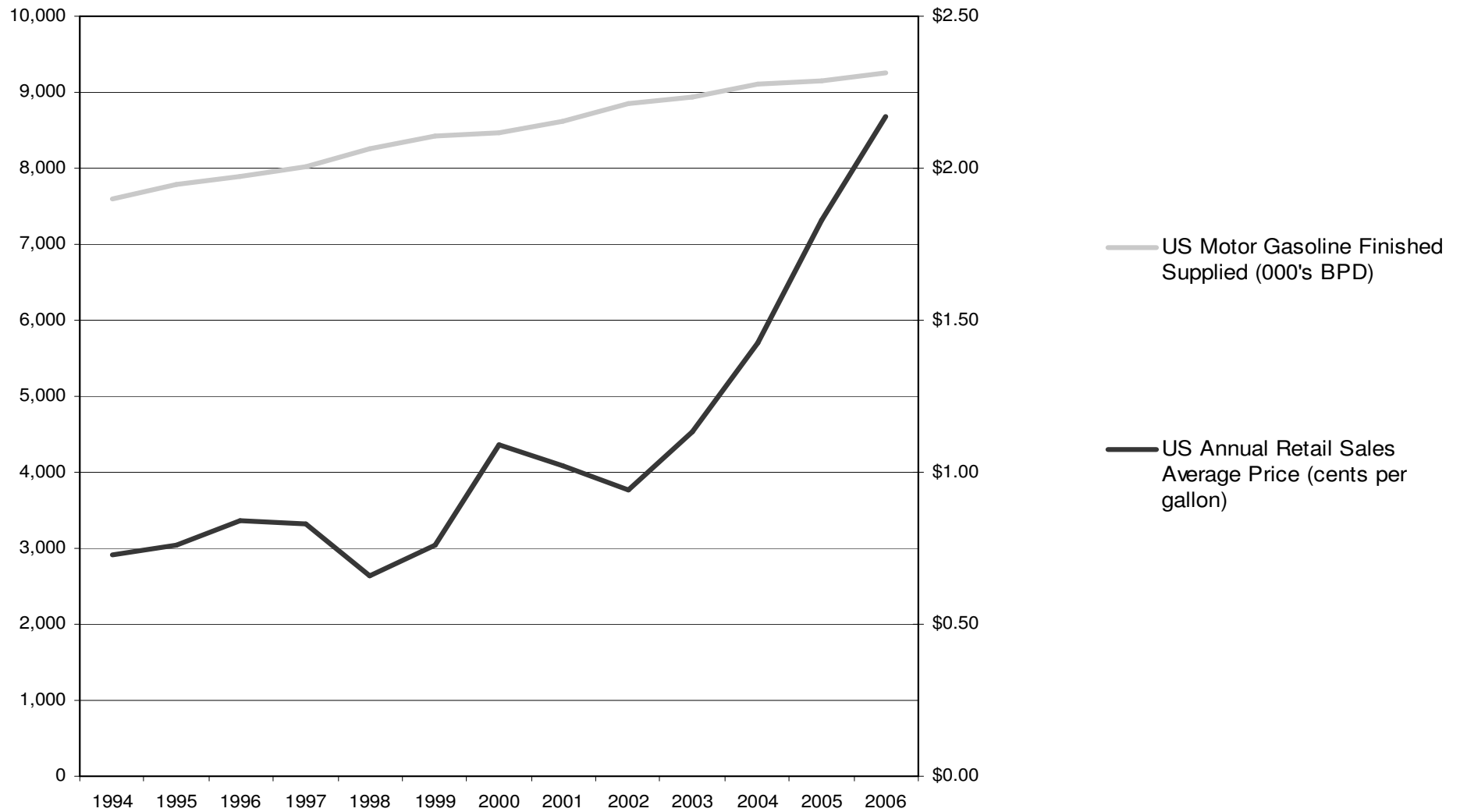
Gasoline and Crude Oil Prices



Short-Term Energy Outlook, January 2007



# Price/Demand



# Expanding and Acquiring to Meet Market Demand

## Expansion Projects Underway

Project	Description	In Service	Cost (\$MM)
<b>Pacific</b>			
Fresno Terminal Expansion	1- 80MB tank & 2 lane truck loading rack	2008	\$11.0
Colton Terminal Expansion	2 - 80MB tanks	2008	\$8.5
Miramar Expansion	2 - 80MB tanks & pump/meter station	2008	\$15.0
East Line Expansion II (EPX)	140 mi pipeline, pump station and storage	2007	\$145.0
			<u>\$179.5</u>
<b>Calnev</b>			
Las Vegas Terminal Tankage Expansion	2-80MB tanks	2007	\$7.5
Cajon Booster Station	Pumps	2007	\$14.6
Las Vegas Terminal Loading Rack Expansion	Truck loading rack upgrade	2007	\$1.6
Calnev Pipeline Expansion	16" pipeline	2010	\$388.0
			<u>\$411.7</u>
<b>CFPL</b>			
Pipeline/Tank Projects Complete	Pipeline capacity expansion and new tank	2007	\$6.1
Tampa Airport Project	New tank and pipeline to airport	2008	\$25.0
			<u>\$31.1</u>
<b>KMST</b>			
Roanoke, VA	Motiva Terminal Acquisition		\$6.8
			<u>\$6.8</u>
<b>TOTAL</b>			<u>\$629.1</u>

# East Line Expansion

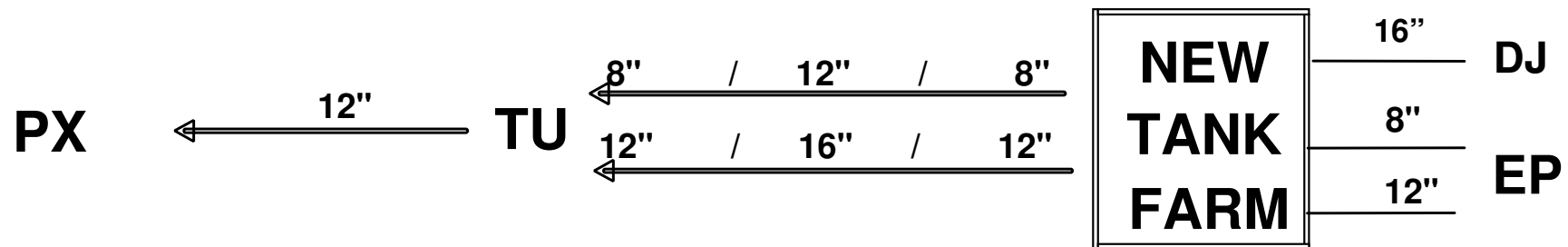
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**Project currently under way to expand the El Paso to Phoenix/Tucson East Line**

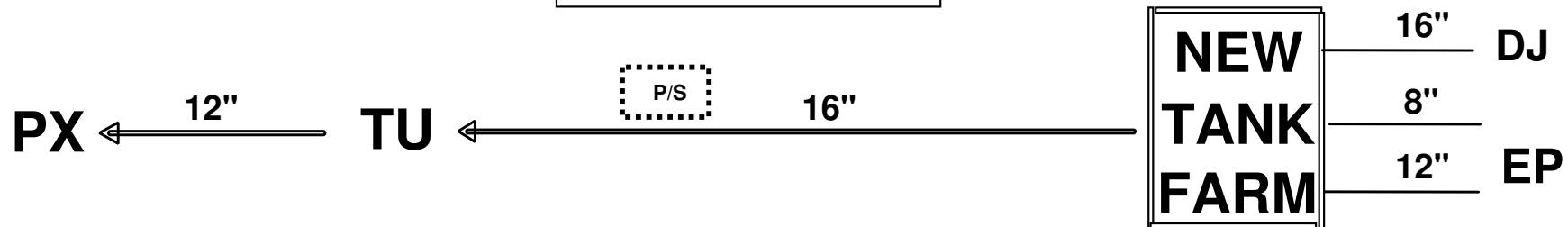
- **El Paso to Phoenix Expansion – \$145 MM cost with estimated completion date in Q4 2007**
  - 127 miles of looped 16” pipeline from El Paso to Tucson
  - 13 miles of 12” gathering line
  - Additional breakout tanks at Tucson
  - Should satisfy market demand for 8-10 years depending on growth assumptions
- **Further incremental East and West line Expansions to Meet Future Demand**
  - Horsepower (East / West Line)
  - Phoenix Manifold Debottlenecking (West Line)

# East Line Expansion

## CURRENT



## EXPANSION





# Calnev Expansion

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## Several projects to expand the Calnev pipeline system

- **2006 - \$23.7 MM in total approved projects**
- **Las Vegas Terminal Expansion**
  - Provide additional 160,000 Bbls of tankage for gasoline, diesel, and ethanol
  - Optimize storage of product slate
  - Completion February 2007
- **Cajon Booster, CA – provides approximately 9% additional capacity on the 14” mainline ( 143 B/D - 156 B/D)**
- **Las Vegas Loading Rack Upgrade – additional capacity & faster loading rates**
- **Major Mainline Projects**
  - 16” Pipeline from Colton, CA to Las Vegas, NV
  - Estimated cost: \$388MM
  - On line 2010
  - Initial capacity of 200 B/D. Further horsepower expansions take capacity to 300 B/D.
  - Seeking tariff rate certainty

# Military Expansions

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## ■ Nellis AFB, NV – \$10.9 MM

- 5.3 miles of 8” pipe
- 20 MB storage tanks and filtration
- In-service August 2006

## ■ Miramar, CA Station - \$15 MM

- Provides 160,000 Bbls of tankage for JP-5 & Marine Diesel
- Delivery pump and metering facilities
- Expected in-service late 2008

## ■ Fuel Filtration Projects

- 5 Bases
- \$5.6M Capital Cost
- Awaiting DESC approval

# Tampa Pipeline

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## Project description

- Construct 9 mile 8” pipeline from KM Tampa Terminal to Tampa International Airport and install 120k bbl jet fuel tank – total project cost \$25 million
- Start-up expected 18 months from execution of agreement with airline consortium

## Business drivers

- Consolidate major Central Florida airlines fuel supply operations at KM Tampa Terminal
- Accommodate future growth with increased independence for airlines in fuel purchasing

## Commercial terms

- 20 year volume commitment from airline consortium
- Rates indexed annually to CPI (3% minimum/5% max)

# RENEWABLE FUEL OPPORTUNITIES (Ethanol & Biodiesel)

- **2006 Mandate**
  - 4 Billion Gallons = 95 Million Barrels = 261,000 Barrels Per Day
- **2012 Mandate**
  - 7.5 Billion Gallons = 179 Million Barrels = 490,000 Barrels Per Day
- **Strong political support for increased biofuels mandates**
  - California Low Carbon Fuel Standard
  - Congressional initiatives
  - Governor's Proposals
- **How will mandates be met?**
  - Corn / cellulosic / imports / biodiesel
- **What blend rates?**
  - Ethanol 5.7% / 10% / 85%
  - Biodiesel B-5 / B-10 / B-20
- **Influence of automobile/truck manufacturers**
- **Which areas are more likely to switch and at what blend rates?**

# Renewable Fuel Opportunities (Continued)

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## ■ Logistics Challenges

- Sources of supply
- Gathering of supply
- Truck/rail/dedicated pipelines
- Impact of blend rates on logistics (E-10 vs. E-85 volumes)
  - Transportation
  - Storage
- Demand Issues
- Concentrated in large urban areas or diffused across states
- Impacts to storage and product distribution
- Kinder Morgan Biofuels Team
  - Natural Gas, Pipelines, Terminals

# California's Proposed Low Carbon Fuel Standard (LCFS)

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- **40% of California Green House Gas (GHG) Emissions from Transportation Sector**
- **Reduce carbon intensity of California passenger vehicles by at least 10% by 2020**
- **Analyze on “well to wheel” or “field to wheel” basis**
- **Performance Based (allows averaging, banking and trading to achieve lowest cost and consumer responsive solutions)**
- **Fuel neutral (fuel providers to choose which fuels to sell and in what volumes)**
- **Implement program by year-end 2008**

# California's Proposed Low Carbon Fuel Standard

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## POSSIBLE LOW CARBON STRATEGIES

- **E-10 Increase Blend from E-6 to E-10**
- **E-85 Sell high blend (85% ethanol/15% gasoline) for use in Flex Fuel Vehicles**
- **Increased use of Low Carbon Ethanol-Cellulosic Ethanol (switchgrass/agricultural waste) has 4 to 5 times less carbon content than corn-based ethanol**
- **Hybrid/AFV's**
- **Logistics Implications**

# California's Proposed Low Carbon Fuel Standard

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## E-10 TRANSITION

- 2006 Kinder Morgan California Ethanol Volumes      274.7 million gallons / 17.9 B/D
  
- Adjusted to proposed 10% Blend Rate      482.1 million gallons / 31.4 B/D
  - 75% increase in ethanol volumes
  
- Will require permit modifications and some additional infrastructure (offloading facilities and tanks at some locations)
  
- Terminal vs. Pipeline Revenues
  - Non-jurisdictional vs. jurisdictional service
  - Lower power costs



# California's Proposed Low Carbon Fuel Standard

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## OTHER ETHANOL OPPORTUNITIES

- Full year blending in Arizona/Las Vegas
- Other markets should mandate expand
  - Atlanta
  - Birmingham
  - Charlotte
  - Greensboro
  - Tampa/Orlando
  - Portland, OR
  - Seattle, WA

# Renewable Fuel Opportunities – Biodiesel

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## Most Engine Manufacturers

- **Honor Engine Warranties With Biodiesel Blends of 5% or Less**

## Plantation Pipe Line

- **December 13, 2006 Press Release**

- Evaluating the possibility of transporting B5 to B20 from Baton Rouge, LA to Greensboro, NC

- **January 9, 2007**

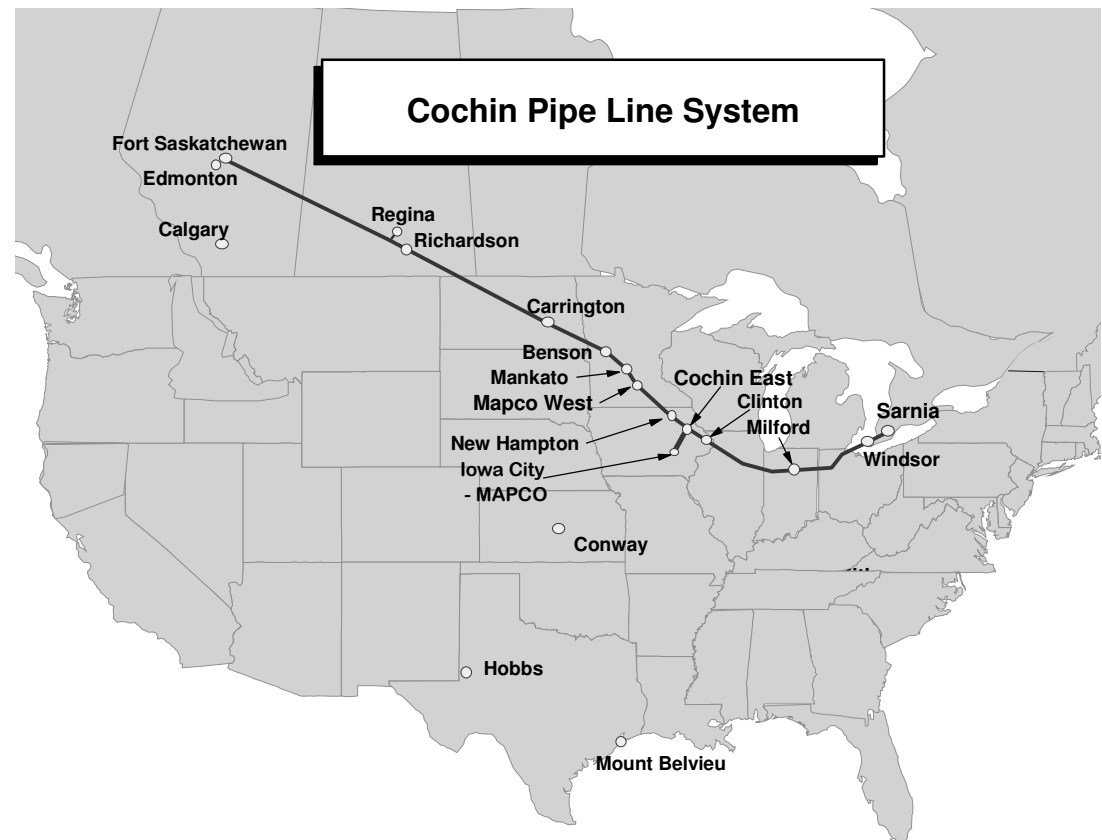
- Distributed survey to customers to determine interest in transporting B5 to B20 Biodiesel (*Pending Test Batch*)

- **Issues Under Review**

- Trail Back Concerns, Cold Flow Concerns & Infrastructure

# Cochin Acquisition

- Currently owned 50.2% BP / 49.8% KM with BP as operator
- 1900 mile natural gas liquids pipeline, 5 propane terminals
- Historically, has also moved ethane and ethylene to chemical plants in Sarnia, Ontario
- BP to provide 5 year volume commitment
- Anticipated Closing late 1Q07
  - Due Diligence
  - Regulatory Approvals
- Effective Date 1/1/2007



# Plantation Pipe Line Company

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## 2006 Volume Impacts

- Volumes 6.7% below 2005 volumes (555 B/D vs. 595 B/D)
- ULSD Product Supply
- MTBE Elimination and RBOB Phase-in
- Bengal Pipeline Impact (Shell-CPC Joint Venture)
  - Loss of volumes from origins of Motiva-Norco & Valero-St.Charles
  - Connections were unavailable for a period of three months

## 2007 Opportunities

- Refineries that were still impacted by 2005 hurricanes have now returned to normal production
- Expanded Pipeline Capacity from Pascagoula, MS
- Expanded Pipeline Capacity to Montgomery, AL
- New refinery connection (Motiva-Convent)
- New incentive to recapture Bengal volumes (effective 12/06)
- ULSD Spec Change (8 ppm – 10 ppm)

## Beyond 2007

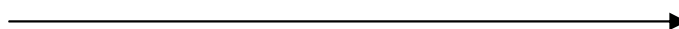
- Announced refinery expansions will significantly increase supply in future years
  - Marathon-Garyville +180,000 B/D Crude capacity
  - Chevron-Pascagoula +18,000 B/D Gasoline capacity

# 2007 Product Pipeline Plan

	Pipeline Volumes – Million Barrels			Pipeline Revenues - \$million (a)		
	2007 Plan	2006 Actual	Percent Change	2007 Plan	2006 Actual	Percent Change
<b>Pacific</b>	<b>449.3</b>	<b>433.7</b>	<b>3.6%</b>	<b>379.9</b>	<b>359.1</b>	<b>5.8%</b>
<b>Calnev</b>	<b>52.2</b>	<b>50.5</b>	<b>3.4%</b>	<b>71.0</b>	<b>65.6</b>	<b>8.2%</b>
<b>Plantation</b>	<b>207.0</b>	<b>202.6</b>	<b>2.2%</b>	<b>188.4</b>	<b>177.5</b>	<b>6.1%</b>
<b>CFPL</b>	<b>42.7</b>	<b>40.7</b>	<b>4.8%</b>	<b>46.9</b>	<b>43.1</b>	<b>8.7%</b>
<b>Heartland</b>	<b>8.6</b>	<b>8.3</b>	<b>4.0%</b>	<b>8.4</b>	<b>7.7</b>	<b>8.6%</b>
<b>Total</b>	<b>759.8</b>	<b>735.8</b>	<b>3.3%</b>	<b>694.5</b>	<b>653.1</b>	<b>6.3%</b>

# Historical FERC Tariff Index Regime

**Start**



**Current**

**PPI FG - 1**  
**(1995 - 1999)**

**PPI FG**  
**(2000 - 2005)**

**PPI FG + 1.3%**  
**(2006 - 2010)**

## Effects of Indexing on Tariff of \$1/Bbl in 1994

Index Year	Multiplier	Index Value	\$1 tariff	Basis
			\$1.000	
January 1, 1995 to June 30, 1995	1.002175	0.22%	\$1.002	PPI - FG - 1%
July 1, 1995 to June 30, 1996	0.996415	-0.36%	\$0.999	PPI - FG - 1%
July 1, 1996 to June 30, 1997	1.009124	0.91%	\$1.008	PPI - FG - 1%
July 1, 1997 to June 30, 1998	1.016583	1.66%	\$1.024	PPI - FG - 1%
July 1, 1998 to June 30, 1999	0.993808	-0.62%	\$1.018	PPI - FG - 1%
July 1, 1999 to June 30, 2000	0.981654	-1.83%	\$0.999	PPI - FG - 1%
July 1, 2000 to June 30, 2001	1.007598	0.76%	\$1.007	PPI - FG
July 1, 2001 to June 30, 2002	1.037594	3.76%	\$1.045	PPI - FG
July 1, 2002 to June 30, 2003	1.019565	1.96%	\$1.065	PPI - FG
July 1, 2003 to June 30, 2004	0.987207	-1.28%	\$1.052	PPI - FG
July 1, 2004 to June 30, 2005	1.031677	3.17%	\$1.085	PPI - FG
July 1, 2005 to June 30, 2006	1.036288	3.63%	\$1.124	PPI - FG
July 1, 2006 to June 30, 2007	1.061485	6.15%	\$1.193	PPI - FG + 1.3%
July 1, 2007 to June 30, 2007		4.25%*	\$1.249*	PPI - FG + 1.3%

\*Estimated

# FERC Update

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## ■ December 16, 2005 FERC Order

- Addressed issues on remand of BP West Coast Products decision (OR92-8 cost of service issues)
- Applied FERC Income Tax Allowance Policy Statement to SFPP cases (OR92-8/OR96-2)
- Reviewed OR96-2 Phase 2 cost of service rulings of Administrative Law Judge

## ■ Key Outcomes

- Ruled favorably on SFPP's ITA consistent with Policy Statement
- Reversed or modified a number of adverse cost of service determinations
- Upheld its prior rejections of challenges to SFPP's indexing adjustments
- SFPP made compliance filing in March and filed new rates to take effect May 1, 2006
- All Parties filed appeals with D.C. Court of Appeals (grandfathering and ITA)
- Oral Argument held December 12, 2006

## ■ Key Issues

- Grandfathering of West Line
- Income Tax Allowance
- Expect appellate decision late 1Q or early 2Q '07

## ■ Reserve

- Established reserve of \$105 million in 2005

# What's Next?

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- **If D.C. Circuit agrees with SFPP appeal on grandfathering, likely outcome is vacation and remand to FERC.**
  - If SFPP prevails at FERC, eliminates basis for reparations in OR96-2
  - If West Line reparations paid prior to such decision, SFPP could seek to recover reparations from shippers
  - Interim West Line rates lowered on May 1, 2006 could be restored to previous grandfathered levels and a surcharge implemented prospectively to recover reduced revenues
  
- **D.C. Panel's Assessment of Income Tax Allowance (Oral Argument)**
  - "Ripeness" Issue re Policy Statement
  - Concerns about phantom tax at entity level
  - Recognition of investors' return expectations and that taxes are ultimately paid
  - Suggestion to adjust pre-tax returns on equity
  - Remand vs. reverse/render





**KINDER MORGAN**

ENERGY PARTNERS, L.P.