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Products Pipelines

Tom Bannigan

President Products Pipeline Group

KMP
Products Pipelines and Facilities

Miles of Pipe ~ 8,900

Terminals – 52

Tank Capacity

- Terminal ~ 31 MMbbls
- Pipelines ~ 14 MMbbls

Transmix – 6 facilities with process capability of 30kbpd

2008 Throughput ~ 1.9MM bbls/day

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2008 Volumes/Markets – Refined Products

Total volume off 7.1% versus 2007

- **Excluding Plantation (not a good proxy for demand) – down 5.9% versus EIA national estimate of -3.9% for gasoline, distillate and jet fuel**

West Coast

- **Pacific -6.2%**
  - Arizona -5.3%, Northern CA -5.2%, Southern CA -8.9%
- **CALNEV -3.1%**
  - Nevada interstate +.4%, CA intrastate -25.8%
  - Las Vegas motor fuels +1.6%, McCarran Airport -2.4%

Southeast

- **Central Florida Pipeline -6.0%**
  - Orlando gasoline -7% (adjusted for 8 months ethanol blending -1%)
  - Orlando Airport +1.4%
- **Plantation -10.1%**
  - Gasoline -12.3% (ethanol blending, RBOB/conventional gasoline sourcing, Hurricane Gustav)
  - Jet -12.2% (competing carrier connection to Dulles Airport)
  - Diesel -2.7% (reduced effectiveness of incentive program)

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Revenue Drivers

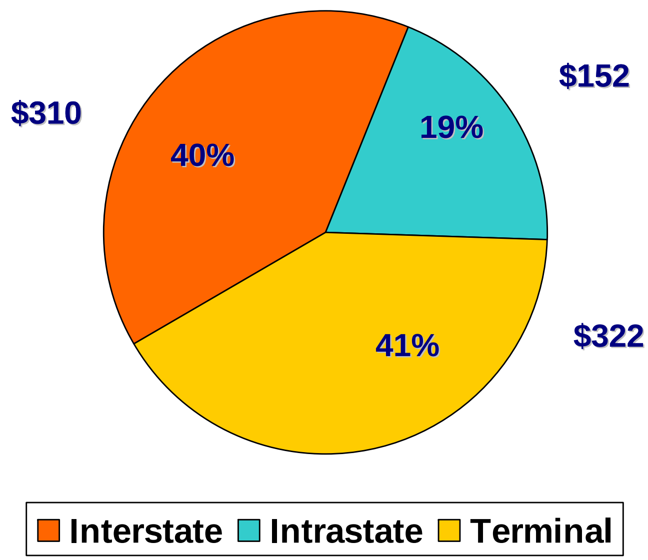
- **Organic Volume Growth and Renewable Fuels Opportunities**
- **Expansions/Acquisitions**
- **FERC Index (PPI FG +1.3%)**
- **Terminals (revenue growth opportunities beyond pipeline volume growth)**
  - Contract rate adjustments, biofuels, ancillary services, property leases
- **Targeted Tariff Incentives**
  - ULSD volume incentive program on Plantation

Asset Stability – Refined Products

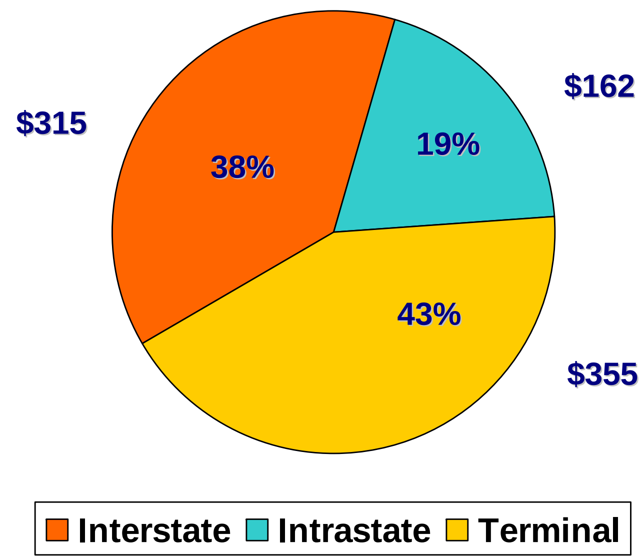
- High barriers of entry
- Demographics support continued growth, but at moderated pace
- FERC Index PPI FG + 1.3% (interstate volumes)
  - Substantial divergence alternative
- Arizona East Line settlement (downside protection)
- Military cost of service "true-ups"
- Throughput commitment on Plantation (~21% of plan transportation volume)

- Intrastate pipelines
  - California intrastate (CPUC)
  - Central Florida Pipeline
- Terminals
  - Contract escalators
  - Biofuel mandates
  - Term contracts > one year
    - East 47%
    - West 32%

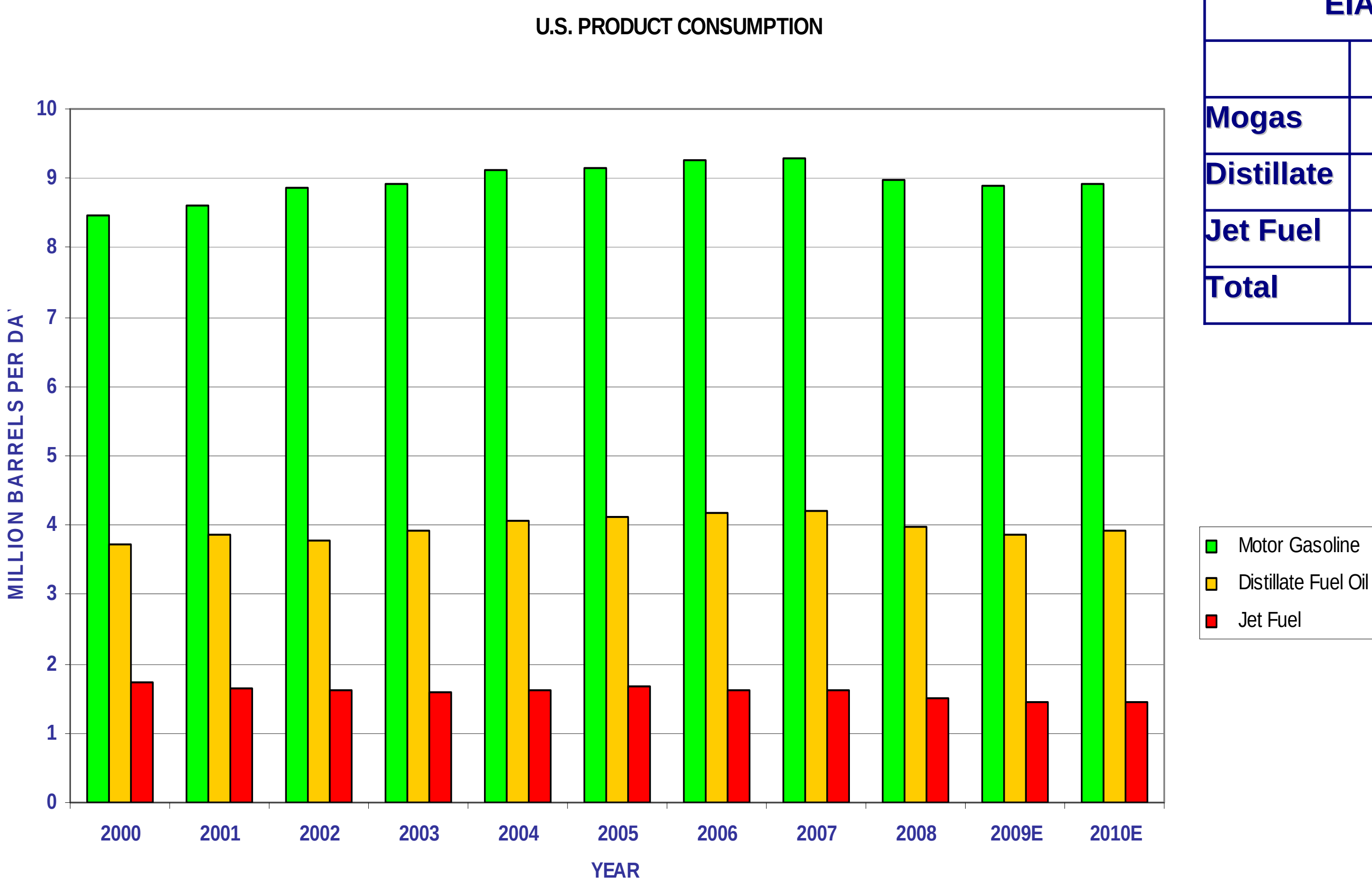
2008 Revenues - $ millions



2009 Plan Revenues - $ millions



Historical Demand and 2009-10 EIA Estimates



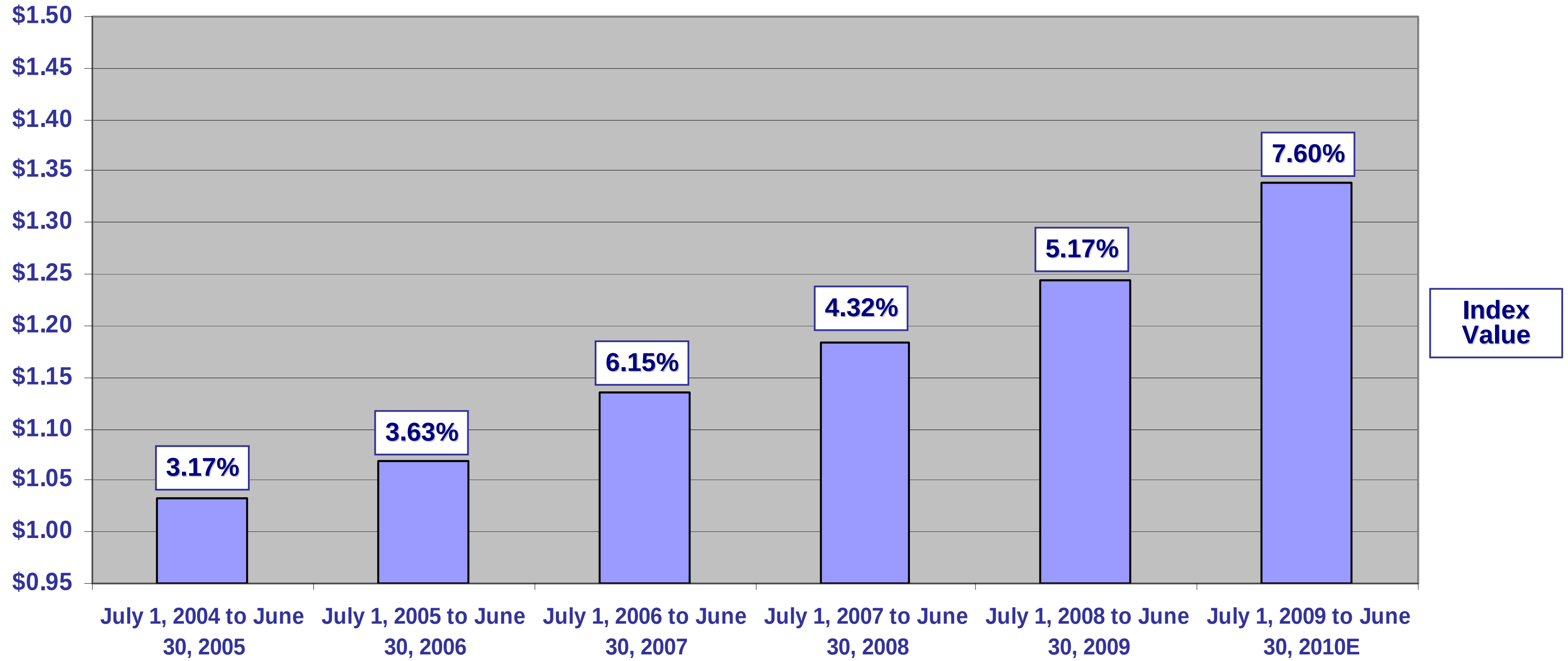
EIA Demand Estimates			
	2008	2009E	2010E
Mogas	-3.3%	-1.0%	0.5%
Distillate	-5.2%	-2.8%	1.3%
Jet Fuel	-6.8%	-4.0%	0.0%
Total	-4.2%	-1.8%	0.6%

Source: EIA Table 4a. U.S. Petroleum Supply and Consumption

Historical FERC Tariff Index Regime

PPI FG — **2000 – 2005** → **PPI FG + 1.3%** — **2006 - 2010**

Effects of Indexing on $1/bbl in June 2004



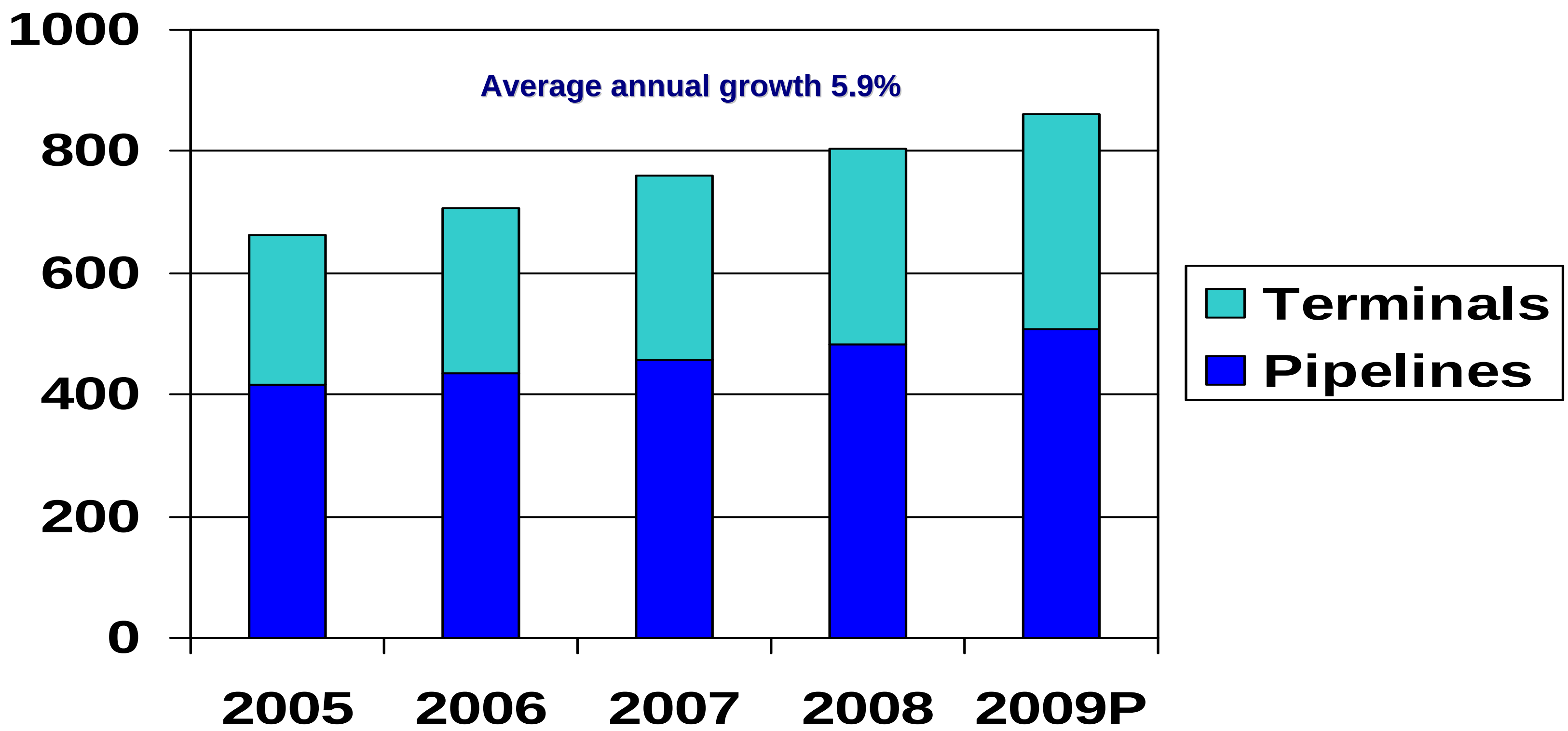
Terminals

Pacific, CALNEV, KMST and CFPL

- **Terminal revenues have experienced considerable revenue growth not directly linked to pipeline volumes**
- **Drivers for growth**
  - Ethanol and biodiesel storage and blending
  - Additive storage and blending
    - Lubricity (ULSD)
    - Red dye (off road diesel)
  - Expanding product slate
    - Conventional/Reformulated Blendstock for Oxygenate Blending (CBOB/RBOB)
    - Ultra Low Sulphur Diesel (ULSD)

Refined Products Revenues

Includes Pacific, CALNEV, Central Florida Pipeline, Plantation (51%), West Coast and Southeast Terminals and Transmix



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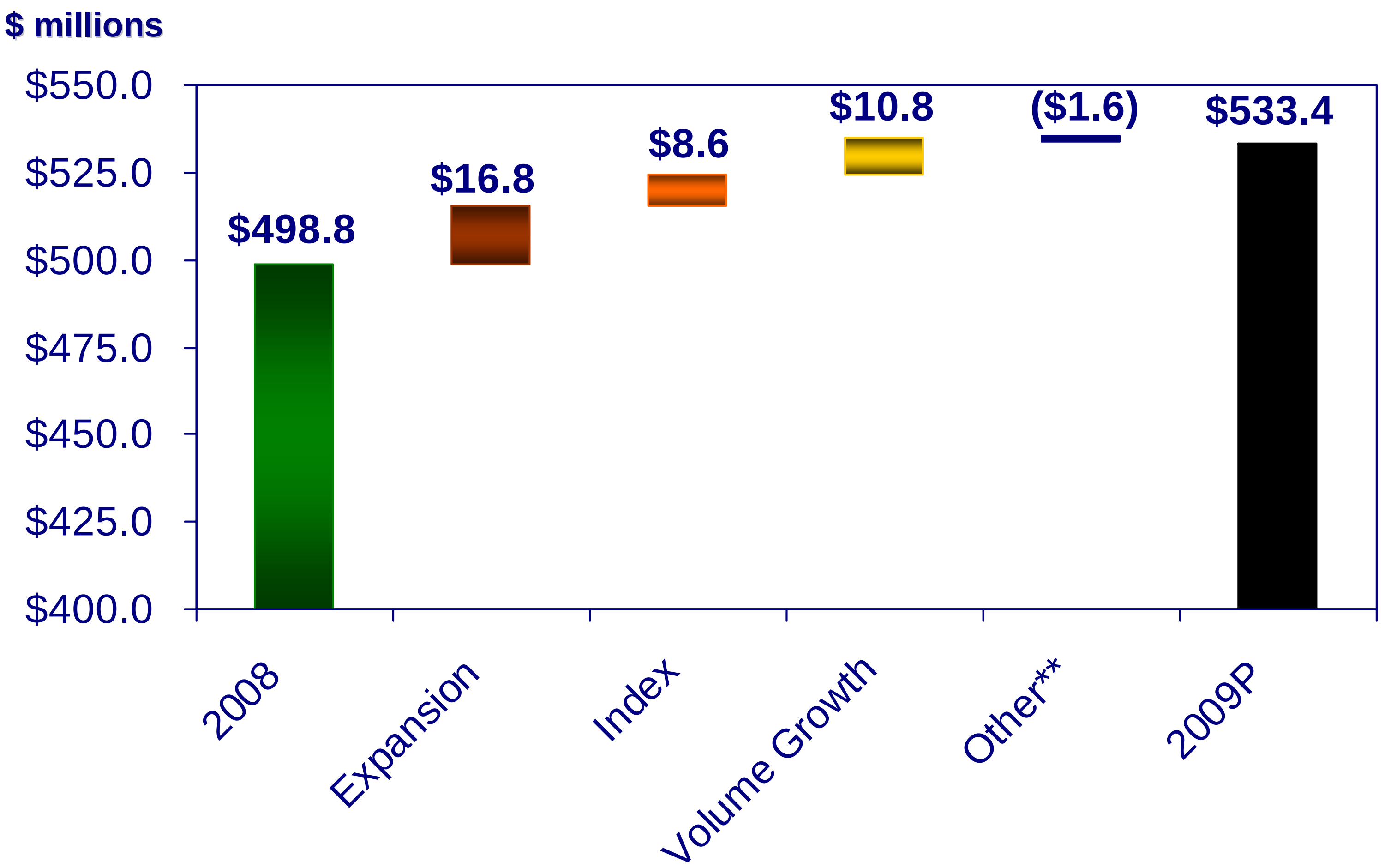
2009 Refined Products Pipeline Plan

	Refined Products Pipeline Volumes – Million Barrels			Refined Products Pipeline Revenues - $million (a)		
	2009 Plan	2008 Actual	Percent Change	2009 Plan	2008 Actual	Percent Change
Pacific	422.4	410.8	2.8%	$ 400.0	$ 376.8	6.2%
CALNEV	49.5	47.8	3.6%	$ 74.8	$ 70.7	5.9%
CFPL (c)	40.8	39.1	4.6%	$ 58.6	$ 51.3	14.3%
sub-total	512.7	497.7	3.0%	$ 533.4	$ 498.8	7.0%
Plantation (b)	189.8	175.8	8.0%	$ 97.1	$ 96.2	.9%
Total	702.5	673.5	4.3%	$ 630.5	$ 595.0	6.0%

(a) Revenue includes associated terminals
(b) Includes 100% Plantation volume and 51.17% of revenue
(c) CFPL revenue is net of cost of sales. Volume includes transported ethanol.

2009 Refined Products Revenue Growth*



*SFPP, CALNEV and CFPL revenue variances
**Leap year and rate cases

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Refined Products Excluding Plantation If Volume Assumptions are not Realized

Volume assumption 2009 Plan – Approximately 3% growth*

Volume/revenue sensitivity

- **1% reduction in volume growth assumption in 2009 Plan (e.g. from 3% to 2%)**
  - ~ $3.5 million decrease in revenue and $.50 million decrease in Fuel & Power expense

Potential responses to revenue shortfall include

- **Revenue**
  - CPUC cost of service application
  - Central Florida revised tariff filing
  - Terminal fee increases on non-term business
- **Fixed costs**
  - 1% reduction in other operating expense, sustaining capital and business unit G&A generates $2.2 million savings

*Original plan assumptions reflected more moderate growth relative to forecast 4Q'08 and year-end volumes. Economic headwinds grew stronger in 4Q'08 and significant declines in gasoline prices in 4Q'08 did not rekindle demand.

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Plantation Volume/Revenue Assumptions

- **BY PRODUCT**
  - Gasoline +6.7%
  - Diesel +19.7%
  - Jet -7.6%
- **Gasoline/Diesel growth driven by incentive programs, throughput commitment linked to an expansion project and a multiyear lease agreement involving gasoline tankage in Collins, MS**
- **Revenue growth of only .9% a function of decrease in OLA (oil loss allowance) revenues offset by higher transportation revenues related to volume growth**
- **1% reduction in volumes (e.g. 8% to 7%) ~ $.6 million decrease in revenue**

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NGL Assets

- **Cochin/Cypress combined represent $62 million Income before DD&A or 10% of 2009 segment Plan**
- **Cochin**
  - 1,900 mile pipeline serving 5 propane terminals and petrochemical complex (ExxonMobil, BP, Nova) in Sarnia, Ontario
  - Major credit-worthy customer obligated to transport volumes per throughput/deficiency agreement (~35% of 2009 revenue) through 2012
  - 2008 propane volumes up 8.6% and revenue up 10.4% over 2007
  - 2009 revenue growth driven by new line fill program and new projects
  - Multiple line rights on most of Cochin right of way
- **Cypress**
  - 110 mile pipeline – Mt. Belvieu to Westlake (Lake Charles, La.)
  - Single customer with strong credit, two and one-half years remaining on contract
  - Evaluating opportunities to move NGLs on Cypress from Mt. Belvieu, TX to West Louisiana storage and further east (customer negotiations underway)

	Pipeline Volumes – Million Barrels			Pipeline Revenues - $million		
	2009 Plan	2008 Actual	% Change	2009 Plan	2008 Actual	% Change
Cochin	13.7	11.3	21.8%	77.0	63.3	21.6%
Cypress	16.9	16.0	5.1%	7.2	7.0	3.9%
Total	30.6	27.3	12.0%	84.2	70.3	19.9%

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Expanding to Meet Customer Demand

Recently Completed Expansion Projects

Project	Description	In Service	Cost - $MM
Pacific			
Miramar Marine Corp Air Station	Four 80k bbl tanks, 8 inch pipeline and facilities	Dec 2008	$ 25.0
Fresno Tank & Rack	80k bbl tank and two lane truck loading rack	June 2008	13.6
Colton Tanks	Two 80k bbl tanks	June 2008	9.1
Filtration & Additive Systems	Provide filtration and associated service for military jet fuel	Aug 2008	8.1
Total			$ 55.8
West Coast Terminals			
Willbridge and Harbor Island	Facility modifications to support ethanol and biodiesel blending and storage	June 2008	$ 8.0
Carson Terminal	New 80k bbl tank and facility modifications for military jet fuel service	Dec 2008	10.9
Total			$ 18.9
Southeast Terminals			
Ethanol Blending & Storage: Chesapeake, Richmond 1, Athens, Selma 1,2,& 3, Greensboro 2, Charlotte 3, N. Augusta, Doraville	New tankage and modifications to existing facilities to provide for automated ethanol blending	Various 2008	$ 18.4
Grand Total			$ 93.1
		First full year EBITDA = $18 million	

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Expanding to Meet Customer Demand

Expansion Projects Approved and Underway

Project	Description	In Service	Cost - $MM
<u>Pacific</u>			
Travis Air Force Base	Three 150k bbl tanks, 16 inch pipeline and facilities	2011	$ 44.7
Colton Terminal Expansion	Add two 80k bbl tanks and two lane loading rack	2010	<u>17.0</u>
Total			$ 61.7
CALNEV Pipeline Expansion	Construct new 16 inch pipeline w/ 200k bpd initial capacity	2011	$ 425.8
<u>West Coast Terminals</u>			
Carson Terminal Expansion	Add six 80k bbl tanks and associated piping	2010-2011	$ 61.0
<u>Central Florida Pipeline</u>			
Tampa/Orlando Ethanol	Build 120k and 100k bbl tanks, rail sidings, truck racks, blend equipment	2009	$ 27.8
Ethanol Pipeline Conversion	Modify existing pipeline and facilities for ethanol transport	2009	<u>8.6</u>
Total			$ 36.4
<u>Southeast Terminals</u>			
Ethanol Conversion – Knoxville, Greensboro, Charlotte, Roanoke and Collins terminals	Modify to provide automated ethanol blending and improve terminal transfers	2009	$ 26.9
<u>Plantation Pipe Line (KM share)</u>			
Baton Rouge Manifold Expansion	Upgrade receipt facility	2009	$ 3.6
Grand Total			$ 615.4
		First full year EBITDA = $94 million	

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CALNEV Expansion

- **Mainline Expansion (16” pipeline)**
  - $425.8 MM
  - In service April 2011
  - Permitting/Engineering Design underway
  - Initial capacity 200,000 B/D
    - Can be increased to over 300,000 B/D with additional horsepower
  - FERC approved URC rate structure for new investment
  - First full year EBITDA - $61 million

KM – DESC* Logistical Partnership

<u>Projects Completed or Underway:</u>

- Filtration and Additive (5 bases)
- Pipeline (5.5 mile 8in), Pumps and 20 MB Storage at Nellis AFB
- Pipeline (0.5 mile 8in), Pumps and 320 MB Storage for MCAS Miramar and Pt. Loma Navy Base
- Pipeline (1.5 mile 16in), receiving facilities and 450 MB storage at Travis AFB
- 300MB storage at Carson terminal
- Total Investment: $91.3 MM

<u>Proposed Projects:</u>

- Additional Filtration and Additive (4 bases)
- Miramar-Point Loma Pipeline (14 miles 10in)
- Additional 400MB storage at Carson Terminal
- Total Investment: $67.2 MM

Military revenue is adjusted annually for changes in volumes, investment and expenses.

*DESC (Defense Energy Support Center)

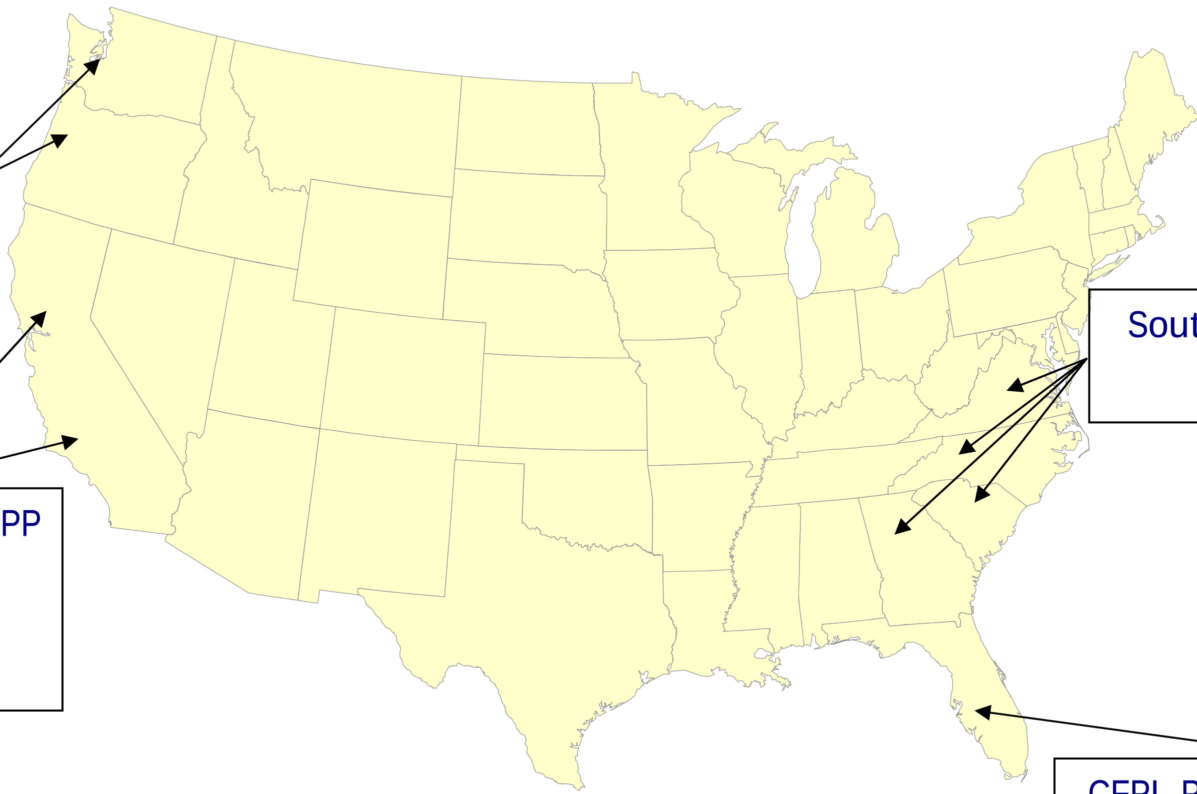
Biofuels
Approved Ethanol and Biodiesel Projects

Eugene, Willbridge and Harbor Island

$17 MM

Mandates at SFPP Terminals

11 locations by 2010



Southeast Terminals

$45 million

CFPL Pipeline and Terminals

$36 MM

Additional $23 million expected to be approved to meet West Coast mandates and biodiesel blending for transportation on Plantation

Biofuels
California Renewable Fuel Opportunities

- **California Ethanol Mandate increases from 5.7% to 10% (incremental 40,000 barrels per day of ethanol)**
- **Effective 1/1/2010**
- **$15 MM investment in storage and blending infrastructure**
- **Improvements to offloading and storage at certain of our thirteen terminal facilities**

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Biofuels
Pacific Northwest Biofuels Opportunities (Near-term)

Mandates

- **Washington: Avg. 2% of volume (ETOH & BioDiesel) Effective Dec ‘08**
- **Oregon: E-10 requirement rolled-out during ’08; B-2 requirement expected during ‘09**

KM Infrastructure

- **Seattle: E-10 blending instituted 9/16/08; B-2 to B-20 blending instituted 11/22/08 - $3 Million investment**
- **B-2 blending to be available at Portland rack and into Oregon Line (for Eugene, OR) 7/1/09 - $6.25 Million investment**
- **114-Mile Oregon Line to be among first in nation to require B-2 fungible spec**

Biofuels
CFPL Ethanol

- Tampa/Orlando markets – approximately 20,000 B/D of ethanol demand at 10% blend rate
- 10% ethanol blends required by the state 1/1/11
- 270,000 BBLS of ethanol storage in place by 2Q08; total 350,000 BBLS by 4Q09
- Storage and blending fully subscribed by marketers, producers and gasoline blenders
- Multi-year term contracts executed
- Pipeline shipping ethanol as of December 2008.

Biofuels
KMST Ethanol

- **Ethanol blending capability in 12 of 15 markets by April 2009**
  - Adding blend capability to conventional gasoline
  - Backed by term contracts

- **Continued interest in ethanol hub operations in North Carolina**
  - Will support rail opportunities (existing storage and adjacent rail infrastructure in place)
  - Positioning for future growth in mandated volumes

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Biofuels
Transportation of Biofuels by Pipeline

- **Batching ethanol on CFPL began December 2008**
  - No operational or integrity issues – continue to monitor
  - 2009 Plan ethanol transport volume – 5,100 bbls/day
  - Evaluating other pipeline segments in the Southeast and West Coast
- **Plantation Pipe Line biodiesel initiative**
  - Successful test batch in October 2008
  - Specification established with producers
  - Initial batches to ship 2Q09 (Blend in Collins, MS and transport to PPL Mainline Terminals)
  - Currently negotiating commercial terms with customers
  - Expect full scale commercial operations by 4Q09
- **Biodiesel on the Oregon line**
- **Regulatory Interaction – PHMSA engaged in effort**

Rate Case Update

- **Waiting for order on OR96-2 Compliance Filing (February 2008) and further rehearing requests**

- **Updated reserve in 2008 to reflect above decision as well as certain settlement negotiations, interest on reparations and related legal expenses**

- **Settled several cases:**
  - Settled EPX Oct 2008, pending at FERC (ELX settled Nov 2007)
  - Settled SFPP 2005 index complaints April 2008
  - Settlement pending on ULSD surcharge

Rate Case Update – Cont'd

- **Progress in several subsequent cases:**
  - Completed hearing in OR-03 North/Oregon complaint cases; Initial Decision in Nov. 2008; briefing now
  - Completed hearing in OR-03 East/West complaint cases in Dec. 2008; Initial Decision expected in June 2009
  - Hearing in June 2009 in West Line substantial divergence rate increase case

- **Global settlement prospects**