

# **Products Pipelines**

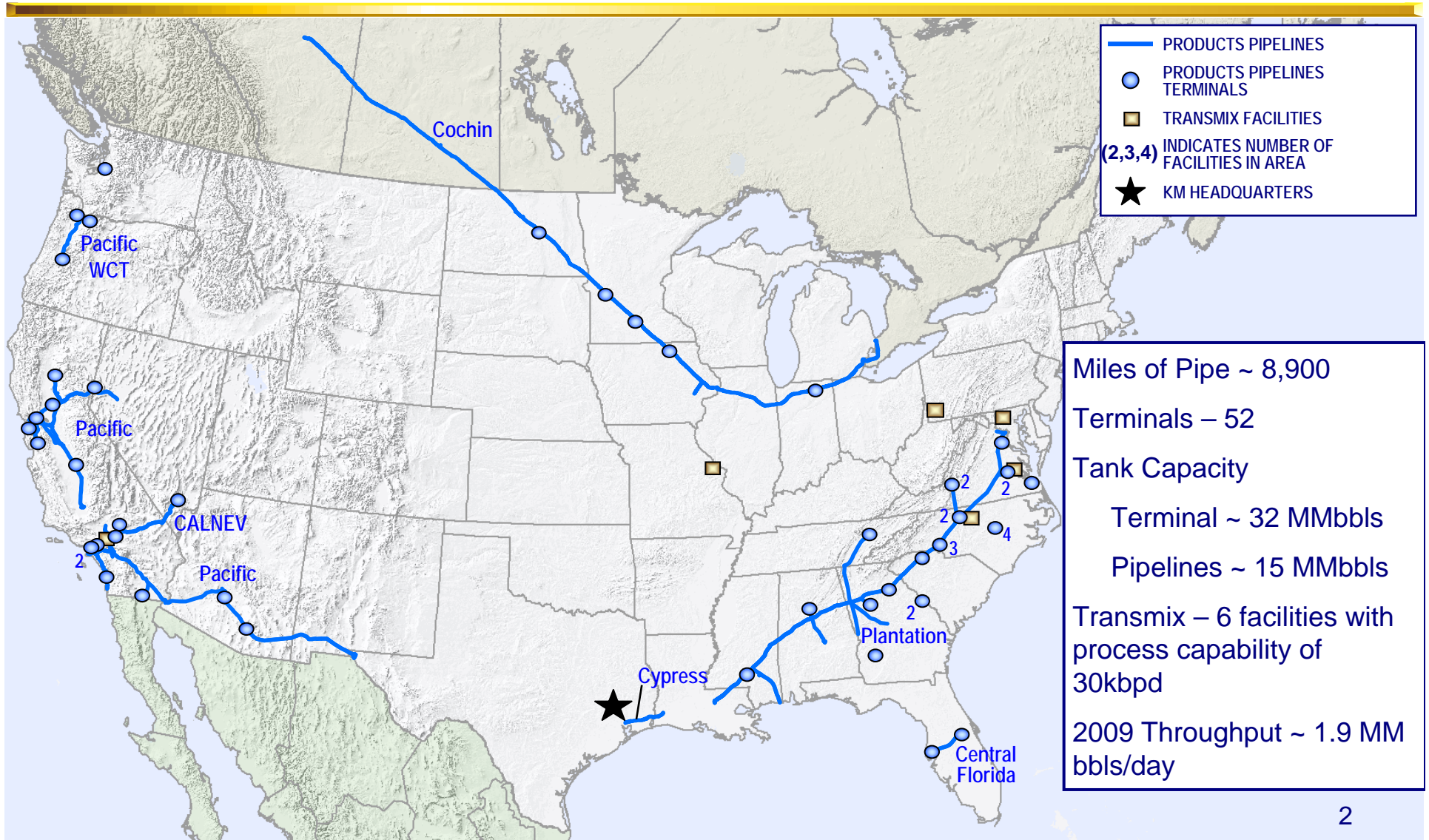
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***Tom Bannigan***

***President Products Pipelines Group***

# KMP

## Products Pipelines Assets



# Segment Financial Overview <sup>(a)</sup>

(\$ in millions)

	<u>2008</u>	<u>2009</u>	<u>2010 Plan</u>
<b>Income Before DD&amp;A</b>	<b>\$ 571.5</b>	<b>\$ 635.1</b>	<b>\$ 698.6</b>
<b>Sustaining Capital <sup>(b)</sup></b>	<b><u>(47.5)</u></b>	<b><u>(42.5)</u></b>	<b><u>(45.0)</u></b>
<b>Distributable Cash Flow</b>	<b><u>\$ 524.0</u></b>	<b><u>\$ 592.6</u></b>	<b><u>\$ 653.6</u></b>
<b>Percent change over prior year</b>	<b>1.3% <sup>(c)</sup></b>	<b>13.1%</b>	<b>10.3%</b>

(a) Excludes Certain Items

(b) Does not include corporate overhead

(c) Excludes impact of sale of North System in 2007

## 2009 Volumes/Markets

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**Total volumes off 2.8% vs. 2008 – off 2.5% adjusted for leap year (EIA reported 3.1% national decline)**

- Gasoline (including CFPL ethanol) up .4%, Diesel down 9.3%, Jet Fuel down 5.1%
- Increases on Plantation Pipe Line partially offset decreases on West Coast assets
- **West Coast**
  - Pacific -4.2%
    - Arizona -4.8%, Northern CA -4.2%, Southern CA -1.6%
  - CALNEV -8.1%
    - Nevada commercial -8.6% (Las Vegas motor fuels -6.9%, McCarran Airport -12.9%)
- **Southeast**
  - Central Florida Pipeline flat
    - Gasoline -3.0%
    - Jet -6.2%
    - Ethanol: Transported 3.7k Bbls/day offsetting year over year declines in Gasoline and Jet
  - Plantation +1.2%
    - Gasoline +3.3%
    - Jet +11.3%
    - Diesel -9.6%
- **Biofuels – total barrels handled (23.2 million) up 24% over 2008**

# Expanding to Meet Customer Demand

## Recently Completed Projects

Project	Description	In Service	Cost (\$MM)
<u>Pacific</u>			
Tucson Terminal	Convert tanks for ethanol and transmix storage	August 2009	\$ 1.0
Concord Station Pump	Upgrade pumps to increase throughput	May 2009	\$ 2.5
<u>West Coast Terminals</u>			
Willbridge and Linnton Terminals	Provide for biodiesel handling and blending	September 2009	\$ 8.1
Linnton Terminal	Tank modifications to facilitate ULSD storage	September 2009	\$ 1.9
<u>Central Florida Pipeline</u>			
Tampa & Orlando Ethanol	Construct 120k and 100k bbl tanks, rail sidings, truck racks and blending equipment – tank completed in 2009	2008/2009	\$ 27.8
Ethanol Pipeline Conversion	Modify pipeline and facilities for ethanol transport and construct new 100k bbl tank – tank completed in 2009	2008/2009	\$ 9.4
Tampa Terminal	Modify existing feeder pipelines to facilitate transfer of product between KM and customer's terminals	December 2009	\$ 4.0
<u>Southeast Terminals</u>			
Ethanol Conversion and Additive systems – Knoxville, Greensboro, Charlotte, Roanoke, Collins, Albany, Chesapeake, Richmond terminals	Modify facilities to provide automated ethanol blending and improve terminal transfers and proprietary additive capability	Various 2009	\$ 27.6
<u>Plantation Pipe Line (KM share)</u>			
Baton Rouge Manifold Expansion	Upgrade receipt facility to facilitate customers increased flow rates	October 2009	\$3.5
Cochin Pipeline	Install new receipt point at Oneok North System	October 2009	\$ 1.5
Grand Total =			\$ 87.3
First full-yr EBITDA =			\$ 24.2MM

# Refined Products Demand Pressure

## PRESSURE POINTS

- Ethanol mandates
- CAFE standards – proposed increase of 4.3% to model year 2016 <sup>(a)</sup>
- Driving demographics
  - “Vehicle Miles” essentially flat 2009 over 2008 but off 3.4% to 2007
- Product prices
- “Green” marketing

## PACE OF CHANGE

- Ethanol blend wall/E-85 penetration/vehicle warranty/technology challenges with cellulosic
- Economy/unemployment levels/consumer debt burden
- US fleet turnover
- The “Clunker” story - 0.3% of US Fleet
  - 690,000 vehicles/\$2.9B
  - Of top 10 vehicles purchased – 2 full size trucks, 2 SUV’s and 1 wagon
- Hybrid/Alternatives fleet penetration
- Uncertainty regarding regulatory “rules of the game”
  - Tax credits for biodiesel
  - RFS2 delays in promulgation
  - Carbon intensity; corn vs. cane based ethanol

(a) Combined cars and trucks increase from MY 2011 avg. of 27.3 to MY 2016 avg. of 34.1



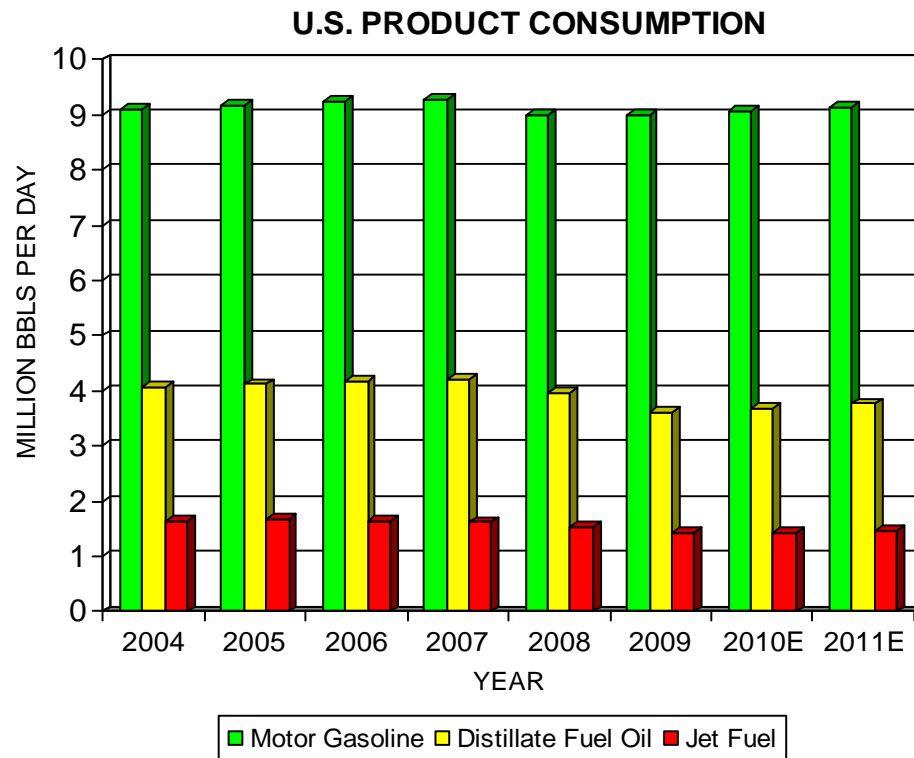
# Kinder Morgan Response

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## RESPONSE

- **Index and cost of service filings to ameliorate volume declines**
- **Ethanol/biodiesel storage and blending**
  - Blend percentage increases
  - Year round blending
- **Pursue pipeline opportunities for transporting biofuels**
- **Export/Import opportunities for refined products and biofuels**
  - Restrictions on corn based ethanol
  - Marine terminal footprint/marine rail logistics
- **Acquisitions and consolidations**
  - Major E&P companies announced divestment plans
    - Prior acquisitions from majors
  - Expand footprint (experienced low-cost operator)

# Historical Demand and 2010-11 EIA Outlook



EIA Demand Outlook			
	2009	2010E	2011E
<b>Mogas</b>	0.1%	0.6%	0.7%
<b>Distillate</b>	-8.4%	2.1%	2.0%
<b>Jet Fuel</b>	-8.1%	1.1%	1.2%
<b>Total</b>	-3.1%	1.0%	1.1%

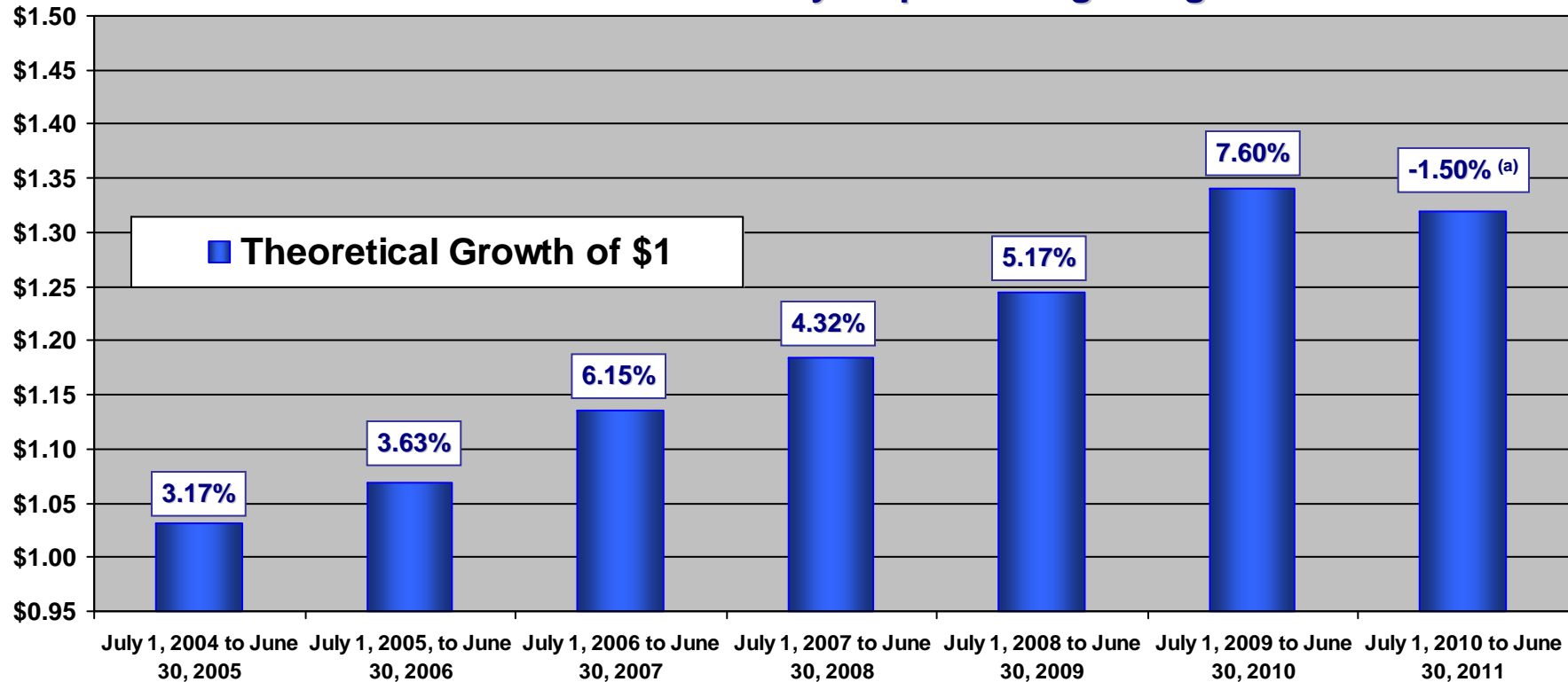
Refined Product Pipelines – MM bbls			
	2009	2010P	% chg
<b>Pacific Calnev CFPL</b>	476.8	481.7	1.0%
<b>Plantation</b>	177.9	191.6	7.7%
<b>Total</b>	654.7	673.3	2.9%



# Historical FERC Tariff Index Regime

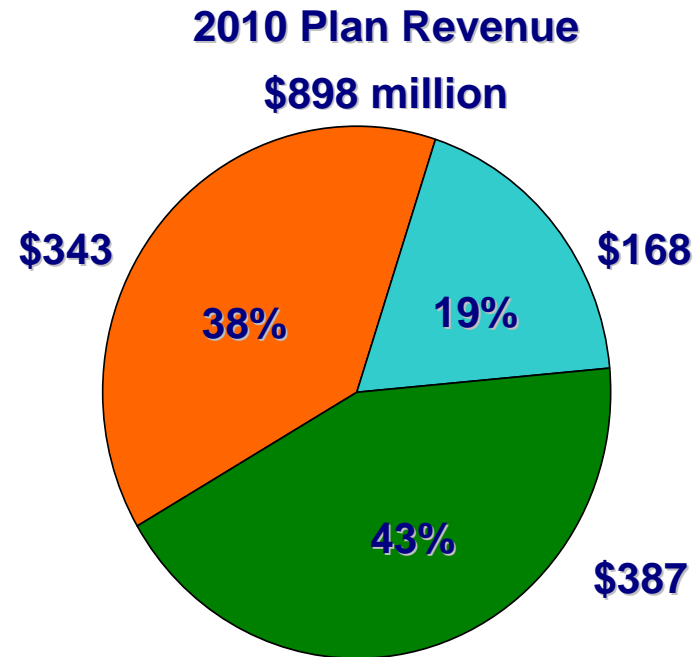
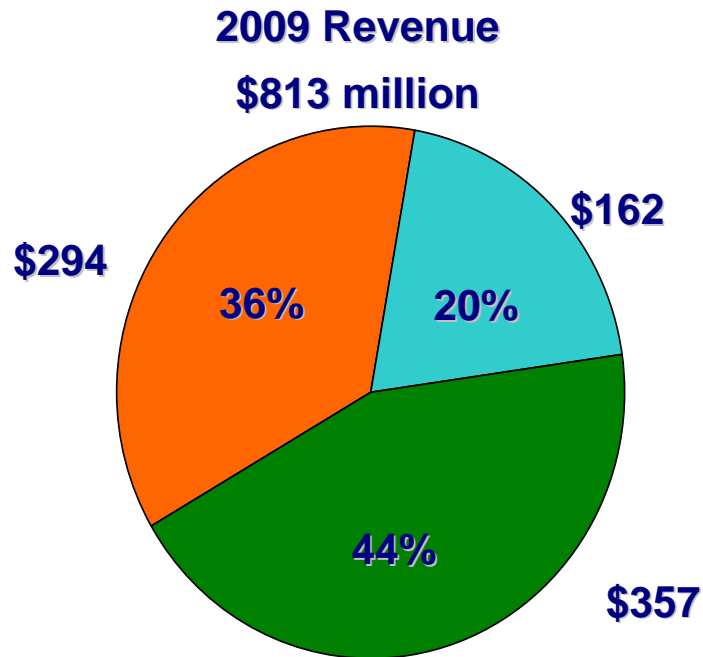
PPI FG  $\longrightarrow$  PPI FG + 1.3%  
2000 – 2005 2006 - 2011

FERC review in 2010 for five year period beginning in 2011



(a) 2010 Plan assumes -1.5% index; sensitivity = \$100k per 1/10% change

# Refined Products Revenue Attribution



■ Interstate 
 ■ Intrastate 
 ■ Terminal

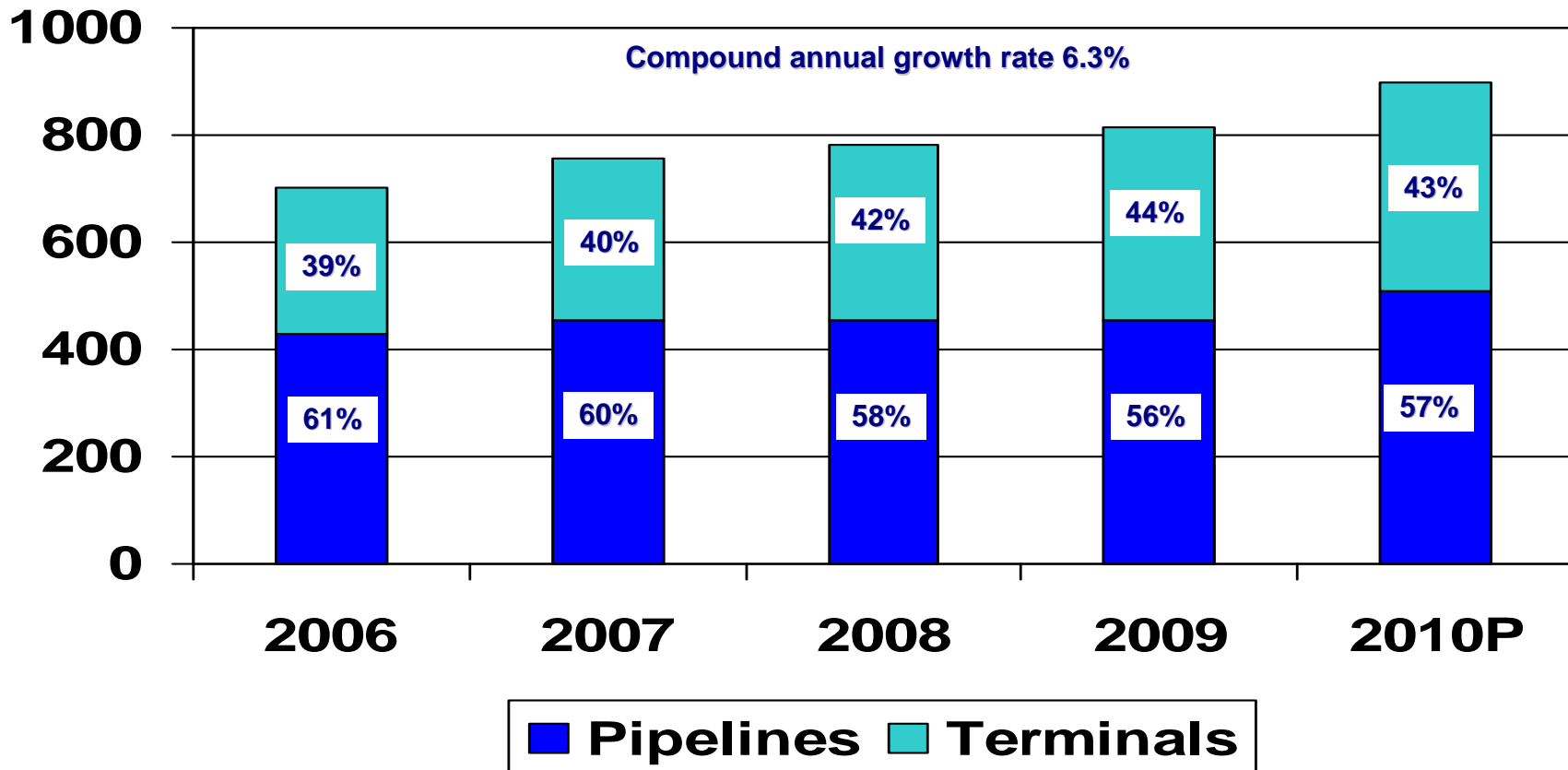
■ Interstate 
 ■ Intrastate 
 ■ Terminal

**2009-2010 Revenue Growth Rates**

- Interstate +\$49MM/17%
- Intrastate +\$6MM/4%
- Terminals +\$30MM/9%
- Total +\$85MM/10%

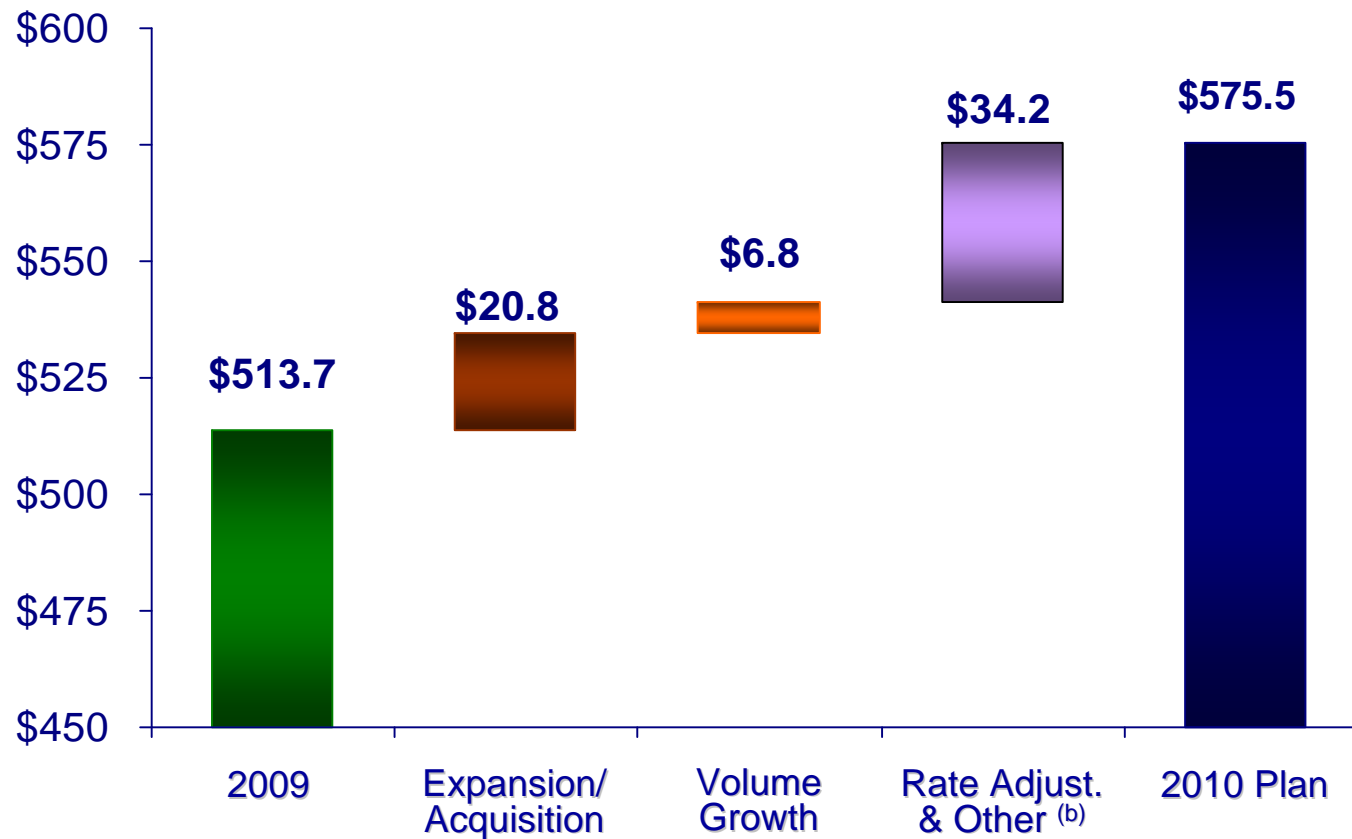
# Refined Products Revenues

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



## 2010 Refined Product Pipelines Revenue Growth <sup>(a)</sup>

(\$ in millions)



(a) SFPP, CALNEV and CFPL (pipeline and associated terminals) revenue variances

(b) Index adjustment, cost of service rate filings and non-index increases

# NGL Assets

Combined represent \$62.9 million Income before DD&A or 9% of 2010 segment Plan

## ■ Cochin

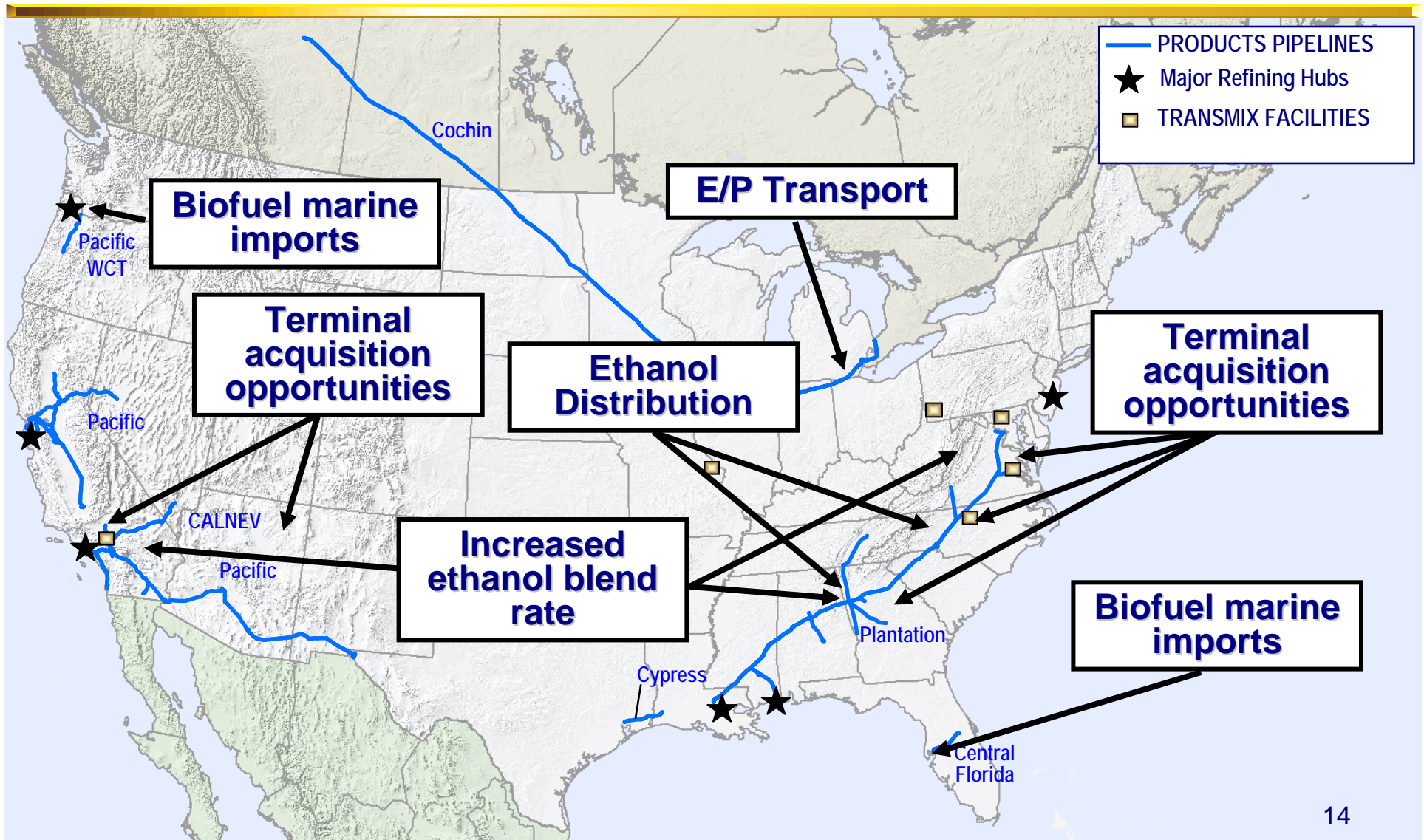
- 1,900 mile pipeline serving 5 propane terminals and petrochemical complex (ExxonMobil, BP, Nova) in Sarnia/Corunna, Ontario
- 2009 propane volume down 4.7% and revenue down 2.0% from 2008
- 2010 revenue growth driven by new E/P mix transportation opportunity (2H '10) and increased first quarter propane supply in Western Canada vs. 2008

## ■ Cypress

- 110 mile pipeline – Mt. Belvieu to Westlake (Lake Charles, La.)
- Economy-driven downturn in 1Q 2009 / extended maintenance

	Pipeline Volumes – Million Barrels			Pipeline Revenues - \$million		
	2010 Plan	2009 Actual	% Change	2010 Plan	2009 Actual	% Change
NGLs	31.2	26.5	17.6%	\$ 87.8	\$ 68.9	27.4%

# Positioned for Growth



# Expanding to Meet Customer Demand

## Near Term Projects

Project	Description	In Service	Cost (\$MM)
<b><u>Pacific</u></b>			
Travis Air Force Base	Three 150k bbl tanks, 16 inch pipeline and facilities	2011	\$ 47.5
Colton Terminal Expansion	Add two 80k bbl tanks and two lane loading rack	2010	\$ 19.2
California 10% Ethanol Blending	Install and upgrade facilities to meet new state mandate	2010	\$ 15.8
Wickland San Jose Airport System	Modify facilities to increase jet fuel handling and storage	2010	\$ 2.5
Reno and Phoenix Ethanol	Modify facilities to increase ethanol handling and storage	2010	\$ 1.6
<b><u>West Coast Terminals</u></b>			
Carson Terminal Expansion	Add six 80k bbl tanks and associated piping	2010	\$ 61.7
Carson – additional expansion	Under development – additional seven tank new build	TBD	Under development
<b><u>Central Florida Pipeline</u></b>			
Tampa and Orlando VRU	Install vapor recovery units	2010-2011	\$ 6.5
<b><u>Southeast Terminals</u></b>			
Selma Ethanol	Expand local ethanol system to handle increased volumes	2010	\$ 1.2
<b><u>Transmix</u></b>			
Colton Facility	Modifications to facilitate marine diesel rack deliveries	2010	\$ 1.0
Cochin Pipeline	Modifications to transport ethane/propane mix	2010	Under development
<b>Grand Total =</b>			<b>\$ 157.0</b>
<b>First full-yr EBITDA =</b>			<b>\$ 48.5MM (a)</b>

Note: Expect final permit for CALNEV Pipeline Expansion in second half of 2010

(a) Includes estimated EBITDA for two projects under development



## **Biofuels**

### **California Renewable Fuel Opportunities**

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- **California ethanol blend rate increased from 5.7% to 10% (incremental 40,000 barrels per day of ethanol)**
- **KM California terminals began 10% Ethanol blending on January 11, 2010**
- **Over \$15 MM improvements to offloading, storage and blending infrastructure at certain of our thirteen California terminal facilities**

# Biofuels

## Pacific Northwest Biofuels Opportunities

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### ■ Mandates

- Washington: 2008 Requirement for Average 2% of volume ethanol and biodiesel
- Oregon: 2008 Requirement for E-10; B-2 requirement effective October, 2009

### ■ KM Infrastructure

- Seattle: E-10 blending instituted September, 2008; B-2 to B-20 blending instituted November, 2008 - \$3 Million investment
- B-2 blending available at Portland rack and into Oregon Line (for Eugene, OR) on October 1, 2009 - \$8.1 Million investment
- 114-Mile Oregon Line among first in nation to transport bio-diesel

# Biofuels

## Southeast Ethanol

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### ■ Central Florida Pipeline

- Tampa/Orlando markets – approximately 20,000 B/D of ethanol demand at 10% blend rate
- 10% ethanol blends required by the state January 1, 2011
- 350,000 BBLs of ethanol storage
- Storage and blending fully subscribed by marketers, producers and gasoline blenders under multi-year contracts

### ■ Southeast Terminals

- Ethanol blending capability in 12 of 15 markets
- Blend capability to reformulated and conventional gasoline
- Blends adjustable as additional blending is required
- Facilities can offer clear gasoline and blended gasoline

# Biofuels

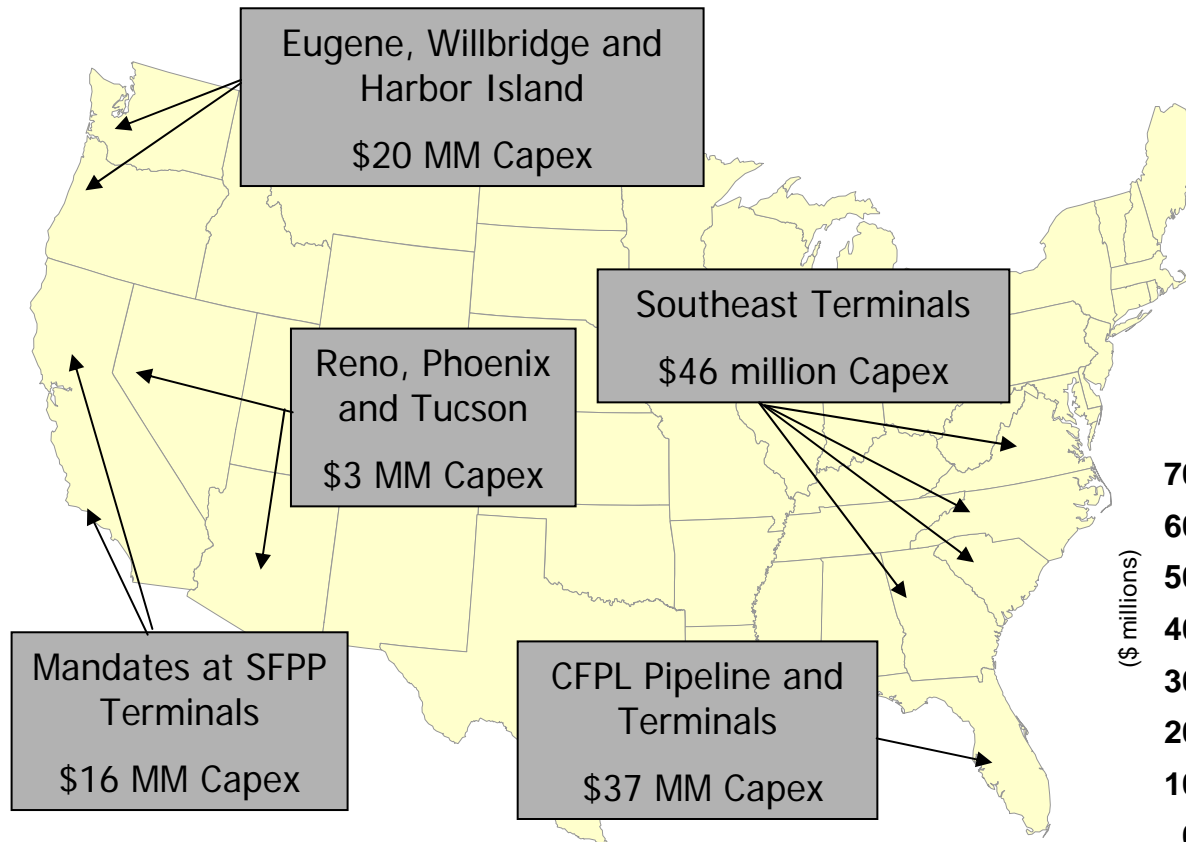
## Transportation of Biofuels by Pipeline

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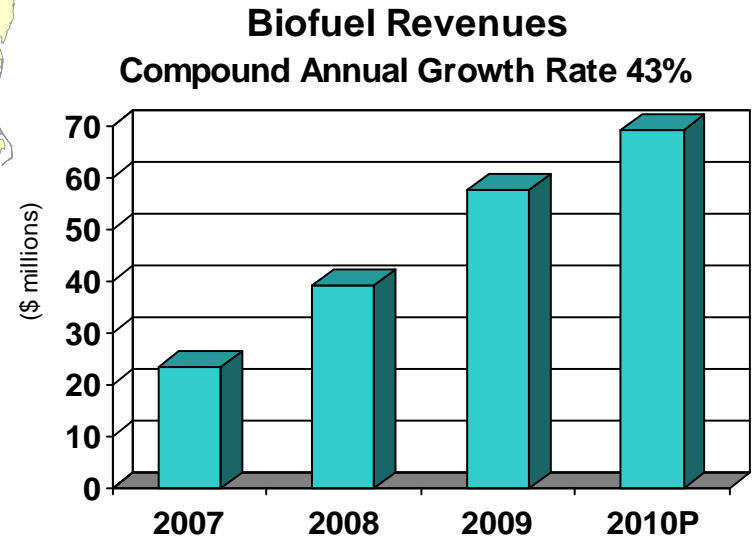
- **Batching ethanol on CFPL began December 2008**
  - No operational or integrity issues – Monitor/1Q 09 smart pig analysis
  - 2009 transported 3,700 bpd; 2010 Plan transport volume – 6,000 bbls/day
  - Evaluating other pipeline segments in the Southeast and West Coast
- **Plantation Pipe Line biodiesel initiative**
  - Successful test batch in October 2008
  - Specification established with producers
  - Regular Shipments of B5/5 thousand bpd
  - Capacity to ship 100 thousand bpd of B5
  - Market development slowed by EPA delays in issuing RFS2 rules and congressional failure to reinstitute biodiesel tax credit
- **Ethanol on PPL – evaluating commercial opportunities with customers and finalizing technical efforts to be undertaken**

# Biofuels

## Approved Ethanol and Biodiesel Projects



Biofuel Volumes Handled Million bbls			
2007	2008	2009	2010P
11.8	18.7	23.2	29.0



# Rate Case Update

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- **Global Complaint Case – O96-2 Compliance Filing (February 2008) and further rehearing requests remain pending at FERC**
- **Updated reserve (4Q 2009) to reflect interest on reparations and related legal expenses**
- **Completed settlements in SFPP cases:**
  - FERC approved EPX settlement in March 2009 (ELX settled November 2007)
  - FERC approved ULSD surcharge settlement

## Rate Case Update – Cont'd

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### ■ **Developments in subsequent cases:**

- Completed briefing to FERC on Initial Decision in OR-03 North/Oregon complaint cases
- Initial Decision issued in OR-03 East/West complaint cases in June 2009; briefed to FERC
- Initial Decision issued in December 2009 in West Line substantial divergence rate increase case
- Terminated EPX settlement and increased East Line rates effective January 1, 2010; hearing in June 2010

### ■ **Global settlement prospects**