



Since last fall, there have been a few questions raised about Kinder Morgan Energy Partners' (KMP) business. Most recently, Barron's published an article reiterating a number of these questions. Although Barron's contacted us just prior to publishing its report, we believe a number of our important responses were not incorporated. As a result, we thought it would be helpful to provide our investors the information that we provided Barron's in response to its questions. We have paraphrased the questions and made a few minor additions to our responses after reading the article.

1) First off, we are enthusiastic about our future. Revolutionary changes in oil and gas supply and demand across North America are leading to tremendous growth opportunities for KMP in the energy infrastructure industry.

- KMP has an excellent track record in both its financial and operational performance
- We are a leader in all of our business segments
- We have an unparalleled asset footprint
- We have a backlog of nearly \$14 billion (at KMP) of growth projects we expect to complete over the next five years generating very attractive returns
- Over the long-term, we have generated and expect to continue to generate attractive returns for our limited partners and general partner

Q: There have been questions raised about KMP's distributable cash flow (DCF), which is a non-generally accepted accounting principles (GAAP) financial measure calculated based on the MLP's financial assumptions. In particular, there has been focus on the determination of sustaining (or maintenance) versus growth capital expenditures. The sustaining capex in KMP's carbon dioxide (CO₂) division was just \$14 million last year while expansion capex was \$676 million. There have been questions about whether it's appropriate to assign such a small amount of sustaining capex to the CO₂ division, which is dominated by an enhanced oil recovery (EOR) business using CO₂ flooding in mature wells. KMP has addressed this issue in the past, but questions persist.

2) KMP's sustaining capex is not understated. It is stated consistent with our partnership agreement and we believe it is appropriate based on our detailed, bottoms-up approach to capital spend determination.

3) KMP's determination of sustaining capital for our CO₂ segment has been thoroughly discussed and disclosed dating back to 2003. We believe it is widely understood by the investment community and is incorporated in KMP's valuation.

This topic has been thoroughly discussed and reported on throughout the investment community for over a decade. Many recent analyst reports note that this is an "old issue." Third party analyses of Kinder Morgan show that investors factor this into the way they value KMP. We have been very clear and consistent in our determination of sustaining capex. That determination is based on the definition of sustaining capex in our partnership agreement. KMP's partnership agreement defines maintenance capital expenditures as capital spent to maintain an asset without increasing its capacity or throughput. Conversely, expansion capital includes those expenses which increase throughput or capacity. We have consistently applied these definitions to our CO₂ segment.

4) We believe we will be able to sustain our distributions when CO₂ DCF declines and/or Jones Act vessels need to be retired.

The question is really an economic one. Will KMP be able to sustain distributions when CO₂ DCF declines and/or our Jones Act vessels need to be retired? We believe DCF declines from these items (many years off in the future) will be manageable in the context of KMP's size and scope. We are not an exploration & production (E&P)

MLP. KMP is a highly diversified midstream operator, with operations across natural gas, oil and refined product transportation and storage logistics. The oil production portion of our CO₂ segment represents approximately 17% of KMP's total EBDA. The capital we invested in SACROC and Yates (the two fields on which this question is focused) was about \$300 million in 2013. That compares to total expansion and acquisition capital investments of \$10 billion in 2013 and forecasted expansion and acquisition investments across our five business segments of \$4.6 billion in 2014. Further, to put this question in perspective, people are focused on an approximate \$200mm decline in DCF in 2021 on an entity (KMP) that today generates \$4.4 billion of DCF and which we believe will be substantially greater by the time we get to 2020.

Additionally, often overlooked in the analysis is that we spend money in our business, both in operating and maintenance expense as well as in sustaining capex, that produce economic benefits. Examples include sustaining capital expenditures made in regulated businesses where we have the opportunity to receive through our rates both a return of and a return on capital deployed. Also, some of our sustaining capital projects and our operations and maintenance projects produce economic benefits in the form of increased efficiency, lower future expenses and reduced downtime. We also make capital investments in information technology, vehicles and facilities. We deduct the costs and expenses for those items in determining our DCF even though they may have productivity benefits. It is misleading to make the observation that some expenditures in our CO₂ business are classified as expansion under our partnership agreement without also acknowledging that other expenditures that are not classified as expansion produce net economic benefits, but are nevertheless deducted when determining distributable cash flow.

Further, there are areas of our business that generate additional revenue for us without our needing to make additional expenditures. For example, in our products pipeline business, numerous pipelines receive annual revenue escalation per a FERC index. Another example appears in our terminals segment where we have annual escalators built in to many of our contracts.

For over 10 years, we've disclosed a long-term DCF forecast for our CO₂ segment and have been clear that we expect oil production declines at some point in the future. Our CO₂ business segment has been successful in outperforming those expectations and has continued to push that expected potential decline farther into the future as we learn more about how to extract more oil from these fields (note that our largest field, SACROC, increased its production in 2013 compared to 2012, and is expected to increase again in 2014). We also continue to find new prospects in our CO₂ business with the opportunity to earn very attractive returns above our cost of capital. Our ability to grow our distribution will come from finding additional opportunities in this business, in our four other business segments, as well as growth opportunities in the base business of all of our segments. With an expansion project backlog of nearly \$14 billion at KMP, total projected segment EBDA of \$6.4 billion, and well-positioned assets in all of our business segments, we believe we can continue to more than offset the decline from this subpart of one of our business segments. Each year, we provide our investors the outlook for the next year and a growth rate estimate. These numbers fully reflect the impact of all of our business activity, including the capital we invest in our enhanced oil recovery operations. Investors can factor all of this into their valuations, and we believe they have.

Our CO₂ segment has generated significant cash on cash returns – over 20% each year since 2000. Free cash flow (cumulative DCF less cumulative capital investment) in our CO₂ segment since its inception is over \$3.0 billion through the end of 2013 and is expected to be approximately \$3.5 billion by the end of 2014. For 2013, we spent approximately \$300 million of growth capital on our SACROC and Yates fields (which are our two fields that have not had significant production growth). This compares to the 2013 DCF attributable to our interests in SACROC and Yates of roughly \$1 billion for 2013.

Q: There was a report from Hedgeye's Kevin Kaiser in the fall which Kinder Morgan addressed in a conference call shortly thereafter. The report focused on the following question: Is Kinder Morgan spending enough to maintain its huge network of 80,000 miles of gas and product pipelines?

5) Our sustaining capex and opex are sufficient to maintain safe and compliant assets. We have consistently outperformed industry averages for health, environmental and safety measures. The suggestion that we would knowingly compromise safety is simply uninformed and irresponsible.

Operating our assets in a safe and compliant manner is mission critical at Kinder Morgan. We take our job of running safe, reliable assets very seriously and understand that cutting corners in the areas of safety and compliance will substantially outweigh any potential near-term savings. We budget for these costs on a detailed, bottoms-up basis each year and track our progress throughout the year on a weekly basis.

We believe that the most relevant comparisons of sustaining capital spending across companies are comparisons based on safety. We make 31 separate safety and environmental comparisons to our peers and post updates to our website on a monthly basis, update investors at our annual investor conference where our COO Steve Kean has walked investors through these figures each year since 2006, and update our board quarterly. Our performance in each of these 31 comparisons has consistently outperformed industry averages. For example, our performance in 29 of these 31 comparisons was much better than the industry averages in 2013.

It is important to note that a material amount of the dollars we spend maintaining our assets is picked up in operating expenses, not maintenance capital. The key activity for pipelines, in terms of safe operations, is "pipeline integrity" and "third party damage prevention". The vast majority of these expenditures are captured in operating expenses. "Third party damage prevention" is primarily labor, and some materials and equipment. "Pipeline integrity" work, for interstate pipelines, is primarily in-line inspection tool runs, data analysis, and remediation work. The remediation work typically involves an inspection dig and repair work which might include recoating, sleeving, or the replacement of a pipeline joint. Under FERC regulatory accounting (which GAAP incorporates in this instance) a substantial amount of pipe must be replaced in order for the work to be capitalized. Operating expenses and sustaining capital are both deducted in determining distributable cash flow, so the classification difference does not make a difference to the bottom line.

When we acquire assets from other companies (e.g., El Paso and Copano most recently), we make them safer and more compliant. We are applying KM standards in integrity management to the legacy El Paso assets and believe that we are steadily and significantly reducing risk. Again, we take this very seriously and believe that we are standard setters in our approach to pipeline integrity (where we have developed patented applications, including one that is now being provided to others in the industry).

The safety performance of our business units and their employees is taken into account in bonus allocations and performance reviews. We report our progress externally on objective incident measures, and we also track our progress internally on multiple compliance indicators. We are safe and efficient operators.

Finally, many of the allegations raised in Hedgeye's report were flat out wrong and were based on inaccurate information. For example, the report misstated spending on our SFPP asset (saying it was nearly zero when it was actually \$26 million and \$38mm for the years noted), he included an asset in his analysis that we don't even operate (FGT), and he failed to take into account opex spending. Further, contrary to his report, we actually budgeted to spend approximately \$28 million MORE on pipeline integrity in 2013 on the pipelines he identified than EP spent on the same pipelines in 2011, not less as he reported.

Q: KMP's sustaining capex is much smaller than its depreciation expense and can also be different than that of certain companies on a per-mile basis. Why is KMP's sustaining capex lower than its depreciation and why is it lower than certain other companies sustaining capex?

We do not believe that comparing maintenance capital expenditures across companies is informative and can be misleading. Even comparing sustaining capex for two individual pipelines would be challenging given these costs depend greatly on age of pipe, pipeline diameter, amount of compression, size of compressor units, utilization of the system, number of high-consequence areas on the system, geography, historical maintenance of the pipe, and other asset-specific characteristics. To compare an entire collection of pipeline assets across companies would be extremely challenging and could be further complicated as the companies operating the assets may differ in how they account for certain maintenance items (that is, whether they are accounted for as expense or as sustaining capital). Again, we believe the most relevant comparisons of sustaining capital spending across companies are comparisons based on safety.

We believe there are multiple reasons why it is inappropriate to compare sustaining capital to annual GAAP depreciation. First, sustaining capital varies greatly by the specific asset characteristics listed in the above paragraph. These items are not directly taken into account when annual GAAP depreciation is determined. Second, technological advancements have significantly improved and are expected to continue to lower

maintenance costs. GAAP depreciation does not take in to account operational improvements which may lower maintenance costs. Third, depreciation is based on GAAP accounting which requires companies to depreciate the book value of assets. Asset book values reflect prices paid to purchase assets, not the original cost. Therefore, for any asset that we purchased and did not construct ourselves, there can be a meaningful disconnect between book value and original cost, and accordingly a meaningful disconnect between the GAAP depreciation amount and the amount actually required to maintain the asset.

Q: Is Kinder Morgan's sustaining capital expenditures enough to sustain the cash flows of its businesses?

The cash flows of our business grow based on the total performance of our investments in acquisitions and expansions and on the performance of our base businesses. The sustaining capital we spend is not to "sustain cash flows" rather it is to maintain throughput and capacity. We take a disciplined approach to allocating capital which means our expansion capex must be deployed on projects that exceed our cost of capital by a wide margin.

Q: A lawsuit was recently filed against Kinder Morgan, arguing that the MLP is being improperly disadvantaged by the GP through understated sustaining capex. What is Kinder Morgan's response to that suit?

We believe this lawsuit is based on a complete misreading of the partnership agreement and is without merit and we will defend against it vigorously. Beyond that we do not comment on pending litigation.

Q: KMP's distribution coverage ratio (DCF divided by distributions) is just over 1.0x and is lower than average for midstream MLPs. Is KMP comfortable with that level of coverage?

As the largest energy midstream group of companies in North America, we are far more diversified – by both geography and business line – than the average MLPs. We believe our distribution is safe and our coverage ratio is appropriate given our fee-based cash flow generated by a diverse set of assets. Almost 80% of KMP's cash flow is fee-based and over 90% of our 2014 cash flow is fee-based or hedged. Further, our distribution, unlike most MLPs, is derived from a large and diverse set of assets which are well positioned to benefit from growth in North American energy. We believe our diversity, size and scope provides tremendous cash flow stability. We believe these qualities have enabled KMP to meet or exceed its distribution target in 13 out of the last 14 years.

Q: Kinder Morgan bought Jones Act tankers for \$962 million, plus additional capex for vessels under construction. A replacement reserve is standard in the shipping MLP business. Why is KMP not establishing a reserve for replacement?

In January, we closed our acquisition of 5 Jones Act tankers currently in operation along with 4 Jones Act tankers that are planned to be constructed and placed in service between 2015 and 2016. The tankers currently in operation have an average age of approximately 4 years and are expected to have useful lives of approximately 30 years. Our sustaining capex in this business consists primarily with repair and restoration costs incurred when the ships go into dry dock. Those vary from year to year and were taken into account in making the investment decision. We are a highly diversified midstream operator and these Jones Act tankers' annualized 2014 cash flow contribution represents less than 1% of KMP's 2014 EBDA. Therefore, we rely less on these assets' cash flow contribution than shipping MLPs which are completely focused on such assets.

Q: Kinder Morgan MLP has lagged the AMZ index in the stock market in the past year. One issue often noted as an explanation for this underperformance is the high GP take from KMI. Can KMP sustain its growth with this high GP take?

6) Over the long-term we have generated, and expect to continue to generate, attractive returns for our limited partners (LPs) and general partner (GP).

Kinder Morgan has been in the high splits (50% of newly generated DCF goes to GP) since 1997. Despite this fact, KMP's units have generated a compound annual total return of 23% to its LPs since 1996. As long as we continue to generate returns in excess of our cost of capital, we will be able to continue growing our distributions to unitholders. The expansion projects in KMP's expansion project backlog of nearly \$14 billion have average

rates of return well in excess of KMP's cost of capital and we are very enthusiastic about our additional future prospects. We expect to grow the per-unit LP distribution by 5% in 2014 and project compound average growth of 5% through 2016 (2013 base year).

Two strategic advantages benefit us on this front: 1) We have a tremendous asset footprint. Extending and expanding from this existing footprint allows us to generate growth projects at lower total costs than competitors who would need to build greenfield assets. 2) We have excellent access to capital. Given our investment grade credit rating, strong equity liquidity, automatic equity raises via our Kinder Morgan Management, LLC (KMR) security, and at-the-market (ATM) programs, we have been able to conduct capital market transactions in good markets and in bad.

Our GP has been willing to support KMP during a few select acquisitions by waiving a portion of its IDRs. That demonstrates the GP's willingness and ability to support KMP in cases where KMP has an opportunity to buy strategic assets with strong growth potential. By waiving a portion of its IDRs, the GP balances its accretion with that of KMP making such transactions attractive to both entities.

Q: Would KMI ever merge with KMP the way Enterprise Products merged with its GP?

As was mentioned in our analyst day materials, KMP would consider other options if we get to a point where we cannot deliver attractive returns to LP investors. However, we do not believe we are at that point. We would point out that KMP has a highly attractive total return prospect, with a current yield of nearly 7% and a target distribution growth rate of 5% for the next three years supported by organic expansion capex projects of nearly \$14 billion that we expect to place in service over the next 5 years.

In summary:

1) We are enthusiastic about our future. Revolutionary changes in oil and gas supply and demand across North America are leading to tremendous growth opportunities for KMP in the energy infrastructure industry.

- KMP has an excellent track record in both its financial and operational performance
- We are a leader in all of our business segments
- We have an unparalleled asset footprint
- We have nearly \$14 billion in our growth project backlog we expect to complete over the next five years generating very attractive returns

2) KMP's sustaining capex is not understated. It is stated consistent with our partnership agreement and we believe it is appropriate based on our detailed, bottoms-up approach to capital spend determination.

3) KMP's determination of sustaining capital for our CO₂ segment has been thoroughly discussed, disclosed, reported on, and documented dating back to 2003. We believe it is widely understood by the investment community and is incorporated in KMP's valuation.

4) We believe we will be able to sustain our distributions when CO₂ DCF ultimately begins to decline (currently projected to be in 2021) and/or Jones Act vessels need to be retired (approximately 30 years from now).

5) Our sustaining capex and opex are sufficient to maintain safe and compliant assets. We have consistently outperformed industry averages for health, environmental and safety measures. The suggestion that we would knowingly compromise safety is simply uninformed, irresponsible and is not supported by our safety record.

6) Over the long-term, we have generated and expect to continue to generate attractive returns for our limited partners and general partner.

Forward-Looking Statements / Non-GAAP Financial Measures

This presentation contains forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. In particular, statements, express or implied, concerning future actions, conditions or events, future operating results or the ability to generate revenues, income or cash flow or to make distributions or pay dividends are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future actions, conditions or events and future results of operations of Kinder Morgan Energy Partners, L.P., Kinder Morgan Management, LLC, El Paso Pipeline Partners, L.P., and Kinder Morgan, Inc. may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond Kinder Morgan's ability to control or predict. These statements are necessarily based upon various assumptions involving judgments with respect to the future, including, among others, the ability to achieve synergies and revenue growth; national, international, regional and local economic, competitive and regulatory conditions and developments; technological developments; capital and credit markets conditions; inflation rates; interest rates; the political and economic stability of oil producing nations; energy markets; weather conditions; environmental conditions; business and regulatory or legal decisions; the pace of deregulation of retail natural gas and electricity and certain agricultural products; the timing and success of business development efforts; terrorism; and other uncertainties. There is no assurance that any of the actions, events or results of the forward-looking statements will occur, or if any of them do, what impact they will have on our results of operations or financial condition. Because of these uncertainties, you are cautioned not to put undue reliance on any forward-looking statement. Please read "Risk Factors" and "Information Regarding Forward-Looking Statements" in our most recent Annual Reports on Form 10-K and our subsequently filed Exchange Act reports, which are available through the SEC's EDGAR system at www.sec.gov and on our website at www.kindermorgan.com.

We use non-generally accepted accounting principles ("non-GAAP") financial measures in this presentation. Our reconciliation of non-GAAP financial measures to comparable GAAP measures can be found in the Appendix to our Analyst day presentation, dated 1/29/2014, on our website at www.kindermorgan.com. These non-GAAP measures should not be considered an alternative to GAAP financial measures.