Products Pipelines

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President Products Pipeline Group
Products Pipelines Assets

[Map of the United States showing different pipeline networks with labels for West, NGL, Southeast, Terminal, and Transmix.]
Fundamental Demand Drivers in Place

- **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

- WTI Crude Oil
- Wholesale Gasoline
- Retail Regular Gasoline

Forecast

Cents per gallon

Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09

Short-Term Energy Outlook, January 2007
Price/Demand

- US Motor Gasoline Finished Supplied (000's BPD)
- US Annual Retail Sales Average Price (cents per gallon)
# Expanding and Acquiring to Meet Market Demand

## Expansion Projects Underway

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

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

PX 12"  TU

8" / 12" / 8"
12" / 16" / 12"

NEW TANK FARM

EXPANSION

PX 12"  TU

P/S 16"

NEW TANK FARM

DJ 16"  EP

DJ 8"  EP 12"
Calnev Expansion

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

- **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

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)

- **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)

- 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
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

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Pipeline Volumes – Million Barrels</th>
<th>Pipeline Revenues - $million (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pacific</td>
<td>449.3</td>
<td>433.7</td>
</tr>
<tr>
<td>Calnev</td>
<td>52.2</td>
<td>50.5</td>
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<tr>
<td>Plantation</td>
<td>207.0</td>
<td>202.6</td>
</tr>
<tr>
<td>CFPL</td>
<td>42.7</td>
<td>40.7</td>
</tr>
<tr>
<td>Heartland</td>
<td>8.6</td>
<td>8.3</td>
</tr>
<tr>
<td>Total</td>
<td>759.8</td>
<td>735.8</td>
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</tbody>
</table>

(a) Includes associated terminals
### Historical FERC Tariff Index Regime


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

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

*Estimated
FERC Update

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?

- 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