Natural Gas Pipelines

Steve Kean

President Natural Gas Pipeline Group
Overview

Value Proposition

— Strong asset base with secure cash flows supported by long term contracts and solid market fundamentals

— Limited exposure to commodity prices and processing margins

Keys to success in 2009

— Delivering the large projects (REX, MEP and KMLA) consistent with current forecast; capturing the margin upsides on those projects

— Executing on 09 plan assumptions on existing asset base

— Cost control (take advantage of improved cost environment in existing business)

Summary

— Contract structure

— 2009 budget overview

— Pipeline-by-Pipeline review

— Major Projects update

— Growth opportunities
## Contracted Capacity and Term

<table>
<thead>
<tr>
<th>Pipeline</th>
<th>Type</th>
<th>Capacity</th>
<th>Avg. Term Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas Intrastates</td>
<td>Transport</td>
<td>3.3 bcf/d</td>
<td>7 yr, 4 mo</td>
</tr>
<tr>
<td></td>
<td>Sales</td>
<td>2.6 bcf/d</td>
<td>2 yr, 3 mo</td>
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<tr>
<td></td>
<td>Purchases</td>
<td>3.0 bcf/d</td>
<td>1 yr, 9 mo</td>
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<tr>
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<td>Storage</td>
<td>138* bcf</td>
<td>3 yr, 5 mo</td>
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<tr>
<td>KMIGT</td>
<td>Storage</td>
<td>10 bcf</td>
<td>4 yr, 8 mo</td>
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<tr>
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<td>Transport</td>
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<td>TransColorado</td>
<td>Transport</td>
<td>1 bcf/d</td>
<td>5 yr, 5 mo</td>
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<td>Trailblazer</td>
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<td>REX</td>
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<td>KMLA</td>
<td>Transport</td>
<td>3.4 bcf/d</td>
<td>20 yr, 0 mo</td>
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</table>

- Interstate pipelines contracted on a fee for service basis.
- Intrastates: primarily combination fee for service and “back to back” term purchase and sales portfolio.
- Limited exposure to processing margins and gas commodity price.
  - $1 gas price change: $5 MM total impact to 2009 KMP gas pipeline dcf.
  - Processing: $10 – 15 MM exposure in 2009 on Intrastates if processing uneconomic.

*Includes contracted storage rights.
Financial Targets 2009

(Thousands)

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<th>2005</th>
<th>2006</th>
<th>2007</th>
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<th>2009</th>
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<td>451,579</td>
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<td>548,383</td>
<td>738,860</td>
<td>868,347</td>
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<td>Sustaining Capex</td>
<td>(25,244)</td>
<td>(27,431)</td>
<td>(29,927)</td>
<td>(29,853)</td>
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<td>(5,015)</td>
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<td>DCF</td>
<td>426,335</td>
<td>473,672</td>
<td>518,456</td>
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</table>

- Incremental DCF forecasted from KMLP, MEP, REX = $123mm
- Texas Intrastates Budget includes margin improvements on transport, storage, and sales to offset YOY processing declines.

Note: EBDDA excludes Upstream gathering assets, and includes imputed share of DDA from REX and MEP
Asset Summaries
Texas Intrastate Pipelines

6,000 miles of pipeline
over 5 Bcf/d capacity
138 Bcf on-system storage
685 MMcf/d processing
capacity
180 MMcf/d CO2 treating
capacity
Combination of fee-for-service, and purchase/sale activity.
Texas Railroad Commission regulated - - market-based regulation in competitive environment
Texas Intrastate Pipelines
Key Attributes

Well positioned assets
- Built to serve Houston/Beaumont area - largest natural gas market in the world
- Connected to essentially all major gas consumers in the area
- Gas supply available from major basins across Texas
- Connected to the major hubs in Texas, as well as all major intrastate and interstate pipelines
- Significant connectivity with Mexico

Operational flexibility
- Large diameter, high pressure pipes in the market area
- Supported by salt dome storage facilities both north and south of the market

Commercial Focus
- Provide higher valued swing services to a mix of power generation, local distribution and industrial markets
- Bundle transport, storage and sales to enhance margins from end users
- Buy or transport gas supplies to meet the needs of the producer community
- Optimize use of the system on a daily basis.
Texas Intrastate Pipelines
Continued Growth

Expansion of Existing Assets:

- Recently Completed:
  - Goodrich Pipeline, 64 miles of 24” out of East Texas, in service October 2008
  - Markham Storage, 5th cavern, 7.5 Bcf working capacity, gas injection commenced in May 2008 and fully debrined in January 2009
  - Hill Country Compression, 4,700 HP for 45 MMcfd West Texas to Austin capacity, in service January 2009

- Under Construction:
  - North Dayton Storage, 3rd cavern, 6.5 Bcf working capacity, expected in-service Summer 2010
  - Markham Storage, existing cavern, 0.5 Bcf working capacity, expected in-service Fall 2009

- Future Growth Projects:
  - Looking at acquisitions of midstream and gathering assets in current market environment
  - Various pipeline expansion projects: Katy, Goodrich, Beaumont, Texas City and Mexico imports/exports
  - Connection to grassroots or repowered gas fired electric power plant projects near our assets (4 connected in 2008 or being connected; at least 5 other projects on the drawing board for 2010/2011 in service)

Large asset footprint provides real and continued opportunities for Expansion Capital Investment
Texas Intrastate Pipelines
Moderate Growth

Growth from Existing Assets:

- Higher premiums for ratable / swing services, end-user gas sales, and transport
  - Value of swing / storage services continues to increase
  - Rollovers of sales contracts at higher margins providing year on year growth
  - Improving transport margins
  - Several storage, sales and transport agreements increased in 2008 will have full year benefit in 2009
  - Risk to sales premiums and supply volumes if lower prices and economic downturn is extensive

- Poor performance from processing, treating and conditioning relative to recent years
  - Contracted processing spreads will yield lower processing margin but structure of third party processing contracts limit KM’s downside risk.
  - Gas purchase and transport contracts have treating and conditioning provisions
Keys to Success in 2009

- Execute on all sales and purchase margin enhancement initiatives
- Maintain field supply volumes at current levels
- Favorable optimization spreads across the pipeline (Waha, TxOk vs HSC)
- Execute and fill projects
- Favorable storage spreads
- Continue to carefully manage credit (< $10K uncollectible over past three years – revenues of $20 billion over that period)
Kinder Morgan Interstate Gas Transmission (KMIGT)

**KMIGT**
- 4,500 miles of various diameter pipelines
- Markets:
  - LDCs, Industrials, & Ag. In NE, KS, & MO
  - Marketers transporting to mid-continent pipelines
  - End Users including Ethanol Plants
- Growth
  - Colorado Lateral
  - Storage
- Capacity
  - Transp. 940 MDth/d
  - Storage 10 Bcf
- FERC Regulated
**KMIGT Market**

- **Valuable Capacity**
- **Fully contracted**
- **Growth Opportunities**

### CIG vs. Mid-Continent Basis Differential

- KMIGT total transport: ~$0.76 summer, ~$0.75 winter
- KMIGT variable cost: ~$0.1532 summer, ~$0.1442 winter

Historical

Futures
KMIGT Growth Projects...

- **Completed Colorado Lateral to Greeley Colorado.**
  - In-service November, 2008
  - Demand charges being invoiced pursuant to a long-term binding contract with ATMOS
  - Pursuing transportation opportunities to utilize additional system capacity

- **Completed System Expansion to Serve Four Ethanol Plants and an industrial user**
  - In-service October, 2008
  - Demand charges being invoiced pursuant to long-term binding contracts

- **Huntsman Storage Opportunity**
  - 10,000 Dth/d incremental firm storage service
  - 1.0 -1.2 Bcf cushion gas sale
  - Finalizing facility design and rate requirement
TransColorado Gas Transmission

- 301 miles of 22” & 24” pipeline
- Originates at Greasewood CO
- Terminates at Blanco, NM
- Bidirectional Flow
  - Capacity North - 650 MDth/d
  - Capacity South
    - Phase I - 150 MDth/d
    - Phase II - 425 MDth/d
- FERC Regulated
## TransColorado Market

**Valuable Capacity**
- Fully contracted
- Growth Opportunities

### NW-Rockies vs. El Paso San Juan Basis Differential

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**TC total transport cost ~$0.3831 summer, ~$0.3659 winter**

**TC variable cost ~$0.0491 summer, ~$0.0483 winter**
TransColorado Growth Projects…

Compression expansion for southbound capacity from Meeker to Blanco

- **Capacity**
  - 47,000 Dth/d April - September
  - 55,000 Dth/d October - March

- 10,190 Hp installed in existing compressor stations
- Capital investment well supported by 2009 – 2013 spreads.
- Q4 2010 target in-service date
- Open Season required
- Producer development driven
Trailblazer Pipeline Company

- 436 Miles of Pipe
- 3 Compressor Locations with 58,000 HP
- Max Throughput = 0.878 Bcf/d
- Low cost pipeline out of region
- Long term contracts
- FERC Regulated
Major Projects Update

In service in 09 for REX East, MEP, KM Louisiana

Finding value added opportunities
- Capacity is valuable
- Putting higher recourse rates into effect
- Finding additional capacity and services

Still subject to price and schedule change -- but within narrower range
## Project Cost Environment
### Outlook for future projects

<table>
<thead>
<tr>
<th>Product/Service</th>
<th>Pricing Indications</th>
<th>Lead Time/Availability</th>
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</thead>
<tbody>
<tr>
<td>Large Diameter Pipe</td>
<td>Down about 30% since last summer ≈ 1500/ton</td>
<td>Should see improvement later in 2009</td>
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<tr>
<td>Compression</td>
<td>Stable</td>
<td>Some slots opening; expect continued improvement in 2009</td>
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<tr>
<td>Large Valves</td>
<td>Should see declines in 2009</td>
<td>Increasing inventory; shorter lead times</td>
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<tr>
<td>Contractors</td>
<td>Beginning to see interest in unit pricing even on large diameter projects</td>
<td>Some softening of demand in 2009; opening up further in 2010</td>
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</table>

- Rapidly improving cost environment for future projects.
- Still haven’t seen “capitulation” – vendors clinging to their inventory cost – so there may be further improvement.
Rockies Express Pipeline (REX)

- **OVER-THRUST CAPACITY LEASE**
  - Rockies Express Pipeline (REX)
  - Rockies Express Pipeline-In-service
  - Rockies Express Pipeline-REX-East
  - Lease of Overthrust Pipeline Capacity

- **ROCKIES EXPRESS PIPELINE**
  - **REX-WEST (IN-SERVICE)**
    - Full In-Service 1,800,000 Dth/d – Nov 2009
    - 1,500 MDth/d – Interim: 01/08 / Full: 05/08
  - **REX-EAST**
    - 1,600 MDth/d – Interim: 04/09 / Full: 06/09
    - Full In-Service 1,800,000 Dth/d – Nov 2009

- **PIPELINE – 1,679 MILES**
- **COMPRESSION – 460,000 Hp**

**Cities and Locations**: Opal, Kanda, Wamsutter, Cheyenne, Greasewood, Meeker, Blanco, Lebanon, Clarington

**Companies**:
- Natural Gas Pipeline Company of America
- Kinder Morgan Interstate Gas Transmission
- TransColorado Gas Transmission
- Trailblazer Pipeline
DEX
Project Overview

- **DEX West**
  - Commenced service in January, 2008
  - Commenced full in-service May 20, 2008 - 1.5 Bcf/d of capacity

- **DEX East – Currently under construction, to be phased into service:**
  - April ’09: “Interim Service” -- Triggers shipper demand charge payments
  - June ’09: Service to Lebanon, Ohio -- Major industry hub
  - November ’09: Service to Clarington, Ohio -- 1.8 Bcf/d capacity

- **DEX Pipeline capacity is sold out under long term binding commitments**

- **Total Projected Cost (Entrega & DEX) = $6.3 Billion (including expansion)**
  - As of In-service of the pipeline ownership will be: Kinder Morgan 50%, Sempra Pipelines & Storage 25% and Conoco 25%
REX
Remaining Challenges

Construction Risks
- Winter construction
- HDD’s
- Increasingly difficult terrain moving eastward
- Time and material structure (financial risk)

Regulatory Issues
- Final Major Permit: Water Quality Permit from the Ohio EPA
- FERC Notices to Proceed East of Lebanon
- Resolution of Murray Mining condition
- .8 design approval from PHMSA
  - REX West - Secure remaining approvals (Julesburg to Bertrand complete). Final inspections being completed.
  - REX East - Seeking approval as service commences

Claims resolution – contractors and vendors
REX
Future Opportunities…

Significant additional growth potential via other opportunities…

■ 200,000 Dth/d Meeker to Cheyenne Expansion
  — Fully Subscribed
  — Anticipated In-service April 2010

■ Storage and Park and Loan Service
  — Development and sale of storage off the pipeline

■ Interruptible and short haul service

■ Hub service at various key locations

■ Extensions and expansions off the project
  — Continue to look at opportunities to extend the pipeline further east
  — Opportunities to connect additional markets

■ Additional capacity opportunities identified during operations

■ Higher recourse rates to reflect higher project costs
Midcontinent Express Pipeline (MEP)

Initial Design Project Facilities Summary

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<tr>
<th>Diameter</th>
<th>Miles</th>
<th>Zone</th>
<th>Capacity</th>
<th>From - To</th>
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<td>40</td>
<td>1</td>
<td>865,000</td>
<td>Enogex to 802</td>
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<td>42”</td>
<td>266</td>
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<td>1,432,500</td>
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<td>36”</td>
<td>201</td>
<td>2</td>
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<td>Begin Zone 2 to Transco</td>
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<td>Total</td>
<td>507</td>
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Mainline Construction

- To Delhi (Phase I)
  - Construction has begun on all 7 spreads, compressors and meter stations
  - Projected interim service is forecasted to begin on April 1, 2009

- To Transco 85 (Phase II)
  - March 1 construction start
  - Projected full in-service is anticipated to begin August 1, 2009
MEP
Challenges and Opportunities

Challenges
- Keeping contractors on all Spreads and at all compressor stations on schedule
- Weather – normal winter rains are reducing work days at compressor stations and pipeline Spreads
- Material Deliveries

Opportunities
- Higher recourse rates to reflect higher project costs; valuable capacity
- Will look for capacity additions once we have actual operating experience
Kinder Morgan Louisiana Pipeline
Working with existing shippers on sharing benefits of value-added services with limited capital investment. (flexible service, IT, market to shippers with nearby storage)

Multiple interconnections – with additional facilities may be able to capture opportunities between major interstate pipelines.

Potential interconnections with other LNG terminals.
Fayetteville Express Pipeline (FEP)

Pipeline Length: 185 miles
Pipe Diameter: 42"
Initial Capacity: 2.0 Bcf/d
FEP
Commercial Status

- Total of 1.85 bcf/day capacity sold. Have 0.15 bcf/day available for sale.

- Producers are finalizing drilling plans. Expect to sell the remaining capacity prior to in-service.

- **Shippers Precedent Agreements Executed:**
  - Southwestern: 1,200,000 Dth/d, 10 yrs (capacity ramps up)
  - Chesapeake: 375,000 Dth/d for 10 yrs
  - BP: 125,000 Dth/d for 10 yrs
  - XTO: 150,000 Dth/d 12 yrs, (capacity ramps up)
Growth Opportunities

Extensions off of expanded footprint
- REX - Northeast and/or Chicago markets
- MEP - take away needs from Transco Sta. 85
- Storage
- Existing network

Future shale opportunities
- Mainline transmission
- Gathering

Acquisitions