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
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)
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
- Interstate: $310 (41%)
- Intrastate: $152 (19%)
- Terminal: $322 (40%)

2009 Plan Revenues - $ millions
- Interstate: $315 (38%)
- Intrastate: $162 (19%)
- Terminal: $355 (43%)
Historical Demand and 2009-10 EIA Estimates

<table>
<thead>
<tr>
<th>EIA Demand Estimates</th>
<th>2008</th>
<th>2009E</th>
<th>2010E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mogas</td>
<td>-3.3%</td>
<td>-1.0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Distillate</td>
<td>-5.2%</td>
<td>-2.8%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Jet Fuel</td>
<td>-6.8%</td>
<td>-4.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total</td>
<td>-4.2%</td>
<td>-1.8%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

Source: EIA Table 4a. U.S. Petroleum Supply and Consumption
Historical FERC Tariff Index Regime

PPI FG

PPI FG + 1.3%

2000 – 2005 → 2006 - 2010

Effects of Indexing on $1/bbl in June 2004

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<tr>
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</thead>
<tbody>
<tr>
<td>3.17%</td>
<td>3.63%</td>
<td>6.15%</td>
<td>4.32%</td>
<td>5.17%</td>
<td>7.60%</td>
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</tr>
</tbody>
</table>
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

Average annual growth 5.9%
## 2009 Refined Products Pipeline Plan

<table>
<thead>
<tr>
<th></th>
<th>Refined Products Pipeline Volumes – Million Barrels</th>
<th>Refined Products Pipeline Revenues - $million (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pacific</td>
<td>422.4</td>
<td>410.8</td>
</tr>
<tr>
<td>CALNEV</td>
<td>49.5</td>
<td>47.8</td>
</tr>
<tr>
<td>CFPL (c)</td>
<td>40.8</td>
<td>39.1</td>
</tr>
<tr>
<td>sub-total</td>
<td>512.7</td>
<td>497.7</td>
</tr>
<tr>
<td>Plantation (b)</td>
<td>189.8</td>
<td>175.8</td>
</tr>
<tr>
<td>Total</td>
<td>702.5</td>
<td>673.5</td>
</tr>
</tbody>
</table>

(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*

$ millions

2008 $498.8
Expansion $16.8
Index $8.6
Volume Growth $10.8
Other** ($1.6)
2009P $533.4

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

<table>
<thead>
<tr>
<th>Pipeline Volumes – Million Barrels</th>
<th>Pipeline Revenues - $million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009 Plan</td>
</tr>
<tr>
<td>Cochin</td>
<td>13.7</td>
</tr>
<tr>
<td>Cypress</td>
<td>16.9</td>
</tr>
<tr>
<td>Total</td>
<td>30.6</td>
</tr>
</tbody>
</table>
Expanding to Meet Customer Demand

Recently Completed Expansion Projects

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

First full year EBITDA = $18 million
# Expanding to Meet Customer Demand

## Expansion Projects Approved and Underway

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

First full year EBITDA = $94 million
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

**Projects Completed or Underway:**

- 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

**Proposed Projects:**

- 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.
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
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
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**