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Terminals

Jeff Armstrong

President Terminals Group

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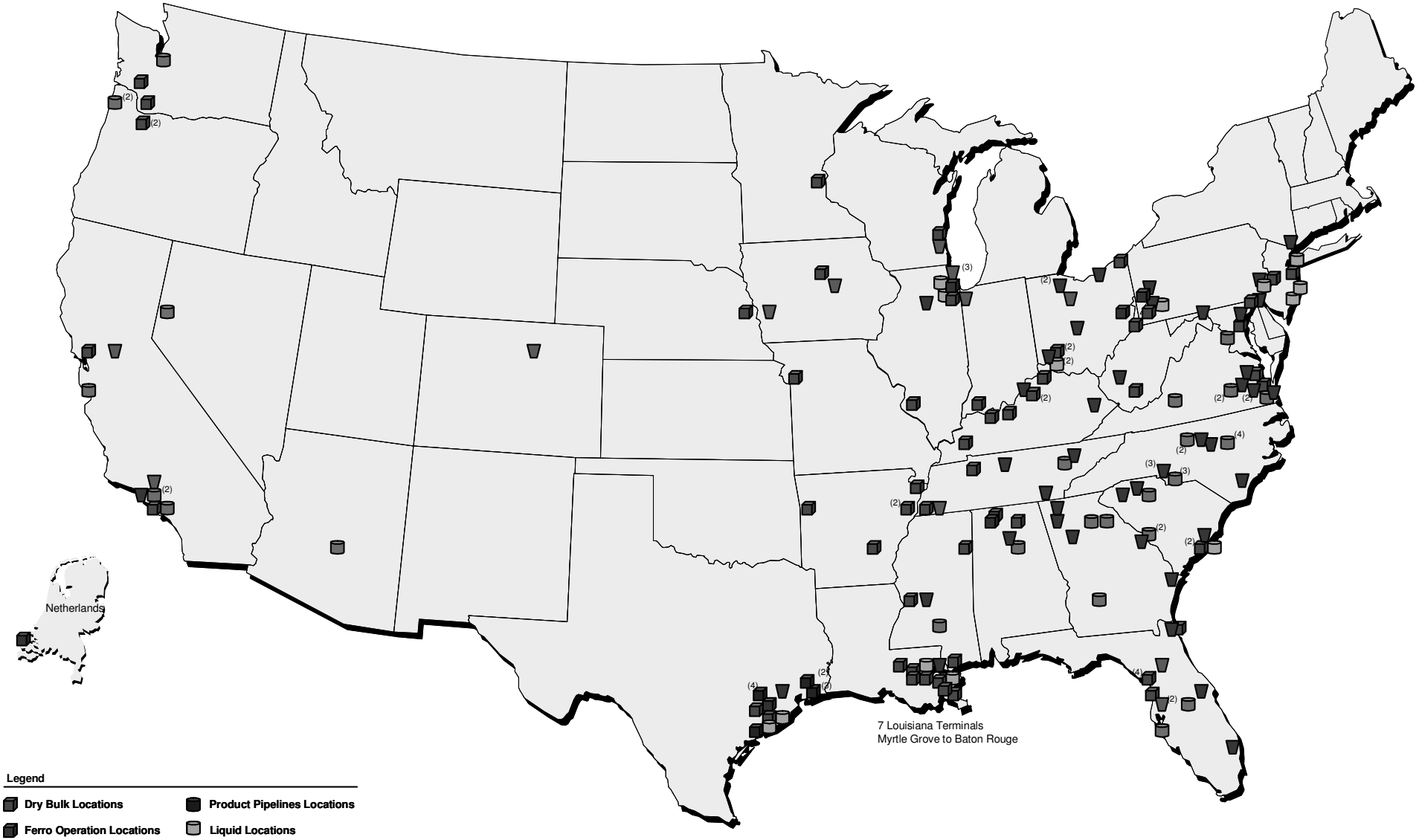
Kinder Morgan Terminal Locations



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New Acquisitions 2006



Deer Park Rail Terminal

Deer Park, TX



Texas Terminal LP

Port of Houston, TX



Lomita Rail Terminal LLC

Lomita, CA

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2006 Throughput - Bulk

KMBT Throughput (tons)

	2006	2005	Variance Amt	Variance %
Coal	30,770,287	27,866,055	2,904,232	10.4%
Petcoke	16,557,182	15,839,997	717,186	4.5%
Cement (Including Clinker)	2,380,865	2,409,030	(28,165)	-1.2%
Fertilizers	5,293,665	5,675,380	(381,715)	-6.7%
Salt	3,384,796	4,738,712	(1,353,916)	-28.6%
Ores/Metals (Bulk)	14,932,120	14,737,531	194,589	1.3%
Ores/Metals (Break-Bulk)	6,035,701	3,793,918	2,241,783	59.1%
Soda Ash	3,259,328	3,300,136	(40,808)	-1.2%
Aggregate	1,588,760	1,560,916	27,844	1.8%
Break-Bulk	679,927	754,713	(74,786)	-9.9%
Other Bulk	4,641,740	4,854,125	(212,385)	-4.4%
Totals	89,524,371	85,530,512	3,993,859	4.7%

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2006 Throughput - Liquids

		2006	2005	Variance Amt	Variance %
KMLT Throughput (bbls)	Chemical	26,599,382	28,804,466	(2,205,084)	--
	Distillate	180,759,493	178,132,329	2,627,164	1.5%
	Petroleum	311,228,886	328,715,411	(17,486,525)	--
	Fuel Grade Ethanol	22,814,173	8,799,808	14,014,365	159.3%
	Other	5,181,793	1,950,070	3,231,723	165.7%
	Vegetable Oils	6,978,695	4,883,078	2,095,618	42.9%
	Animal Fats	368,416	128,368	240,048	187.0%
	Agriculture	84,113	14,682	69,431	472.9%
	Alcohol	803,827	104,507	699,320	669.2%
	Oil Fields	643,107	594,135	48,972	8.2%
	Totals	555,461,884	552,126,853	3,335,031	0.6%
KMLT Utilization	Capacity Utilization Rate	96.3%	95.4%	0.9%	0.9%
	Capacity (MM bbls)	43.5	42.5	1.0	2.3%
Refinery Utilization[1]	Percent Utilization	89.7%	90.4%	-0.7%	-0.8%
	Operable Capacity (MBD)	17,382	17,195	187	1.1%
Railcars Handled	Kinder Morgan Material Services[1]	71,470	72,294	(824)	-7.87%

(1) Sources: EIA Website: Weekly Petroleum Status Report
(2) Includes TRANSFLO and non-TRANSFLO Terminals

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Historical Growth

	2002	2003	2004	2005	2006[1]	Budget 2007
Earnings before DD&A	208,963	240,774	263,168	318,140	396,858	442,565
Growth from prior year	25.94%	15.22%	9.30%	20.89%	24.74%	11.52%
Internal	7.51%	7.47%	4.49%	3.97%	14.16%	9.15%
Acquisition	18.43%	7.75%	4.81%	16.92%	10.58%	2.37%

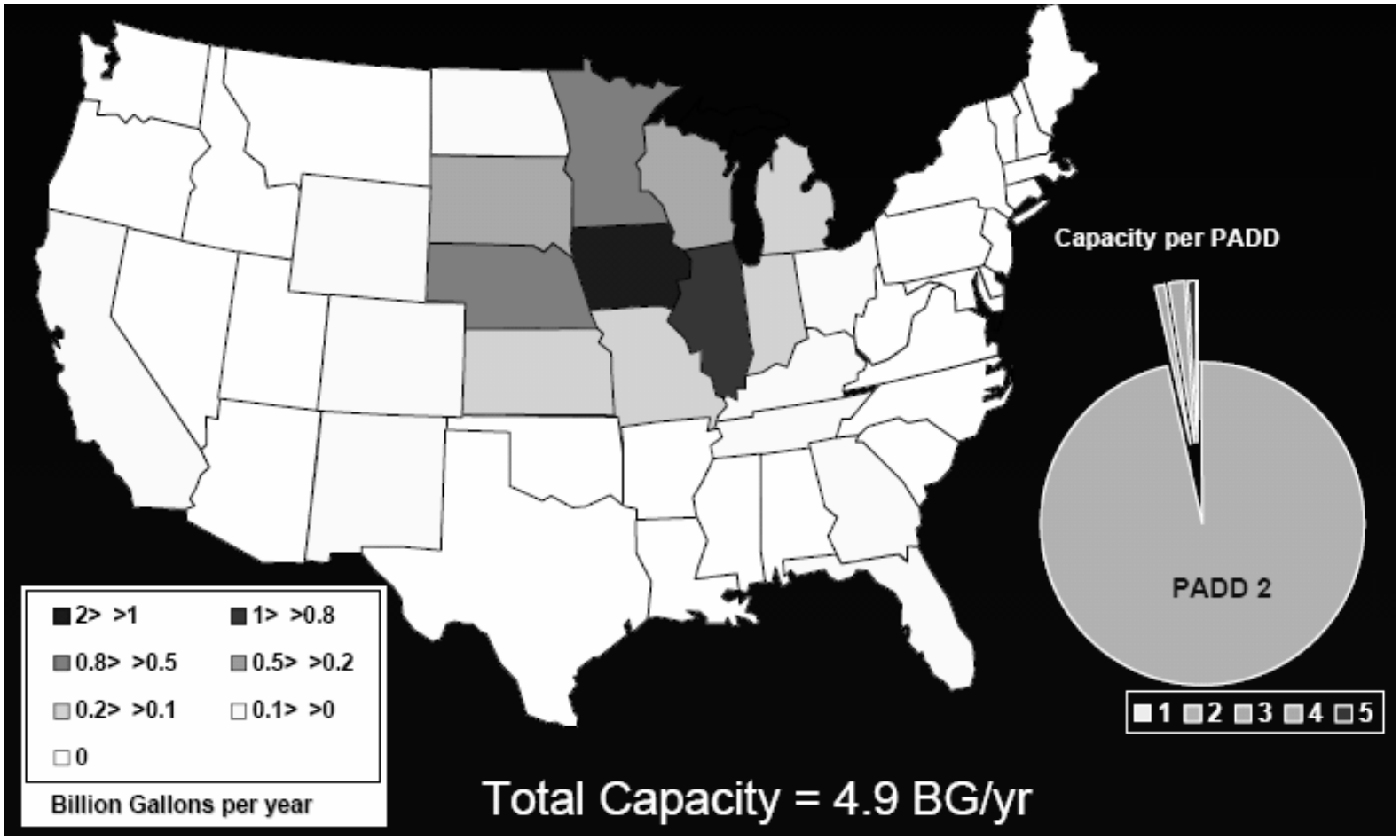
(1) Before certain items

Renewable Fuels

Ethanol Overview

- Approximately 110 operational ethanol plants in 21 states currently producing approximately 5.0 billion gallons annually.
- Another 73 plants are under construction; eight existing plants are being expanded and an estimated 200+ plants are under consideration.
- Iowa, Nebraska, South Dakota, Minnesota and Illinois control 70+ percent of all U.S. ethanol production.
- Domestic production will likely double in the next 24 months and the EIA expects U.S. ethanol consumption to jump to 11.2B gallons in 2012 and to 15.9B gallons by 2015.
- Ethanol is currently blended into approximately 40% of all U.S. gasoline.
- Ethanol producers consume almost 20% of the U.S. corn crop.
- Rail availability and bottlenecks will likely create opportunities for Kinder Morgan.
- Potential federal legislation to extend tax credits and increase the renewable fuels standard to 30B gallons by 2020.

Existing Ethanol Production Capacity by State



Source: PIRA's 27th Annual Retainer Client Seminar, Biofuels: No Longer a Footnote, October 2006
Renewable Fuels Association

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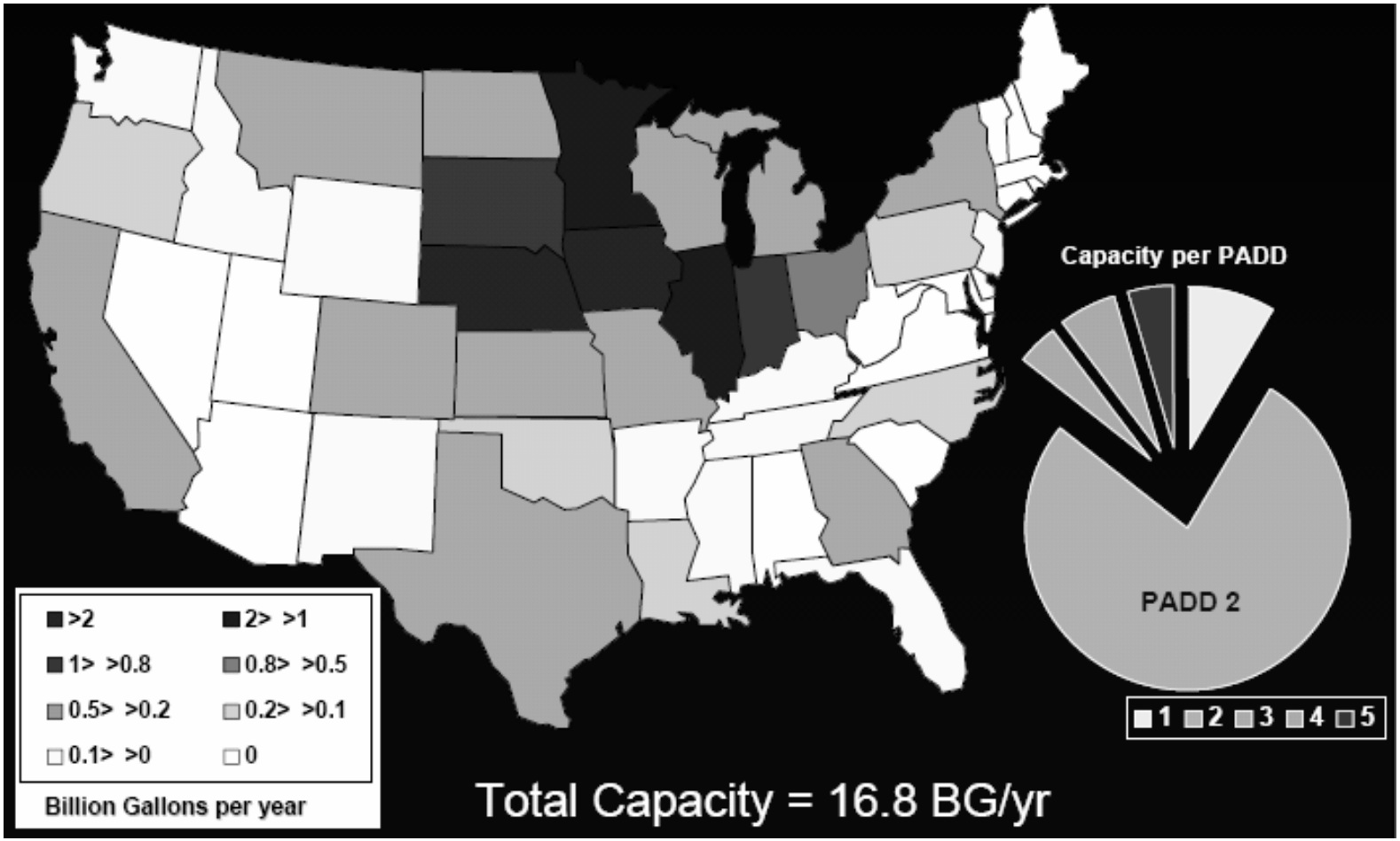
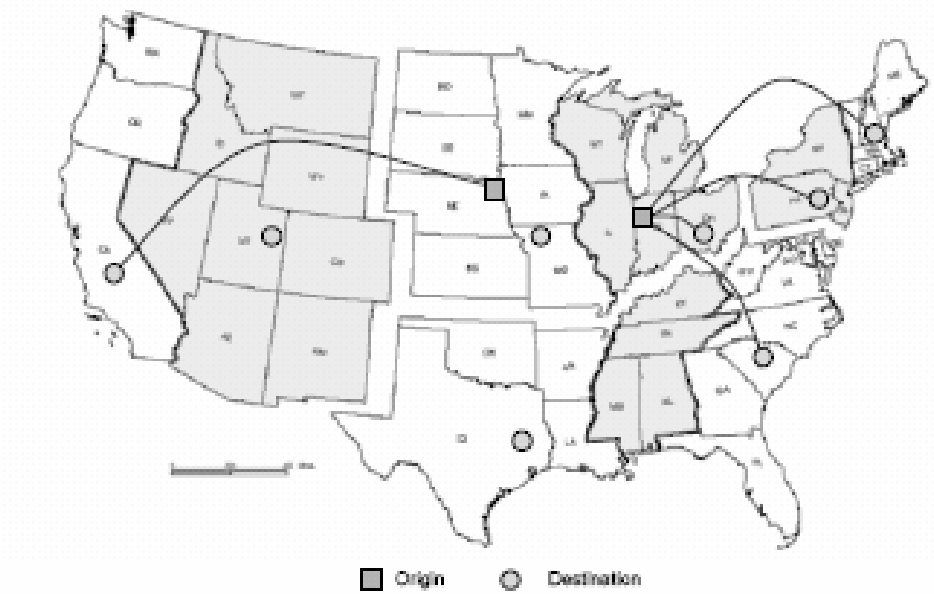
Ethanol Production Capacity by State, Existing and Probably up to 2010



Source: PIRA's 27th Annual Retainer Client Seminar, Biofuels: No Longer a Footnote, October 2006

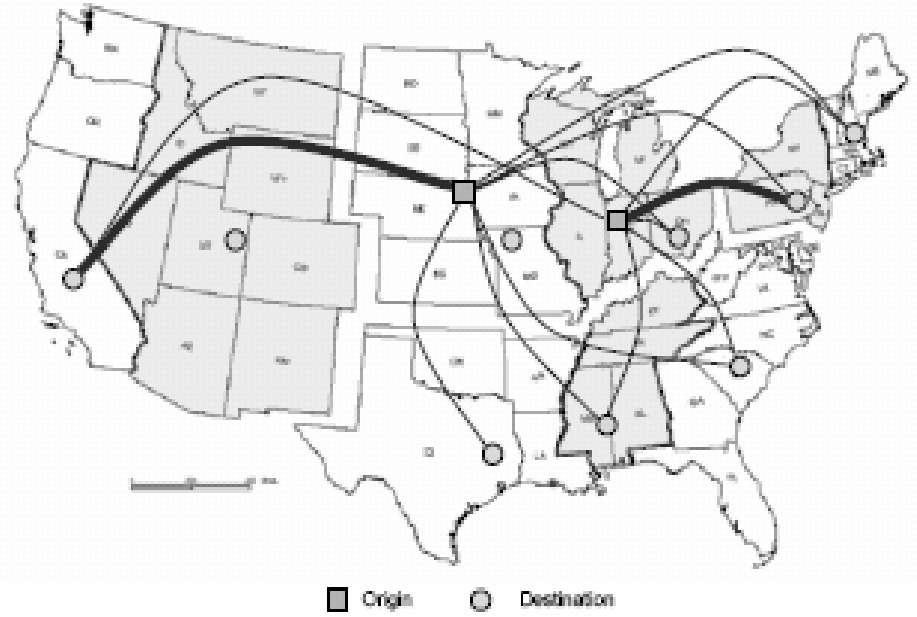
Ethanol

Figure 29: U.S. Domestic Ethanol Waterborne Trading Routes: 2004



Source: EIA, JPMorgan estimates.

Figure 30: U.S. Domestic Ethanol Waterborne Trading Routes: 2012E



Source: EIA, JPMorgan estimates.

Source: JP Morgan, North America Corporate Research, May 2006, Investing in Ethanol

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Lomita Rail Terminal

Acquisition Overview

- KMT completed the purchase of the membership interest of Lomita Rail Terminal, LLC in April, 2006.
- LRT is one of the largest ethanol unit train handling facilities in the U.S., with the capability to unload a full unit train of ethanol (96 cars) in less than thirty hours.
- It supports BNSF Ethanol Express ™ trainload program, where less-than-trainload Midwest origin ethanol is gathered and moved as a unit for the highest possible speed and efficiency.
- The facility is the major outlet for ethanol in Southern California, with connections to 400,000 bbls of storage and service to most of the major LA Basin refiners.
- There is the potential for extraordinary growth should California legislate a switch from a 5.7% ethanol blend, once additional ethanol production capacity comes on line.

Opportunities for expansion of the concept exist.

- While Florida is not an RFG market, the change in supply economics will make South Florida an attractive ethanol destination by 2008. KMT is developing an LRT-like facility in Bartow, FL to handle 20-25,000 bbls per day of demand in the Tampa/Orlando market.
- KM is operating rail-truck ethanol transfer facilities in Richmond, VA, Cleveland, OH, Greenville, SC, Charlotte, NC, Baltimore, MD and Philadelphia, PA; efforts to engage the railroads in other geographies are ongoing.



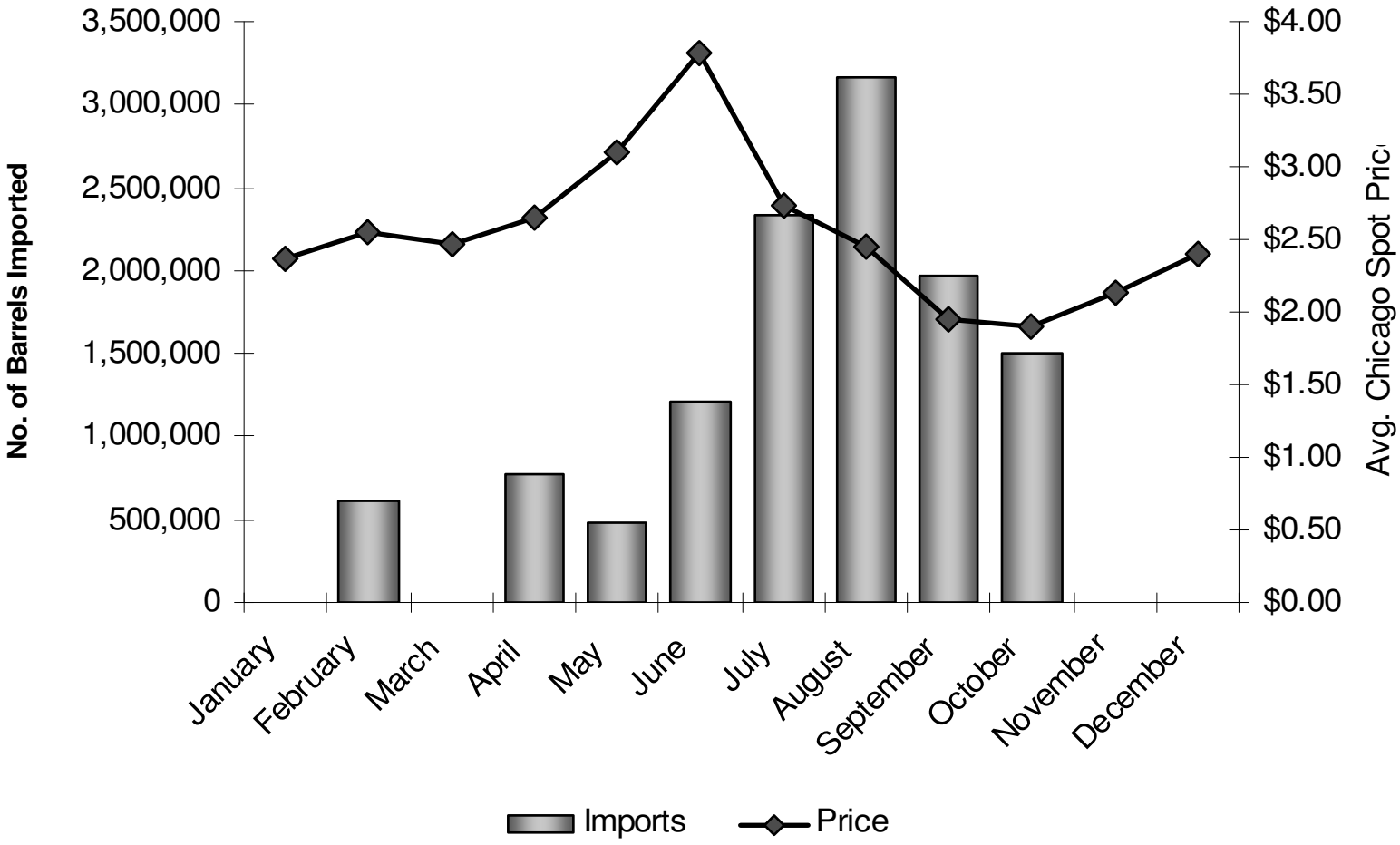


Ethanol Trade

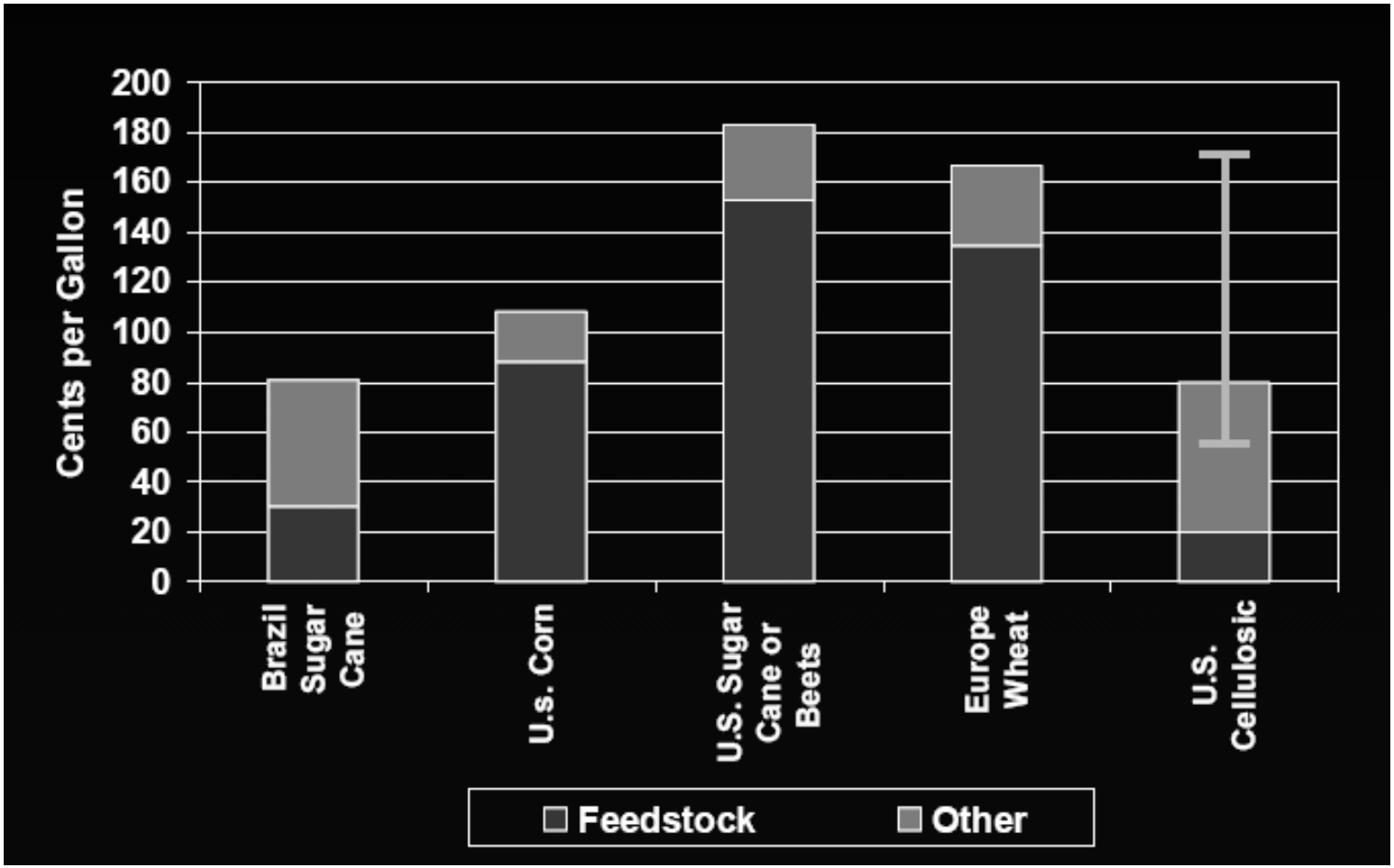
- **Brazil is the major ethanol exporter and accounts for most of the world's trade.**
- **U.S. has been an ethanol importer.**
  - **Limited by 54 cent per gallon import duty and 2.5% tariff; however, may be avoided.**
    - **Duty drawback with jet fuel.**
    - **Central American and Caribbean countries are exempt up to a volume limit and anhydrous ethanol is frequently dehydrated.**
- **China, third largest ethanol producer, exports mainly to Asia but sometimes to the U.S.**
- **Europe has a small quantity of imports, that might increase at times.**
- **Japan will likely become a large importer.**

Source: PIRA's 27th Annual Retainer Client Seminar, Biofuels: No Longer a Footnote, October 2006

Ethanol Imports vs. Spot Price



Ethanol Production Costs for Various Feedstocks



Source: PIRA's 27th Annual Retainer Client Seminar, Biofuels: No Longer a Footnote, October 2006

KMT Response to Ethanol Market

- 2.2MM barrels of ethanol tankage and another 225MB under construction or being converted.
- Handled 22.8 barrels in 2006 versus 8.8MM barrels during 2005.
- Increase in ethanol storage and handling rates.
- Acquired unit train rail facility in Lomita, CA – 22,000 BPD.
- Duplicate rail unit train capabilities in various markets.
- Evaluating an ethanol pipeline gathering system in the Midwest.
- Provide terminal infrastructure for import ethanol opportunities.

Biodiesel

Biodiesel

- Made by esterifying oils, fats or greases.
- Superior lubricity, detergency, cetane, and lower GHG emissions level compared to petroleum diesel.
- Frequently used as 2% (B2) or 20% (B20); neat biodiesel (B100) is gaining some acceptance.
- Virgin feedstock varies by location
  - Soy bean oil in the United States
  - Palm or coconut oil in Southeast Asia
  - Rapeseed oil from canola in Europe
- Growing at a faster rate than bioethanol, but from a much smaller base globally.
- Biodiesel is frequently priced at petroleum diesel value plus incentive.

<u>Disadvantages</u>

- Tends to reduce fuel economy
- Cloud and pour point issues
- Blend instability and water contamination
- Ability to enter into long term hedges
- Availability of feedstocks

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Biodiesel 101

Natural Fats & Oil		Alcohol		Catalyst		End Products
Soybean	+	Methanol	+	Sodium Hydroxide	=	Methyl Ester (aka bio-diesel)
Canola Oil		Ethanol		Potassium Hydroxide		Glycerin
Rapeseed				Sodium Methoxide		
Palm						
Tallow/Poultry						
Yellow Grease						

Source: Peter Cremer

U.S. Biodiesel Incentives

- Energy act of 2005 provides $1/gallon federal tax incentive (payable to blenders) for biodiesel made from virgin vegetable oils and animal fats (1¢ per %)
- Tax incentive for biodiesel made from used vegetable oils and animal fats is 50¢/gallon (0.5¢ per %)
- The tax incentive for using virgin veg oils and animal fats to make biodiesel is about $302/mt or 13.3¢/pound.
- This equates to about $42/barrel.
- Various state incentives available.

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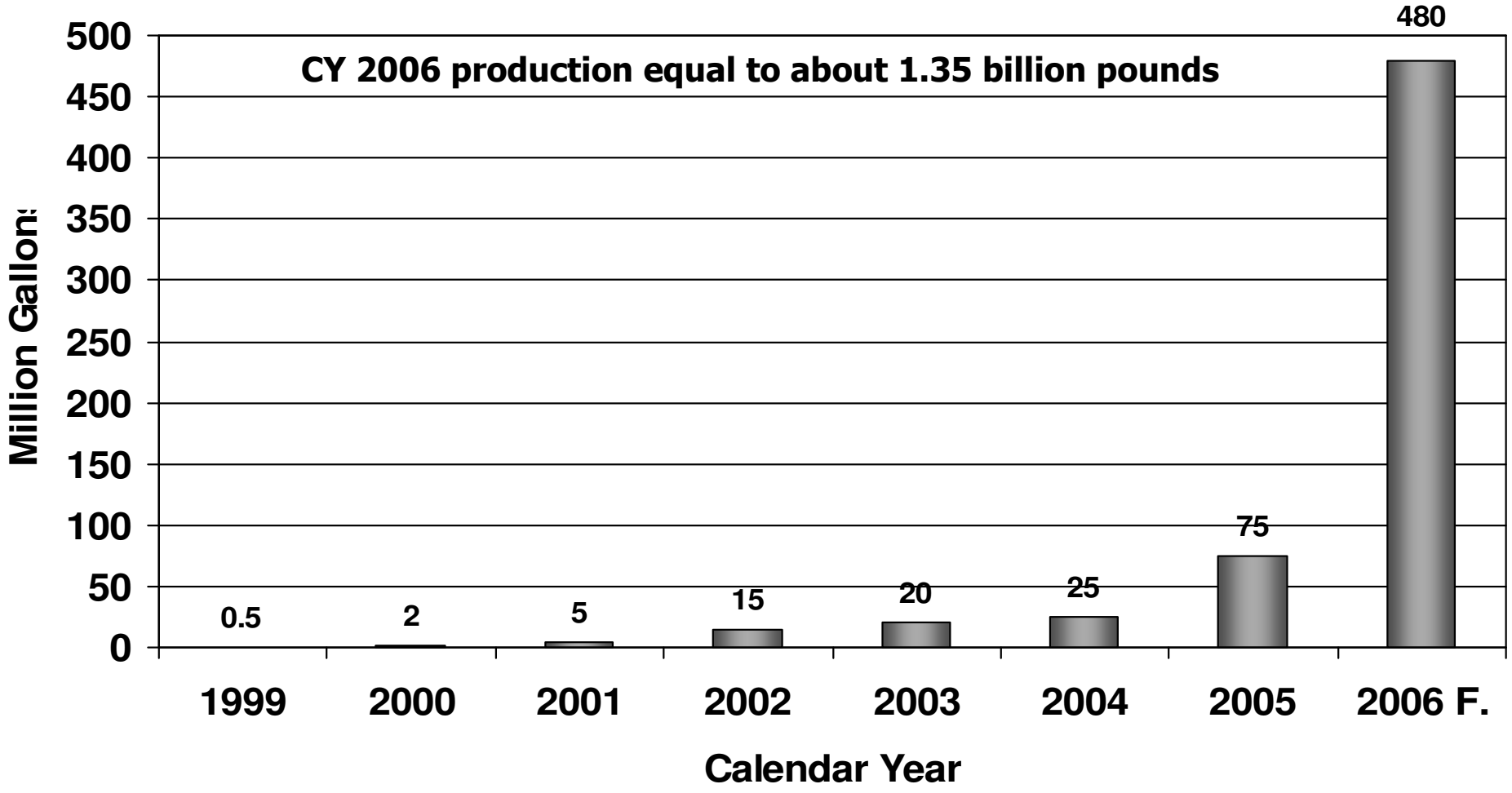
Estimated U.S. Biodiesel Production 1999 – 2005 and Estimate for 2006



Source: National Biodiesel Board

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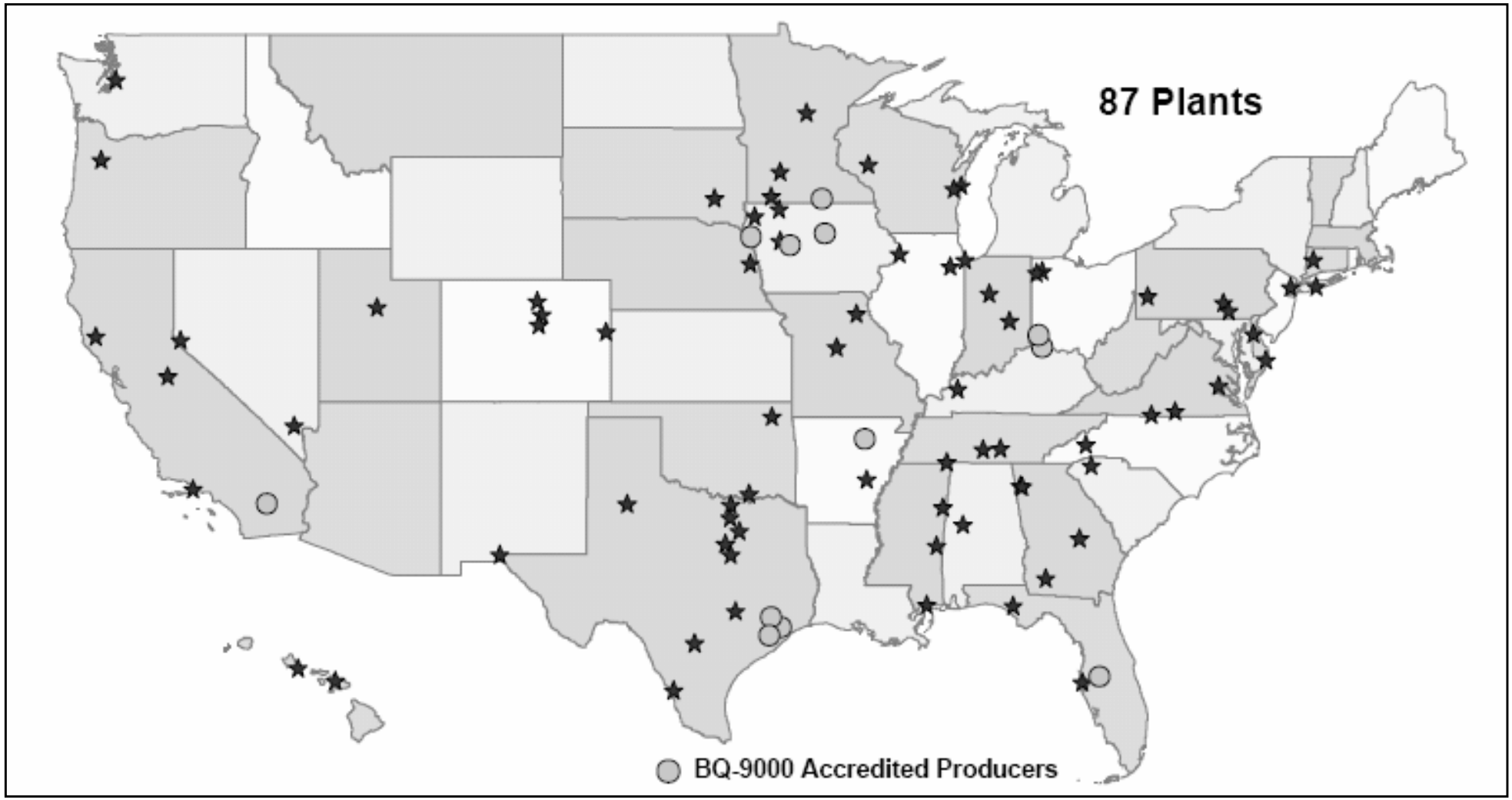
Commercial Biodiesel Production Plants
(November 2006)



Source: www.biodiesel.org/buyingbiodiesel/producers_marketers/ProducersMap-Existing.pdf

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Biodiesel Production Plants Under Construction or Expansion (September 2006)



Source: www.biodiesel.org/buyingbiodiesel/producers_marketers/ProducersMap-Construction.pdf

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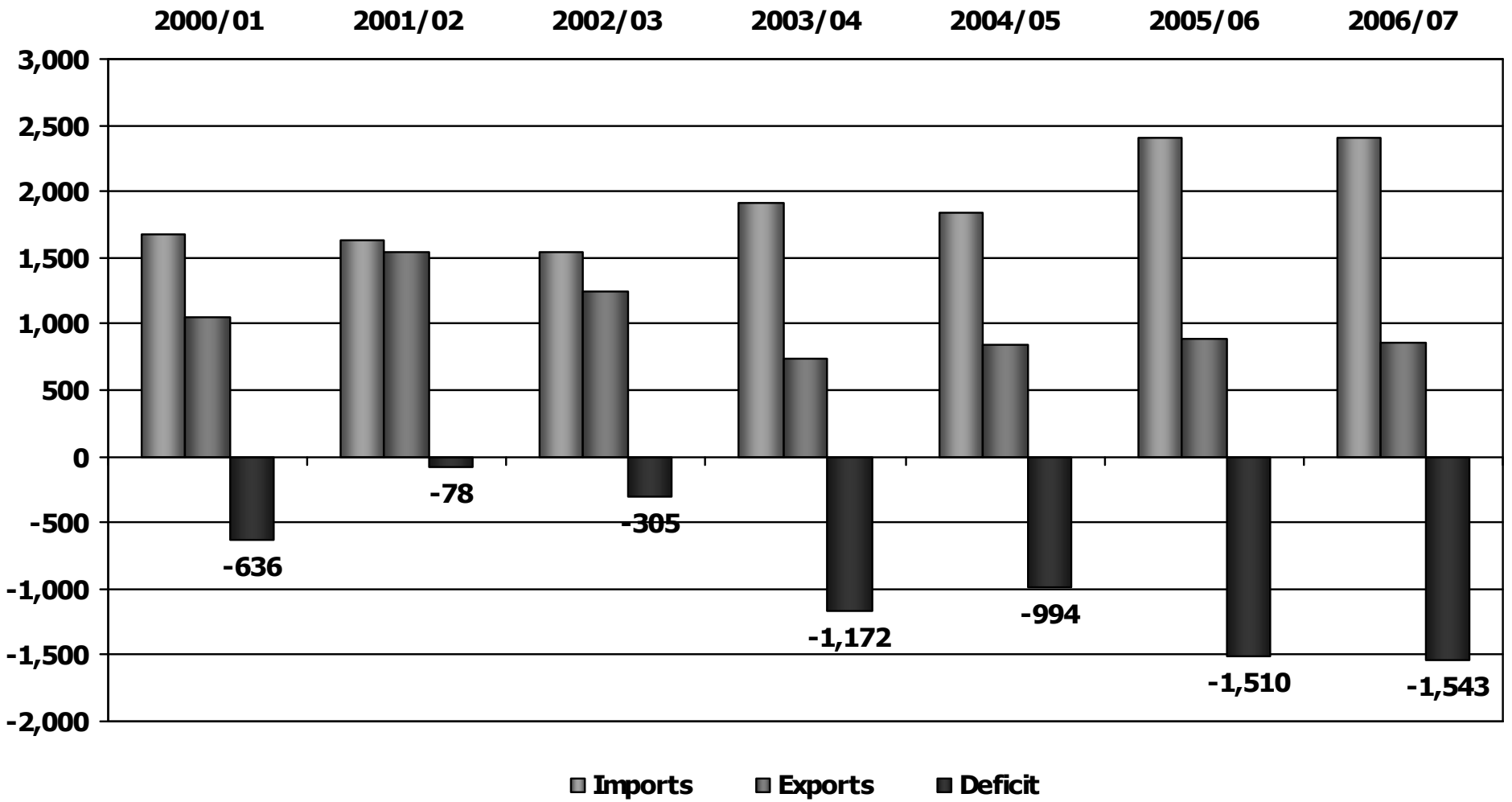
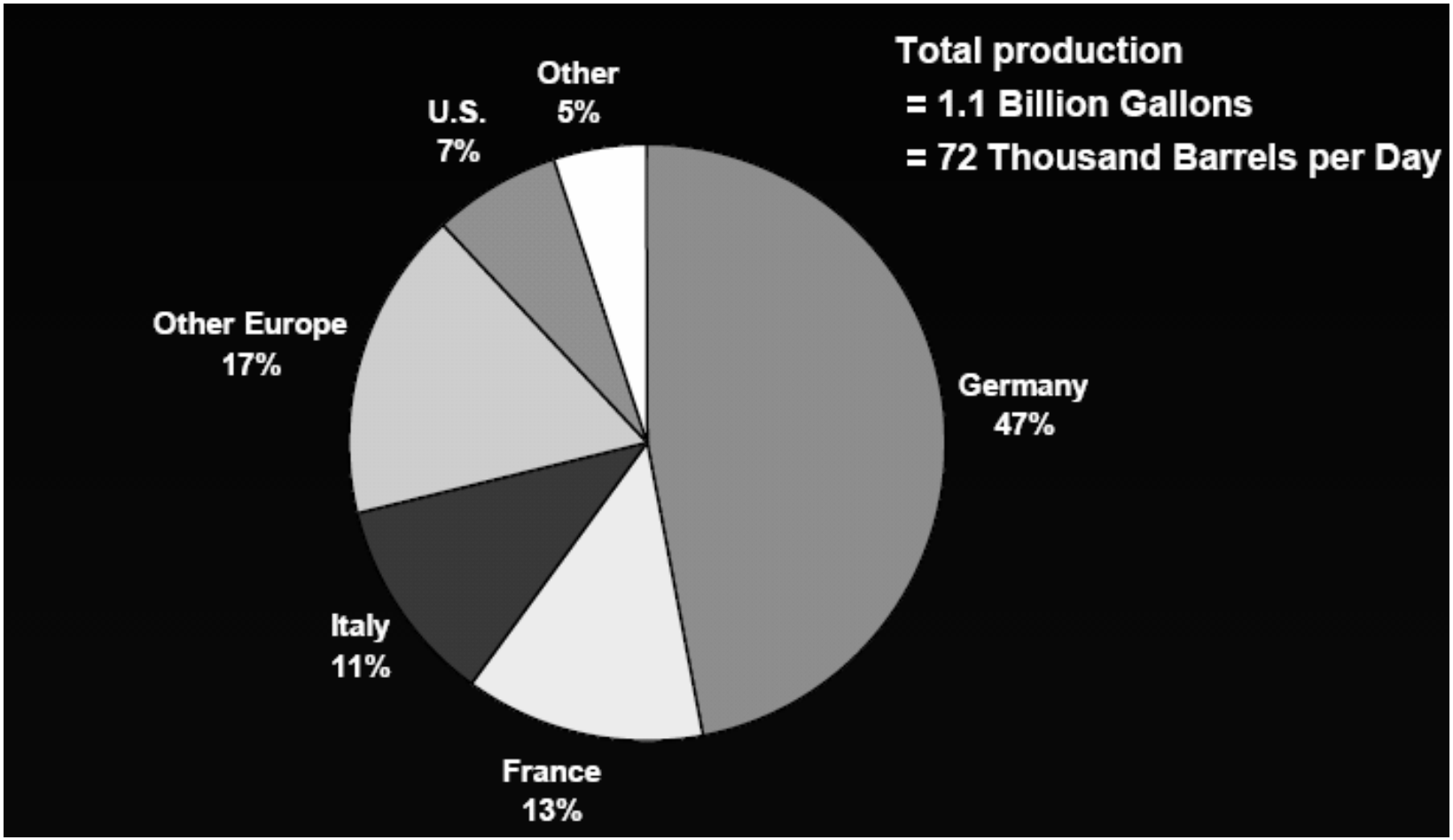
U.S. Already Has Large and Growing Vegoil Deficit



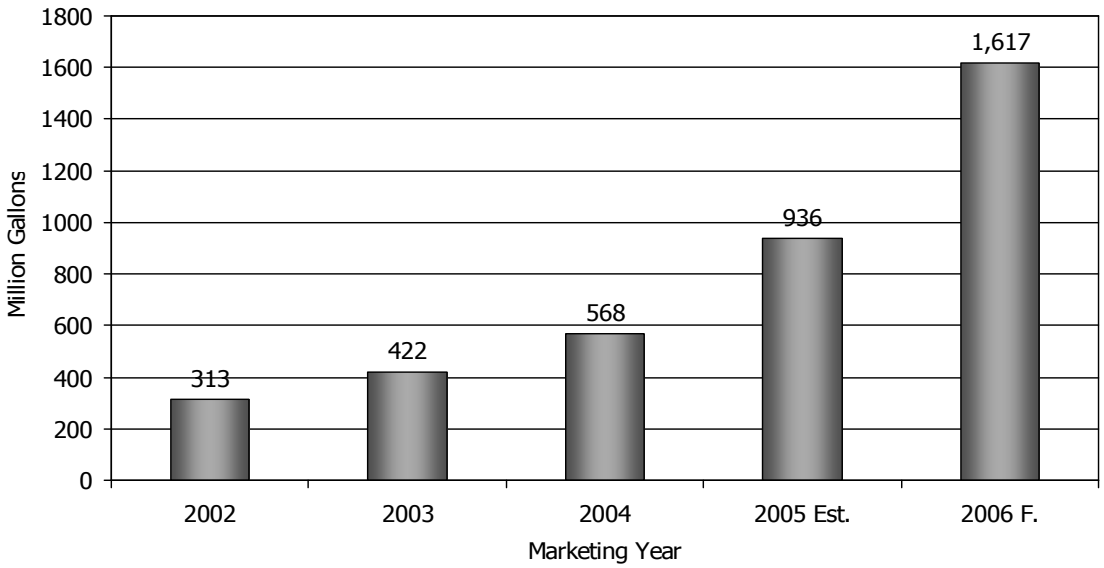
Global Biodiesel Production, 2005



Source: PIRA's 27th Annual Retainer Client Seminar, Biofuels: No Longer a Footnote, October 2006

EU-25 Biodiesel Production

- **Europe**
  - **Taxes normally account for over 50% of retail price of diesel; biodiesel is exempt from these taxes in Germany, Sweden, and Spain; exemption varies from 40-70% of taxes in other countries.**
  - **There are payments for land "set-aside:" from food production; crops for biofuels can be manufactured on this land.**
- **Other countries with biodiesel initiatives include China, Brazil, Poland, Bulgaria, Slovenia, Indonesia, Malaysia, South Korea, the Philippines and India.**



Source: European Biodiesel Board, Oil World and
PIRA's 27th Annual Retainer Client Seminar, Biofuels: No Longer a Footnote, October 2006

KMT Response to Biodiesel Market

- Use KM Terminal locations as platforms to co-locate customers' biodiesel plants or platform for downstream tankage at KM truck racks.
- Signed Letter of Intent with Green Earth Fuels to co-locate eight 43 million gallon plants at KM Galena Park, Harvey and Carteret. KM to invest approximately $100 million for tankage, pipelines and infrastructure.
- Ability to duplicate strategy across the country.
- Build out or modify tankage at truck rack terminals, e.g. modified 65,000 barrels existing tankage in Chicago market.
- Provide import infrastructure for growing veg oil imports and export infrastructure for finished biodiesel to Europe.

Rail Opportunities

KMMS Locations (as of December, 2006)



TIS TRANSLOAD SERVICES, L.L.C.

Legend

- Kinder Morgan Locations
- Transload Services, LLC (a Kinder Morgan Company)
- Transload Operations operated by Kinder Morgan at CSX Transportation facilities under the "TRANSFLO" name

Railcar Storage Services provide a good opportunity to leverage the franchise

Drivers:

- Number of miles of track owned by Class 1 rail carriers has decreased from nearly 271,000 in 1980 to 170,000 in 2005.
- Class 1 rail ton miles have increased from 932 billion ton miles to 1.76 trillion over the same period.
- The DOE's EIA projects a 1.7% annual ton mile growth rate, resulting in nearly 2.4 trillion ton miles by 2030.
- Aggregate annual Class 1 capital spending has increased from $4 billion in the early 90s to over $8 billion in 2006 (inflation adjusted), but capital needs are expected to increase.
- The spending trend has been away from rail equipment and storage to line of road improvements.
- Velocity pressures are forcing Class 1s to put negative incentives in place (raising demurrage/storage rates), thereby encouraging private investment in storage.





Demand for storage at Deer Park Rail Terminal has been strong

Result…

- Large chemical shippers have funded rail track expansion efforts on their property (ExxonMobil and Chevron Phillips are examples).
- Legislation was introduced (S. 3742) to encourage private investment in rail infrastructure with a 25% tax credit on qualified spending.
- Rail carriers are actively looking for storage outlets outside of their property.
- Probable service locations align well with Kinder Morgan's Terminal network (Texas, California, Ohio, Illinois, Iowa, Pennsylvania & Georgia)
- One project underway (St. Gabriel, LA); Class 1 carrier discussions are being set up; other projects being developed

Transload Services, LLC





Acquisition Overview

- KMT completed the purchase of the membership interest of Transload Services, LLC in November, 2006 – facts are as follows:
  - Locations (14): Chicago Heights, IL; Tampa, FL; Harvey, IL; Denver, CO; Marshalltown, IA; Memphis, TN; Fostoria, OH; Chicago, IL (Torrence Avenue); Council Bluffs, IA; Milwaukee, WI; Stockton, CA; East Chicago, IN; Ontario, CA; Ocala, FL
  - Services: Transloading, Value added services (no product ownership), warehousing, distribution and project staging
  - Storage: 92 acres of outside storage, 445,000 Sq. Ft. of covered storage, 26 Cranes and 13 Heavy Duty Forklifts
  - Major presence on the UP Railroad with other product synergies (bulk, lumber). Viewed as key player within UP and CSX.

Steel

Steel Supply/Demand in the United States

All data – short tons *** Estimated**

	2002	2003	2004	2005	2006
Production	102,000,000	103,000,000	109,000,000	103,000,000	111,000,000
Shipments	99,200,000	106,000,000	112,100,000	103,000,000	112,000,000
Exports	6,000,000	8,200,000	7,900,000	9,400,000	9,600,000
All Imports	32,700,000	23,100,000	35,800,000	32,000,000	46,000,000
Finished Steel Imports	23,800,000	18,300,000	28,400,000	25,000,000	37,000,000
Apparent Supply (Consumption)	117,000,000	116,100,000	132,600,000	118,600,000	139,400,000

Kinder Morgan Terminals Imports Handled **5,300,000**

Source: *Locker Associates, Steel Industry Update #212 December 2006

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KM Network of Steel Terminals

Kinder Morgan Steel Terminals

Deepwater Ports	
Chicago West	IL
Chesapeake Bulk	MD
Pinney Dock (Ashtabula)	OH
Fairless Hills	PA
Texas Terminal (Houston)	TX

River Ports and Houston Ship Channel	
Decatur	AL
Guntersville	AL
Ft Smith	AR
Pine Bluff	AR
West Memphis	AR
West Memphis Reload	AR
Chicago	IL
Chicago West	IL
Evansville	IN
Jeffersonville	IN
Ghent	KY
Louisville	KY
Ownesboro Gateway	KY
Ownesboro Gateway East	KY
Dakota Bulk (St Paul)	MN
St. Joseph	MO
Vicksburg	MS
Omaha	NE
Industry	PA
Memphis	TN
General Stevedores (Houston)	TX

Transload Services	
Ontario	CA
Stockton	CA
Denver	CO
Ocala	FL
Tampa	FL
Council Bluffs	IA
Marshalltown	IA
Chicago	IL
Chicago Heights	IL
Harvey	IL
East Chicago	IN
Fostoria	OH
Memphis	TN
Milwaukee	WI

Petcoke

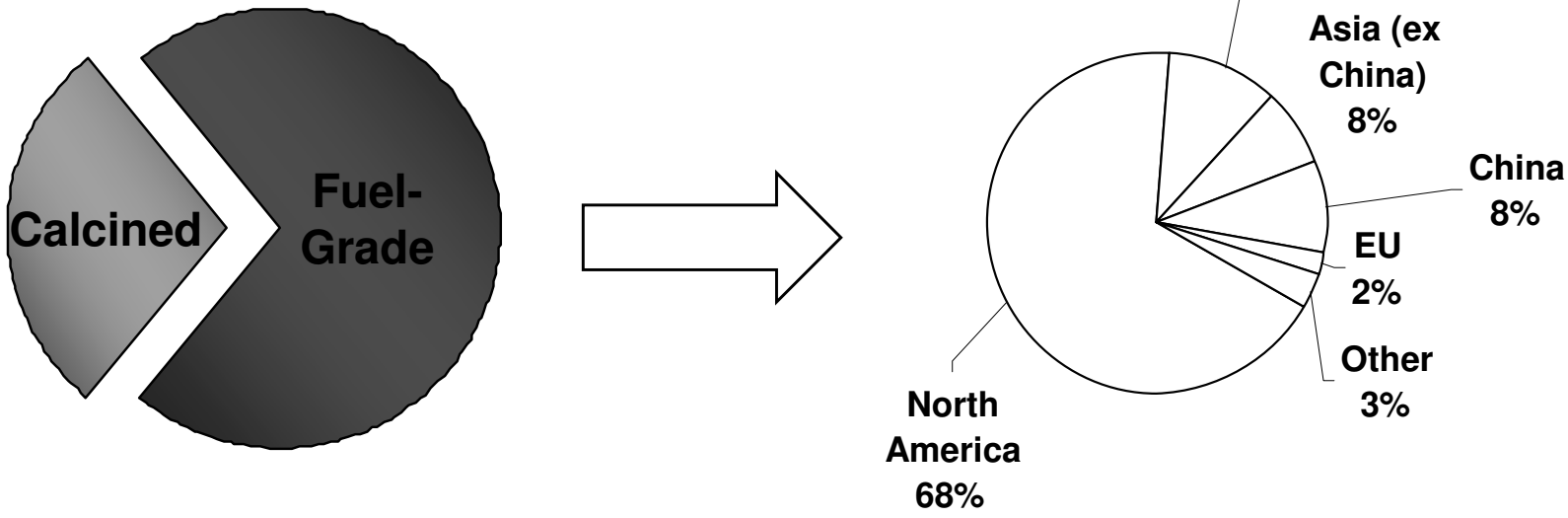
Petroleum Coke Production Trends

- 2006 World Production= est. 80 M/DMT
- 1995 World Production < 50 M/DMT
- 74% (59.1 DMT) is fuel grade
- 26% (20.9 DMT) is calcined grade
- World Production will be 107.6 M/DMT by 2012; North America will be 64.9 M/DMT (N.A. 46.8 M/DMT in 2005)
- 59 announced coker projects globally
- Strong refining economics spurring new coker announcements
- Potential for significant petcoke production in regions with less obvious means for consumption

Source: Argus Petcoke April 2006

World Petcoke Production - 2005

Total Production = 80 million DMT



Fuel-Grade = 59.1 million DMT

Source: Jacobs Consultancy, New Petcoke Production and the Changing Demand Picture, October 1, 2006

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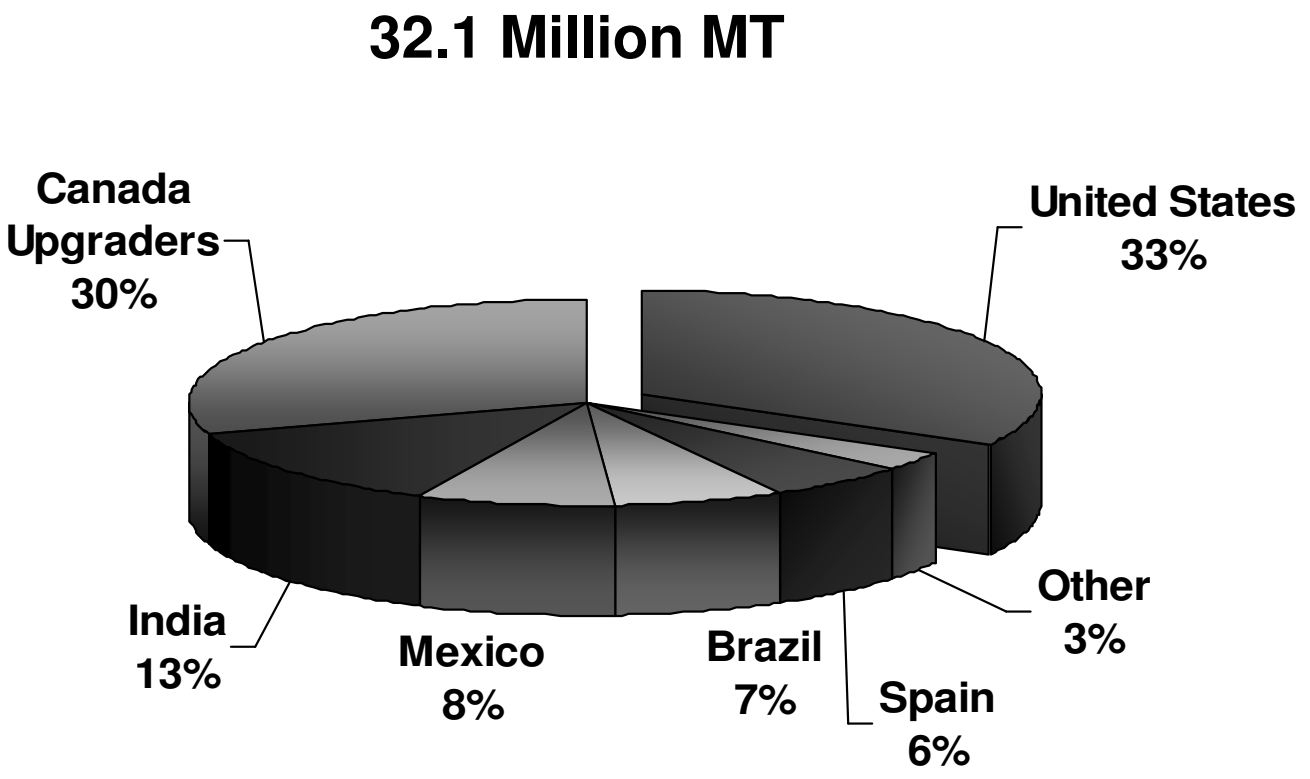
Announced Coker Additions 2006 – 2012 (ex. China)



Source: Jacobs Consultancy, New Petcoke Production and the Changing Demand Picture, October 1, 2006

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Petcoke Product Flows

Category	Current MM Tons	3Y Projected	Percentage Change	Longer Term Trends
North America Production	52	58.4	12.3%	Higher growth – new coker units installed
North America Consumption	9.0	12	33%	Will rise higher in out years due to scrubbers and gasification
US Imports	1.6*	1.6**	0%	Imports virtually flat through 2010 (per Jacobs)
US Exports	42.6	46.4	8.9%	Exports will flatten as US consumption grows
KM Tons (Bud '06)	16.4	21	28%	

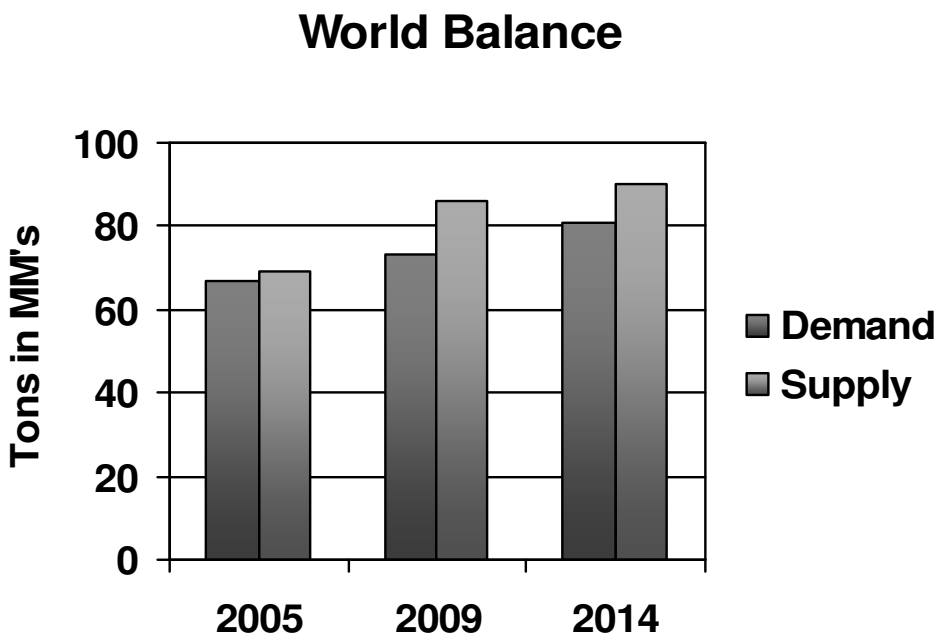
Source: *Source March, 2006 Argus Petroleum Coke-Top Importers
Aruba-650 K, Kuwait-365 K, China 147 K, Venezuela 114 K, Argentina 111-K

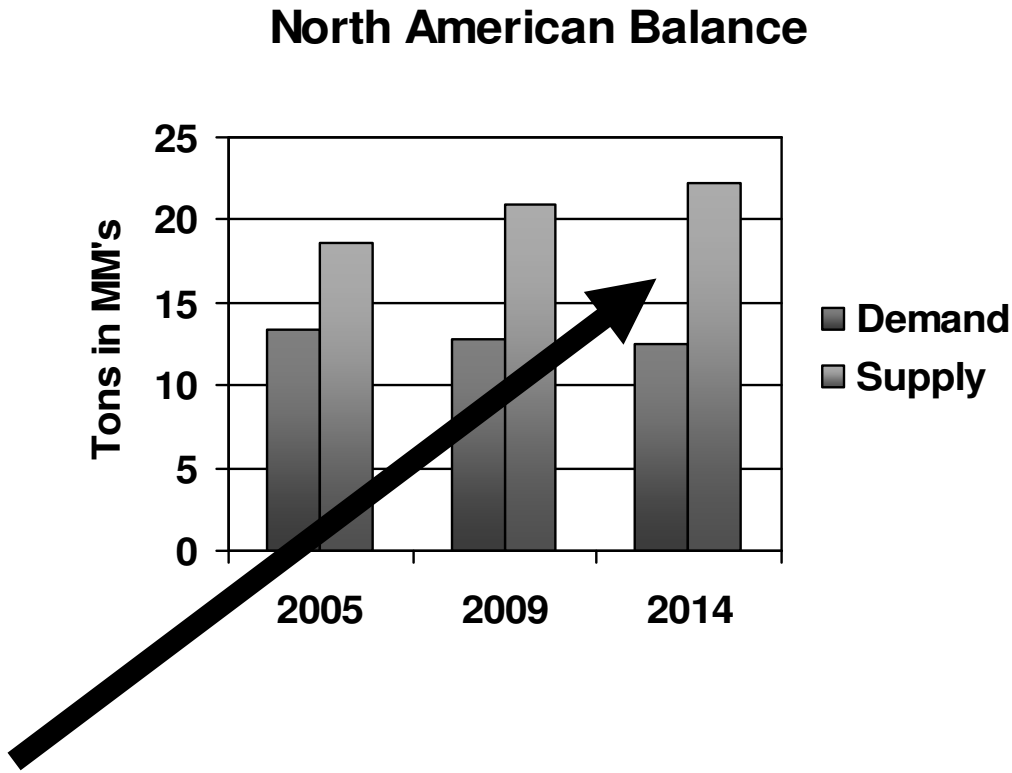
Sulfur

Market Drivers

- **Demand**
  - World demand is forecasted to grow from 67 to 81 million metric tons by 2014
  - 96% of sulfur goes toward the production of Sulfuric Acid which is primarily used for the production of Fertilizers and Chemical & Pigment manufacturing
  - North American demand will remain relatively flat
  - Most increases coming from developing nations
- **Supply**
  - World supply is forecasted to meet demand and grow from 69 to 90 million metric tons by 2014
  - North American supply will grow substantially due to:
    - 20% Canadian increase due to 300% increase in Oil Sands production
    - U.S. production increases due to new cokers
    - Sulfur mining activity will actually decrease in North America and worldwide
    - Liquid sulfur in North America will need to be solidified for exporting
    - Prilling will prevail above blocking due to environmental concerns

North American Sulfur demand and production will drive increasing exports





North American net exports to grow by nearly 5 million tons by 2014

Source: The Sulphur Institute

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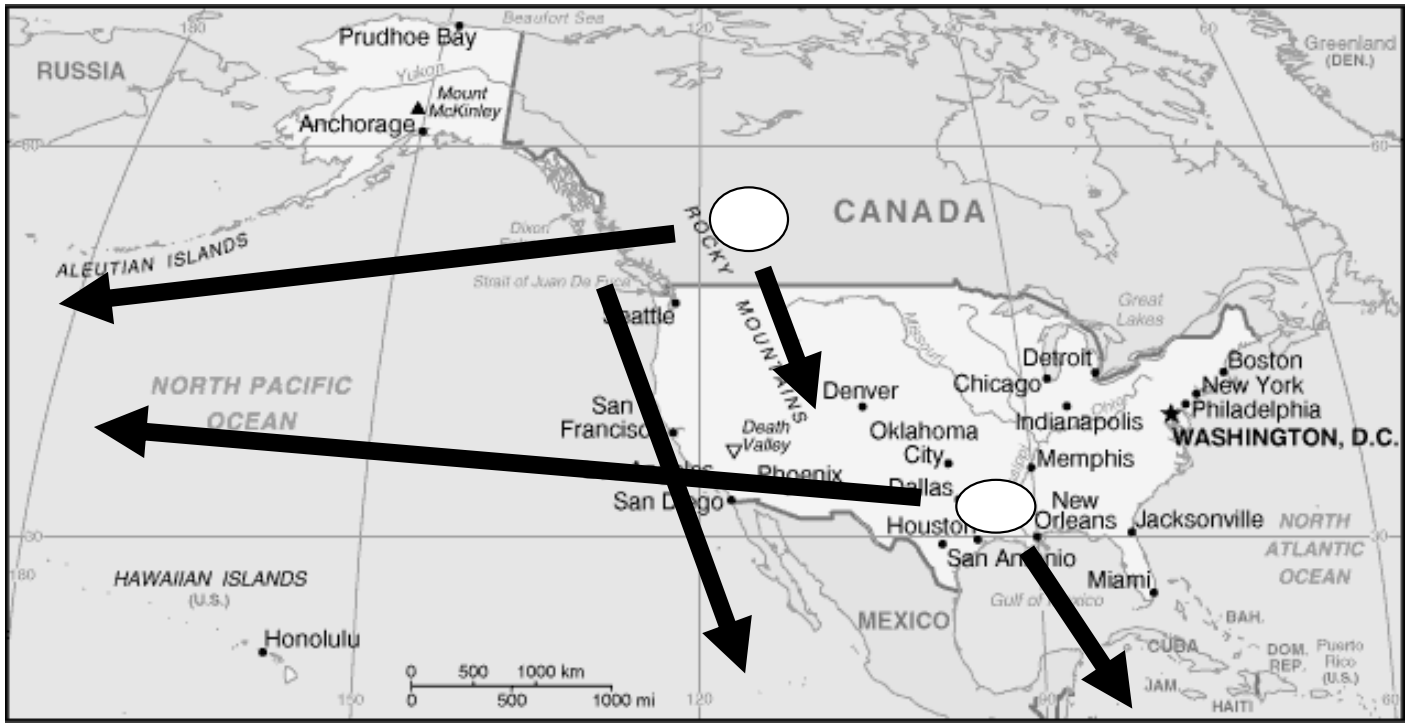
North American Sulfur Logistics - 2009



Primary Production

Primary Shipping

Canada		United States	
Annual Production:	10.8mt	Annual Production	10mt
Annual Consumption:	1.3mt	Annual Imports:	2.7mt
Annual Exports:		Annual Consumption:	12mt
To U.S.:	2.7mt	Annual Exports:	
To World:	6.8mt	To World:	.7mt

KMT Response to Sulfur Market

- KM purchased Devco Sulfur Prilling Company in November 2006. We will provide build, own and operate model to change molten liquid sulfur to bulk commodity that can be economically shipped to international markets.
- KM to build out Gulf Coast and Canadian terminals to handle increased tonnage.

Coal

Pier IX Terminal (Newport News, VA)



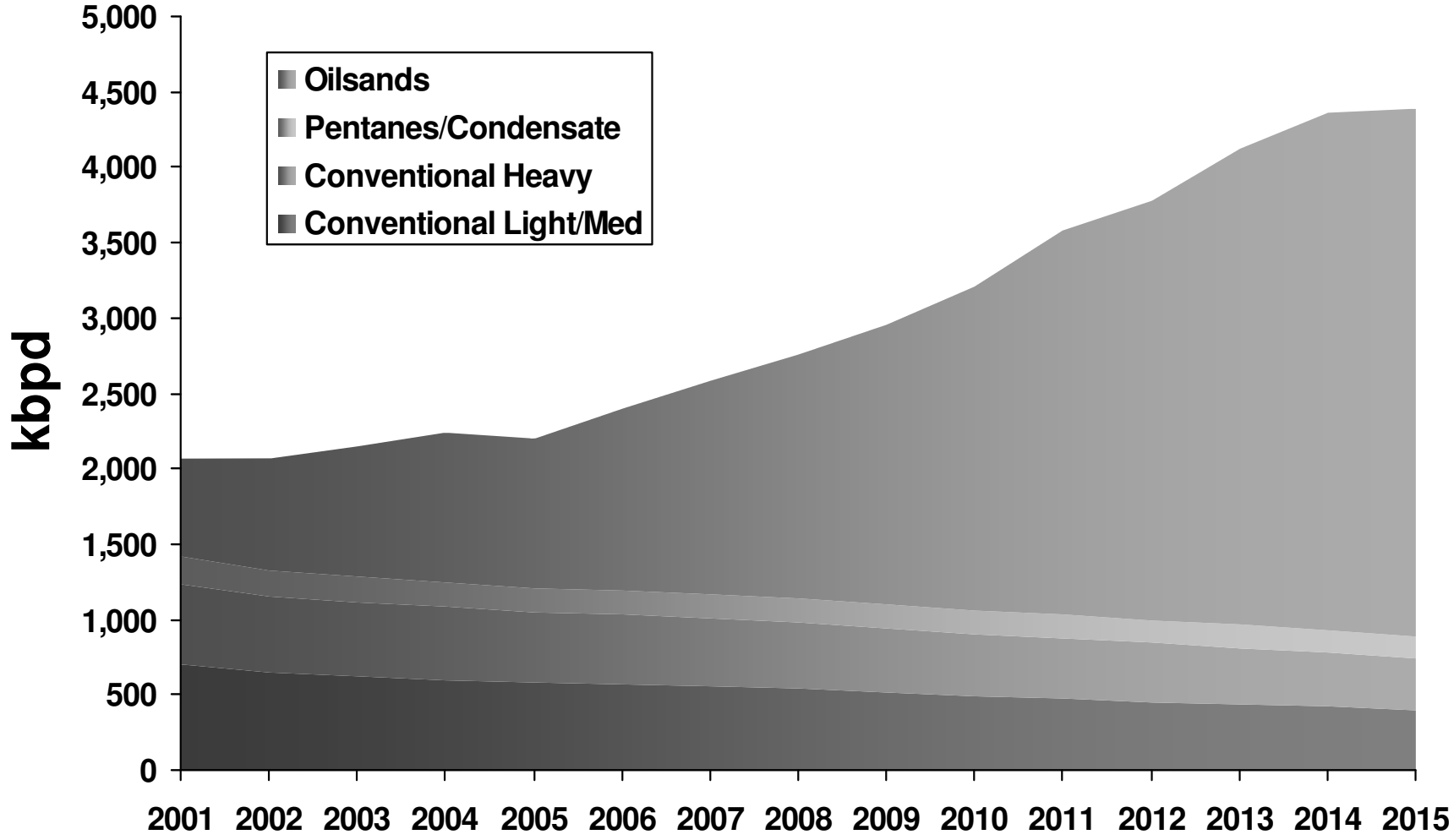
- Export Metcoal
- Synfuel (12/31/07)
- Cement Import
- Capital Investment: Approx $70 million
- Ship Discharging: 30,000 TPD
- Draft: 50 ft Nominal
- Small Cape Size
- Barge & Ship Loading with blending and sampling
- Import Coal Storage: 500,000 NT
- Import capacity: 9 million NT / yr
- CSX Served
- Startup Date: 1st quarter 2008

KM Coal Response

- High sulfur coals (i.e. Illinois Basin) and petcoke will increase in demand as scrubbers are built.
- Low sulfur coals (PRB and imports) will increase in demand at unscrubbed plants.
- Cora/GRT terminals in position to take advantage by building out PRB / Illinois coal handling capability.
- Phase I – import project at Shipyard River Terminal - $34 million project on-line May 2006.
- Potential to expand Shipyard River Terminal for up to 9 million tons.
- Convert export terminal in Newport News, VA to a import terminal for 4 million tons. $70 million expansion project on-line first quarter of 2008.
- Potential acquisitions of Midwest coal terminals.
- Purchase / expand limestone, synthetic gypsum and urea operations.

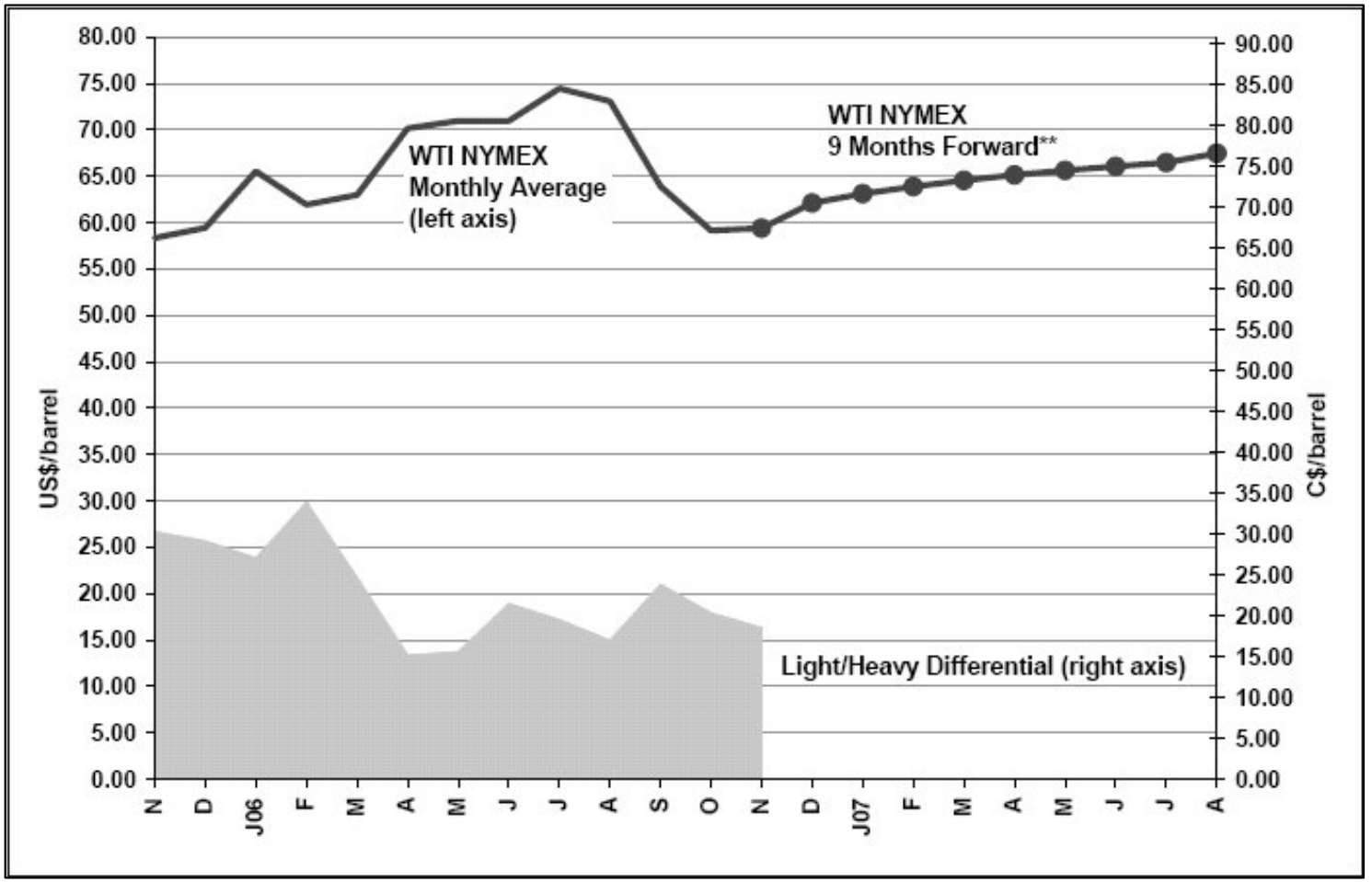
Canadian Opportunities

Western Canada Production Forecast



Source: CAPP

Canadian Light/Heavy Differentials



Source: CAPP

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Non-Regulated Terminal Opportunities

Edmonton North 40 Phase I - Currently Under Construction - CA $133 million

- 2.15 million barrels
- Fully contracted
- In-service the first quarter of 2008

Edmonton North 40 Phase II Exploratory Efforts

- Customer Expressions of Interest being solicited

British Columbia Marine / Rail / Pipe Terminal

- Exploring crude, refined product and dry bulk handling opportunities in support of Alberta Oil Sands development

Fort Saskatchewan/Heartland Development

- Analyzing commercial opportunities in support of regional upgrader / refinery projects
- Hardisty – analyze commercial development for approximately 3 million barrels

Capital Expenditures

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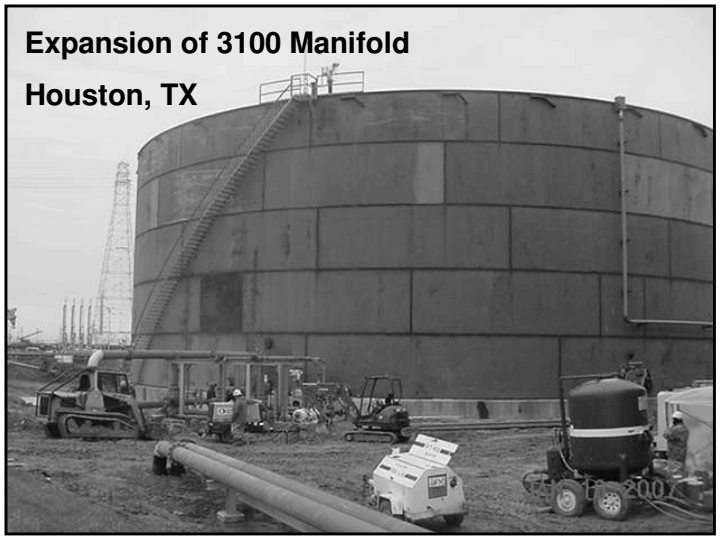
Capital Spending on Expansion Projects

2006

$219 Million		
Pasadena & Galena Park Expansions	Clean Products	74
Pasadena & Galena Park ULSD System	Clean Products	6
Pasadena Ethanol Handling Systems	Clean Products	8
Galena Park Biodeisel Tanks	Clean Products	2
Perth Amboy, NJ, Expansion	Clean Products	19
Pier IX & X, VA, Dock & Conveyors	Coal	15
Shipyard River, SC, Expansion & Cranes	Coal	16
Edmonton North 40 Terminal, Canada	Crude	30
Others		49







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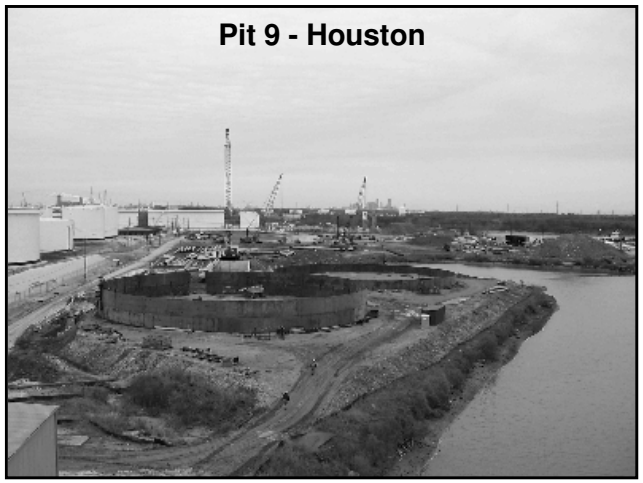
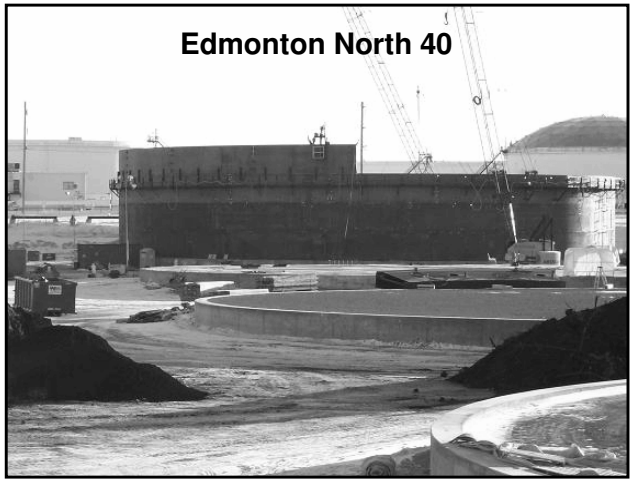
Capital Spending on Expansion Projects


Pit 9 - Houston

2007

$360 Million		
Pasadena & Galena Park Expansion	Clean Products	90
Pasadena & Galena Park ULSD System	Clean Products	4
Pasadena Ethanol Handling Systems	Clean Products	2
Galena Park Biodeisel Tanks	Clean Products	13
Perth Amboy, NJ, Expansion	Clean Products	29
Pier IX & X, VA, Dock & Conveyors	Coal	47
Shipyard River, SC, Expansion & Cranes	Coal	3
Edmonton North 40 Terminal, Canada	Crude	85
Elizabeth River, VA, Warehouse & Conveyors	Fertilizers	10
Harvey, LA, Biodeisel Tanks	Clean Products	12
Geismer, LA, Drumming Facility	Chemicals	34
Others		31


Edmonton North 40

2008

$100 Million		
Pasadena & Galena Park Expansion	Clean Products	5
Pier IX & X, VA, Dock & Conveyors	Coal	29
Harvey, LA, Biodeisel Tanks	Clean Products	4
Other to be determined		62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