

# Natural Gas Pipelines

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# Overview

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## 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

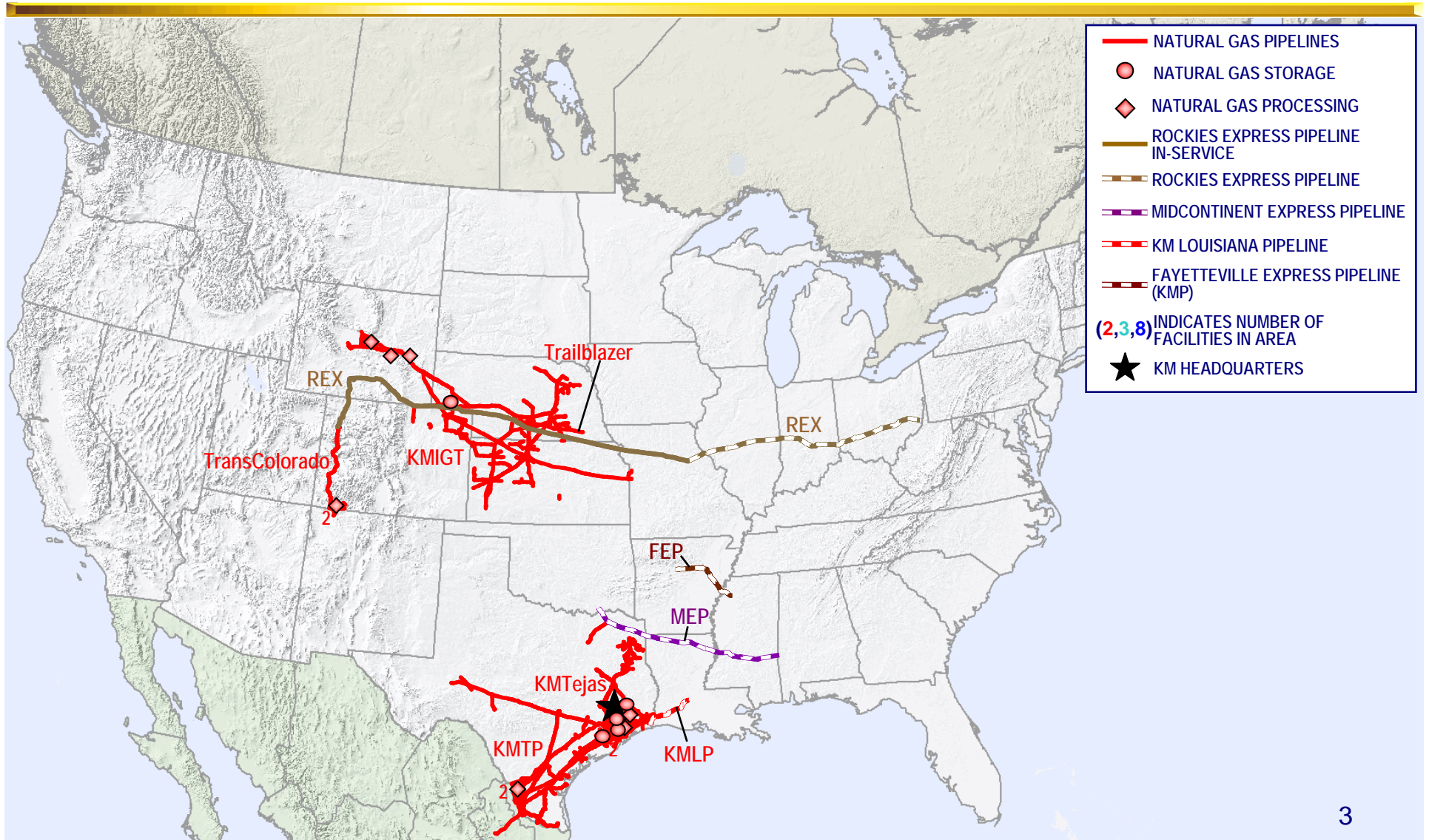
## Keys to success in 2009

- 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

# Natural Gas Pipelines and Facilities



# Contracted Capacity and Term

		<u>Capacity</u>	<u>Avg. Term Remaining</u>
Texas Intrastates	Transport	3.3 bcf/d	7 yr, 4 mo
	Sales	2.6 bcf/d	2 yr, 3 mo
	Purchases	3.0 bcf/d	1 yr, 9 mo
	Storage	138* bcf	3 yr, 5 mo
KMIGT	Storage	10 bcf	4 yr, 8 mo
	Transport	0.9 bcf/d	4 yr, 8 mo
TransColorado	Transport	1 bcf/d	5 yr, 5 mo
Trailblazer	Transport	0.9 bcf/d	5 yr, 10 mo
REX	Transport	1.8 bcf/d	10 yr, 10 mo
MEP	Transport	1.6 bcf/d	9 yr, 2 mo
KMLA	Transport	3.4 bcf/d	20 yr, 0 mo

- 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)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>'08 - '09 Change</u>
EBDDA	451,579	501,103	548,383	738,860	868,347	129,487
Sustaining Capex	(25,244)	(27,431)	(29,927)	(29,853)	(34,868)	(5,015)
DCF	<u>426,335</u>	<u>473,672</u>	<u>518,456</u>	<u>709,007</u>	<u>833,479</u>	<u>124,472</u>

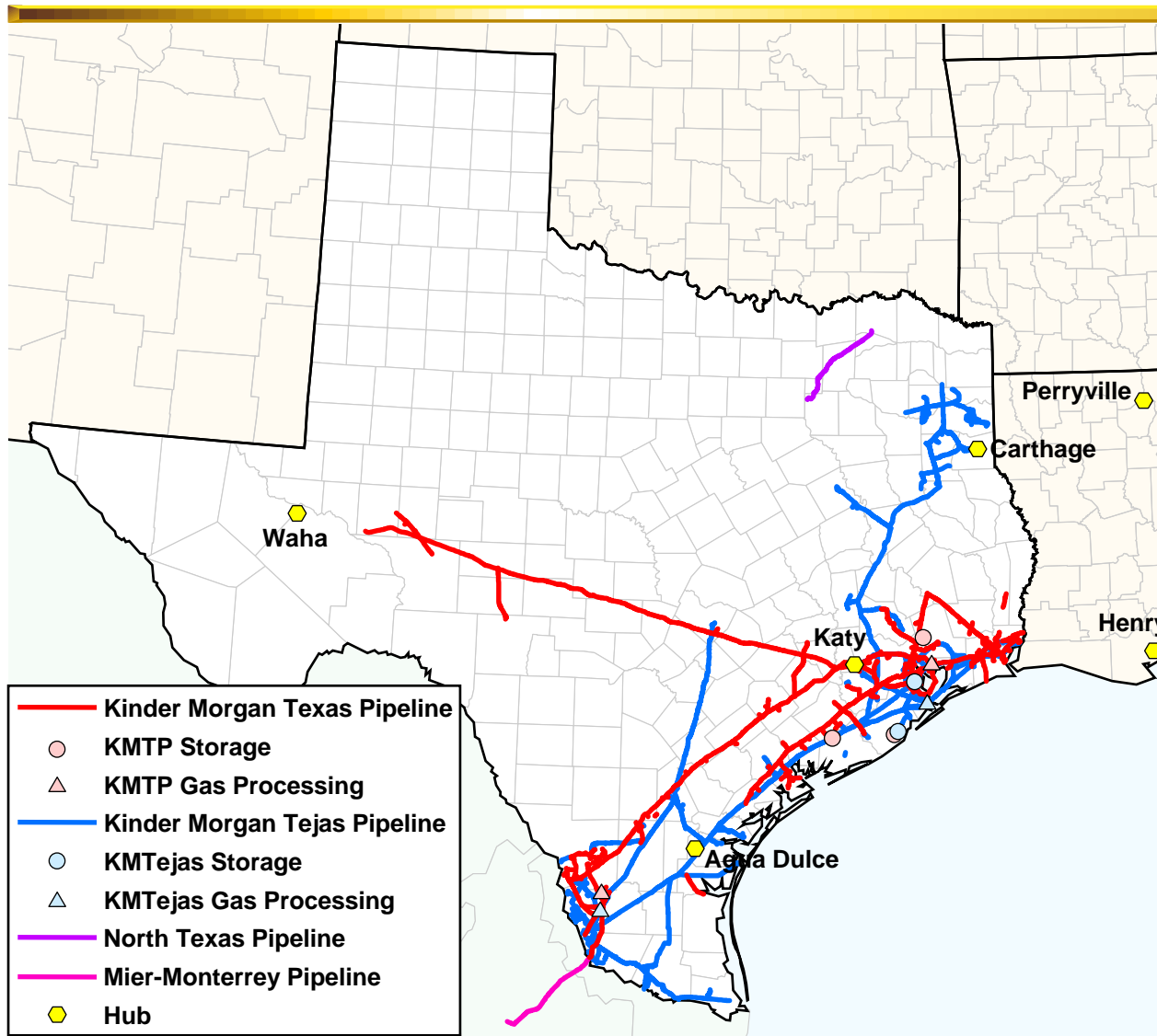
- Incremental DCF forecasted from KMLP, MEP, REX = \$123mm
- Texas Intrastates Budget includes margin improvements on transport, storage, and sales to offset YOY processing declines.
- Opportunity: budget incorporates OPEX and sustaining capex increases. Will look for opportunities to take advantage of improved cost environment in 2009.

Note: EBDDA excludes Upstream gathering assets, and includes imputed share of DDA from REX and MEP

# Asset Summaries

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# 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

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### 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, 5<sup>th</sup> 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

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### Growth from Existing Assets:

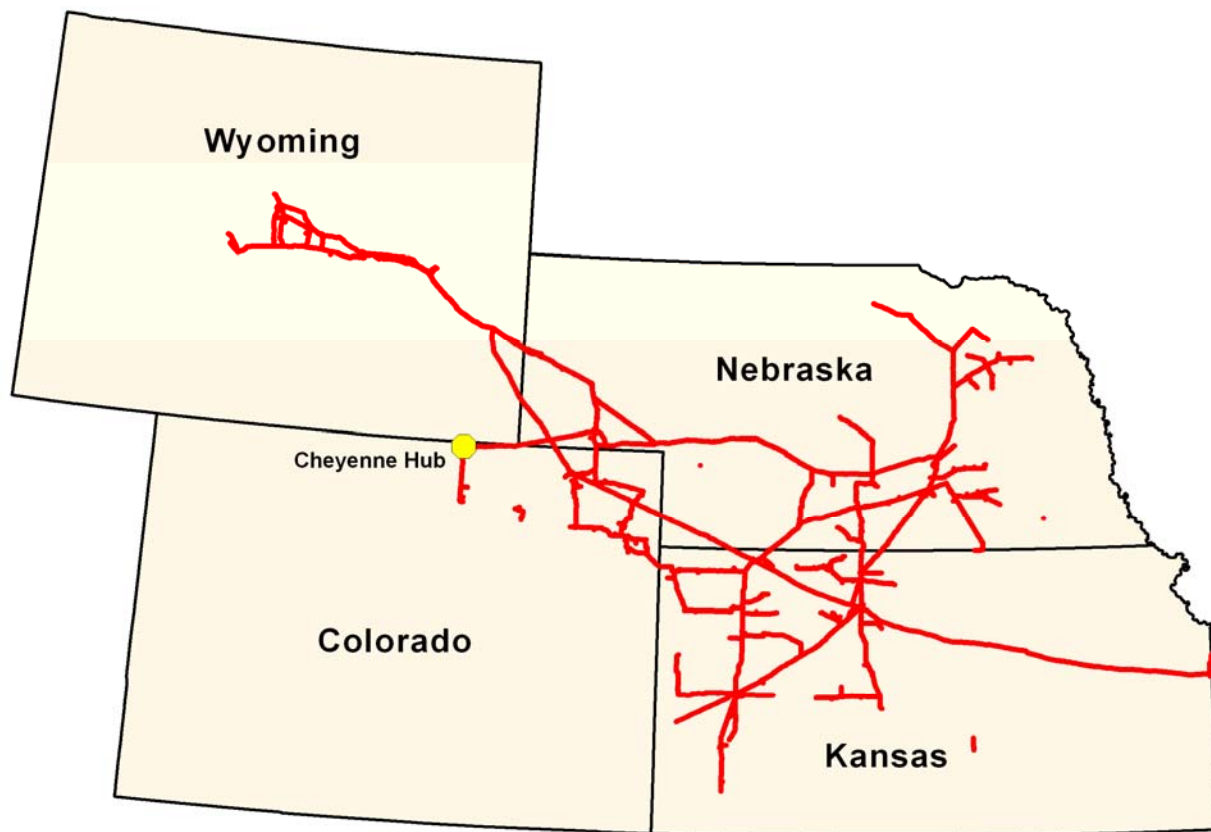
- Higher premiums for ratable / swing services, end-user gas sales, and transport
  - Value of swing / storage services continues to increase
  - Rollovers of sales contracts at higher margins providing year on year growth
  - Improving transport margins
  - Several storage, sales and transport agreements 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

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- 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)

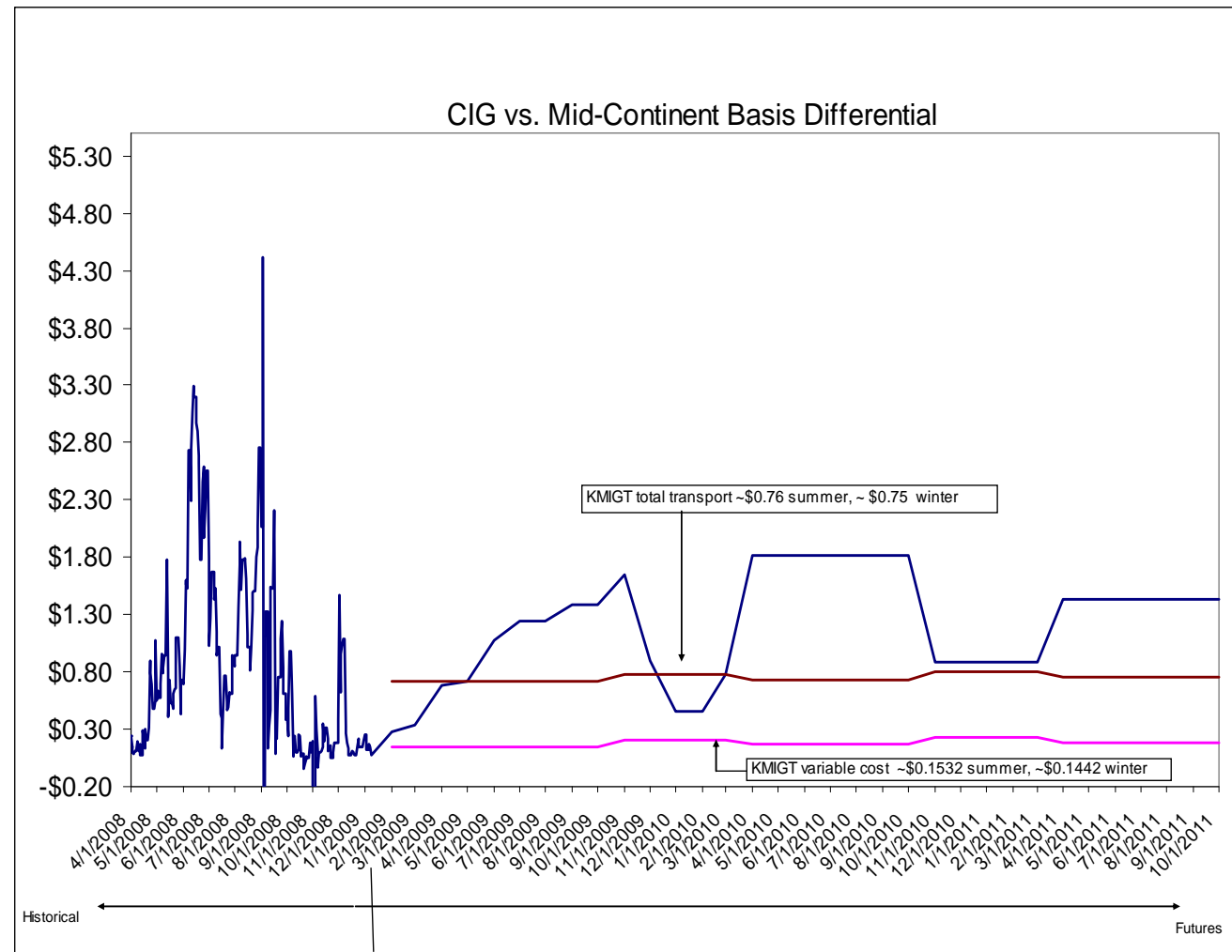


## KMIGT

- **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



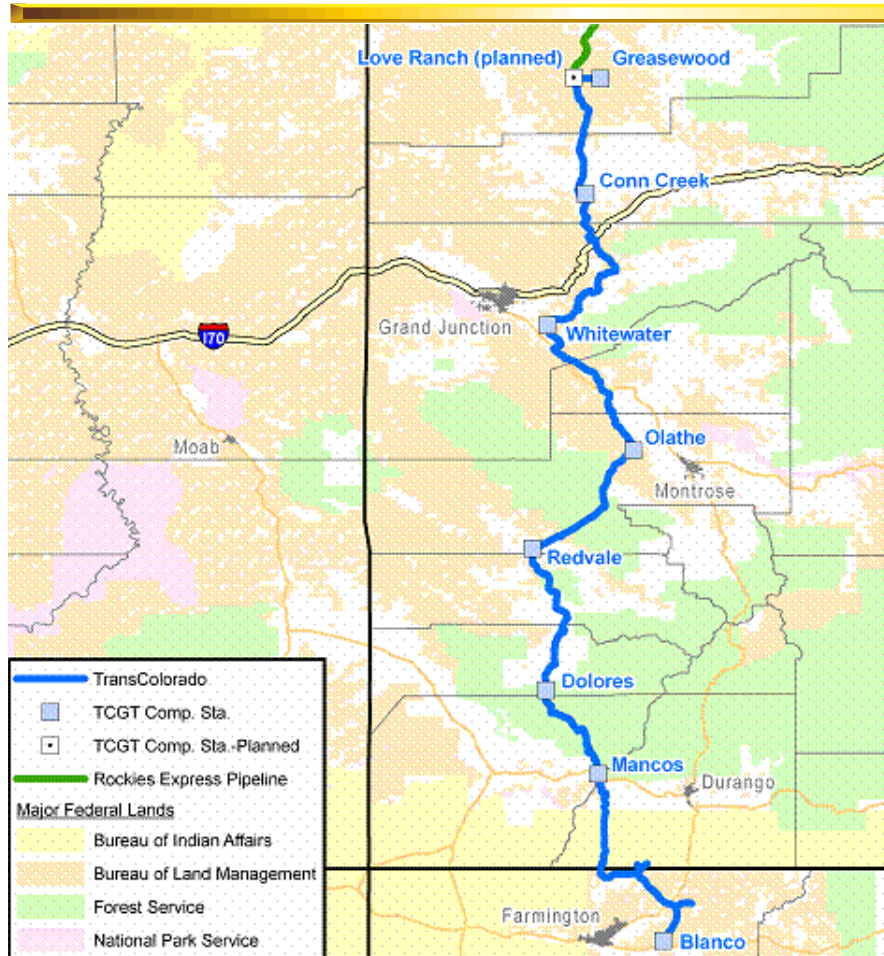
# KMIGT

## Growth Projects...

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- **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

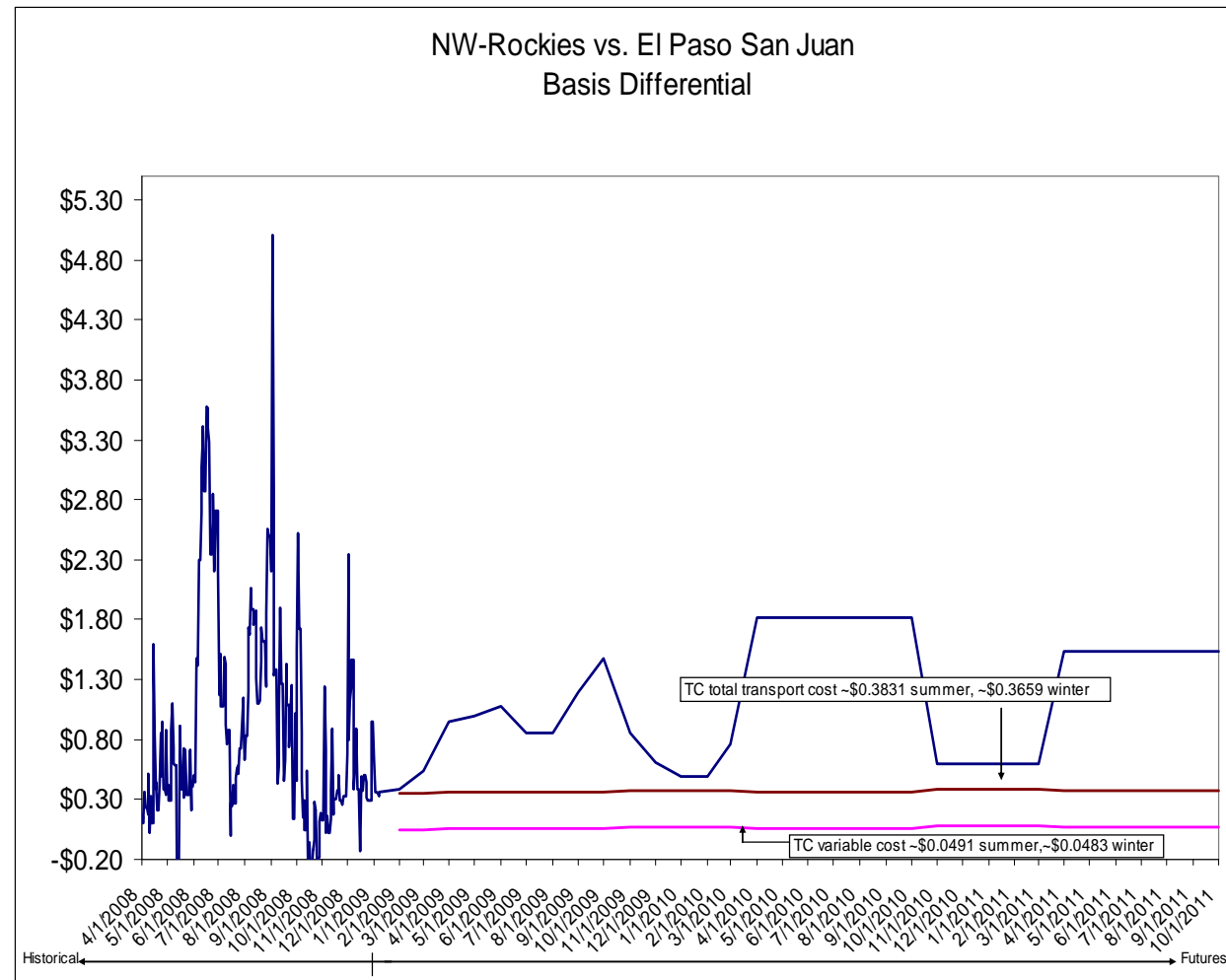


## TransColorado

- 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**



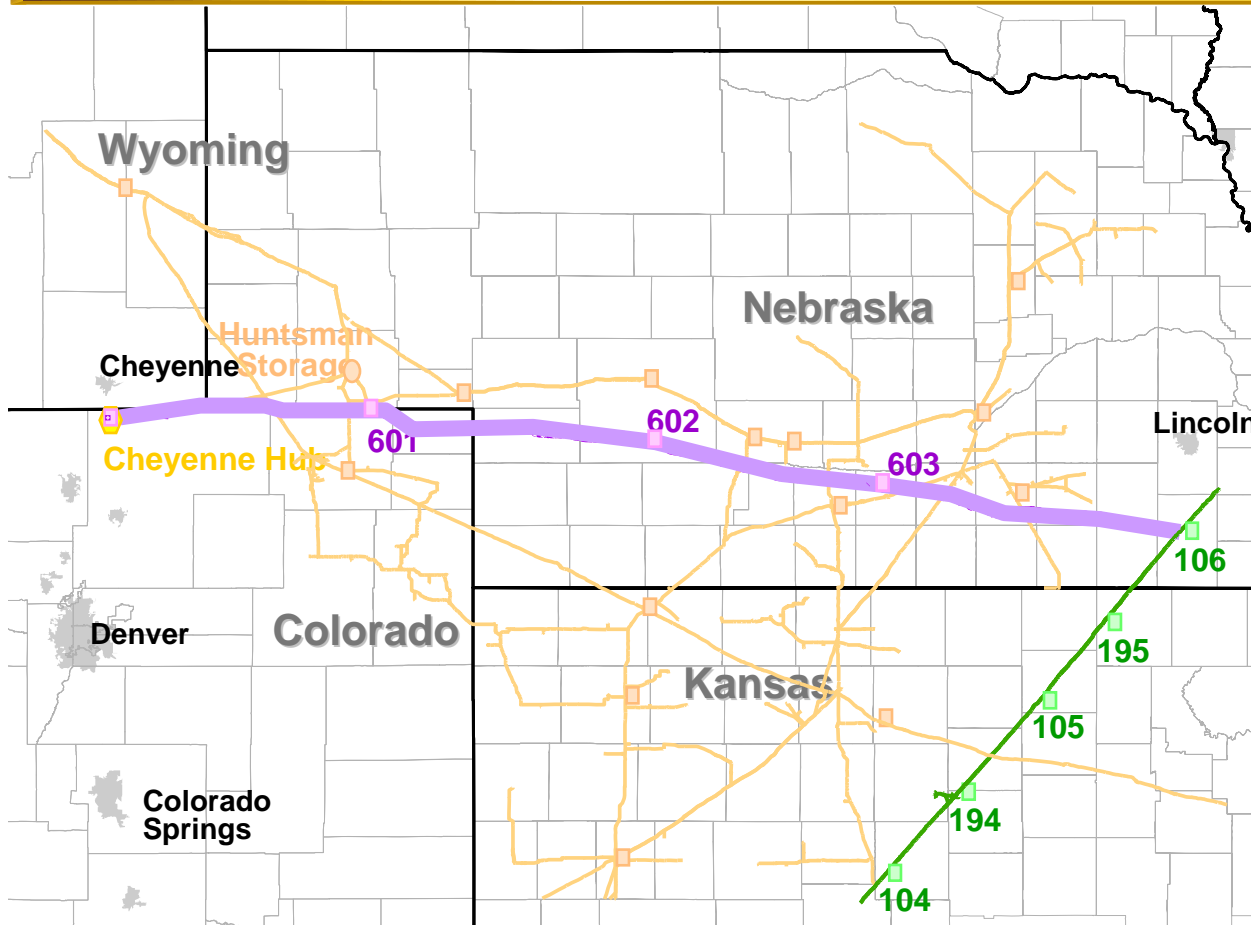
# TransColorado Growth Projects...

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## Compression expansion for southbound capacity from Meeker to Blanco

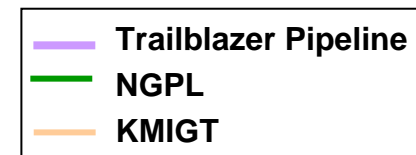
- **Capacity**
  - 47,000 Dth/d April - September
  - 55,000 Dth/d October - March
- **10,190 Hp installed in existing compressor stations**
- **Capital investment well supported by 2009 – 2013 spreads.**
- **Q4 2010 target in-service date**
- **Open Season required**
- **Producer development driven**

# Trailblazer Pipeline Company



## Trailblazer

- 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**

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**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**

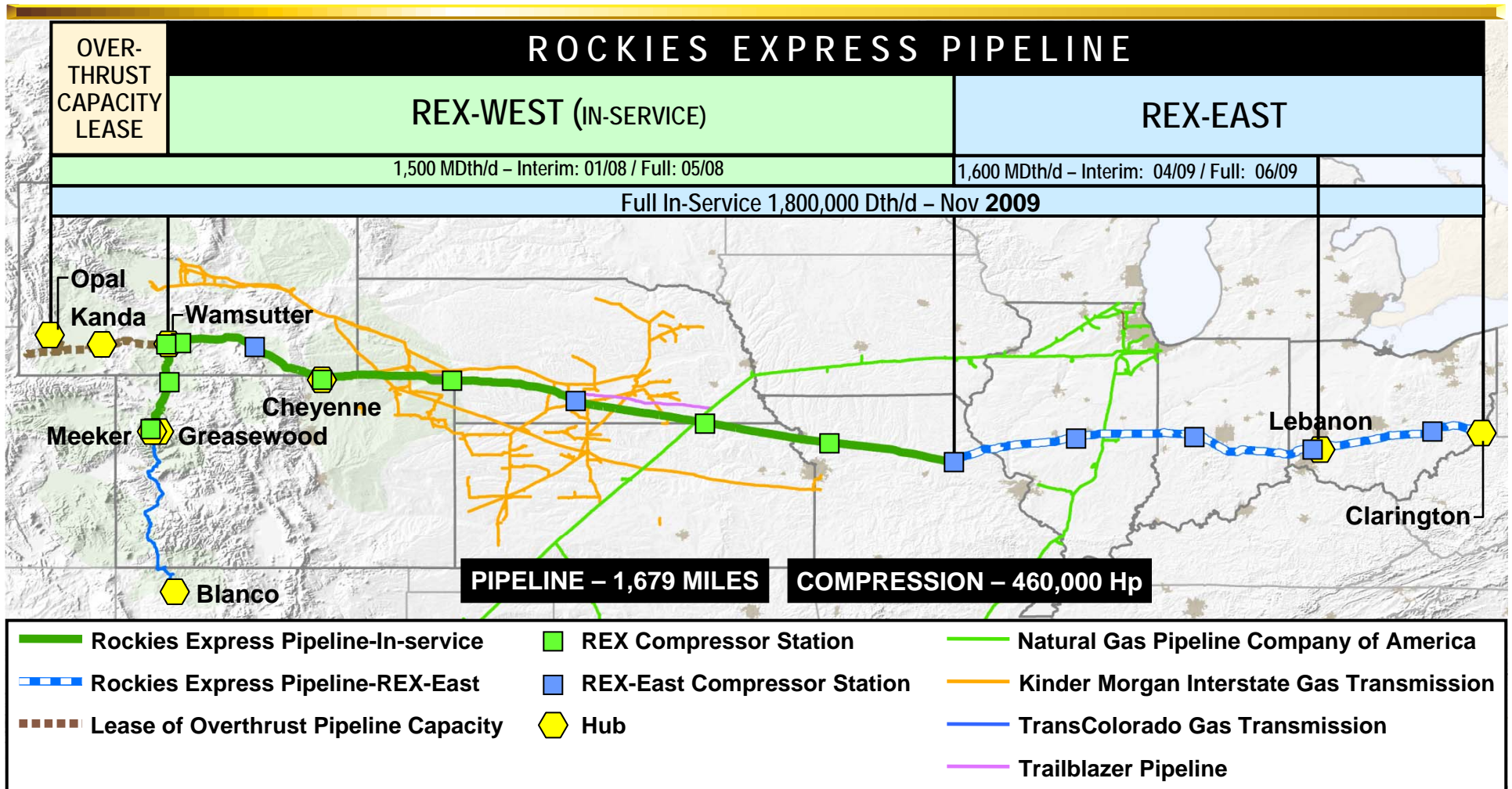
# Project Cost Environment

## Outlook for future projects

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

- 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)



# REX

## Project Overview

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### ■ REX West

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

### ■ REX 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

### ■ REX Pipeline capacity is sold out under long term binding commitments

### ■ Total Projected Cost (Entrega & REX) = \$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

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### 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

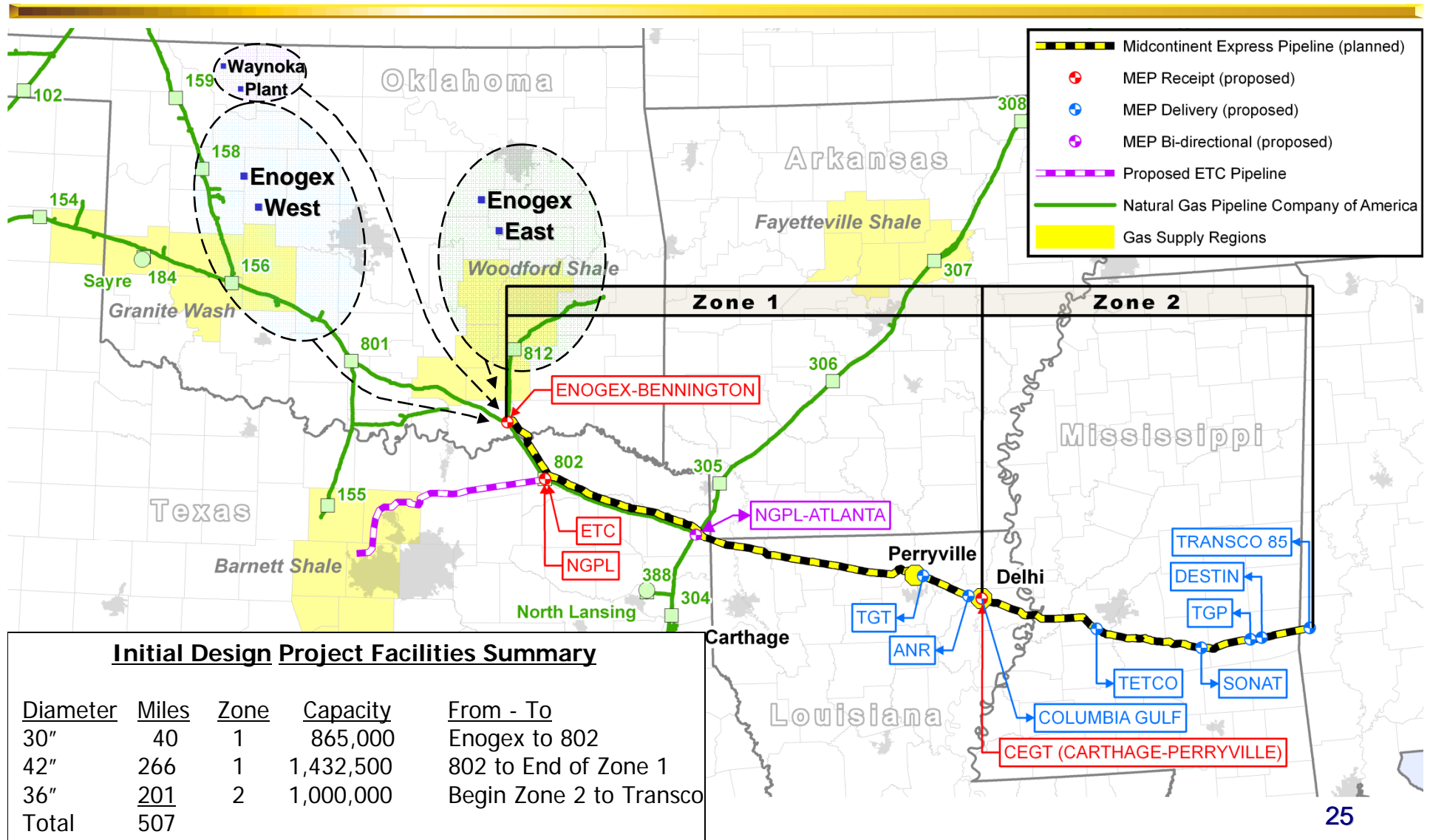
## Future Opportunities...

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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)



# MEP

## Construction Progress

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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

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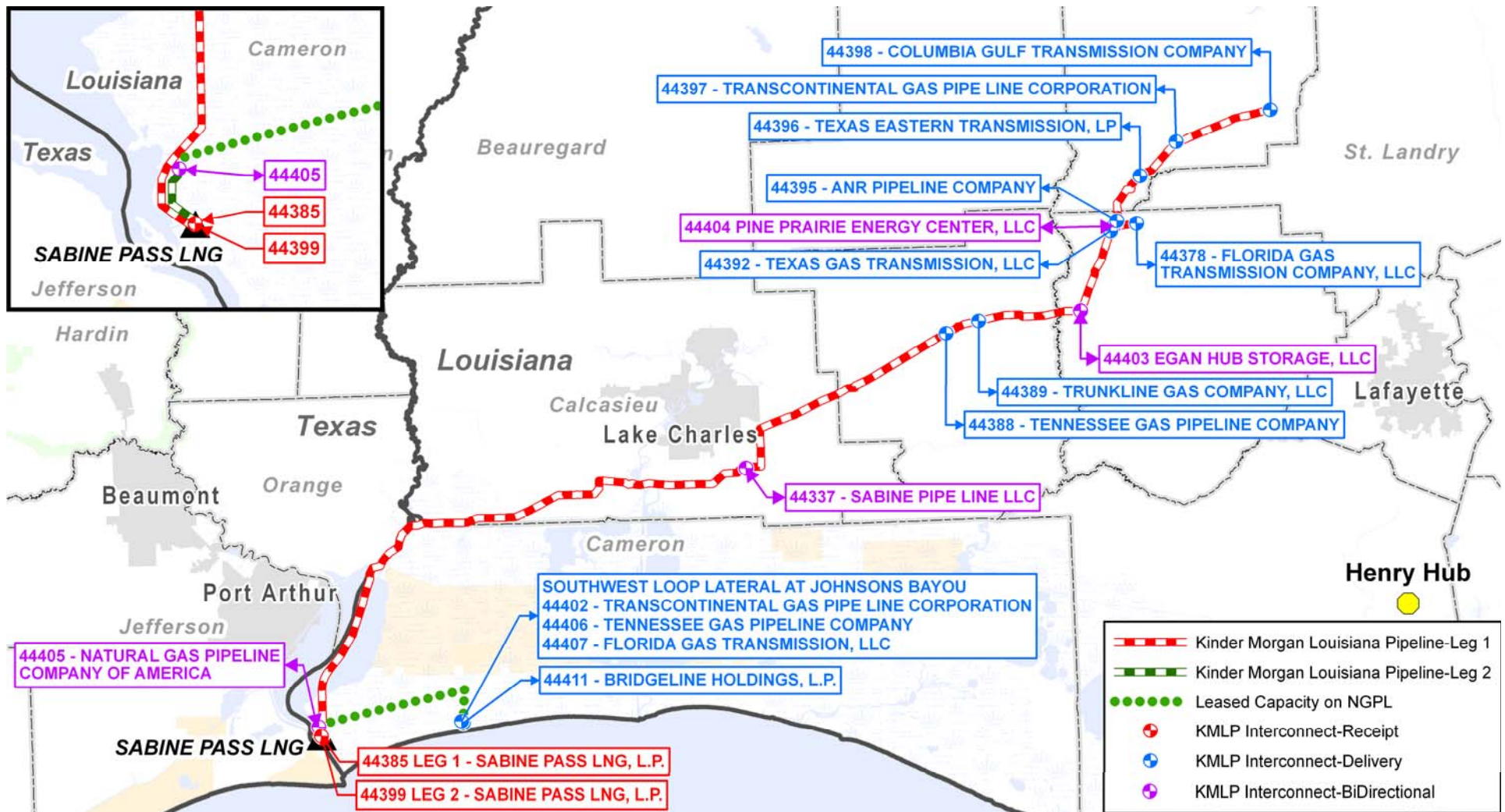
### Challenges

- 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



# **Kinder Morgan Louisiana Pipeline Opportunities**

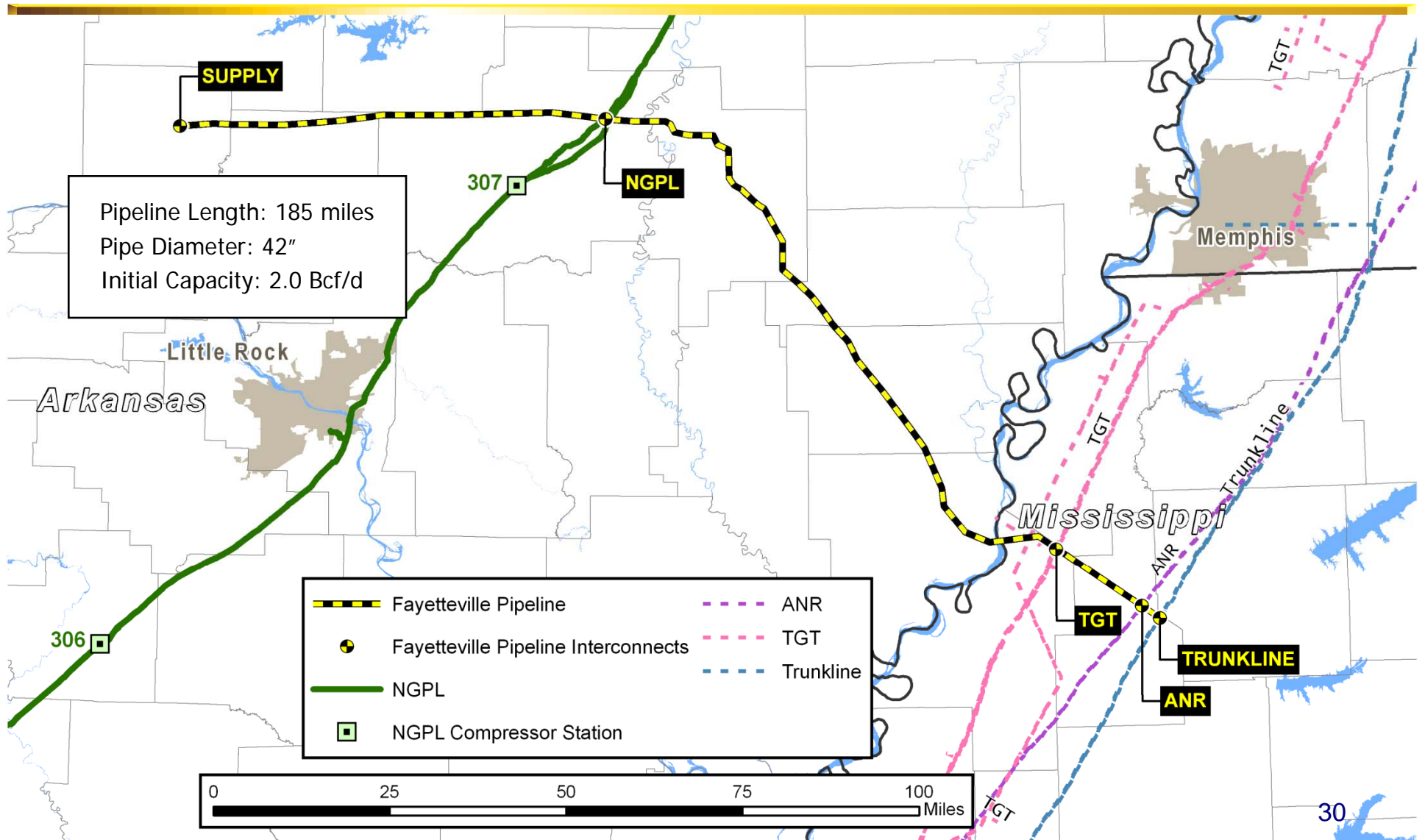
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**Working with existing shippers on sharing benefits of value-added services with limited capital investment. (flexible service, IT, market to shippers with nearby storage)**

**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)



# FEP

## Commercial Status

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- 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

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## 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