

# Natural Gas Pipelines

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# Overview

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## Market Environment

- Transport spreads have flattened
- Storage spreads remain strong
- Processing margins expected to be roughly equivalent to 2009 performance

## Value Proposition

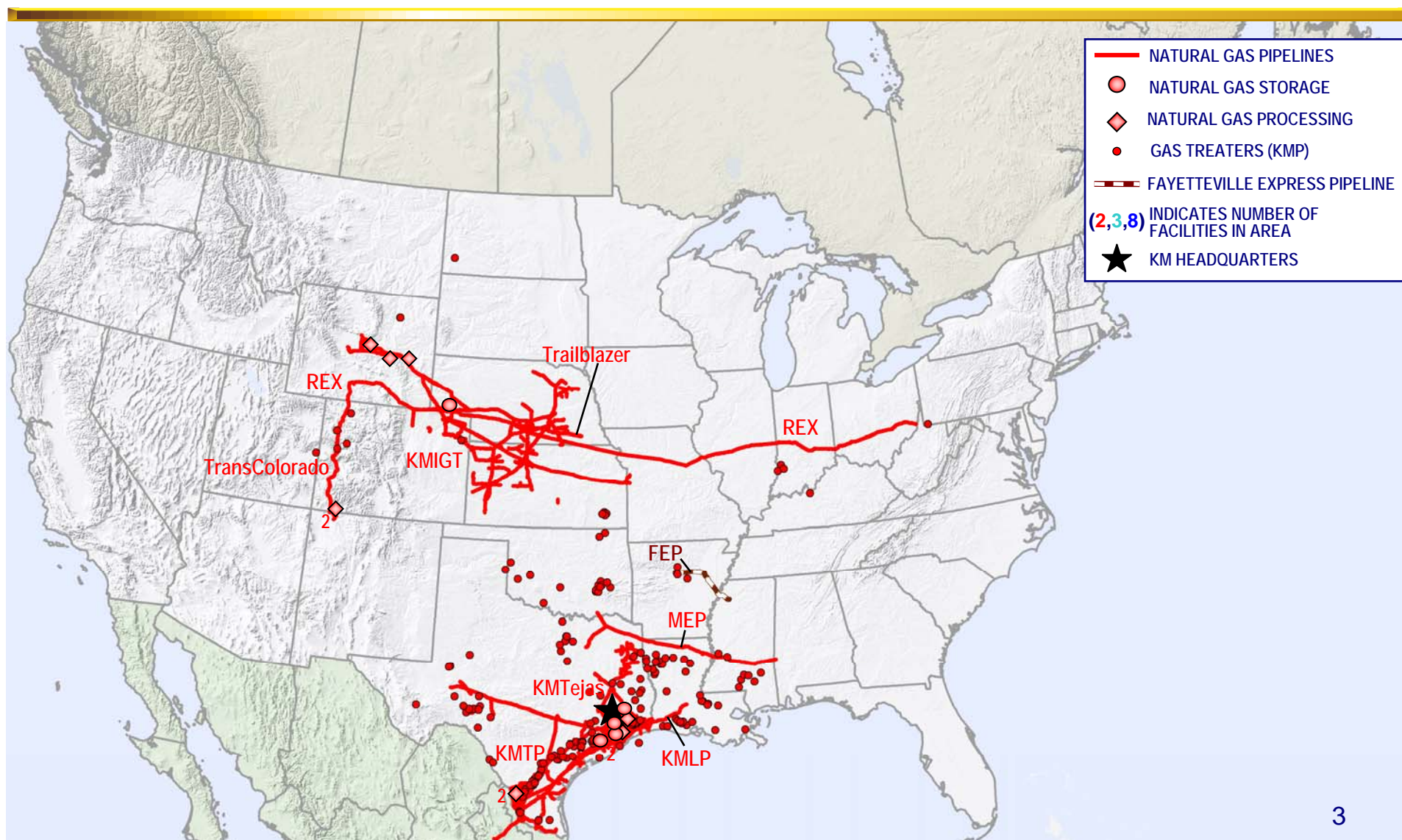
- Strong asset base with secure cash flows supported by long term contracts
- Limited exposure to commodity prices and processing margins
- Recently expanded footprint and superior access to capital provides additional expansion/extension and acquisition opportunities (shales, storage, and acquisitions)
- Dramatically improved construction environment

## Summary

- System
- Financial Targets
- Asset-by-asset review
- Intrastate assets
- Growth opportunities

# KMP

## Natural Gas Pipelines and Facilities



# Financial Targets 2010

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>'09 - '10 Change</u>
EBDDA	451,579	501,103	548,383	738,860	825,388	921,536	96,148
Sustaining Capex	(25,244)	(27,431)	(29,927)	(29,853)	(22,676)	(24,568)	(1,892)
DCF	<u>426,335</u>	<u>473,672</u>	<u>518,456</u>	<u>709,007</u>	<u>802,712</u>	<u>896,968</u>	<u>94,256</u>

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

## 2010 Highlights:

- REX East, MEP, and KM LA projects in full service in 2010 versus partial in-service in 2009
- KM Treating assets acquired into KMP portfolio in Q4 2009; full year contribution in 2010
- KMIGT impacted by lower fuel sales

# Contracted Capacity and Term

		<u>Contracted Capacity</u>	<u>Avg. Term Remaining</u>
Texas Intrastates	Transport	3.4 bcf/d	6 yr, 6 mo
	Sales	2.6 bcf/d	2 yr, 0 mo
	Purchases	3.0 bcf/d	2 yr, 0 mo
	Storage	137 bcf	2 yr, 7 mo
KMITG	Storage	10.0 bcf	4 yr, 11 mo
	Transport	0.9 bcf/d	4 yr, 7 mo
TransColorado	Transport	1.0 bcf/d	4 yr, 9 mo
Trailblazer	Transport	0.9 bcf/d	5 yr, 6 mo
REX	Transport	1.8 bcf/d	9 yr, 6 mo
MEP	Transport	1.7 bcf/d	8 yr, 8 mo
KMLP	Transport	3.4 bcf/d	19 yr, 8 mo

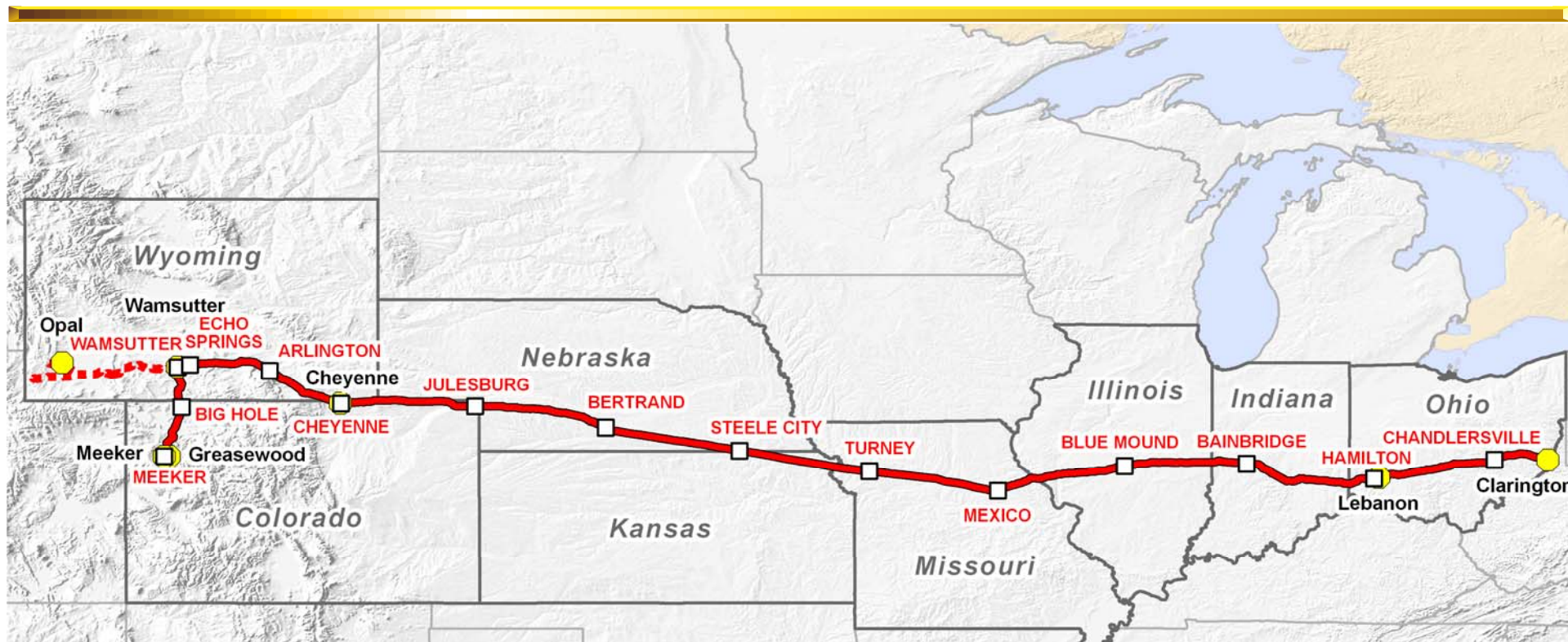
- Interstate pipelines contracted on a fee for service basis
- Intrastates: primarily combination fee for service and “back to back” term purchase and sales portfolio
- Limited exposure to processing margins and gas commodity price
  - \$1 gas price change:
    - \$600K impact on KMITG
    - \$2MM impact on Intrastates
  - Processing: \$25 – 27 MM exposure on Intrastates if processing uneconomic
    - 1% change in WTI = \$1MM
    - <3% of Natural Gas Pipelines segment budget
  - Intrastate Spreads: \$0.05 Waha to HSC = \$1.1MM; \$0.05 TxOk to HSC = \$1.6MM

# Asset Summaries

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# Rockies Express Pipeline (REX)



## REX

- 1,679 miles of 36" and 42" pipeline
- Originates in Meeker, CO and terminates in Clarington, OH
- Transports Rocky Mountain production to premium Northeast Markets
- Capacity = 1.8 Bcf/d
- Almost completely sold out under long term contracts
- FERC regulated

# REX Future Opportunities...

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## Growth Opportunities...

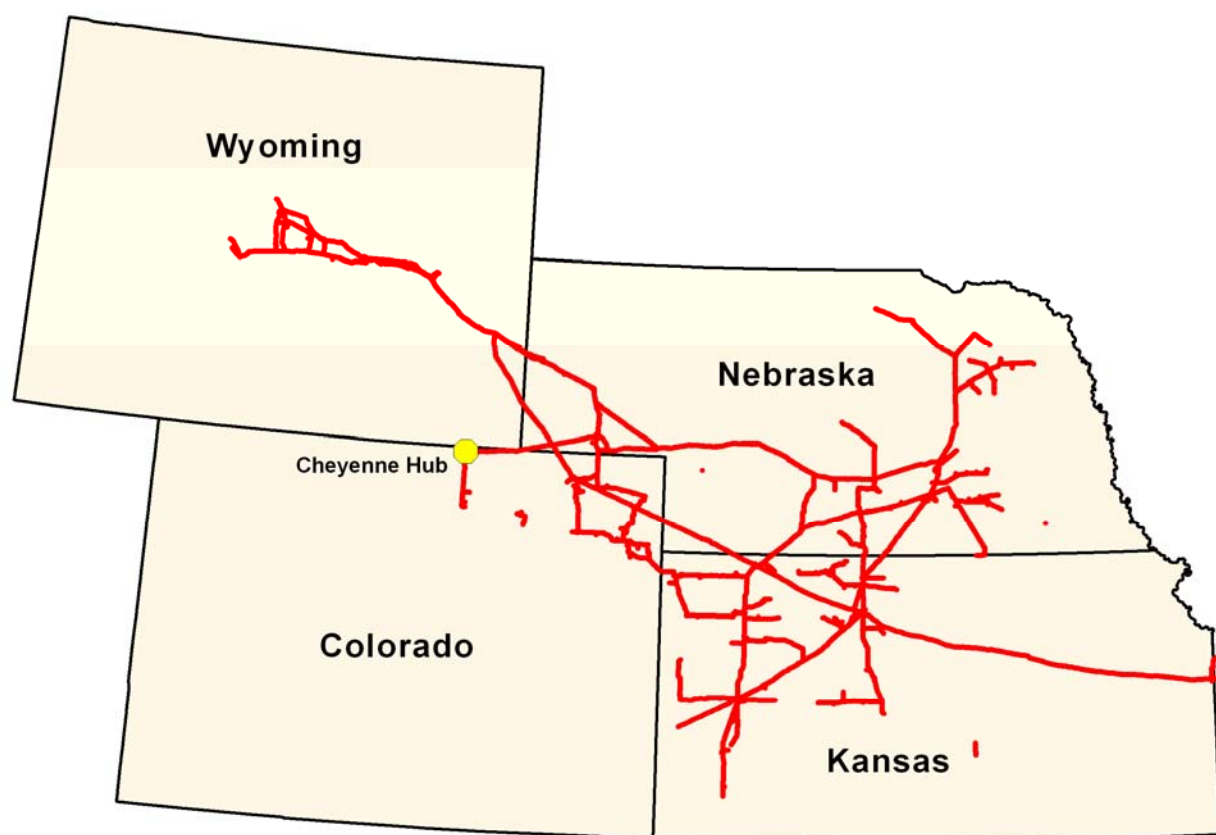
- **200,000 Dth/d Meeker to Cheyenne Expansion**
  - Fully Subscribed
  - Leg one, in-service December 2009 (ahead of schedule and below original cost estimate)
  - Leg two, in-service mid year 2010
- **Park and Loan Service**
- **Interruptible and short haul service**
- **Extensions and expansions**
  - Opportunities to connect additional markets (i.e. power plants, LDCs, etc.)
- **Additional capacity opportunities identified during operations**
- **New Services**

## Challenges

- **Receive .8 design on the last 201 miles of the pipeline; not required to meet contract obligations**
- **Return to full service to Clarington following the failure on November 14, 2009 expected return to service by January 31, 2010**



# 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**
  - Storage
- **Capacity**
  - Transp. 940 MDth/d
  - Valuable capacity, fully contracted
  - Storage 14.8 Bcf
- **FERC Regulated**

# KMIGT Growth Projects...

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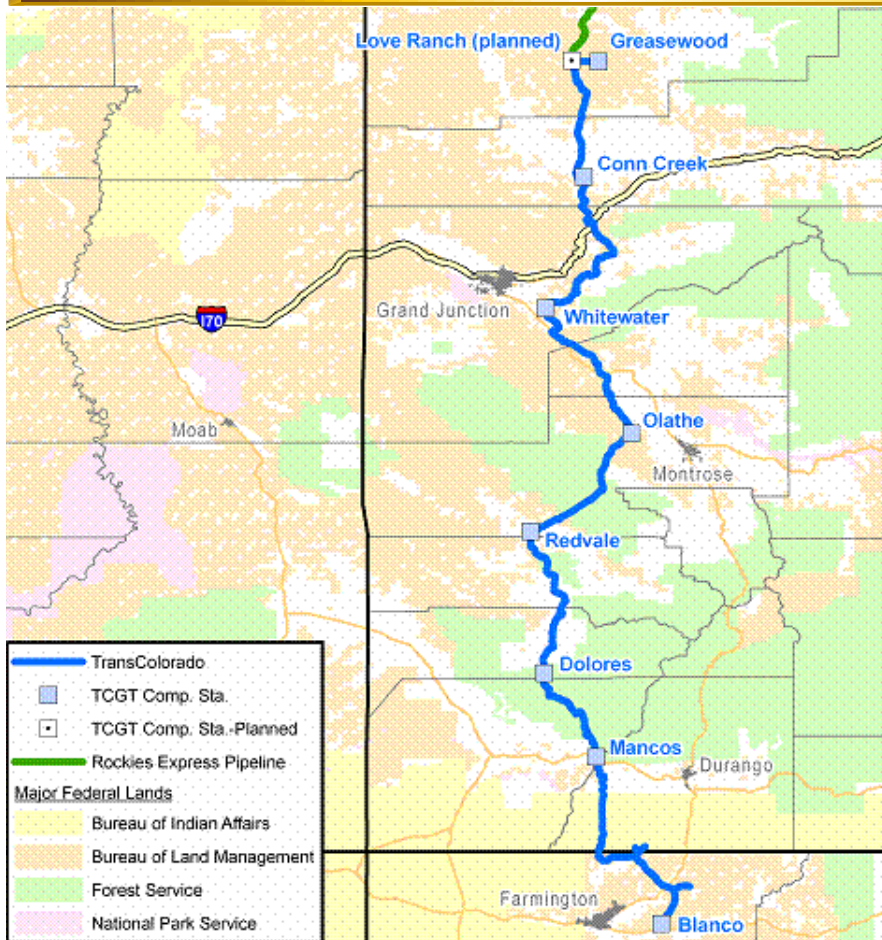
## ■ Huntsman Storage Expansion

- 10,000 Dth/d incremental firm storage service
- Demand charges will be invoiced pursuant to long-term binding contract with Atmos
- Phase I construction completed December 2009
- Phase II construction to be completed late 3<sup>rd</sup> quarter 2010

## ■ Ethanol Plants

- Increased production at attached Ethanol Plants
- Utilization of existing Ethanol Plant contracts has increased from 63% to 85% over the past 9 months

# 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 Growth Projects...

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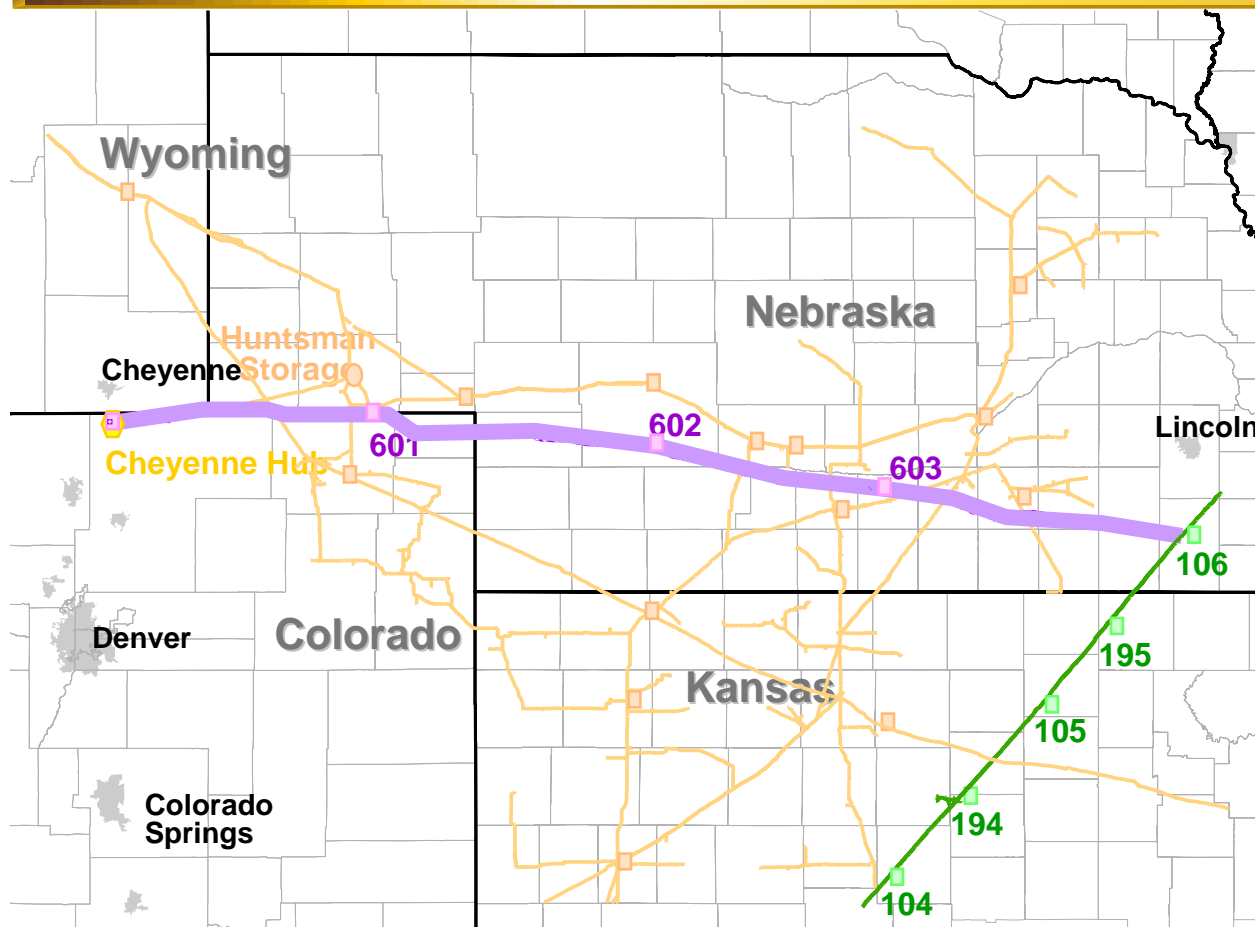
## ■ Recontracting Challenges (average term remaining 4 yrs. 9 months)

- Basis spreads across the pipeline have contracted significantly
- Aggregation of gathering and processing has shifted gas supply from “along pipe” to “north end of pipe”
- Drilling rig count dropped from 88 to 27 over the past 15 months

## ■ Opportunities

- Short haul transportation to aid in consolidation of gas for processing
- Additional opportunities dependent on return of drilling activity

# 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
- Rate Case Settlement discussions ongoing
- Impact 2010 minimal



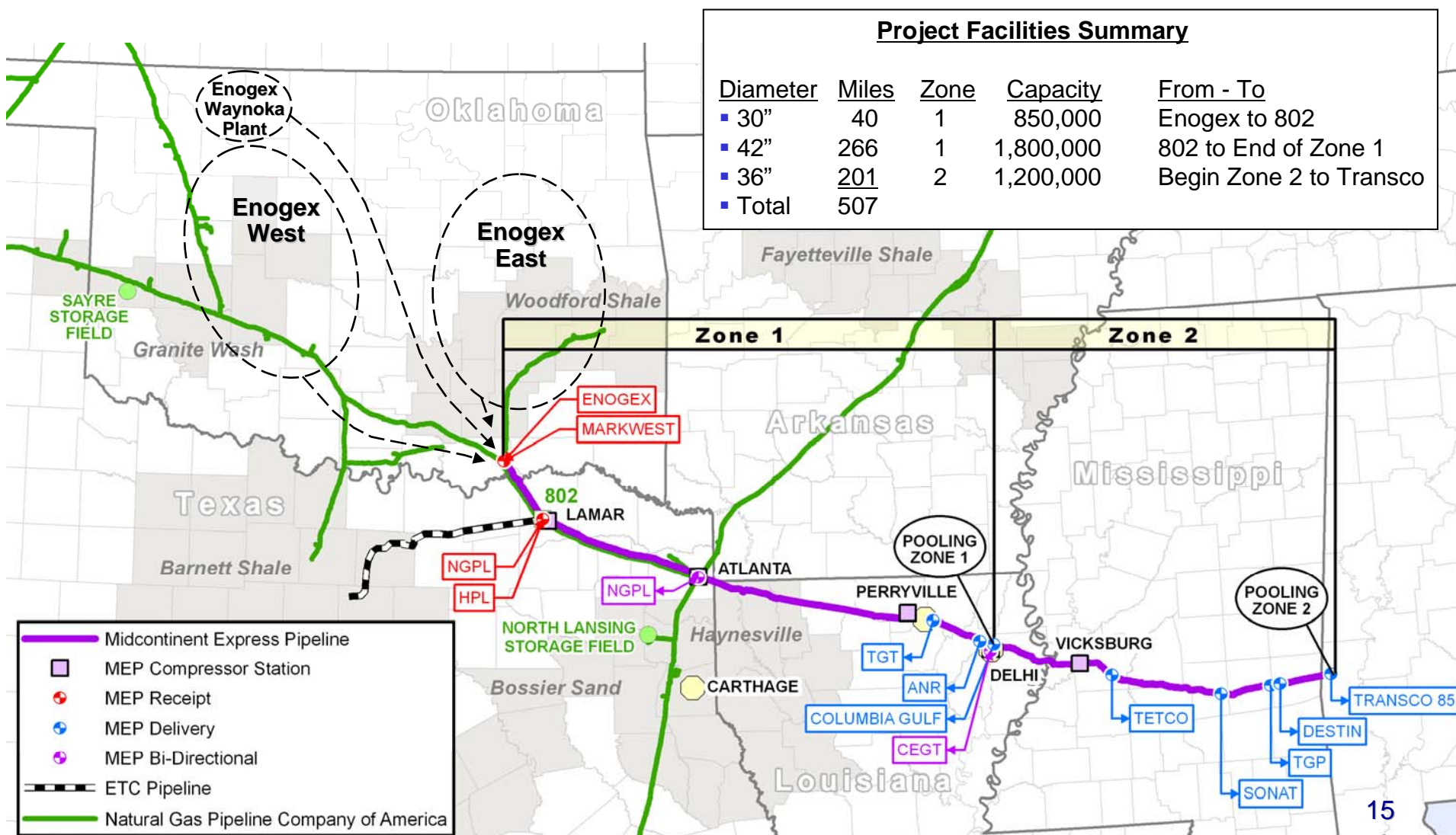
# Trailblazer Pipeline Update

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- **Settlement obligation to file Rate Case by December 1, 2009**
- **Discussions with customers began, received 90 day extension of filing requirement**
- **Reasonable Settlement opportunities within 90 day period**
- **Minimal revenue impact in 2010**



# Midcontinent Express Pipeline (MEP)



# MEP Capacity

	<u>Zone 1 (MMDth)</u>		<u>Zone 2 (MMDth)</u>	
NGPL/HPL to CGT	641	April 24, 2009	0	
Phase 1 (Delhi)	1,147	May 1, 2009	0	
Phase 2 (T85)	1,200	Aug 1, 2009	946	Aug 1, 2009
<u>.8 Design Approval</u>				
Zone 1	1,432	Oct 9, 2009	946	
Zone 2 (a)	1,432		1,000	Jan 7, 2010
Expansion #1	1,532	June 2010	1,200	June 2010
Expansion #2	1,832	3/4Q 2010	1,200	

(a) MEP contracts will be in effect for 100% of the MDQ effective February 1, 2010

# MEP Expansion Progress and Commercial Opportunities

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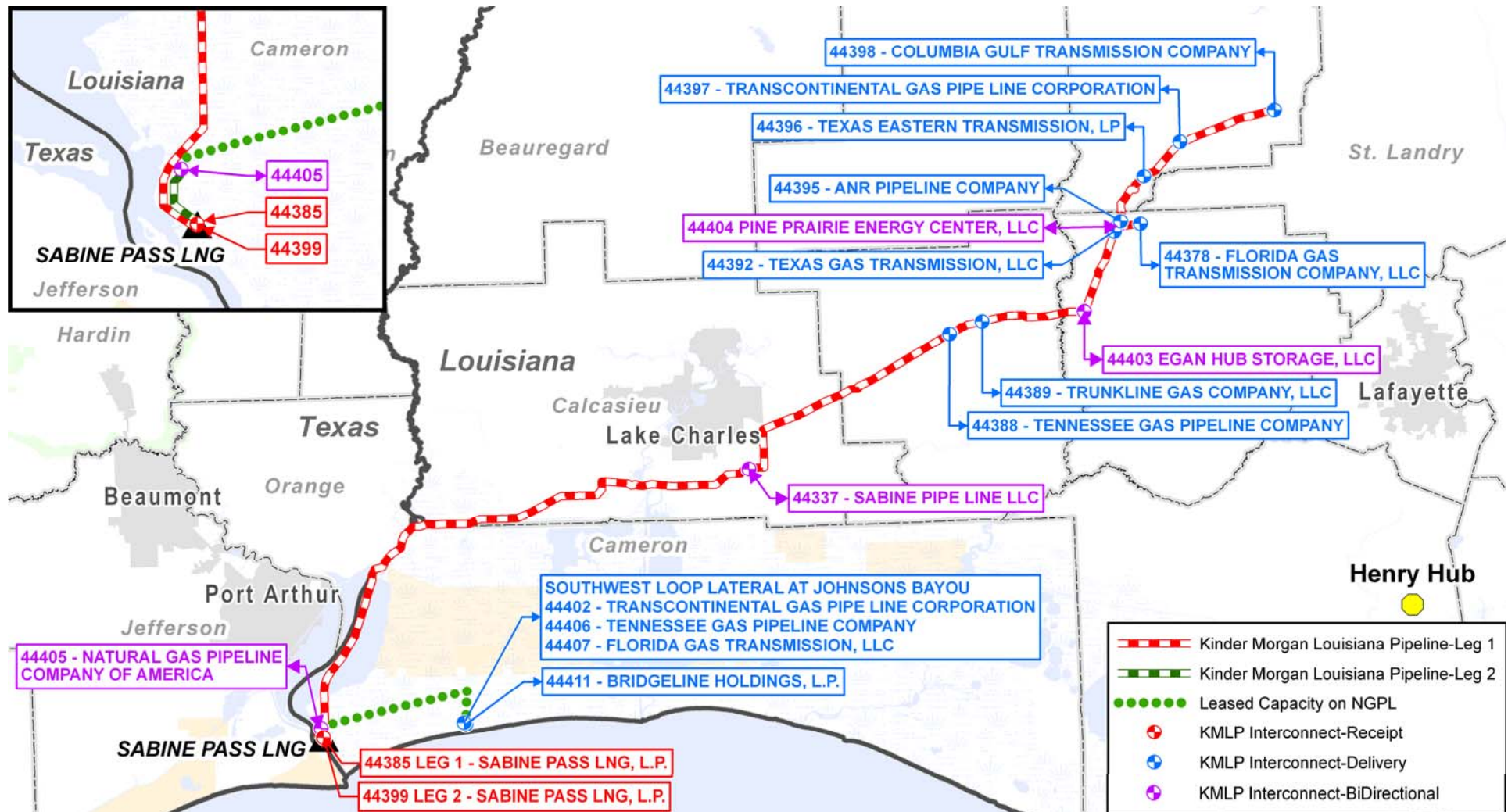
## MEP Expansion # 1 and #2

- Capacity is fully contracted on both expansions
- Construction has begun on both expansions
- Construction contracts are fixed price lump sum contracts
- Major materials have been procured
- Projected in-service for Expansion #1 is June 2010
- Projected in-service for Expansion #2 is 3/4Q 2010
- Schedule is tight on expansion #1, but we are on target and forecasting costs below original estimate

## Commercial Opportunities

- Zone 2 expandability (up to 300 MDth/d)
- Shale development, Perryville pile-up could support Zone 2 expansion
- Higher recourse rates to reflect higher project costs (long term opportunity)
- Serves as shale outlet with access to multiple outlets to the midwest, northeast and southeast markets
- Will look for excess capacity once we have more operating experience

# Kinder Morgan Louisiana Pipeline Project



# Kinder Morgan Louisiana Pipeline Opportunities

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- Working on opportunities to contract additional services
- Multiple interconnections – with additional facilities may be able to capture opportunities between major interstate pipelines and storage
- Potential interconnections with other LNG terminals



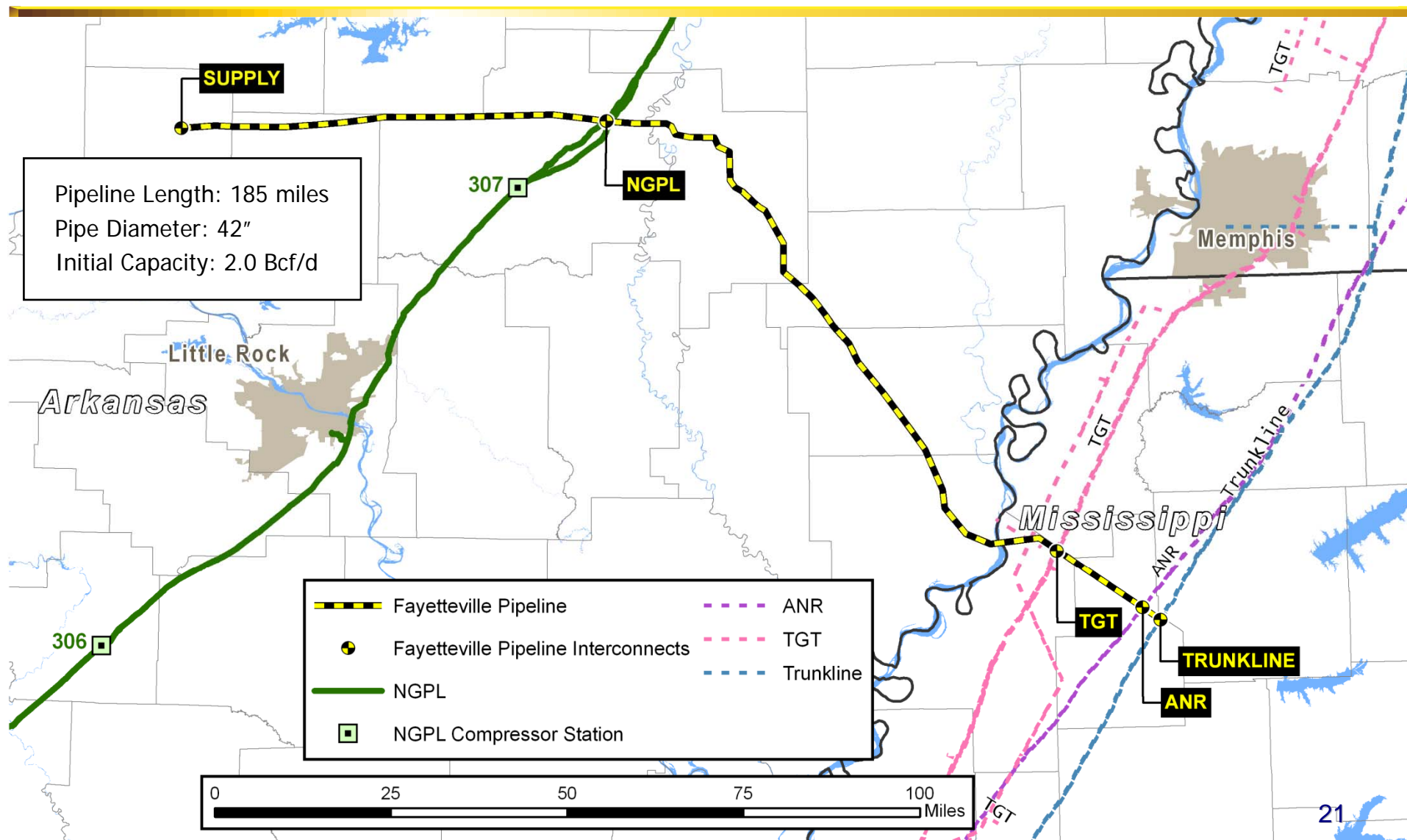
# Construction Environment Vastly Improved

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- Construction contractors are now willing to provide lump sum fixed price terms (due to the competitive environment)
- Construction workforce is more experienced
- Large diameter pipe – pricing is down about 35% from early 2009 and fairly stable, mills have availability, but increased inspection of the steel and pipe manufacturing process is required to ensure quality
- Compression – stable to improved availability
- Large valves – stable to improved availability
- Environmental – increased focus by regulatory agencies impacts cost and timing
- Trend benefits FEP, and the REX & MEP expansions



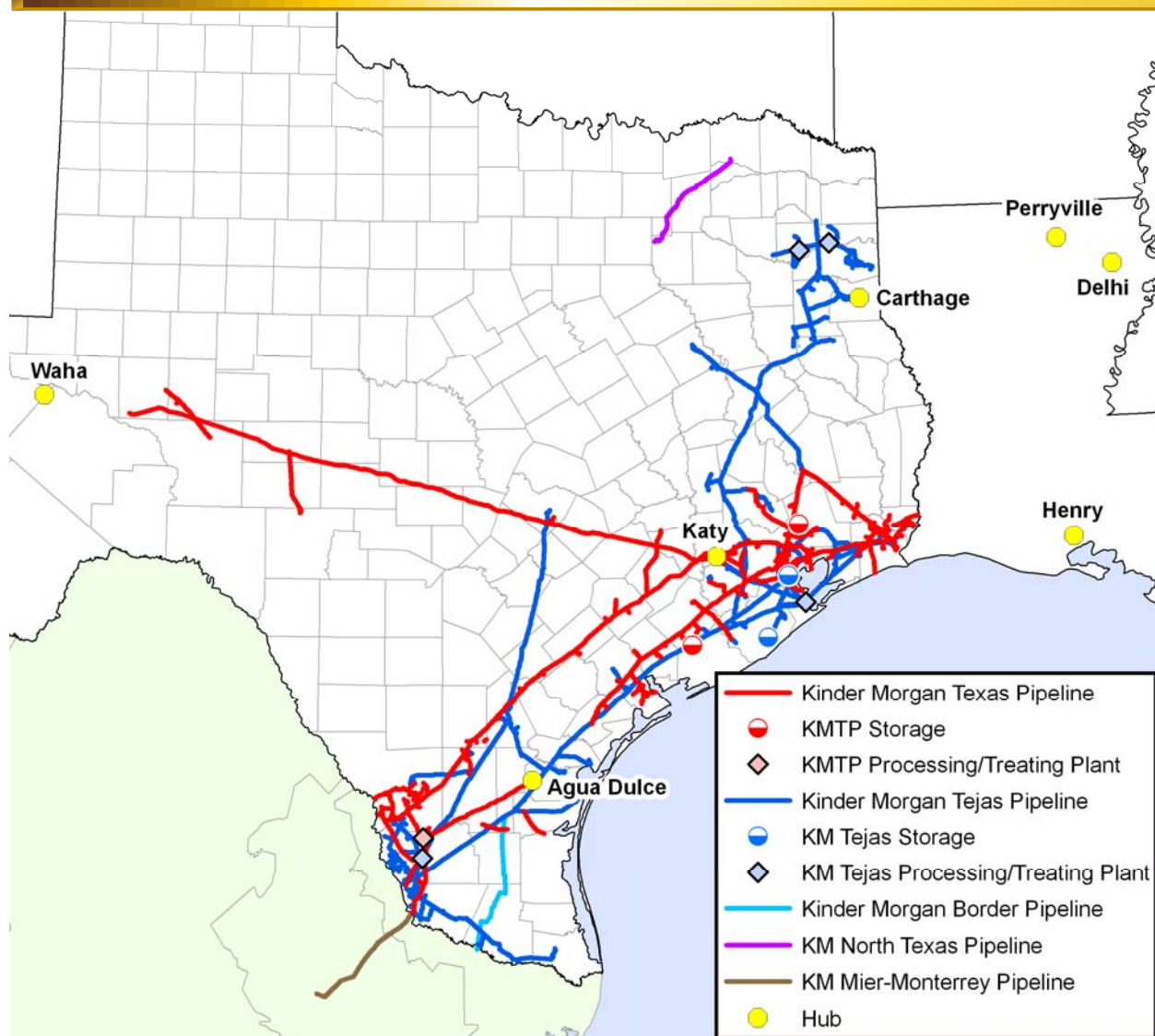
# Fayetteville Express Pipeline (FEP)



# FEP Update and Construction Progress

- **Total of 1.85 Bcf/day capacity sold. Have 0.15 Bcf/day available for sale**
  - 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)
  - With current market conditions, expect to sell the remaining capacity prior to or just after in-service
- **.8 Design PHMSA approval not needed for initial capacity of project**
- **Received EA from FERC on October 15, 2009**
- **Received FERC Certificate on December 17, 2009**
- **All construction contracts are fixed price lump sum (contracts are below budget)**
- **Pipe Acquisition**
  - Currently on schedule
  - Focused on inspection to ensure quality
- **Compressor units are ahead of schedule; working on air permit with ADEQ**
- **Right-of-Way – 88% of easements have been acquired to date**
- **Mobilization and construction beginning early January 2010**
- **Anticipate full in-service on January 1, 2011**

# Texas Intrastate Pipelines



- 6,000 miles of pipeline
- Over 5 Bcf/d capacity
- 145 Bcf of storage
- 685 MMcf/d processing capacity
- 180 MMcf/d CO<sub>2</sub> 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 and both Texas LNG terminals
- 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
- Conservative commercial strategy
  - Limited exposure to processing margins and commodity prices
  - Only 5% of capacity subject to short term basis volatility
  - 95% of throughput serves intrastate market

# Texas Intrastate Pipelines

## Near Term Growth Prospects

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**Large asset footprint provides real and continued opportunities for Expansion Capital Investment**

■ **2010 Budget**

- Full year (vs. 3 mos. in '09) of Treating Business
- 262,000 MMBtu/d of capacity reservations from producers in the West Beaumont Field, Jefferson Co., Tx
- Full year (vs. 2 mos. in '09), and increasing volumes, of Endeavor P/L investment (cash distributions)
- North Dayton 7 Bcf working capacity storage expansion in service in 3rd Qtr '10
- Full year (vs. 4 mos. in '09) of Sarita Pipeline
- Phase 1 of Eagle Ford Shale supply pipeline within JV w/Copano in service 3rd Qtr '10 (cash distributions)
- Expansion of Texas City gathering/processing system in service in 3rd Qtr '10
- Total of approximately \$50MM of EBITDA of which 90% is largely secure (full year effect of acquisitions, existing contracts and expansions underway)

# Keys to Success in 2010

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- Continue to roll over sales and transport contracts at equal or better terms
- Maintain field supply volumes at current levels (plus West Beaumont)
- Favorable optimization spreads across the pipeline (Waha, TxOk vs HSC)
- Favorable storage spreads
- Processing margins similar to 2009
- Complete North Dayton storage expansion as planned
- Continue to carefully manage credit (< \$10K uncollectible over past three years – 2009 revenues of \$3.4 billion)
- Get a strong foothold in the Eagle Ford Shale play



# Texas Intrastate Pipelines

## Near Term Growth Prospects

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### ■ Other Near Term Project Opportunities Not Reflected In Budget:

- Additional supply lines, outside of the JV, to access Eagle Ford Shale gas
- Supply lines to access Haynesville/Bossier Shale gas in East Texas
- Other investments in and/or acquisitions of gathering assets similar to the investment in Endeavor P/L
- Market area debottlenecking expansion projects: Katy, Goodrich, Beaumont, Texas City and Mexico imports/exports
- Connection and service to grassroots or repowered gas fired electric power plant projects near our assets: 2 connected in 2009; 2 potential in 2010; several other projects on the drawing board that have been deferred by developers

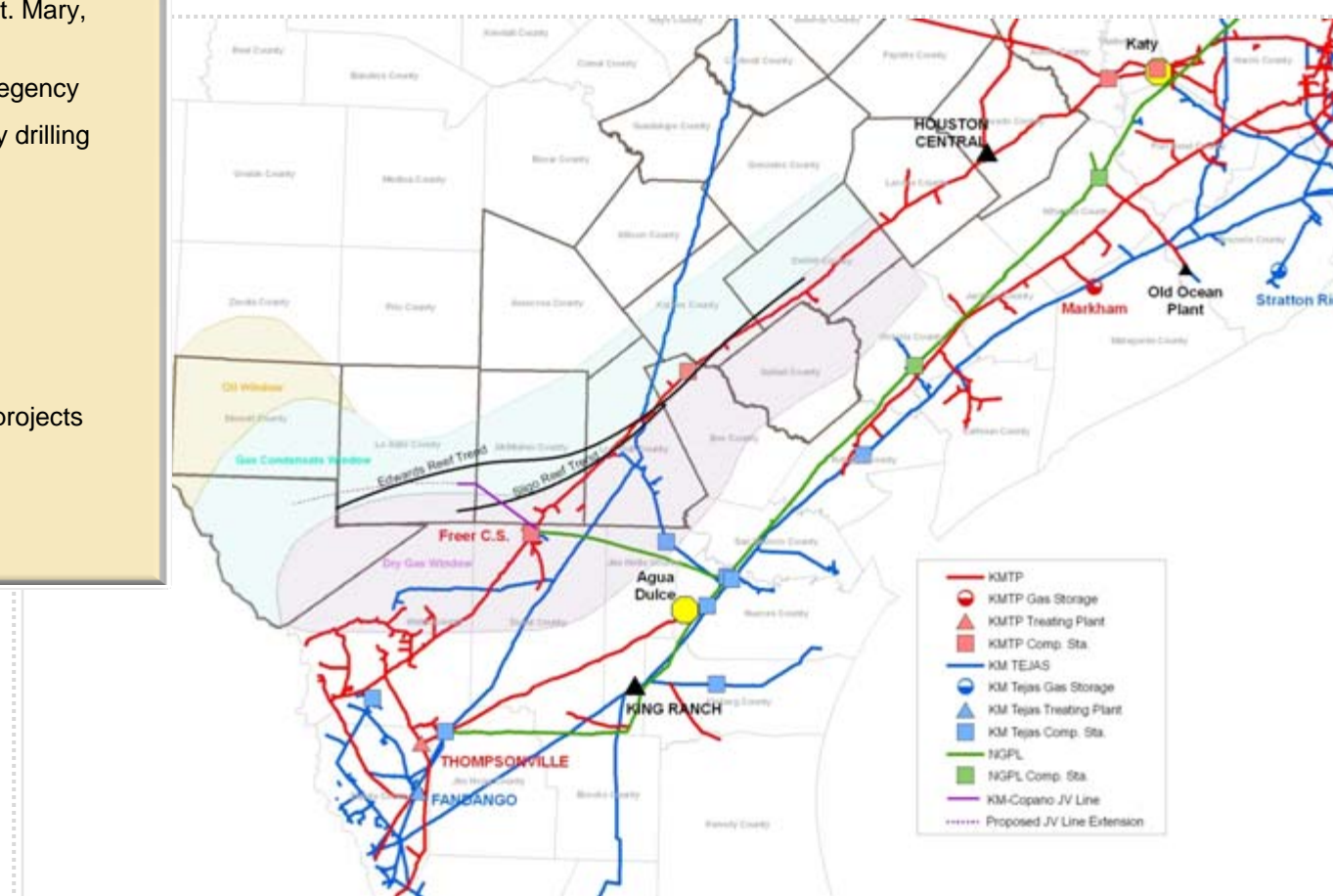
# Eagle Ford Shale

## Overview

- Major acreage holders: Anadarko, Common, Conoco, El Paso, EOG, Exxon, Hilcorp, Laredo, Lewis, Murphy, PetroHawk, Pioneer, St. Mary, Swift, TXCO, Anadarko
- Competition: Enterprise, DCP, ETC, Regency
- Rich vs. lean areas being delineated by drilling

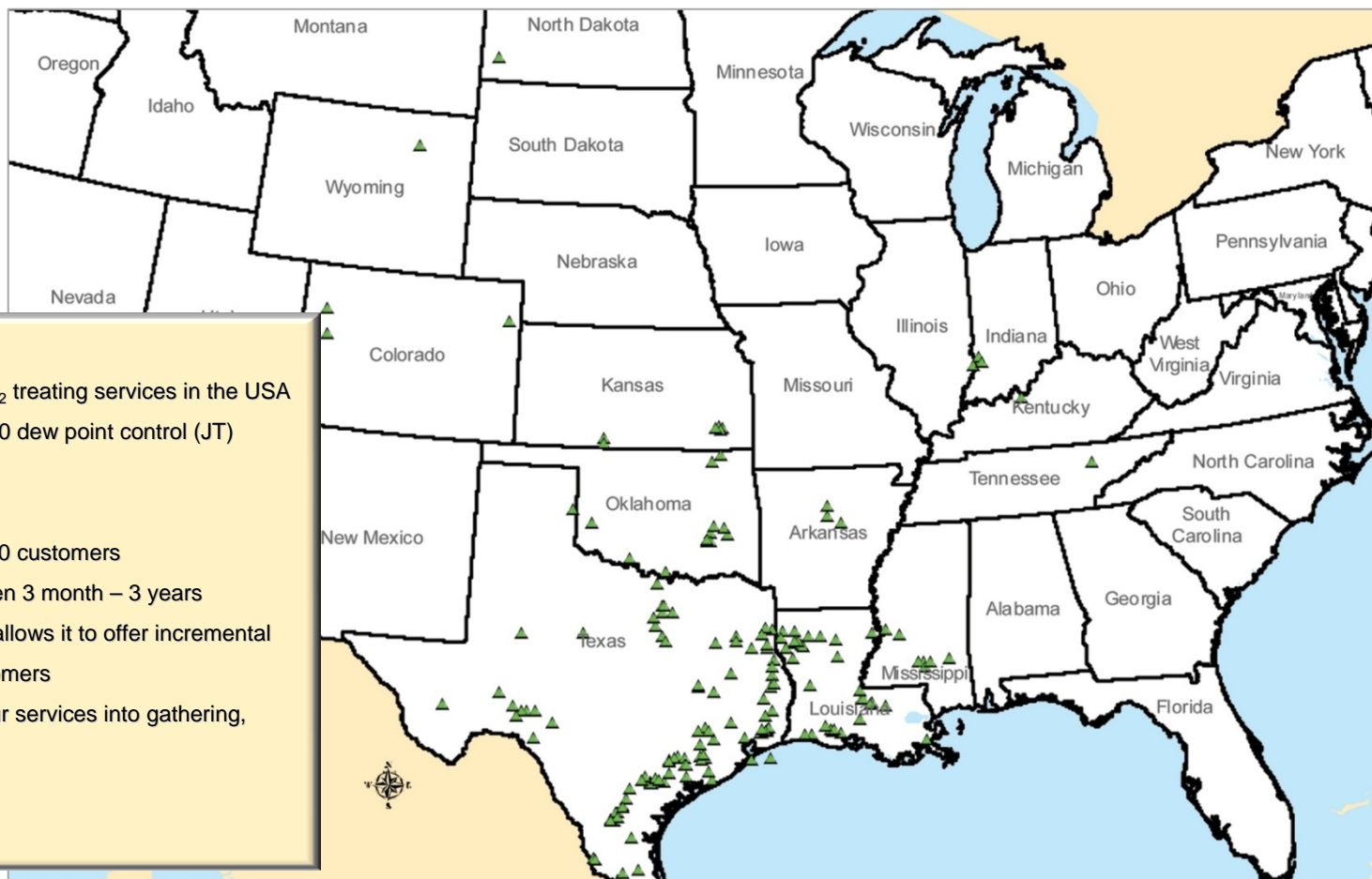
## Strategy

- Segregate system
- Copano JV
- Utilize spare capacity
- Increase capacity with modest capital projects

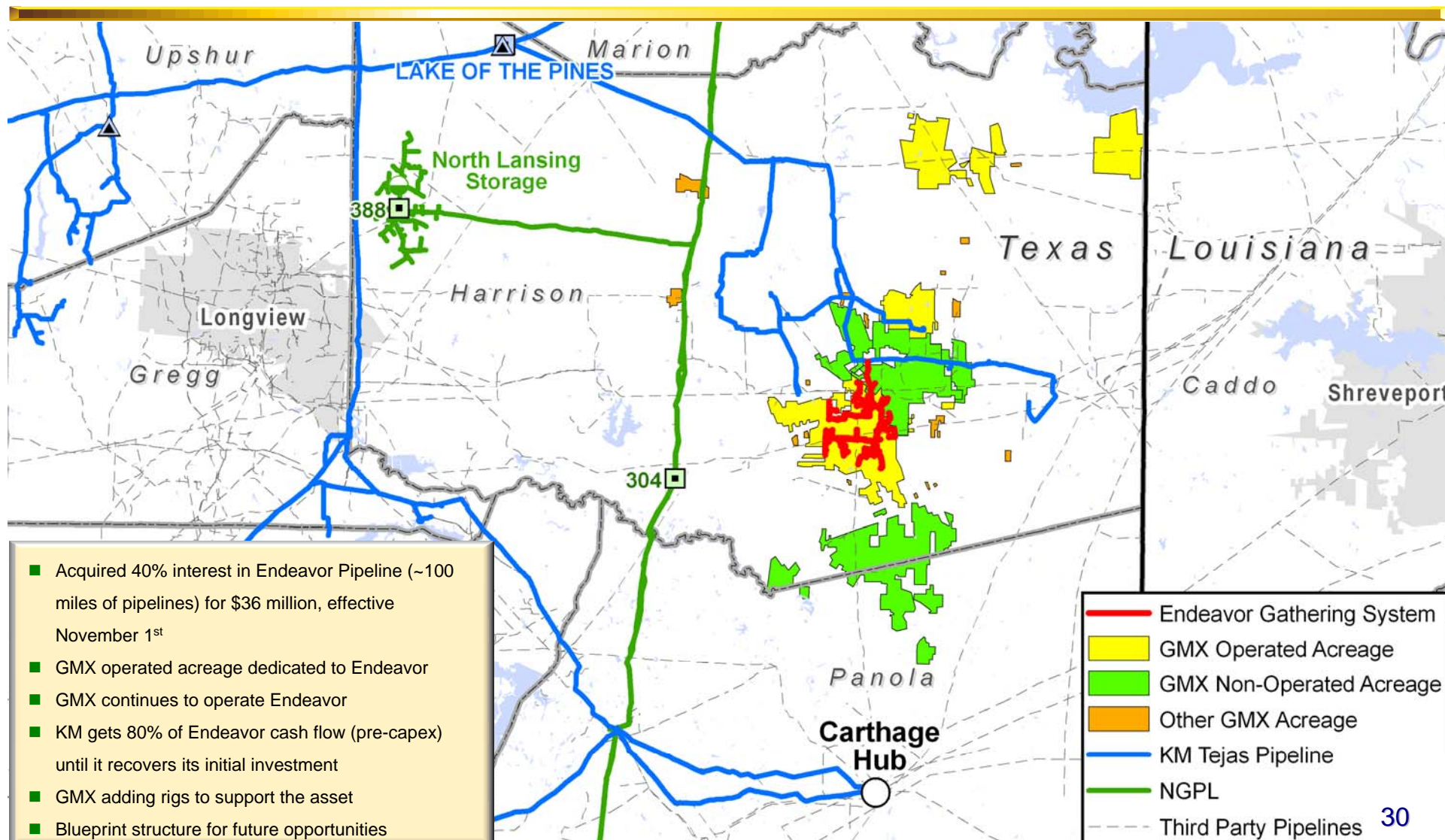


# CrossTex Treating Acquisition

- Largest provider of contracted CO<sub>2</sub> treating services in the USA
- Over 200 amine plants and over 50 dew point control (JT) plants which can be relocated
- Operations in 14 states
  - Contracts are typically between 3 month – 3 years
- Fee Based Contracts with over 130 customers
  - Extends KMP into new markets - allows it to offer incremental non-regulated services to its customers
  - Could lead to expansion of our services into gathering, processing and compression
- Purchase Price of ~\$266 million



# GMX Endeavor Gathering Investment Update





# Growth Opportunities in 2010, 2011 and Beyond

## ■ 2010

- Full year effect of new projects (REX, KMLP, MEP)
- New growth continues with MEP expansions, REX Expansion and Dayton Storage to be placed into service

## ■ 2011 and beyond - long term/future growth

- Shale Gas
  - Mainline transmission and gathering opportunities
    - East Texas Haynesville, Eagle Ford
  - FEP – In Service
    - Remaining 150,000/d plus expansion
  - REX – Marcellus (backhaul opportunities)
  - MEP – additional expansion opportunities (up to 300 MDth Zone 2)
  - East of Perryville/T85 – Southeast markets
- Storage
  - KM Intrastate – further Dayton expansions
  - Continue to evaluate new interconnects or investment in storage opportunities across KM pipeline footprint
  - West Clear Lake: massive field (96 Bcf working capacity); contract expires in 1st qtr 2012; at current spreads we would see significant increase in revenue
- Acquisitions & Opportunities
  - Treating/GMX – replicate in upstream sector
  - Intrastates – uniquely capable of pursuing high pressure markets
  - Continue to seek new industrial/end user loads along the pipeline corridors
  - Other pipeline assets that complement KM footprint

