

# **Products Pipelines**

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# Products Pipelines Assets



# Financial Overview (a)

*(\$ in millions)*

|                                 | 2009           | 2010           | 2011B          |
|---------------------------------|----------------|----------------|----------------|
| Segment EBDA                    | \$635.1        | \$687.5        | \$730.5        |
| Sustaining Capex <sup>(b)</sup> | (42.5)         | (41.0)         | (46.2)         |
| <b>DCF</b>                      | <b>\$592.6</b> | <b>\$646.5</b> | <b>\$684.3</b> |

**Compound Annual Growth Rate of DCF = 7.5%**

(a) Excludes Certain Items  
 (b) Does not include corporate overhead

# 2010 Volumes / Markets

Total refined product volumes up slightly, 0.5% vs. 2009, up 1.6% adjusted for change in California ethanol blending mandate – (EIA reported 1.6% national increase) <sup>(a)</sup>

- **Gasoline (including CFPL ethanol) up 0.8% (up 2.6% adjusted for change in CA ethanol blending mandate), diesel up 3.6%, jet fuel down 4.7%**
- **West Coast**
  - Pacific relatively flat at 0.1%, up 1.8% adjusted for change in CA ethanol blending mandate
    - Arizona up 1.3%, Northern CA and Southern CA down 0.8% (up ~2% adjusted for ethanol blend rate), military up 7.8%
  - CALNEV down 0.2%
    - Nevada gasoline and diesel up 2.8%
    - McCarran Airport down 4.1%
- **Southeast**
  - Central Florida Pipeline down 2.1%
    - Gasoline down 2.6%
    - Diesel down 4.6%
    - Jet up 1.3%
  - Plantation up 2.3%
    - Gasoline up 6.7%
    - Diesel up 1.0%
    - Jet down 14.1%
- **Biofuels – total barrels handled (30.2 million) up 30% over 2009**

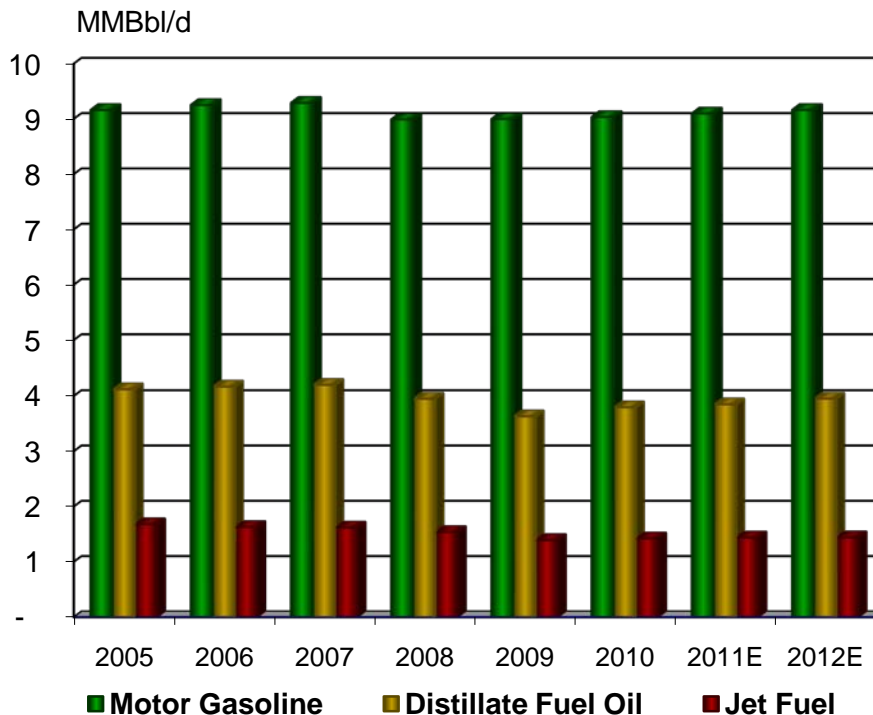
# Expanding to Meet Customer Demand

## Recently Completed Projects

| Project                                | Description  | In Service    | Cost (\$MM)      |
|--|--|---------------|------------------|
| <b><u>Pacific</u></b>                  |  |               |                  |
| California 10% ethanol                 | Install & upgrade off-loading lanes & facility modifications                             | January 2010  | \$15.8           |
| Colton tanks & loading racks           | Two 80 MBbl tanks & two racks  | February 2010 | 19.2             |
| Reno ethanol upgrade                   | Ethanol tank conversion & blending; rail off-load line                                   | March 2010    | 1.1              |
| Wickland San Jose Airport system       | Convert tanks to jet fuel service; pipe connections                                      | December 2010 | 2.5              |
| <b><u>West Coast Terminals</u></b>     |  |               |                  |
| Carson 6 tanks                         | Construct six 80 MBbl tanks at the Carson terminal                                       | July 2010     | 62.9             |
| Harbor Island terminal                 | Modify gasoline additive systems & misc. rack improvements                               | July 2010     | 2.0              |
| San Ardo crude project                 | Reconfigures tankage for San Ardo crude oil & upgrades booster pump for higher flow rate | December 2010 | 2.4              |
| <b><u>Central Florida Pipeline</u></b> |  |               |                  |
| Tampa / Orlando terminal projects      | Various rack improvement projects  | Various 2010  | 6.1              |
| <b><u>Transmix</u></b>                 |  |               |                  |
| Colton marine diesel                   | Connect distillate tanks to rack for marine diesel customer                              | June 2010     | 1.0              |
| <b><u>Southeast Terminals</u></b>      |  |               |                  |
| Ethanol blending & additive systems    | Automated ethanol blending & various additive systems                                    | Various 2010  | 2.2              |
| <b>Grand Total =</b>                   |  |               | <b>\$ 115.2</b>  |
| <b>First full-yr EBITDA =</b>          |  |               | <b>\$ 19.5MM</b> |

# Historical Demand and 2011-12 EIA Outlook

## U.S. Product Consumption



| Gasoline | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011E | 2012E |
|----------|------|------|------|------|------|------|-------|-------|
| MMBbl/d  | 9.16 | 9.25 | 9.29 | 8.99 | 8.99 | 9.03 | 9.10  | 9.16  |

## EIA Demand Outlook

|              | 2010        | 2011E       | 2012E       |
|--------------|-------------|-------------|-------------|
| Mogas        | 0.4%        | 0.7%        | 0.7%        |
| Distillate   | 4.5%        | 1.4%        | 2.7%        |
| Jet Fuel     | 2.2%        | 1.2%        | 0.1%        |
| <b>Total</b> | <b>1.6%</b> | <b>1.0%</b> | <b>1.2%</b> |

## Refined Product Pipelines (MMBbls)

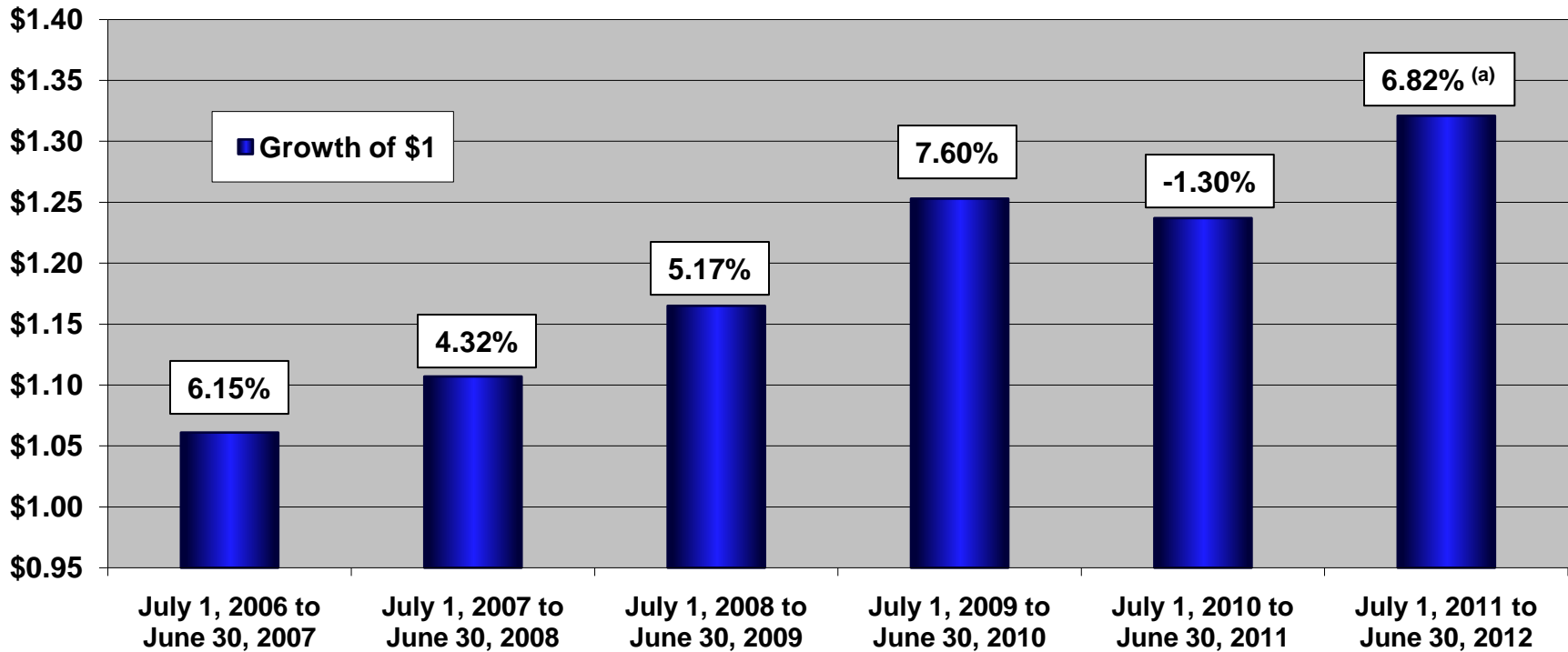
|                           | 2010         | 2011P        | % chg       |
|---------------------------|--------------|--------------|-------------|
| Pacific<br>CALNEV<br>CFPL | 476.1        | 485.3        | 1.9%        |
| Plantation                | 181.9        | 193.5        | 6.4%        |
| <b>Total</b>              | <b>658.0</b> | <b>678.8</b> | <b>3.2%</b> |

# Historical FERC Tariff Index Regime

PPI FG + 1.3%  
2006 – 2010

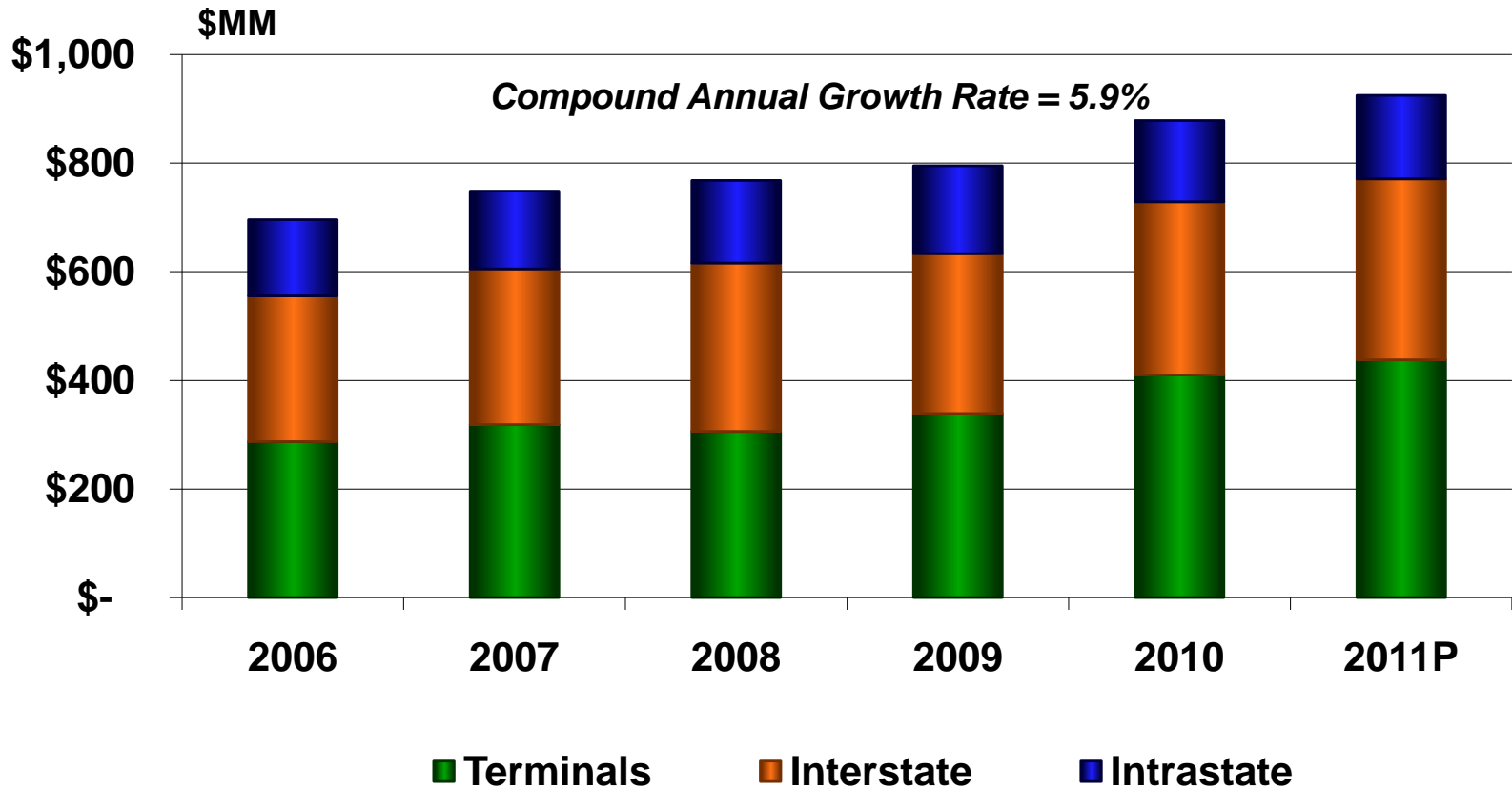
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PPI FG + 2.65%  
2011 – 2015



(a) 2011 Plan assumes 6.82% index; index decision is currently subject to rehearing request at the FERC

# Refined Products Revenues (a)



(a) Product Segment, excludes Cochin and Cypress

# NGL Assets – Cochin and Cypress

Combined, represent \$53.3MM income before DD&A, or 7.3% of 2011 segment plan

## ■ Cochin

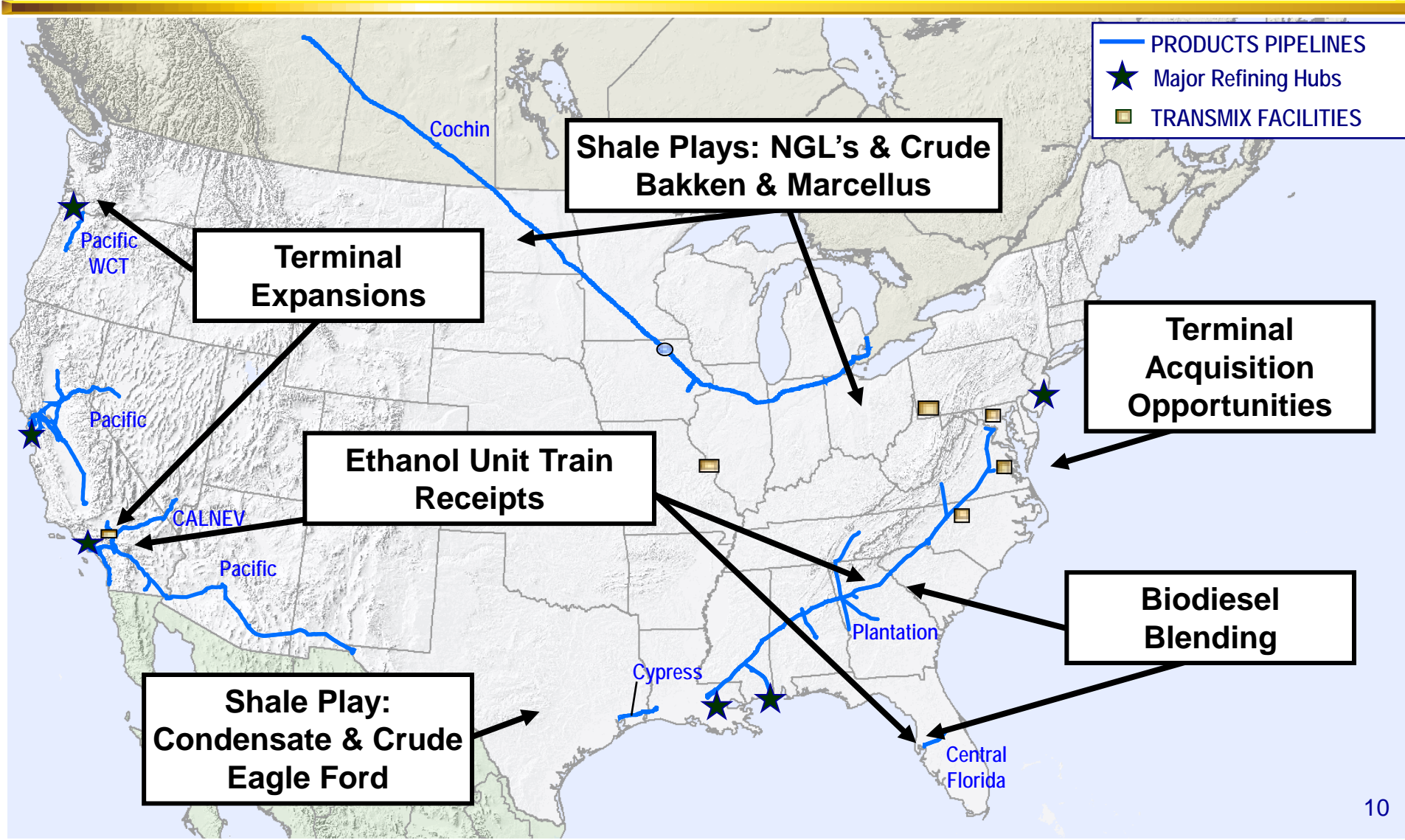
- 1,900-mile pipeline serving 5 propane terminals and petrochemical complex (ExxonMobil, BP, Nova) in Sarnia / Corunna, Ontario
- 2010 propane volume down 31.9% and revenue down 26.8% from 2009
- 2010 revenue decrease driven by lack of grain drying demand versus a banner year in 2009 and increased NGL production from upper mid-west region
- 2011 Plan includes return to normal grain drying demand and new term contract for E/P service and NEB tariff adjustment (effective April)

## ■ Cypress

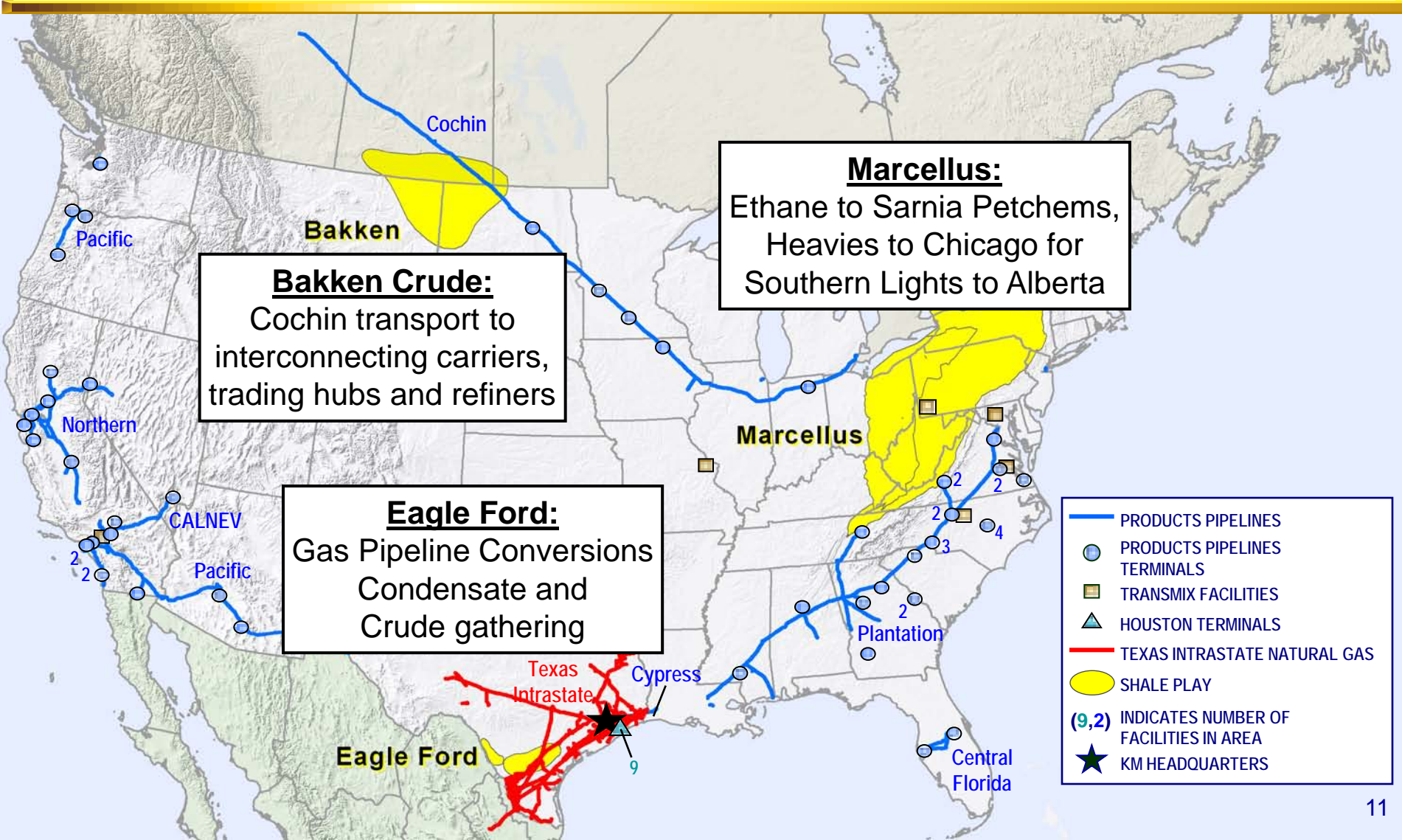
- 110-mile pipeline – Mt. Belvieu to Westlake (Lake Charles, LA)
- Sale of 50% interest to Westlake effective October 1, 2010
- 2010 volumes up 13.1% and revenue up 9.2%
- 2011 plan includes slightly higher volume and a tariff adjustment effective April

|      | Pipeline Volumes (MMBbls) |      |        | Pipeline Revenues (\$MM) |        |        |
|------|---------------------------|------|--------|--------------------------|--------|--------|
|      | 2011                      | 2010 | Change | 2011                     | 2010   | Change |
| NGLs | 28.6                      | 25.2 | 13.5%  | \$71.4                   | \$51.9 | 37.6%  |

# Positioned for Growth



# Asset Optimization



# Expanding to Meet Customer Demand

## Near-Term Projects

| Project                             | Description  | In-service                  | Cost (\$MM)     |
|-------------------------------------|--|-----------------------------|-----------------|
| <b>Approved Expansion Projects:</b> |  |                             |                 |
| <b><u>Pacific</u></b>               |  |                             |                 |
| Travis Air Force Base               | Three 150 MBbl tanks, 16-inch pipeline and facilities    | 2012                        | \$ 47.5         |
| <b><u>CALNEV</u></b>                |  |                             |                 |
| Barstow terminal                    | Modification to increase military jet volumes            | 2011                        | 2.8             |
| <b><u>West Coast Terminals</u></b>  |  |                             |                 |
| Carson 7-tank project               | Construct seven 80 MBbl tanks and associated piping      | 2012                        | 77.0            |
| Willbridge Linnton / ULSD           | Install larger capacity ULSD tank                        | 2011                        | 2.1             |
| Willbridge tanks                    | Construct additional 240 MBbl cap. & other modifications | 2011-2012                   | 16.4            |
| <b>Various Southeast Terminals</b>  | Add ethanol blending and storage and ancillary services  | 2011                        | 8.2             |
|                                     |  | <b>Total cost</b>           | <b>\$154.0</b>  |
|                                     |  | <b>First full-yr EBITDA</b> | <b>\$21.5MM</b> |

|  |   |                    |                      |
|--|---|--------------------|----------------------|
| <b>Projects Currently Under Negotiation:</b> |   |                    |                      |
| <b>Cochin Pipeline</b>                       | Marcellus, Bakken, and midcontinent connections       | 2011-2012          | Under development    |
| <b>Biodiesel Projects – CFPL &amp; PPL</b>   | Storage and blending                                  | 2011               | Under development    |
| <b>Ethanol Unit Train – CFPL</b>             | Modification to receive, store, and transport ethanol | 2012               | Under development    |
| <b>Eagle Ford</b>                            | Crude and condensate transportation and storage       | 2012               | Under development    |
| <b>Colton Rail Ethanol</b>                   | Modification to receive, store, and transport ethanol | TBD                | Under development    |
|  |   | <b>Capex range</b> | <b>\$800-1,200MM</b> |

# Biofuels: Opportunities Amidst Challenges

## ■ Opportunities

- Mandate, subsidy and tariff protection advantage biofuels
- Current ethanol blend equipment capable of handling mid-level blends (E12 – E15) as market grows
- Development of unit train receipt points improves blending economics
- Pipeline transportation of ethanol improves distribution logistics
- Market interest in biodiesel increasing as RINS credits are consumed and RINS values for biodiesel surge (CFPL / Plantation)
- State biodiesel mandates (Oregon, Nevada)
- KM footprint helps address market and regulatory challenges

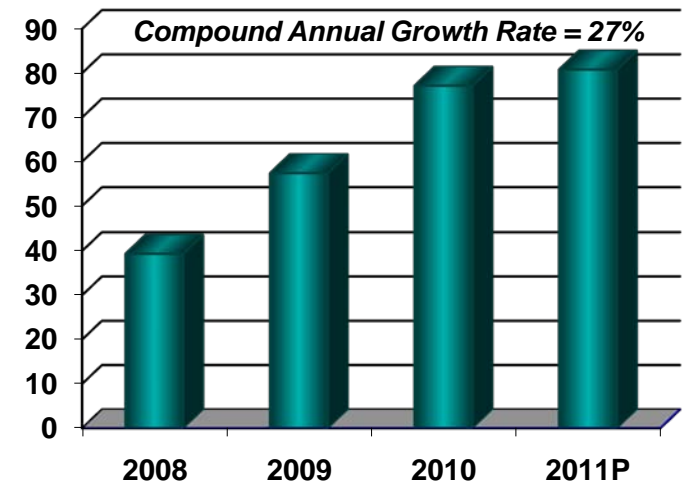
## ■ Challenges

- Ethanol blend wall expected to be reached in 2011
- Federal and CA requirements limit use of corn ethanol
- EPA approved E15 – refiners reluctant to embrace
- Rule changes in future?

### Products Pipelines Biofuel Volumes Handled (MMBbls)

| 2008 | 2009 | 2010 | 2011 |
|------|------|------|------|
| 18.7 | 23.2 | 30.2 | 33.2 |

### Biofuel Revenues (\$MM)



# CPUC Rate Case Update

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- **Consolidation of multiple dockets dating from 1997-2006**
- **Original ALJ proposed decision eliminated income tax allowance – alternate proposed decision, by Commissioner Simon, restored full income tax allowance**
- **Matter is before Commission for decision**
- **Shippers and SFPP engaged in settlement discussion directed by CPUC Office of General Counsel**
- **In 2010, reserved for cash and accounting impact**

# FERC Rate Case Updates

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- **Resolved historical dockets (1992-2008)**
  - 11 of 12 parties settled in May-2010; last party agreed to settle in Dec-2010
  - FERC approved non-contested settlement in March 2011
- **Two remaining West Line / East Line cases**
  - West Line Opinion 511: Commission vigorously defended its income tax allowance policy including implementation methodologies. Adopted many of SFPP's positions on allocation of corporate overheads, certain accounting adjustments and recovery of full legal expenses via rate surcharges. Key disappointment is commission's snap shot look at return on equity calculation. Pushing for industry solution on return on equity.
  - East Line Initial Decision: poor decision by ALJ; advisory only
  - Many of ALJ's findings subject to attack per opinion 511 policy statement and commission's call for common regulatory treatment of EL / WL shippers
- **Settlement prospects**
  - Track record has been positive in engaging shippers and FERC staff in such a formal settlement process

# Summary Highlights

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- **Modest volume growth with approved FERC index**
- **Terminal revenues enjoy continued growth from expansion projects and biofuel mandates**
- **Slate of expansion projects underway**
- **Footprint and options to optimize/convert asset services (shale plays) provides significant future growth opportunities**
- **Pipeline safety**

**KINDER  MORGAN**

