

KINDER MORGAN, INC.  
Form 10-Q  
July 31, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

F O R M 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35081

KINDER MORGAN, INC.  
(Exact name of registrant as specified in its charter)

Delaware	80-0682103
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1001 Louisiana Street, Suite 1000, Houston, Texas 77002  
(Address of principal executive offices)(zip code)  
Registrant's telephone number, including area code: 713-369-9000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
o No

As of July 25, 2014, the registrant had 1,028,223,019 Class P shares outstanding.

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KINDER MORGAN, INC. AND SUBSIDIARIES  
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KINDER MORGAN, INC. AND SUBSIDIARIES  
GLOSSARY

Company Abbreviations

APT	= American Petroleum Tankers	KinderHawk	= KinderHawk Field Services LLC
BOSTCO	= Battleground Oil Specialty Terminal Company LLC	KMEP	= Kinder Morgan Energy Partners, L.P.
Calnev	= Calnev Pipe Line LLC	KMGP	= Kinder Morgan G.P., Inc. Kinder Morgan Inc. and its majority-owned and/or controlled subsidiaries, excluding KMP and EPB
Copano	= Copano Energy, L.L.C.	KMI	= Kinder Morgan Energy Partners, L.P. and its majority-owned and controlled subsidiaries
Eagle Ford Gathering	= Eagle Ford Gathering LLC	KMP	= Kinder Morgan Energy Partners, L.P. and its majority-owned and controlled subsidiaries
El Paso	= El Paso Holdco LLC El Paso Corporation and its its majority-owned and controlled subsidiaries	KMR	= Kinder Morgan Management, LLC
EP	= El Paso Pipeline Partners, L.P. and its majority-owned and controlled subsidiaries	SFPP	= SFPP, L.P.
EPB	= El Paso Natural Gas Company, L.L.C.	SLNG	= Southern LNG Company, L.L.C.
EPNG	= El Paso Pipeline Partners Operating Company, L.L.C.	SNG	= Southern Natural Gas Company, L.L.C.
EPPOC	= El Paso Pipeline Partners Operating Company, L.L.C.	TGP	= Tennessee Gas Pipeline Company, L.L.C.

Unless the context otherwise requires, references to “we,” “us,” or “our,” are intended to mean Kinder Morgan, Inc. and/or its majority-owned and controlled subsidiaries.

Common Industry and Other Terms

BBtu/d	= billion British Thermal Units per day	LIBOR	= London Interbank Offered Rate
Bcf/d	= billion cubic feet per day	LLC	= limited liability company
CERCLA	= Comprehensive Environmental Response, Compensation and Liability Act	MBbl/d	= thousands of barrels per day
CO <sub>2</sub>	= carbon dioxide	MMBbl/d	= millions barrels per day
CPUC	= California Public Utilities Commission	MLP	= master limited partnership
DD&A	= depreciation, depletion and amortization	NGL	= natural gas liquids
EBDA	= earnings before depreciation, depletion and amortization expenses	NYSE	= New York Stock Exchange
EPA	= United States Environmental Protection Agency	OTC	= over-the-counter
FASB	= Financial Accounting Standards Board	PHMSA	= Pipeline and Hazardous Materials Safety Administration

FERC = Federal Energy Regulatory Commission      WTI = West Texas Intermediate  
GAAP = United States Generally Accepted Accounting Principles

When we refer to cubic feet measurements, all measurements are at a pressure of 14.73 pounds per square inch.

## Information Regarding Forward-Looking Statements

This report includes forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as “anticipate,” “believe,” “intend,” “plan,” “projection,” “forecast,” “strategy,” “position,” “continue,” “estimate,” “expect,” “may,” or the negative of those terms or other variations of them or comparable terminology. In particular, expressed or implied statements concerning future actions, conditions or events, future operating results or the ability to generate sales, income or cash flow or to pay dividends are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future actions, conditions or events and future results of operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict.

See “Information Regarding Forward-Looking Statements” and Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Form 10-K) for a more detailed description of factors that may affect the forward-looking statements. When considering forward-looking statements, one should keep in mind the risk factors described in our 2013 Form 10-K. The risk factors could cause our actual results to differ materially from those contained in any forward-looking statement. Because of these risks and uncertainties, you should not place undue reliance on any forward-looking statement. We plan to provide updates to projections included in this report when we believe previously disclosed projections no longer have a reasonable basis.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

KINDER MORGAN, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In Millions, Except Per Share Amounts)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Natural gas sales	\$1,014	\$944	\$2,111	\$1,681
Services	1,812	1,602	3,641	3,206
Product sales and other	1,111	836	2,232	1,555
Total Revenues	3,937	3,382	7,984	6,442
Operating Costs, Expenses and Other				
Costs of sales	1,610	1,254	3,253	2,224
Operations and maintenance	540	643	1,023	1,062
Depreciation, depletion and amortization	502	445	998	860
General and administrative	154	183	326	323
Taxes, other than income taxes	111	102	221	200
Other expense (income), net	7	(17)	) 3	(16)
Total Operating Costs, Expenses and Other	2,924	2,610	5,824	4,653
Operating Income	1,013	772	2,160	1,789
Other Income (Expense)				
Earnings from equity investments	100	93	199	194
Amortization of excess cost of equity investments	(11)	) (9)	) (21)	) (18)
Interest, net	(440)	) (427)	) (888)	) (829)
Gain on remeasurement of previously held equity interest in Eagle Ford Gathering to fair value (Note 2)	—	558	—	558
Gain on sale of investments in Express pipeline system (Note 2)	—	—	—	225
Other, net	13	19	26	24
Total Other (Expense) Income	(338)	) 234	(684)	) 154
Income from Continuing Operations Before Income Taxes	675	1,006	1,476	1,943
Income Tax Expense	(178)	) (225)	) (378)	) (504)
Income from Continuing Operations	497	781	1,098	1,439
Loss from Discontinued Operations, Net of Tax	—	—	—	(2)
Net Income	497	781	1,098	1,437

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Net Income Attributable to Noncontrolling Interests	(213 )	(504 )	(527 )	(868 )
Net Income Attributable to Kinder Morgan, Inc.	\$284	\$277	\$571	\$569
Basic and Diluted Earning Per Common Share				
From Continuing Operations	\$0.27	\$0.27	\$0.55	\$0.55
From Discontinued Operations	—	—	—	—
Total Basic and Diluted Earnings Per Common Share	\$0.27	\$0.27	\$0.55	\$0.55
Basic Weighted-Average Number of Shares Outstanding	1,028	1,036	1,028	1,036
Diluted Weighted-Average Number of Shares Outstanding	1,028	1,038	1,028	1,038
Dividends Per Common Share Declared for the Period	\$0.43	\$0.40	\$0.85	\$0.78

The accompanying notes are an integral part of these consolidated financial statements.



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KINDER MORGAN, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Millions)

(Unaudited)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2014	2013	2014	2013	
Kinder Morgan, Inc.					
Net income	\$284	\$277	\$571	\$569	
Other comprehensive income (loss), net of tax					
Change in fair value of derivatives utilized for hedging purposes (net of tax benefit (expense) of \$21, \$(16), \$32 and \$(10), respectively)	(37	) 36	(56	) 20	
Reclassification of change in fair value of derivatives to net income (net of tax (expense) benefit of \$(4), \$2, \$(7) and \$3, respectively)	6	(1	) 12	(5	)
Foreign currency translation adjustments (net of tax (expense) benefit of \$(13), \$12, \$1 and \$19, respectively)	23	(28	) (2	) (45	)
Adjustments to pension and other postretirement benefit plan liabilities (net of tax benefit (expense) of \$1, \$(1), \$1 and \$(1), respectively)	2	1	2	—	
Total other comprehensive (loss) income	(6	) 8	(44	) (30	)
Total comprehensive income	278	285	527	539	
Noncontrolling Interests					
Net income	213	504	527	868	
Other comprehensive income (loss), net of tax					
Change in fair value of derivatives utilized for hedging purposes (net of tax benefit (expense) of \$6, \$(5), \$9, and \$(2) respectively)	(59	) 26	(85	) 11	
Reclassification of change in fair value of derivatives to net income (net of tax (expense) benefit of \$(1), \$1, \$(2) and \$1, respectively)	10	(2	) 18	(4	)
Foreign currency translation adjustments (net of tax (expense) benefit of \$(4), \$4, \$- and \$6, respectively)	33	(26	) (4	) (42	)
Adjustments to pension and other postretirement benefit plan liabilities (net of tax benefit of \$-, \$-, \$- and \$-, respectively)	—	—	(1	) —	
Total other comprehensive loss	(16	) (2	) (72	) (35	)
Total comprehensive income	197	502	455	833	
Total					
Net income	497	781	1,098	1,437	
Other comprehensive income (loss), net of tax					
Change in fair value of derivatives utilized for hedging purposes (net of tax benefit (expense) of \$27, \$(21), \$41 and \$(12), respectively)	(96	) 62	(141	) 31	
Reclassification of change in fair value of derivatives to net income (net of tax (expense) benefit of \$(5), \$3, \$(9) and \$4, respectively)	16	(3	) 30	(9	)
Foreign currency translation adjustments (net of tax (expense) benefit of \$(17), \$16, \$1 and \$25, respectively)	56	(54	) (6	) (87	)
Adjustments to pension and other postretirement benefit plan liabilities (net of tax benefit (expense) of \$1, \$(1), \$1, and \$(1), respectively)	2	1	1	—	
Total other comprehensive (loss) income	(22	) 6	(116	) (65	)
Total comprehensive income	\$475	\$787	\$982	\$1,372	

The accompanying notes are an integral part of these consolidated financial statements.

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KINDER MORGAN, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In Millions, Except Share and Per Share Amounts)

	June 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents – KMI (Note 12)	\$ 50	\$ 116
Cash and cash equivalents – KMP and EPB (Note 12)	313	482
Accounts receivable, net	1,633	1,721
Inventories	460	430
Deferred income taxes	329	567
Other current assets	582	552
Total current assets	3,367	3,868
Property, plant and equipment, net (Note 12)	37,607	35,847
Investments	5,862	5,951
Goodwill (Note 12)	24,653	24,504
Other intangibles, net	2,367	2,438
Deferred charges and other assets	2,508	2,577
Total Assets	\$76,364	\$75,185
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Current portion of debt – KMI (Note 12)	\$ 1,245	\$ 725
Current portion of debt – KMP and EPB (Note 12)	1,378	1,581
Accounts payable	1,501	1,676
Accrued interest	600	565
Accrued contingencies	652	584
Other current liabilities	1,111	944
Total current liabilities	6,487	6,075
Long-term liabilities and deferred credits		
Long-term debt		
Outstanding – KMI (Note 12)	8,088	9,221
Outstanding – KMP and EPB (Note 12)	24,360	22,589
Preferred interest in general partner of KMP	100	100
Debt fair value adjustments	1,973	1,977
Total long-term debt	34,521	33,887
Deferred income taxes	4,554	4,651
Other long-term liabilities and deferred credits	2,147	2,287
Total long-term liabilities and deferred credits	41,222	40,825
Total Liabilities	47,709	46,900
Commitments and contingencies (Notes 3 and 10)		
Stockholders' Equity	10	10

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Class P shares, \$0.01 par value, 2,000,000,000 shares authorized, 1,027,909,704 and 1,030,677,076 shares, respectively, issued and outstanding			
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none outstanding	—	—	
Additional paid-in capital	14,339	14,479	
Retained deficit	(1,661	) (1,372	)
Accumulated other comprehensive loss	(68	) (24	)
Total Kinder Morgan, Inc.'s stockholders' equity	12,620	13,093	
Noncontrolling interests	16,035	15,192	
Total Stockholders' Equity	28,655	28,285	
Total Liabilities and Stockholders' Equity	\$76,364	\$75,185	

The accompanying notes are an integral part of these consolidated financial statements.

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KINDER MORGAN, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

(Unaudited)

	Six Months Ended June 30,	
	2014	2013
Cash Flows From Operating Activities		
Net income	\$1,098	\$1,437
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	998	860
Deferred income taxes	208	378
Amortization of excess cost of equity investments	21	18
Gain on remeasurement of previously held equity interest in Eagle Ford Gathering to fair value (Note 2)	—	(558)
Gain on sale of investments in Express pipeline system (Note 2)	—	(225)
Earnings from equity investments	(199)	(194)
Distributions from equity investment earnings	184	199
Proceeds from termination of interest rate swap agreements	—	96
Pension contributions in excess of expense	(50)	(59)
Changes in components of working capital, net of the effects of acquisitions		
Accounts receivable	94	7
Inventories	(24)	(50)
Other current assets	(36)	(37)
Accounts payable	(117)	(181)
Accrued interest	34	14
Accrued contingencies and other current liabilities	101	(78)
Rate reparations, refunds and other litigation reserve adjustments, net	36	177
Other, net	(145)	(70)
Net Cash Provided by Operating Activities	2,203	1,734
Cash Flows From Investing Activities		
Acquisitions of assets and investments, net of cash acquired	(993)	(286)
Capital expenditures	(1,717)	(1,345)
Proceeds from sales of investments	—	491
Contributions to investments	(103)	(93)
Distributions from equity investments in excess of cumulative earnings	90	78
Natural gas storage and natural gas and liquids line-fill	22	—
Sale or casualty of property, plant and equipment, investments and other net assets, net of removal costs	11	23
Other, net	(17)	15
Net Cash Used in Investing Activities	(2,707)	(1,117)
Cash Flows From Financing Activities		
Issuance of debt – KMI	2,565	989
Payment of debt – KMI	(3,178)	(1,673)
Issuance of debt – KMP and EPB	6,883	4,858
Payment of debt – KMP and EPB	(5,334)	(3,863)
Debt issue costs	(29)	(12)
Cash dividends	(860)	(779)
Repurchases of shares and warrants	(192)	(131)

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Contributions from noncontrolling interests	1,395	1,077	
Distributions to noncontrolling interests	(976	) (761	)
Other, net	(1	) 1	
Net Cash Provided by (Used in) Financing Activities	273	(294	)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4	) (20	)
Net (decrease) increase in Cash and Cash Equivalents	(235	) 303	
Cash and Cash Equivalents, beginning of period	598	714	
Cash and Cash Equivalents, end of period	\$363	\$1,017	
Non-cash Investing and Financing Activities			
Assets acquired by the assumption or incurrence of liabilities	\$73	\$1,490	
Assets acquired or liabilities settled by contributions from noncontrolling interests	\$—	\$3,733	
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for interest (net of capitalized interest)	\$855	\$812	
Cash paid during the period for income taxes, net	\$163	\$71	

The accompanying notes are an integral part of these consolidated financial statements.

KINDER MORGAN, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In Millions)

(Unaudited)

	Six Months Ended June 30, 2014						
	Par value of common shares	Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Stockholders' equity attributable to KMI	Non-controlling interests	Total
Beginning Balance at December 31, 2013	\$10	\$14,479	\$(1,372 )	\$ (24 )	\$13,093	\$ 15,192	\$28,285
Shares repurchased		(94 )			(94 )		(94 )
Warrants repurchased		(98 )			(98 )		(98 )
Amortization of restricted shares		27			27		27
Impact from equity transactions of KMP, EPB and KMR		20			20	(31 )	(11 )
Windfall tax benefit		6			6		6
Net income			571		571	527	1,098
Distributions					—	(976 )	(976 )
Contributions					—	1,395	1,395
Cash dividends			(860 )		(860 )		(860 )
Other		(1 )			(1 )		(1 )
Other comprehensive loss				(44 )	(44 )	(72 )	(116 )
Ending Balance at June 30, 2014	\$10	\$14,339	\$(1,661 )	\$ (68 )	\$12,620	\$ 16,035	\$28,655

	Six Months Ended June 30, 2013						
	Par value of common shares	Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Stockholders' equity attributable to KMI	Non-controlling interests	Total
Beginning Balance at December 31, 2012	\$10	\$14,917	\$(943 )	\$ (118 )	\$13,866	\$ 10,234	\$24,100
Warrants repurchased		(131 )			(131 )		(131 )
Warrants exercised		1			1		1
EP Trust I Preferred security conversions		2			2		2
Amortization of restricted shares		10			10		10
Impact from equity transactions of KMP, EPB and KMR		146			146	(231 )	(85 )
Net income			569		569	868	1,437
Distributions					—	(761 )	(761 )
Contributions					—	4,810	4,810
Cash dividends			(779 )		(779 )		(779 )
Other comprehensive loss				(30 )	(30 )	(35 )	(65 )
Ending Balance at June 30, 2013	\$10	\$14,945	\$(1,153 )	\$ (148 )	\$13,654	\$ 14,885	\$28,539

Ending Balance at June 30,  
2013

The accompanying notes are an integral part of these consolidated financial statements.

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KINDER MORGAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. General

Organization

Kinder Morgan, Inc. is the largest midstream and the fourth largest energy company in North America with a combined enterprise value of approximately \$110 billion. We own an interest in or operate approximately 80,000 miles of pipelines and 180 terminals. Our pipelines transport natural gas, refined petroleum products, crude oil, condensate, CO<sub>2</sub> and other products, and our terminals transport, transload and store petroleum products, ethanol and chemicals, and handle such products as coal, petroleum coke and steel. We are also the leading producer and transporter of CO<sub>2</sub>, for enhanced oil recovery projects in North America.

We own an approximate 10% limited partner interest and the 2% general partner interest in KMP, a leading pipeline transportation and energy storage company and one of the largest publicly-traded pipeline limited partnerships in America. KMP's limited partner units are traded on the NYSE under the ticker symbol "KMP."

We also own an approximate 40% limited partner interest and the 2% general partner interest in EPB, as well as certain natural gas pipeline assets. EPB's limited partner units are traded on the NYSE under the ticker symbol "EPB."

Our common stock trades on the NYSE under the symbol "KMI."

KMR is a publicly traded Delaware LLC. KMGP, the general partner of KMP and a wholly-owned subsidiary of ours, owns all of KMR's voting shares. KMR, pursuant to a delegation of control agreement, has been delegated, to the fullest extent permitted under Delaware law, all of KMGP's power and authority to manage and control the business and affairs of KMP, subject to KMGP's right to approve certain transactions.

Basis of Presentation

General

Our reporting currency is U.S. dollars, and all references to dollars are U.S. dollars, except where stated otherwise. Our accompanying unaudited consolidated financial statements have been prepared under the rules and regulations of the United States Securities and Exchange Commission. These rules and regulations conform to the accounting principles contained in the FASB's Accounting Standards Codification, the single source of GAAP. Under such rules and regulations, all significant intercompany items have been eliminated in consolidation. Additionally, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with the Codification. We believe, however, that our disclosures are adequate to make the information presented not misleading.

Our accompanying unaudited consolidated financial statements reflect normal adjustments, and also recurring adjustments that are, in the opinion of our management, necessary for a fair statement of our financial results for the interim periods. In addition, certain amounts from prior periods have been reclassified to conform to the current presentation (including reclassifications between "Services" and "Product sales and other" within the "Revenues" section of our accompanying consolidated statements of income). Interim results are not necessarily indicative of results for a full year; accordingly, you should read these consolidated financial statements in conjunction with our consolidated

financial statements and related notes included in our 2013 Form 10-K.

Our consolidated financial statements include our accounts and those of our majority-owned and controlled subsidiaries including the accounts of KMP, EPB and KMR. Investments in jointly-owned operations in which we hold a 50% or less interest (other than KMP, EPB and KMR, because we have the ability to exercise significant control over their operating and financial policies) are accounted for under the equity method.

Notwithstanding the consolidation of KMP and EPB, and their respective subsidiaries, into our financial statements, we are not liable for, and our assets are not available to satisfy, the obligations of KMP and EPB, and/or their respective subsidiaries, and vice versa, except as discussed in Note 10, "Litigation, Environmental and Other Contingencies — Other Contingencies." Responsibility for payments of obligations reflected in our, KMP or EPB's financial statements is a legal determination based on the entity that incurs the liability.

## Goodwill

We evaluate goodwill for impairment on May 31 of each year. There were no impairment charges resulting from our May 31, 2014 impairment testing, and no event indicating an impairment has occurred subsequent to that date.

## Earnings per Share

We calculate earnings per share using the two-class method. Earnings were allocated to Class P shares of common stock and participating securities based on the amount of dividends paid in the current period plus an allocation of the undistributed earnings or excess distributions over earnings to the extent that each security participates in earnings or excess distributions over earnings. Our unvested restricted stock awards do not participate in excess distributions over earnings.

The following table sets forth the allocation of net income available to shareholders for Class P shares and for participating securities for the three and six months ended June 30, 2014 and 2013 (in millions):

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Class P	\$281	\$276	\$565	\$567
Participating securities(a)	3	1	6	2
Net Income Attributable to Kinder Morgan, Inc.	\$284	\$277	\$571	\$569

(a) Participating securities are unvested restricted stock awards issued to management employees that contain non-forfeitable rights to dividend equivalent payments.

For the three and six months ended June 30, 2014 and 2013, the following potential common stock equivalents are antidilutive and, accordingly, are excluded from the determination of diluted earnings per share (in millions on a weighted-average basis):

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Unvested restricted stock awards	7	2	7	2
Outstanding warrants to purchase our Class P shares	309	420	325	429
Convertible trust preferred securities	10	10	10	10

## 2. Acquisitions and Divestitures

## Acquisitions

## American Petroleum Tankers and State Class Tankers

Effective January 17, 2014, KMP acquired APT and State Class Tankers (SCT) for aggregate consideration of \$961 million in cash (the APT acquisition). APT is engaged in the marine transportation of crude oil, condensate and refined products in the U.S. domestic trade, commonly referred to as the Jones Act trade. APT's primary assets consist of a fleet of five medium range Jones Act qualified product tankers, each with 330 MBbl of cargo capacity, and each

operating pursuant to long-term time charters with high quality counterparties, including major integrated oil companies, major refiners and the U.S. Military Sealift Command. As of the closing date, the vessels' time charters had an average remaining term of approximately four years, with renewal options to extend the terms by an average of two years. APT's vessels are operated by Crowley Maritime Corporation.

SCT has commissioned the construction of four medium range Jones Act qualified product tankers, each with 330 MBbl of cargo capacity. The SCT vessels are scheduled to be delivered in 2015 and 2016 and are being constructed by General Dynamics' NASSCO shipyard. KMP expects to invest approximately \$214 million to complete the construction of these four SCT vessels, and upon delivery, the vessels will be operated pursuant to long-term time charters with a major integrated oil company. Each of the time charters has an initial term of five years, with renewal options to extend the term by up to three

years. The APT acquisition complements and extends KMP's existing crude oil and refined products transportation business, and all of the acquired assets are included in the Terminals—KMP business segment.

As of June 30, 2014, KMP's preliminary purchase price allocation related to the APT acquisition, as adjusted to date, is as follows (in millions). The evaluation of the assigned fair values is ongoing and subject to adjustment.

Purchase Price Allocation:

Current assets	\$6	
Property, plant and equipment	951	
Goodwill	67	
Other assets	3	
Total assets acquired	1,027	
Current liabilities	(5	)
Unfavorable customer contracts	(61	)
Cash consideration	\$961	

The "Goodwill" intangible asset amount represents the future economic benefits expected to be derived from KMP's acquisition that are not assignable to other individually identifiable, separately recognizable assets acquired. We believe the goodwill was primarily generated by the value of the synergies created by expanding KMP's non-pipeline liquids handling operations. Furthermore, KMP expects to fully deduct for tax purposes the entire amount of goodwill recognized. The "Unfavorable customer contracts" figure represents the amount, on a present value basis, by which the customer contracts were below market day rates at the time of acquisition. This amount is amortized as a noncash adjustment to revenue over the remaining contract period.

Other

Effective May 1, 2013, KMP acquired all of Copano's outstanding units for a total purchase price of approximately \$5.2 billion (including assumed debt and all other assumed liabilities). The transaction was a 100% unit for unit transaction with an exchange ratio of 0.4563 of KMP's common units for each Copano common unit. KMP issued 43,371,210 of its common units valued at \$3,733 million as consideration for the Copano acquisition (based on the \$86.08 closing market price of a common unit on the NYSE on the May 1, 2013 issuance date). Also, due to the fact that KMP's Copano acquisition included the remaining 50% interest in Eagle Ford Gathering that it did not already own, KMP remeasured its existing 50% equity investment in Eagle Ford Gathering to its fair value as of the acquisition date. As a result of this remeasurement, we recognized a \$558 million non-cash gain, which represented the excess of the investment's fair value (\$704 million) over the carrying value as of May 1, 2013 (\$146 million), and we reported this gain separately as "Gain on remeasurement of previously held equity interest in Eagle Ford Gathering to fair value" on our accompanying consolidated statements of income for the three and six months ended June 30, 2013.

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As of June 30, 2014, KMP's purchase price allocation related to the Copano acquisition is as follows (in millions):

## Purchase Price Allocation:

Current assets (including cash acquired of \$30)	\$218	
Property, plant and equipment	2,788	
Investments	300	
Goodwill	1,248	
Other intangibles	1,375	
Other assets	13	
Total assets	5,942	
Less: Fair value of previously held 50% interest in Eagle Ford Gathering	(704)	)
Total assets acquired	5,238	
Current liabilities	(208)	)
Other liabilities	(28)	)
Long-term debt	(1,252)	)
Noncontrolling interests	(17)	)
Common unit consideration	\$3,733	

The table above reflects changes we made in the first six months of 2014 to our preliminary purchase price allocation as of December 31, 2013. Based on our final measurement of fair values for all of the identifiable tangible and intangible assets acquired and liabilities assumed on the acquisition date, we reduced the preliminary value assigned to (i) "Investments" by \$87 million; (ii) "Property, plant and equipment, net" by \$17 million; and (ii) combined working capital items by \$3 million.

The "Goodwill" intangible asset amount represents the future economic benefits expected to be derived from this acquisition that are not assignable to other individually identifiable, separately recognizable assets acquired. We believe the goodwill was primarily generated by the value of the synergies created by KMP's expanding natural gas gathering and refined product transportation operations. This goodwill is not deductible for tax purposes and is subject to an impairment test at least annually. The "Other intangibles, net" asset amount represents the fair value of acquired customer contracts and agreements. We are currently amortizing these intangible assets over an estimated remaining useful life of 25 years.

Our accounting policy is to apply the look-through method of recording deferred taxes on the outside book tax basis differences in our investments without regard to non-tax deductible goodwill. As a result of the goodwill recorded by KMP for its Copano acquisition, KMI's deferred tax liability and goodwill were decreased by \$285 million for the portion of its outside basis difference associated with KMP's underlying goodwill.

Effective June 1, 2013, KMP acquired certain oil and gas properties, rights, and related assets located in the Goldsmith Landreth San Andres oil field unit in the Permian Basin of West Texas from Legado Resources LLC for an aggregate consideration of \$298 million, consisting of \$280 million in cash and assumed liabilities of \$18 million (including \$12 million of long-term asset retirement obligations).

For additional information about KMP's Copano and Goldsmith Landreth acquisitions (including our preliminary purchase price allocations as of December 31, 2013), see Note 3 "Acquisitions and Divestitures—Business Combinations and Acquisitions of Investments" to our consolidated financial statements included in our 2013 Form 10-K.

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## Pro Forma Information

The following summarized unaudited pro forma consolidated income statement information for the six months ended June 30, 2013 assumes that KMP's acquisitions of (i) APT, (ii) Copano and (iii) the Goldsmith Landreth oil field unit had occurred as of January 1, 2013. We prepared the following summarized unaudited pro forma financial results for comparative purposes only. The summarized unaudited pro forma financial results may not be indicative of the results that would have occurred if these acquisitions had been completed as of January 1, 2013, or the results that will be attained in the future. Amounts presented below are in millions, except for the per share amounts:

	Pro Forma Six Months Ended June 30, 2013 (Unaudited)	
Revenues	\$7,196	
Income from Continuing Operations	1,401	
Loss from Discontinued Operations, Net of Tax	(2	)
Net Income	1,399	
Net Income Attributable to Noncontrolling Interests	(855	)
Net Income Attributable to Kinder Morgan, Inc.	544	
Diluted Earnings per Class P Share	\$0.52	

## Divestitures

## Express Pipeline System

Effective March 14, 2013, KMP sold both its one-third equity ownership interest in the Express pipeline system and its subordinated debenture investment in Express to Spectra Energy Corp. KMP received net cash proceeds of \$402 million (after paying \$1 million in the third quarter of 2013 for both a final working capital settlement and certain transaction-related selling expenses), and we reported the \$403 million of proceeds received in the first half of 2013 within "Proceeds from sales of investments" within the investing section of our accompanying consolidated statement of cash flows for the six months ended June 30, 2013. Additionally, we recognized a combined \$225 million pre-tax gain with respect to this sale in the first half of 2013, and we reported this gain amount separately as "Gain on sale of investments in Express pipeline system" on our accompanying consolidated statement of income for the six months ended June 30, 2013. We also recorded an income tax expense of \$84 million related to this gain on sale for the six months ended June 30, 2013, and we included this expense within "Income Tax Expense." As of the date of sale, KMP's equity investment in Express totaled \$67 million and its note receivable due from Express totaled \$110 million.

## BBPP Holdings Ltda

On January 18, 2013, we completed the sale of our equity interests in the Bolivia to Brazil Pipeline for \$88 million, which amount is included in "Proceeds from sales of investments" within the investing section of our accompanying consolidated statement of cash flows for the six months ended June 30, 2013.

## Drop-down of Assets to EPB

On May 2, 2014, EPB acquired from us our 50% equity interest in Ruby Pipeline Holding Company, L.L.C. (Ruby), our indirect 50% equity interest in Gulf LNG Holdings Group, L.L.C. (Gulf LNG) and our indirect 47.5% equity interest in Young Gas Storage Company, Ltd in a transaction valued at approximately \$2 billion (the "May 2014

drop-down transaction”). The transaction value includes approximately \$1 billion of debt as of April 30, 2014, representing 50% of total debt of Ruby and Gulf LNG as of such date and was effective as of the close of business on April 30, 2014. Following the receipt of separate fairness opinions from different investment banks, the terms of this drop-down transaction were approved on our behalf by the independent members of our board of directors and on EPB’s behalf by a conflicts committee comprised of the independent members of EPB’s general partner’s board of directors, and following the recommendation by such conflicts committee, by its general partner’s board of directors. The aggregate consideration of \$972 million paid to us in this drop-down transaction



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consisted of approximately \$875 million of cash and 3,059,924 newly issued EPB common units representing limited partner interest in EPB.

## 3. Debt

We classify our debt based on the contractual maturity dates of the underlying debt instruments. We defer costs associated with debt issuance over the applicable term. These costs are then amortized as interest expense in our accompanying consolidated statements of income using the effective interest rate method. The following table provides detail on the principal amount of our outstanding debt balances as of June 30, 2014 and December 31, 2013. The table amounts exclude all debt fair value adjustments, including debt discounts and premiums (in millions).

	June 30, 2014	December 31, 2013
<b>KMI</b>		
Senior term loan facilities, variable rate, due May 24, 2015 and May 6, 2017(a)	\$650	\$1,528
Senior notes and debentures, 5.00% through 7.45%, due 2015 through 2098	1,815	1,815
Senior notes, 6.50% through 8.25%, due 2014 through 2037(b)	3,623	3,830
Preferred securities, 4.75%, due March 31, 2028(b)	280	280
Credit facility due May 6, 2019(c)	820	175
Subsidiary borrowings (as obligor)		
Kinder Morgan Finance Company, LLC, senior notes, 5.70% through 6.40%, due 2016 through 2036	1,636	1,636
EPC Building, LLC, promissory note, 3.967%, due 2014 through 2035	457	461
Other miscellaneous debt	52	221
Total debt — KMI	9,333	9,946
Less: Current portion of debt — KMI	(1,245)	(725)
Total long-term debt outstanding — KMI	8,088	9,221
KMGP, \$1,000 Liquidation Value Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock	100	100
Total long-term debt — KMI(d)	\$8,188	\$9,321
<b>KMP and EPB</b>		
<b>KMP</b>		
Senior notes, 2.65% through 9.00%, due 2014 through 2044	\$17,100	\$15,600
Commercial paper borrowings(e)	513	979
Credit facility due May 1, 2018	—	—
KMP subsidiary borrowings (as obligor)		
TGP senior notes, 7.00% through 8.375%, due 2016 through 2037	1,790	1,790
EPNG senior notes, 5.95% through 8.625%, due 2017 through 2032	1,115	1,115
Copano senior notes, 7.125%, due April 1, 2021	332	332
Other miscellaneous subsidiary debt	97	98
Total debt — KMP	20,947	19,914
Less: Current portion of debt — KMP(f)	(1,337)	(1,504)
Total long-term debt — KMP(d)	19,610	18,410
<b>EPB</b>		
<b>EPPOC</b>		
Senior notes, 4.10% through 7.50%, due 2015 through 2042	2,860	2,260
Credit facility due May 27, 2016(g)	—	—
EPB subsidiary borrowings (as obligor)		

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Colorado Interstate Gas Company, L.L.C. (CIG), senior notes, 5.95% through 6.85%, due 2015 through 2037	475	475	
SLNG senior notes, 9.50% through 9.75%, due 2014 through 2016	64	135	
SNG notes, 4.40% through 8.00%, due 2017 through 2032	1,211	1,211	
Other financing obligations	181	175	
Total debt — EPB	4,791	4,256	
Less: Current portion of debt — EPB	(41	) (77	)
Total long-term debt — EPB(d)	4,750	4,179	
Total long-term debt outstanding — KMP and EPB	\$24,360	\$22,589	

- (a) The senior secured term loan facility, due May 24, 2015, was repaid and replaced in May 2014 with a new unsecured senior term loan facility due May 6, 2017 (see “— Credit Facilities” below).  
On June 30, 2014, El Paso Issuing Corporation, a wholly-owned subsidiary of El Paso Holdco LLC and the corporate co-issuer under certain guaranteed notes, merged with and into El Paso Holdco LLC, a wholly-owned subsidiary of KMI, and immediately thereafter, El Paso Holdco LLC merged with and into KMI pursuant to an
- (b) internal restructuring transaction. KMI succeeded El Paso Holdco LLC as issuer with respect to these debt obligations. Consequently, El Paso Holdco LLC ceased to be an obligor with respect to approximately \$3.6 billion of outstanding senior notes. Therefore, the condensed consolidating financial information that had previously been disclosed in the notes to our consolidated financial statements is no longer required as of June 30, 2014.
- (c) As of June 30, 2014 and December 31, 2013, the weighted average interest rates on KMI’s credit facility borrowings were 2.16% and 2.67%, respectively.  
As of June 30, 2014 and December 31, 2013, our “Debt fair value adjustments” increased our combined debt balances by \$1,973 million and \$1,977 million, respectively. In addition to all unamortized debt discount/premium amounts and purchase accounting on our debt balances, our debt fair value adjustments also include (i) amounts
- (d) associated with the offsetting entry for hedged debt; and (ii) any unamortized portion of proceeds received from the early termination of interest rate swap agreements. For further information about our debt fair value adjustments, see Note 5 “Risk Management—Debt Fair Value Adjustments.”  
As of both June 30, 2014 and December 31, 2013, the average interest rate on KMP’s outstanding commercial paper
- (e) borrowings was 0.28%. The borrowings under KMP’s commercial paper program were used principally to finance the acquisitions and capital expansions, and in the near term, KMP expects that its short-term liquidity and financing needs will be met primarily through borrowings made under its commercial paper program.
- (f) Amounts include outstanding commercial paper borrowings discussed above in footnote (e).
- (g) LIBOR plus 1.75%.

## Credit Facilities

### KMI

On May 2, 2014, KMI’s term loan facility was partially repaid using proceeds from the May 2014 drop-down transaction, resulting in a remaining outstanding balance of \$650 million. On May 6, 2014, KMI replaced its previous \$1.75 billion, secured revolving credit facility and its term loan facility which were scheduled to mature in December 2014 and May 2015, respectively, with a new \$1.75 billion five-year, unsecured revolving credit facility due May 2019 and a new \$650 million three-year, term loan facility maturing May 2017. Additionally, as a result of the new unsecured revolving credit and term loan facilities, KMI’s and its wholly-owned subsidiaries’ senior notes are now unsecured. Borrowings under the new revolving credit facility may be used for working capital and general corporate purposes. The credit facility’s financial covenants are similar to those in our previous revolving credit facility, including restrictions on indebtedness, entering into mergers, granting liens and making any dividends if an event of default exists. The covenants also include a maximum ratio of total debt (net of cash on hand) divided by Consolidated EBITDA (as defined in the credit agreement and which includes cash items from operations and distributions received from subsidiaries or investments, and excludes non-cash items) of 4.75 or 5.5 for periods following specified acquisitions. As of June 30, 2014, we were in compliance with all required financial covenants. The new revolving credit facility provides that the margin we will pay with respect to borrowings and the facility fee we will pay on the total commitment will vary based on our senior debt rating. Interest on the new revolving credit facility accrues at KMI’s option at a floating rate equal to either:

the administrative agent’s base rate, plus a margin, which varies depending upon the credit rating of KMI’s long-term senior unsecured debt (the administrative agent’s base rate is a rate equal to the greatest of (i) the Federal Funds Rate, plus 0.50%, (ii) the Prime Rate and (iii) one-month LIBOR plus 1.0%, plus, in each case, an applicable margin

between 0.25% and 1.25% per annum); or  
LIBOR plus an applicable margin ranging from 1.25% to 2.25% per annum.

As of June 30, 2014, we had \$820 million outstanding under KMI's \$1.75 billion unsecured revolving credit facility and \$58 million in letters of credit. Our availability under this facility as of June 30, 2014 was approximately \$872 million.

#### KMP

On January 15, 2014, in anticipation of the APT acquisition, KMP entered into a short-term unsecured liquidity facility with KMP as borrower, and UBS as administrative agent. This liquidity facility provided for borrowings of up to \$1.0 billion from a syndicate of financial institutions and was scheduled to mature on July 15, 2014. Additionally, in conjunction with the establishment of this liquidity facility, KMP increased its commercial paper program to provide for the issuance of up to \$3.7 billion (up from \$2.7 billion). KMP made no borrowings under this liquidity facility, and after receiving the cash proceeds from both its February 2014 public offering of senior notes (described following) and its February 2014 public offering of common units (described in Note 4 "Stockholder's Equity—Noncontrolling Interests—Contributions"), KMP terminated the liquidity facility and decreased its commercial paper program to again provide for the issuance of up to \$2.7 billion.

As of both June 30, 2014 and December 31, 2013, KMP had no borrowings under its \$2.7 billion five-year senior unsecured revolving credit facility maturing May 1, 2018. Borrowings under KMP's revolving credit facility can be used for general partnership purposes and as a backup for KMP's commercial paper program. Similarly, KMP's borrowings under its commercial paper program reduce the borrowings allowed under its credit facility.

As of June 30, 2014, KMP had (i) \$513 million of commercial paper borrowings outstanding under its \$2.7 billion credit facility; (ii) \$205 million in letters of credit; and (iii) \$175 million related to a capital contribution commitment to one of its unconsolidated subsidiaries. KMP's availability under its credit facility as of June 30, 2014 was \$1,807 million.

#### EPB

As of June 30, 2014, EPB had no outstanding balance under its revolving credit facility. EPB's availability under its facility as of June 30, 2014 was \$1 billion.

#### Long-term Debt Issuances and Repayments

Following are significant long-term debt issuances and repayments made during the six months ended June 30, 2014:

#### KMI

Issuances	\$650 million senior term loan facility due 2017
Repayments	\$1,528 million senior term loan facility due 2015

#### KMP

Issuances	\$750 million 3.50% notes due 2021
	\$750 million 5.50% notes due 2044

#### EPB (through EPPOC)

Issuances	\$600 million 4.30% notes due 2024
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#### Kinder Morgan G.P., Inc. Preferred Shares

The following table provides information about KMGP's per share distributions on 100,000 shares of its Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Per share cash distribution declared for the period(a)	\$10.423	\$10.545	\$20.756	\$21.014
Per share cash distribution paid in the period	\$10.333	\$10.469	\$20.903	\$21.107

(a) On July 16, 2014, KMGP declared a distribution for the three months ended June 30, 2014, of \$10.423 per share, which will be paid on August 18, 2014 to shareholders of record as of July 31, 2014.

#### 4. Stockholders' Equity

Common Equity

As of June 30, 2014, our common equity consisted of our Class P common stock. For additional information regarding our common stock, see Note 10 “Stockholders’ Equity” to our consolidated financial statements included in our 2013 Form 10-K.

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On October 16, 2013, we announced that our board of directors had approved a share and warrant repurchase program authorizing us to repurchase in the aggregate up to \$250 million of additional shares or warrants, which purchase was completed as of March 2014. On March 4, 2014 we announced that our board of directors had approved an additional share and warrant repurchase program authorizing us to repurchase in the aggregate up to \$100 million of additional shares or warrants. As of June 30, 2014, we had \$2 million available for repurchases under the March 4, 2014 repurchase program.

The following table sets forth the changes in our outstanding shares during the six months ended June 30, 2014 and 2013.

	Six Months Ended June 30,	
	2014	2013
Beginning balance	1,030,677,076	1,035,668,596
Shares repurchased and canceled	(2,780,337	) —
Shares issued with conversions of EP Trust I Preferred securities	2,820	74,134
Shares issued for exercised warrants	—	16,886
Restricted shares vested	10,145	9,814
Ending balance	1,027,909,704	1,035,769,430
Dividends		

Holders of our common stock share equally in any dividend declared by our board of directors, subject to the rights of the holders of any outstanding preferred stock. The following table provides information about our per share dividends.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Per common share cash dividend declared for the period	\$0.43	\$0.40	\$0.85	\$0.78
Per common share cash dividend paid in the period	\$0.42	\$0.38	\$0.83	\$0.75

## Dividends Subsequent to June 30, 2014

On July 16, 2014, our board of directors declared a cash dividend of \$0.43 per share for the quarterly period ended June 30, 2014, which is payable on August 15, 2014 to shareholders of record as of July 31, 2014.

## Warrants

Each of our warrants entitles the holder to purchase one share of our common stock for an exercise price of \$40 per share, payable in cash or by cashless exercise, at any time until May 25, 2017. For additional information regarding our warrants, see Note 10 "Stockholders' Equity" to our consolidated financial statements included in our 2013 Form 10-K.

The table below sets forth the changes in our outstanding warrants during the six months ended June 30, 2014 and 2013.

	Six Months Ended June 30,	
	2014	2013
Beginning balance	347,933,107	439,809,442
Warrants repurchased and canceled	(49,783,406	) (25,781,031
Warrants issued with conversions of EP Trust I Preferred securities	4,315	113,317
Warrants exercised	—	(21,208

Ending balance	298,154,016	414,120,520
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## Noncontrolling Interests

The caption “Noncontrolling interests” in our accompanying consolidated balance sheets consists of interests that we do not own in the following subsidiaries (in millions):

	June 30, 2014	December 31, 2013
KMP	\$8,008	\$7,642
EPB	4,392	4,122
KMR	3,306	3,142
Other	329	286
	\$16,035	\$15,192

## Contributions

The table below shows significant issuances to the public of common units or shares, the net proceeds from the issuances and the use of the proceeds during the six months ended June 30, 2014 by KMP, EPB and KMR (dollars in millions and units and shares in thousands).

Issuances	Common units/shares (in thousands)	Net proceeds (in millions)	Use of proceeds
<b>KMP</b>			
Issued under equity distribution agreement with UBS			
2014	4,387	\$335	Reduced borrowings under KMP’s commercial paper program
Other issuances			
February 2014	7,935	\$603	Reduced borrowings under KMP’s commercial paper program that were used to fund KMP’s APT acquisition in January 2014
<b>EPB</b>			
Issued under equity distribution agreement with Citigroup			
2014	2,385	\$75	General partnership purposes
Other issuances			
May 2014	7,820	\$242	Issued to pay a portion of the purchase price for the May 2014 drop-down transaction
<b>KMR</b>			
Issued under equity distribution agreement with Credit Suisse			
2014	1,334	\$97	Purchased additional KMP i-units; KMP then used proceeds to reduce borrowings under its commercial paper program

The above equity issuances by KMP, EPB and KMR during the six months ended June 30, 2014 had the associated effects of increasing our (i) noncontrolling interests by \$1,321 million; (ii) accumulated deferred income taxes by \$11 million; and (iii) additional paid-in capital by \$20 million.

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## Distributions

The following table provides information about distributions from our noncontrolling interests (in millions except per unit distribution amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>KMP</b>				
Per unit cash distribution declared for the period	\$1.39	\$1.32	\$2.77	\$2.62
Per unit cash distribution paid in the period	\$1.38	\$1.30	\$2.74	\$2.59
Cash distributions paid in the period to the public	\$412	\$307	\$807	\$606
<b>EPB</b>				
Per unit cash distribution declared for the period	\$0.65	\$0.63	\$1.30	\$1.25
Per unit cash distribution paid in the period	\$0.65	\$0.62	\$1.30	\$1.23
Cash distributions paid in the period to the public	\$84	\$79	\$167	\$155
<b>KMR(a)</b>				
Share distributions paid in the period to the public	2,083,523	1,502,562	4,036,493	3,072,680

KMR's distributions are paid in the form of additional shares or fractions thereof calculated by dividing the KMP cash distribution per common unit by the average of the market closing prices of a KMR share determined for a ten-trading day period ending on the trading day immediately prior to the ex-dividend date for the shares.

(a) Represents share distributions made in the period to noncontrolling interests and excludes 303,291 and 587,579 of shares distributed for the three and six months ended June 30, 2014, respectively, and 224,390 and 458,868 of shares distributed in the three months and six months ended June 30, 2013, respectively, on KMR shares we directly and indirectly own. On July 16, 2014, KMR declared a share distribution of 0.017397 shares per outstanding share, or 2,283,909 shares (of which 1,996,474 shares will be payable to the public), on August 14, 2014 to shareholders of record as of July 31, 2014, based on the \$1.39 per common unit distribution declared by KMP.

## Distributions Subsequent to June 30, 2014

## Noncontrolling Interests Distributions

On July 16, 2014, KMP declared a cash distribution of \$1.39 per unit for the quarterly period ended June 30, 2014. The distribution will be paid on August 14, 2014 to KMP's unitholders of record as of July 31, 2014.

On July 16, 2014, EPB declared a cash distribution of \$0.65 per unit for the quarterly period ended June 30, 2014. The distribution will be paid on August 14, 2014 to EPB's unitholders of record as of July 31, 2014.

## 5. Risk Management

Certain of our business activities expose us to risks associated with unfavorable changes in the market price of natural gas, NGL and crude oil. We also have exposure to interest rate risk as a result of the issuance of our debt obligations. Pursuant to our management's approved risk management policy, we use derivative contracts to hedge or reduce our exposure to certain of these risks.

As part of the EP acquisition, we acquired power forward and swap contracts. We have entered into offsetting positions that eliminate the price risks associated with our power contracts. As part of the May 1, 2013 Copano

acquisition, KMP acquired derivative contracts related to natural gas, NGL and crude oil. None of these derivatives are designated as accounting hedges.

## Energy Commodity Price Risk Management

As of June 30, 2014, KMI and KMP had the following outstanding commodity forward contracts to hedge their forecasted energy commodity purchases and sales:

	Net open position long/(short)	
Derivatives designated as hedging contracts		
Crude oil fixed price	(24.2	) MMBbl
Natural gas fixed price	(26.1	) Bcf
Natural gas basis	(26.7	) Bcf
Derivatives not designated as hedging contracts		
Crude oil fixed price	(0.4	) MMBbl
Crude oil basis	(0.6	) MMBbl
Natural gas fixed price	(7.7	) Bcf
Natural gas basis	0.2	Bcf
NGL fixed price	(0.8	) MMBbl

As of June 30, 2014, the maximum length of time over which we have hedged our exposure to the variability in future cash flows associated with energy commodity price risk is through December 2018.

## Interest Rate Risk Management

As of June 30, 2014, KMI and KMP had a combined notional principal amount of \$725 million and \$5,175 million, respectively, of fixed-to-variable interest rate swap agreements, effectively converting the interest expense associated with certain series of senior notes from fixed rates to variable rates based on an interest rate of LIBOR plus a spread. All of KMI's and KMP's swap agreements have termination dates that correspond to the maturity dates of the related series of senior notes and, as of June 30, 2014, the maximum length of time over which we have hedged a portion of our exposure to the variability in the value of this debt due to interest rate risk is through March 15, 2035.

As of December 31, 2013, KMI and KMP had a combined notional principal amount of \$725 million and \$4,675 million, respectively, of fixed-to-variable interest rate swap agreements. In February 2014, KMP entered into four separate fixed-to-variable interest rate swap agreements having a combined notional principal amount of \$500 million. These agreements effectively convert a portion of the interest expense associated with KMP's 3.50% senior notes due March 1, 2021, from a fixed rate to a variable rate based on an interest rate of LIBOR plus a spread.

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## Fair Value of Derivative Contracts

The following table summarizes the fair values of our derivative contracts included in our accompanying consolidated balance sheets as of June 30, 2014 and December 31, 2013 (in millions):

## Fair Value of Derivative Contracts

	Balance sheet location	Asset derivatives		Liability derivatives	
		June 30, 2014 Fair value	December 31, 2013 Fair value	June 30, 2014 Fair value	December 31, 2013 Fair value
<b>Derivatives designated as hedging contracts</b>					
Natural gas and crude derivative contracts	Other current assets/(Other current liabilities)	\$6	\$18	\$(97)	\$(33)
	Deferred charges and other assets/(Other long-term liabilities and deferred credits)	4	58	(72)	(30)
Subtotal		10	76	(169)	(63)
<b>Interest rate swap agreements</b>					
	Other current assets/(Other current liabilities)	90	87	—	—
	Deferred charges and other assets/(Other long-term liabilities and deferred credits)	211	172	(46)	(116)
Subtotal		301	259	(46)	(116)
Total		311	335	(215)	(179)
<b>Derivatives not designated as hedging contracts</b>					
Natural gas, crude and NGL derivative contracts	Other current assets/(Other current liabilities)	4	4	(10)	(5)
Subtotal		4	4	(10)	(5)
Power derivative contracts	Other current assets/(Other current liabilities)	3	7	(49)	(54)
	Deferred charges and other assets/(Other long-term liabilities and deferred credits)	4	11	(43)	(73)
Subtotal		7	18	(92)	(127)
Total		11	22	(102)	(132)
Total derivatives		\$322	\$357	\$(317)	\$(311)

## Debt Fair Value Adjustments

The offsetting entry to adjust the carrying value of the debt securities whose fair value was being hedged is included within "Debt fair value adjustments" on our accompanying consolidated balance sheets. Our "Debt fair value adjustments" also include all unamortized debt discount/premium amounts, purchase accounting on our debt balances, and any unamortized portion of proceeds received from the early termination of interest rate swap agreements. As of June 30,

2014 and December 31, 2013, these fair value adjustments to our debt balances included (i) \$1,302 million and \$1,379 million, respectively, associated with fair value adjustments to our debt previously recorded in purchase accounting; (ii) \$255 million and \$143 million, respectively, associated with the offsetting entry for hedged debt; (iii) \$485 million and \$517 million, respectively, associated with unamortized premium from the termination of interest rate swap agreements; and offset by (iv) \$69 million and \$62 million, respectively, associated with unamortized debt discount amounts. As of June 30, 2014, the weighted-average amortization period of the unamortized premium from the termination of the interest rate swaps was approximately 16 years.

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## Effect of Derivative Contracts on the Income Statement

The following three tables summarize the impact of our derivative contracts on our accompanying consolidated statements of income for each of the three and six months ended June 30, 2014 and 2013 (in millions):

Derivatives in fair value hedging relationships	Location of gain/(loss) recognized in income on derivatives	Amount of gain/(loss) recognized in income on derivatives and related hedged item(a)				
		Three Months Ended June 30,		Six Months Ended June 30,		
		2014	2013	2014	2013	
Interest rate swap agreements	Interest expense	\$57	\$(219)	) \$112	\$(307)	)
Total		\$57	\$(219)	) \$112	\$(307)	)
Fixed rate debt	Interest expense	\$(57)	) \$219	\$(112)	) \$307	
Total		\$(57)	) \$219	\$(112)	) \$307	

(a) Amounts reflect the change in the fair value of interest rate swap agreements and the change in the fair value of the associated fixed rate debt, which exactly offset each other as a result of no hedge ineffectiveness.

Derivatives in cash flow hedging relationships	Amount of gain/(loss) recognized in Other comprehensive income on derivative (effective portion)(a)		Location of gain/(loss) reclassified from Accumulated other comprehensive income into income (effective portion)	Amount of gain/(loss) reclassified from Accumulated other comprehensive income into income (effective portion)(b)		Location of gain/(loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain/(loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	
	Three Months Ended June 30,			Three Months Ended June 30,			Three Months Ended June 30,	
	2014	2013		2014	2013		2014	2013
Energy commodity derivative contracts	\$(88)	) \$55	Revenues—Natural gas sales	\$—	\$—	Revenues—Natural gas sales	\$—	\$—
			Revenues—Product sales and other	(19)	) 8	Revenues—Product sales and other	(27)	) 9
			Costs of sales	5	(5)	) Costs of sales	—	—
Interest rate swap agreements	(8)	) 7	Interest expense	(2)	) —	Interest expense	—	—
Total	\$(96)	) \$62	Total	\$(16)	) \$3	Total	\$(27)	) \$9
Derivatives in cash flow hedging relationships	Amount of gain/(loss) recognized in Other comprehensive income	Location of gain/(loss) reclassified from Accumulated other comprehensive	Amount of gain/(loss) reclassified from Accumulated other comprehensive income	Location of gain/(loss) recognized in income on derivative	Amount of gain/(loss) recognized in income on derivative (ineffective portion and amount	Location of gain/(loss) recognized in income on derivative (ineffective portion and amount	Amount of gain/(loss) recognized in income on derivative (ineffective portion and amount	Amount of gain/(loss) recognized in income on derivative (ineffective portion and amount

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	on derivative (effective portion)(a)		income into income (effective portion)	into income (effective portion)	(ineffective portion) and amount excluded from effectiveness testing)	excluded from effectiveness testing)			
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,				
	2014	2013	2014	2013	2014	2013			
Energy commodity derivative contracts	\$ (131	) \$ 23	Revenues—Natural gas sales	\$ (9	) \$—	Revenues—Natural gas sales	\$—	\$—	
			Revenues—Product sales and other	(25	) 13	Revenues—Product sales and other	(32	) 6	
			Costs of sales	6	(5	)	Costs of sales	—	—
Interest rate swap agreements	(10	) 8	Interest expense	(2	) 1	Interest expense	—	—	
Total	\$ (141	) \$ 31	Total	\$ (30	) \$ 9	Total	\$ (32	) \$ 6	

We expect to reclassify an approximate \$49 million loss associated with energy commodity price risk management activities included in our accumulated other comprehensive loss and noncontrolling interest balances as of June 30, (a)2014 into earnings during the next twelve months (when the associated forecasted sales and purchases are also expected to occur), however, actual amounts reclassified into earnings could vary materially as a result of changes in market prices.



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(b) Amounts reclassified were the result of the hedged forecasted transactions actually affecting earnings (i.e., when the forecasted sales and purchases actually occurred).

Derivatives not designated as accounting hedges	Location of gain/(loss) recognized in income on derivatives	Amount of gain/(loss) recognized in income on derivatives				
		Three Months Ended June 30, 2014		Six Months Ended June 30, 2014		
Energy commodity derivative contracts	Revenues—Natural gas sales	\$ (9	) \$ 1	\$ (16	) \$ 2	
	Revenues—Product sales and other	2	(5	) 1	(3	)
	Costs of sales	(3	) —	7	—	
	Other expense(income)	—	—	(2	) —	
Total		\$ (10	) \$ (4	) \$ (10	) \$ (1	)

## Credit Risks

We and our subsidiary, KMP, have counterparty credit risk as a result of our use of financial derivative contracts. Our counterparties consist primarily of financial institutions, major energy companies, natural gas and electric utilities, and local distribution companies. This concentration of counterparties may impact our overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions.

We maintain credit policies with regard to our counterparties that we believe minimize our overall credit risk. These policies include (i) an evaluation of potential counterparties' financial condition; (ii) collateral requirements under certain circumstances; and (iii) the use of standardized agreements which allow for netting of positive and negative exposure associated with a single counterparty. Based on our policies, exposure, credit and other reserves, our management does not anticipate a material adverse effect on our financial position, results of operations, or cash flows as a result of counterparty performance.

Our OTC swaps and options are entered into with counterparties outside central trading organizations such as futures, options or stock exchanges. These contracts are with a number of parties, all of which have investment grade credit ratings. While we enter into derivative transactions with investment grade counterparties and actively monitor their ratings, it is nevertheless possible that, from time to time, losses will result from counterparty credit risk in the future.

In conjunction with the purchase of exchange-traded derivative contracts or when the market value of our derivative contracts with specific counterparties exceeds established limits, we are required to provide collateral to our counterparties, which may include posting letters of credit or placing cash in margin accounts. As of both June 30, 2014 and December 31, 2013, KMP had no outstanding letters of credit supporting its hedging of energy commodity price risks associated with the sale of natural gas, NGL and crude oil. As of both June 30, 2014 and December 31, 2013, KMI had \$167 million of outstanding letters of credit supporting its commodity price risks associated with the sale of natural gas and power.

KMP and KMI also have agreements with certain counterparties to their derivative contracts that contain provisions requiring us to post additional collateral upon a decrease in their credit rating. As of June 30, 2014, we estimate that if KMP's credit rating was downgraded one notch, KMP would be required to post no additional collateral to its counterparties. If KMP was downgraded two notches (that is, below investment grade), KMP would be required to post \$122 million of additional collateral. As of June 30, 2014, we estimate that if KMI's credit rating was downgraded

one or two notches, KMI would be required to post no additional collateral to its counterparties.

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## Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

Cumulative revenues, expenses, gains and losses that under GAAP are included within our comprehensive income but excluded from our earnings are reported as “Accumulated other comprehensive loss” within “Stockholders’ Equity” in our consolidated balance sheets. Changes in the components of our “Accumulated other comprehensive loss” for the six months ended June 30, 2014 and 2013 are summarized as follows (in millions):

	Net unrealized gains/(losses) on cash flow hedge derivatives	Foreign currency translation adjustments	Pension and other postretirement liability adjustments	Total accumulated other comprehensive loss
Balance as of December 31, 2013	\$ (3 )	\$ 2	\$ (23 )	\$ (24 )
Other comprehensive loss before reclassifications	(56 )	(2 )	2	(56 )
Amounts reclassified from accumulated other comprehensive loss	12	—	—	12
Net current-period other comprehensive loss	(44 )	(2 )	2	(44 )
Balance as of June 30, 2014	\$ (47 )	\$ —	\$ (21 )	\$ (68 )
	Net unrealized gains/(losses) on cash flow hedge derivatives	Foreign currency translation adjustments	Pension and other postretirement liability adjustments	Total accumulated other comprehensive loss
Balance as of December 31, 2012	\$ 7	\$ 51	\$ (176 )	\$ (118 )
Other comprehensive loss before reclassifications	20	(45 )	—	(25 )
Amounts reclassified from accumulated other comprehensive loss	(5 )	—	—	(5 )
Net current-period other comprehensive loss	15	(45 )	—	(30 )
Balance as of June 30, 2013	\$ 22	\$ 6	\$ (176 )	\$ (148 )

## 6. Fair Value

The fair values of our financial instruments are separated into three broad levels (Levels 1, 2 and 3) based on our assessment of the availability of observable market data and the significance of non-observable data used to determine fair value. Each fair value measurement must be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety.

The three broad levels of inputs defined by the fair value hierarchy are as follows:

Level 1 Inputs—quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

Level 2 Inputs—inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and

Level 3 Inputs—unobservable inputs for the asset or liability. These unobservable inputs reflect the entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity’s own data).

## Fair Value of Derivative Contracts

The following two tables summarize the fair value measurements of our (i) energy commodity derivative contracts and (ii) interest rate swap agreements as of June 30, 2014 and December 31, 2013, based on the three levels established by the Codification. Also, certain of our derivative contracts are subject to master netting agreements. The following tables present our derivative contracts subject to such netting agreements as of June 30, 2014 and December 31, 2013 (in millions):

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	Balance Sheet asset fair value measurements using				Amounts not offset in the Balance Sheet		Net amount
	Level 1	Level 2	Level 3	Gross amount	Financial instruments	Cash collateral held(b)	
As of June 30, 2014							
Energy commodity derivative contracts(a)	\$3	\$7	\$11	\$21	\$(19)	\$—	\$2
Interest rate swap agreements	\$—	\$301	\$—	\$301	\$(22)	\$—	\$279
As of December 31, 2013							
Energy commodity derivative contracts(a)	\$4	\$46	\$48	\$98	\$(62)	\$—	\$36
Interest rate swap agreements	\$—	\$259	\$—	\$259	\$(28)	\$—	\$231
	Balance Sheet liability fair value measurements using				Amounts not offset in the Balance Sheet		Net amount
	Level 1	Level 2	Level 3	Gross amount	Financial instruments	Collateral posted(c)	
As of June 30, 2014							
Energy commodity derivative contracts(a)	\$(10)	\$(134)	\$(127)	\$(271)	\$19	\$17	\$(235)
Interest rate swap agreements	\$—	\$(46)	\$—	\$(46)	\$22	\$—	\$(24)
As of December 31, 2013							
Energy commodity derivative contracts(a)	\$(6)	\$(31)	\$(158)	\$(195)	\$62	\$17	\$(116)
Interest rate swap agreements	\$—	\$(116)	\$—	\$(116)	\$28	\$—	\$(88)

(a) Level 1 consists primarily of New York Mercantile Exchange natural gas futures. Level 2 consists primarily of OTC WTI swaps. Level 3 consists primarily of WTI options, NGL options and power derivative contracts.

(b) Cash margin deposits held by KMP associated with its energy commodity contract positions and OTC swap agreements and reported within "Other current liabilities" on our accompanying consolidated balance sheets.

(c) Cash margin deposits posted by KMP associated with energy commodity contract positions and OTC swap agreements and reported within "Other current assets" on our accompanying consolidated balance sheets.

The table below provides a summary of changes in the fair value of our Level 3 energy commodity derivative contracts for each of the three and six months ended June 30, 2014 and 2013 (in millions):

Significant unobservable inputs (Level 3)

	Three Months		Six Months	
	Ended June 30, 2014	2013	Ended June 30, 2014	2013
Derivatives-net asset (liability)				
Beginning of Period	\$(100)	\$(142)	\$(110)	\$(155)
Total gains or (losses)				
Included in earnings	(21)	(6)	(14)	(1)
Included in other comprehensive loss	(9)	1	(10)	—
Purchases(a)	—	18	—	18
Settlements	14	15	18	24
End of Period	\$(116)	\$(114)	\$(116)	\$(114)

The amount of total gains or (losses) for the period included in earnings attributable to the change in unrealized gains or (losses) relating to assets held \$(13 ) \$1 \$(16 ) \$4 at the reporting date

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(a) Three and six month 2013 amounts represent the purchase of Level 3 energy commodity derivative contracts associated with KMP's May 1, 2013 Copano acquisition.

As of June 30, 2014, our Level 3 derivative assets and liabilities consisted primarily of WTI options, NGL options and power derivative contracts, where a significant portion of fair value is calculated from underlying market data that is not readily observable. The derived values use industry standard methodologies that may consider the historical relationships among

various commodities, modeled market prices, time value, volatility factors and other relevant economic measures. The use of these inputs results is our management's best estimate of fair value.

#### Fair Value of Financial Instruments

The estimated fair value of our outstanding debt balances (both short-term and long-term and including debt fair value adjustments), is disclosed below (in millions):

	June 30, 2014		December 31, 2013	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Total debt	\$37,144	\$38,484	\$36,193	\$36,248

We used Level 2 input values to measure the estimated fair value of our outstanding debt balances as of both June 30, 2014 and December 31, 2013.

#### 7. Reportable Segments

We operate the following reportable business segments. These segments and their principal sources of revenues are as follows:

**Natural Gas Pipelines**—the sale, transport, processing, treating, fractionation, storage and gathering of natural gas and NGL;

**CO<sub>2</sub>—KMP**—the production, sale and transportation of crude oil from fields in the Permian Basin of West Texas and the production, transportation and marketing of CO<sub>2</sub> used as a flooding medium for recovering crude oil from mature oil fields;

**Products Pipelines—KMP**— the transportation and terminaling of refined petroleum products (including gasoline, diesel fuel and jet fuel), NGL, crude oil and condensate, and bio-fuels;

**Terminals—KMP**—the transportation, transloading and storing of refined petroleum products, crude oil, condensate, and bulk products, including coal, petroleum coke, cement, alumina, salt and other bulk chemicals;

**Kinder Morgan Canada—KMP**—the transportation of crude oil and refined products from Alberta, Canada to marketing terminals and refineries in British Columbia, and the state of Washington. As further described in Note 2, Kinder Morgan Canada divested its interest in the Express pipeline system effective March 14, 2013; and

**Other**—primarily includes other miscellaneous assets and liabilities purchased in our 2012 EP acquisition including (i) our corporate headquarters in Houston, Texas; (ii) several physical natural gas contracts with power plants associated with EP's legacy trading activities; and (iii) other miscellaneous EP assets and liabilities.

We evaluate performance principally based on each segment's EBDA (including amortization of excess cost of equity investments), which excludes general and administrative expenses, third-party debt costs and interest expense, unallocable interest income, and unallocable income tax expense. Our reportable segments are strategic business units that offer different products and services, and they are structured based on how our chief operating decision makers organize their operations for optimal performance and resource allocation. Each segment is managed separately because each segment involves different products and marketing strategies. Financial information by segment follows (in millions):

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	Three Months Ended		Six Months Ended June	
	June 30,	2013	30,	2013
	2014		2014	
Revenues				
Natural Gas Pipelines				
Revenues from external customers	\$2,464	\$2,054	5,021	3,809
Intersegment revenues	1	—	5	1
CO <sub>2</sub> -KMP	454	460	937	889
Products Pipelines-KMP	524	443	1,058	897
Terminals-KMP				
Revenues from external customers	420	343	811	680
Intersegment revenues	1	1	1	1
Kinder Morgan Canada-KMP	68	75	137	147
Other	(2)	(2)	2	2
Total segment revenues	3,930	3,374	7,972	6,426
Other revenues	9	9	18	18
Less: Total intersegment revenues	(2)	(1)	(6)	(2)
Total consolidated revenues	\$3,937	\$3,382	\$7,984	\$6,442

	Three Months Ended		Six Months Ended June	
	June 30,	2013	30,	2013
	2014		2014	
Segment EBDA(a)				
Natural Gas Pipelines(b)	\$955	\$1,424	\$2,026	\$2,323
CO <sub>2</sub> -KMP	332	358	695	700
Products Pipelines-KMP(c)	202	12	410	197
Terminals-KMP	233	206	447	392
Kinder Morgan Canada-KMP(d)	40	50	88	243
Other	—	(5)	7	(1)
Total segment EBDA	1,762	2,045	3,673	3,854
Total segment DD&A expense	(502)	(445)	(998)	(860)
Total segment amortization of excess cost of investments	(11)	(9)	(21)	(18)
Other revenues	9	9	18	18
General and administrative expense	(154)	(183)	(326)	(323)
Interest expense, net of unallocable interest income	(444)	(428)	(894)	(837)
Unallocable income tax expense	(163)	(208)	(354)	(395)
Loss from discontinued operations, net of tax	—	—	—	(2)
Total consolidated net income	\$497	\$781	\$1,098	\$1,437

	June 30,	December 31,
	2014	2013
Assets		
Natural Gas Pipelines	\$52,081	\$52,357
CO <sub>2</sub> -KMP	4,761	4,708
Products Pipelines-KMP	6,927	6,648
Terminals-KMP	8,340	6,888
Kinder Morgan Canada-KMP	1,690	1,677
Other	522	568



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Total segment assets	74,321	72,846
Corporate assets(e)	2,043	2,339
Total consolidated assets	\$76,364	\$75,185

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Includes revenues, earnings from equity investments, allocable interest income, and other, net, less operating (a) expenses, allocable income taxes, and other income, net. Operating expenses include natural gas purchases and other costs of sales, operations and maintenance expenses, and taxes, other than income taxes.

(b) Three and six month 2013 amounts include a \$558 million non-cash gain from the remeasurement of KMP's previously held equity interest in Eagle Ford Gathering to fair value. See Note 2 for further discussion.

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Three and six month 2013 amounts include increases in operating expense of \$162 million and \$177 million, (c) respectively, associated with adjustments to legal liabilities related to both transportation rate case and environmental matters.

(d) Six month 2013 amount includes a \$141 million increase in earnings from the after-tax gain on the sale of KMP's investments in the Express pipeline system.

(e) Includes cash and cash equivalents, margin and restricted deposits, unallocable interest receivable, prepaid assets and deferred charges, risk management assets related to debt fair value adjustments and miscellaneous corporate assets (such as information technology and telecommunications equipment) not allocated to individual segments.

## 8. Pension and Other Postretirement Benefit Plans

The components of net benefit plan (credit) expense for our pension and other postretirement benefit (OPEB) plans are as follows (in millions):

	Pension Benefits		OPEB		Pension Benefits		OPEB	
	Three Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
Service cost	\$6	\$6	\$—	\$—	\$13	\$12	\$—	\$—
Interest cost	28	23	6	6	55	46	13	11
Expected return on assets	(43 )	(44 )	(6 )	(5 )	(86 )	(88 )	(12 )	(10 )
Amortization of prior service costs (credits)	—	1	(1 )	—	—	1	(2 )	—
Amortization of net actuarial loss	—	—	1	1	—	—	1	2
Settlement gain(a)	—	—	—	—	—	(3 )	—	—
Net benefit plan (credit) expense	\$(9 )	\$(14 )	\$—	\$2	\$(18 )	\$(32 )	\$—	\$3

(a) Reflects the gain recognized upon the February 2013 settlement of our obligations under the El Paso Supplemental Executive Retirement Plan.

## 9. Income Taxes

Income taxes from continuing operations included in our accompanying consolidated statements of income were as follows (in millions, except percentages):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income tax expense	\$178	\$225	\$378	\$504
Effective tax rate	26	% 22	% 26	% 26

Tax expense from income from continuing operations for the three months ended June 30, 2014 is approximately \$178 million resulting in an effective tax rate of 26% for continuing operations, as compared with \$225 million tax expense and an effective tax rate of 22%, for the same period of 2013. The effective tax rate for the three months ended June 30, 2014 is lower than the statutory federal rate of 35% primarily due to (i) the net effect of consolidating KMP and EPB's income tax provision; (ii) dividend-received deductions from our 50% interest in Florida Gas Pipeline (through our investment in Citrus, LLC); and (iii) adjustments to KMI's income tax reserve for uncertain tax positions. These decreases are partially offset by (i) state income taxes; and (ii) the amortization of the deferred charge recorded as a result of the August 2012 and March 2013 drop-down transactions to KMP.

Tax expense from income from continuing operations for the six months ended June 30, 2014 is approximately \$378 million resulting in an effective tax rate of 26% for continuing operations, as compared with \$504 million tax expense and an effective tax rate of 26% for the same period of 2013. The effective tax rate for the six months ended June 30, 2014 is lower than the statutory federal rate of 35% primarily due to (i) the net effect of consolidating KMP and EPB's income tax provision; and (ii) dividend-received deductions from our 50% interest in Florida Gas Pipeline (through our investment in Citrus, LLC). These decreases are partially offset by (i) state income taxes; and (ii) the amortization of the deferred charge recorded as a result of the August 2012 and March 2013 drop-down transactions to KMP.

The effective tax rate for the three months ended June 30, 2013 is lower than the statutory federal rate of 35% primarily due to (i) the net effect of consolidating KMP and EPB's income tax provisions; (ii) dividend-received deductions from our 50% investment in Florida Gas Pipeline; and (iii) the tax impact of a decrease in the deferred state tax rate as a result of the acquisition of Copano. These decreases are partially offset by state income taxes and a change in nondeductible goodwill related to our investment in KMP.

The effective tax rate for the six months ended June 30, 2013 is lower than the statutory federal rate of 35% primarily due to (i) the net effect of consolidating KMP and EPB's income tax provisions; (ii) dividend-received deductions from our 50% investment in Florida Gas Pipeline; and (iii) the tax impact of a decrease in the deferred state tax rate as a result of the drop-down of our 50% ownership interests in EPNG and EP midstream assets and KMP's acquisition of Copano. These decreases are partially offset by state income taxes and a change in nondeductible goodwill related to our investment in KMP.

## 10. Litigation, Environmental and Other Contingencies

We and our subsidiaries are parties to various legal, regulatory and other matters arising from the day-to-day operations of our businesses that may result in claims against the Company. Although no assurance can be given, we believe, based on our experiences to date and taking into account established reserves, that the ultimate resolution of such items will not have a material adverse impact on our business, financial position, results of operations or dividends to our shareholders. We believe we have meritorious defenses to the matters to which we are a party and intend to vigorously defend the Company. When we determine a loss is probable of occurring and is reasonably estimable, we accrue an undiscounted liability for such contingencies based on our best estimate using information available at that time. If the estimated loss is a range of potential outcomes and there is no better estimate within the range, we accrue the amount at the low end of the range. We disclose contingencies where an adverse outcome may be material, or in the judgment of management, we conclude the matter should otherwise be disclosed.

### Federal Energy Regulatory Commission Proceedings

The tariffs and rates charged by SFPP and EPNG are subject to a number of ongoing proceedings at the FERC. A substantial portion of our legal reserves relate to these FERC cases and the CPUC cases described below them.

#### SFPP

The tariffs and rates charged by SFPP are subject to a number of ongoing proceedings at the FERC, including the complaints and protests of various shippers. In general, these complaints and protests allege the rates and tariffs charged by SFPP are not just and reasonable under the Interstate Commerce Act (ICA). In late June of 2014, certain shippers filed complaints with the FERC (docketed at OR14-35 and OR14-36) challenging SFPP's adjustments to its rates in 2012 and 2013 for inflation under the FERC's indexing regulations. If the shippers are successful in proving these claims or other of their claims, they are entitled to seek reparations (which may reach back up to two years prior to the filing of their complaints) or refunds of any excess rates paid, and SFPP may be required to reduce its rates going forward. These proceedings tend to be protracted, with decisions of the FERC often appealed to the federal courts. The issues involved in these proceedings include, among others, whether indexed rate increases are justified, and the appropriate level of return and income tax allowance KMP may include in its rates. With respect to all of the SFPP proceedings at the FERC, we estimate that the shippers are seeking approximately \$20 million in annual rate reductions and approximately \$100 million in refunds. However, applying the principles of several recent FERC decisions in SFPP cases, as applicable, to pending cases would result in substantially lower rate reductions and refunds than those sought by the shippers. We do not expect refunds in these cases to have an impact on KMP's distributions to its limited partners or our dividends to our shareholders.

#### EPNG

The tariffs and rates charged by EPNG are subject to two ongoing FERC proceedings (the "2008 rate case" and the "2010 rate case"). With respect to the 2008 rate case, the FERC issued its decision (Opinion 517) in May 2012. EPNG implemented certain aspects of that decision and believes it has an appropriate reserve related to the findings in Opinion 517. EPNG has sought rehearing on Opinion 517. With respect to the 2010 rate case, the FERC issued its decision (Opinion 528) on October 17, 2013. EPNG sought rehearing on certain issues in Opinion 528. As required by Opinion 528, EPNG filed revised pro



forma recalculated rates consistent with the terms of Opinion 528. The FERC also required an Administrative Law Judge to conduct an additional hearing concerning one of the issues in Opinion 528 and a decision is expected in September 2014.

#### California Public Utilities Commission Proceedings

KMP has previously reported ratemaking and complaint proceedings against SFPP pending with the CPUC. The ratemaking and complaint cases generally involve challenges to rates charged by SFPP for intrastate transportation of refined petroleum products through its pipeline system in the state of California and request prospective rate adjustments and refunds with respect to tariffed and previously untariffed charges for certain pipeline transportation and related services. These matters have generally been consolidated and assigned to two administrative law judges.

On May 26, 2011, the CPUC issued a decision in several intrastate rate cases involving SFPP and a number of its shippers, (the "Long" cases). The decision included determinations on issues, such as SFPP's entitlement to an income tax allowance, allocation of environmental expenses, and refund liability, which KMP asserted are contrary both to CPUC policy and precedent and to established federal regulatory policies for pipelines. On March 8, 2012, the CPUC issued another decision related to the Long cases. This decision largely reflected the determinations made on May 26, 2011, including the denial of an income tax allowance for SFPP. On March 23, 2012, SFPP filed a petition for writ of review in the California Court of Appeals, seeking a court order vacating the CPUC's determination that SFPP is not entitled to recover an income tax allowance in its intrastate rates. The Court denied SFPP's petition, and on October 16, 2013, the California Supreme Court declined SFPP's request for further review. The precise impact of the now final state rulings denying SFPP an income tax allowance, together with other pending ratemaking issues, are subject to further consideration and determination by the CPUC.

On April 6, 2011, in proceedings unrelated to the above-referenced CPUC dockets, a CPUC administrative law judge issued a proposed decision (Bemesderfer case) substantially reducing SFPP's authorized cost of service and ordering SFPP to pay refunds from May 24, 2007 to the present of revenues collected in excess of the authorized cost of service. The proposed decision was subsequently withdrawn, and the presiding administrative law judge is expected to reissue a proposed decision at some indeterminate time in the future.

On January 30, 2012, SFPP filed an application reducing its intrastate rates by approximately 7%. This matter remains pending before the CPUC.

On July 19, 2013, Calnev filed an application with the CPUC requesting a 36% increase in its intrastate rates. A decision from the CPUC approving the requested rate increase was issued on November 14, 2013.

On November 27, 2013, the CPUC issued its Order to Show Cause directing SFPP to demonstrate whether or not the CPUC should require immediate refund payments associated with various pending SFPP rate matters. Subsequently, the CPUC issued an order directing SFPP and its shippers to engage in mandatory settlement discussions. On April 3, 2014, the CPUC issued its ruling suspending proceedings in all pending SFPP matters until October 1, 2014 or the date upon which SFPP and its shippers inform the CPUC that SFPP and its shippers have reached settlement of all pending matters or have failed to do so. If the matter is not settled, a decision addressing, if not resolving, all pending SFPP rate matters at the CPUC is anticipated in the first quarter of 2015.

Based on KMP's review of these CPUC proceedings and the shipper comments thereon, it estimates that the shippers are requesting approximately \$400 million in reparation payments and approximately \$30 million in annual rate reductions. The actual amount of reparations will be determined through settlement negotiations or further proceedings at the CPUC. As of June 30, 2014, we believe our legal reserve is adequate such that the resolution of

pending CPUC matters will not have a material adverse impact on KMP's business, financial position or results of operations. Furthermore, we do not expect any reparations that KMP would pay in this matter to impact the per unit cash distributions it expects to pay to its limited partners for 2014.

#### Other Commercial Matters

##### Union Pacific Railroad Company Easements

SFPP and Union Pacific Railroad Company (UPRR) are engaged in a proceeding to determine the extent, if any, to which the rent payable by SFPP for the use of pipeline easements on rights-of-way held by UPRR should be adjusted pursuant to existing contractual arrangements for the ten-year period beginning January 1, 2004 (Union Pacific Railroad Company v. Santa Fe Pacific Pipelines, Inc., SFPP, L.P., Kinder Morgan Operating L.P. "D", Kinder Morgan G.P., Inc., et al., Superior Court of the State of California for the County of Los Angeles, filed July 28, 2004). In September 2011, the trial judge determined that

the annual rent payable as of January 1, 2004 was \$14 million subject to annual consumer price index increases. Judgment was entered by the Superior Court on May 29, 2012 and SFPP appealed the judgment. If the judgment is upheld on appeal, SFPP would owe approximately \$95 million in back rent. Accordingly, KMP increased its rights-of-way liability to cover this potential liability for back rent. In addition, the trial judge determined that UPRR is entitled to approximately \$20 million for interest through the date of the judgment on the outstanding back rent liability. KMP believes the award of interest is without merit and are pursuing our appellate rights. On June 27, 2014, the California Court of Appeals heard oral argument and requested that the parties submit supplemental briefing on the following issues: whether the UPRR ever had sufficient ownership interests to allow it to grant subsurface easements in land granted to it by Congress; whether there is sufficient evidence in the record on this question; and assuming that the UPRR did not have sufficient ownership interests to grant subsurface easements and that its rental agreements with SFPP were invalid, whether the parties can limit the scope of the Court's inquiry on appeal by not disputing the underlying rights of the railroad. The parties are in the process of filing supplemental briefs on the foregoing issues and a decision is anticipated by the Court of Appeals in 2014.

By notice dated October 25, 2013, UPRR demanded the payment of \$22.25 million in rent for the first year of the next ten-year period beginning January 1, 2014. SFPP rejected the demand and the parties are pursuing the dispute resolution procedure in their contract to determine the rental adjustment, if any, for such period.

SFPP and UPRR are also engaged in multiple disputes over the circumstances under which SFPP must pay for a relocation of its pipeline within the UPRR right-of-way and the safety standards that govern relocations. In July 2006, a trial before a judge regarding the circumstances under which SFPP must pay for relocations concluded, and the judge determined that SFPP must pay for any relocations resulting from any legitimate business purpose of the UPRR. SFPP appealed this decision, and in December 2008, the appellate court affirmed the decision. In addition, UPRR contends that SFPP must comply with the more expensive American Railway Engineering and Maintenance-of-Way Association (AREMA) standards in determining when relocations are necessary and in completing relocations. Each party is seeking declaratory relief with respect to its positions regarding the application of these standards with respect to relocations. A trial occurred in the fourth quarter of 2011, with a verdict having been reached that SFPP was obligated to comply with AREMA standards in connection with a railroad project in Beaumont Hills, California. On March 10, 2014, the trial court issued a tentative statement of decision addressing all of the causes of action and defenses and resolved those matters against SFPP, consistent with the jury's verdict. If the tentative statement of decision and jury verdict become final and are affirmed on appeal, SFPP will be required to pay a judgment of \$42.65 million. SFPP is continuing to evaluate its post-trial and appellate options.

Since SFPP does not know UPRR's plans for projects or other activities that would cause pipeline relocations, it is difficult to quantify the effects of the outcome of these cases on SFPP. Even if SFPP is successful in advancing its positions, significant relocations for which SFPP must nonetheless bear the expense (i.e., for railroad purposes, with the standards in the federal Pipeline Safety Act applying) could have an adverse effect on KMP's financial position, results of operations, cash flows, distributions to its limited partners, and our dividends to our shareholders. These effects could be even greater in the event SFPP is unsuccessful in one or more of these litigations.

#### Severstal Sparrows Point Crane Collapse

On June 4, 2008, a bridge crane owned by Severstal and located in Sparrows Point, Maryland collapsed while being operated by our subsidiary Kinder Morgan Bulk Terminals, Inc. (KMBT). According to KMP's investigation, the collapse was caused by unexpected, sudden and extreme winds. On June 24, 2009, Severstal filed suit against KMBT in the U.S. District Court for the District of Maryland, Case No. 09CV1668-WMN. Severstal and its successor in interest, RG Steel, allege that KMBT was contractually obligated to replace the collapsed crane and that its employees were negligent in failing to properly secure the crane prior to the collapse. RG Steel seeks to recover in excess of \$30



million for the alleged value of the crane and lost profits. KMBT denies each of RG Steel's allegations. A bench trial occurred in November 2013. On March 6, 2014, the Court issued findings of fact and conclusions of law and entered judgment against KMBT in the amount of \$13.79 million, which was later amended to \$15.55 million by order dated May 6, 2014. KMBT has filed a notice of appeal of the judgment.

Plains Gas Solutions, LLC v. Tennessee Gas Pipeline Company, L.L.C. et al

On October 16, 2013, Plains Gas Solutions, LLC (Plains) filed a petition in the 151<sup>st</sup> Judicial District Court for Harris County, Texas (Case No. 62528) against TGP, Kinetica Partners, LLC and two other Kinetica entities. The suit arises from the sale by TGP of the Cameron System in Louisiana to Kinetica Partners, LLC on September 1, 2013. Plains alleges that defendants breached a straddle agreement requiring that gas on the Cameron System be committed to Plains' Grand Chenier gas-processing facility, that requisite daily volume reports were not provided, that TGP improperly assigned its obligations under the straddle agreement to Kinetica, and that defendants interfered with Plains' contracts with producers. The petition alleges damages of at least \$100 million. Under the Amended and Restated Purchase and Sale Agreement with Kinetica,

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Kinetica has agreed to indemnify TGP in connection with the gas commitment and reporting claims. The suit was removed to federal court and Plains has filed a motion to remand. We intend to vigorously defend the suit.

#### Brinckerhoff v. El Paso Pipeline GP Company, LLC., et al.

In December 2011 (Brinckerhoff I), March 2012, (Brinckerhoff II), May 2013 (Brinckerhoff III) and June 2014 (Brinckerhoff IV), derivative lawsuits were filed in Delaware Chancery Court against El Paso, El Paso Pipeline GP Company, L.L.C., the general partner of EPB, and the directors of the general partner at the time of the relevant transactions. EPB was named in these lawsuits as a “Nominal Defendant.” The lawsuits arise from the March 2010, November 2010, May 2012 and June 2011 drop-down transactions involving EPB’s purchase of SLNG, Elba Express, CPG and interests in SNG and CIG. The lawsuits allege various conflicts of interest and that the consideration paid by EPB was excessive. Brinckerhoff I and II have been consolidated into one proceeding. On June 12, 2014, defendants’ motion for summary judgment was granted in Brinckerhoff I, dismissing the case in its entirety. Defendants’ motion for summary judgment in Brinckerhoff II was granted in part, dismissing certain claims and allowing the matter to go to trial on the remaining claims. A motion to dismiss has been filed in Brinckerhoff III. Defendants continue to believe these lawsuits are without merit and intend to defend against them vigorously.

#### Allen v. El Paso Pipeline GP Company, L.L.C., et al.

In May 2012, a unitholder of EPB filed a purported class action in Delaware Chancery Court, alleging both derivative and non derivative claims, against EPB, and EPB’s general partner and its board. EPB was named in the lawsuit as both a “Class Defendant” and a “Derivative Nominal Defendant.” The complaint alleges a breach of the duty of good faith and fair dealing in connection with the March 2011 sale to EPB of a 25% ownership interest in SNG. On June 20, 2014, defendants’ motion for summary judgment was granted, dismissing the case in its entirety. Plaintiff filed a notice of appeal on July 28, 2014.

#### Price Reporting Litigation

Beginning in 2003, several lawsuits were filed against El Paso Marketing L.P. (EPM) alleging that EP, EPM and other energy companies conspired to manipulate the price of natural gas by providing false price information to industry trade publications that published gas indices. Several of the cases have been settled or dismissed. The remaining cases, which were pending in Nevada federal court, were dismissed, but the dismissal was reversed by the 9<sup>th</sup> Circuit Court of Appeals. A petition for certiorari was granted by the U.S. Supreme Court, and the matter is stayed pending appeal. Although damages in excess of \$140 million have been alleged in total against all defendants in one of the remaining lawsuits where a damage number is provided, there remains significant uncertainty regarding the validity of the causes of action, the damages asserted and the level of damages, if any, that may be allocated to us. Therefore, our costs and legal exposure related to the remaining outstanding lawsuits and claims are not currently determinable.

#### Pipeline Integrity and Releases

From time to time, despite our best efforts, our pipelines experience leaks and ruptures. These leaks and ruptures may cause explosions, fire, and damage to the environment, damage to property and/or personal injury or death. In connection with these incidents, we may be sued for damages caused by an alleged failure to properly mark the locations of our pipelines and/or to properly maintain our pipelines. Depending upon the facts and circumstances of a particular incident, state and federal regulatory authorities may seek civil and/or criminal fines and penalties.

#### General

As of June 30, 2014 and December 31, 2013 our total reserve for legal matters was \$688 million and \$624 million, respectively. The reserve primarily relates to various claims from regulatory proceedings arising from KMP's products pipeline and natural gas pipeline transportation rates.

Other

Slotoroff v. Kinder Morgan, Inc., Kinder Morgan G.P., Inc., et al.

On February 5, 2014, a putative class action and derivative complaint was filed in the Court of Chancery in the State of Delaware (Case No. 9318) against defendants KMI, KMGP and nominal defendant KMEP. The suit was filed by Jon Slotoroff, a purported unitholder of KMEP and seeks to assert claims both individually and on behalf of a putative class consisting of all public holders of KMEP units during the period of February 5, 2011 through the date of the filing of the suit. The suit alleges

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direct and derivative causes of action for breach of the partnership agreement, breach of the duty of good faith and fair dealing, aiding and abetting, and tortious interference. Among other things, the suit alleges that defendants made a bad faith allocation of capital expenditures to expansion capital expenditures rather than maintenance capital expenditures for the alleged purpose of “artificially” inflating KMEP’s distributions and growth rate. The suit seeks disgorgement of any distributions to KMGP, KMI and any related entities, beyond amounts that would have been distributed in accordance with a “good faith” allocation of maintenance capital expenses, together with other unspecified monetary damages including punitive damages and attorney fees. Defendants believe this suit is without merit and intend to defend it vigorously.

*Burns et al v. Kinder Morgan, Inc. Kinder Morgan G.P., Inc. et al*

On March 27, 2014, a putative class action and derivative complaint was filed in the Court of Chancery in the State of Delaware (Case No. 9479) against defendants KMI, KMGP and nominal defendant KMEP. The suit was filed by Darrell Burns and Terrence Zehrer, purported unitholders of KMEP, and seeks to assert claims both individually and on behalf of a putative class consisting of all public holders of KMEP units during the period of February 5, 2011 through the date of the filing of the suit. The suit asserts claims and allegations substantially similar to the suit filed by Jon Slotoroff described above. On April 8, 2014, the Court ordered that this suit be consolidated for all purposes with the suit filed by Jon Slotoroff described above and that the caption of the consolidated action shall be *In Re Kinder Morgan Energy Partners, L.P. Derivative Litigation, Consolidated Case No. 9318.*

*Walker v. Kinder Morgan, Inc., Kinder Morgan G.P., Inc. et al*

On March 6, 2014, a putative class action and derivative complaint was filed in the District Court of Harris County, Texas (Case No. 2014-11872 in the 215th Judicial District) against KMI, KMGP, KMR, Richard D. Kinder, Steven J. Kean, Ted A. Gardner, Gary L. Hultquist, Perry M. Waughtal and nominal defendant KMEP. The suit was filed by Kenneth Walker, a purported unit holder of KMEP, and alleges direct and derivative causes of action for alleged violation of duties owed under the partnership agreement, breach of the implied covenant of good faith and fair dealing, “abuse of control” and “gross mismanagement” in connection with the calculation of distributions and allocation of capital expenditures to expansion capital expenditures and maintenance capital expenditures. The suit seeks unspecified money damages, interest, punitive damages, attorney and expert fees, costs and expenses, unspecified equitable relief, and demands a trial by jury. Defendants believe this suit is without merit and intend to defend it vigorously. By agreement of the parties, the case is stayed pending further resolution of the suit filed by Jon Slotoroff described above.

**Environmental Matters**

We and our subsidiaries are subject to environmental cleanup and enforcement actions from time to time. In particular, CERCLA generally imposes joint and several liability for cleanup and enforcement costs on current and predecessor owners and operators of a site, among others, without regard to fault or the legality of the original conduct, subject to the right of a liable party to establish a “reasonable basis” for apportionment of costs. Our operations are also subject to federal, state and local laws and regulations relating to protection of the environment. Although we believe our operations are in substantial compliance with applicable environmental law and regulations, risks of additional costs and liabilities are inherent in pipeline, terminal and CO<sub>2</sub> field and oil field operations, and there can be no assurance that we will not incur significant costs and liabilities. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies under the terms of authority of those laws, and claims for damages to property or persons resulting from our operations, could result in substantial costs and liabilities to us.

We are currently involved in several governmental proceedings involving alleged violations of environmental and safety regulations. As we receive notices of non-compliance, we attempt to negotiate and settle such matters where appropriate. We do not believe that these alleged violations will have a material adverse effect on our business, financial position, results of operations or dividends to our shareholders.

We are also currently involved in several governmental proceedings involving groundwater and soil remediation efforts under administrative orders or related state remediation programs. We have established a reserve to address the costs associated with the cleanup.

In addition, we are involved with and have been identified as a potentially responsible party in several federal and state superfund sites. Environmental reserves have been established for those sites where our contribution is probable and reasonably estimable. In addition, we are from time to time involved in civil proceedings relating to damages alleged to have occurred as a result of accidental leaks or spills of refined petroleum products, NGL, natural gas and CO<sub>2</sub>.

## Portland Harbor Superfund Site, Willamette River, Portland, Oregon

In December 2000, the EPA issued General Notice letters to potentially responsible parties including GATX Terminals Corporation (n/k/a KMLT). At that time, GATX owned two liquids terminals along the lower reach of the Willamette River, an industrialized area known as Portland Harbor. Portland Harbor is listed on the National Priorities List and is designated as a Superfund Site under CERCLA. A group of potentially responsible parties formed what is known as the Lower Willamette Group (LWG), of which KMLT is a non-voting member and pays a minimal fee to be part of the group. The LWG agreed to conduct the remedial investigation and feasibility study (RI/FS) leading to the proposed remedy for cleanup of the Portland Harbor site. Once the EPA determines the cleanup remedy from the remedial investigations and feasibility studies conducted during the last decade at the site, it will issue a Record of Decision. Currently, KMLT and 90 other parties are involved in an allocation process to determine each party's respective share of the cleanup costs. This is a non-judicial allocation process. KMEP is participating in the allocation process on behalf of both KMLT and KMBT. Each entity has two facilities located in Portland Harbor. KMEP expects the allocation process to conclude in 2015. KMEP also expects the LWG to complete the RI/FS process in 2015, after which the EPA is expected to develop a proposed plan leading to a Record of Decision targeted for 2017. It is anticipated that the cleanup activities will begin within one year of the issuance of the Record of Decision.

## Roosevelt Irrigation District v. Kinder Morgan G.P., Inc., Kinder Morgan Energy Partners, L.P., U.S. District Court, Arizona

The Roosevelt Irrigation District sued KMGP, KMEP and others under CERCLA for contamination of the water purveyor's wells. The First Amended Complaint sought \$175 million in damages against approximately 70 defendants. On August 6, 2013 plaintiffs filed their Second Amended Complaint seeking monetary damages in unspecified amounts and reducing the number of defendants to 26 including KMEP and SFPP. The claims now presented against KMEP and SFPP are related to alleged releases from a specific parcel within the SFPP Phoenix Terminal and the alleged impact of such releases on water wells owned by the plaintiffs and located in the vicinity of the Terminal. On October 24, 2013, we moved to dismiss this suit and the motion remains pending.

## Paulsboro, New Jersey Liquids Terminal Consent Judgment

On June 25, 2007, the NJDEP, the Commissioner of the New Jersey Department of Environmental Protection and the Administrator of the New Jersey Spill Compensation Fund, referred to collectively as the plaintiffs, filed a complaint in Gloucester County, New Jersey against ExxonMobil and KMLT, formerly known as GATX Terminals Corporation, alleging natural resource damages related to historic contamination at the Paulsboro, New Jersey liquids terminal owned by ExxonMobil from the mid-1950s through November 1989, by GATX Terminals Corporation from 1989 through September 2000, and later owned by Support Terminals and Pacific Atlantic Terminals, LLC. The terminal is now owned by Plains Products, which was also joined as a party to the lawsuit.

In mid-2011, KMLT and Plains Products entered into a settlement agreement and subsequent Consent Judgment with the NJDEP which resolved the state's alleged natural resource damages claim. The natural resource damage settlement includes a monetary award of \$1 million and a series of remediation and restoration activities at the terminal site. KMLT and Plains Products have joint responsibility for this settlement. Simultaneously, KMLT and Plains Products entered into an agreement that settled each party's relative share of responsibility (50/50) to the NJDEP under the Consent Judgment noted above. The Consent Judgment is now entered with the Court and the settlement is final. According to the agreement, Plains will conduct remediation activities at the site and KMLT will provide oversight and 50% of the costs. We are awaiting approval from the NJDEP in order to begin remediation activities.

## Mission Valley Terminal Lawsuit

In August 2007, the City of San Diego, on its own behalf and purporting to act on behalf of the People of the State of California, filed a lawsuit against KMP and several affiliates seeking injunctive relief and unspecified damages allegedly resulting from hydrocarbon and methyl tertiary butyl ether (MTBE) impacted soils and groundwater beneath the City's stadium property in San Diego arising from historic operations at the Mission Valley terminal facility. The case was filed in the Superior Court of California, San Diego County, case number 37-2007-00073033-CU-OR-CTL. On September 26, 2007, KMP removed the case to the U.S. District Court, Southern District of California, case number 07CV1883WCAB. The City disclosed in discovery that it is seeking approximately \$170 million in damages for alleged lost value/lost profit from the redevelopment of the City's property and alleged lost use of the water resources underlying the property. Later, in 2010, the City amended its initial disclosures to add claims for restoration of the site as well as a number of other claims that increased its claim for damages to approximately \$365 million.

On November 29, 2012, the Court issued a Notice of Tentative Rulings on the parties' summary adjudication motions. The Court tentatively granted our partial motions for summary judgment on the City's claims for water and real estate damages and the State's claims for violations of California Business and Professions Code § 17200, tentatively denied the City's motion for summary judgment on its claims of liability for nuisance and trespass, and tentatively granted our cross motion for summary judgment on such claims. On January 25, 2013, the Court rendered judgment in favor of all defendants on all claims asserted by the City.

On February 20, 2013, the City of San Diego filed a notice of appeal of this case to the U.S. Court of Appeals for the Ninth Circuit. The appeal is currently pending.

This site has been, and currently is, under the regulatory oversight and order of the California Regional Water Quality Control Board (RWQCB). KMP's subsidiary, SFPP has completed the soil and groundwater remediation at the City of San Diego's stadium property site and will continue quarterly sampling and monitoring through 2014 as part of the compliance evaluation required by the RWQCB. SFPP's remediation effort is now focused on its adjacent Mission Valley Terminal site.

On May 7, 2013, the City of San Diego filed a writ of mandamus to the California Superior Court seeking an order from the Court setting aside the RWQCB's approval of KMP's permit request to increase the discharge of water from KMP's groundwater treatment system to the City of San Diego's municipal storm sewer system. SFPP and KMP are coordinating with the RWQCB to oppose the City's writ.

#### Uranium Mines in Vicinity of Cameron, Arizona

In the 1950s and 1960s, Rare Metals Inc., an historical subsidiary of EPNG, operated approximately 20 uranium mines in the vicinity of Cameron, Arizona, many of which are located on the Navajo Indian Reservation. The mining activities were in response to numerous incentives provided to industry by the U.S. to locate and produce domestic sources of uranium to support the Cold War-era nuclear weapons program. In May 2012, EPNG received a general notice letter from the EPA notifying EPNG of the EPA's investigation of certain sites and its determination that the EPA considers EPNG to be a potentially responsible party within the meaning of CERCLA. In August 2013, EPNG and the EPA entered into an Administrative Order on Consent and Scope of Work pursuant to which EPNG will conduct a radiological assessment of the surface of the mines. We are also seeking contribution from the applicable federal government agencies toward the cost of environmental activities associated with the mines, given their pervasive control over all aspects of the nuclear weapons program.

#### PHMSA Inspection of Carteret Terminal, Carteret, New Jersey

On April 4, 2013, the PHMSA, Office of Pipeline Safety issued a Notice of Probable Violation, Proposed Civil Penalty and Proposed Compliance Order (NOPV) arising from an inspection at the KMLT, Carteret, New Jersey location on March 15, 2011, following a release and fire that occurred during maintenance activity on March 14, 2011. On July 17, 2013, KMLT entered into a Consent Agreement and Order with the PHMSA, pursuant to which KMLT paid a penalty of \$63,100 and is required to complete ongoing pipeline integrity testing and other corrective measures by May 2015.

#### Lower Passaic River Study Area of the Diamond Alkali Superfund Site, Essex, Hudson, Bergen and Passaic Counties, New Jersey

EPEC Polymers, Inc. (EPEC Polymers) and EPEC Oil Company Liquidating Trust (EPEC Oil Trust), former El Paso entities now owned by KMI, are involved in an administrative action under CERCLA known as the Lower Passaic



River Study Area Superfund Site (Site) concerning the lower 17-mile stretch of the Passaic River. It has been alleged that EPEC Polymers and EPEC Oil Trust may be potentially responsible parties under CERCLA based on prior ownership and/or operation of properties located along the relevant section of the Passaic River. EPEC Polymers and EPEC Oil Trust entered into two Administrative Orders on Consent (AOCs) which obligate them to investigate and characterize contamination at the Site. They are also part of a joint defense group of approximately 70 cooperating parties (CPG) which have entered into AOCs and are directing and funding the work required by the EPA. Under the first AOC, a remedial investigation and feasibility study of the Site is presently estimated to be completed by 2015. Under the second AOC, the CPG members are conducting a CERCLA removal action at the Passaic River Mile 10.9, including the dredging of sediment in mud flats at this location of the river to a depth of two feet and installation of a cap. The dredging was completed in 2013 and capping work is ongoing. We have established a reserve for the anticipated cost of compliance with the AOCs.

On April 11, 2014, the EPA announced the issuance of its Focused Feasibility Study (FFS) for the lower eight miles of the Passaic River Study Area, and its proposed plan for remedial alternatives to address the dioxin sediment contamination from

the mouth of Newark Bay to River Mile 8.3. The EPA estimates the cost for the alternatives will range from \$365 million to \$3.2 billion. The EPA's preferred alternative would involve dredging the river bank-to-bank and installing an engineered cap at an estimated cost of \$1.7 billion. In its FFS, the EPA stated that it has identified over 100 industrial facilities as potentially responsible parties and it is likely that there are hundreds more private and public entities that could be named in any litigation concerning responsibility for the Site contamination.

No final remedy for this portion of the Site will be selected until the public comment and response period for the FFS is completed and the Record of Decision (ROD) is issued by EPA, which is expected in early 2015. Until the ROD is issued there is uncertainty about what remedy will be implemented and the extent of potential costs. There is also uncertainty as to the impact of the RI/FS that the CPG is currently preparing for portions of the Site. Therefore, the scope of potential EPA claims for the lower eight miles of the Passaic River is not reasonably estimable at this time.

#### Southeast Louisiana Flood Protection Litigation

On July 24, 2013, the Board of Commissioners of the Southeast Louisiana Flood Protection Authority - East (SLFPA) filed a petition for damages and injunctive relief in state district court for Orleans Parish, Louisiana (Case No. 13-6911) against TGP, SNG and approximately 100 other energy companies, alleging that defendants' drilling, dredging, pipeline and industrial operations since the 1930's have caused direct land loss and increased erosion and submergence resulting in alleged increased storm surge risk, increased flood protection costs and unspecified damages to the plaintiff. The SLFPA asserts claims for negligence, strict liability, public nuisance, private nuisance, and breach of contract. Among other relief, the petition seeks unspecified monetary damages, attorney fees, interest, and injunctive relief in the form of abatement and restoration of the alleged coastal land loss including but not limited to backfilling and re-vegetation of canals, wetlands and reef creation, land bridge construction, hydrologic restoration, shoreline protection, structural protection, and bank stabilization. On August 13, 2013, the suit was removed to the U.S. District Court for the Eastern District of Louisiana. On September 10, 2013, the SLFPA filed a motion to remand the case to the state district court for Orleans Parish. The Court denied the remand motion on June 27, 2014. Louisiana Act 544 went into effect on June 6, 2014 and specified the political entities authorized to institute litigation for environmental damage in the coastal zone. Under the Act, which was specifically made retroactive, the SLFPA is not a valid plaintiff. Defendants intend to move to dismiss the suit under the Act among other grounds.

#### Plaquemines Parish Louisiana Coastal Zone Litigation

On November 8, 2013, the Parish of Plaquemines, Louisiana filed a petition for damages in the state district court for Plaquemines Parish, Louisiana (Docket No. 60-999) against TGP and 17 other energy companies, alleging that defendants' oil and gas exploration, production and transportation operations in the Bastian Bay, Buras, Empire and Fort Jackson oil and gas fields of Plaquemines Parish caused substantial damage to the coastal waters and nearby lands (Coastal Zone) within the Parish, including the erosion of marshes and the discharge of oil waste and other pollutants which detrimentally affected the quality of state waters and plant and animal life, in violation of the State and Local Coastal Resources Management Act of 1978 (Coastal Zone Management Act). As a result of such alleged violations of the Coastal Zone Management Act, Plaquemines Parish seeks, among other relief, unspecified monetary relief, attorney fees, interest, and payment of costs necessary to restore the allegedly affected Coastal Zone to its original condition, including costs to clear, vegetate and detoxify the Coastal Zone. On December 18, 2013, defendants removed the case to the U.S. District Court for the Eastern District of Louisiana. On January 14, 2014, the plaintiff filed a motion to remand the case to state court and such motion remains pending.

#### Pennsylvania Department of Environmental Protection Notice of Alleged Violations

The Pennsylvania Department of Environmental Protection (PADEP) has notified TGP of alleged violations of certain conditions to the construction permits issued to TGP for the construction of TGP's 300 Line Project in 2011. The alleged violations arise from field inspections performed during construction by county conservation districts, as delegates of the PADEP, and generally involve the alleged failure by TGP to implement and maintain best practices to achieve sufficient erosion and sediment controls, stabilization of the right of way, and prevention of potential discharge of sediment into the waters of the commonwealth during construction and before placing the line into service. To resolve such alleged violations, the PADEP initially proposed a collective penalty of approximately \$1.5 million. TGP and the PADEP are seeking to reach a mutually agreeable resolution of the alleged notices of violations, including an agreed penalty amount.

#### General

Although it is not possible to predict the ultimate outcomes, we believe that the resolution of the environmental matters set forth in this note, and other matters to which we and our subsidiaries are a party, will not have a material adverse effect on our business, financial position, results of operations or cash flows. As of June 30, 2014 and December 31, 2013, we have accrued

a total reserve for environmental liabilities in the amount of \$353 million and \$378 million, respectively, of which \$190 million and \$208 million, respectively, are associated with KMI (excluding KMP and EPB) and primarily relate to legacy sites acquired in the May 25, 2012 EP acquisition. In addition, as of both June 30, 2014 and December 31, 2013, we have recorded a receivable of \$14 million for expected cost recoveries that have been deemed probable.

#### Other Contingencies

In conjunction with KMP's acquisition of certain natural gas pipelines from us, we agreed to indemnify KMP with respect to approximately \$5.9 billion of its debt. This includes \$5.2 billion associated with KMP's March 2013 and August 2012 purchases of natural gas assets from us. In conjunction with our EP acquisition and the May 2014 drop-down transaction to EPB (see Note 2), we have agreed to indemnify EPB with respect to \$2.1 billion of its debt. We would be obligated to perform under these indemnities only if KMP's or EPB's assets, as applicable, were unable to satisfy its obligations.

#### 11. Recent Accounting Pronouncements

##### Accounting Standards Updates - Adopted

None of the Accounting Standards Updates (ASU) that we adopted and that became effective January 1, 2014 (including ASU No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force)) had a material impact on our consolidated financial statements. More information about this ASU can be found in Note 17 "Recent Accounting Pronouncements" to our consolidated financial statements that were included in our 2013 Form 10-K.

##### ASU No. 2014-09

On May 28, 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This ASU is designed to create greater comparability for financial statement users across industries and jurisdictions. The provisions of ASU No. 2014-09 include a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the payment to which an entity expects to be entitled in exchange for those goods or services. The standard also will require enhanced disclosures, provide more comprehensive guidance for transactions such as service revenue and contract modifications, and enhance guidance for multiple-element arrangements. ASU No. 2014-09 will be effective for U.S. public companies for annual reporting periods beginning after December 15, 2016, including interim reporting periods (January 1, 2017 for us). Early adoption is not permitted. We are currently reviewing the effect of ASU No. 2014-09 on our revenue recognition.

## 12. Reconciliation of Significant Balance Sheet Accounts

The following is a reconciliation between KMP's and EPB's significant asset and liability balances as reported in KMP's and EPB's Quarterly Reports on Form 10-Q for the quarter ended June 30, 2014 and Annual Reports on Form 10-K for the year ended December 31, 2013 and our consolidated asset and liability balances as shown on our accompanying consolidated balance sheets (in millions):

	June 30, 2014	December 31, 2013
Cash and cash equivalents - KMI(a)	\$50	\$116
Cash and cash equivalents - KMP	263	404
Cash and cash equivalents - EPB	50	78
Cash and cash equivalents	\$363	\$598
Property, plant and equipment, net—KMI(a)	\$2,505	\$2,563
Property, plant and equipment, net—KMP	29,285	27,405
Property, plant and equipment, net—EPB	5,817	5,879
Property, plant and equipment, net	\$37,607	\$35,847
Goodwill—KMI(a)	\$17,910	\$17,935
Goodwill—KMP	6,721	6,547
Goodwill—EPB	22	22
Goodwill	\$24,653	\$24,504
Current portion of debt—KMI(a)	\$1,245	\$725
Current portion of debt—KMP	1,337	1,504
Current portion of debt—EPB	41	77
Current portion of debt	\$2,623	\$2,306
Long-term debt outstanding—KMI(a)	\$8,088	\$9,221
Long-term debt outstanding—KMP	19,610	18,410
Long-term debt outstanding—EPB(b)	4,750	4,179
Long-term debt outstanding	\$32,448	\$31,810

(a) Includes assets and liabilities of KMI's consolidated subsidiaries, excluding KMP and EPB.

(b) Excludes debt fair value adjustments. Decrease to long-term debt for debt fair value adjustments totaled \$8 million as of both June 30, 2014 and December 31, 2013.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

## General and Basis of Presentation

The following discussion and analysis should be read in conjunction with (i) our accompanying interim consolidated financial statements and related notes (included elsewhere in this report); (ii) our consolidated financial statements and related notes included in our 2013 Form 10-K; and (iii) our management's discussion and analysis of financial condition and results of operations included in our 2013 Form 10-K.

We prepared our consolidated financial statements in accordance with GAAP.

Critical Accounting Policies and Estimates

Accounting standards require information in financial statements about the risks and uncertainties inherent in significant estimates, and the application of GAAP involves the exercise of varying degrees of judgment. Certain amounts included in or

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affecting our consolidated financial statements and related disclosures must be estimated, requiring us to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time our financial statements are prepared. These estimates and assumptions affect the amounts we report for our assets and liabilities, our revenues and expenses during the reporting period, and our disclosure of contingent assets and liabilities at the date of our financial statements. We routinely evaluate these estimates, utilizing historical experience, consultation with experts and other methods we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates, and any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

Furthermore, with regard to goodwill impairment testing, we review our goodwill for impairment annually, and we evaluated our goodwill for impairment on May 31, 2014. Our goodwill impairment analysis performed as of that date did not result in an impairment charge nor did our analysis reflect any reporting units at risk, and subsequent to that date, no event has occurred indicating that the implied fair value of each of our reporting units is less than the carrying value of its net assets.

Further information about us and information regarding our accounting policies and estimates that we consider to be “critical” can be found in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2013 Form 10-K.

## Results of Operations

### Non-GAAP Measures

The non-GAAP, financial measures of (i) cash available to pay dividends, both in the aggregate and per share, and (ii) segment EBDA and certain items are presented below under “—Cash Available to Pay Dividends” and “—Consolidated Earnings Results,” respectively. Certain items are items that are required by GAAP to be reflected in net income, but typically either do not have a cash impact, or by their nature are separately identifiable from our normal business operations and, in our view, are likely to occur only sporadically.

We believe the GAAP measure most directly comparable to cash available to pay dividends is income from continuing operations. A reconciliation of cash available to pay dividends to income from continuing operations is provided below under “—Reconciliation of Cash Available to Pay Dividends to Income from Continuing Operation.” Our non-GAAP measures below should not be considered as an alternative to GAAP net income, operating income or any other GAAP measure. Cash available to pay dividends and segment EBDA and certain items are not financial measures in accordance with GAAP and have important limitations as analytical tools. You should not consider these non-GAAP measures in isolation or as a substitute for an analysis of our results as reported under GAAP. Our computation of cash available to pay dividends and segment EBDA and certain items may differ from similarly titled measures used by others. Management compensates for the limitations of these non-GAAP measures by reviewing our comparable GAAP measures, understanding the differences between the measures and taking this information into account in its analysis and its decision making processes.

### Cash Available to Pay Dividends

Our board of directors has adopted the dividend policy set forth in our shareholders’ agreement, which provides that, subject to applicable law, we will pay quarterly cash dividends on all classes of our capital stock equal to the cash we receive from our subsidiaries and other sources less any cash disbursements and reserves established by a majority vote of our board of directors, including for general and administrative expenses, interest and cash taxes. See a further discussion on KMI dividends below under “—Financial Condition— Cash Flows— KMI Dividends.” The calculation of our

cash available to pay dividends, and a reconciliation of this non-GAAP measure to income from continuing operations, for each of the three and six months ended June 30, 2014, and 2013 are as follows:



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## Cash Available to Pay Dividends

(In Millions, Except Per Share Amounts)

	Three Months Ended		Six Months Ended June	
	June 30, 2014	2013	30, 2014	2013
KMP distributions to us				
From ownership of general partner interest(a)	\$480	\$432	\$947	\$844
On KMP units owned by us(b)	38	36	76	72
On KMR shares owned by us(c)	24	20	46	40
Total KMP distributions to us	542	488	1,069	956
EPB distributions to us				
From ownership of general partner interest(d)	59	51	115	100
On EPB units owned by us(e)	60	57	119	113
Total EPB distributions to us	119	108	234	213
Cash generated from KMP and EPB	661	596	1,303	1,169
Cash generated from other assets(f)	58	76	158	187
Total cash generated	719	672	1,461	1,356
General and administrative expenses and other(g)	(9	) (18	) (18	) (29
Interest expense	(105	) (100	) (265	) (266
Cash available to pay dividends before taxes	605	554	1,178	1,061
Taxes(h)	(273	) (260	) (273	) (254
Cash available to pay dividends	\$332	\$294	\$905	\$807
Weighted Average Shares Outstanding for Dividends(i)	1,035	1,038	1,035	1,038
Cash Available Per Average Share Outstanding	\$0.32	\$0.28	\$0.87	\$0.78
Declared Dividend	\$0.43	\$0.40	\$0.85	\$0.78

Based on (i) KMP distributions of \$1.39 and \$2.77 per common unit declared for the three and six months ended June 30, 2014, respectively, and \$1.32 and \$2.62 per common unit declared for the three and six months ended June 30, 2013, respectively; (ii) 454 million and 381 million aggregate common units, Class B units and i-units (collectively KMP units) outstanding as of April 30, 2014 and April 29, 2013, respectively; (iii) 462 million and 433 million aggregate KMP units estimated to be outstanding as of July 31, 2014 and outstanding as of July 31, 2013, respectively; (iv) waived incentive distributions of \$33 million and \$25 million for the three months ended (a) June 30, 2014 and 2013, respectively, and \$66 million and \$29 million for the six months ended June 30, 2014 and 2013, respectively, related to certain KMP acquisitions. In addition, we as the general partner of KMP, agreed to waive a portion of our future incentive distribution amounts equal to \$33 million and \$34 million for our third and fourth quarters in 2014, respectively, \$139 million for 2015, \$116 million for 2016, \$105 million for 2017, and annual amounts thereafter decreasing by \$5 million per year from the 2017 level related to certain KMP acquisitions.

Based on 28 million KMP units estimated to be owned by us as of July 31, 2014 and owned by us as of April 30, (b)2014, July 31, 2013 and April 29, 2013, multiplied by the KMP per unit distribution declared, as outlined in footnote (a) above.

(c)

Assumes that we sold the KMR shares that we estimate to be received as distributions for the three and six months ended June 30, 2014 and received as distributions for the three and six months ended June 30, 2013, respectively. We did not sell any KMR shares in the first six months of 2014 or 2013. We intend periodically to sell the KMR shares we receive as distributions to generate cash.

Based on (i) EPB distributions of \$0.65 and \$1.30 per common unit declared for the three and six months ended June 30, 2014, respectively, and \$0.63 and \$1.25 per common unit declared for the three and six months ended (d) June 30, 2013, respectively; (ii) 219 million and 216 million common units outstanding as of April 30, 2014 and April 29, 2013, respectively; and (iii) 231 million and 218 million common units estimated to be outstanding as of July 31, 2014 and outstanding as of July 31, 2013, respectively.

Based on 93 million EPB units estimated to be owned by us as of July 31, 2014 and 90 million EPB units owned by (e) us as of April 30, 2014, July 31, 2013 and April 29, 2013, multiplied by the EPB per unit distribution declared, as outlined in footnote (d) above.

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- Represents cash available from former EP assets that remain at KMI, including our investments in Gulf LNG, Ruby and Young Gas Storage Company, Ltd for the periods presented prior to their drop-down to EPB and EPNG and El Paso midstream assets for the periods presented prior to their drop-down to KMP, and our 20% interest in Natural Gas Pipeline Company of America LLC, net of general and administrative expenses related to KMI's EP assets.
- (f) Amounts include our share of pre-tax earnings, plus depreciation, depletion and amortization, and less cash taxes and sustaining capital expenditures from equity investees.
- (g) Represents corporate general and administrative expenses, corporate sustaining capital expenditures, and other income and expense.
- Amounts were determined based on the income and expenses included in the table, other deductions related to the income included, and the effect of net operating loss carryforwards on cash available to pay dividends of \$250 million for the three and six months ended June 30, 2014 and \$150 million for the three and six months ended June 30, 2013.
- (h) Includes weighted average common stock outstanding and unvested restricted stock awards issued to management employees that contain rights to dividends.
- (i)

## Reconciliation of Cash Available to Pay Dividends to Income from Continuing Operations

(In millions)

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2014	2013	2014	2013
Income from continuing operations(a)	\$497	\$781	\$1,098	\$1,439
Depreciation, depletion and amortization(a)	502	445	998	860
Amortization of excess cost of equity investments(a)	11	9	21	18
Earnings from equity investments(a)	(100)	(93)	(199)	(194)
Distributions from equity investments	107	98	184	199
Distributions from equity investments in excess of cumulative earnings	52	41	90	78
Difference between equity investment distributable cash flow and distributions received(b)	37	32	114	82
KMP certain items(c)	28	(383)	63	(585)
KMI certain items(c)	11	17	2	1
Difference between cash available and book taxes	(120)	(60)	80	220
Difference between cash and book interest expense for KMI	30	35	10	10
Sustaining capital expenditures(d)	(128)	(92)	(209)	(152)
KMP declared distribution on its limited partner units owned by the public(e)	(580)	(515)	(1,146)	(954)
EPB declared distribution on its limited partner units owned by the public(f)	(89)	(80)	(173)	(158)
Other(g)	74	59	(28)	(57)
Cash available to pay dividends	\$332	\$294	\$905	\$807

(a) Consists of the corresponding line items in our unaudited consolidated statements of income included elsewhere in this report.

(b) Consists of the difference between cash available for distributions and the distributions received from our equity investments.

(c) Consists of certain items summarized in footnotes (b) through (h) to the “—Results of Operations” table included below and described in more detail in both our management’s discussion and analysis of segment results and “—General and Administrative, Interest, and Noncontrolling Interests,” which include the earnings impact of certain purchase

accounting basis differences in instances where KMI's carrying value may differ from that of its subsidiaries for the same asset or liability. Six month 2013 amount excludes an \$84 million KMP certain item for book taxes on the gain on sale of investments in the Express pipeline system, which is reflected in this reconciliation in the line item "Difference between cash available and book taxes."

- (d) We define sustaining capital expenditures as capital expenditures that do not expand the throughput or capacity of an asset.  
Declared distribution multiplied by limited partner units estimated to be or actually outstanding on the applicable record date less units owned by us. Includes distributions on KMR shares. KMP must generate the cash to cover the distributions on the KMR shares, but those distributions are paid in additional shares and KMP retains the cash. We do not have access to that cash.
- (e) Declared distribution multiplied by EPB limited partner units outstanding on the applicable record date less units owned by us.
- (f) Consists of items such as timing and other differences between earnings and cash, KMP's and EPB's cash flow in excess of their distributions and non-cash amortization of debt fair value adjustments. Also, three and six month 2013 amounts each include certain items of \$5 million related to EPB.
- (g)

## Consolidated Earnings Results

With regard to our reportable business segments, we consider segment earnings before all DD&A expenses, and amortization of excess cost of equity investments to be an important measure of our success in maximizing returns to our shareholders. This measure, sometimes referred to in this report as segment EBDA, is more fully defined in footnote (a) to the “—Results of Operations” table below. We also use segment EBDA internally as a measure of profit and loss used for evaluating segment performance and for deciding how to allocate resources to our six reportable business segments. EBDA may not be comparable to measures used by other companies. Additionally, EBDA should be considered in conjunction with net income and other performance measures such as operating income, income from continuing operations or operating cash flows.

## Results of Operations

	Three Months Ended June 30,		Earnings increase/(decrease)		
	2014	2013			
	(In millions, except percentages)				
Segment EBDA(a)					
Natural Gas Pipelines	\$955	\$1,424	\$(469)	) (33	)%
CO <sub>2</sub> –KMP	332	358	(26)	) (7	)%
Products Pipelines–KMP	202	12	190	1,583	%
Terminals–KMP	233	206	27	13	%
Kinder Morgan Canada–KMP	40	50	(10)	) (20	)%
Other	—	(5)	5	100	%
Total Segment EBDA(b)	1,762	2,045	(283)	) (14	)%
DD&A expense	(502)	) (445)	) (57)	) (13	)%
Amortization of excess cost of equity investments	(11)	) (9)	) (2)	) (22	)%
Other revenues	9	9	—	—	%
General and administrative expense(c)	(154)	) (183)	) 29	16	%
Interest expense, net of unallocable interest income(d)	(444)	) (428)	) (16)	) (4	)%
Income from continuing operations before unallocable income taxes	660	989	(329)	) (33	)%
Unallocable income tax expense	(163)	) (208)	) 45	22	%
Net income	497	781	(284)	) (36	)%
Net income attributable to noncontrolling interests	(213)	) (504)	) 291	58	%
Net income attributable to Kinder Morgan, Inc.	\$284	\$277	\$7	3	%

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	Six Months Ended June 30,		Earnings increase/(decrease)		
	2014	2013			
	(In millions, except percentages)				
Segment EBDA(a)					
Natural Gas Pipelines	\$2,026	\$2,323	\$(297)	(13)	)%
CO <sub>2</sub> -KMP	695	700	(5)	(1)	)%
Products Pipelines-KMP	410	197	213	108	%
Terminals-KMP	447	392	55	14	%
Kinder Morgan Canada-KMP	88	243	(155)	(64)	)%
Other	7	(1)	8	800	%
Total Segment EBDA(e)	3,673	3,854	(181)	(5)	)%
DD&A expense	(998)	(860)	(138)	(16)	)%
Amortization of excess cost of equity investments	(21)	(18)	(3)	(17)	)%
Other revenues	18	18	—	—	%
General and administrative expense(f)	(326)	(323)	(3)	(1)	)%
Interest expense, net of unallocable interest income(g)	(894)	(837)	(57)	(7)	)%
Income from continuing operations before unallocable income taxes	1,452	1,834	(382)	(21)	)%
Unallocable income tax expense	(354)	(395)	41	10	%
Income from continuing operations	1,098	1,439	(341)	(24)	)%
Loss from discontinued operations, net of tax(h)	—	(2)	2	100	%
Net income	1,098	1,437	(339)	(24)	)%
Net income attributable to noncontrolling interests	(527)	(868)	341	39	%
Net income attributable to Kinder Morgan, Inc.	\$571	\$569			