PAXSON COMMUNICATIONS CORP
Form 8-K
July 18, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 18, 2002

PAXSON COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	1-13452	59-3212788
(State or other jurisdiction of incorporation)	(Commission File Number)	IRS Employer Identification No.

601 Clearwater Park Road, West Palm Beach, FL 33401-6233

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (561) 659-4122

N/A

(Former name or former address, if changed since last report)

ITEM 5. OTHER EVENTS.

On July 18, 2002 the Registrant issued the following press release:

FOR IMMEDIATE RELEASE

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Investor Contacts:
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PAXSON COMMUNICATIONS TO RAISE $35 MILLION THROUGH DIVESTITURE OF NON-STRATEGIC TELEVISION STATION

West Palm Beach, Florida, **Paxson Communications Corporation** (AMEX-PAX) (the Company or Paxson) today announced that Univision Communications, Inc. has agreed to acquire Paxson s television station KPXF, serving Fresno, California, the nation s 55th largest market, for a cash purchase price of $35 million. The station sale, subject to regulatory approvals is expected to close by year-end. The sale price for the Fresno station represents a 340% premium over the $8.0 million Paxson paid for the station in January 1998 and reflects a 285% premium over a recent appraisal of $9.1 million for the station as of December 2001.

Commenting on the transaction, President and Chief Executive Officer Jeff Sagansky said, This transaction is the first step in our plans to raise approximately $100 million through the sale of non core assets and represents a significant step toward maintaining the strength of our liquidity. We are currently in active discussions with respect to the sale of certain other non-core television stations and, if completed, these station sales will raise an additional $65 million. The other non-core assets we plan to sell are either not broadcasting PAX TV or would not materially diminish the nationwide distribution of PAX. The Fresno station only represents approximately one half of one percent of the total distribution of the PAX TV Network and we plan to replace virtually all of the cable distribution in the market by entering into cable carriage agreements.

Also commenting on the transaction, Paxson Chief Financial Officer Tom Severson said, This transaction along with other recent television station sales completed by other broadcasters clearly demonstrates the significant value of the underlying assets of our broadcast platform. The completion of the Fresno station sale and other planned station sales will provide us the liquidity to see us well into 2004 when we expect the Company to be generating free cash flow.

Forward-Looking Statements:

This press release contains forward-looking statements, within the meaning of federal securities laws, that involve risks and uncertainties. All statements herein that address activities, events or developments that the Company expects or anticipates will or may occur in the future, including the Company s estimates of financial performance and such things as business strategy, measures to implement strategy, competitive strengths, goals, references to future success and other events are generally forward-looking statements.

The Company s actual results may differ materially from its estimates. Whether actual results, events and developments will conform with the Company s expectations is subject to a number of risks and uncertainties and important factors, many of which are beyond the control of the Company. Among the risks and uncertainties which could cause the Company s actual results to differ from those contemplated by its forward looking statements are the risk that the Company may not be able to successfully develop its television operations to the point where these operations generate sufficient cash flow to enable the Company to meet its financial obligations, including the financial covenants under its senior credit facility; the effects of government regulations and changes in the laws affecting the Company s business; industry and economic conditions; and the risks and uncertainties contained in the Company s periodic reports filed with the Securities and Exchange Commission. Consequently, all forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that the results, events or developments referenced herein will occur or be realized.

About Paxson Communications Corporation:

Paxson Communications Corporation owns and operates the nation s largest broadcast television station group and PAX TV, the newest broadcast television network that launched in August of 1998. PAX TV reaches 87% of U.S. television households via nationwide broadcast

television, cable and satellite distribution systems. Paxson owns and operates 65 stations (including three stations operated under time brokerage agreements). PAX TV s new fall 2002 primetime lineup includes It s A Miracle, Candid Camera and Doc, starring recording artist Billy Ray Cyrus and will premiere additional original series including, Body & Soul, starring Peter Strauss, Just Cause starring Richard Thomas and Elizabeth Lackey, and Sue Thomas: F.B.Eye, a new series by the producers of Doc. For more information, visit PAX TV s website at www.pax.tv.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PAXSON COMMUNICATIONS CORPORATION
(Registrant)

By: /s/ Thomas E. Severson

Thomas E. Severson
Senior Vice President
Chief Financial Officer and Treasurer

Date: July 18, 2002

sequent to September 30, 2010

Allied Concrete Bulk Terminal Assets

On October 1, 2010, KMP acquired certain bulk terminal assets and real property located in Chesapeake, Virginia, from Allied Concrete Products, LLC and Southern Concrete Products, LLC for an aggregate consideration of $8.6 million, consisting of $8.1 million in cash and an assumed environmental liability of $0.5 million. The acquired terminal facility is situated on 42 acres of land and can handle approximately 250,000 tons of material annually, including pumice, aggregates and sand. The acquisition complements the bulk commodity handling operations at KMP's nearby Elizabeth River terminal, also located in Chesapeake, and all of the acquired assets will be included in the Terminals KMP business segment.

Chevron Refined Products Terminal Assets

On October 8, 2010, KMP acquired four separate refined petroleum products terminals from Chevron U.S.A. Inc. for an aggregate consideration of approximately $40 million, including inclusion capital. Combined, the terminals have storage capacity of approximately 650,000 barrels for gasoline, diesel fuel and jet fuel. Chevron has entered into long-term contracts with KMP to terminal product at the terminals. The acquisition complements and expands KMP's existing refined petroleum products assets, and all of the acquired assets will be included in the Products Pipelines KMP business segment. KMP's subsidiary Kinder Morgan Southeast Terminals LLC acquired terminal facilities located in Chattanooga, Tennessee and Columbus, Georgia, and both of these terminals will be included in the Southeast terminal operations. KMP's subsidiary SFPP, L.P. acquired terminals located in Tucson and Phoenix, Arizona, and each of these two terminals will be included in the Pacific

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Investments, Acquisitions, Joint Ventures and Divestitures (Continued)

operations. In the fourth quarter of 2010, KMP expects to measure the identifiable tangible assets acquired and liabilities assumed at fair value on the acquisition date.

Joint Ventures

Eagle Ford Gathering LLC

On May 14, 2010, KMP and Copano Energy, L.L.C. entered into formal agreements for a joint venture to provide natural gas gathering, transportation and processing services to natural gas producers in the Eagle Ford Shale formation in south Texas. The joint venture is named Eagle Ford Gathering LLC, and KMP owns 50% of the equity in the project (a 50% member interest in Eagle Ford Gathering LLC), and Copano owns the remaining 50% interest. Copano serves as operator and managing member of Eagle Ford Gathering LLC. KMP and Copano have committed approximately 375 million cubic feet per day of natural gas capacity to the joint venture through 2024 for both transportation on KMP's natural gas pipeline that extends from Laredo to Katy, Texas, and for processing at Copano's natural gas processing plant located in Colorado County, Texas.

On July 6, 2010, Eagle Ford Gathering LLC announced the execution of a definitive long-term, fee-based gas services agreement with SM Energy Company. According to the provisions of the agreement, SM Energy will commit Eagle Ford production from its assets located in LaSalle, Dimmitt, and Webb Counties, Texas up to a maximum level of 200 million cubic feet per day over a ten year term. In addition, Eagle Ford Gathering LLC will construct approximately 85 miles of 24-inch and 30-inch diameter pipeline to serve SM Energy's acreage in the western Eagle Ford Shale formation and to connect it to KMP's Freer compressor station located in Duval County, Texas, and will construct 25 miles of 24-inch and 30-inch diameter pipeline to access additional acreage. The pipeline is expected to begin service during the summer of 2011.

Combined, KMP and Copano will invest approximately $175 million for the expanded project. Eagle Ford Gathering LLC is evaluating several opportunities to expand its ability to offer producers in the Eagle Ford Shale play additional midstream services. As of September 30, 2010, KMP's capital contributions (and net equity investment) in Eagle Ford Gathering LLC totaled $9.5 million.

Midcontinent Express Pipeline LLC

On May 26, 2010, Energy Transfer Partners, L.P. transferred to Regency Energy Partners LP (i) a 49.9% ownership interest in Midcontinent Express Pipeline LLC and (ii) a one-time right to purchase its remaining 0.1% ownership interest in Midcontinent Express Pipeline LLC on May 26, 2011. As a result of this transfer, Energy Transfer Partners, L.P. now owns a 0.1% ownership interest in Midcontinent Express Pipeline LLC. KMP's subsidiary, Kinder Morgan Operating L.P. "A," continues to own the remaining 50% ownership interest in Midcontinent Express Pipeline LLC, and since there was no change in KMP's ownership interest, it did not record any equity method adjustments as a result of the ownership change between Regency Energy Partners LP and Energy Transfer Partners, L.P.

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Investments, Acquisitions, Joint Ventures and Divestitures (Continued)

Divestitures Subsequent to September 30, 2010

Triton Power

Effective October 22, 2010, KMI sold its ownership interest in Triton Power, a 550-megawatt natural gas-fired electricity generation facility in Michigan, for approximately $14.8 million in cash.

Cypress Pipeline

Effective October 1, 2010, Westlake Petrochemicals LLC, a wholly-owned subsidiary of Westlake Chemical Corporation, exercised an option it held to purchase a 50% ownership interest in KMP's Cypress Pipeline. Accordingly, KMP sold a 50% interest in its subsidiary, Cypress Interstate Pipeline LLC, to Westlake and KMP received proceeds of $10.2 million. At the time of the sale, the carrying value of the net assets of Cypress Interstate Pipeline LLC totaled $20.4 million and consisted mostly of property, plant and equipment. In the fourth quarter of 2010, KMP expects to recognize an approximate $8.5 million gain from this sale, with the entire amount related to the remeasurement of KMP's retained investment to its fair value. Due to the loss of control of Cypress Interstate Pipeline LLC, KMP now accounts for its retained investment under the equity method of accounting and recognizes the retained investment at its fair value. KMP's gain amount represents the excess of the fair value of its retained investment ($18.7 million) over its carrying value ($10.2 million).

3. Intangibles

Goodwill

We evaluate goodwill for impairment on May 31 of each year. For this purpose, we have six reporting units as follows: (i) Products Pipelines KMP (excluding associated terminals), (ii) Products Pipelines Terminals KMP (evaluated separately from Products Pipelines KMP for goodwill purposes), (iii) Natural Gas Pipelines KMP, (iv) CO_2 KMP, (v) Terminals KMP and (vi) Kinder Morgan Canada KMP.

There were no impairment charges resulting from our May 31, 2010 impairment testing, and no event indicating an impairment has occurred subsequent to that date. The fair value of each reporting unit was determined from the present value of the expected future cash flows from the applicable reporting unit (inclusive of a terminal value calculated using market multiples between six and ten times cash flows) discounted at a rate of 9.0%. The value of each reporting unit was determined on a stand-alone basis from the perspective of a market participant and represented the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date.

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Intangibles (Continued)

Changes in the gross amounts of our goodwill and accumulated impairment losses for the nine months ended September 30, 2010 are summarized as follows (in millions):

	Products Pipelines KMP	Natural Gas Pipelines KMP	CO_2 KMP	Terminals KMP	Kinder Morgan Canada KMP	Total
Historical Goodwill	$ 2,116.5	$ 3,488.0	$ 1,521.7	$ 1,415.4	$ 613.1	$ 9,154.7
Accumulated impairment losses	(1,266.5)	(2,090.2)		(676.6)	(377.1)	(4,410.4)
Balance as of December 31, 2009	850.0	1,397.8	1,521.7	738.8	236.0	4,744.3
Acquisitions				71.9		71.9
Disposals						
Currency translation adjustments					5.0	5.0
Balance as of September 30, 2010	$ 850.0	$ 1,397.8	$ 1,521.7	$ 810.7	$ 241.0	$ 4,821.2

In addition, we identify any premium or excess cost we pay over our proportionate share of the underlying fair value of net assets acquired and accounted for as investments under the equity method of accounting. This premium or excess cost is referred to as equity method goodwill and is also not subject to amortization but rather to impairment testing. For all investments we own containing equity method goodwill, no event or change in circumstances that may have a significant adverse effect on the fair value of our equity investments has occurred during the first nine months of 2010, and as of September 30, 2010 and December 31, 2009, we reported $283.0 million and $138.2 million, respectively, in equity method goodwill within the caption "Investments" in our accompanying consolidated balance sheets. The increase in our equity method goodwill since December 31, 2009 was due to the goodwill included in the purchase of KMP's 50% ownership interest in KinderHawk Field Services, LLC, discussed in Note 2.

Other Intangibles

Excluding goodwill, our other intangible assets include customer relationships, contracts and agreements, technology-based assets and lease value. These intangible assets have definite lives and are

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Intangibles (Continued)

reported separately as "Other intangibles, net" in our accompanying consolidated balance sheets. Following is information related to our intangible assets subject to amortization (in millions):

	September 30, 2010	December 31, 2009
Customer relationships, contracts and agreements		
Gross carrying amount	$ 420.0	$ 297.9
Accumulated amortization	(87.4)	(50.9)
Net carrying amount	332.6	247.0
Technology-based assets, lease value and other		
Gross carrying amount	16.3	14.1
Accumulated amortization	(1.8)	(1.3)
Net carrying amount	14.5	12.8
Total other intangibles, net	$ 347.1	$ 259.8

The increase in the carrying amount of the customer relationships, contracts and agreements since December 31, 2009 was mainly due to the acquisition of intangibles included in KMP's purchase of terminal assets from US Development Group LLC and Slay Industries, discussed in Note 2.

We amortize the costs of our intangible assets to expense in a systematic and rational manner over their estimated useful lives. Among the factors we weigh, depending on the nature of the asset, are the effects of obsolescence, new technology, and competition. For the nine months ended September 30, 2010 and 2009, the amortization expense on our intangibles totaled $37.0 million and $14.1 million, respectively. As of September 30, 2010, the weighted average amortization period for our intangible assets was approximately 12 years, and our estimated amortization expense for these assets for each of the next five fiscal years (2011 - 2015) is approximately $43.3 million, $37.9 million, $34.0 million, $30.7 million and $27.8 million, respectively.

4. 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.

The net carrying amount of our debt (including both short-term and long-term amounts and excluding the value of interest rate swap agreements and the preferred interest in the general partner of KMP) as of September 30, 2010 and December 31, 2009 was $14,760.2 million and $13,548.4 million, respectively.

Our outstanding short-term debt as of September 30, 2010 was $2,454.0 million. The balance consisted of (i) $293.3 million in outstanding borrowings under KMI's senior secured credit facility, (ii) $750.0 million in principal amount of KMI.'s 5.35% series senior notes due January 5, 2011 (including discount and purchase accounting adjustments, the notes had a carrying amount of $749.0 million as of September 30, 2010), (iii) $700.0 million in principal amount of KMP's 6.75%

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Debt (Continued)

senior notes due March 15, 2011 (including discount and purchase accounting adjustments, the notes had a carrying amount of $701.6 million as of September 30, 2010), (iv) $414.8 million of KMP's commercial paper borrowings, (v) $250.0 million in principal amount of KMP's 7.50% senior notes paid on November 1, 2010 (including discount and purchase accounting adjustments, the notes had a carrying amount of $250.2 million as of September 30, 2010), (vi) $23.7 million in principal amount of tax-exempt bonds that mature on April 1, 2024, but are due on demand pursuant to certain standby purchase agreement provisions contained in the bond indenture (KMP's subsidiary Kinder Morgan Operating L.P. "B" is the obligor on the bonds), (vii) a $9.2 million portion of a 5.40% long-term note payable (KMP's subsidiaries Kinder Morgan Operating L.P. "A" and Kinder Morgan Canada Company are the obligors on the note), (viii) a $7.2 million portion of 5.23% long-term senior notes (KMP's subsidiary Kinder Morgan Texas Pipeline, L.P. is the obligor on the notes) and (ix) $5.0 million in principal amount of 6.00% Development Revenue Bonds due January 1, 2011 and issued by the Louisiana Community Development Authority, a political subdivision of the state of Louisiana (KMP's subsidiary Kinder Morgan Louisiana Pipeline LLC is the obligor on the bonds).

Credit Facilities

	September 30, 2010	
	Short-term notes payable	Weighted average interest rate
	(Dollars in millions)	
KMI Secured debt(a)	$ 293.3	1.51%
KMP Unsecured debt(b)		
Commercial paper	$ 414.8	0.66%

(a) The average short-term debt outstanding (and related weighted average interest rate) was $188.5 million (1.77%) during the nine months ended September 30, 2010.

(b) The average short-term debt outstanding (and related weighted average interest rate) was $527.7 million (0.76%) during the nine months ended September 30, 2010.

As of September 30, 2010, the amount available for borrowing under the KMI $1.0 billion six-year senior secured credit facility was reduced by a combined amount of $370.7 million consisting of $293.3 million in borrowings under its credit facility and $77.4 million of letters of credit consisting of: (i) a combined $40.8 million in four letters of credit required under provisions of KMI's property and casualty, workers' compensation and general liability insurance policies, (ii) a combined total of $20.4 million in two letters of credit supporting the operation and lease payments of the Jackson, Michigan power generation facility (this facility was sold on October 22, 2010; see Note 2)and (iii) a $16.2 million letter of credit to fund the debt service reserve account required under KMP's Express pipeline system's trust indenture.

As of December 31, 2009, there were $171.0 million in borrowings under KMI.'s credit facility and the weighted average interest on these borrowings was 1.61%. The KMI credit facility matures on May 30, 2013 and includes a sublimit of $300 million for the issuance of letters of credit and a sublimit of $50 million for swingline loans. KMI does not have a commercial paper program.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Debt (Continued)

On June 23, 2010, KMP successfully renegotiated its previous $1.79 billion five-year unsecured revolving bank credit facility that was due August 18, 2010, replacing it with a new $2.0 billion three-year, senior unsecured revolving credit facility that expires June 23, 2013. Similar to its previous facility, KMP's $2.0 billion credit facility is with a syndicate of financial institutions, and the facility permits KMP to obtain bids for fixed rate loans from members of the lending syndicate. Wells Fargo Bank, National Association is the administrative agent, and borrowings under the credit facility can be used for general partnership purposes and as a backup for KMP's commercial paper program.

The covenants of this credit facility are substantially similar to the covenants of KMP's previous facility. Interest on KMP's credit facility accrues at its option at a floating rate equal to either (i) the administrative agent's base rate (but not less than the Federal Funds Rate, plus 0.5%), or (ii) LIBOR, plus a margin, which varies depending upon the credit rating of its long-term senior unsecured debt. The credit facility can be amended to allow for borrowings of up to $2.3 billion.

KMP had no borrowings under its $2.0 billion, senior unsecured revolving credit facility as of September 30, 2010, although the amount available for borrowing under its credit facility was reduced as further discussed below. As of December 31, 2009, the outstanding balance under KMP's previous $1.79 billion credit facility was $300 million, and the weighted average interest rate on those borrowings was 0.59%.

As of September 30, 2010, the amount available for borrowing under KMP's credit facility was reduced by a combined amount of $636.9 million, consisting of $414.8 million of commercial paper borrowings and $222.1 million of letters of credit, consisting of: (i) a $100.0 million letter of credit that supports certain proceedings with the California Public Utilities Commission involving refined products tariff charges on the intrastate common carrier operations of KMP's Pacific operations' pipelines in the state of California, (ii) a combined $89.4 million in three letters of credit that support tax-exempt bonds, (iii) a $16.1 million letter of credit that supports KMP's indemnification obligations on the Series D note borrowings of Cortez Capital Corporation and (iv) a combined $16.6 million in other letters of credit supporting other obligations of KMP and its subsidiaries.

KMP's Commercial Paper Program

KMP's commercial paper program provides for the issuance of $2 billion of commercial paper. On October 13, 2008, Standard & Poor's Ratings Services lowered KMP's short-term credit rating to A-3 from A-2, and on May 6, 2009, Moody's Investors Service, Inc. downgraded KMP's commercial paper rating to Prime-3 from Prime-2 and assigned a negative outlook to KMP's long-term credit rating. As a result of these revisions and the commercial paper market conditions, KMP was unable to access commercial paper borrowings throughout 2009.

However, on February 25, 2010, Standard & Poor's revised its outlook on KMP's long-term credit rating to stable from negative, affirmed KMP's long-term credit rating at BBB, and raised KMP's short-term credit rating to A-2 from A-3. The rating agency's revisions reflected its expectations that KMP's financial profile will improve due to lower guaranteed debt obligations and higher expected cash flows associated with the completion and start-up of KMP's 50%-owned Rockies Express and Midcontinent Express natural gas pipeline systems and its fully-owned Kinder Morgan Louisiana natural gas pipeline system. Due to this favorable change in KMP's short-term credit rating it resumed

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Debt (Continued)

issuing commercial paper in March 2010. In the near term, KMP expects that its short-term liquidity and financing needs will be met through a combination of borrowings made under its bank credit facility and commercial paper program.

Long-term Debt

Senior Notes

On May 19, 2010, KMP completed a public offering of senior notes. KMP issued a total of $1 billion in principal amount of senior notes in two separate series, consisting of $600 million of 5.30% notes due September 15, 2020, and $400 million of 6.55% notes due September 15, 2040. KMP received proceeds from the issuance of the notes, after underwriting discounts and commissions, of $993.1 million, and it used the proceeds to reduce the borrowings under its commercial paper program and its bank credit facility.

K N Capital Trust I and K N Capital Trust III

As a result of the implementation of Accounting Standards Update (ASU) No. 2009-17, effective January 1, 2010, we (i) include the transactions and balances of KMI's business trusts, K N Capital Trust I and K N Capital Trust III, including $27.1 million of long-term debt at September 30, 2010 in our accompanying consolidated financial statements and (ii) no longer include KMI's Junior Subordinated Deferrable Interest Debentures issued to the Capital Trusts, which balance was $35.7 million reported under the heading "Long-term Debt Outstanding" in our accompanying consolidated balance sheet at December 31, 2009. Also, see Note 13 "Recent Accounting Pronouncements Accounting Standards Updates."

Interest Rate Swaps

Information on interest rate swaps is contained in Note 6, "Risk Management Interest Rate Risk Management."

Contingent Debt

The following contingent debt disclosures pertain to certain types of guarantees or indemnifications KMP has made and cover certain types of guarantees included within debt agreements, even if the likelihood of requiring its performance under such guarantee is remote. Most of these agreements are with entities that are not consolidated in our financial statements; however, KMP has invested in and holds equity ownership interests in these entities.

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(Unaudited)

4. Debt (Continued)

As of September 30, 2010, KMP's contingent debt obligations with respect to these investments, as well as its obligations with respect to related letters of credit, are summarized below (dollars in millions):

Entity	KMP's Ownership Interest	Investment Type	Total Entity Debt	KMP's Contingent Share of Entity Debt(a)
Fayetteville Express Pipeline LLC(b)	50%	Limited Liability	$ 847.0(c)	$ 423.5
Cortez Pipeline Company(d)	50%	General Partner	$ 141.1(e)	$ 86.7(f)
Midcontinent Express Pipeline LLC(g)	50%	Limited Liability	$ 881.2(h)	$ 41.1(i)
Nassau County, Florida Ocean Highway and Port Authority(j)	N/A	N/A	N/A	$ 19.8(k)

(a) Represents the portion of the entity's debt that KMP may be responsible for if the entity cannot satisfy its obligations.

(b) Fayetteville Express Pipeline LLC is a limited liability company and the owner of the Fayetteville Express natural gas pipeline system. The remaining limited liability company member interest in Fayetteville Express Pipeline LLC is owned by Energy Transfer Partners, L.P.

(c) Amount represents borrowings under a $1.1 billion, unsecured revolving bank credit facility that is due May 11, 2012.

(d) Cortez Pipeline Company is a Texas general partnership that owns and operates a common carrier carbon dioxide pipeline system. The remaining general partner interests are owned by ExxonMobil Cortez Pipeline, Inc., an indirect wholly-owned subsidiary of Exxon Mobil Corporation and Cortez Vickers Pipeline Company, an indirect subsidiary of M.E. Zuckerman Energy Investors Incorporated.

(e) Amount consists of (i) $32.1 million of fixed rate Series D notes due May 15, 2013 (interest on the Series D notes is paid annually and based on an average interest rate of 7.14% per annum), (ii) $100 million of variable rate Series E notes due December 11, 2012 (interest on the Series E notes is paid quarterly and based on an interest rate of three-month LIBOR plus a spread) and (iii) $9.0 million of outstanding borrowings under a $40 million committed revolving bank credit facility that is also due December 11, 2012.

(f) KMP is severally liable for its percentage ownership share (50%) of the Cortez Pipeline Company debt ($70.6 million). In addition, as of September 30, 2010, Shell Oil Company shares KMP's several guaranty obligations jointly and severally for $32.1 million of Cortez's debt balance related to the Series D notes; however, KMP is obligated to indemnify Shell for the liabilities it incurs in connection with such guaranty. Accordingly, as of September 30, 2010, KMP has a letter of credit in the amount of $16.1 million issued by JP Morgan Chase, in order to secure KMP's indemnification obligations to Shell for 50% of the Cortez debt balance of $32.1 million related to the Series D notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Debt (Continued)

Further, pursuant to a Throughput and Deficiency Agreement, the partners of Cortez Pipeline Company are required to contribute capital to Cortez in the event of a cash deficiency. The agreement contractually supports the financings of Cortez Capital Corporation, a wholly-owned subsidiary of Cortez Pipeline Company, by obligating the partners of Cortez Pipeline to fund cash deficiencies at Cortez Pipeline, including anticipated deficiencies and cash deficiencies relating to the repayment of principal and interest on the debt of Cortez Capital Corporation. The partners' respective parent or other companies further severally guarantee the obligations of the Cortez Pipeline owners under this agreement.

(g)

Midcontinent Express Pipeline LLC is a limited liability company and the owner of the Midcontinent Express natural gas pipeline system. The remaining limited liability company member interests in Midcontinent Express Pipeline LLC are owned by Regency Energy Partners, L.P. and Energy Transfer Partners, L.P.

(h)

Amount consists of (i) outstanding borrowings of $82.2 million under a $175.4 million, unsecured revolving bank credit facility that is due February 28, 2011 and (ii) an aggregate carrying value of $799.0 million in fixed rate senior notes issued by Midcontinent Express Pipeline LLC in a private offering in September 2009. All payments of principal and interest in respect of these senior notes are the sole obligation of Midcontinent Express. Noteholders have no recourse against KMP or the other member owners of Midcontinent Express Pipeline LLC for any failure by Midcontinent Express to perform or comply with its obligations pursuant to the notes or the indenture.

(i)

In addition to KMP's contingent share of entity debt ($41.1 million), there is a letter of credit outstanding to support the construction of the Midcontinent Express natural gas pipeline system. As of September 30, 2010, this letter of credit, issued by the Bank of Tokyo-Mitsubishi UFJ, Ltd., had a face amount of $33.3 million. KMP's contingent responsibility with regard to this outstanding letter of credit was $16.7 million (50% of total face amount).

(j)

Arose from KMP's Vopak terminal acquisition in July 2001. Nassau County, Florida Ocean Highway and Port Authority is a political subdivision of the state of Florida.

(k)

KMP has posted a letter of credit as security for borrowings under Adjustable Demand Revenue Bonds issued by the Nassau County, Florida Ocean Highway and Port Authority. The bonds were issued for the purpose of constructing certain port improvements located in Fernandino Beach, Nassau County, Florida. KMP's subsidiary, Nassau Terminals LLC is the operator of the marine port facilities. The bond indenture is for 30 years and allows the bonds to remain outstanding until December 1, 2020. Principal payments on the bonds are made on the first of December each year, and corresponding reductions are made to the letter of credit. As of September 30, 2010, this letter of credit had a face amount of $19.8 million.

KMP also holds a 50% equity ownership interest in Rockies Express Pipeline LLC, a limited liability company and the owner of the Rockies Express natural gas pipeline system. Subsidiaries of Sempra Energy and ConocoPhillips own the remaining member interests, and pursuant to certain guaranty agreements remaining in effect on December 31, 2009, all three member owners of Rockies Express Pipeline LLC had agreed to guarantee, severally in the same proportion as their percentage ownership of the member interests in Rockies Express Pipeline LLC, borrowings under its $2.0 billion five-year, unsecured revolving bank credit facility that is due April 28, 2011. On April 8, 2010, Rockies

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Debt (Continued)

Express Pipeline LLC amended its bank credit facility to allow for borrowings up to $200 million (a reduction from $2.0 billion), and on this same date, each of its three member owners were released from their respective debt obligations under the previous guaranty agreements. Accordingly, KMP no longer has a contingent debt obligation with respect to Rockies Express Pipeline LLC.

For additional information regarding our subsidiaries' debt facilities and contingent debt agreements, see Note 8 "Debt" and Note 12 "Commitments and Contingent Liabilities" in our audited December 31, 2009 consolidated financial statements and related notes.

Kinder Morgan G.P., Inc. Preferred Shares

On October 20, 2010, Kinder Morgan G.P., Inc.'s board of directors declared a quarterly cash distribution on its Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock of $20.825 per share payable on November 18, 2010 to shareholders of record as of October 29, 2010. On July 21, 2010, Kinder Morgan G.P., Inc.'s board of directors declared a quarterly cash distribution on its Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock of $20.825 per share paid on August 18, 2010 to shareholders of record as of July 30, 2010. On April 21, 2010, Kinder Morgan G.P., Inc.'s board of directors declared a quarterly cash distribution on its Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock of $20.825 per share paid on May 18, 2010 to shareholders of record as of April 30, 2010.

5. Members' Equity

During the first nine months of both 2010 and 2009, there were no material changes in our ownership interests in subsidiaries, in which we retained a controlling financial interest.

Our Board of Managers declared a distribution to the holders of the Class A units of $200.0 million on October 20, 2010 that was paid on November 15, 2010. On August 16, 2010, May 17, 2010 and February 16, 2010, we made distributions to the holders of the Class A units of $175.0 million, $175.0 million and $150.0 million, respectively.

The following tables set forth (i) changes in the carrying amounts of our Members' Equity attributable to both us and our noncontrolling interests, including our comprehensive income (loss) and

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Members' Equity (Continued)

(ii) associated tax amounts included in the respective components of other comprehensive income (loss) (in millions):

	Nine Months Ended September 30,					
	2010			2009		
	Kinder Morgan Holdco LLC	Noncontrolling interests	Total	Kinder Morgan Holdco LLC	Noncontrolling interests	Total
Beginning Balance	$ 4,170.5	$ 4,674.6	$ 8,845.1	$ 4,404.3	$ 4,072.6	$ 8,476.9
Impact from equity transactions of KMP	(31.2)	48.7	17.5	19.3	(30.2)	(10.9)
A-1 and B unit amortization	4.8		4.8	5.7		5.7
Distributions to noncontrolling interests		(622.4)	(622.4)		(550.8)	(550.8)
Contributions from noncontrolling interests		718.3	718.3		820.2	820.2
Implementation of Accounting Standards Update 2009-17(a)		(45.9)	(45.9)			
Distributions to Members	(500.0)		(500.0)	(300.0)		(300.0)
Other		0.2	0.2		2.6	2.6
Comprehensive income						
Net income (loss)	(104.3)	237.3	133.0	367.9	215.5	583.4
Other comprehensive income (loss), net of tax						
Change in fair value of derivatives utilized for hedging purposes	33.5	38.4	71.9	(76.3)	(110.7)	(187.0)
Reclassification of change in fair value of derivatives to net income	13.0	61.4	74.4	(42.0)	14.2	(27.8)
Foreign currency translation adjustments	17.6	16.5	34.1	41.3	89.9	131.2
Adjustments to pension and other postretirement benefit plan liabilities	(0.7)	(1.0)	(1.7)	(0.8)	(1.1)	(1.9)
Total other comprehensive income (loss)	63.4	115.3	178.7	(77.8)	(7.7)	(85.5)
Total comprehensive income (loss)	(40.9)	352.6	311.7	290.1	207.8	497.9
Ending Balance	$ 3,603.2	$ 5,126.1	$ 8,729.3	$ 4,419.4	$ 4,522.2	$ 8,941.6
Tax (Expense) Benefit Included in Other Comprehensive Income (Loss):						
Change in fair value of derivatives utilized for hedging purposes	$ (25.4)	$ (4.2)	$ (29.6)	$ 47.2	$ 11.5	$ 58.7
Reclassification of change in fair value of derivatives to net income	(10.9)	(6.7)	(17.6)	26.2	(1.5)	24.7
Foreign currency translation adjustments	(12.2)	(1.8)	(14.0)	(40.4)	(9.3)	(49.7)
Adjustments to pension and other postretirement benefit plan liabilities	0.5	0.1	0.6	0.5	0.1	0.6
Tax included in total other comprehensive income (loss)	$ (48.0)	$ (12.6)	$ (60.6)	$ 33.5	$ 0.8	$ 34.3

(a) Upon the adoption of Accounting Standards Update No. 2009-17, which amended the codification's "Consolidation" topic, on January 1, 2010, Triton Power Company LLC is no longer consolidated into our financial statements, but is treated as an equity investment (see Note 13). October 22, 2010, KMI sold Triton Power (see Note 2).

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Members' Equity (Continued)

Noncontrolling Interests

The caption "Noncontrolling interests" in our accompanying consolidated balance sheets consists of interests in the following subsidiaries (in millions):

	September 30, 2010	December 31, 2009
KMP	$ 3,176.7	$ 2,746.4
KMR	1,939.9	1,870.7
Triton Power Company LLC(a)		45.9
Other	9.5	11.6
	$ 5,126.1	$ 4,674.6

(a) Upon the adoption of Accounting Standards Update No. 2009-17, which amended the codification's "Consolidation" topic, on January 1, 2010, Triton Power Company LLC is no longer consolidated into our financial statements, but is treated as an equity investment (see Note 13). On October 22, 2010, KMI sold Triton Power (see Note 2).

KMP's Common Units

On January 15, 2010, KMP issued 1,287,287 common units as part of its purchase price for the ethanol handling terminal assets it acquired from US Development Group LLC. KMP valued the common units at $81.7 million, determining the units' value based on the $63.45 closing market price of the common units on the New York Stock Exchange on the January 15, 2010 acquisition date. For more information on this acquisition, see Note 2 "Investments, Acquisitions, Joint Ventures and Divestitures Acquisitions USD Terminal Acquisition."

On May 7, 2010, KMP issued, in a public offering, 6,500,000 of its common units at a price of $66.25 per unit, less commissions and underwriting expenses. After commissions and underwriting expenses, KMP received net proceeds of $417.4 million for the issuance of these 6,500,000 common units, and KMP used the proceeds to reduce the borrowings under its commercial paper program and its bank credit facility.

On July 2, 2010, KMP completed an offering of 1,167,315 of its common units at a price of $64.25 per unit in a privately negotiated transaction. KMP received net proceeds of $75.0 million for the issuance of these 1,167,315 common units, and used the proceeds to reduce the borrowings under its commercial paper program and its bank credit facility.

During the nine months ended September 30, 2010, KMP issued 2,142,050 of its common units pursuant to its equity distribution agreement with UBS Securities LLC (UBS). After commissions of $1.1 million, KMP received net proceeds from the issuance of these common units of $144.2 million. KMP used the proceeds to reduce the borrowings under its commercial paper program and its bank credit facility. For additional information regarding KMP's equity distribution agreement, see Note 10 in our audited December 31, 2009 consolidated financial statements and related notes.

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Members' Equity (Continued)

The above equity issuances during the nine months ended September 30, 2010 had the associated effects of increasing our (i) noncontrolling interests associated with KMP by $688.1 million (ii) accumulated deferred income taxes by $10.9 million and (iii) Members' capital by $19.3 million.

KMP Equity Issuances Subsequent to September 30, 2010

In October 2010, KMP issued 178,654 of its common units for the settlement of sales made on or before September 30, 2010 pursuant to its equity distribution agreement. After commissions of $0.1 million, KMP received net proceeds of $12.1 million for the issuance of these 178,654 common units, and used the proceeds to reduce the borrowings under its commercial paper program and its bank credit facility.

KMP Distributions

Contributions to our noncontrolling interests consist primarily of distributions by KMP to its common unit holders. On February 12, 2010, KMP paid a quarterly distribution of $1.05 per common unit for the fourth quarter of 2009, of which $200.5 million was paid to the public holders of KMP's common units. On May 14, 2010, KMP paid a quarterly distribution of $1.07 per common unit for the first quarter of 2010, of which $204.3 million was paid to the public holders of KMP's common units. On August 13, 2010, KMP paid a quarterly distribution of $1.09 per common unit for the second quarter of 2010, of which $216.8 million was paid to the public holders of KMP's common units.

KMP Declared Distributions Subsequent to September 30, 2010

On October 20, 2010, KMP declared a cash distribution of $1.11 per unit for the quarterly period ended September 30, 2010. The distribution was paid on November 12, 2010, to unitholders of record as of October 29, 2010.

KMR's Share Distributions

Under the terms of KMR's limited liability company agreement, except in connection with its liquidation, KMR does not pay distributions on its shares in cash but instead makes distributions on its shares in additional shares or fractions of shares. At the same time KMP makes a distribution on its common units and i-units, KMR distributes on each of its shares that fraction of a share determined by dividing the amount of the cash distribution to be made by KMP on each common unit by the average closing market price of a share determined for the ten-trading day period ending on the trading day

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Members' Equity (Continued)

immediately prior to the ex-dividend date for KMR's shares. The following table presents share distributions KMR has paid in 2010.

	Share Distributions		
	Shares Distributed Per Outstanding Share	Equivalent Distribution Value Per Share(a)	Total Number of Additional Shares Distributed
	2010	2010	2010
Distribution Date			
February 12, 2010	0.018430	$ 1.05	1,576,470
May 14, 2010	0.017863	$ 1.07	1,556,130
August 13, 2010	0.018336	$ 1.09	1,625,869

(a) The cash distribution paid to each common unit of KMP during the quarter indicated and is used to calculate KMR's distribution of shares as discussed above. Because of this calculation, the market value of the shares distributed on the date of distribution may be less or more than the cash distribution per common unit of KMP.

On November 12, 2010, KMR paid a share distribution of 0.017844 shares per outstanding share (1,611,255 total shares) to shareholders of record as of October 29, 2010. This distribution was determined by dividing:

$1.11, the cash amount distributed per KMP common unit

by

$62.207, the average of KMR's shares' closing market prices from October 13-26, 2010, the ten consecutive trading days preceding the date on which KMR's shares began to trade ex-dividend under the rules of the New York Stock Exchange.

6. Risk Management

Certain of our business activities expose us to risks associated with unfavorable changes in the market price of natural gas, natural gas liquids 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.

Energy Commodity Price Risk Management

We are exposed to risks associated with changes in the market price of natural gas, natural gas liquids and crude oil as a result of the forecasted purchase or sale of these products. Specifically, these risks are primarily associated with price volatility related to (i) pre-existing or anticipated physical natural gas, natural gas liquids and crude oil sales, (ii) natural gas purchases and (iii) natural gas system use and storage. Price changes are often caused by shifts in the supply and demand for these commodities, as well as their locations.

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Risk Management (Continued)

Our principal use of energy commodity derivative contracts is to mitigate the risk associated with unfavorable market movements in the price of energy commodities. Our energy commodity derivative contracts act as a hedging (offset) mechanism against the volatility of energy commodity prices by allowing us to transfer this price risk to counterparties who are able and willing to bear it.

For derivative contracts that are designated and qualify as cash flow hedges pursuant to generally accepted accounting principles, the portion of the gain or loss on the derivative contract that is effective in offsetting the variable cash flows associated with the hedged forecasted transaction is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings (e.g., in "revenues" when the hedged transactions are commodity sales). The remaining gain or loss on the derivative contract in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion), is recognized in earnings during the current period. The effectiveness of hedges using an option contract may be assessed based on changes in the option's intrinsic value with the change in the time value of the contract being excluded from the assessment of hedge effectiveness. Changes in the excluded component of the change in an option's time value are included currently in earnings. During the nine months ended September 30, 2010, we recognized a net gain of $4.6 million related to crude oil and natural gas hedges and resulting from both hedge ineffectiveness and amounts excluded from effectiveness testing. During the nine months ended September 30, 2009, we recognized a net hedging loss of $5.4 million from crude oil hedges that resulted from hedge ineffectiveness and amounts excluded from effectiveness testing.

Additionally, during the nine months ended September 30, 2010, we reclassified a loss of $13.0 million from "Accumulated other comprehensive loss" into earnings, and for the same comparable period last year, we reclassified a gain of $42.0 million of "Accumulated other comprehensive loss" into earnings. No material amounts were reclassified into earnings as a result of the discontinuance of cash flow hedges because it was probable that the original forecasted transactions would no longer occur by the end of the originally specified time period or within an additional two-month period of time thereafter, but rather, were reclassified as a result of the hedged forecasted transactions actually affecting earnings (i.e. when the forecasted sales and purchase actually occurred). The proceeds or payments resulting from the settlement of cash flow hedges are reflected in the operating section of our accompanying consolidated statements of cash flows as changes to net income and working capital.

The "Accumulated other comprehensive loss" balance included in our Members' Equity was $104.5 million as of September 30, 2010, and $167.9 million as of December 31, 2009. These totals included "Accumulated other comprehensive loss" amounts of $49.2 million and $95.7 million of losses as of September 30, 2010 and December 31, 2009, respectively, associated with energy commodity price risk management activities. Approximately $30.7 million of the total loss amount associated with energy commodity price risk management activities and included in our Members' Equity as of September 30, 2010 is expected to be reclassified into earnings during the next twelve months (when the associated forecasted sales and purchases are also expected to occur), and as of September 30, 2010, 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 2014.

KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Risk Management (Continued)

As of September 30, 2010, KMP had entered into the following outstanding commodity forward contracts to hedge its forecasted energy commodity purchases and sales:

	Net open position long/(short)
Derivatives designated as hedging contracts	
Crude oil	(22.0) million barrels
Natural gas fixed price	(32.7) billion cubic feet
Natural gas basis	(22.3) billion cubic feet
Derivatives not designated as hedging contracts	
Natural gas basis	(0.2) billion cubic feet

For derivative contracts that are not designated as a hedge for accounting purposes, all realized and unrealized gains and losses are recognized in the statement of income during the current period. These types of transactions include basis spreads, basis-only positions and gas daily swap positions. KMP primarily enters into these positions to economically hedge an exposure through a relationship that does not qualify for hedge accounting. Until settlement occurs, this will result in non-cash gains or losses being reported in our operating results.

Interest Rate Risk Management

In order to maintain a cost effective capital structure, it is our policy to borrow funds using a mix of fixed rate debt and variable rate debt. We use interest rate swap agreements to manage the interest rate risk associated with the fair value of our fixed rate borrowings and to effectively convert a portion of the underlying cash flows related to our long-term fixed rate debt securities into variable rate cash flows in order to achieve our desired mix of fixed and variable rate debt.

Since the fair value of fixed rate debt varies inversely with changes in the market rate of interest, we enter into swap agreements to receive a fixed and pay a variable rate of interest in order to convert the interest expense associated with certain of our senior notes from fixed rates to variable rates, resulting in future cash flows that vary with the market rate of interest. These swaps, therefore, hedge against changes in the fair value of our fixed rate debt that result from market interest rate changes. For derivative contracts that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings.

As of December 31, 2009, KMI was a party to interest rate swap agreements with a total notional principal amount of $725.0 million, and its subsidiary, KMP, had a combined notional principal amount of $5.2 billion of fixed-to-variable interest rate swap agreements effectively converting the interest expense associated with certain series of KMI's and KMP's senior notes from fixed rates to variable rates based on an interest rate of LIBOR plus a spread. In the second quarter of 2010, KMP entered into three additional fixed-to-variable interest rate swap agreements having a combined notional principal amount of $400 million. Each agreement effectively converts a portion of the interest expense associated with KMP's 5.30% senior notes due September 15, 2020 from a fixed rate to a variable rate based on an interest rate of LIBOR plus a spread.

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Risk Management (Continued)

Accordingly, as of September 30, 2010, KMI was a party to interest rate swap agreements with a total notional principal amount of $725.0 million and its subsidiary, KMP, had a combined notional principal amount of $5.6 billion of fixed-to-variable interest rate swap agreements. 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 September 30, 2010, the maximum length of time over which KMI or KMP have hedged a portion of their exposure to the variability in the value of this debt due to interest rate risk is through January 15, 2038.

Fair Value of Derivative Contracts

The fair values of our current and non-current asset and liability derivative contracts are each reported separately as "Fair value of derivative contracts" on our accompanying consolidated balance sheets. The following table summarizes the fair values of our derivative contracts included on our accompanying consolidated balance sheets as of September 30, 2010 and December 31, 2009 (in millions):

Fair Value of Derivative Contracts

		Asset derivatives		Liability derivatives	
	Balance sheet location	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
		Fair value		Fair value	
Derivatives designated as hedging contracts					
Energy commodity derivative contracts	Current	$ 41.2	$ 19.1	$ (202.5)	$ (270.8)
	Non-current	60.9	57.3	(108.2)	(241.5)
Subtotal		102.1	76.4	(310.7)	(512.3)
Interest rate swap agreements	Non-current	719.9	236.0	(16.9)	(218.5)
Cross-currency swap agreements	Non-current				(9.6)
Total		822.0	312.4	(327.6)	(740.4)
Derivatives not designated as hedging contracts					
Energy commodity derivative contracts	Current	$ 8.8	$ 1.7	$ (10.6)	$ (1.2)
		8.8	1.7	(10.6)	(1.2)
Total		$ 830.8	$ 314.1	$ (338.2)	$ (741.6)

The offsetting entry to adjust the carrying value of the debt securities whose fair value was being hedged is included within "Value of interest rate swaps" on our accompanying consolidated balance sheets, which also includes any unamortized portion of proceeds received from the early termination of interest rate swap agreements. As of September 30, 2010 and December 31, 2009, this unamortized premium totaled $321.1 million and $337.5 million, respectively.

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Risk Management (Continued)

Effect of Derivative Contracts on the Income Statement

The following four tables summarize the impact of our derivative contracts on our accompanying consolidated statements of income for the nine months ended September 30, 2010 and 2009 (in millions):

Derivatives in fair value hedging relationships	Location of gain/(loss) recognized in income on derivative	Amount of gain/(loss) recognized in income on derivative(a) Nine Months Ended September 30, 2010	2009
Interest rate swap agreements	Interest, net income/(expense)	$ 685.5	$ (339.9)
Total		$ 685.5	$ (339.9)

Hedged items in fair value hedging relationships	Location of gain/(loss) recognized in income on related hedged item	Amount of gain/(loss) recognized in income on related hedged item(a) Nine Months Ended September 30, 2010	2009
Fixed rate debt	Interest, net income/(expense)	$ (685.5)	$ 339.9
Total		$ (685.5)	$ 339.9

(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. Amounts do not reflect the

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Risk Management (Continued)

impact on interest expense from the interest rate swap agreements under which we pay variable rate interest and receive fixed rate interest.

Derivatives in cash flow hedging relationships	Amount of gain/(loss) recognized in OCI on derivative (effective portion) Nine Months Ended September 30, 2010	2009	Location of gain/(loss) reclassified from Accumulated OCI into income (effective portion)	Amount of gain/(loss) reclassified from Accumulated OCI into income (effective portion) Nine Months Ended September 30, 2010	2009	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) Nine Months Ended September 30, 2010	2009
Energy commodity derivative contracts	$ 33.5	$ (76.3)	Revenues-natural gas sales	$ 0.5	$ 8.5	Revenues-natural gas sales	$	$
			Revenues-product sales and other	(13.6)	33.8	Revenues-product sales and other	5.4	(5.4)
			Gas purchases and other costs of sales	0.1	(0.3)	Gas purchases and other costs of sales	(0.8)	
Total	$ 33.5	$ (76.3)	Total	$ (13.0)	$ 42.0	Total	$ 4.6	$ (5.4)

Derivatives not designated as hedging contracts	Location of gain/(loss) recognized in income on derivative	Amount of gain/(loss) recognized in income on derivative Nine Months Ended September 30, 2010	2009
Energy commodity derivative contracts	Gas purchases and other costs of sales	$ 1.0	$ (3.1)
Total		$ 1.0	$ (3.1)

	Amount of gain/(loss) recognized in OCI on derivative (effective portion)		Amount of gain/(loss) reclassified from Accumulated OCI into income (effective portion)		Amount of gain/(loss) recognized in income on derivative (ineffective portion and amount excluded from

Derivatives in net investment hedging relationships	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Location of gain/(loss) reclassified from Accumulated OCI into income (effective portion)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Location of gain/(loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	effectiveness testing Nine Months Ended September 30, 2010	effectiveness testing Nine Months Ended September 30, 2009
Cross-currency swap agreements	$ 9.6	$ (35.6)	Other, net	$	$	Revenues	$	$
Total	$ 9.6	$ (35.6)	Total	$	$	Total	$	$

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Risk Management (Continued)

Net Investment Hedges

We are exposed to foreign currency risk from our investments in businesses owned and operated outside the United States. In 2005 and 2006, we entered into various cross-currency interest rate swap transactions, which were designated as net investment hedges, in order to hedge the value of our investment in Canadian operations. Over time, as our exposure to foreign currency risk through our Canadian operations was reduced through dispositions, we began to terminate cross-currency swap agreements. In June 2009, we terminated cross-currency interest rate swaps with notional value of C$29.2 million. In connection with this termination, we received $0.5 million in July 2009. Additionally in July 2009, we received $1.0 million for the termination of another portion of our cross-currency interest rate swaps with a notional value of C$29.2 million. The final cross-currency swap agreements were terminated during the first nine months of 2010 and there were no outstanding cross currency interest rate swaps at September 30, 2010. No payment was made or received in connection with the final termination. In the periods that we had outstanding cross-currency swap agreements, the effective portion of the changes in fair value of these swap transactions was reported as a cumulative translation adjustment included in the balance sheet caption "Accumulated other comprehensive loss."

Credit Risks

We and our subsidiaries, including 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 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 (including credit ratings), (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 over-the-counter 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 principally 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.

KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Risk Management (Continued)

The maximum potential exposure to credit losses on derivative contracts as of September 30, 2010 was (in millions):

	Asset position
Interest rate swap agreements	$ 719.9
Energy commodity derivative contracts	110.9
Gross exposure	830.8
Netting agreement impact	(79.9)
Net exposure	$ 750.9

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 September 30, 2010, KMP had no outstanding letters of credit supporting its hedging activities; however, as of December 31, 2009, KMP had outstanding letters of credit totaling $55.0 million in support of its hedging of energy commodity price risks associated with the sale of natural gas, natural gas liquids and crude oil.

Additionally, as of September 30, 2010, KMP's counterparties associated with its energy commodity contract positions and over-the-counter swap agreements had margin deposits with KMP totaling $6.3 million, and we reported this amount within "Accrued other liabilities" in our accompanying consolidated balance sheet. As of December 31, 2009, KMP had cash margin deposits associated with its energy commodity contract positions and over-the-counter swap partners totaling $15.2 million, and we reported this amount as "Restricted deposits" in our accompanying consolidated balance sheet.

KMP also has agreements with certain counterparties to its derivative contracts that contain provisions requiring it to post additional collateral upon a decrease in its credit rating. Based on contractual provisions as of September 30, 2010, we estimate that if KMP's credit rating was downgraded, KMP would have the following additional collateral obligations (in millions):

Credit ratings downgraded(a)	Incremental obligations	Cumulative obligations(b)
One notch to BBB-/Baa3	$	$
Two notches to below BBB-/Baa3 (below investment grade)	$ 73.8	$ 73.8

(a) If there are split ratings among the independent credit rating agencies, most counterparties use the higher credit rating to determine KMP's incremental collateral obligations, while the remaining use the lower credit rating. Therefore, a two notch downgrade to below BBB-/Baa3 by one agency would not trigger the entire $73.8 million incremental obligation.

(b) Includes current posting at current rating.

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Fair Value

The Codification emphasizes that fair value is a market-based measurement that should be determined based on assumptions (inputs) that market participants would use in pricing an asset or liability. Inputs may be observable or unobservable, and valuation techniques used to measure fair value should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Accordingly, the Codification establishes a hierarchal disclosure framework that ranks the quality and reliability of information used to determine fair values. The hierarchy is associated with the level of pricing observability utilized in measuring fair value and defines three levels of inputs to the fair value measurement process quoted prices are the most reliable valuation inputs, whereas model values that include inputs based on unobservable data are the least reliable. 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, (ii) interest rate swap agreements and (iii) cross-currency interest rate swap

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Fair Value (Continued)

agreements as of September 30, 2010 and December 31, 2009, based on the three levels established by the Codification (in millions):

	Asset fair value measurements using			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As of September 30, 2010				
Energy commodity derivative contracts(a)	$ 110.9	$	$ 50.2	$ 60.7
Interest rate swap agreements	$ 719.9	$	$ 719.9	$
As of December 31, 2009				
Energy commodity derivative contracts(a)	$ 78.1	$	$ 14.4	$ 63.7
Interest rate swap agreements	$ 236.0	$	$ 236.0	$

	Liability fair value measurements using			
	Total	Quoted prices in active markets for identical liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As of September 30, 2010				
Energy commodity derivative contracts(b)	$ (321.3)	$	$ (295.2)	$ (26.1)
Interest rate swap agreements	$ (16.9)	$	$ (16.9)	$
As of December 31, 2009				
Energy commodity derivative contracts(b)	$ (513.5)	$	$ (462.8)	$ (50.7)
Interest rate swap agreements	$ (218.5)	$	$ (218.5)	$
Cross-currency interest rate swap agreements	$ (9.6)	$	$ (9.6)	$

(a) Level 2 consists primarily of OTC West Texas Intermediate hedges and OTC natural gas hedges that are settled on NYMEX. Level 3 consists primarily of natural gas basis swaps, West Texas Sour hedges, natural gas options and West Texas Intermediate options.

(b) Level 2 consists primarily of OTC West Texas Intermediate hedges and OTC natural gas hedges that are settled on NYMEX. Level 3 consists primarily of natural gas basis swaps, West Texas Sour hedges and West Texas Intermediate options.

The fair value measurements in the table above do not include cash margin deposits, which would be reported separately as "Restricted deposits" or included within "Accrued other liabilities" in our accompanying consolidated balance sheets. The table below provides a summary of changes in the fair

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Fair Value (Continued)

value of our Level 3 energy commodity derivative contracts for the nine months ended September 30, 2010 and 2009 (in millions):

Significant unobservable inputs (Level 3)

	Nine Months Ended September 30,	
	2010	**2009**
Derivatives-net asset (liability)		
Beginning of Period	$ 13.0	$ 44.1
Realized and unrealized net gains and (losses)	15.3	(19.1)
Purchases and settlements	6.3	4.9
Transfers in (out) of Level 3		
End of Period	$ 34.6	$ 29.9
Change in unrealized net gains (losses) relating to contracts still held at end of period	$ 8.3	$ (29.5)

Fair Value of Financial Instruments

Fair value as used in the disclosure of financial instruments represents the amount at which an instrument could be exchanged in a current transaction between willing parties. As of each reporting date, the estimated fair value of our outstanding publicly-traded debt is based upon quoted market prices, if available, and for all other debt, fair value is based upon prevailing interest rates currently available to us. In addition, we adjust (discount) the fair value measurement of our long-term debt for the effect of credit risk.

The estimated fair value of our outstanding debt balance as of September 30, 2010 and December 31, 2009 (both short-term and long-term, but excluding the value of interest rate swaps), is disclosed below (in millions):

	September 30, 2010		December 31, 2009	
	Carrying value	**Estimated fair value**	**Carrying value**	**Estimated fair value**
Total debt	$ 14,860.2	$ 16,271.8	$ 13,648.4	$ 14,158.2

Assets Measured at Fair Value on a Non-Recurring Basis

The following table summarizes the fair value measurements of KMI's investment in NGPL PipeCo LLC as of March 31, 2010, after taking into account an impairment of this investment. See Note 2 "Investments, Acquisitions, Joint Ventures and Divestitures" for more information on this impairment and the valuation techniques used to measure fair value. This investment was initially

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Fair Value (Continued)

measured at fair value and was subsequently re-measured at fair value on a non-recurring basis based on the three levels of inputs defined by the fair value hierarchy discussed preceding (in millions):

		Asset fair value measurements using		
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As of March 31, 2010				
Investment in NGPL PipeCo LLC	$ 269.0	$	$	$ 269.0

8. Reportable Segments

We divide our operations into seven reportable business segments. These segments and their principal source of revenues are as follows:

Products Pipelines KMP the transportation and terminaling of refined petroleum products, including gasoline, diesel fuel, jet fuel and natural gas liquids;

Natural Gas Pipelines KMP the sale, transport, processing, treating, storage and gathering of natural gas;

CO_2 KMP the production and sale of crude oil from fields in the Permian Basin of West Texas and the transportation and marketing of carbon dioxide used as a flooding medium for recovering crude oil from mature oil fields;

Terminals KMP the transloading and storing of refined petroleum products and dry and liquid 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, the state of Washington and the Rocky Mountains and Central regions of the United States;

NGPL PipeCo LLC consists of KMI's 20% interest in NGPL PipeCo LLC, the owner of Natural Gas Pipeline Company of America and certain affiliates, collectively referred to as Natural Gas Pipeline Company of America or NGPL, a major interstate natural gas pipeline and storage system, which KMI operates; and

Power consists of KMI's operation of a 550-megawatt natural gas-fired electric generation facility in Michigan (Triton Power). On October 22, 2010, KMI sold Triton Power, see Note 2.

The accounting policies we apply in the generation of reportable segment earnings are generally the same as those applied to our consolidated operations, except that (i) certain items below the "Operating Income (Loss)" line (such as interest expense) are either not allocated to reportable segments or are not considered by management in its evaluation of reportable segment performance, (ii) equity in earnings of equity method investees are included in segment earnings (these equity method earnings are included in "Other Income (Expense)" in our accompanying consolidated statements of income, (iii) certain items included in operating income (such as general and

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Reportable Segments (Continued)

administrative expenses and depreciation, depletion and amortization (DD&A)) are not considered by management in its evaluation of reportable segment performance and, thus, are not included in reported performance measures, (iv) gains and losses from incidental sales of assets are included in segment earnings and (v) our reportable segments that are also segments of KMP include certain other income and expenses and income taxes in its segment earnings. With adjustment for these items, we currently evaluate reportable segment performance primarily based on segment earnings before DD&A expenses (including amortization of excess cost of equity investments) in relation to the level of capital employed.

Selected financial information by segment follows (in millions):

	Nine Months Ended September 30,	
	2010	**2009**
Revenues		
Products Pipelines KMP		
Revenues from external customers	$ 661.5	$ 611.6
Natural Gas Pipelines KMP		
Revenues from external customers	3,414.0	2,751.2
CO_2 KMP		
Revenues from external customers	972.2	821.7
Terminals KMP		
Revenues from external customers	945.3	814.2
Intersegment revenues	0.8	0.7
Kinder Morgan Canada KMP		
Revenues from external customers	197.9	166.1
Power(a)		
Revenues from external customers	8.9	35.3
Other		
NGPL PipeCo LLC fixed fee revenue	35.4	34.4
Other revenue	1.5	
Total segment revenues	6,237.5	5,235.2
Less: Total intersegment revenues	(0.8)	(0.7)
Total consolidated revenues	$ 6,236.7	$ 5,234.5

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Reportable Segments (Continued)

	Nine Months Ended September 30,	
	2010	**2009**
Segment earnings (loss) before depreciation, depletion, amortization and amortization of excess cost of equity investments(b)		
Products Pipelines KMP(c)	$ 331.8	$ 468.0
Natural Gas Pipelines KMP	592.3	559.8
CO_2 KMP	763.9	635.6
Terminals KMP	474.5	430.3
Kinder Morgan Canada KMP	132.9	113.9
NGPL PipeCo LLC(d)	(405.0)	31.4
Power(a)	3.8	3.8
Total segment earnings before DD&A	1,894.2	2,242.8
Depreciation, depletion and amortization	(813.7)	(777.1)
Amortization of excess cost of equity investments	(4.3)	(4.3)
NGPL PipeCo LLC fixed fee revenue	35.4	34.4
Other revenue	1.5	
General and administrative expense(e)	(528.7)	(269.2)
Unallocable interest and other, net(f)	(492.6)	(425.2)
Unallocable income tax benefit (expense)	41.6	(218.4)
Income from continuing operations	$ 133.4	$ 583.0

	September 30, 2010	December 31, 2009
Assets		
Products Pipelines KMP	$ 5,612.5	$ 5,614.7
Natural Gas Pipelines KMP	10,926.5	9,956.7
CO_2 KMP	4,066.3	4,230.5
Terminals KMP	4,926.8	4,537.3
Kinder Morgan Canada KMP	1,817.4	1,797.7
NGPL PipeCo LLC(d)	261.4	698.5
Power(a)	5.1	67.6
Total segment assets	27,616.0	26,903.0
Corporate assets(g)	1,138.1	683.3
Total consolidated assets	$ 28,754.1	$ 27,586.3

(a) Upon the adoption of Accounting Standards Update No. 2009-17, which amended the codification's "Consolidation" topic, on January 1, 2010, Triton Power Company LLC is no longer consolidated into our financial statements, but is treated as an equity investment see Note 13. This resulted in decreases to 2010 revenues, operating expenses

KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Reportable Segments (Continued)

and noncontrolling interests with no impact to segment earnings before DD&A as compared to 2009. On October 22, 2010, KMI sold Triton Power; see Note 2.

(b) Includes revenues, earnings from equity investments, allocable interest income, and other, net, less operating expenses, allocable income taxes, and other expense (income).

(c) 2010 amount includes a $158.0 million increase in expense associated with rate case liability adjustments. For more information on the rate case proceedings, see Note 11.

(d) 2010 amount includes a $430.0 million non-cash investment impairment charge; see Note 2.

(e) 2010 amount includes a $200.0 million increase in expense associated with the Going Private transaction litigation settlement; see Note 11.

(f) Includes (i) interest expense and (ii) miscellaneous other income and expenses not allocated to reportable segments.

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

9. Related Party Transactions

Notes Receivable

Plantation Pipe Line Company

KMP has a long-term note receivable bearing interest at the rate of 4.72% per annum from Plantation Pipe Line Company, its 51.17%-owned equity investee. The note provides for semiannual payments of principal and interest on June 30 and December 31 each year, with a final principal payment due July 20, 2011. KMP received a principal repayment amount of $1.3 million in June 2010. The outstanding note receivable balance was $83.5 million and $84.8 million as of September 30, 2010 and December 31, 2009, respectively. Of this amount, $2.7 million and $2.6 million was included within "Accounts, notes and interest receivable, net," on our accompanying consolidated balance sheets as of September 30, 2010 and December 31, 2009, respectively, and the remaining outstanding balance was included within "Notes receivable" at each reporting date.

Express US Holdings LP

KMP has a long-term investment in a C$113.6 million debt security issued by Express US Holdings LP (the obligor), the partnership that maintains ownership of the U.S. portion of the Express pipeline system. The debenture is denominated in Canadian dollars, due in full on January 9, 2023, bears interest at the rate of 12.0% per annum and provides for quarterly payments of interest in Canadian dollars on March 31, June 30, September 30 and December 31 each year. As of September 30, 2010 and December 31, 2009, the outstanding note receivable balance, representing the translated amount included on our consolidated financial statements in U.S. dollars, was $110.4 million

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Related Party Transactions (Continued)

and $108.1 million, respectively, and we included these amounts within "Notes receivable" in our accompanying consolidated balance sheets.

Other Receivables and Payables

As of September 30, 2010 and December 31, 2009, our related party receivables (other than the note receivables discussed above) totaled $17.4 million and $14.6 million, respectively. The September 30, 2010 amount is included within "Accounts, notes and interest receivable, net" and primarily related to accounts and interest receivables due from Plantation Pipe Line Company, KinderHawk Field Services LLC and the Express pipeline system. The December 31, 2009 amount consisted of (i) $11.5 million included within "Accounts, notes and interest receivable, net" and primarily related to receivables due from the Express pipeline system and NGPL PipeCo LLC and (ii) $3.1 million of natural gas imbalance receivables, primarily due from NGPL and included within "Other current assets."

As of September 30, 2010, our related party payables consisted of (i) $0.9 million included within "Accounts payable" and primarily related to payables due to RGZ, Inc. and (ii) $4.8 million of natural gas imbalance payables, included within "Accrued other current liabilities" and consisting primarily of payables due by KMP to NGPL. The December 31, 2009 related party payable amounts are included within "Accounts payable" on our accompanying consolidated balance sheet, and primarily consisted of amounts owed to RGZ, Inc.

NGPL PipeCo LLC Fixed Fee Revenue and Other Transactions

On February 15, 2008, KMI entered into an Operations and Reimbursement Agreement (Agreement) with Natural Gas Pipeline Company of America LLC, a wholly owned subsidiary of NGPL PipeCo LLC. The Agreement provides for KMI to be reimbursed, at cost, for pre-approved operations and maintenance costs, plus a $43.2 million annual general and administration fixed fee charge (Fixed Fee), for services provided under the Agreement. This Fixed Fee escalates at 3% each year until 2011 and is billed monthly. These Fixed Fees, included within the caption, "Product sales and other" in our accompanying consolidated statements of income, totaled $35.4 million and $34.4 million for the nine months ended September 30, 2010 and 2009, respectively.

Derivative Counterparties

As a result of KMI's Going Private transaction, a number of individuals and entities became significant investors in us, and by virtue of the size of its ownership interest in us, one of those investors Goldman Sachs Capital Partners and certain of its affiliates remains a "related party" (as that term is defined in authoritative accounting literature) to KMI as of September 30, 2010. Goldman Sachs has also acted in the past, and may act in the future, as an underwriter for equity and/or debt issuances for KMI and KMP, and Goldman Sachs effectively owned 49% of the terminal assets KMP acquired from US Development Group LLC.

In addition, we conduct energy commodity risk management activities in the ordinary course of implementing our risk management strategies in which the counterparty to certain of our derivative transactions is an affiliate of Goldman Sachs, and in conjunction with these activities, we are a party

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Related Party Transactions (Continued)

(through one of KMP's subsidiaries engaged in the production of crude oil) to a hedging facility with J. Aron & Company/Goldman Sachs.

The hedging facility requires us to provide certain periodic information, but does not require the posting of margin. As a result of changes in the market value of our derivative positions, we have created both amounts receivable from and payable to Goldman Sachs affiliates.

The following table summarizes the fair values of our energy commodity derivative contracts that are (i) associated with commodity price risk management activities with J. Aron & Company/Goldman Sachs and (ii) included within "Fair value of derivative contracts" on our accompanying consolidated balance sheets as of September 30, 2010 and December 31, 2009 (in millions):

	September 30, 2010	December 31, 2009
Derivatives asset (liability)		
Current assets: Fair value of derivative contracts	$	$ 4.3
Assets: Fair value of derivative contracts	$ 17.2	$ 18.4
Current liabilities: Fair value of derivative contracts	$ (131.3)	$ (96.8)
Long-term liabilities and deferred credits: Fair value of derivative contracts	$ (76.9)	$ (190.8)

For more information on our risk management activities see Note 6.

10. Income Taxes

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

	Nine Months Ended September 30,	
	2010	2009
Income tax expense (benefit)	$ (29.1)	$ 247.2
Effective tax rate	(27.9)%	29.8%

The effective tax rate is lower than the statutory federal rate of 35% for the nine months ended September 30, 2010 primarily due to (i) the net effect of consolidating KMP's income tax provision, (ii) a dividends-received deduction from KMI's 20% ownership interest in NGPL PipeCo LLC, and (iii) an adjustment to the deferred tax liability related to KMI's investment in NGPL PipeCo LLC. These decreases are partially offset by (i) state income taxes and (ii) adjustments to our non-cash income tax reserve (ASC 740-10) for uncertain tax positions.

During the nine months ended September 30, 2009, our effective tax rate was lower than the statutory federal income tax rate of 35% due to (i) the net effect of consolidating KMP's income tax provision, (ii) a dividends-received deduction from our 20% ownership interest in NGPL PipeCo LLC, and (iii) adjustments to our non-cash income tax reserve (ASC 740-10) for uncertain tax positions. This decrease to income tax expense was partially offset by additional tax expense resulting from non-cash deferred tax liability adjustments in the Kinder Morgan Canada KMP segment and state income taxes.

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Litigation, Environmental and Other Contingencies

Below is a brief description of our ongoing material legal proceedings, including any material developments that occurred in such proceedings during the nine months ended September 30, 2010. Additional information with respect to these proceedings can be found in Note 16 to our audited December 31, 2009 consolidated financial statements and related notes. This note also contains a description of any material legal proceedings that were initiated against us during the nine months ended September 30, 2010, and a description of any material events occurring subsequent to September 30, 2010 but before the filing of this report.

In this note, we refer to KMP's subsidiary SFPP, L.P. as SFPP; KMP's subsidiary Calnev Pipe Line LLC as Calnev; Chevron Products Company as Chevron; Navajo Refining Company, L.P. as Navajo; BP West Coast Products, LLC as BP; ConocoPhillips Company as ConocoPhillips; Tesoro Refining and Marketing Company as Tesoro; Texaco Refining and Marketing Inc. as Texaco; Western Refining Company, L.P. as Western Refining; ExxonMobil Oil Corporation as ExxonMobil; Valero Energy Corporation as Valero; Valero Marketing and Supply Company as Valero Marketing; Continental Airlines, Inc., Northwest Airlines, Inc., Southwest Airlines Co. and US Airways, Inc., collectively, as the Airlines; KMP's subsidiary Kinder Morgan CO_2 Company, L.P. (the successor to Shell CO_2 Company, Ltd.) as Kinder Morgan CO_2; the United States Court of Appeals for the District of Columbia Circuit as the D.C. Circuit; the Federal Energy Regulatory Commission as the FERC; the California Public Utilities Commission as the CPUC; the United States Department of the Interior, Minerals Management Service as the MMS; the Union Pacific Railroad Company (the successor to Southern Pacific Transportation Company) as UPRR; the Texas Commission of Environmental Quality as the TCEQ; the United States Department of Transportation Pipeline and Hazardous Materials Safety Administration as the PHMSA; the Florida Department of Environmental Protection as the Florida DEP; KMP's subsidiary Kinder Morgan Bulk Terminals, Inc. as KMBT; KMP's subsidiary Kinder Morgan Port Manatee Terminal LLC as KM PMT; Rockies Express Pipeline LLC as Rockies Express; and Plantation Pipe Line Company as Plantation. "OR" dockets designate complaint proceedings, and "IS" dockets designate protest proceedings.

Federal Energy Regulatory Commission Proceedings

The tariffs and rates charged by SFPP and Calnev are subject to numerous ongoing proceedings at the FERC, including the shippers' complaints and protests regarding interstate rates on the pipeline systems listed below. These complaints and protests have been filed over numerous years beginning in 1992 through and including 2009. In general, these complaints and protests allege the rates and tariffs charged by SFPP are not just and reasonable. If the shippers are successful in proving their claims, they are entitled to seek reparations (which may reach 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.

As to SFPP, the issues involved in these proceedings include, among others: (i) whether certain of KMP's Pacific operations' rates are "grandfathered" under the Energy Policy Act of 1992, and therefore deemed to be just and reasonable, (ii) whether "substantially changed circumstances" have occurred with respect to any grandfathered rates such that those rates could be challenged,

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Litigation, Environmental and Other Contingencies (Continued)

(iii) whether indexed rate increases are justified and (iv) the appropriate level of return and income tax allowance KMP may include in its rates. The issues involving Calnev are similar.

SFPP

During 2009, SFPP made settlement payments to various shippers totaling approximately $15.5 million in connection with OR07-8, OR07-11, and IS08-28 and related dockets. The IS08-28 settlement (East Line rates) was approved by the FERC in March 2009, and SFPP implemented reduced settlement rates effective May 1, 2009, along with refunds and settlement payments. Due to reduced East Line volumes, SFPP terminated the IS08-28 settlement pursuant to its terms and filed for increased East Line rates (IS09-437), which were accepted and became effective January 1, 2010, subject to refund and investigation.

As a result of FERC's approval in May 2010 of a settlement agreement with eleven of twelve shippers, a wide range of rate challenges dating back to 1992 were resolved (Historical Cases Settlement). The Historical Cases Settlement resulted in a $158.0 million charge to earnings in the first nine months of 2010. From a cash perspective, a portion of KMP's partnership distributions for the second quarter of 2010 was a distribution of cash from an interim capital transaction (ICT Distribution), rather than a distribution of cash from operations. As a result, KMI's second quarter distribution from KMP (which was paid in the third quarter) was reduced by $170.0 million and our first nine months 2010 pre-tax earnings were reduced by $168.3 million. As provided in the partnership agreement, KMI receives no incentive distribution on ICT Distributions; therefore, there was no practical impact to KMP's limited partners from this ICT Distribution because (i) the expected cash distribution to the limited partners did not change, (ii) fewer dollars in the aggregate were distributed, because there was no incentive distribution paid to KMI related to the portion of the quarterly distribution that was an ICT Distribution and (iii) KMI, in this instance, has agreed to waive any resetting of the incentive distribution target levels, as would otherwise occur according to KMP's partnership agreement.

KMP's second quarter ICT Distribution is expected to allow it to resolve the remaining FERC rate cases (discussed above) and CPUC rate cases (discussed below) without impacting future distributions. Due to KMI's support, KMP still expects to distribute $4.40 in distributions per unit to its limited partners for 2010. Furthermore, KMP's declared cash distribution for the third quarter of 2010 of $1.11 per unit (which it paid in November 2010) contains no ICT Distribution, but instead consists entirely of distributions of cash from operations.

The Historical Cases Settlement resolves all but two of the cases outstanding between SFPP and the eleven shippers. SFPP does not expect any material adverse impacts from the remaining two unsettled cases with the eleven shippers. Chevron is the only shipper who is not a party to the Historical Cases Settlement, and the following dockets remain pending only as to Chevron:

FERC Docket Nos. OR92-8, et al. (West and East Line Rates) Chevron protests of compliance filings pending with FERC and appeals pending at the D.C. Circuit;

FERC Docket Nos. OR96-2, et al. (All SFPP Rates) Chevron (as a successor-in-interest to Texaco) protests of compliance filings pending with FERC;

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Litigation, Environmental and Other Contingencies (Continued)

FERC Docket No. OR02-4 (All SFPP Rates) Chevron appeal of complaint dismissal pending at the D.C. Circuit;

FERC Docket No. OR03-5 (West, East, North, and Oregon Line Rates) Chevron exceptions to initial decision pending at FERC;

FERC Docket No. OR07-4 (All SFPP Rates) Chevron complaint held in abeyance;

FERC Docket No. OR09-8 (consolidated) (2008 Index Increases) Hearing regarding Chevron complaint held in abeyance pending settlement discussions;

FERC Docket No. IS98-1 (Sepulveda Line Rates) Chevron protests to compliance filing pending at FERC;

FERC Docket No. IS05-230 (North Line Rates) Chevron exceptions to initial decision pending at FERC;

FERC Docket No. IS07-116 (Sepulveda Line Rates) Chevron protest subject to resolution of IS98-1 proceeding;

FERC Docket No. IS08-137 (West and East Line Rates) Chevron protest subject to resolution of the OR92-8/OR96-2 proceeding;

FERC Docket No. IS08-302 (2008 Index Rate Increases) Chevron protest subject to the resolution of proceedings regarding the West, North and Sepulveda Lines; and

FERC Docket No. IS09-375 (2009 Index Rate Increases) Chevron protest subject to resolution of proceedings regarding the North, West and Sepulveda Lines.

The following dockets are pending as to all protesting shippers:

FERC Docket No. IS08-390 (West Line Rates) Protestants: BP, ExxonMobil, ConocoPhillips, Valero Marketing, Chevron, the Airlines Status: Exceptions to initial decision pending at FERC; and

FERC Docket No. IS09-437 (East Line Rates) Protestants: BP, ExxonMobil, ConocoPhillips, Valero, Chevron, Western Refining, and Southwest Airlines Status: Awaiting Initial Decision expected in January 2011.

Calnev

FERC Docket Nos. OR07-7, OR07-18, OR07-19 & OR07-22 (not consolidated) (Calnev Rates) Complainants: Tesoro, Airlines, BP, Chevron, ConocoPhillips and Valero Marketing Status: Complaint amendments pending before FERC;

FERC Docket No. IS09-377 (2009 Index Rate Increases) Protestants: BP, Chevron, and Tesoro Status: Requests for rehearing of FERC dismissal pending before FERC;

FERC Docket Nos. OR09-11/OR09-14 (not consolidated) (2007 and 2008 Page 700 Audit Request) Complainants: BP/Tesoro Status: BP petition for review at D.C. Circuit dismissed, mandate issued in June 2010;

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FERC Docket Nos. OR09-15/OR09-20 (not consolidated) (Calnev Rates) Complainants: Tesoro/BP Status: Complaints pending at FERC; and

FERC Docket Nos. OR09-18/OR09-22 (not consolidated) (2009 Index Increases) Complainants: Tesoro/BP Status: BP petition for review at D.C. Circuit dismissed, mandate issued.

Trailblazer Pipeline Company LLC

On July 7, 2010, KMP's subsidiary Trailblazer Pipeline Company LLC (Trailblazer) refunded a total of approximately $0.7 million to natural gas shippers covering the period January 1, 2010 through May 31, 2010 as part of a settlement reached with shippers to eliminate the December 1, 2009 rate filing obligation contained in its Docket No. RP03-162 rate case settlement. As part of the agreement with shippers, Trailblazer commenced billing reduced tariff rates as of June 1, 2010 with an additional reduction in tariff rates to take effect January 1, 2011.

California Public Utilities Commission Proceedings

SFPP has previously reported ratemaking and complaint proceedings 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 been consolidated and assigned to two administrative law judges.

On April 6, 2010, a CPUC administrative law judge issued a proposed decision in several intrastate rate cases involving SFPP and a number of its shippers. The proposed decision includes determinations on issues, such as SFPP's entitlement to an income tax allowance and allocation of environmental expenses that are contrary both to CPUC policy and precedent and to established federal regulatory policies for pipelines. Moreover, contrary to California law, the proposed decision orders refunds relating to these issues where the underlying rates were previously deemed reasonable by the CPUC. Based on KMP's review of these CPUC proceedings, KMP estimates that its maximum exposure is approximately $220 million in reparation and refund payments and if the determinations made in the proposed decision were applied prospectively in two pending cases this could result in approximately $30 million in annual rate reductions.

The proposed decision is advisory in nature and can be rejected, accepted or modified by the CPUC. SFPP filed comments on May 3, 2010 outlining the errors in law and fact within the proposed decision and on May 5, 2010, SFPP made oral arguments before the full CPUC, which is expected to address the subject matters before the end of the year. The matter remains pending before the CPUC. Further procedural steps, including motions for rehearing and writ of review to California's Court of Appeals, will be taken if warranted. KMP does not expect the final resolution of this matter to have an impact on the expected distributions to its limited partners for 2010, as discussed above.

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11. Litigation, Environmental and Other Contingencies (Continued)

Carbon Dioxide Litigation

Gerald O. Bailey et al. v. Shell Oil Co. et al, Southern District of Texas Lawsuit

Kinder Morgan CO_2, KMP and Cortez Pipeline Company are among the defendants in a proceeding in the federal courts for the Southern District of Texas. *Gerald O. Bailey et al. v. Shell Oil Company et al.* (Civil Action Nos. 05-1029 and 05-1829 in the U.S. District Court for the Southern District of Texas consolidated by Order dated July 18, 2005). The plaintiffs assert claims for the underpayment of royalties on carbon dioxide produced from the McElmo Dome unit, located in southwestern Colorado. The plaintiffs assert claims for fraud/fraudulent inducement, real estate fraud, negligent misrepresentation, breach of fiduciary and agency duties, breach of contract and covenants, violation of the Colorado Unfair Practices Act, civil theft under Colorado law, conspiracy, unjust enrichment, and open account. Plaintiffs Gerald O. Bailey, Harry Ptasynski, and W.L. Gray & Co. also assert claims as private relators under the False Claims Act, claims on behalf of the State of Colorado and Montezuma County, Colorado, and claims for violation of federal and Colorado antitrust laws. The plaintiffs seek actual damages, treble damages, punitive damages, a constructive trust and accounting, and declaratory relief. The defendants filed motions for summary judgment on all claims.

On April 22, 2008, the federal district court granted defendants' motions for summary judgment and ruled that plaintiffs Bailey and Ptasynski take nothing on their claims and that the claims of Gray be dismissed with prejudice. The court entered final judgment in favor of the defendants on April 30, 2008. The plaintiffs appealed to the United States Fifth Circuit Court of Appeals. On June 16, 2010, the Fifth Circuit Court of Appeals affirmed the trial court's summary judgment decision. Gerald Bailey subsequently filed a petition for writ of certiorari to the United States Supreme Court seeking further appellate review of the Fifth Circuit Court of Appeals' decision.

CO_2 Claims Arbitration

Kinder Morgan CO_2 and Cortez Pipeline Company were among the named defendants in CO_2 Committee, Inc. v. Shell Oil Co., et al., an arbitration initiated on November 28, 2005. The arbitration arose from a dispute over a class action settlement agreement which became final on July 7, 2003 and disposed of five lawsuits formerly pending in the U.S. District Court, District of Colorado. The plaintiffs in such lawsuits primarily included overriding royalty interest owners, royalty interest owners, and small share working interest owners who alleged underpayment of royalties and other payments on carbon dioxide produced from the McElmo Dome unit.

The settlement imposed certain future obligations on the defendants in the underlying litigation. The plaintiffs in the arbitration alleged that, in calculating royalty and other payments, defendants used a transportation expense in excess of what is allowed by the settlement agreement, thereby causing alleged underpayments of approximately $12 million. The plaintiffs also alleged that Cortez Pipeline Company should have used certain funds to further reduce its debt, which, in turn, would have allegedly increased the value of royalty and other payments by approximately $0.5 million. On August 7, 2006, the arbitration panel issued its opinion finding that defendants did not breach the settlement agreement. On June 21, 2007, the New Mexico federal district court entered final judgment confirming the August 7, 2006 arbitration decision.

KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

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(Unaudited)

11. Litigation, Environmental and Other Contingencies (Continued)

On October 2, 2007, the plaintiffs initiated a second arbitration (CO_2 Committee, Inc. v. Shell CO_2 Company, Ltd., aka Kinder Morgan CO_2 Company, L.P., et al.) against Cortez Pipeline Company, Kinder Morgan CO_2 and an ExxonMobil entity. The second arbitration asserts claims similar to those asserted in the first arbitration. A second arbitration panel has convened and a final hearing on the parties' claims and defenses is expected to occur in 2011.

MMS Notice of Noncompliance and Civil Penalty

On December 20, 2006, Kinder Morgan CO_2 received from the MMS a "Notice of Noncompliance and Civil Penalty: Knowing or Willful Submission of False, Inaccurate, or Misleading Information Kinder Morgan CO_2 Company, L.P., case no. CP07-001." This Notice, and the MMS's position that Kinder Morgan CO_2 has violated certain reporting obligations, relates to a disagreement between the MMS and Kinder Morgan CO_2 concerning the approved transportation allowance to be used in valuing McElmo Dome carbon dioxide for purposes of calculating federal royalties.

The Notice of Noncompliance and Civil Penalty assessed a civil penalty of approximately $2.2 million as of December 15, 2006 (based on a penalty of $500.00 per day for each of 17 alleged violations) for Kinder Morgan CO_2's alleged submission of false, inaccurate, or misleading information relating to the transportation allowance, and federal royalties for CO_2 produced at McElmo Dome, during the period from June 2005 through October 2006. The MMS stated that civil penalties would continue to accrue at the same rate until the alleged violations are corrected.

On January 3, 2007, Kinder Morgan CO_2 appealed the Notice of Noncompliance and Civil Penalty to the Office of Hearings and Appeals of the Department of the Interior. In February 2007, Kinder Morgan CO_2 filed a motion seeking to stay the accrual of civil penalties during the appeal, which was denied.

In July 2008, the parties reached a settlement in principle of the Notice of Noncompliance and Civil Penalty, subject to final approval by the MMS and the Department of the Interior. On September 8, 2010, the United States Department of the Interior, Bureau of Ocean Energy Management, Regulation, and Enforcement (formerly known as the MMS) approved the settlement, which is now final.

MMS Orders to Report and Pay

On March 20, 2007, Kinder Morgan CO_2 received an Order to Report and Pay from the MMS. The MMS contends that Kinder Morgan CO_2 over-reported transportation allowances and underpaid royalties in the amount of approximately $4.6 million for the period from January 1, 2005 through December 31, 2006 as a result of its use of the Cortez Pipeline tariff as the transportation allowance in calculating federal royalties. The MMS claims that the Cortez Pipeline tariff is not the proper transportation allowance and that Kinder Morgan CO_2 must use its "reasonable actual costs" calculated in accordance with certain federal product valuation regulations. The MMS set a due date of April 13, 2007 for Kinder Morgan CO_2's payment of the $4.6 million in claimed additional royalties, with possible late payment charges and civil penalties for failure to pay the assessed amount.

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(Unaudited)

11. Litigation, Environmental and Other Contingencies (Continued)

Kinder Morgan CO_2 has not paid the $4.6 million, and on April 19, 2007, it submitted a notice of appeal and statement of reasons in response to the Order to Report and Pay, challenging the Order and appealing it to the Director of the MMS in accordance with 30 C.F.R. sec. 290.100, et seq.

In addition to the March 2007 Order to Report and Pay, the MMS issued a second Order to Report and Pay in August 2007, in which the MMS claims that Kinder Morgan CO_2 over-reported transportation allowances and underpaid royalties (due to the use of the Cortez Pipeline tariff as the transportation allowance for purposes of federal royalties) in the amount of approximately $8.5 million for the period from April 2000 through December 2004. Kinder Morgan CO_2 filed its notice of appeal and statement of reasons in response to the second Order in September 2007, challenging the Order and appealing it to the Director of the MMS.

In July 2008, the parties reached a settlement in principle of the March 2007 and August 2007 Orders to Report and Pay, subject to final approval by the MMS and the Department of the Interior. On September 8, 2010, the United States Department of the Interior, Bureau of Ocean Energy Management, Regulation, and Enforcement (formerly known as the MMS) approved the settlement, which is now final.

Colorado Severance Tax Assessment

On September 16, 2009, the Colorado Department of Revenue issued three Notices of Deficiency to Kinder Morgan CO_2. The Notices of Deficiency assessed additional state severance tax against Kinder Morgan CO_2 with respect to carbon dioxide produced from the McElmo Dome unit for tax years 2005, 2006, and 2007. The total amount of tax assessed was $5.7 million, plus interest of $1.0 million, plus penalties of $1.7 million. Kinder Morgan CO_2 protested the Notices of Deficiency and paid the tax and interest under protest. Kinder Morgan CO_2 is now awaiting the Colorado Department of Revenue's response to the protest.

Montezuma County, Colorado Property Tax Assessment

In November of 2009, the County Treasurer of Montezuma County, Colorado, issued to Kinder Morgan CO_2, as operator of the McElmo Dome unit, retroactive tax bills for tax year 2008, in the amount of $2 million. Of this amount, 37.2% is attributable to Kinder Morgan CO_2's interest. The retroactive tax bills were based on the assertion that a portion of the actual value of the carbon dioxide produced from the McElmo Dome unit was omitted from the 2008 tax roll due to an alleged over statement of transportation and other expenses used to calculate the net taxable value. Kinder Morgan CO_2 paid the retroactive tax bills under protest and will file petitions for refunds of the taxes paid under protest and will vigorously contest Montezuma County's position.

Other

In addition to the matters listed above, audits and administrative inquiries concerning Kinder Morgan CO_2's payments on carbon dioxide produced from the McElmo Dome and Bravo Dome units are currently ongoing. These audits and inquiries involve federal agencies, the states of Colorado and New Mexico, and county taxing authorities in the state of Colorado.

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11. Litigation, Environmental and Other Contingencies (Continued)

Commercial Litigation Matters

Union Pacific Railroad Company Easements

SFPP and 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 vs. 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 February 2007, a trial began to determine the amount payable for easements on UPRR rights-of-way. The trial is ongoing and is expected to conclude by the end of 2010.

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 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.

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) would have an adverse effect on our financial position and results of operations. These effects would 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 Sparrows Point, LLC and located in Sparrows Point, Maryland collapsed while being operated by 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 United States District Court for the District of Maryland, cause no. WMN 09CV1668. Severstal alleges 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. Severstal seeks unspecified damages for value of the crane and lost profits. KMBT denies each of Severstal's allegations.

JR Nicholls Tug Incident

On February 10, 2010, the *JR Nicholls*, a tugboat operated by one of KMP's subsidiaries overturned and sank in the Houston Ship Channel. Five employees were on board and four were rescued, treated and released from a local hospital. The fifth employee died in the incident. The U.S. Coast Guard shut down a section of the ship channel for approximately 60 hours. Approximately

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11. Litigation, Environmental and Other Contingencies (Continued)

2,200 gallons of diesel fuel was released from the tugboat. Emergency response crews deployed booms and contained the product, which is substantially cleaned up. Salvage operations were commenced and the tugboat has been recovered. A full investigation of the incident is underway. On September 15, 2010, KMP's subsidiary, Kinder Morgan Ship Channel Services, LLC, as owner of the *JR Nicholls*, agreed to pay a civil penalty of $7,500 for the unintentional discharge of diesel fuel, which occurred when the vessel sank.

Employee Matters

James Lugliani vs. Kinder Morgan G.P., Inc. et al. in the Superior Court of California, Orange County

James Lugliani, a former Kinder Morgan employee, filed suit in January 2010 against various Kinder Morgan affiliates. On behalf of himself and other similarly situated current and former employees, Mr. Lugliani claims that the Kinder Morgan defendants have violated the wage and hour provisions of the California Labor Code and Business & Professions Code by failing to provide meal and rest periods; failing to pay meal and rest period premiums; failing to pay all overtime wages due; failing to timely pay wages; failing to pay wages for vacation, holidays and other paid time off; and failing to keep proper payroll records. Defendants intend to vigorously defend the case.

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.

Pasadena Terminal Fire

On September 23, 2008, a fire occurred in the pit 3 manifold area of our Pasadena, Texas liquids terminal facility. On January 8, 2010, a civil lawsuit was filed on behalf of the People of Texas and the TCEQ for alleged violations of the Texas Clean Air Act. The lawsuit was filed in the 53rd Judicial District Court, Travis County, Texas and is entitled *State of Texas v. Kinder Morgan Liquids Terminals,* case no. D1GV10000017. Specifically, the TCEQ alleges that KMP's subsidiary, Kinder Morgan Liquids Terminals LLC, had an unauthorized emission event relating to the pit 3 fire at the Pasadena terminal in September 2008. KMP has reached an agreement with the TCEQ to settle this matter for $40,000. We expect that the settlement will be finalized prior to December 31, 2010.

Charlotte, North Carolina

On January 17, 2010, KMP's subsidiary Kinder Morgan Southeast Terminal LLC's Charlotte #2 Terminal experienced an issue with a pollution control device known as the Vapor Recovery Unit, which led to a fire and release of gasoline from the facility to adjacent property and a small creek. There were no injuries. KMP is cooperating fully with state and federal agencies on the response and remediation.

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(Unaudited)

11. Litigation, Environmental and Other Contingencies (Continued)

Barstow, California

The United States Department of the Navy has alleged that historic releases of methyl tertiary-butyl ether, or MTBE from Calnev Pipe Line Company's Barstow terminal (i) have migrated underneath the Navy's Marine Corps Logistics Base in Barstow, (ii) have impacted the Navy's existing groundwater treatment system for unrelated groundwater contamination not alleged to have been caused by Calnev and (iii) could affect the Barstow, California Marine Corps Logistic Base's water supply system. Although Calnev believes that it has meritorious defenses to the Navy's claims, it is working with the Navy to agree upon an Administrative Settlement Agreement and Order on Consent for federal Comprehensive Environmental Response, Compensation and Liability Act (referred to as CERCLA) Removal Action to reimburse the Navy for $0.5 million in past response actions.

Westridge Terminal, Burnaby, British Columbia

On July 24, 2007, a third-party contractor installing a sewer line for the City of Burnaby struck a crude oil pipeline segment included within KMP's Trans Mountain pipeline system near its Westridge terminal in Burnaby, British Columbia, resulting in a release of approximately 1,400 barrels of crude oil. The release impacted the surrounding neighborhood, several homes and nearby Burrard Inlet. No injuries were reported. To address the release, KMP initiated a comprehensive emergency response in collaboration with, among others, the City of Burnaby, the British Columbia Ministry of Environment, the National Energy Board (Canada), and the National Transportation Safety Board (Canada). Cleanup and environmental remediation is complete and KMP has received a British Columbia Ministry of Environment Certificate of Compliance confirming complete remediation.

The National Transportation Safety Board released its investigation report on the incident on March 18, 2009. The report confirmed that an absence of pipeline location marking in advance of excavation and inadequate communication between the contractor and KMP's subsidiary Kinder Morgan Canada Inc., the operator of the line, were the primary causes of the accident. No directives, penalties or actions of Kinder Morgan Canada Inc. were required as a result of the report.

On July, 22, 2009, the British Columbia Ministry of Environment issued regulatory charges against the third-party contractor, the engineering consultant to the sewer line project, Kinder Morgan Canada Inc., and KMP subsidiary Trans Mountain L.P. The British Columbia Ministry of Environment claims that the parties charged caused the release of crude oil, and in doing so were in violation of various sections of the Environmental, Fisheries and Migratory Bird Act. KMP is of the view that the charges have been improperly laid against it, and it intends to vigorously defend against them.

Rockies Express Pipeline LLC Indiana Construction Incident

In April 2009, Randy Gardner, an employee of Sheehan Pipeline Construction Company (a third-party contractor to Rockies Express and referred to in this note as Sheehan Construction) was fatally injured during construction activities being conducted under the supervision and control of Sheehan Construction. The cause of the incident was investigated by Indiana OSHA, which issued a citation to Sheehan Construction. Rockies Express was not cited in connection with the incident.

In August 2010, the estate of Mr. Gardner filed a wrongful death action against Rockies Express and several other parties in the Superior Court of Marion County, Indiana, at case

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(Unaudited)

11. Litigation, Environmental and Other Contingencies (Continued)

number 49D111008CT036870. The plaintiff alleges that the defendants were negligent in allegedly failing to provide a safe worksite, and seeks unspecified compensatory damages. Rockies Express denies that it was in any way negligent or otherwise responsible for this incident, and intends to assert contractual claims for complete indemnification for any and all costs arising from this incident, including any costs related to this lawsuit, against third parties and their insurers.

Litigation Relating to the "Going Private" Transaction

Beginning on May 29, 2006, the day after the proposal for the Going Private transaction was announced, and in the days following, eight putative Class Action lawsuits were filed in Harris County (Houston), Texas and seven putative Class Action lawsuits were filed in Shawnee County (Topeka), Kansas against, among others, Kinder Morgan, Inc., its Board of Directors, the Special Committee of the Board of Directors, and several corporate officers.

The eight Harris County cases were consolidated into the *Crescente v. Kinder Morgan, Inc. et al* case, Cause No. 2006-33011, in the 164th Judicial District Court, Harris County, Texas. The seven Kansas cases were consolidated into the Consol. Case No. 06 C 801; *In Re Kinder Morgan, Inc. Shareholder Litigation*; in the District Court of Shawnee County, Kansas, Division 12. The Consolidated Petitions filed by the plaintiffs challenged the proposed transaction as inadequate and unfair to Kinder Morgan, Inc.'s public stockholders. They alleged that Kinder Morgan, Inc.'s Board of Directors and certain members of senior management breached their fiduciary duties and the Sponsor Investors aided and abetted the alleged breaches of fiduciary duty in entering into the merger agreement. They sought, among other things, to enjoin the merger, rescission of the merger agreement, disgorgement of any improper profits received by the defendants, and attorneys' fees. Defendants answered the Consolidated Petitions, denying the plaintiffs' substantive allegations and denying that the plaintiffs are entitled to relief.

In August, September and October 2008, the Plaintiffs in both consolidated cases voluntarily dismissed without prejudice the claims against those Kinder Morgan, Inc. directors who did not participate in the buyout (including the dismissal of the members of the special committee of the board of directors), Kinder Morgan, Inc. and Knight Acquisition, Inc. In addition, on November 19, 2008, by agreement of the parties, the Texas trial court issued an order staying all proceedings in the Texas actions until such time as a final judgment shall be issued in the Kansas actions. The effect of this stay was that the consolidated matters would proceed only in the Kansas trial court.

In February 2009, the parties submitted an agreed upon order which has been entered by the Kansas trial court certifying a class consisting of "All holders of Kinder Morgan, Inc. common stock, during the period of August 28, 2006, through May 30, 2007, and their transferees, successors and assigns. Excluded from the class are defendants, members of their immediate families or trusts for the benefit of defendants or their immediate family members, and any majority-owned affiliates of any defendant." The parties agreed that the certification and definition of the above class was subject to revision and without prejudice to defendants' right to seek decertification of the class or modification of the class definition.

On September 8, 2010, the parties entered into a $200 million settlement agreement to resolve the consolidated class action cases currently pending before the Kansas trial court. On November 19, 2010,

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11. Litigation, Environmental and Other Contingencies (Continued)

the settlement was approved by the Kansas trial court. Absent an appeal by an objecting shareholder, the settlement will become final in 30 days. For the nine months ended September 30, 2010, we recognized a $200 million, pre-tax charge in the caption "General and administrative expense" in our accompanying consolidated statement of income and an increase to the caption "Accrued other current liabilities" in our accompanying consolidated balance sheet.

General

Although no assurance can be given, we believe that we have meritorious defenses to the actions set forth in this note and, to the extent an assessment of the matter is possible, if it is probable that a liability has been incurred and the amount of loss can be reasonably estimated, we believe that we have established an adequate reserve to cover potential liability.

Additionally, although it is not possible to predict the ultimate outcomes, we also believe, based on our experiences to date and the reserves we have established, that the ultimate resolution of these matters will not have a material adverse impact on our business, financial position, results of operations or distributions to limited partners. As of September 30, 2010 and December 31, 2009, we have recorded a total reserve for legal fees, transportation rate cases and other litigation liabilities in the amount of $357.9 million and $220.9 million, respectively. The reserve is primarily related to various claims from regulatory proceedings arising from KMP's West Coast products pipeline transportation rates, and our settlement on the litigation relating to the Going Private transaction discussed preceding, and the contingent amount is based on both the circumstances of probability and reasonability of dollar estimates. The overall change in the reserve from year-end 2009 includes both a $158.0 million increase in expense associated with various rate case liability adjustments that increased our overall rate case liability, and a $206.3 million payment that reduced the liability, plus a $200 million increase in general and administrative expense associated with the Going Private transaction litigation settlement. We regularly assess the likelihood of adverse outcomes resulting from these claims in order to determine the adequacy of our liability provision.

Environmental Matters

The City of Los Angeles v. Kinder Morgan Liquids Terminals, LLC, Shell Oil Company, Equilon Enterprises LLC; California Superior Court, County of Los Angeles, Case No. NC041463.

KMP's subsidiary, Kinder Morgan Liquids Terminals LLC, is a defendant in a lawsuit filed in 2005 alleging claims for environmental cleanup costs at the former Los Angeles Marine Terminal in the Port of Los Angeles. The lawsuit was stayed beginning in 2009 and remains stayed through the end of 2010. The judge has set a hearing for December 10, 2010 to rule on the stay. During the stay, the parties deemed responsible by the local regulatory agency have worked with that agency concerning the scope of the required cleanup. The local regulatory agency issued specific cleanup goals in early 2010, and two of those parties, including Kinder Morgan Liquids Terminals, LLC, have appealed those cleanup goals to the state agency.

Plaintiff's Third Amended Complaint alleges that future environmental cleanup costs at the former terminal will exceed $10 million, and that the plaintiff's past damages exceed $2 million. No trial date has yet been set.

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Exxon Mobil Corporation v. GATX Corporation, Kinder Morgan Liquids Terminals, LLC and ST Services, Inc.

On April 23, 2003, Exxon Mobil Corporation filed a complaint in the Superior Court of New Jersey, Gloucester County. The lawsuit relates to environmental remediation obligations at a Paulsboro, New Jersey liquids terminal owned by ExxonMobil from the mid-1950s through November 1989, by GATX Terminals Corp. from 1989 through September 2000, later owned by Support Terminals. The terminal was owned by Pacific Atlantic Terminals, LLC, and is now owned by Plains Products (Plains), and it too is a party to the lawsuit.

The complaint seeks any and all damages related to remediating all environmental contamination at the terminal, and, according to the New Jersey Spill Compensation and Control Act, treble damages may be available for actual dollars incorrectly spent by the successful party in the lawsuit. The parties engaged in court ordered mediation in 2008 through 2009, which did not result in settlement. The trial judge has issued a Case Management Order and the parties are actively engaged in discovery.

On June 25, 2007, the New Jersey Department of Environmental Protection, 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 against ExxonMobil Corporation and KMP's subsidiary Kinder Morgan Liquids Terminals LLC, formerly known as GATX Terminals Corporation. The complaint was filed in Gloucester County, New Jersey. Both ExxonMobil and Kinder Morgan Liquids Terminals, LLC filed third party complaints against Support Terminals/Plains seeking to bring Support Terminals/Plains into the case. Support Terminals/Plains filed motions to dismiss the third party complaints, which were denied. Support Terminals/Plains is now joined in the case and it filed an Answer denying all claims. The court has consolidated the two cases.

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 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 United States District Court, Southern District of California, case number 07CV1883WCAB. Discovery has commenced and the court has set a trial date of January 24, 2012. 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. On January 19, 2010, the City filed a notice of intent to file an additional claim under the Resource Conservation and Recovery Act. KMP has been and will continue to aggressively defend this action. This site has been, and currently is, under the regulatory oversight and order of the California Regional Water Quality Control Board.

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11. Litigation, Environmental and Other Contingencies (Continued)

Kinder Morgan, EPA Section 114 Information Request

On January 8, 2010, KMI, on behalf of Natural Gas Pipeline Company of America LLC, Horizon Pipeline Company and Rockies Express Pipeline LLC, received a Clean Air Act Section 114 information request from the U.S. Environmental Protection Agency, Region V. This information request requires that the three affiliated companies provide the EPA with air permit and various other information related to their natural gas pipeline compressor station operations in Illinois, Indiana, and Ohio. The affiliated companies have responded to the request and believe the relevant natural gas compressor station operations are in substantial compliance with applicable air quality laws and regulations.

Other Environmental

We are subject to environmental cleanup and enforcement actions from time to time. In particular, the 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. 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 carbon dioxide 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 negotiate and settle these matters. We do not believe that these alleged violations will have a material adverse effect on our business.

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, natural gas liquids, natural gas and carbon dioxide. See " Pipeline Integrity and Releases" above for additional information with respect to ruptures and leaks from our pipelines.

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 will not have a material adverse effect on our business, financial position, results of operations or cash flows. However, we are not able to reasonably estimate

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Litigation, Environmental and Other Contingencies (Continued)

when the eventual settlements of these claims will occur and changing circumstances could cause these matters to have a material adverse impact. As of September 30, 2010, we have accrued an environmental reserve of $82.9 million, and we believe the establishment of this environmental reserve is adequate such that the resolution of pending environmental matters will not have a material adverse impact on our business, cash flows, financial position or results of operations. In addition, as of September 30, 2010, we have recorded a receivable of $8.6 million for expected cost recoveries that have been deemed probable. As of December 31, 2009, our environmental reserve totaled $86.3 million and our estimated receivable for environmental cost recoveries totaled $4.3 million. Additionally, many factors may change in the future affecting our reserve estimates, such as (i) regulatory changes, (ii) groundwater and land use near our sites and (iii) changes in cleanup technology.

Other

We are a defendant in various lawsuits arising from the day-to-day operations of our businesses. 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 cash flows.

12. Regulatory Matters

Below is a brief description of our ongoing regulatory matters, including any material developments that occurred during the nine months ended September 30, 2010. This note also contains a description of any material regulatory matters initiated during the nine months ended September 30, 2010 in which we are involved. In this note, we refer to the Federal Energy Regulatory Commission as the FERC.

Kinder Morgan Interstate Gas Transmission LLC (KMIGT) Section 5 Proceeding

On November 18, 2010, KMIGT was notified by the FERC of a proceeding against it pursuant to Section 5 of the Natural Gas Act. The proceeding will set the matter for hearing and determine whether KMIGT's current rates, which were approved by the FERC in KMIGT's last rate case settlement, remain just and reasonable. The FERC made no findings in its order as to what would constitute just and reasonable rates or a reasonable return for KMIGT. A proceeding under Section 5 of the Natural Gas Act is prospective in nature. Any potential change in rates charged customers by KMIGT can only occur after the FERC has issued a final order. Prior to that, an Administrative Law Judge will preside over an evidentiary hearing and make an initial decision (which the FERC has directed to be issued within 47 weeks). The final FERC decision will be based on the record developed before the Administrative Law Judge. We do not believe that this investigation will have a material adverse impact on us.

NGPL PipeCo LLC Section 5 Proceeding

On November 19, 2009, the FERC initiated an investigation, pursuant to Section 5 of the Natural Gas Act, into the justness and reasonableness of the transportation and storage rates as well as the fuel and natural gas lost percentages of NGPL PipeCo LLC's subsidiary, Natural Gas Pipeline Company of America LLC, referred to as "NGPL LLC." NGPL LLC reached a settlement in principle with the

KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Regulatory Matters (Continued)

FERC on April 22, 2010. On June 11, 2010, NGPL LLC filed an offer of settlement, which was approved without modification by the FERC on July 29, 2010. The order approving the settlement has become final and nonappealable. The settlement resolved all issues in the proceeding. The settlement provides that NGPL LLC will reduce its fuel costs and gas lost and unaccounted for, or "GL&U" retention factors as of July 1, 2010. The settlement further provides a timeline for additional prospective fuel and GL&U reductions and prospective reductions in the maximum recourse reservation rates that it bills firm transportation and storage shippers. Also, see Note 2, "Investments, Acquisitions, Joint Ventures and Divestitures NGPL PipeCo LLC Investment Impairment Charge."

Natural Gas Pipeline Expansion Filings

Rockies Express Pipeline LLC Meeker to Cheyenne Expansion Project

Pursuant to certain rights exercised by EnCana Gas Marketing USA as a result of its foundation shipper status on the former Entrega Gas Pipeline LLC facilities (now part of the Rockies Express Pipeline), Rockies Express Pipeline LLC requested authorization to construct and operate certain facilities that will comprise its Meeker, Colorado to Cheyenne Hub expansion project. The proposed expansion will add natural gas compression at its Big Hole compressor station located in Moffat County, Colorado, and its Arlington compressor station located in Carbon County, Wyoming. Upon completion, the additional compression will permit the transportation of an additional 200 million cubic feet per day of natural gas from (i) the Meeker Hub located in Rio Blanco County, Colorado northward to the Wamsutter Hub located in Sweetwater County, Wyoming; and (ii) the Wamsutter Hub eastward to the Cheyenne Hub located in Weld County, Colorado.

By FERC order issued July 16, 2009, Rockies Express Pipeline LLC was granted authorization to construct and operate this project, and it commenced construction on August 4, 2009. The expansion is fully contracted. The additional compression at the Big Hole compressor station was made available as of December 9, 2009 and the additional compression at the Arlington compressor station was made available as of October 5, 2010. The total FERC authorized cost for the proposed project was approximately $78 million; however, Rockies Express Pipeline LLC is currently projecting that the final actual cost will be approximately $25 million less.

Kinder Morgan Interstate Gas Transmission Pipeline Huntsman 2009 Expansion Project

KMIGT has filed an application with the FERC for authorization to construct and operate certain storage facilities necessary to increase the storage capability of the existing Huntsman Storage Facility, located near Sidney, Nebraska. KMIGT also requested approval of new incremental rates for the project facilities under its currently effective Cheyenne Market Center Service Rate Schedule CMC-2. By FERC order issued September 30, 2009, KMIGT was granted authorization to construct and operate the project, and construction of the project commenced on October 12, 2009. KMIGT received FERC approval to commence service on the expanded storage project effective February 1, 2010. KMIGT commenced placing all remaining facilities into service on August 13, 2010.

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Regulatory Matters (Continued)

Kinder Morgan Interstate Gas Transmission Pipeline Franklin to Hastings Expansion Project

KMIGT has filed a prior notice request to expand and replace certain mainline pipeline facilities to create up to 10,000 dekatherms per day of firm transportation capacity to serve an ethanol plant located near Aurora, Nebraska. The estimated cost of the proposed facilities is $18.9 million. On September 24, 2010 Seminole Energy Services, LLC filed a protest to the construction of this project, and the protest was subsequently denied by the FERC in an order issued October 15, 2010. KMIGT is proceeding with the construction of this project which is expected to be completed in December 2010.

Fayetteville Express Pipeline LLC Docket No.CP09-433-000

Construction is nearly completed on our previously announced Fayetteville Express Pipeline project. The Fayetteville Express Pipeline is owned by Fayetteville Express Pipeline LLC, a 50/50 joint venture between us and Energy Transfer Partners, L.P. The Fayetteville Express Pipeline is a 187-mile, 42-inch diameter natural gas pipeline that begins in Conway County, Arkansas, continues eastward through White County, Arkansas, and terminates at an interconnection with Trunkline Gas Company's pipeline in Panola County, Mississippi. The pipeline will have an initial capacity of two billion cubic feet per day, and has currently secured binding commitments for at least ten years totaling 1.85 billion cubic feet per day of capacity.

On December 17, 2009, the FERC approved the pipeline's certificate application authorizing pipeline construction, and initial construction on the project began in January 2010. The pipeline began interim service on October 12, 2010, and is expected to be fully operational by December 1, 2010. KMP estimates the total costs of this pipeline project will be slightly above $1.0 billion (versus the original budget of $1.3 billion and consistent with KMP's October 20, 2010 third quarter earnings press release).

13. Recent Accounting Pronouncements

Accounting Standards Updates

In December 2009, the Financial Accounting Standards Board (FASB) issued ASU No. 2009-16, "Accounting for Transfers of Financial Assets" and ASU No. 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities." ASU No. 2009-16 amended the Codification's "Transfers and Servicing" Topic to include the provisions included within the FASB's previous Statement of Financial Accounting Standards (SFAS) No. 166, "Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140," issued June 12, 2009. ASU No. 2009-17 amended the Codification's "Consolidations" Topic to include the provisions included within the FASB's previous SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)," also issued June 12, 2009. These two Updates change the way entities must account for securitizations and special-purpose entities. ASU No. 2009-16 requires more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. ASU No. 2009-17 changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated.

For us, both ASUs were effective January 1, 2010; however, the adoption of these ASUs did not have a material impact on our consolidated financial statements. The principal impact of ASU

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KINDER MORGAN, HOLDCO LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Recent Accounting Pronouncements (Continued)

No. 2009-17 is that, effective January 1, 2010 we no longer consolidate Triton Power Company LLC in our consolidated financial statements. There is no impact to "Net Income Attributable to Kinder Morgan Holdco LLC" relating to the exclusion of Triton Power Company LLC, however, we have shown the excluded Triton Power Company LLC's $17.5 million cash and cash equivalent balance at December 31, 2009 as a "Deconsolidation of variable interest entity due to the implementation of ASU 2009-17" in our accompanying consolidated statement of cash flows for the nine months ended September 30, 2010. In addition, as a result of the implementation of ASU 2009-17, effective January 1, 2010, we (i) include the transactions and balances of our business trusts, K N Capital Trust I and K N Capital Trust III, in our consolidated financial statements and (ii) no longer include our Junior Subordinated Deferrable Interest Debentures issued to the Capital Trusts.

In January 2010, the FASB issued ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements." This ASU requires both the gross presentation of activity within the Level 3 fair value measurement roll forward and the details of transfers in and out of Level 1 and 2 fair value measurements. It also clarifies certain disclosure requirements on the level of disaggregation of fair value measurements and disclosures on inputs and valuation techniques. For us, this ASU was effective January 1, 2010 (except for the Level 3 roll forward which is effective for us January 1, 2011); however, because this ASU pertains to disclosure requirements only, the adoption of this ASU did not have a material impact on our consolidated financial statements.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
and Stockholders of Kinder Morgan, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Kinder Morgan, Inc. and its subsidiaries (the "Company") at December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended and the period from June 1, 2007 to December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 (to the financial statements in the Company's Current Report on Form 8-K filed on September 18, 2009 which is not presented herein), the Company changed the manner in which it accounts for noncontrolling interests effective January 1, 2009.

PricewaterhouseCoopers LLP
Houston, Texas
March 5, 2010

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
and Stockholders of Kinder Morgan, Inc.:

In our opinion, the accompanying consolidated statements of operations, of comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the results of their operations and their cash flows for the period from January 1, 2007 to May 31, 2007 of Kinder Morgan, Inc. and its subsidiaries (the "Company") in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 (to the financial statements in the Company's Current Report on Form 8-K filed on September 18, 2009 which is not presented herein), the Company changed the manner in which it accounts for noncontrolling interests effective January 1, 2009.

PricewaterhouseCoopers LLP
Houston, Texas

March 28, 2008, except with respect to Note 15 (to the financial statements in the Company's Registration Statement on Form S-1 filed on January 16, 2009 which is not presented herein), for which the date is January 8, 2009 and to the change in the Company's accounting for noncontrolling interests as discussed in Note 2 (to the financial statements in the Company's Current Report on Form 8-K filed on September 18, 2009 which is not presented herein), as to which the date is September 18, 2009.

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KINDER MORGAN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Successor Company			Predecessor Company
	Year Ended December 31,		Seven Months Ended December 31,	Five Months Ended May 31,
	2009	2008	2007	2007
		(In millions)		(In millions)
Revenues				
Natural gas sales	$ 3,137.2	$ 7,705.8	$ 3,623.1	$ 2,430.6
Services	2,739.1	2,904.0	2,049.8	1,350.5
Product sales and other	1,308.9	1,485.0	721.8	384.0
Total Revenues	7,185.2	12,094.8	6,394.7	4,165.1
Operating Costs, Expenses and Other				
Gas purchases and other costs of sales	3,068.5	7,744.0	3,656.6	2,490.4
Operations and maintenance	1,159.9	1,318.0	943.3	476.1
Depreciation, depletion and amortization	1,070.2	918.4	472.3	261.0
General and administrative	373.0	352.5	175.6	283.6
Taxes, other than income taxes	137.0	191.4	110.1	74.4
Goodwill impairment expense		4,033.3		377.1
Other expense (income)	(30.6)	9.3	(6.0)	(2.3)
Total Operating Costs, Expenses and Other	5,778.0	14,566.9	5,351.9	3,960.3
Operating Income (Loss)	1,407.2	(2,472.1)	1,042.8	204.8
Other Income (Expense)				
Earnings from equity investments	221.9	201.1	56.8	40.7
Amortization of excess cost of equity investments	(5.8)	(5.7)	(3.4)	(2.4)
Interest, net	(573.4)	(628.3)	(594.3)	(250.2)
Other, net	49.5	7.0	11.6	0.6
Total Other Income (Expense)	(307.8)	(425.9)	(529.3)	(211.3)
Income (Loss) from Continuing Operations Before Income Taxes	1,099.4	(2,898.0)	513.5	(6.5)
Income Taxes	(325.6)	(304.3)	(227.4)	(135.5)
Income (Loss) from Continuing Operations	773.8	(3,202.3)	286.1	(142.0)
Income (Loss) from Discontinued Operations, net of tax	0.3	(0.9)	(1.5)	298.6
Net Income (Loss)	774.1	(3,203.2)	284.6	156.6
Net Income Attributable to Noncontrolling Interests	(278.1)	(396.1)	(37.6)	(90.7)
	$ 496.0	$ (3,599.3)	$ 247.0	$ 65.9

Net Income (Loss) Attributable to
Kinder Morgan, Inc

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

	Successor Company			Predecessor Company
	Year Ended December 31,		Seven Months Ended December 31,	Five Months Ended May 31,
	2009	2008	2007	2007
		(In millions)		(In millions)
Kinder Morgan, Inc.				
Net income (loss)	$ 496.0	$ (3,599.3)	$ 247.0	$ 65.9
Other comprehensive income (loss), net of tax (see Note 10)				
Change in fair value of derivatives utilized for hedging purposes	(138.7)	212.0	(249.6)	(21.3)
Reclassification of change in fair value of derivatives to net income	(39.4)	117.1		10.3
Foreign currency translation adjustments	53.9	(68.7)	27.6	40.1
Benefit plan adjustments	2.8	(66.5)	(28.4)	9.7
Benefit plan amortization	6.9	0.4	(0.2)	1.0
Total other comprehensive income (loss)	(114.5)	194.3	(250.6)	39.8
Total comprehensive income (loss)	381.5	(3,405.0)	(3.6)	105.7
Noncontrolling Interests				
Net income	278.1	396.1	37.6	90.7
Other comprehensive income (loss), net of tax (see Note 10)				
Change in fair value of derivatives utilized for hedging purposes	(208.8)	295.4	(389.0)	(50.1)
Reclassification of change in fair value of derivatives to net income	45.7	301.1	137.2	56.5
Foreign currency translation adjustments	114.9	(149.6)	40.3	18.8
Benefit plan adjustments	(1.2)	1.9	(1.4)	(0.2)
Benefit plan amortization	0.1	(0.3)		
Total other comprehensive income (loss)	(49.3)	448.5	(212.9)	25.0
Total comprehensive income (loss)	228.8	844.6	(175.3)	115.7
Total				
Net income (loss)	774.1	(3,203.2)	284.6	156.6
Other comprehensive income (loss), net of tax (see Note 10)				
Change in fair value of derivatives utilized for hedging purposes	(347.5)	507.4	(638.6)	(71.4)
Reclassification of change in fair value of derivatives to net income	6.3	418.2	137.2	66.8
Foreign currency translation adjustments	168.8	(218.3)	67.9	58.9
Benefit plan adjustments	1.6	(64.6)	(29.8)	9.5
Benefit plan amortization	7.0	0.1	(0.2)	1.0
Total other comprehensive income (loss)	(163.8)	642.8	(463.5)	64.8
Total comprehensive income (loss)	$ 610.3	$ (2,560.4)	$ (178.9)	$ 221.4

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

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KINDER MORGAN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2009	2008
	(In millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 165.6	$ 118.6
Restricted deposits	52.5	
Accounts, notes and interest receivable, net	921.6	992.5
Inventories	71.9	44.2
Gas in underground storage	43.5	
Fair value of derivative contracts	20.8	115.2
Other current assets	109.7	46.7
Total Current Assets	1,385.6	1,317.2
Property, plant and equipment, net	16,803.5	16,109.8
Investments	3,695.6	1,827.4
Notes receivable	190.6	178.1
Goodwill	4,744.3	4,698.7
Other intangibles, net	259.8	251.5
Fair value of derivative contracts	293.3	828.0
Deferred charges and other assets	213.6	234.2
Total Assets	$ 27,586.3	$ 25,444.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of debt	$ 768.7	$ 302.5
Cash book overdrafts	36.6	45.2
Accounts payable	620.8	849.8
Accrued interest	292.1	241.9
Accrued taxes	58.6	152.1
Deferred revenues	76.1	41.2
Fair value of derivative contracts	272.0	129.5
Accrued other current liabilities	194.6	252.5
Total Current Liabilities	2,319.5	2,014.7
Long-term Liabilities and Deferred Credits		
Long-term Debt		
Outstanding	12,779.7	11,055.8
Preferred interest in general partner of Kinder Morgan Energy Partners	100.0	100.0
Value of interest rate swaps	361.0	971.0
Total Long-term Debt	13,240.7	12,126.8
Deferred income taxes	2,039.9	2,081.3
Fair value of derivative contracts	469.6	92.2
Other long-term liabilities and deferred credits	670.5	653.0
Total Long-Term Liabilities and Deferred Credits	16,420.7	14,953.3
Total Liabilities	18,740.2	16,968.0

Commitments and Contingencies (Notes 12 and 16)		
Stockholders' Equity		
Common stock authorized and outstanding 100 shares, par value $0.01 per share		
Additional paid-in capital	7,845.7	7,810.0
Retained deficit	(3,506.3)	(3,352.3)
Accumulated other comprehensive loss	(167.9)	(53.4)
Total Kinder Morgan, Inc. Stockholder's Equity	4,171.5	4,404.3
Noncontrolling interests	4,674.6	4,072.6
Total Stockholders' Equity	8,846.1	8,476.9
Total Liabilities and Stockholders' Equity	$ 27,586.3	$ 25,444.9

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

	Successor Company			Predecessor Company
	Year Ended December 31,		Seven Months Ended December 31,	Five Months Ended May 31,
	2009	2008	2007	2007
		(In millions)		(In millions)
Cash Flows From Operating Activities				
Net income (loss)	$ 774.1	$ (3,203.2)	$ 284.6	$ 156.6
Adjustments to reconcile net income to net cash from operating activities				
Loss (income) from discontinued operations, net of tax	(0.3)	0.9	11.9	(287.9)
Loss on early extinguishment of debt		23.6		4.4
Depreciation, depletion and amortization	1,070.2	918.4	476.2	264.9
Impairment of goodwill		4,033.3		377.1
Deferred income taxes	59.0	(496.4)	(89.8)	138.7
Amortization of excess cost of equity investments	5.8	5.7	3.4	2.4
Income from the allowance for equity funds used during construction	(22.7)	(10.9)		
(Income) loss from the sale or casualty of property, plant and equipment and other net assets	(30.4)	9.2	(6.3)	(4.4)
Earnings from equity investments	(221.9)	(201.1)	(57.7)	(41.5)
Mark-to-market interest rate swap gain		(19.8)		
Distributions from equity investments	277.0	241.6	86.5	48.2
Proceeds from (payment for) termination of interest rate swap agreements	146.0	192.0	(2.2)	51.9
Pension contributions in excess of expense	(7.7)			
Changes in components of working capital				
Accounts receivable	47.6	60.6	(64.3)	(31.9)
Inventories	(20.0)	(7.9)	(8.1)	(1.7)
Other current assets	(93.6)	(16.9)	(13.9)	(83.7)
Accounts payable	(180.5)	(99.3)	68.7	26.3
Accrued interest	50.2	0.7	65.9	(22.5)
Accrued taxes	(131.0)	109.0	142.5	(114.0)
Accrued liabilities	(125.0)	(119.1)	(35.5)	(59.6)
Rate reparations, refunds and other litigation reserve adjustments	2.5	(13.7)	140.0	
Other, net	(11.3)	(9.1)	45.8	69.9
Cash Flows Provided by Continuing Operations	1,588.0	1,397.6	1,047.7	493.2
Net Cash Flows (Used in) Provided by Discontinued Operations	(0.5)	(0.8)	(3.2)	109.8
Net Cash Provided by Operating Activities	1,587.5	1,396.8	1,044.5	