KINDER MORGAN, INC.
Form 10-Q
August 05, 2013

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

F O R M 10-Q

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from _____to_____

Commission file number: 001-35081

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

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

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

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

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

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

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

As of July 26, 2013, the registrant had 1,035,846,097 Class P shares outstanding.

KINDER MORGAN, INC. AND SUBSIDIARIES
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Kinder Morgan, Inc. and Subsidiaries

Company Abbreviations

BOSTCO	=	Battleground Oil Specialty Terminal Company LLC	KMGP	=	Kinder Morgan G.P., Inc.
Calnev	=	Calnev Pipe Line LLC	KMI	=	Kinder Morgan, Inc.
Copano	=	Copano Energy, L.L.C.	KMP	=	Kinder Morgan Energy Partners, L.P. and its consolidated subsidiaries
Credit Suisse	=	Credit Suisse Securities (USA) LLC	KMR	=	Kinder Morgan Management, LLC
Eagle Ford	=	Eagle Ford Gathering LLC	Plantation	=	Plantation Pipe Line Company
El Paso	=	El Paso LLC	SFPP	=	SFPP, L.P.
Elba Express	=	Elba Express Company, L.L.C.	Shell	=	Royal Dutch Shell plc
ELC	=	Elba Liquefaction Company, L.L.C.	Shell G&P	=	Shell US Gas & Power, LLC
EP	=	El Paso Corporation and its consolidated subsidiaries	SLC	=	Southern Liquefaction Company, L.L.C.
EPB	=	El Paso Pipeline Partners, L.P.	SLNG	=	Southern LNG Company, L.L.C.
EPNG	=	El Paso Natural Gas Company, L.L.C.	SNG	=	Southern Natural Gas Company, L.L.C.
EPPOC	=	El Paso Pipeline Partners Operating Company, L.L.C	Tallgrass	=	Tallgrass Development, LP (f/k/a Tallgrass Energy Partners, LP)
FEP	=	Fayetteville Express Pipeline LLC	TGP	=	Tennessee Gas Pipeline Company, L.L.C.
KinderHawk	=	KinderHawk Field Services LLC	UBS	=	UBS Securities LLC
KMEP	=	Kinder Morgan Energy Partners, L.P.	WYCO	=	WYCO Development L.L.C.

Unless the context otherwise requires, references to “we,” “us,” “our,” or “KMI” are intended to mean Kinder Morgan, Inc. and its consolidated subsidiaries.

Common Industry and Other Terms

AFUDC	=	allowance for funds used during construction	LIBOR	=	London Interbank Offered Rate
Bcf/d	=	billion cubic feet per day	LLC	=	limited liability company
CERCLA	=	Comprehensive Environmental Response, Compensation and Liability Act	LNG	=	liquefied natural gas
EBDA	=	Earnings before depreciation, depletion and amortization	MLP	=	master limited partnership
DD&A	=	Depreciation, depletion and amortization	MMcf/d	=	million cubic feet per day
DCF	=	distributable cash flow	Moody's	=	Moody's Investor Services
EPA	=	United States Environmental Protection Agency	NYMEX	=	New York Mercantile Exchange
FERC	=	Federal Energy Regulatory Commission	NYSE	=	New York Stock Exchange
FASB	=	Financial Accounting Standards Board	PRP	=	Potentially Responsible Party
Fitch	=	Fitch Ratings	S&P	=	Standard & Poor's Rating Services
FTC	=	Federal Trade Commission	SEC	=	United States Securities and Exchange Commission
GAAP	=	Generally Accepted Accounting Principles in the United States of America	WTI	=	West Texas Intermediate
			OTC	=	over-the-counter

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

Kinder Morgan, Inc. Form 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Natural gas sales	$944	$497	$1,681	$1,081
Services	1,519	1,033	3,080	1,794
Product sales and other	919	637	1,681	1,149
Total Revenues	3,382	2,167	6,442	4,024
Operating Costs, Expenses and Other				
Costs of sales	1,254	637	2,224	1,217
Operations and maintenance	643	387	1,062	693
Depreciation, depletion and amortization	442	333	854	607
General and administrative	183	501	323	630
Taxes, other than income taxes	102	69	200	119
Other income, net	(17)	(20)	(16)	(18)
Total Operating Costs, Expenses and Other	2,607	1,907	4,647	3,248
Operating Income	775	260	1,795	776
Other Income (Expense)				
Earnings from equity investments	93	72	194	137
Amortization of excess cost of equity investments	(9)	(2)	(18)	(4)
Interest expense, net	(427)	(291)	(829)	(470)
Gain on remeasurement of previously held equity interest in Eagle Ford to fair value (Note 2)	558	—	558	—
Gain on sale of investments in Express pipeline system (Note 2)	—	—	225	—
Other, net	16	7	18	8
Total Other Income (Expense)	231	(214)	148	(329)
Income from Continuing Operations Before Income Taxes	1,006	46	1,943	447
Income Tax Expense	(225)	(9)	(504)	(105)
Income from Continuing Operations	781	37	1,439	342
Discontinued Operations (Notes 1 and 2)				
Income from operations of KMP's FTC Natural Gas Pipelines disposal group, net of tax	—	47	—	97
	—	(327)	(2)	(755)

Loss on sale and the remeasurement of KMP's FTC Natural Gas Pipelines disposal group to fair value, net of tax				
Loss from Discontinued Operations, Net of Tax	—	(280)	(2)	(658)
Net Income (Loss)	781	(243)	1,437	(316)
Net (Income) Loss Attributable to Noncontrolling Interests	(504)	117	(868)	211
Net Income (Loss) Attributable to Kinder Morgan, Inc.	$277	$(126)	$569	$(105)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Class P Shares				
Basic and Diluted Earnings (Loss) Per Common Share From Continuing Operations	$0.27	$(0.11)	$0.55	$0.09
Basic and Diluted Loss Per Common Share From Discontinued Operations	—	(0.04)	—	(0.23)
Total Basic and Diluted Earnings (Loss) Per Common Share	$0.27	$(0.15)	$0.55	$(0.14)
Class A Shares				
Basic and Diluted (Loss) Earnings Per Common Share From Continuing Operations		$(0.13)		$0.05
Basic and Diluted Loss Per Common Share From Discontinued Operations		(0.04)		(0.23)
Total Basic and Diluted Loss Per Common Share		$(0.17)		$(0.18)
Basic Weighted-Average Number of Shares Outstanding				
Class P Shares	1,036	320	1,036	245
Class A Shares		522		529
Diluted Weighted-Average Number of Shares Outstanding				
Class P Shares	1,038	843	1,038	776
Class A Shares		522		529
Dividends Per Common Share Declared for the period	$0.40	$0.35	$0.78	$0.67

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

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KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Kinder Morgan, Inc.				
Net income (loss)	$277	$(126)	$569	$(105)
Other comprehensive income (loss), net of tax				
Change in fair value of derivatives utilized for hedging purposes (net of tax expense of $(16), $(56), $(10), and $(34), respectively)	36	89	20	55
Reclassification of change in fair value of derivatives to net income (net of tax benefit (expense) of $2, $3, $3, and $(3), respectively)	(1)	(3)	(5)	6
Foreign currency translation adjustments (net of tax benefit of $12, $7, $19, and $-, respectively)	(28)	(13)	(45)	(1)
Adjustments to pension and other postretirement benefit plan liabilities (net of tax expense of $(1), $(8), $(1), and $(8), respectively)	1	13	—	13
Total other comprehensive income (loss)	8	86	(30)	73
Total comprehensive income (loss)	285	(40)	539	(32)
Noncontrolling Interests				
Net income (loss)	504	(117)	868	(211)
Other comprehensive income (loss), net of tax				
Change in fair value of derivatives utilized for hedging purposes (net of tax expense of $(5), $(15), $(2), and $(10), respectively)	26	139	11	87
Reclassification of change in fair value of derivatives to net income (net of tax benefit (expense) of $1, $-, $1, and $(1), respectively)	(2)	(5)	(4)	9
Foreign currency translation adjustments (net of tax benefit of $4, $2 $6, and $-, respectively)	(26)	(18)	(42)	(1)
Adjustments to pension and other postretirement benefit plan liabilities (net of tax benefit of $- , $-, $-, and $-, respectively)	—	—	—	—
Total other comprehensive (loss) income	(2)	116	(35)	95
Total comprehensive income (loss)	502	(1)	833	(116)
Total				
Net income (loss)	781	(243)	1,437	(316)
Other comprehensive income (loss), net of tax				
Change in fair value of derivatives utilized for hedging purposes (net of tax expense of $(21), $(71), $(12), and $(44), respectively)	62	228	31	142
Reclassification of change in fair value of derivatives to net income (net of tax benefit (expense) of $3, $3, $4, and $(4), respectively)	(3)	(8)	(9)	15
Foreign currency translation adjustments (net of tax benefit of $16, $9, $25, and $-, respectively)	(54)	(31)	(87)	(2)
Adjustments to pension and other postretirement benefit plan liabilities (net of tax expense of $(1), $(8), $(1), and $(8), respectively)	1	13	—	13
Total other comprehensive income (loss)	6	202	(65)	168
Total comprehensive income (loss)	$787	$(41)	$1,372	$(148)

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

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

	June 30, 2013	December 31, 2012 (a)
ASSETS		
Current Assets		
Cash and cash equivalents – KMI (Note 14)	$141	$71
Cash and cash equivalents – KMP and EPB (Note 14)	876	643
Accounts receivable, net	1,488	1,333
Inventories	428	374
Fair value of derivative contracts	67	63
Assets held for sale	32	298
Deferred income taxes	358	539
Other current assets	382	353
Total current assets	3,772	3,674
Property, plant and equipment, net (Note 14)	34,599	30,996
Investments	6,085	5,804
Goodwill (Note 14)	24,493	23,632
Other intangibles, net	2,485	1,171
Fair value of derivative contracts	402	709
Deferred charges and other assets	2,284	2,259
Total Assets	$74,120	$68,245
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current Liabilities		
Current portion of debt – KMI (Note 14)	$1,901	$1,153
Current portion of debt – KMP and EPB (Note 14)	2,063	1,248
Accounts payable	1,326	1,248
Accrued interest	539	513
Fair value of derivative contracts	83	80
Accrued other current liabilities	1,421	986
Total current liabilities	7,333	5,228
Long-term liabilities and deferred credits		
Long-term debt		
Outstanding – KMI (Note 14)	7,726	9,148
Outstanding – KMP and EPB (Note 14)	21,519	20,161
Preferred interest in general partner of KMP	100	100
Debt fair value adjustments	2,237	2,591
Total long-term debt	31,582	32,000
Deferred income taxes	4,113	4,071
Fair value of derivative contracts	158	133
Other long-term liabilities and deferred credits	2,395	2,713
Total long-term liabilities and deferred credits	38,248	38,917

Total Liabilities	$45,581	$44,145

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

	June 30, 2013	December 31, 2012 (a)
Commitments and contingencies (Notes 3 and 11)		
Stockholders’ Equity		
Class P shares, $0.01 par value, 2,000,000,000 shares authorized, 1,035,769,430 and 1,035,668,596 shares, respectively, issued and outstanding	$10	$10
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none outstanding	—	—
Additional paid-in capital	14,945	14,917
Retained deficit	(1,153)	(943)
Accumulated other comprehensive loss	(148)	(118)
Total Kinder Morgan, Inc.’s stockholders’ equity	13,654	13,866
Noncontrolling interests	14,885	10,234
Total Stockholders’ Equity	28,539	24,100
Total Liabilities and Stockholders’ Equity	$74,120	$68,245

(a) Retrospectively adjusted as discussed in Note 2.

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

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)
(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash Flows From Operating Activities		
Net income (loss)	$1,437	$(316)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation, depletion and amortization	854	614
Deferred income taxes	378	(79)
Amortization of excess cost of equity investments	18	4
(Gain) loss from the remeasurement of net assets to fair value, net of tax (Note 2)	(558)	755
Gain from the sale of investments in Express pipeline system (Note 2)	(225)	—
Non-cash compensation expense on settlement of EP stock awards	—	87
Earnings from equity investments	(194)	(179)
Distributions from equity investments	199	168
Proceeds from termination of interest rate swap agreements	96	53
Pension contributions in excess of expense	(59)	(13)
Changes in components of working capital, net of the effects of acquisitions		
Accounts receivable	7	(95)
Inventories	(50)	(84)
Other current assets	(37)	(5)
Accounts payable	(181)	4
Accrued interest	14	(22)
Accrued other current liabilities	(78)	106
Rate reparations, refunds and other litigation reserve adjustments	177	20
Other, net	(81)	(5)
Net Cash Provided by Operating Activities	1,717	1,013
Cash Flows From Investing Activities		
Acquisition of EP, net of $6,581 cash acquired (Note 2)	—	(4,970)
Acquisitions of other assets and investments, net of $29 cash acquired (Note 2)	(286)	(30)
Capital expenditures	(1,345)	(817)
Proceeds from sale of investments in Express pipeline system	403	—
Proceeds from sale of investments in BBPP Holdings Ltda	88	—
Repayments from related party	10	20
Contributions to investments	(93)	(101)
Sale or casualty of property, plant and equipment, investments and other net assets, net of removal costs	23	32
Distributions from equity investments in excess of cumulative earnings	78	113
Other, net	22	(37)
Net Cash Used in Investing Activities	(1,100)	(5,790)
Cash Flows From Financing Activities		
Issuance of debt - KMI	989	6,795
Payment of debt - KMI	(1,673)	(1,112)

Issuance of debt - KMP and EPB	4,858	3,438
Payment of debt - KMP and EPB	(3,863)	(3,197)
Debt issue costs	(12)	(93)
Cash dividends	(779)	(446)
Repurchase of warrants	(131)	(110)
Contributions from noncontrolling interests	1,077	285
Distributions to noncontrolling interests	(761)	(513)
Other, net	1	(4)
Net Cash (Used in) Provided by Financing Activities	(294)	5,043
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(20)	(2)
Net Increase in Cash and Cash Equivalents	303	264
Cash and Cash Equivalents, beginning of period	714	411
Cash and Cash Equivalents, end of period	$1,017	$675

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

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In Millions)
(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Noncash Investing and Financing Activities		
Net assets and liabilities acquired by the issuance of shares and warrants	$—	$11,464
Assets acquired by the assumption or incurrence of liabilities	$1,490	$—
Assets acquired or liabilities settled by contributions from noncontrolling interests	$3,733	$296
Increase in accrual for capital expenditures	$144	$304
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for interest (net of capitalized interest)	$812	$488
Net cash paid during the period for income taxes	$71	$189

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

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Millions)
(Unaudited)

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

	Six Months Ended June 30, 2012						
	Par value of common shares	Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Stockholders' equity attributable to KMI	Non-controlling interests	Total
Beginning Balance at December 31, 2011	$8	$3,431	$(3)	$(115)	$3,321	$ 5,247	$8,568
Issuance of shares for EP acquisition	3	10,598			10,601		10,601
Issuance of warrants for EP acquisition		863			863		863
Acquisition of EP non-controlling interests					—	3,797	3,797
Warrants repurchased		(110)			(110)		(110)
Amortization of restricted shares		6			6		6
Impact from equity transactions of KMP		19			19	(31)	(12)

Net loss			(105)		(105)	(211)	(316)
Distributions					—	(513)	(513)
Contributions					—	586	586
Cash dividends			(446)		(446)		(446)
Other			(2)		(2)		(2)
Other comprehensive income				73	73	95	168
Ending Balance at June 30, 2012	$11	$14,807	$(556)	$(42)	$14,220	$8,970	$23,190

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

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

1. General

Organization

Kinder Morgan, Inc. is the largest midstream and the third largest energy company in North America with a combined enterprise value of approximately $115 billion. We own an interest in or operate approximately 82,000 miles of pipelines and 180 terminals. Our pipelines transport natural gas, refined petroleum products, crude oil, CO_2 and other products, and our terminals store petroleum products and chemicals, and handle such products as ethanol, coal, petroleum coke and steel. We are also the leading producer and transporter of CO_2 for enhanced oil recovery projects in North America.

Effective on May 25, 2012, we completed the acquisition of all of the outstanding shares of EP. As a result, we own a 41% limited partner interest and the 2% general partner interest in EPB, as well as certain natural gas pipeline assets.

We also own the general partner and approximately 10% of the limited partner interests of KMP, one of the largest publicly-traded pipeline limited partnerships in America.

Our common stock trades on the NYSE under the symbol “KMI.”

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

Basis of Presentation

We have prepared our accompanying unaudited consolidated financial statements under the rules and regulations of the SEC. These rules and regulations conform to the accounting principles contained in the FASB’s Accounting Standards Codification. Under such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with the Codification. We believe, however, that our disclosures are adequate to make the information presented not misleading.

Our accompanying unaudited consolidated financial statements reflect normal adjustments, and also recurring adjustments that are, in the opinion of our management, necessary for a fair statement of our financial results for the interim periods, and certain amounts from prior periods have been reclassified to conform to the current presentation. Interim results are not necessarily indicative of results for a full year; accordingly, you should read these consolidated financial statements in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012 (2012 Form 10-K).

Our accounting records are maintained in United States dollars, and all references to dollars are United States dollars, except where stated otherwise. Canadian dollars are designated as C$. Our consolidated financial statements include our accounts and those of our majority-owned subsidiaries as well as the accounts of KMP, EPB and KMR. Investments in jointly-owned operations in which we hold a 50% or less interest (other than KMP, EPB and

KMR, because we have the ability to exercise significant control over their operating and financial policies) are accounted for under the equity method. All significant intercompany transactions and balances have been eliminated.

Notwithstanding the consolidation of KMP and EPB, and their respective subsidiaries, into our financial statements, we are not liable for, and our assets are not available to satisfy, the obligations of KMP and EPB, and/or their respective subsidiaries, and vice versa, except as discussed in Note 11, "—Other Contingencies." Responsibility for payments of obligations reflected in our, KMP or EPB's financial statements is a legal determination based on the entity that incurs the liability.

KMP's FTC Natural Gas Pipelines Disposal Group - Discontinued Operations

Effective November 1, 2012, we sold KMP's (i) Kinder Morgan Interstate Gas Transmission natural gas pipeline system; (ii) Trailblazer natural gas pipeline system; (iii) Casper and Douglas natural gas processing operations; and (iv) 50% equity investment in the Rockies Express natural gas pipeline system to Tallgrass for approximately $1.8 billion in cash (before selling costs), or $3.3 billion including KMP's share of joint venture debt. In this report, we refer to this combined group of assets as KMP's FTC Natural Gas Pipelines disposal group. For more information about the presentation of KMP's FTC Natural Gas Pipelines disposal group as discontinued operations, see Note 2 "Summary of Significant Accounting Policies—Basis of Presentation" to our consolidated financial statements included in our 2012 Form 10-K.

Goodwill

We evaluate goodwill for impairment on May 31 of each year. For this purpose, we have seven 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 Regulated; (iv) Natural Gas Pipelines Non—Regulated; (v) CO_2—KMP; (vi) Terminals—KMP; and (vii) Kinder Morgan Canada—KMP. During the quarter ended June 30, 2013, the Natural Gas Pipelines Non-Regulated reporting unit was created to include the non-regulated businesses KMP acquired from Copano on May 1, 2013 as well as other non-regulated businesses that were historically part of the former Natural Gas Pipelines reporting unit (now the Natural Gas Pipelines Regulated reporting unit). Goodwill was allocated between these two reporting units based on the relative fair values of the reporting units. There were no impairment charges resulting from our May 31, 2013 impairment testing, and no event indicating an impairment has occurred subsequent to that date.

The fair value of each reporting unit was determined based on a market approach utilizing an average dividend/distribution yield of comparable companies. The value of each reporting unit was determined on a stand-alone basis from the perspective of a market participant and represented the price estimated to be received in a sale of the unit as a whole in an orderly transaction between market participants at the measurement date.

Earnings per Share

On June 30, 2013, basic earnings per common share is computed based on the weighted-average number of common shares outstanding during each period. Diluted earnings per common share is computed based on the weighted-average number of common shares outstanding during each period, increased by the assumed conversion of securities convertible into common stock, for which the effect of conversion would be dilutive. For the three and six months ended June 30, 2013, our warrants and convertible trust preferred securities are antidilutive and, accordingly, are excluded from the determination of diluted earnings per share.

On December 26, 2012, the remaining series of our Class A, Class B and Class C shares were fully converted and as a result, only our Class P common stock was outstanding as of December 31, 2012.

For the three and six months ended June 30, 2012, earnings per share was calculated using the two-class method. Earnings were allocated to each class of common stock based on the amount of dividends paid in the current period for each class of stock plus an allocation of the undistributed earnings or excess distributions over earnings to the extent that each security participates in earnings or excess distributions over earnings. For the investor retained stock, the allocation of undistributed earnings or excess distributions over earnings was in direct proportion to the maximum number of Class P shares into which it could convert.

For the Class P diluted per share computations, total net income attributable to Kinder Morgan, Inc. was divided by the adjusted weighted-average shares outstanding during the period, including all dilutive potential shares. This included the Class P shares into which the investor retained stock was convertible. The number of Class P shares on a fully-converted basis was the same before and after any conversion of our investor retained stock. Each time one Class P share was issued upon conversion of investor retained stock, the number of Class P shares went up by one, and the number of Class P shares into which the investor retained stock was convertible went down by one. Accordingly, there was no difference between Class P basic and diluted earnings per share because the conversion of Class A, Class B, and Class C shares into Class P shares did not impact the number of Class P shares on a fully-converted basis. Commencing with the acquisition of EP, dilutive potential shares also included the Class P shares issuable in connection with the warrants and the trust preferred securities (see Note 4). As no securities were convertible into Class A shares, the basic and diluted earnings per share computations for Class A shares were the same. For the three and six months ended June 30, 2012, our warrants and convertible trust preferred securities were antidilutive and, accordingly, were excluded from the determination of diluted earnings per share.

The following tables set forth the computation of basic and diluted earnings per share from continuing operations for the three and six months ended June 30, 2012 (in millions, except per share amounts):

	Three Months Ended June 30, 2012 (Loss) Income from Continuing Operations Available to Shareholders			
	Class P	Class A	Participating Securities (a)	Total
Income from continuing operations				$37
Less: income from continuing operations attributable to noncontrolling interests				(128)
Loss from continuing operations attributable to KMI				(91)
Dividends paid in the period	$86	$128	$12	(226)
Excess distributions over earnings	(121)	(196)	—	$(317)
(Loss) income from continuing operations attributable to shareholders	$(35)	$(68)	$12	$(91)
Basic loss per share from continuing operations				
Basic weighted-average number of shares outstanding	320	522	N/A	
Basic loss per common share from continuing operations(b)	$(0.11)	$(0.13)	N/A	
Diluted loss per share from continuing operations				
Loss from continuing operations attributable to shareholders and assumed conversions(c)	$(91)	$(68)	N/A	
Diluted weighted-average number of shares	843	522	N/A	
Diluted loss per common share from continuing operations(b)	$(0.11)	$(0.13)	N/A	

	Six Months Ended June 30, 2012 Income from Continuing Operations Available to Shareholders			
	Class P	Class A	Participating Securities (a)	Total
Income from continuing operations				$342
Less: income from continuing operations attributable to noncontrolling interests				(272)
Income from continuing operations attributable to KMI				70
Dividends paid in the period	$141	$280	$25	(446)
Excess distributions over earnings	(119)	(256)	(1)	$(376)
Income from continuing operations attributable to shareholders	$22	$24	$24	$70
Basic earnings per share from continuing operations				
Basic weighted-average number of shares outstanding	245	529	N/A	
Basic earnings per common share from continuing operations(b)	$0.09	$0.05	N/A	
Diluted earnings per share from continuing operations				
Income from continuing operations attributable to shareholders and assumed conversions(c)	$70	$24	N/A	

Diluted weighted-average number of shares	776	529	N/A
Diluted earnings per common share from continuing operations(b)	$0.09	$0.05	N/A

The following tables set forth the computation of total basic and diluted earnings per share for the three and six months ended June 30, 2012 (in millions, except per share amounts):

	Three Months Ended June 30, 2012 Net (Loss) Income Available to Shareholders			
	Class P	Class A	Participating Securities (a)	Total
Net loss attributable to KMI				$(126)
Dividends paid in the period	$86	$128	$12	(226)
Excess distributions over earnings	(134)	(218)	—	$(352)
Net (loss) income attributable to shareholders	$(48)	$(90)	$12	$(126)
Basic loss per share				
Basic weighted-average number of shares outstanding	320	522	N/A	
Basic loss per common share(b)	$(0.15)	$(0.17)	N/A	
Diluted loss per share				
Net loss attributable to shareholders and assumed conversions(c)	$(126)	$(90)	N/A	
Diluted weighted-average number of shares	843	522	N/A	
Diluted loss per common share(b)	$(0.15)	$(0.17)	N/A	

	Six Months Ended June 30, 2012 Net (Loss) Income Available to Shareholders			
	Class P	Class A	Participating Securities (a)	Total
Net loss attributable to KMI				$(105)
Dividends paid in the period	$141	$280	$25	(446)
Excess distributions over earnings	(175)	(375)	(1)	$(551)
Net (loss) income attributable to shareholders	$(34)	$(95)	$24	$(105)
Basic loss per share				
Basic weighted-average number of shares outstanding	245	529	N/A	
Basic loss per common share(b)	$(0.14)	$(0.18)	N/A	
Diluted loss per share				
Net loss attributable to shareholders and assumed conversions(c)	$(105)	$(95)	N/A	
Diluted weighted-average number of shares	776	529	N/A	
Diluted loss per common share(b)	$(0.14)	$(0.18)	N/A	

(a) Participating securities included Class B shares, Class C shares, and unvested restricted stock awards issued to non-senior management employees that contained rights to dividend equivalents in the case of the restricted shares. Our Class B and Class C shares were entitled to participate in our earnings, only to the extent of cash distributions made to them. As a result, no earnings in excess of dividends received were allocated to the Class B and Class C shares in our determination of basic and diluted earnings per share.

(b) The Class A shares earnings per share as compared to the Class P shares earnings per share were reduced due to the sharing of economic benefits (including dividends) amongst the Class A, B, and C shares. Class A, B and C shares owned by Richard Kinder, the sponsor investors, the original shareholders, and other management were referred to as “investor retained stock,” and were convertible into a fixed number of Class P shares. In the aggregate,

our investor retained stock was entitled to receive a dividend per share on a fully-converted basis equal to the dividend per share on our common stock. The conversion of shares of investor retained stock into Class P shares did not increase our total fully-converted shares outstanding, impact the aggregate dividends we paid or the dividends we paid per share on our Class P common stock.

(c) For the diluted earnings per share calculation, total net income attributable to each class of common stock was divided by the adjusted weighted-average shares outstanding during the period, including all dilutive potential shares.

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2. Acquisitions and Divestitures

Copano Energy, L.L.C. Acquisition

Effective May 1, 2013, KMP closed its previously announced acquisition of Copano. KMP acquired all of Copano's outstanding units for a total purchase price of approximately $5.2 billion (including assumed debt and all other assumed liabilities). The transaction was a 100% unit for unit transaction with an exchange ratio of 0.4563 of KMP's common units for each Copano common unit. KMP issued 43,371,210 of its common units valued at $3,733 million as consideration for the Copano acquisition (based on the $86.08 closing market price of a KMP common unit on the NYSE on the May 1, 2013 issuance date).

KMP accounted for its acquisition of Copano under the acquisition method of accounting, and accordingly, measured the consideration paid to Copano unitholders, the acquired identifiable tangible and intangible assets, and the assumed liabilities at their acquisition date fair values. Also, due to the fact that KMP's acquisition included the remaining 50% interest in Eagle Ford that it did not already own, KMP remeasured its existing 50% equity investment in Eagle Ford to its fair value as of the acquisition date, resulting in the recognition of a $558 million pre-tax non-cash gain reported separately within "Other Income (Expense)."
The preliminary purchase price allocation related to the Copano acquisition is as follows (in millions). KMP's evaluation of the assigned fair values is ongoing and subject to adjustment:

Preliminary Purchase Price Allocation:		
Current assets (including cash acquired of $29)	$217	
Property, plant and equipment	2,753	
Investments	448	
Goodwill	1,123	
Other intangibles, net	1,350	
Other assets	12	
Total assets	5,903	
Less: Fair value of previously held 50% interest in Eagle Ford Gathering, LLC	(704	)
Total assets acquired	5,199	
Current liabilities	(207	)
Other liabilities	(7	)
Long-term debt	(1,252	)
KMP common unit consideration	$3,733	

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

Copano provides comprehensive services to natural gas producers, including natural gas gathering, processing, treating and natural gas liquids fractionation. Copano owns an interest in or operates approximately 6,900 miles of pipelines with 2.7 Bcf/d of natural gas transportation capacity, and also owns nine natural gas processing plants with more than 1 Bcf/d of natural gas processing capacity and 315 MMcf/d of natural gas treating capacity. Its operations

are located primarily in Texas, Oklahoma and Wyoming. Most of the acquired assets will be included in the Natural Gas Pipelines business segment.

Impact of KMP's Acquisition of Copano on KMI's Income Taxes

Our accounting policy is to apply the look-through method of recording deferred taxes on the outside book tax basis differences in our investments without regard to non-tax deductible goodwill. As a result of the goodwill recorded by KMP for its Copano acquisition, KMI's deferred tax liability must be adjusted for the portion of its outside basis difference associated with KMP's underlying goodwill. Since the KMP acquisition of Copano was accounted for under the acquisition method of accounting, we recognized an adjustment to goodwill of $256 million related to this transaction.

KMI Acquisition of EP

Effective on May 25, 2012, we acquired all of the outstanding shares of EP for an aggregate consideration of approximately $23 billion (excluding assumed debt). In total, EP shareholders received $11.6 billion in cash, 330 million KMI Class P shares with a fair value of $10.6 billion as of May 24, 2012 and 505 million KMI warrants with a fair value of $863 million as of May 24, 2012. The warrants have an exercise price of $40 per share and a 5-year term.

We accounted for the EP acquisition using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized on the balance sheet at their acquisition date fair values. During the three months ended June 30, 2013, management completed its purchase accounting valuation estimates and, as a result, retrospectively adjusted the valuations of certain liabilities with a corresponding increase to goodwill as of the acquisition date. The retrospective adjustments amounted to approximately $60 million and primarily related to revisions of estimates related to certain environmental obligations, sales and use tax liabilities, and deferred income taxes.

Goldsmith Landreth Unit

On June 1, 2013, KMP acquired certain oil and gas properties, rights, and related assets in the Permian Basin of West Texas from Legado Resources LLC for approximately $285 million (before working capital adjustments). KMP also assumed $18 million of liabilities. The acquisition of the Goldsmith Landreth San Andres oil field unit includes more than 6,000 acres located in Ector County, Texas, and based on KMP’s measurement of fair values for all of the identifiable tangible and intangible assets acquired and liabilities assumed, KMP assigned the $285 million amount to "Property, plant and equipment, net." The acquired oil field is in the early stages of CO_2 flood development and includes a residual oil zone along with a classic San Andres waterflood. The field currently produces approximately 1,250 barrels of oil per day, and as part of the transaction, KMP obtained a long-term supply contract for up to 150 MMcf/d of CO_2. The acquisition complements KMP’s existing oil and gas producing assets in the Permian Basin, and the acquired assets are included as part of the CO_2—KMP business segment.

Pro Forma Information

The following summarized unaudited pro forma consolidated income statement information for the three and six months ended June 30, 2013 and 2012, assumes that the EP, Copano and the Goldsmith Landreth Unit acquisitions had occurred as of January 1, 2012. We prepared the following summarized unaudited pro forma financial results for comparative purposes only. The summarized unaudited pro forma financial results may not be indicative of the results that would have occurred if these acquisitions had been completed as of January 1, 2012 or the results that will be attained in the future. Amounts presented below are in millions, except for the per share amounts:

	Pro Forma			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	$3,569	$2,995	$7,147	$6,043
Income (Loss) from Continuing Operations	$755	$(234)	$1,401	$31
Income (Loss) from Discontinued Operations, Net of Tax	$—	$1,767	$(2)	$1,410
Net Income	$755	$1,533	$1,399	$1,441
Net Income (Loss) Attributable to Noncontrolling Interests	$(494)	$80	$(855)	$164
Net Income Attributable to Kinder Morgan, Inc.	$261	$1,613	$544	$1,605
Diluted Earnings per Common Share				

Class P Shares	$0.25	$1.55	$0.52	$1.55
Class A Shares		$1.53		$1.50

KMP’s FTC Natural Gas Pipelines Disposal Group – Discontinued Operations

We began accounting for KMP’s FTC Natural Gas Pipelines disposal group as discontinued operations in the first quarter of 2012 (prior to our sale announcement, we included the disposal group in the Natural Gas Pipelines business segment). During that quarter, the disposal group’s net assets were remeasured to reflect the initial assessment of its fair value as a result of the

FTC mandated sale requirement, and based on additional information gained in the sale process during the second quarter of 2012, we recognized an additional loss amount from KMP's fair value remeasurement. For the six months ended June 30, 2012, we recognized a combined $649 million non-cash loss from remeasurement, and we reported this loss amount separately as "Loss on sale and the remeasurement of FTC Natural Gas Pipelines disposal group to fair value" within the discontinued operations section of our accompanying consolidated statement of income. As a result of our remeasurement of net assets to fair value and the sale of net assets, we recognized a combined $829 million loss for the year ended December 31, 2012.

KMP and Tallgrass trued up the final consideration for the sale of our FTC Natural Gas Pipelines disposal group in the first quarter of 2013, and based on this true up, we recognized an additional $2 million loss. We reported this loss amount separately as "Loss on sale and the remeasurement of FTC Natural Gas Pipelines disposal group to fair value" within the discontinued operations section of our accompanying consolidated statement of income for the six months ended June 30, 2013, and except for this loss amount, no other financial results from the operations of KMP's FTC Natural Gas Pipelines disposal group were recorded in the first six months of 2013.

Summarized financial information for KMP's FTC Natural Gas Pipelines disposal group is as follows (in millions):

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Operating revenues	$ 62	$ 133
Operating expenses	(34)	(71)
Depreciation and amortization	—	(7)
Earnings from equity investments	20	42
Interest income and Other, net	—	1
Income from operations of KMP's FTC Natural Gas Pipelines disposal group, net of tax	$ 48	$ 98

Express Pipeline System

Effective March 14, 2013, KMP sold both its one-third equity ownership interest in the Express pipeline system and its subordinated debenture investment in Express to Spectra Energy Corp. for $403 million in cash. We recorded a pre-tax gain of $225 million with respect to this transaction in the first quarter of 2013, and we reported this gain amount separately within the "Other Income (Expense)" section of our accompanying consolidated statements of income for the six months ended June 30, 2013. We also recorded an income tax expense of $84 million related to this gain amount, and we included this expense within "Income Tax Expense" in our accompanying consolidated statement of income for the six months ended June 30, 2013. As of the date of sale, KMP's equity investment in Express totaled $67 million and its note receivable due from Express totaled $110 million.

Prior to KMP's sale, we (i) accounted for KMP's equity investment under the equity method of accounting; (ii) accounted for KMP's debt investment under the historical amortized cost method of accounting; and (iii) included the financial results of the Express pipeline system within the Kinder Morgan Canada—KMP business segment. As of December 31, 2012, KMP's equity and debt investments in Express totaled $65 million and $114 million, respectively, and we included the combined $179 million amount within "Assets held for sale" on our accompanying consolidated balance sheet as of that date.

BBPP Holdings Ltda

As of December 31, 2012, we owned 2% interest in Gas Transboliviano S.A., and 33 1/3% interest in BBPP Holdings Ltda which we acquired as a part of the May 25, 2012 EP acquisition. BBPP Holdings Ltda owned a 29% interest in

Transportadora Brasileira Gasoduto Bolivia-Brasil S.A. which, together with Gas Transboliviano S.A., owned the Bolivia to Brazil Pipeline. On January 18, 2013, we completed the sale of our equity interests in the Bolivia to Brazil Pipeline for $88 million. As of December 31, 2012, our $88 million equity interests in the Bolivia to Brazil Pipeline was included within “Assets held for sale” on our accompanying consolidated balance sheet.

Drop-Down of EP Assets to KMP

August 2012

Effective August 1, 2012, KMP acquired a 100% ownership interest in the TGP and an initial 50% ownership interest in EPNG from us for an aggregate consideration of approximately $6.2 billion. For additional information about this acquisition, see Note 3 “Acquisitions and Divestitures—Drop-Down of EP Assets to KMP” to our consolidated financial statements included in our 2012 Form 10-K.

March 2013

Effective March 1, 2013, KMP acquired from us the remaining 50% ownership interest it did not already own in both EPNG and the EP midstream assets for an aggregate consideration of approximately $1.7 billion (including a proportional 50% share of assumed debt borrowings as of March 1, 2013). The consideration that we received from KMP consisted of (i) $994 million in cash (including $6 million in the second quarter of 2013 to settle the final working capital adjustment); (ii) 1,249,452 common units (valued at $108 million based on the $86.72 closing market price of KMP’s common unit on the NYSE on the March 1, 2013 issuance date); and (iii) $557 million in assumed debt (consisting of 50% of the outstanding principal amount of EPNG’s debt borrowings as of March 1, 2013, excluding any debt fair value adjustments). We used the proceeds from the March 1, 2013 drop-down transaction to (i) pay down $947 million of our senior secured term loan facility; and (ii) reduce borrowings under our credit facility. Also, see Note 3. The terms of the drop-down transaction were approved on our behalf by the independent members of our board of directors and on KMP’s behalf by the audit committees and the boards of directors of both KMGP, as KMP’s general partner, and KMR, in its capacity as the delegate of KMGP, following the receipt by our independent directors and by the audit committees of KMGP and KMR of separate fairness opinions from different independent financial advisors.

The drop-down transactions were accounted for as transfers of net assets between entities under common control. Specifically, we have retrospectively adjusted our consolidated financial statements to reflect the recognition by KMP of the acquired assets and assumed liabilities at our carrying value, including our EP purchase accounting adjustments as of May 25, 2012. In this report, we refer to these acquisitions of assets by KMP from us as the drop-down transactions; the combined group of assets acquired by KMP from us as the drop-down asset groups; the El Paso Natural Gas pipeline system or El Paso Natural Gas Company, L.L.C. as EPNG; and the EP Midstream assets or Kinder Morgan Altamont LLC (formerly, El Paso Midstream Investment Company, L.L.C.) as the midstream assets.

Income Tax Impact of the Drop-Down of EP Assets to KMP

As discussed above, we accounted for the acquisition of EP as a business combination and for the subsequent March 2013 and August 2012 drop-down transactions as transfers of net assets between entities under common control. For income tax purposes, the March 2013 drop-down transaction was treated as a contribution and the August 2012 drop-down transaction was treated as a partial sale, and a partial contribution.

Our accounting policy is to apply the look-through method of recording deferred taxes on the outside book tax basis differences in our investments without regard to non tax deductible goodwill. As a result of the drop-down transactions, a deferred tax liability arose related to the portion of the outside basis difference associated with the underlying goodwill that was contributed to KMP by us. However, since the drop-downs were transactions between entities under common control, we recognized an offsetting deferred charge of $448 million for the August 2012 and $53 million for the March 2013 drop-down transactions. These balances will be amortized to income tax expense over the remaining useful lives of the transferred assets of approximately 25 years. Similar to the impact described above,

KMP’s acquisition of a 50% ownership interest in the EP Midstream joint venture, also generated the recognition of a deferred charge and corresponding deferred tax liability and is included in the amount above.

The amortization of the deferred charge will result in incremental income tax expense of approximately $20 million per year. For the three and six months ended June 30, 2013, total income tax expense related to the amortization of the deferred charges was approximately $5 million and $10 million, respectively.

3. Debt

We classify our debt based on the contractual maturity dates of the underlying debt instruments. We defer costs associated with debt issuance over the applicable term. These costs are then amortized as interest expense in our accompanying consolidated statements of income. The following provides detail on the principal amount of our outstanding debt balances,

which excludes debt fair value adjustments (which includes discounts and premiums) as of June 30, 2013 and December 31, 2012 (in millions):

	June 30, 2013	December 31, 2012
KMI		
Senior term loan facility, variable rate, due 2015	$1,528	$2,714
Senior notes and debentures, 5.15% through 7.45%, due 2015 through 2098	315	315
Deferrable interest debentures issued to subsidiary trusts, 7.63% and 8.56%, due 2027 and 2028	27	27
Credit facility due December 31, 2014(a)	1,354	1,035
Subsidiary borrowings (as obligor)		
Kinder Morgan Finance Company, LLC		
5.70% through 6.40%, due 2016 through 2036	1,636	1,636
El Paso LLC		
6.50% through 12.00%, due 2013 through 2037	3,860	3,860
EPC Building LLC promissory note, 3.967%, due 2013 through 2035(b)	465	217
Colorado Interstate Gas Services Company		
7.76% Totem note payable, due 2018	1	1
Other credit facilities due March 20, 2014 and June 20, 2014	160	210
EP preferred securities, 4.75%, due March 31, 2028	281	286
Kinder Morgan G.P., Inc.		
$1,000 Liquidation Value Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock	100	100
Total debt — KMI	9,727	10,401
Less: Current portion of long-term debt — KMI(c)	(1,901)	(1,153)
Total long-term debt — KMI(d)	$7,826	$9,248
KMP and EPB		
KMP		
Senior notes, 3.45% through 9.00% due 2013 through 2043(e)	$14,350	$13,350
Commercial paper borrowings(f)	1,369	621
Credit facility due May 1, 2018	—	—
KMP Subsidiary borrowings (as obligor)		
Tennessee Gas Pipeline Company, L.L.C. senior notes, 7.00% through 8.375%, due 2016 through 2037(g)	1,790	1,790
El Paso Natural Gas Company (EPNG) senior notes 5.95% through 8.625%, due 2017 through 2032(h)	1,115	1,115
Copano Energy, L.L.C. notes, 7.125%, due April 1, 2021(i)	510	—
Other miscellaneous subsidiary debt(j)	103	186
Total debt — KMP	19,237	17,062
Less: Current portion of long-term debt — KMP(k)	(1,899)	(1,155)
Total long-term debt — KMP(d)	17,338	15,907
EPB		
El Paso Pipeline Partners Operating Company, L.L.C.		
Senior notes, 4.10% through 8.00% due 2013 through 2042	2,348	2,348
Credit facility due May 27, 2016(l)	—	—
EPB Subsidiary borrowings (as obligor)		
	475	475

Colorado Interstate Gas Company, L.L.C senior notes, 5.95% through 6.85%, due 2015 through 2037		
Southern LNG Company, L.L.C. senior notes, 9.50% through 9.75%, due 2014 through 2016	135	135
Southern Natural Gas Company, L.L.C. notes, 4.40% through 8.00%, due 2017 through 2032	1,211	1,211
Other financing obligations	176	178
Total debt — EPB	4,345	4,347
Less: Current portion of long-term debt — EPB	(164)	(93)
Total long-term debt — EPB(d)	4,181	4,254
Total long-term debt — KMP and EPB	$21,519	$20,161

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(a) As of June 30, 2013 and December 31, 2012, the weighted average interest rates on credit facility borrowings were 2.70% and 2.72%, respectively.

(b) In December 2012, our subsidiary, EPC Building, LLC had issued $468 million of 3.967% amortizing promissory notes with payments due 2013 through 2035, of which $217 million was issued to third parties and the remaining $251 million was held by KMI until they were sold to third parties in April of 2013. EPC Building, LLC, as the landlord, leases the property to Kinder Morgan, Inc. as a tenant. Proceeds from the issuance of the notes were used to reduce KMI's credit facility borrowings.

(c) As of June 30, 2013 and December 31, 2012, includes credit facility borrowings of $1,354 million and $1,035 million, respectively.

(d) Excludes debt fair value adjustments. As of June 30, 2013 and December 31, 2012, our "Debt fair value adjustments" increased our debt balances by $2,237 million and $2,591 million, respectively. In addition to all unamortized debt discount/premium amounts and purchase accounting on our debt balances, our debt fair value adjustments also include (i) amounts associated with the offsetting entry for hedged debt; and (ii) any unamortized portion of proceeds received from the early termination of interest rate swap agreements. For further information about our debt fair value adjustments, see Note 5 "Risk Management—Fair Value of Derivative Contracts."

(e) On February 28, 2013, KMP completed a public offering of $1 billion in principal amount of senior notes in two separate series, consisting of $600 million of 3.50% notes due September 1, 2023 and $400 million of 5.00% notes due March 1, 2043. KMP received net proceeds of $991 million, and used the proceeds to pay a portion of the purchase price for the March 2013 drop-down transaction and to reduce the borrowings under its commercial paper program.

(f) In May 2013, in association with the increase of capacity negotiated for KMP's senior unsecured revolving bank credit facility (discussed below), KMP increased its commercial paper program by $500 million to provide for the issuance of up to $2.7 billion. As of June 30, 2013 and December 31, 2012, the average interest rates on KMP's outstanding commercial paper borrowings were 0.33% and 0.45%, respectively. The borrowings under KMP's commercial paper program were used principally to finance the acquisitions and capital expansions made during the first half of 2013 and during 2012, and in the near term, KMP expects that its short-term liquidity and financing needs will be met primarily through borrowings made under its commercial paper program.

(g) Consists of six separate series of fixed-rate unsecured senior notes that KMP assumed as part of the 2012 drop-down transaction.

(h) Consists of four separate series of fixed-rate unsecured senior notes that KMP assumed as part of the 2012 and 2013 drop-down transactions.

(i) Consists of a single series of fixed-rate unsecured senior notes that KMP guaranteed as part of its May 1, 2013 Copano acquisition. The notes consist of an aggregate principal amount of $510 million with a fixed annual stated interest rate of 7.125%. The notes mature in full on April 1, 2021, and interest is payable semiannually on April 1 and October 1 of each year. As part of KMP's purchase price, it valued the debt equal to $589 million as of May 1, 2013, representing the present value of amounts to be paid determined using an approximate interest rate of 4.79%.

(j) In February 2013, prior to the close of the March 2013 drop-down transaction, we and KMP each contributed $45 million to Kinder Morgan Altamont LLC to allow it to repay the outstanding $90 million borrowings under KMP's subsidiary Kinder Morgan Altamont LLC's revolving bank credit facility and following this repayment, Kinder Morgan Altamont LLC had no outstanding debt. In May 2013, KMP terminated the credit facility.

(k) As of June 30, 2013 and December 31, 2012, includes commercial paper borrowings of $1,369 million and $621 million.

(l) LIBOR plus 1.75%.

KMP's Copano Debt Retirements

In addition to the senior notes KMP guaranteed as part of its May 1, 2013 Copano acquisition, the following Copano debt amounts were outstanding upon acquisition (i) $404 million of outstanding borrowings under Copano's revolving

bank credit facility due June 10, 2016; and (ii) $249 million aggregate principal amount of Copano's 7.75% unsecured senior notes due June 1, 2018. On May 1, 2013, immediately following KMP's acquisition, KMP repaid the outstanding $404 million of borrowings under Copano's revolving bank credit facility, and terminated the credit facility at the time of such repayment. On June 1, 2013, KMP paid $259 million (based on a price of 103.875% of the principal amount) to fully redeem and retire the 7.75% series of senior notes in accordance with the terms and conditions of the indenture governing the notes. As part of KMP's May 1, 2013 purchase price, KMP valued the 7.75% senior notes equal to the $259 million redemption value. KMP utilized borrowings under its commercial paper program for both of these debt retirements.

Subsequent Event

On July 29, 2013, KMP priced a public offering of a combined $1,750 million of senior notes consisting of (i) $800 million of 2.65% senior notes due February 1, 2019; (ii) $650 million of 4.15% senior notes due February 1, 2024; and (iii) $300 million of 5.00% senior notes due 2043, which will constitute a further issuance of the $400 million principal amount of 5.00% senior notes that KMP issued on February 28, 2013.

Credit Facilities

KMI

As of June 30, 2013, we had $1,354 million outstanding under KMI’s $1.75 billion senior secured credit facility and $77 million in letters of credit. Our availability under this facility as of June 30, 2013 was approximately $319 million.

KMP

On May 1, 2013, KMP replaced its previous $2.2 billion three-year, senior unsecured revolving bank credit facility that was due July 1, 2016, with a new $2.7 billion five-year, senior unsecured revolving credit facility expiring May 1, 2018. Borrowings under the credit facility can be used for general partnership purposes and as a backup for KMP’s commercial paper program. KMP had no borrowings under the credit facility as of June 30, 2013. The credit facility’s financial covenants are substantially similar to those in the previous facility, and as of June 30, 2013, we were in compliance with all required financial covenants. The new facility provides that the margin KMP will pay with respect to borrowings and the facility fee KMP will pay on the total commitment will vary based on its senior debt credit rating. Interest on the credit facility accrues at KMP’s option at a floating rate equal to either:

the administrative agent's base rate, plus a margin, which varies depending upon the credit rating of KMP’s long-term senior unsecured debt (the administrative agent's base rate is a rate equal to the greatest of (i) the Federal Funds Rate, plus 0.5%; (ii) the Prime Rate; or (iii) LIBOR for a one-month eurodollar loan, plus 1%); or

LIBOR for a one-month eurodollar loan, plus a margin, which varies depending upon the credit rating of KMP’s long-term senior unsecured debt.

As of June 30, 2013, KMP had approximately $1,369 million of commercial paper borrowings outstanding under its $2.7 billion credit facility and $204 million outstanding in letters of credit. KMP’s availability under its facility as of June 30, 2013 was approximately $1,127 million.

EPB

As of June 30, 2013, EPB had no outstanding balance under its revolving credit facility and $10 million in outstanding letters of credit. EPB’s availability under this facility as of June 30, 2013 was approximately $990 million.

Kinder Morgan G.P., Inc. Preferred Shares

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Per share cash distribution declared for the period(a)	$10.545	$20.825	$21.014	$41.650
Per share cash distribution paid in the period	$10.469	$20.825	$21.107	$41.650

(a) Distribution declared for the three months ended June 30, 2013, was declared on July 17, 2013 and is payable on August 19, 2013 to shareholders of record as of July 31, 2013.

4. Stockholders’ Equity

Common Equity

As of June 30, 2013, our common equity consisted of our Class P common stock. On December 26, 2012, our remaining series of Class A, Class B and Class C shares were fully converted, and as a result only our Class P common stock was outstanding as of December 31, 2012. Our Class P common stock is sometimes referred to herein as our “common stock,” and our Class A, Class B and Class C common stock is sometimes collectively referred to herein as our “investor retained stock.” For accounting purposes, our Class P shares are and our Class A shares, prior to the full conversion of the investor retained stock, were considered common stock, and prior to the full conversion of the investor retained stock, our Class B and Class C shares, were considered participating

securities. For additional information regarding our common stock and our investor retained stock, see Note 10 “Stockholders’ Equity” to our consolidated financial statements included in our 2012 Form 10-K.

The following tables set forth the changes in our outstanding series of shares during the six months ended June 30, 2013 and 2012.

	Class P
Balance at December 31, 2012	1,035,668,596
Shares issued with conversions of EP Trust I Preferred securities	74,134
Shares issued for exercised warrants	16,886
Restricted shares vested	9,814
Balance at June 30, 2013	1,035,769,430

	Class P	Class A	Class B	Class C
Balance at December 31, 2011	170,921,140	535,972,387	94,132,596	2,318,258
Shares issued for EP acquisition (Note 2)	330,152,112	—	—	—
Shares converted	65,928,893	(65,928,893)	(553,502)	(1,030)
Shares canceled	(72,657)	—	—	—
Restricted shares vested	1,465	—	—	—
Balance at June 30, 2012	566,930,953	470,043,494	93,579,094	2,317,228

Dividends

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

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	2013	2012	2013	2012
Per common share cash dividend declared for the period	$0.40	$0.35	$0.78	$0.67
Per common share cash dividend paid in the period	$0.38	$0.32	$0.75	$0.63

Dividends Subsequent to June 30, 2013

On July 17, 2013, our board of directors declared a cash dividend of $0.40 per share for the quarterly period ended June 30, 2013, which is payable on August 15, 2013 to shareholders of record as of July 31, 2013.

Warrants

The table below sets forth the changes in our outstanding warrants during the six months ended June 30, 2013 and 2012.

	Warrants	
	Six Months Ended June 30,	
	2013	2012
Beginning balance	439,809,442	—
Warrants issued in EP acquisition(a)	—	504,598,883
Warrants issued with conversions of EP Trust I Preferred securities(b)	113,317	—
Warrants exercised	(21,208)	—
Warrants repurchased(c)	(25,781,031)	(50,892,310)
Ending balance	414,120,520	453,706,573

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(a) See Note 2, "Acquisitions and Divestitures—KMI Acquisition of EP."

(b) See Note 8, "Debt" to our consolidated financial statements included in our 2012 Form 10-K.

(c) On May 23, 2012, we announced that our board of directors had approved a warrant repurchase program, authorizing us to repurchase in the aggregate up to $250 million of warrants. As of May 2013, we completed the repurchase of $250 million of warrants pursuant to this publicly announced repurchase program, and through June 30, 2013, have paid an additional $38 million, as authorized by KMI's board of directors, for warrants repurchased separate and apart from the publicly announced repurchase program. During the six months ended June 30, 2013 and 2012, we paid a total of $131 million and $110 million, respectively, for the repurchase of warrants. On July 17, 2013, we announced that our board of directors had approved a separate share and warrant repurchase program authorizing us to repurchase in the aggregate up to $350 million of additional shares or warrants.

Each of our warrants entitles the holder to purchase one share of our common stock for an exercise price of $40 per share, payable in cash or by cashless exercise, at any time until May 25, 2017. For additional information regarding our warrants, see Note 10 "Stockholders' Equity" to our consolidated financial statements included in our 2012 Form 10-K.

Noncontrolling Interests

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

	June 30, 2013	December 31, 2012
KMP	$7,590	$3,270
EPB	4,166	4,111
KMR	2,906	2,716
Other	223	137
	$14,885	$10,234

Contributions

Contributions from our noncontrolling interests consist primarily of equity issuances by KMP, EPB and KMR. As of June 30, 2013, each of these subsidiaries have an equity distribution agreement in place which allows the subsidiary to sell its equity interests from time to time through a designated sales agent. The terms of each agreement are substantially similar. Sales of the subsidiary's equity interests will be made by means of ordinary brokers' transactions on the NYSE at market prices, in block transactions or as otherwise agreed between the subsidiary equity issuer and its sales agent. The subsidiary equity issuer may also sell its equity interests to its sales agent as principal for the sales

agent's own account at a price agreed upon at the time of the sale. Any sale of the subsidiary's equity interests to the sales agent as principal would be pursuant to the terms of a separate agreement between the subsidiary equity issuer and its sales agent. The equity distribution agreement provides the subsidiary with the right, but not the obligation to offer and sell its equity units or shares, at prices to be determined by market conditions. The subsidiary retains at all times complete control over the amount and the timing of sales under its respective equity distribution agreement, and it will designate the maximum number of equity units or shares to be sold through its sales agent, on a daily basis or otherwise as the subsidiary equity issuer and its sales agent agree.

The table below shows significant issuances of common units or shares, the net proceeds from the issuances and the use of the proceeds during the six months ended June 30, 2013 for KMP, EPB and KMR (dollars in millions and units and shares in thousands).

	Issuances	Common units/shares (in thousands)	Net proceeds (in millions)		Use of proceeds
KMP					
Issued under equity distribution agreement					
	2013	5,263	$449		Reduced borrowings under KMP's commercial paper program
Other issuances					
	February 2013	4,600	$385		Issued to pay a portion of the purchase price for the March 2013 drop-down transaction
	May 2013	43,371	$—	(a)	Issued to Copano unitholders as KMP's purchase price for Copano
EPB (b)					
	2013	2,038	$85	(c)	General partnership purposes
KMR (d)					
	2013	861	$73		Purchased additional KMP i-units; KMP then used proceeds to reduce borrowings under its commercial paper program

(a) KMP valued these units at $3,733 million based on the $86.08 closing market price of a KMP common unit on the NYSE on the May 1, 2013 issuance date.

(b) On March 7, 2013, EPB entered into an equity distribution agreement with Citigroup. Pursuant to the provisions of EPB’s equity distribution agreement, EPB may sell from time to time through Citigroup, as its sales agent, EPB’s common units representing limited partner interests having an aggregate offering price of up to $500 million.

(c) Represents proceeds received from noncontrolling interests and excludes our $2 million contribution as the owner of EPB’s general partner.

(d) On May 4, 2012, KMR entered into an equity distribution agreement with Credit Suisse. Pursuant to the provisions of KMR’s equity distribution agreement, it may sell from time to time through Credit Suisse, as its sales agent, KMR shares having an aggregate offering price of up to $500 million.

The above equity issuances by KMP, EPB and KMR during the six months ended June 30, 2013 had the associated effects of increasing our (i) noncontrolling interests by $4,494 million; (ii) accumulated deferred income taxes by $85 million; and (iii) additional paid-in capital by $146 million.

Distributions

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
KMP				
Per unit cash distribution declared for the period	$1.32	$1.23	$2.62	$2.43
Per unit cash distribution paid in the period	$1.30	$1.20	$2.59	$2.36

Cash distributions paid in the period to the public	$307	$262	$606	$513
EPB(a)				
Per unit cash distribution declared for the period	$0.63	$0.55	$1.25	$0.55
Per unit cash distribution paid in the period	$0.62	n/a	$1.23	n/a
Cash distributions paid in the period to the public	$79	n/a	$155	n/a
KMR(b)				
Share distributions paid in the period	1,726,952	1,603,975	3,531,548	3,068,120

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(a) Represents distribution information since the May 2012 EP acquisition.

(b) KMR's distributions are paid in the form of additional shares or fractions thereof calculated by dividing the KMP cash distribution per common unit by the average of the market closing prices of a KMR share determined for a ten-trading day period ending on the trading day immediately prior to the ex-dividend date for the shares. On July 17, 2013, KMR declared a share distribution of 0.015704 shares per outstanding share (1,880,172 total shares) payable on August 14, 2013 to shareholders of record as of July 31, 2013, based on the $1.32 per common unit distribution declared by KMP.

Subsequent Events

Noncontrolling Interests Contributions

Shares and units issued subsequent to period end include (i) 215,200 of KMR's shares and (ii) 503,091 of KMP's common units, both of which were issued in early July 2013, for the settlement of sales made on or before June 30, 2013 pursuant to KMR's equity distribution agreement and KMP's equity distribution agreement, respectively. KMR received net proceeds of $18 million from the issuance of these additional shares and KMP received net proceeds of $43 million from the issuance of these additional common units, and the combined proceeds were used to reduce the borrowings under KMP's commercial paper program.

Noncontrolling Interests Distributions

On July 17, 2013, KMP declared a cash distribution of $1.32 per unit for the quarterly period ended June 30, 2013. The distribution will be paid on August 14, 2013 to KMP's unitholders of record as of July 31, 2013.

On July 17, 2013, EPB declared a cash distribution of $0.63 per unit for the quarterly period ended June 30, 2013. The distribution will be paid on August 14, 2013 to EPB's unitholders of record as of July 31, 2013.

5. 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.

As part of the EP acquisition, we acquired power forward and swap contracts. We have entered into offsetting positions that eliminate the price risks associated with our power contracts. As part of the Copano acquisition, KMP acquired derivative contracts related to natural gas, natural gas liquids and crude oil. None of these derivatives are designated as accounting hedges.

Energy Commodity Price Risk Management

As of June 30, 2013, KMI and KMP had the following outstanding commodity forward contracts to hedge their forecasted energy commodity purchases and sales:

	Net open position long/(short)		
Derivatives designated as hedging contracts			
Crude oil fixed price	(22.0	)	million barrels
Natural gas fixed price	(32.8	)	billion cubic feet

Natural gas basis	(32.8)	billion cubic feet
Derivatives not designated as hedging contracts		
Crude oil fixed price	0.7	million barrels
Crude oil basis	(2.4)	million barrels
Natural gas fixed price	(0.5)	billion cubic feet
Natural gas basis	1.6	billion cubic feet
Natural gas liquids fixed price	0.5	million barrels

As of June 30, 2013, 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 2017.

Interest Rate Risk Management

As of June 30, 2013, KMI and KMP had a combined notional principal amount of $725 million and $4,550 million, respectively, of fixed-to-variable interest rate swap agreements, effectively converting the interest expense associated with certain series of senior notes from fixed rates to variable rates based on an interest rate of LIBOR plus a spread. All of KMI and KMP's swap agreements have termination dates that correspond to the maturity dates of the related series of senior notes and, as of June 30, 2013, the maximum length of time over which we have hedged a portion of our exposure to the variability in the value of this debt due to interest rate risk is through March 15, 2035.

As of December 31, 2012, KMI and KMP had a combined notional principal amount of $725 million and $5,525 million, respectively, of fixed-to-variable interest rate swap agreements. In June 2013, KMP terminated three fixed-to-variable swap agreements having a combined notional principal amount of $975 million, and received combined proceeds of $96 million from the early termination of these swap agreements.

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" in the respective sections of our accompanying consolidated balance sheets. The following table summarizes the fair values of our derivative contracts included in our accompanying consolidated balance sheets as of June 30, 2013 and December 31, 2012 (in millions):

Fair Value of Derivative Contracts

		Asset derivatives		Liability derivatives	
		June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
	Balance sheet location	Fair value	Fair value	Fair value	Fair value
Derivatives designated as hedging contracts					
Natural gas and crude derivative contracts	Current-Fair value of derivative contracts	$37	$42	$(21)	$(18)
	Non-current-Fair value of derivative contracts	77	40	(16)	(11)
Subtotal		114	82	(37)	(29)
Interest rate swap agreements	Current-Fair value of derivative contracts	2	9	(6)	—
	Non-current-Fair value of derivative contracts	308	656	(43)	(1)
Subtotal		310	665	(49)	(1)
Total		424	747	(86)	(30)
Derivatives not designated as hedging contracts					
Natural gas, crude and NGL derivative contracts	Current-Fair value of derivative contracts	20	4	(1)	(3)
	Non-current-Fair value of derivative contracts	4	—	(1)	(1)
Subtotal		24	4	(2)	(4)
Power derivative contracts	Current-Fair value of derivative contracts	8	8	(55)	(59)

	Non-current-Fair value of derivative contracts	13	13	(98)	(120)
Subtotal		21	21	(153)	(179)
Total		45	25	(155)	(183)
Total derivatives		$469	$772	$(241)	$(213)

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Certain of our derivative contracts are subject to master netting agreements. As of June 30, 2013 and December 31, 2012, we presented the fair value of our derivative contracts on a gross basis on our accompanying consolidated balance sheets. The following tables present our derivative contracts subject to such netting agreements as of the dates indicated (in millions):

Offsetting of financial assets and derivative assets

				Gross amounts not offset in the balance sheet		
	Gross amounts of recognized assets	Gross amounts offset in the balance sheet	Amounts of assets presented in the balance sheet	Financial instruments	Cash collateral held(a)	Net amount
As of June 30, 2013:						
Natural gas, crude and NGL derivative contracts	$138	$—	$138	$(26)	$(1)	$111
Power derivative contracts	$21	$—	$21	$(21)	$—	$—
Interest rate swap agreements	$310	$—	$310	$(10)	$—	$300
As of December 31, 2012:						
Natural gas, crude and NGL derivative contracts	$86	$—	$86	$(17)	$—	$69
Power derivative contracts	$21	$—	$21	$(21)	$—	$—
Interest rate swap agreements	$665	$—	$665	$—	$—	$665

Offsetting of financial liabilities and derivative liabilities

				Gross amounts not offset in the balance sheet		
	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Amounts of liabilities presented in the balance sheet	Financial instruments	Cash collateral posted(b)	Net amount
As of June 30, 2013:						
Natural gas, crude and NGL derivative contracts	$(39)	$—	$(39)	$26	$—	$(13)
Power derivative contracts	$(153)	$—	$(153)	$21	$1	$(131)
Interest rate swap agreements	$(49)	$—	$(49)	$10	$—	$(39)
As of December 31, 2012:						
Natural gas, crude and NGL derivative contracts	$(33)	$—	$(33)	$17	$5	$(11)
Power derivative contracts	$(179)	$—	$(179)	$21	$—	$(158)
Interest rate swap agreements	$(1)	$—	$(1)	$—	$—	$(1)

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

(b)

$1 million and $5 million of cash margin deposits posted by KMI and KMP, respectively, associated with energy commodity contract positions and OTC swap agreements and reported within “Other current assets” in our accompanying consolidated balance sheets.

Debt Fair Value Adjustments

The offsetting entry to adjust the carrying value of the debt securities whose fair value was being hedged is included within “Debt fair value adjustments” on our accompanying consolidated balance sheets. Our “Debt fair value adjustments” also include amounts associated with the offsetting entry for hedged debt, all unamortized debt discount/premium amounts, purchase accounting on our debt balances, and any unamortized portion of proceeds received from the early termination of interest rate swap agreements. These fair value adjustments to our debt balances included (i) $1,470 million at both June 30, 2013 and December 31, 2012, associated with fair value adjustments to our debt previously recorded in purchase accounting; (ii) $261 million and $664 million at June 30, 2013 and December 31, 2012, respectively, associated with the offsetting entry for hedged debt; (iii) $552 million and $490 million at June 30, 2013 and December 31, 2012, respectively, associated with unamortized premium from the termination of interest rate swap agreements; and offset by (iv) $46 million and $33 million at June 30, 2013 and December 31, 2012, respectively, associated with unamortized debt discount amounts. As of June 30, 2013, the weighted-average amortization period of the unamortized premium from the termination of the interest rate swaps was approximately 16 years.

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 each of the three and six months ended June 30, 2013 and 2012 (in millions):

Derivatives in fair value hedging relationships	Location of gain/(loss) recognized in income on derivatives	Amount of gain/(loss) recognized in income on derivatives and related hedged item(a)			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2013	2012	2013	2012
Interest rate swap agreements	Interest expense	$(219)	$196	$(307)	$81
Total		$(219)	$196	$(307)	$81
Fixed rate debt	Interest expense	$219	$(196)	$307	$(81)
Total		$219	$(196)	$307	$(81)

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

Derivatives in cash flow hedging relationships	Amount of gain/(loss) recognized in OCI on derivative(effective portion)(a)		Location of gain/(loss) reclassified from Accumulated OCI into income (effective portion)	Amount of gain/(loss) reclassified from Accumulated OCI into income (effective portion)(b)		Location of gain/(loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain/(loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	
	Three Months Ended June 30,			Three Months Ended June 30,			Three Months Ended June 30,	
	2013	2012		2013	2012		2013	2012
Energy commodity derivative contracts	$ 55	$ 231	Revenues-Natural gas sales	$ —	$ 1	Revenues-Natural gas sales	$ —	$ —
			Revenues-Product sales and other	8	(2)	Revenues-Product sales and other	9	—
			Gas purchases and other costs of sales	(5)	9	Gas purchases and other costs of sales	—	—
Interest rate swap agreements	7	(3)	Interest expense	—	—	Interest Expense	—	—
Total	$ 62	$ 228	Total	$ 3	$ 8	Total	$ 9	$ —

Derivatives in cash flow hedging relationships	Amount of gain/(loss) recognized in OCI on derivative(effective portion)(a)		Location of gain/(loss) reclassified from Accumulated OCI into income (effective portion)	Amount of gain/(loss) reclassified from Accumulated OCI into income (effective portion)(b)		Location of gain/(loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain/(loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	
	Six Months Ended June 30,			Six Months Ended June 30,			Six Months Ended June 30,	
	2013	2012		2013	2012		2013	2012
Energy commodity derivative contracts	$ 23	$ 145	Revenues-Natural gas sales	$ —	$ 2	Revenues-Natural gas sales	$ —	$ —
				13	(23)		6	(3)

			Revenues-Product sales and other			Revenues-Product sales and other		
			Gas purchases and other costs of sales	(5)	6	Gas purchases and other costs of sales	—	—
Interest rate swap agreements	8	(3)	Interest expense	1	—	Interest Expense	—	—
Total	$ 31	$ 142	Total	$ 9	$ (15)	Total	$ 6	$ (3)

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(a) We expect to reclassify an approximate $17 million gain associated with derivatives and included in our accumulated other comprehensive loss and noncontrolling interest balances as of June 30, 2013 into earnings during the next twelve months (when the associated forecasted transactions are also expected to occur), however, actual amounts reclassified into earnings could vary materially as a result of changes in market prices.

(b) No material amounts were reclassified into earnings as a result of the discontinuance of cash flow hedges because it was probable that the original forecast 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, the amounts reclassified were the result of the hedged forecast transactions actually affecting earnings (i.e., when the forecast sales and purchases actually occurred).

Derivatives not designated as accounting hedges	Location of gain/(loss) recognized in income on derivatives	Amount of gain/(loss) recognized in income on derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2013	2012	2013	2012
Energy commodity derivative contracts	Revenues-Natural gas sales	$ 1	$ —	$ 2	$ —
	Revenues-Product sales and other	(5)	—	(3)	—
Total		$ (4)	$ —	$ (1)	$ —

Credit Risks

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

We maintain credit policies with regard to our counterparties that we believe minimize our overall credit risk. These policies include (i) an evaluation of potential counterparties' financial condition (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 OTC swaps and options are entered into with counterparties outside central trading organizations such as futures, options or stock exchanges. These contracts are with a number of parties, all of which have investment grade credit ratings. While we enter into derivative transactions with investment grade counterparties and actively monitor their ratings, it is nevertheless possible that from time to time losses will result from counterparty credit risk in the future.

In conjunction with the purchase of exchange-traded derivative contracts or when the market value of our derivative contracts with specific counterparties exceeds established limits, we are required to provide collateral to our counterparties, which may include posting letters of credit or placing cash in margin accounts. As of both June 30, 2013 and December 31, 2012, KMP had no outstanding letters of credit supporting its hedging of energy commodity price risks associated with the sale of natural gas, natural gas liquids and crude oil. As of June 30, 2013 and December 31, 2012, KMI had $200 million and $300 million, respectively, of outstanding letters of credit supporting its commodity price risks associated with the sale of natural gas and power.

KMP and KMI also have agreements with certain counterparties to their derivative contracts that contain provisions requiring the posting of additional collateral upon a decrease in their credit rating. As of June 30, 2013, we estimate that if KMP's credit rating was downgraded one notch, KMP would be required to post no additional collateral to its counterparties. If KMP was downgraded two notches (that is, below investment grade), KMP would be required to post $5 million of incremental collateral. As of June 30, 2013, we estimate that if KMI's credit rating was downgraded one or two notches, KMI would be required to post no additional collateral to its counterparties.

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

Changes in the components of our “Accumulated other comprehensive income (loss)” for the six months ended June 30, 2013 are summarized as follows (in millions):

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	Net unrealized gains/(losses) on cash flow hedge derivatives	Foreign currency translation adjustments	Pension and other postretirement liability adjs.	Total Accumulated other comprehensive income/(loss)
Balance as of December 31, 2012	$7	$51	$(176)	$(118)
Other comprehensive income before reclassifications	20	(45)	—	(25)
Amounts reclassified from accumulated other comprehensive income	(5)	—	—	(5)
Net current-period other comprehensive income (loss)	15	(45)	—	(30)
Balance as of June 30, 2013	$22	$6	$(176)	$(148)

6. Fair Value

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

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

- Level 1 Inputs—quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2 Inputs—inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and
- Level 3 Inputs—unobservable inputs for the asset or liability. These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

Fair Value of Derivative Contracts

The following two tables summarize the fair value measurements of our (i) energy commodity derivative contracts; and (ii) interest rate swap agreements as of June 30, 2013 and December 31, 2012, based on the three levels established by the Codification. The fair values of our current and non-current asset and liability derivative contracts are each reported separately as "Fair value of derivative contracts" in the respective sections of our accompanying consolidated balance sheets. The fair value measurements in the tables below do not include cash margin deposits made by us or our counterparties, which are reported within "Other current assets" and "Accrued other current liabilities," respectively, in our accompanying consolidated balance sheets (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 June 30, 2013				
Energy commodity derivative contracts(a)	$159	$14	$89	$56
Interest rate swap agreements	$310	$—	$310	$—

As of December 31, 2012				
Energy commodity derivative contracts(a)	$107	$3	$76	$28
Interest rate swap agreements	$665	$—	$665	$—

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	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 June 30, 2013				
Energy commodity derivative contracts(a)	$(192)	$(4)	$(18)	$(170)
Interest rate swap agreements	$(49)	$—	$(49)	$—
As of December 31, 2012				
Energy commodity derivative contracts(a)	$(212)	$(3)	$(26)	$(183)
Interest rate swap agreements	$(1)	$—	$(1)	$—

(a) Level 1 consists primarily of NYMEX natural gas futures. Level 2 consists primarily of OTC WTI swaps and OTC natural gas swaps that are settled on NYMEX. Level 3 consists primarily of WTI options, WTI basis swaps, natural gas liquids options and power derivative contracts.

The table below provides a summary of changes in the fair value of our Level 3 energy commodity derivative contracts for each of the three and six months ended June 30, 2013 and 2012 (in millions):

Significant unobservable inputs (Level 3)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Derivatives-net asset (liability)				
Beginning of Period	$(142)	$(3)	$(155)	$7
Total gains or (losses)				
Included in earnings	(6)	(3)	(1)	(1)
Included in other comprehensive loss	1	28	—	6
Purchases(a)	18	(246)	18	(243)
Settlements	15	4	24	11
End of Period	$(114)	$(220)	$(114)	$(220)
The amount of total gains or (losses) for the period included in earnings attributable to the change in unrealized gains or (losses) relating to assets held at the reporting date	$1	$(4)	$4	$(3)

(a) 2012 purchases include a net liability of $246 million of Level 3 energy commodity derivative contracts associated with the EP acquisition. 2013 purchases include a net asset of $18 million of Level 3 energy commodity derivative contracts associated with the Copano acquisition.

As of June 30, 2013, our Level 3 derivative assets and liabilities consisted primarily of WTI options, WTI basis swaps, natural gas liquids options and power derivative contracts, where a significant portion of fair value is calculated from underlying market data that is not readily observable. The derived values use industry standard methodologies that may consider the historical relationships among various commodities, modeled market prices, time value, volatility factors and other relevant economic measures. The use of these inputs results in management’s best estimate of fair value.

The significant unobservable inputs used in the fair value measurement of our power derivative contracts are illiquid pricing points. As the delivery points in our power contracts are in an illiquid market and not actively traded, we adjust the Pennsylvania-New Jersey-Maryland (PJM) forward curves by the difference between the 12-month rolling average of actual settled prices at delivery points in the PJM East region. As of June 30, 2012, the adjusted prices over the contract term ranged from $24.14 per MW/h to $57.13 per MW/h. However, we have entered into offsetting positions that eliminate the price risks associated with our PJM power contracts. Significant increases (decreases) in these inputs in isolation would result in a significantly lower (higher) fair value measurement.

Fair Value of Financial Instruments

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

	June 30, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Total debt	$35,546	$35,862	$34,401	$36,720

We used Level 2 input values to measure the estimated fair value of our outstanding debt balances as of both June 30, 2013 and December 31, 2012.

7. Reportable Segments

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

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

- CO2—KMP—the production, sale and transportation of crude oil from fields in the Permian Basin of West Texas and the production, transportation and marketing of CO_2 used as a flooding medium for recovering crude oil from mature oil fields;

- Products Pipelines—KMP— the transportation and terminaling of refined petroleum products, including gasoline, diesel fuel, jet fuel, natural gas liquids, crude and condensate, and bio-fuels;

- 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, and the state of Washington. As further described in Note 2, Kinder Morgan Canada divested its interest in the Express pipeline system effective March 14, 2013; and

- Other—primarily includes several physical natural gas contracts with power plants associated with EP's legacy trading activities. These contracts obligate EP to sell natural gas to these plants and have various expiration dates ranging from 2012 to 2028.

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

Financial information by segment follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Natural Gas Pipelines				
Revenues from external customers(a)	$2,054	$1,000	$3,809	$1,794
Intersegment revenues	—	—	1	—
CO2–KMP	460	413	889	830
Products Pipelines–KMP	443	331	897	554
Terminals–KMP				
Revenues from external customers	343	342	680	683
Intersegment revenues	1	1	1	1
Kinder Morgan Canada–KMP	75	73	147	146
Other	(2)	(1)	2	(1)
Total segment revenues	3,374	2,159	6,426	4,007
Other revenues	9	9	18	18
Less: Total intersegment revenues	(1)	(1)	(2)	(1)
Total consolidated revenues	$3,382	$2,167	$6,442	$4,024

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Segment earnings (loss) before depreciation, depletion, amortization and amortization of excess cost of equity investments(b)				
Natural Gas Pipelines(a)	$1,421	$423	$2,317	$650
CO2–KMP	358	327	700	661
Products Pipelines–KMP(c)	12	166	197	340
Terminals–KMP	206	195	392	381
Kinder Morgan Canada–KMP(d)	50	52	243	102
Other	(5)	(3)	(1)	(3)
Total segment EBDA	2,042	1,160	3,848	2,131
Total segment depreciation, depletion and amortization	(442)	(333)	(854)	(607)
Total segment amortization of excess cost of investments	(9)	(2)	(18)	(4)
Other revenues	9	9	18	18
General and administrative expenses	(183)	(501)	(323)	(630)
Unallocable interest and other, net of unallocable interest income	(428)	(298)	(837)	(480)
Unallocable income tax (expense) benefit	(208)	2	(395)	(86)
Loss from discontinued operations, net of tax	—	(280)	(2)	(658)
Total consolidated net income (loss)	$781	$(243)	$1,437	$(316)

	June 30, 2013	December 31, 2012
Assets		
Natural Gas Pipelines	$51,894	$46,600
CO2–KMP	4,580	4,148
Products Pipelines–KMP	6,360	6,089
Terminals–KMP	6,384	5,931
Kinder Morgan Canada–KMP	1,628	1,724
Other	564	601
Total segment assets	71,410	65,093
Corporate assets(e)	2,678	2,854
Assets held for sale(f)	32	298
Total consolidated assets	$74,120	$68,245

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(a) Increases in the three and six month 2013 amounts versus the three and six month 2012 amounts reflect (i) our May 25, 2012 acquisition of EP; (ii) KMP's acquisition of Copano; and (iii) recognition of a $558 million non-cash gain in the second quarter of 2013 from the remeasurement of net assets to fair value. See Note 2 for further discussion.

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

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

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

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

(f) 2012 amount primarily represents amounts attributable to KMP's Express pipelines system and our ownership interest in the Bolivia to Brazil Pipeline as of December 31, 2012.

8. Related Party Transactions

Affiliated Balances

The following table summarizes our balance sheet affiliate balances (in millions):

	June 30, 2013	December 31, 2012
Balance sheet location		
Accounts receivable, net	$30	$25
Assets held for sale (a)	—	114
Other current assets	2	14
Deferred charges and other assets	48	48
	$80	$201
Current portion of debt – KMP and EPB (b)	$5	$5
Accounts payable	9	11
Long-term debt - Outstanding - KMP and EPB (b)	171	173

	$185	$189

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(a)2012 amount related to KMP's equity investment in the Express pipeline system (see Note 2).
(b)EPB has financing obligations payable to WYCO

Notes Receivable

Plantation Pipe Line Company

KMP and ExxonMobil have a term loan agreement covering a note receivable due from Plantation. KMP owns a 51.17% equity interest in Plantation and their proportionate share of the outstanding principal amount of the note receivable was $49

36

million as of both June 30, 2013 and December 31, 2012. The note bears interest at the rate of 4.25% per annum and provides for semiannual payments of principal and interest on December 31 and June 30 each year, with a final principal
payment of $45 million (for KMP's portion of the note) due on July 20, 2016. We included $1 million of this note receivable balance within "Other current assets," on our accompanying consolidated balance sheets as of both June 30, 2013 and December 31, 2012, and we included the remaining outstanding balance within "Deferred charges and other assets."

Gulf LNG Holdings Group, LLC

In conjunction with the acquisition of EP, KMI acquired a long-term note receivable, bearing interest at 12% per annum, that was due from Gulf LNG Holdings Group, LLC, a 50% equity investee, with a remaining principal amount of $85 million. Subsequent to the EP acquisition and through the end of 2012, we received payments on this note totaling $75 million. We received payments for the remaining note balance of $10 million during the first quarter of 2013. The balance of $10 million at December 31, 2012 was included in our accompanying consolidated balance sheet within "Other current assets."

9. Pension and Other Postretirement Benefit Plans

Kinder Morgan, Inc.

The components of net benefit (credit) cost for our pension and other postretirement benefit (OPEB) plans, not including KMP and EPB's plans, are as follows (in millions):

	Pension Benefits Three Months Ended June 30,		OPEB Three Months Ended June 30,		Pension Benefits Six Months Ended June 30,		OPEB Six Months Ended June 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Service cost	$6	$4	$—	$1	$12	$7	$—	$1
Interest cost	23	12	5	3	46	16	10	4
Expected return on assets	(44)	(20)	(2)	(2)	(88)	(26)	(4)	(3)
Amortization of prior service costs	1	—	—	—	1	—	—	—
Amortization of net actuarial loss (gain)	—	3	2	1	—	5	3	2
Settlement (gain) loss (a)	—	—	—	—	(3)	—	—	—
Net benefit (credit) cost	$(14)	$(1)	$5	$3	$(32)	$2	$9	$4

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

10. Income Taxes

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

	Three Months Ended June 30,	Six Months Ended June 30,

	2013	2012	2013	2012
Income tax expense	$225	$9	$504	$105
Effective tax rate	22 %	19 %	26 %	23 %

Total tax expense for the six months ended June 30, 2013 is approximately $504 million resulting in an effective tax rate of 26% for continuing operations, as compared with $105 million tax expense and an effective tax rate of 23% for the same period of 2012. The effective tax rate for the six months ended June 30, 2013 is lower than the statutory federal rate of 35% primarily due to (i) the net effect of consolidating KMP's and EPB's income tax provision; (ii) dividend-received deductions from our 50% interest in Florida Gas Pipeline (through our investment in Citrus Corporation); and (iii) the tax impact of a decrease in our deferred state tax rate as a result of the drop-down of our 50% ownership interests in EPNG and EP midstream assets and

KMP's acquisition of Copano. These decreases are partially offset by state income taxes and a change in nondeductible goodwill related to our investment in KMP.

Total tax expense for the three months ended June 30, 2013 is approximately $225 million resulting in an effective tax rate of 22% for continuing operations, as compared with $9 million tax expense and an effective tax rate of 19% for the same period of 2012. The effective tax rate for the three months ended June 30, 2013 is lower than the statutory federal rate of 35% primarily due to (i) the net effect of consolidating KMP and EPB's income tax provision; (ii) dividend-received deductions from our 50% interest in Florida Gas Pipeline; and (iii) the tax impact of a decrease in the deferred state tax rate as a result of the acquisition of Copano. These decreases are partially offset by state income taxes and a change in nondeductible goodwill related to our investment in KMP.

The effective tax rate for the six months ended June 30, 2012 is lower than the statutory federal rate of 35% primarily due to (i) the net effect of consolidating KMP and EPB's income tax provisions; (ii) dividend-received deductions from our 20% investment in NGPL and 50% investment in Florida Gas Pipeline; (iii) the adjustment to the deferred tax liability related to our investment in KMR; and (iv) the tax impact of recording a deferred tax asset related to our state net operating losses. These decreases are partially offset by (i) state income taxes; (ii) the impact of non tax-deductible costs incurred to facilitate the acquisition of EP; (iii) an adjustment to the deferred tax liability related to non tax-deductible losses recorded to our investment in KMP; and (iv) the tax impact of an increase in the deferred state tax rate as a result of the acquisition of EP.

The effective tax rate for the three months ended June 30, 2012 is lower than the statutory federal rate of 35% primarily due to the same reasons explained above for the six months ended June 30, 2012, plus adjustments to our income tax reserve for uncertain tax positions.

11. Litigation, Environmental and Other Contingencies

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

Federal Energy Regulatory Commission Proceedings

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

SFPP

The tariffs and rates charged by SFPP are subject to a number of ongoing proceedings at the FERC, including the complaints and protests of various shippers. In general, these complaints and protests allege the rates and tariffs charged

by SFPP are not just and reasonable under the Interstate Commerce Act (ICA). If the shippers are successful in proving their claims, they are entitled to seek reparations (which may reach back up to two years prior to the filing of their complaints) or refunds of any excess rates paid, and SFPP may be required to reduce its rates going forward. These proceedings tend to be protracted, with decisions of the FERC often appealed to the federal courts. The issues involved in these proceedings include, among others, whether indexed rate increases are justified, and the appropriate level of return and income tax allowance we may include in our rates. With respect to all of the SFPP proceedings at the FERC, we estimate that the shippers are seeking approximately $20 million in annual rate reductions and approximately $100 million in refunds. However, applying the principles of several recent FERC decisions in SFPP cases, as applicable, to other pending cases would result in substantially lower rate reductions and refunds than those sought by the shippers. We do not expect refunds in these cases to have an impact on KMP’s distributions to its limited partners or our dividends to our shareholders.

EPNG

The tariffs and rates charged by EPNG are subject to two ongoing FERC proceedings (the "2008 rate case" and the "2010 rate case"). With respect to the 2008 rate case, the FERC issued its decision ("Opinion 517") in May 2012 and EPNG implemented certain aspects of that decision. The FERC subsequently issued an order requiring EPNG to decrease
its rates related to the 2010 rate case in accordance with Opinion 517. EPNG has sought rehearing on that order as well as
Opinion 517. With respect to the 2010 rate case, the presiding administrative law judge issued an initial decision in June
2012. This initial decision is currently being reviewed by the FERC. EPNG is pursuing settlement with its shippers in both open rate cases and believes the accruals established for these matters are adequate.

California Public Utilities Commission ("CPUC") Proceedings

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

On May 26, 2011, the CPUC issued a decision in several intrastate rate cases involving SFPP and a number of its shippers, (the "Long" cases). The decision includes determinations on issues, such as SFPP's entitlement to an income tax allowance, allocation of environmental expenses and refund liability, which KMP believes are contrary both to CPUC policy and precedent and to established federal regulatory policies for pipelines. On March 8, 2012, the CPUC issued another decision related to the Long cases. This decision largely reflected the determinations made on May 26, 2011, including the denial of an income tax allowance for SFPP. The CPUC's order denied SFPP's request for rehearing of the CPUC's income tax allowance treatment, while granting requested rehearing of various, other issues relating to SFPP's refund liability and staying the payment of refunds until resolution of the outstanding issues on rehearing. On March 23, 2012, SFPP filed a petition for writ of review in the California Court of Appeals, seeking a court order vacating the CPUC's determination that SFPP is not entitled to recover an income tax allowance in its intrastate rates. The Court has recently denied SFPP's petition. SFPP is currently assessing the precise impact of the ruling and its options, including an appeal to the California Supreme Court.

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

On January 30, 2012, SFPP filed an application reducing its intrastate rates by approximately 7%. This matter remains pending before the CPUC. The matter has been submitted subject to the filing of briefs due August 9, 2013 with a decision expected in the fourth quarter of 2013.

Based on KMP's review of these CPUC proceedings and the shipper comments thereon, it estimates that the shippers are requesting approximately $375 million in reparation payments and approximately $30 million in annual rate reductions. The actual amount of reparations will be determined through further proceedings at the CPUC. As of June 30, 2013, KMP believes its total legal reserve, including an adjustment of the reserve made in the second quarter of

2013 related in part to this matter is adequate such that the resolution of pending CPUC matters will not have a material adverse impact on its business, financial position or results of operations. We do not expect any reparations that KMP would pay in this matter to impact KMP's $5.33 per unit cash distributions it expects to pay to its limited partners for 2013.

Copano Shareholders' Litigation

Three putative class action lawsuits were filed in connection with KMP's merger with Copano: (i) Schultes v. Copano Energy, L.L.C., et al. (Case No. 06966), in the District Court of Harris County, Texas, which is referred to as the Texas State Action; (ii) Bruen v. Copano Energy, L.L.C., et al. (Case No. 4:13-CV-00540) in the United States District Court for the Southern District of Texas, which is referred to as the Texas Federal Action; and (iii) In re Copano Energy, L.L.C. Shareholder Litigation, Case No. 8284-VCN in the Court of Chancery of the State of Delaware, which is referred to as the Delaware Action, which reflects the consolidation of three actions originally filed in the Court of Chancery. The Texas State Action, the Texas Federal Action and the Delaware Action are collectively referred to as the "Actions."

The Actions name Copano, R. Bruce Northcutt, William L. Thacker, James G. Crump, Ernie L. Danner, T. William Porter, Scott A. Griffiths, Michael L. Johnson, Michael G. MacDougall, KMGP, KMP and Merger Sub as defendants. The Actions are purportedly brought on behalf of a putative class seeking to enjoin the merger and allege, among other things, that the members of Copano's board of directors breached their fiduciary duties by agreeing to sell Copano for inadequate and unfair consideration and pursuant to an inadequate and unfair process, and that Copano, KMP, KMGP, and Merger Sub aided and abetted such alleged breaches. In addition, the plaintiffs in each of the Texas State Action and the Delaware Action allege that the Copano directors breached their duty of candor to unitholders by failing to provide the unitholders with all material information regarding the merger and/or made misstatements in the preliminary proxy statement. The plaintiffs in the Texas Federal Action also assert a claim under the federal securities laws alleging that the preliminary proxy statement omits and/or misrepresents material information in connection with the merger.

On April 21, 2013, the parties in all the Actions executed a Memorandum of Understanding pursuant to which Copano agreed to make certain additional disclosures concerning the merger in a Form 8-K, which Copano filed on April 22, 2013, and the plaintiffs agreed to enter into a stipulation of settlement providing for full settlement and dismissal with prejudice of each of the Actions. The parties then prepared and filed a Stipulation of Settlement with the Delaware Chancery Court and on June 28, 2013, Copano announced that it had reached an agreement with the plaintiffs to settle all claims asserted against all defendants. The settlement does not require the defendants to pay any monetary consideration to the proposed settlement class, and is subject to, among other conditions, approval of the Delaware Chancery Court. A settlement hearing has been scheduled for September 9, 2013.

Other Commercial Matters

Union Pacific Railroad Company Easements

SFPP and Union Pacific Railroad Company (UPRR) are engaged in a proceeding to determine the extent, if any, to which the rent payable by SFPP for the use of pipeline easements on rights-of-way held by UPRR should be adjusted pursuant to existing contractual arrangements for the ten-year period beginning January 1, 2004 (Union Pacific Railroad Company v. Santa Fe Pacific Pipelines, Inc., SFPP, L.P., Kinder Morgan Operating L.P. "D", Kinder Morgan G.P., Inc., et al., Superior Court of the State of California for the County of Los Angeles, filed July 28, 2004). In September 2011, the judge determined that the annual rent payable as of January 1, 2004 was $15 million, subject to annual consumer price index increases. SFPP intends to appeal the judge's determination, but if that determination is upheld, SFPP would owe approximately $75 million in back rent. Accordingly, during 2011, KMP increased its rights-of-way liability to cover this liability amount. In addition, the judge determined that UPRR is entitled to an estimated $20 million for interest on the outstanding back rent liability. KMP believes the award of interest is without merit and it is pursuing its appellate rights.

SFPP and UPRR are also engaged in multiple disputes over the circumstances under which SFPP must pay for a relocation of its pipeline within the UPRR right-of-way and the safety standards that govern relocations. In July 2006, a trial before a judge regarding the circumstances under which SFPP must pay for relocations concluded, and the judge determined that SFPP must pay for any relocations resulting from any legitimate business purpose of the UPRR. SFPP appealed this decision, and in December 2008, the appellate court affirmed the decision. In addition, UPRR contends that SFPP must comply with the more expensive American Railway Engineering and Maintenance of Way Association (AREMA) standards in determining when relocations are necessary and in completing relocations. Each party is seeking declaratory relief with respect to its positions regarding the application of these standards with respect to relocations. A trial occurred in the fourth quarter of 2011, with a verdict having been reached that SFPP was obligated to comply with AREMA standards in connection with a railroad project in Beaumont Hills, California. SFPP is evaluating its post-trial and appellate options.

Since SFPP does not know UPRR's plans for projects or other activities that would cause pipeline relocations, it is difficult to quantify the effects of the outcome of these cases on SFPP. Even if SFPP is successful in advancing its positions, significant relocations for which SFPP must nonetheless bear the expense (i.e., for railroad purposes, with the standards in the federal Pipeline Safety Act applying) would have an adverse effect on KMP's financial position, its results of operations, its cash flows, and KMP's distributions to its limited partners. 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 and located in Sparrows Point, Maryland collapsed while being operated by Kinder Morgan Bulk Terminals, Inc (KMBT). According to KMP’s investigation, the collapse was caused by unexpected, sudden and extreme winds. On June 24, 2009, Severstal filed suit against KMBT in the United States District Court for the District of Maryland, Case No. 09CV1668-WMN. Severstal and its successor in interest, RG Steel, allege that KMBT was contractually

obligated to replace the collapsed crane and that its employees were negligent in failing to properly secure the crane prior to the collapse. RG Steel seeks to recover in excess of $30 million for the alleged value of the crane and lost profits. KMBT denies each of RG Steel's allegations. Trial is scheduled to begin on November 12, 2013.

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

In December 2011 ("Brinckerhoff I"), March 2012 ("Brinckerhoff II") and May 2013 ("Brinckerhoff III"), derivative lawsuits were filed in Delaware Chancery Court against El Paso, El Paso Pipeline GP Company, L.L.C., EPB's general partner, and the directors of its general partner. EPB was named in these lawsuits as a "Nominal Defendant." The lawsuits arise from the March 2010, November 2010 and May 2012 drop down transactions involving EPB's purchase of SLNG, Elba Express, CPG and interest in SNG and CIG. The lawsuits allege various conflicts of interest and that the consideration EPB paid was excessive. Defendants' motion to dismiss in Brinckerhoff I was denied in part. Brinckerhoff I and II have been consolidated into one proceeding. A motion to dismiss has been filed in Brinckerhoff III. Defendants continue to believe that these actions are without merit and intend to defend against them vigorously.

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

In May 2012, a unitholder of EPB filed a purported class action in Delaware Chancery Court, alleging both derivative and non derivative claims, against EPB, and EPB's general partner and its board. EPB was named in the lawsuit as both a "Class Defendant" and a "Derivative Nominal Defendant." The complaint alleges a breach of the duty of good faith and fair dealing in connection with the March 2011 sale to EPB of a 25% ownership interest in SNG. Defendants' motion to dismiss was denied. Defendants continue to believe this action is without merit and intend to defend against it vigorously.

Price Reporting Litigation

Beginning in 2003, several lawsuits were filed against El Paso Marketing L.P. (EPM) alleging that EP, EPM and other energy companies conspired to manipulate the price of natural gas by providing false price information to industry trade publications that published gas indices. Several of the cases have been settled or dismissed. The remaining cases, which are pending in federal court in Nevada, were dismissed, however, on April 10, 2013, the 9th Circuit Court of Appeals reversed this dismissal and remanded the cases to the Nevada court. We intend to file a petition for writ of certiorari with the U.S. Supreme Court, and the matter has been stayed pending the filing of such petition. Although damages in excess of $140 million have been alleged in total against all defendants in one of the remaining lawsuits where a damage number is provided, there remains significant uncertainty regarding the validity of the causes of action, the damages asserted and the level of damages, if any, that may be allocated to us. Therefore, our costs and legal exposure related to the remaining outstanding lawsuits and claims are not currently determinable.

Pipeline Integrity and Releases

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

General

As of June 30, 2013 and December 31, 2012, our total reserve for legal fees, transportation rate cases and other potential litigation liabilities was $612 million and $425 million, respectively. The reserve primarily relates to various claims from regulatory proceedings arising from KMP's products pipeline and natural gas pipeline transportation rates. The overall change in the reserve from December 31, 2012 includes a $177 million increase in expense in the first half of 2013 associated with KMP's interstate and California intrastate transportation rate case liability adjustments.

Environmental Matters

We and our subsidiaries are subject to environmental cleanup and enforcement actions from time to time. In particular, the Comprehensive Environmental Response, Compensation and Liability Act, also known as CERCLA, generally imposes joint and several liability for cleanup and enforcement costs on current and predecessor owners and operators of a site, among others, without regard to fault or the legality of the original conduct, subject to the right of a liable party to establish a “reasonable basis” for apportionment of costs. Our operations are also subject to federal, state and local laws and regulations relating to protection of the environment. Although we believe our operations are in substantial compliance with applicable

environmental law and regulations, risks of additional costs and liabilities are inherent in pipeline, terminal and CO_2 field and oil field operations, and there can be no assurance that we will not incur significant costs and liabilities. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies under the terms of authority of those laws, and claims for damages to property or persons resulting from our operations, could result in substantial costs and liabilities to us.

We are currently involved in several governmental proceedings involving alleged violations of environmental and safety regulations. As we receive notices of non-compliance, we attempt to negotiate and settle such matters where appropriate. Specifically, we are involved in matters including incidents at terminal facilities in New Jersey and Texas involving the United States Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) and the Texas Commission on Environmental Quality, respectively, which may result in fines and penalties for alleged violations. We do not believe that these alleged violations will have a material adverse effect on our business, financial position, results of operations or dividends to our shareholders.

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

In addition, we are involved with and have been identified as a potentially responsible party in several federal and state superfund sites. Environmental reserves have been established for those sites where our contribution is probable and reasonably estimable. In addition, we are from time to time involved in civil proceedings relating to damages alleged to have occurred as a result of accidental leaks or spills of refined petroleum products, natural gas liquids, natural gas and CO_2.

Colorado Oil and Gas Conservation Commission Inspections

In Fall 2012, the Colorado Oil and Gas Conservation Commission (COGCC) performed inspections at multiple well sites in Southwestern Colorado owned by Kinder Morgan CO_2 Company, L.P. and some of these inspections resulted in alleged violations of COGCC's rules.   Kinder Morgan took immediate steps to correct the alleged deficiencies and has engaged COGCC and other agencies in its efforts to maintain compliance. In June 2013, the parties settled the matter through an Administrative Order on Consent under which Kinder Morgan agreed to pay $220,000 of which up to $80,000 may be paid toward a public project. Other than completion of the agreed public project, this matter is resolved and no further actions are anticipated.

New Jersey Department of Environmental Protection v. Occidental Chemical Corporation, et al. (Defendants), Maxus Energy Corp. and Tierra Solutions, Inc. (Third-Party Plaintiffs) v. 3M Company et al., Superior Court of New Jersey, Law Division - Essex County, Docket No. L-9868-05

The New Jersey Department of Environmental Protection (NJDEP) sued Occidental Chemical and others under the New Jersey Spill Act for contamination in the Newark Bay Complex including numerous waterways and rivers. Occidental et al. then brought in approximately 300 third party defendants for contribution. NJDEP claimed damages related to forty years of discharges of TCDD (a form of dioxin), DDT and "other hazardous substances." GATX Terminals Corporation (n/k/a/ Kinder Morgan Liquids Terminals LLC) (KMLT) was brought in as a third party defendant because of the noted hazardous substances language and because the Carteret, New Jersey facility (a former GATX Terminals facility) is located on the Arthur Kill River, one of the waterways included in the litigation. This case was filed against third party defendants in 2009. Recently, KMLT, as part of a joint defense group, entered a settlement agreement (Consent Judgment) with the NJDEP whereby the settling parties for a prescribed payment, get a contribution bar against first party defendants Occidental, Maxus and Tierra in addition to a release. This third-party Consent Judgment was published in the New Jersey Register for a 60-day comment period and no significant comments were received. Additionally, the NJDEP has reached an agreement for a settlement with Maxus and Tierra. Occidental is not part of the settlement. As part of this settlement, these defendants agreed to

dismiss all direct claims against third-party defendants and to not oppose the third-party settlement. This settlement agreement has been published in the New Jersey Register and is in the middle of a 60-day comment period. All discovery and trial proceedings are stayed during settlement negotiations.

Portland Harbor Superfund Site, Willamette River, Portland, Oregon

In December 2000, the EPA sent out General Notice letters to potentially responsible parties including GATX Terminals Corporation (n/k/a KMLT). At that time, GATX owned two liquids terminals along the lower reach of the Willamette River, an industrialized area known as Portland Harbor. Portland Harbor is listed on the National Priorities List and is designated as a

Superfund Site under CERCLA. A group of potentially responsible parties formed what is known as the Lower Willamette Group (LWG), of which KMLT is a non-voting member and pays a minimal fee to be part of the group. The LWG agreed to conduct the Remedial Investigation and Feasibility Study leading to the proposed remedy for cleanup of the Portland Harbor site. Once the EPA determines the cleanup remedy from the remedial investigations and feasibility studies conducted during the last decade at the site, it will issue a Record of Decision. Currently, KMLT and 90 other parties are involved in an allocation process to determine each party's respective share of the cleanup costs. This is a non-judicial allocation process. KMP is participating in the allocation process on behalf of both KMLT and KMBT. Each entity has two facilities located in Portland Harbor. KMP expects the allocation to conclude in 2014 and the EPA to issue its Record of Decision in 2015. It is anticipated that the cleanup activities would begin within one year of the issuance of the Record of Decision.

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

This is a CERCLA case brought against a number of defendants by a water purveyor whose wells have allegedly been contaminated due to the presence of a number of contaminants. The Roosevelt Irrigation District is seeking up to $175 million from approximately 70 defendants. The plume of contaminants has traveled under KMP's Phoenix Terminal. The plaintiffs have advanced a novel theory that the releases of petroleum from the Phoenix Terminal (which are exempt under the petroleum exclusion under CERCLA) have facilitated the natural degradation of certain hazardous substances and thereby have resulted in a release of hazardous substances regulated under CERCLA. KMP is part of a joint defense group consisting of other terminal operators at the Phoenix Terminal including Chevron, BP, Salt River Project, Shell and a number of others, collectively referred to as the terminal defendants. Together, the terminal defendeants filed a motion to dismiss all claims based on the petroleum exclusion under CERCLA. This case was assigned to a new judge, who has deemed all previous motions withdrawn and will grant leave to re-file such motions at a later date. The parties are currently finalizing a stipulated case management order.

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

KMLT 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 remained stayed following the last case management conference in March 2013. During the stay, the parties deemed responsible by the local regulatory agency (including the City of Los Angeles) have worked with that agency concerning the scope of the required cleanup. We anticipate that cleanup activities by the Port at the site will begin in the summer of 2013. On April 9, 2013, KMLT and the Port of Los Angeles entered into a Settlement and Release Agreement the terms of which provide for the dismissal of the litigation by the Port upon the payment by KMLT of 60% of the Port's costs to remediate the former terminal site; the amount of payment not to exceed $15 million. The Court approved the parties' Good Faith Settlement motion in the Superior Court and dismissed the case. Further, according to terms of the Settlement and Release, we received a 5-year lease extension that allows KMLT to continue fuel loading and offloading operations at another KMLT Port of Los Angeles terminal property.

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

On April 23, 2003, ExxonMobil 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, and later owned by Support Terminals and Pacific Atlantic Terminals, LLC. The terminal is now owned by Plains Products, and it too is a party to the lawsuit.

On June 25, 2007, the NJDEP, the Commissioner of the New Jersey Department of Environmental Protection and the Administrator of the New Jersey Spill Compensation Fund, referred to collectively as the plaintiffs, filed a complaint against ExxonMobil and KMLT, formerly known as GATX Terminals Corporation, alleging natural resource damages related to historic contamination at the Paulsboro terminal. The complaint was filed in Gloucester County, New Jersey. Both ExxonMobil and KMLT filed third party complaints against Support Terminals/Plains and successfully brought Support Terminals/Plains into the case. The court consolidated the two cases.

In mid 2011, KMLT and Plains Products entered into a settlement agreement with the NJDEP for settlement of the state’s alleged natural resource damages claim. The parties then entered into a Consent Judgment concerning the claim. The natural resource damage settlement includes a monetary award of $1 million and a series of remediation and restoration activities at the terminal site. KMLT and Plains Products have joint responsibility for this settlement. Simultaneously, KMLT and Plains Products entered into a settlement agreement that settled each party’s relative share of responsibility (50/50) to the NJDEP under the Consent Judgment noted above. The Consent Judgment is now entered with the Court and the settlement is final.

According to the agreement, Plains will conduct remediation activities at the site and KMLT will provide oversight and 50% of the costs.

The settlement with the state did not resolve the original complaint brought by ExxonMobil. On or around, April 10, 2013, KMLT, Plains and ExxonMobil settled the original Exxon complaint for past remediation costs for $750,000 to be split 50/50 between KMLT and Plains. All parties have now executed the agreement and the litigation is settled and dismissed.

Mission Valley Terminal Lawsuit

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

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

On February 20, 2013, the City of San Diego filed a notice of appeal of this case to the United States Court of Appeals for the Ninth Circuit. The City filed its Opening Brief in the appeal on June 28, 2013. KMP was granted a 30-day extension and will file a response by August 28, 2013.

This site has been, and currently is, under the regulatory oversight and order of the California Regional Water Quality Control Board. SFPP continues to conduct an extensive remediation effort at the City's stadium property site.

On May 7, 2013, the City of San Diego filed a writ of mandamus to the California Superior Court seeking an order from the Court setting aside the California Regional Water Quality Control Board's (RWQCB) approval of KMP's permit request to increase the discharge of water from KMP's groundwater treatment system to the City of San Diego's municipal storm sewer system. This will include KMP as a real party in interest. Following the completion of the administrative record by the RWQCB, KMP has 30 days to respond to the writ.

Uranium Mines in Vicinity of Cameron, Arizona

In the 1950s and 1960s, Rare Metals Inc., an historical subsidiary of EPNG, operated approximately twenty uranium mines in the vicinity of Cameron, Arizona, many of which are located on the Navajo Indian Reservation. The mining activities were in response to numerous incentives provided to industry by the United States to locate and produce domestic sources of uranium to support the Cold War-era nuclear weapons program. In May 2012, EPNG received a

general notice letter from the EPA notifying EPNG of the EPA's investigation of certain sites and its determination that the EPA considers EPNG to be a potentially responsible party within the meaning of CERCLA. In February 2013, the EPA delivered a proposed Administrative Order on Consent and proposed Scope of Work regarding the government's
proposed next steps to investigate the mines. We are negotiating the terms and conditions of both the Administrative Order on Consent and the Scope of Work. We are also seeking contribution from the United States toward the cost of environmental activities associated with the mines, given its pervasive control over all aspects of the nuclear weapons program.

PHMSA Inspection of Carteret Terminal, Carteret, NJ

On April 4, 2013 the PHMSA, Office of Pipeline Safety (OPS) issued a Notice of Probable Violation, Proposed Civil Penalty and Proposed Compliance Order (NOPV) associated with an inspection at the KMLT, Carteret, NJ location on March 15, 2011. The PHMSA inspection followed a release and fire that occurred during a maintenance activity on March 14, 2011.

PHMSA is proposing a $500,000 penalty associated with procedural and infrastructure issues that may have contributed to the March 14, 2011 incident. KMLT has been working on addressing the proposed corrective actions since before the NOPV was issued and is currently negotiating the proposed penalty.

Southeast Louisiana Flood Protection Litigation

On July 24, 2013, the Board of Commissioners of the Southeast Louisiana Flood Protection Authority - East (“Flood Protection Authority”) filed a petition for damages and injunctive relief in state district court for Orleans Parish, Louisiana (Case No. 13-6911) against TGP, SNG and approximately one hundred energy companies, alleging that defendants' drilling, dredging, pipeline and industrial operations since the 1930's have caused direct land loss and increased erosion and submergence resulting in alleged increased storm surge risk, increased flood protection costs and unspecified damages to the plaintiff. The Flood Protection Authority asserts claims for negligence, strict liability, public nuisance, private nuisance, and breach of contract. Among other relief, the petition seeks unspecified monetary damages, attorney fees, interest, and injunctive relief in the form of abatement and restoration of the alleged coastal land loss including but not limited to backfilling and re-vegetation of canals, wetlands and reef creation, land bridge construction, hydrologic restoration, shoreline protection, structural protection, and bank stabilization.

General

Although it is not possible to predict the ultimate outcomes, we believe that the resolution of the environmental matters set forth in this note, and other matters to which we and our subsidiaries are a party, will not have a material adverse effect on our business, financial position, results of operations or cash flows. As of June 30, 2013 and December 31, 2012, we have accrued a total reserve for environmental liabilities in the amount of $402 million and $421 million, respectively, of which $233 million and $253 million, respectively, are associated with KMI (excluding KMP and EPB) and primarily relate to legacy sites acquired in the May 25, 2012 EP acquisition. In addition, as of June 30, 2013 and December 31, 2012, we have recorded a receivable of $21 million and $22 million, respectively, for expected cost recoveries that have been deemed probable.

Other Contingencies

In conjunction with KMP’s acquisition of certain natural gas pipelines from us, we agreed to indemnify KMP with respect to approximately $5.9 billion of its debt. This includes $5.2 billion associated with KMP’s March 2013 and August 2012 purchases of natural gas assets from us. In conjunction with our EP acquisition, we have agreed to indemnify EPB with respect to $470 million of its debt. We would be obligated to perform under these indemnities only if KMP’s or EPB’s assets, as applicable, were unable to satisfy its obligations.

Commitments

Capital Contributions for Elba Island Liquefaction Project

In January 2013, SLC, a subsidiary of EPB, and Shell G&P, a subsidiary of Shell, formed ELC, EPB’s equity method investment, to develop and own a natural gas liquefaction plant at SLNG's existing Elba Island LNG terminal. In connection with the formation of ELC, SLC and Shell G&P entered into a LLC agreement in which SLC owns 51% of ELC and Shell G&P owns the remaining membership interest. Under the terms of the LLC agreement, SLC and Shell G&P are both obligated to make certain capital contributions in proportion to their membership interests in ELC to fund the construction of the liquefaction facilities. EPB’s portion of the capital expenditures for Phase I of the project is estimated to be approximately $850 million, which includes capital expenditures expected for ancillary facilities on Elba Express and SLNG. Phase I of the project requires no additional Department of Energy (DOE) approval.

12. Regulatory Matters and Accounting for Regulatory Activities

Regulatory Assets and Liabilities

Regulatory assets and liabilities represent probable future revenues or expenses associated with certain charges and credits that will be recovered from or refunded to customers through the ratemaking process. We included the amounts of our regulatory assets and liabilities within “Other current assets,” “Deferred charges and other assets,” “Accrued other current liabilities,” and “Other long-term liabilities and deferred credits” respectively, in our accompanying consolidated balance sheets. The recovery period for these regulatory assets is approximately one year to forty-two years.

The following table summarizes our regulatory asset and liability balances (in millions):

	June 30, 2013	December 31, 2012
Current regulatory assets	$ 54	$ 62
Non-current regulatory assets	390	402
Total Regulatory Assets	$ 444	$ 464
Current regulatory liabilities	$ 120	$ 7
Non-current regulatory liabilities	372	113
Total Regulatory Liabilities(a)	$ 492	$ 120

(a) During the three months ended June 30, 2013, we began applying regulatory accounting to another one of KMP's pipeline systems due to a newly negotiated long-term tolling agreement approved by the system's regulator that went into effect in April 2013. The primary impact of applying regulatory accounting was the reclassification of approximately $362 million of current and long-term deferred credits to regulatory liabilities, of which $115 million remains classified as current. KMP expects this regulatory liability to be refunded to rate-payers over approximately the next four years.

More information about our regulatory matters can be found in Note 17 "Regulatory Matters" to our consolidated financial statements included in our 2012 Form 10-K.

13. Recent Accounting Pronouncements

Accounting Standards Updates

None of the Accounting Standards Updates (ASU) that we adopted and that became effective January 1, 2013 (including (i) ASU No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities;" (ii) ASU No. 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment;" (iii) ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities;" and (iv) ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income") had a material impact on our consolidated financial statements. More information about the four ASUs listed above can be found in Note 18 "Recent Accounting Pronouncements" to our consolidated financial statements that were included in our 2012 Form 10-K.
On March 5, 2013 the FASB issued ASU No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force)." This ASU amends the FASB's Accounting Standards Codification (ASC) 830, "Foreign Currency Matters," and ASC 810, "Consolidation," to address diversity in practice related to the release of cumulative translation adjustments (CTA) into earnings upon the occurrence of certain derecognition events. ASU No. 2013-05 precludes the release of CTA for derecognition events that occur within a foreign entity, unless such events represent a complete or substantially complete liquidation of the foreign entity; however, derecognition events related to investments in a foreign entity result in the release of all CTA related to the derecognized foreign entity, even when a noncontrolling financial interest is retained. ASU No. 2013-05 also amends ASC 805, "Business Combinations," for transactions that result in a company obtaining control of a business in a step acquisition by increasing an investment in a foreign entity from one accounted for under the equity method to one accounted for as a consolidated investment. ASU No. 2013-05 is effective for fiscal years beginning after December 15, 2013 (January 1, 2014 for us). It should be applied prospectively, and prior periods should not be adjusted. Early adoption is permitted as of the beginning of the entity's fiscal year. We are currently reviewing the effects of ASU No. 2013-05.

14. Reconciliation of Significant Balance Sheet Accounts

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

	June 30, 2013	December 31, 2012 (a)
Cash and cash equivalents - KMI (b)	$141	$71
Cash and cash equivalents - KMP	656	529
Cash and cash equivalents - EPB	220	114
Cash and cash equivalents	$1,017	$714
Property, plant and equipment, net–KMI (b)	$2,670	$2,735
Property, plant and equipment, net–KMP	26,023	22,330
Property, plant and equipment, net–EPB	5,906	5,931
Property, plant and equipment, net	$34,599	$30,996
Goodwill–KMI (b)	$17,939	$18,193
Goodwill–KMP	6,532	5,417
Goodwill–EPB	22	22
Goodwill	$24,493	$23,632
Current portion of debt–KMI (b)	$1,901	$1,153
Current portion of debt–KMP	1,899	1,155
Current portion of debt–EPB	164	93
Current portion of debt	$3,964	$2,401
Long-term debt outstanding–KMI (b)	$7,726	$9,148
Long-term debt outstanding–KMP	17,338	15,907
Long-term debt outstanding–EPB (c)	4,181	4,254
Long-term debt outstanding	$29,245	$29,309

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(a) Retrospectively adjusted as discussed in Note 2.
(b) Includes assets and liabilities of KMI's consolidated subsidiaries, excluding KMP and EPB.
(c) Excludes debt fair value adjustments. Decrease to long-term debt for debt fair value adjustments totaled $8 million as of both June 30, 2013 and December 31, 2012.

15. Guarantee of Securities of Subsidiaries

KMI has guaranteed the payment of El Paso LLC's (formerly known as El Paso Corporation) outstanding senior notes. These notes are also guaranteed by El Paso Holdco LLC ("El Paso Holdco"), El Paso LLC's direct parent. El Paso Issuing Corporation ("Finance Corp"), a direct subsidiary of El Paso LLC, is the co-issuer of these notes. As of both June 30, 2013 and December 31, 2012, approximately $4.0 billion in aggregate principal amount of these series of El Paso LLC senior notes (referred to as the "Guaranteed Notes") is outstanding. Finance Corp's obligations as a co-issuer and primary obligor are the same as and joint and several with the obligations of El Paso LLC as issuer. Subject to the limitations set forth in the applicable supplemental indentures, the guarantees of KMI and El Paso Holdco are full and unconditional and joint and several, and guarantee the Guaranteed Notes through their respective maturity dates, the latest of which is in 2037. Finance Corp has no subsidiaries and no independent assets or operations. A significant amount of KMI's and El Paso Holdco's income and cash flow are generated by their subsidiaries. As a result, the funds necessary to meet KMI's and El Paso Holdco's debt service and/or guarantee obligations are provided in large part by distributions or advances from their subsidiaries. Included among the non-guarantor subsidiaries are KMP, KMR and EPB, along with Kinder Morgan G.P., Inc., the general partner of KMP and El Paso Pipeline GP Company, L.L.C., the general partner of EPB. In the following unaudited condensed consolidating financial information, KMI is "Parent

Guarantor," El Paso Holdco is the "Guarantor Subsidiary" and El Paso LLC and Finance Corp are the "Subsidiary Issuers." The Guarantor Subsidiary and both of the Subsidiary Issuers are 100% owned by KMI.

Condensed Consolidating Balance Sheets as of June 30, 2013
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
ASSETS						
Cash and cash equivalents	$ 108	$ —	$ 1	$ 908	$ —	$ 1,017
All other current assets	678	10	85	2,540	(558)	2,755
Property, plant and equipment, net	16	—	—	34,583	—	34,599
Investments	—	—	—	6,085	—	6,085
Investments in affiliates	20,531	10,732	6,454	—	(37,717)	—
Goodwill	—	—	8,062	16,431	—	24,493
Notes receivable from affiliates	1	—	—	1,993	(1,994)	—
Deferred charges and all other assets	234	—	866	4,911	(840)	5,171
Total assets	$ 21,568	$ 10,742	$ 15,468	$ 67,451	$ (41,109)	$ 74,120
LIABILITIES AND STOCKHOLDERS’ EQUITY						
Liabilities						
Current portion of debt	$ 1,354	$ —	$ 397	$ 2,213	$ —	$ 3,964
All other current liabilities	209	80	178	3,460	(558)	3,369
Long-term debt	1,873	—	4,023	25,686	—	31,582
Notes payable to affiliates	1,993	—	—	1	(1,994)	—
Deferred income taxes	1,956	—	—	2,997	(840)	4,113
All other long-term liabilities	529	—	164	1,860	—	2,553
Total liabilities	7,914	80	4,762	36,217	(3,392)	45,581
Stockholders’ equity						
Total KMI equity	13,654	10,662	10,706	15,973	(37,341)	13,654
Noncontrolling interests	—	—	—	15,261	(376)	14,885
Total stockholders’ equity	13,654	10,662	10,706	31,234	(37,717)	28,539
Total liabilities and stockholders’ equity	$ 21,568	$ 10,742	$ 15,468	$ 67,451	$ (41,109)	$ 74,120

Condensed Consolidating Balance Sheets as of December 31, 2012
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
ASSETS						
Cash and cash equivalents	$3	$—	$45	$666	$—	$714
All other current assets	813	27	123	9,322	(7,325)	2,960
Property, plant and equipment, net	8	—	—	30,988	—	30,996
Investments	—	—	19	5,785	—	5,804
Investments in affiliates	20,053	11,190	13,232	—	(44,475)	—
Goodwill	—	—	8,059	15,573	—	23,632
Notes receivable from affiliates	1,555	—	—	2,095	(3,650)	—
Deferred charges and all other assets	202	—	1,158	3,912	(1,133)	4,139
Total assets	$22,634	$11,217	$22,636	$68,341	$(56,583)	$68,245
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Current portion of debt	$1,035	$—	$115	$1,251	$—	$2,401
All other current liabilities	196	383	6,741	2,832	(7,325)	2,827
Long-term debt	3,068	—	4,378	24,554	—	32,000
Notes payable to affiliates	1,764	296	35	1,555	(3,650)	—
Deferred income taxes	2,095	—	—	3,109	(1,133)	4,071
All other long term liabilities	610	—	169	2,067	—	2,846
Total liabilities	8,768	679	11,438	35,368	(12,108)	44,145
Stockholders' equity						
Total KMI equity	13,866	10,538	11,198	22,580	(44,316)	13,866
Noncontrolling interests	—	—	—	10,393	(159)	10,234
Total stockholders' equity	13,866	10,538	11,198	32,973	(44,475)	24,100
Total liabilities and stockholders' equity	$22,634	$11,217	$22,636	$68,341	$(56,583)	$68,245

Condensed Consolidating Statements of Income for the Three Months Ended June 30, 2013
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
Revenues	$9	$—	$—	$ 3,381	$(8)	$3,382
Costs, expenses and other						
Costs of sales	—	—	—	1,254	—	1,254
Depreciation, depletion and amortization	1	—	—	441	—	442
Other operating expenses	6	—	—	913	(8)	911
Total costs, expenses and other	7	—	—	2,608	(8)	2,607
Operating income	2	—	—	773	—	775
Other income (expense)						
Earnings from equity investments	334	39	113	93	(486)	93
Interest, net	(71)	—	(68)	(288)	—	(427)
Amortization of excess cost of equity investments and other, net	(1)	—	1	565	—	565
Income from continuing operations before income taxes	264	39	46	1,143	(486)	1,006
Income tax benefit (expense)	13	—	(7)	(231)	—	(225)
Net income	277	39	39	912	(486)	781
Net income attributable to noncontrolling interests	—	—	—	(540)	36	(504)
Net income attributable to controlling interests	$277	$39	$39	$ 372	$(450)	$277

Condensed Consolidating Statements of Income for the Three Months Ended June 30, 2012
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
Revenues	$8	$—	$—	$2,159	$—	$2,167
Costs, expenses and other						
Costs of sales	—	—	—	637	—	637
Depreciation, depletion and amortization	—	—	—	333	—	333
Other operating expenses	168	—	64	705	—	937
Total costs, expenses and other	168	—	64	1,675	—	1,907
Operating (loss) income	(160)	—	(64)	484	—	260
Other income (expense)						
Earnings from equity investments	57	(76)	(32)	72	51	72
Interest, net	(84)	—	(14)	(193)	—	(291)
Amortization of excess cost of equity investments and other, net	(3)	—	(1)	9	—	5
(Loss) income from continuing operations before income taxes	(190)	(76)	(111)	372	51	46
Income tax benefit (expense)	65	—	35	(109)	—	(9)
(Loss) income from continuing operations	(125)	(76)	(76)	263	51	37
Loss from discontinued operations, net of tax	(1)	—	—	(279)	—	(280)
Net loss	(126)	(76)	(76)	(16)	51	(243)
Net loss attributable to noncontrolling interests	—	—	—	127	(10)	117
Net (loss) income attributable to controlling interests	$(126)	$(76)	$(76)	$111	$41	$(126)

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Condensed Consolidating Statements of Income for the Six Months Ended June 30, 2013
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
Revenues	$ 18	$ —	$ —	$ 6,439	$ (15)	$ 6,442
Costs, expenses and other						
Costs of sales	—	—	—	2,224	—	2,224
Depreciation, depletion and amortization	1	—	—	853	—	854
Other operating expenses	9	—	(3)	1,578	(15)	1,569
Total costs, expenses and other	10	—	(3)	4,655	(15)	4,647
Operating income	8	—	3	1,784	—	1,795
Other income (expense)						
Earnings from equity investments	673	77	255	194	(1,005)	194
Interest, net	(136)	—	(174)	(519)	—	(829)
Amortization of excess cost of equity investments and other, net	(1)	—	—	784	—	783
Income from continuing operations before income taxes	544	77	84	2,243	(1,005)	1,943
Income tax benefit (expense)	25	—	(7)	(522)	—	(504)
Income from continuing operations	569	77	77	1,721	(1,005)	1,439
Loss from discontinued operations, net of tax	—	—	—	(2)	—	(2)
Net income	569	77	77	1,719	(1,005)	1,437
Net income attributable to noncontrolling interests	—	—	—	(928)	60	(868)
Net income attributable to controlling interests	$ 569	$ 77	$ 77	$ 791	$ (945)	$ 569

Condensed Consolidating Statements of Income for the Six Months Ended June 30, 2012
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
Revenues	$ 17	$—	$—	$ 4,007	$—	$ 4,024
Costs, expenses and other						
Costs of sales	—	—	—	1,217	—	1,217
Depreciation, depletion and amortization	—	—	—	607	—	607
Other operating expenses	190	—	64	1,170	—	1,424
Total costs, expenses and other	190	—	64	2,994	—	3,248
Operating (loss) income	(173)	—	(64)	1,013	—	776
Other income (expense)						
Earnings from equity investments	115	(76)	(32)	137	(7)	137
Interest, net	(132)	—	(14)	(324)	—	(470)
Amortization of excess cost of equity investments and other, net	(2)	—	(1)	7	—	4
(Loss) income from continuing operations before income taxes	(192)	(76)	(111)	833	(7)	447
Income tax benefit (expense)	88	—	35	(228)	—	(105)
(Loss) income from continuing operations	(104)	(76)	(76)	605	(7)	342
Loss from discontinued operations, net of tax	(1)	—	—	(657)	—	(658)
Net loss	(105)	(76)	(76)	(52)	(7)	(316)
Net loss attributable to noncontrolling interests	—	—	—	228	(17)	211
Net (loss) income attributable to controlling interests	$ (105)	$ (76)	$ (76)	$ 176	$ (24)	$ (105)

Condensed Consolidating Statements of Comprehensive Income for the Three Months Ended June 30, 2013
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
Net income	$277	$39	$39	$912	$(486)	$781
Other comprehensive income, net of tax						
Change in fair value of derivatives utilized for hedging purposes	36	7	7	60	(48)	62
Reclassification of change in fair value of derivatives to net income	(1)	—	—	(3)	1	(3)
Foreign currency translation adjustments	(28)	—	—	(53)	27	(54)
Adjustments to pension and other postretirement benefit plan liabilities	1	—	—	(1)	1	1
Total other comprehensive income	8	7	7	3	(19)	6
Comprehensive income	285	46	46	915	(505)	787
Comprehensive income attributable to noncontrolling interests	—	—	—	502	—	502
Comprehensive income attributable to controlling interests	$285	$46	$46	$413	$(505)	$285

Condensed Consolidating Statements of Comprehensive Income for the Three Months Ended June 30, 2012
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
Net loss	$(126)	$(76)	$(76)	$(16)	$51	$(243)
Other comprehensive income, net of tax						
Change in fair value of derivatives utilized for hedging purposes	89	(3)	(3)	224	(79)	228
Reclassification of change in fair value of derivatives to net income	(3)	—	—	(8)	3	(8)
Foreign currency translation adjustments	(13)	—	—	(31)	13	(31)
Adjustments to pension and other postretirement benefit plan liabilities	13	13	13	13	(39)	13
Total other comprehensive income	86	10	10	198	(102)	202
Comprehensive (loss) income	(40)	(66)	(66)	182	(51)	(41)
Comprehensive loss attributable to noncontrolling interests	—	—	—	(1)	—	(1)
Comprehensive (loss) income attributable to controlling interests	$(40)	$(66)	$(66)	$ 183	$(51)	$(40)

Condensed Consolidating Statements of Comprehensive Income for the Six Months Ended June 30, 2013
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
Net income	$ 569	$ 77	$ 77	$ 1,719	$ (1,005)	$ 1,437
Other comprehensive income, net of tax						
Change in fair value of derivatives utilized for hedging purposes	20	8	8	30	(35)	31
Reclassification of change in fair value of derivatives to net income	(5)	(1)	(1)	(9)	7	(9)
Foreign currency translation adjustments	(45)	—	—	(85)	43	(87)
Adjustments to pension and other postretirement benefit plan liabilities	—	(3)	(3)	(2)	8	—
Total other comprehensive loss	(30)	4	4	(66)	23	(65)
Comprehensive income	539	81	81	1,653	(982)	1,372
Comprehensive income attributable to noncontrolling interests	—	—	—	833	—	833
Comprehensive income attributable to controlling interests	$ 539	$ 81	$ 81	$ 820	$ (982)	$ 539

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Condensed Consolidating Statements of Comprehensive Income for the Six Months Ended June 30, 2012
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
Net loss	$(105)	$(76)	$(76)	$(52)	$(7)	$(316)
Other comprehensive income, net of tax						
Change in fair value of derivatives utilized for hedging purposes	55	(3)	(3)	138	(45)	142
Reclassification of change in fair value of derivatives to net income	6	—	—	15	(6)	15
Foreign currency translation adjustments	(1)	—	—	(2)	1	(2)
Adjustments to pension and other postretirement benefit plan liabilities, net of tax	13	13	13	13	(39)	13
Total other comprehensive income	73	10	10	164	(89)	168
Comprehensive (loss) income	(32)	(66)	(66)	112	(96)	(148)
Comprehensive loss attributable to noncontrolling interests	—	—	—	(116)	—	(116)
Comprehensive (loss) income attributable to controlling interests	$(32)	$(66)	$(66)	$ 228	$(96)	$(32)

Condensed Consolidating Statements of Cash Flow for the Six Months Ended June 30, 2013
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
Net cash provided by operating activities	$699	$—	$29	$2,075	$(1,086)	$1,717
Cash flows from investing activities						
Capital expenditures	(9)	—	—	(1,336)	—	(1,345)
Proceeds from sale of investments in Express pipeline system	—	—	—	403	—	403
Proceeds from sale of investments in BBPP Holdings Ltda	—	—	—	88	—	88
Acquisitions of assets and investments	—	—	—	(286)	—	(286)
Repayment from related party	—	—	—	10	—	10
Funding to affiliates	(101)	—	(353)	(557)	1,011	—
Drop down assets to KMP	994	—	—	(994)	—	—
Contributions to investments	(6)	—	—	(93)	6	(93)
Investments in KMP and EPB	(53)	—	(3)	—	56	—
Distributions from equity investments in excess of cumulative earnings	—	—	28	50	—	78
Other, net	—	—	—	45	—	45
Net cash provided by (used in) investing activities	825	—	(328)	(2,670)	1,073	(1,100)
Cash flows from financing activities						
Issuance of debt	750	—	—	5,097	—	5,847
Payment of debt	(1,620)	—	(50)	(3,866)	—	(5,536)
Funding from affiliates	360	—	305	346	(1,011)	—
Debt issuance costs	—	—	—	(12)	—	(12)
Cash dividends	(779)	—	—	—	—	(779)
Repurchase of warrants	(131)	—	—	—	—	(131)
Distributions to parent	—	—	—	(1,080)	1,080	—
Contributions from noncontrolling interests	—	—	—	1,133	(56)	1,077
Distributions to noncontrolling interests	—	—	—	(761)	—	(761)
Other, net	1	—	—	—	—	1
Net cash (used in) provided by financing activities	(1,419)	—	255	857	13	(294)

Effect of exchange rate changes on cash and cash equivalents	—	—	—	(20)	—	(20)
Net increase (decrease) in cash and cash equivalents	105	—	(44)	242	—	303
Cash and cash equivalents, beginning of period	3	—	45	666	—	714
Cash and cash equivalents, end of period	$108	$—	$1	$908	$—	$1,017

Condensed Consolidating Statements of Cash Flow for the Six Months Ended June 30, 2012
(In Millions)
(Unaudited)

	Parent Guarantor	Guarantor Subsidiary	Subsidiary Issuers	Non-guarantor Subsidiaries	Eliminations	Consolidated KMI
Net cash provided by (used in)operating activities	$363	$—	$(554)	$1,898	$(694)	$1,013
Cash flows from investing activities						
Capital expenditures	(2)	—	—	(815)	—	(817)
Acquisitions of assets and investments	—	—	—	(30)	—	(30)
Repayment from related party	—	—	—	20	—	20
Funding to affiliates	(326)	—	—	(483)	809	—
Contributions to investments	(15)	—	—	(86)	—	(101)
Distributions from equity investments in excess of cumulative earnings	11	—	16	86	—	113
Investment in KMP	(11)	—	—	—	11	—
Acquisition of EP	(5,212)	—	—	242	—	(4,970)
Other, net	—	—	—	(5)	—	(5)
Net cash (used in) provided by investing activities	(5,555)	—	16	(1,071)	820	(5,790)
Cash flows from financing activities						
Issuance of debt	6,795	—	—	3,438	—	10,233
Payment of debt	(935)	—	(176)	(3,198)	—	(4,309)
Funding from affiliates	—	—	757	52	(809)	—
Debt issuance costs	(88)	—	—	(5)	—	(93)
Cash dividends	(446)	—	—	—	—	(446)
Repurchase of warrants	(110)	—	—	—	—	(110)
Distributions to parent	—	—	—	(689)	689	—
Contributions from noncontrolling interests	—	—	—	291	(6)	285
Distributions to noncontrolling interests	—	—	—	(513)	—	(513)
Other, net	(2)	—	—	(2)	—	(4)
Net cash provided by (used in) financing activities	5,214	—	581	(626)	(126)	5,043
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(2)	—	(2)
Net increase in cash and cash equivalents	22	—	43	199	—	264
	2	—	—	409	—	411

Cash and cash equivalents, beginning of period						
Cash and cash equivalents, end of period	$24	$—	$43	$608	$—	$675

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Update for Recast and Correction to Condensed Consolidating Financial Information

During the second quarter 2013, KMI determined it had incorrectly presented certain amounts in the Condensed Consolidating Financial Information included in its Form 10-K for the period ended December 31, 2012, and its Form 10-Q for the periods ended September 30, 2012 and March 31, 2013. The Company revised its Condensed Consolidating Financial Statements, for the applicable periods presented, to correct for the presentation of (i) investments, loans, capital contributions and repayments between, and (ii) incorrect inclusion of certain entities within, the Parent Guarantor, Guarantor Subsidiary, Subsidiary Issuers and Non-guarantor Subsidiaries. These errors had no impact on KMI's consolidated results of operations, cash flows, or financial position, or any debt covenants. We concluded the errors were not material to the consolidated financial statements.

In addition, the Company has updated the Condensed Consolidating Financial Information to reflect the recast related to the March 1, 2013 drop-down transaction and the retroactive application of the EP purchase accounting adjustments discussed in Note 2 on each of the statements that were included in the Quarterly Report on Form 10-Q for the periods indicated or the Annual Report on Form 10-K for the period ended December 31, 2012. The following is a summary of the impacts of the common control accounting and the immaterial error corrections. If there was no change from the amounts previously reported we denoted it as “n/c”.

Supplemental Condensed Consolidating Balance Sheets
(Unaudited)

	Parent Guarantor		Guarantor Subsidiary		Subsidiary Issuers		Non-guarantor Subsidiaries		Eliminations	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
As of September 30, 2012										
Current assets	$598	$950	$1,223	$11	$110	$229	$10,580	$12,340	$(7,389)	$(8,408)
Total assets	$21,295	$22,019	$17,162	$10,951	$8,307	$23,125	$68,556	$71,163	$(45,267)	$(57,240)
Current liabilities	$1,244	$1,594	$348	$308	$7,318	$7,456	$5,339	$5,833	$(7,389)	$(8,408)
Total liabilities	$7,149	$7,871	$4,514	$643	$12,015	$12,192	$34,431	$38,369	$(11,954)	$(12,957)
Total stockholders' equity	$14,146	$14,148	$12,648	$10,308	$(3,708)	$10,933	$34,125	$32,794	$(33,313)	$(44,283)
As of December 31, 2012 (a)										
Current assets	$781	$816	$—	$27	$45	$168	$9,264	$9,988	$(6,416)	$(7,325)
Total assets	$22,598	$22,634	$12,025	$11,217	$17,754	$22,636	$67,476	$68,341	$(51,668)	$(56,583)
Current liabilities	$1,196	$1,231	$273	$383	$6,277	$6,856	$3,879	$4,083	$(6,416)	$(7,325)
Total liabilities	$8,733	$8,768	$591	$679	$10,862	$11,438	$35,147	$35,368	$(11,247)	$(12,108)
	$13,865	$13,866	$11,434	$10,538	$6,892	$11,198	$32,329	$32,973	$(40,421)	$(44,475)

Total stockholders' equity

As of March 31, 2013										
Current assets	$802	$888	$7	$10	$1	$88	$9,024	$9,285	$(6,148)	$(6,585)
Total assets	$21,814	$21,917	$10,689	$10,730	$16,784	$21,579	$67,199	$67,635	$(48,178)	$(53,494)
Current liabilities	$1,342	$1,446	$—	$85	$6,376	$6,410	$4,012	$4,244	$(6,148)	$(6,585)
Total liabilities	$8,139	$8,244	$23	$86	$10,850	$10,885	$34,597	$34,842	$(9,609)	$(9,999)
Total stockholders' equity	$13,675	$13,673	$10,666	$10,644	$5,934	$10,694	$32,602	$32,793	$(38,569)	$(43,495)

(a) As reported in the Quarterly Report on Form 10-Q for the period ended March 31, 2013.

Kinder Morgan, Inc. Form 10-Q

Supplemental Condensed Consolidating Statements of Income
(Unaudited)

	Parent Guarantor		Guarantor Subsidiary		Subsidiary Issuers		Non-guarantor Subsidiaries		Eliminations	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
Three Months Ended September 30, 2012										
Revenue	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c
Operating income	n/c	n/c	$17	$—	n/c	n/c	$851	$868	n/c	n/c
Other income (loss)	$132	$163	$339	$55	$20	$8	$(89)	$(85)	$(808)	$(547)
Income before income taxes	$115	$146	$356	$55	$21	$9	$762	$783	$(808)	$(547)
Income from continuing operations	n/c	n/c	$348	$56	$68	$60	$578	$617	$(808)	$(547)
Net income	n/c	n/c	$348	$56	$68	$60	$447	$486	$(808)	$(547)
Net income attributable to controlling interests	n/c	n/c	$348	$56	$68	$60	$392	$433	$(808)	$(549)
Nine Months Ended September 30, 2012										
Revenue	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c
Operating (loss) income	n/c	n/c	$(37)	$—	n/c	n/c	$1,918	$1,881	n/c	n/c
Other income (loss)	$116	$144	$626	$(21)	$12	$(39)	$(241)	$(265)	$(1,248)	$(554)
(Loss) income before income taxes	$(74)	$(46)	$589	$(21)	$(51)	$(102)	$1,677	$1,616	$(1,248)	$(554)
Income (loss) from continuing operations	n/c	n/c	$579	$(20)	$(5)	$(16)	$1,306	$1,222	$(1,248)	$(554)
	n/c	n/c	$579	$(20)	$(5)	$(16)	$518	$434	$(1,248)	$(554)

Net income (loss)										
Net income (loss) attributable to controlling interests	n/c	n/c	$579	$(20)	$(5)	$(16)	$674	$609	$(1,248)	$(573)
Year Ended December 31, 2012										
Revenue	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c
Operating (loss) income	n/c	n/c	$(10)	$—	$(61)	$(62)	$2,861	$2,852	n/c	n/c
Other income (loss)	n/c	n/c	$510	$(434)	$(246)	$(270)	$(376)	$(591)	$(879)	$304
Income (loss) before income taxes	n/c	n/c	$500	$(434)	$(307)	$(332)	$2,485	$2,261	$(879)	$304
Income (loss) from continuing operations	n/c	n/c	$302	$(431)	$(345)	$(425)	$1,811	$1,441	$(879)	$304
Net income (loss)	n/c	n/c	$299	$(431)	$(345)	$(425)	$1,037	$664	$(879)	$304
Net income (loss) attributable to controlling interests	n/c	n/c	$299	$(431)	$(345)	$(425)	$925	$555	$(879)	$301

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Supplemental Condensed Consolidating Statements of Income
(Unaudited)

	Parent Guarantor		Guarantor Subsidiary		Subsidiary Issuers		Non-guarantor Subsidiaries		Eliminations	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
Three Months Ended March 31, 2013										
Revenue	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c
Operating income	n/c	n/c	n/c	n/c	$—	$3	$1,014	$1,011	n/c	n/c
Other income	n/c	n/c	$61	$38	$61	$35	$64	$89	$(543)	$(519)
Income before income taxes	n/c	n/c	$61	$38	$61	$38	$1,078	$1,100	$(543)	$(519)
Income from continuing operations	n/c	n/c	$61	$38	$61	$38	$787	$809	$(543)	$(519)
Net income	n/c	n/c	$61	$38	$61	$38	$785	$807	$(543)	$(519)
Net income attributable to controlling interests	n/c	n/c	$61	$38	$61	$38	$421	$419	$(543)	$(495)

Supplemental Condensed Consolidating Statements of Comprehensive Income
(Unaudited)

	Parent Guarantor		Guarantor Subsidiary		Subsidiary Issuers		Non-guarantor Subsidiaries		Eliminations	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
Three Months Ended September 30, 2012										
Total other comprehensive income	n/c	n/c	$(14)	$(5)	$(6)	$(5)	$(23)	$(46)	$27	$40
Nine Months Ended September 30,										

2012										
Total other comprehensive income	n/c	n/c	$ 53	$ 5	n/c	n/c	$ 184	$ 118	$ (163)	$ (49)
Year Ended December 31, 2012										
Total other comprehensive income	$ (4)	$ (3)	$ 30	$ (21)	$ (14)	$ (21)	$ 179	$ 107	$ (121)	$ 9
Three Months Ended March 31, 2013										
Total other comprehensive income	n/c	n/c	$ (11)	$ (3)	$ (11)	$ (3)	n/c	n/c	$ 58	$ 42

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Supplemental Condensed Statements of Cash Flow
(Unaudited)

	Parent Guarantor		Guarantor Subsidiary		Subsidiary Issuers		Non-guarantor Subsidiaries		Eliminations	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised