GRAPHIC PACKAGING CORP
Form 8-K/A
October 22, 2003

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

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event
reported): **August 8, 2003**

GRAPHIC PACKAGING CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**1-13182**	**58-2205241**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

814 Livingston Court
Marietta, Georgia 30067
(Address of principal executive offices)
(Zip Code)

(770) 644-3000
(Registrant s telephone number, including area code)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

On August 8, 2003, pursuant to the Agreement and Plan of Merger, dated as of March 25, 2003, as amended (the Merger Agreement), by and among Riverwood Holding, Inc., which has been renamed Graphic Packaging Corporation, a Delaware corporation (Registrant), Riverwood Acquisition Sub LLC, formerly a Delaware limited liability company and a wholly-owned subsidiary of Registrant (Merger Sub), and the corporation formerly known as Graphic Packaging International Corporation, formerly a Colorado corporation (GPIC), GPIC was merged with and into Merger Sub, with Merger Sub as the surviving company (the Merger). After the Merger, (i) the corporation formerly known as RIC Holding, Inc., formerly a Delaware corporation and a wholly-owned subsidiary of Registrant, was merged with and into Graphic Packaging Holdings, Inc., a Colorado corporation and a wholly-owned subsidiary of GPIC, which was renamed GPI Holding, Inc., (ii) the corporation formerly known as Graphic Packaging Corporation, formerly a Delaware corporation and an indirect, wholly-owned subsidiary of GPIC, was merged with and into Riverwood International Corporation, a Delaware corporation and an indirect, wholly-owned subsidiary of Registrant, which was renamed Graphic Packaging International, Inc., and (iii) Merger Sub was merged with and into Registrant, with Registrant as the surviving corporation. The Merger Agreement was approved by the respective boards of directors of Registrant and GPIC, as well as by the stockholders of Registrant, on March 24, 2003 and was approved by the stockholders of GPIC at a special meeting held on August 7, 2003.

Prior to consummation of the Merger, Registrant effected a 15.21-to-one stock split. Upon completion of the Merger, each outstanding share of GPIC common stock, par value $0.01 per share (the GPIC Common Stock), and associated GPIC stockholder were converted into the right to receive one share of Registrant s common stock, par value $0.01 per share (the Common Stock), and associated stockholder rights (the Purchase Rights) to purchase preferred stock issued pursuant to the Rights Agreement, dated as of August 7, 2003 (the Rights Agreement), between Registrant and Wells Fargo Bank Minnesota, National Association, as Rights Agent.

The issuance of the Common Stock in connection with the Merger was registered under the Securities Act of 1933, as amended, pursuant to Registrant s Registration Statement on Form S-4 which was declared effective by the Securities and Exchange Commission (the SEC) on July 17, 2003 (Registration No. 333-104928) (as amended, the Registration Statement). The proxy statement/prospectus of GPIC and Registrant included in the Registration Statement contains additional information about the Merger, the related transactions and the nature of any material relationships between Registrant and GPIC.

The GPIC Common Stock had been registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act) and listed on the New York Stock Exchange, Inc. (NYSE) under the symbol GPK . GPIC filed a Form 15 on August 11, 2003 with the SEC to suspend its duty to file reports pursuant to Sections 13 and 15(d) of the Exchange Act in respect of the GPIC Common Stock.

Registrant has filed registration statements on Form 8-A which registered the Common Stock and the Purchase Rights under the Exchange Act. The Common Stock trades on the NYSE under the symbol GPK .

Copies of the Merger Agreement and Amendment No. 1 to the Merger Agreement, listed in Item 7(c) hereto as Exhibit 2.1 and 2.2, respectively, are incorporated herein by reference. On August 8, 2003, Registrant issued a press release announcing the completion of the Merger. The press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The foregoing descriptions are qualified in their entirety by reference to the Registration Statement and the full text of the exhibits attached hereto or incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business Acquired.

Audited consolidated financial statements of GPIC at December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 were previously filed with the SEC as part of the Registration Statement and are attached hereto as Exhibit 99.2 and are incorporated herein by reference.

Interim unaudited condensed consolidated financial statements of GPIC at June 30, 2003 and for the three months and six months ended June 30, 2003 and 2002 are attached hereto as Exhibit 99.3 and are incorporated herein by reference.

(b) Pro Forma Financial Information.

UNAUDITED CONDENSED PRO FORMA COMBINED FINANCIAL STATEMENTS

The following unaudited condensed pro forma combined financial statements are presented to show the estimated effect of the Merger and the related financing transactions and represent the combined company s pro forma combined balance sheet as of June 30, 2003 and combined statement of operations for the six months ended June 30, 2003 and the year ended December 31, 2002. In these pro forma combined financial statements, Registrant and its subsidiaries prior to the Merger are referred to as Riverwood and GPIC and its subsidiaries prior to the Merger are referred to as Graphic .

The following unaudited condensed pro forma combined balance sheet gives effect to the Merger of Riverwood and Graphic and the related financing transactions as if they occurred on June 30, 2003. The accompanying unaudited condensed pro forma combined statements of operations for the six months ended June 30, 2003, and the year ended December 31, 2002 give effect to the Merger and the related financing transactions as if they occurred on January 1, 2002. The unaudited condensed pro forma combined financial statements include adjustments directly attributable to the Merger and related financing transactions that have a continuing impact on the combined company. The pro forma adjustments are described in the accompanying notes. The pro forma adjustments are based upon available information and certain assumptions that management believes are reasonable.

The pro forma financial information was prepared using the purchase method of accounting, with Riverwood treated as the acquirer for accounting purposes. Under purchase accounting, the total cost of the Merger is allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values at the effective date of the Merger. A preliminary allocation of the cost of the Merger has been made based upon currently available information and management s estimates. The actual allocation and its effect on results of operations may differ significantly from the pro forma amounts included herein.

The pro forma information is based on historical financial statements. The pro forma information has been prepared in accordance with the rules and regulations of the SEC and is provided for comparison and analysis purposes only. The unaudited condensed pro forma combined financial statements do not purport to represent the combined company s results of operations or financial condition had the Merger and related financing transactions actually occurred as of such dates or of the results that the combined company would have achieved after the Merger. The unaudited condensed pro forma combined financial statements should be read in conjunction with the historical consolidated financial statements of Riverwood and Graphic and the notes thereto contained herein and in Registrant s periodic reports filed with the SEC.

Combined Company
Unaudited Condensed Pro Forma Combined Balance Sheet
As of June 30, 2003
(in thousands)

	Historical		Pro Forma Adjustments		Combined Company Condensed Pro Forma Combined
	Riverwood	**Graphic**			
Current assets					
Cash and cash equivalents	$ 4,167	$ 6,959	$		$ 11,126
Accounts receivable, net	157,784	76,899	(9,476)	**A**	225,207
Inventories	174,042	100,371	7,057	**B**	281,470
Other current assets	11,874	22,589			34,463
Total current assets	347,867	206,818	(2,419)		552,266
Properties, net	1,224,530	399,248	106,069	**B**	1,729,847
Goodwill, net	268,284	391,803	(39,901)	**B**	620,186
Other intangibles	41,347		28,947	**B**	201,908
			108,514	**B**	
			23,100	**B**	
Other assets	78,673	28,099	(36,169)	**B**	118,148
			54,960	**B**	
			(7,415)	**B**	
Total assets	$ 1,960,701	$ 1,025,968	$ 235,686		$ 3,222,355
Current liabilities					
Short-term debt	$ 96,621	$ 3,626	$ (60,500)	**C**	$ 39,747
Accounts payable	94,125	93,673	(9,476)	**A**	178,322
Interest payable	34,578	9,958	(43,988)	**C**	548
Other current liabilities	67,396	56,118			123,514
Total current liabilities	292,720	163,375	(113,964)		342,131
Long-term debt	1,415,496	471,512	288,602	**C**	2,175,610
Other liabilities	128,449	85,980	(5,427)	**B**	216,320
			7,318	**B**	
Total liabilities	1,836,665	720,867	176,529		2,734,061
Redeemable common stock	6,591		(6,591)	**D**	

Shareholders equity								
Preferred stock				100,000		(100,000)	**D**	
Non-redeemable common stock		75		337		1,595	**D**	2,007
Additional paid-in capital		748,748		412,231		19,800	**D**	1,180,779
Unearned compensation				(2,112)		(6,168)	**E**	(8,280)
Accumulated deficit		(531,286)		(177,511)		177,511	**D**	(586,120)
						(54,834)	**B**	
Accumulated other comprehensive loss		(100,092)		(27,844)		27,844	**D**	(100,092)
Total shareholders equity		117,445		305,101		65,748		488,294
Total liabilities and shareholders equity	$	1,960,701	$	1,025,968	$	235,686	$	3,222,355

See accompanying Notes to Unaudited Condensed Pro Forma Combined Financial Statements.

Combined Company
Unaudited Condensed Pro Forma Combined Statement of Operations
For the Six Months Ended June 30, 2003
(in thousands, except per share data)

	Historical Riverwood	Historical Graphic	Pro Forma Adjustments		Combined Company Condensed Pro Forma Combined
Net sales	$ 636,633	$ 535,877	$ (30,361)	A	$ 1,142,149
Cost of goods sold	516,179	474,701	(30,361)	A	965,860
			5,341	B	
Selling, general and administrative, research and development expense, and merger and acquisition transaction costs	66,338	39,180	3,753	B	109,271
Operating income	54,116	21,996	(9,094)		67,018
Interest expense, net	(67,588)	(19,113)	14,759	C	(71,942)
(Loss) income before income taxes, equity earnings of affiliates and cumulative effect of change in accounting principle	(13,472)	2,883	5,665		(4,924)
Income tax (expense) benefit	(3,414)	(1,182)			(4,596)
(Loss) income before equity earnings of affiliates and cumulative effect of change in accounting principle	(16,886)	1,701	5,665		(9,520)
Equity in net earnings of affiliates	707				707
(Loss) income before cumulative effect of change in accounting principle	(16,179)	1,701	5,665		(8,813)
Preferred stock dividends declared		(5,000)	5,000	D	
(Loss) income attributable to common stockholders before cumulative effect of change in accounting principle	$ (16,179)	$ (3,299)	$ 10,665		$ (8,813)
(Loss) per basic share before cumulative effect of change in accounting principle	$ (2.14)				$ (0.04)
(Loss) per diluted share before cumulative effect of change in accounting principle	$ (2.14)				$ (0.04)

Weighted average shares outstanding:		
Basic	7,555	198,321
Diluted	7,555	198,321

See accompanying Notes to Unaudited Condensed Pro Forma Combined Financial Statements.

Combined Company
Unaudited Condensed Pro Forma Combined Statement of Operations
For the Year Ended December 31, 2002
(in thousands, except per share data)

	Historical		Pro Forma Adjustments		Combined Company Condensed Pro Forma Combined
	Riverwood	Graphic			
Net sales	$ 1,247,314	$ 1,057,843	$ (52,852)	A	$ 2,252,305
Cost of goods sold	984,771	930,581	(52,852)	A	1,870,569
			8,069	B	
Selling, general and administrative and research and development expense	121,931	64,620	30,606	B	217,157
Operating income	140,612	62,642	(38,675)		164,579
Interest expense, net	(146,057)	(44,640)	34,348	C	(156,349)
Loss on early extinguishment of debt	(11,509)	(15,766)			(27,275)
Income (loss) before income taxes, equity earnings of affiliates and cumulative effect of change in accounting principle	(16,954)	2,236	(4,327)		(19,045)
Income tax (expense) benefit	4,664	(886)			3,778
Income (loss) before equity earnings of affiliates	(12,290)	1,350	(4,327)		(15,267)
Equity in net earnings of affiliates	1,028				1,028
Income (loss) before cumulative effect of change in accounting principle	(11,262)	1,350	(4,327)		(14,239)
Preferred stock dividends declared		(10,000)	10,000	D	
Income (loss) attributable to common stockholders before cumulative effect of change in accounting principle	$ (11,262)	$ (8,650)	$ 5,673		$ (14,239)
Income (loss) per diluted share before cumulative effect of change in accounting principle	$ (1.49)				$ (0.07)
Income (loss) per diluted share before cumulative effect of change in accounting principle	$ (1.49)				$ (0.07)
Weighted average shares outstanding:					
Basic	7,565				198,453
Diluted	7,565				201,168

5

Combined Company
Notes to Unaudited Condensed Pro Forma Combined Financial Statements
(Unaudited)

1. Basis of Presentation

These unaudited condensed pro forma combined financial statements have been prepared pursuant to the rules and regulations of the SEC and present the pro forma financial position and results of operations of the combined company based upon historical financial information after giving effect to the Merger and financing transactions and adjustments described in these footnotes. Certain footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Under purchase accounting, the Merger is accounted for such that Riverwood is treated as the acquirer and Graphic as the acquired company. These unaudited condensed pro forma combined financial statements are not necessarily indicative of the results of operations that would have been achieved had the transactions actually taken place at the dates indicated and do not purport to be indicative of future financial position or operating results.

The pro forma balance sheet was prepared by combining the historical consolidated balance sheet data as of June 30, 2003 of Riverwood and Graphic, assuming the Merger and related financing transactions had occurred on June 30, 2003. The pro forma statement of operations for the six months ended June 30, 2003 and the year ended December 31, 2002 have been prepared by combining the consolidated statements of operations for the six months ended June 30, 2003 and the year ended December 31, 2002 for Riverwood and Graphic, assuming the Merger and related financing transactions had occurred on January 1, 2002.

The unaudited condensed pro forma combined financial statements do not reflect significant operational and administrative cost savings that management of the combined company estimates may be achieved as a result of the Merger.

2. Pro Forma Transactions

On March 25, 2003, Registrant and GPIC entered into the Merger Agreement, whereby Registrant would acquire all of the issued and outstanding shares and stock options of GPIC in exchange for the issuance of shares and stock options of Registrant. In connection with the Merger, Riverwood s and Graphic s existing bank debt was financed and substantially all of Riverwood s and Graphic s existing senior and senior subordinated notes were purchased in tender offers or redeemed. For accounting purposes the purchase price of Graphic is based upon the estimated fair value of Registrant s stock exchanged plus estimated direct transaction costs to be incurred of approximately $27.5 million (comprised of Riverwood s financial advisory, legal and accounting fees and excluding Graphic s merger-related expenses). The estimated fair value of Registrant s stock of $4.98 per share, giving effect to the 15.21 to 1 split discussed below, used in the calculation of the purchase price is based upon available information and management s best estimates at this time. The actual fair value of Registrant s stock and the purchase price may change subject to final valuation. The following table summarizes the components of the total purchase price:

The estimated total purchase consideration is as follows (in thousands and as of June 30, 2003):

	Registrant s Shares Issued in the Merger		Value
Shares of common stock	83,409	$	415,376
Shares exchangeable into common stock	1,147		5,712
Stock options			6,283
Estimated acquisition costs to be incurred by Riverwood			27,500
Graphic preferred stock conversion payment			19,622
Estimated total purchase price, excluding assumed debt		$	474,493

The purchase consideration was allocated to assets acquired and liabilities assumed based on the estimated fair value of Graphic s tangible and intangible assets and liabilities. A preliminary allocation of the purchase cost has been made to major categories of assets and liabilities in the accompanying unaudited condensed pro forma combined financial statements based on estimates. The actual allocation of purchase price and its effect on results of operations may differ significantly from the pro forma amounts included herein. The excess of the purchase price over the net tangible and identifiable intangible assets acquired and liabilities assumed has been allocated to goodwill.

The preliminary allocation of the purchase consideration, which is subject to change based on a final valuation of the assets acquired and liabilities assumed as of the closing date, is as follows (in thousands):

Net liabilities assumed (exclusive of pension and other post-retirement liabilities)	$	(525,456)
Properties		505,317
Inventories		107,428
Customer contracts and relationships		108,514
Non compete agreements		23,100
Patents and proprietary technology		28,947
Restricted stock issuance		8,280
Pension and other post-retirement liabilities		(75,598)
Assumed merger-related liabilities		(57,941)
Goodwill		351,902
Estimated total purchase price, excluding assumed debt	$	474,493

The amortization of the identifiable intangible assets (customer contracts, patents and proprietary technology and non compete agreements) is reflected as a pro forma adjustment to the unaudited condensed pro forma combined statement of operations. The combined company expects to amortize the estimated fair value of the identifiable intangibles of approximately $160.6 million on a straight-line basis over an estimated useful life of eighteen years except for non compete agreements which have an estimated useful life of one year. In addition, the combined company expects to depreciate the estimated increase of $106.1 million in the fair value of properties on a straight-line basis over an estimated useful life of approximately ten years for the six months ended June 30, 2003 and eleven years for the year ended December 31, 2002. The net effect of this increased amortization and depreciation of $9.1 million for the six months ended June 30, 2003 and $38.7 million for the year ended December 31, 2002, is reflected in the unaudited condensed pro forma combined statements of operations as follows:

		Year ended December 31, 2002		**Six months ended June 30, 2003**
Cost of goods sold	$	8,069	$	5,341
Selling, general and administrative, research and development expense, and merger and acquisition transaction costs		30,606		3,753
Total additional amortization and depreciation of intangible assets and properties	$	38,675	$	9,094

3. Pro Forma Adjustments

The unaudited condensed pro forma combined financial statements give effect to the transactions described in note 2, as if they had occurred on June 30, 2003 for purposes of the unaudited condensed pro forma combined balance sheet and January 1, 2002 for purposes of the unaudited condensed pro forma combined statements of operations for the six months ended June 30, 2003 and the year ended December 31, 2002. The unaudited condensed pro forma combined statements of operations do not include any material non-recurring charges that will arise as a result of the transaction described in note 2. Adjustments in the unaudited condensed pro forma combined financial statements are as follows:

A Riverwood sells CUK folding boxboard to Graphic for use in certain cartons manufactured by Graphic. This pro forma adjustment eliminates the intercompany sales and cost of goods sold ($30.4 million for the six months ended June 30, 2003 and $52.9 million for the year ended December 31, 2002) and the receivable/payable related to this activity.

B To reflect preliminary purchase accounting, as discussed in note 2 above including the resulting additional amortization and depreciation of intangible assets and properties. Specifically, the following adjustments have been made to reflect the preliminary purchase accounting:

Increase inventory to sales value	$	7,057
Increase plant, property and equipment to market value		106,069
Recognize residual goodwill value		(39,901)
Recognize value of technology and other proprietary intangible assets		28,947
Recognize value of customer relationships		108,514
Recognize value of non compete agreements		23,100
Write-off existing debt issuance costs		(36,169)
Write-off existing debt premium		(5,427)
Record new debt issuance costs		54,960
Recognize additional pension and other retirement liabilities		7,318
Write-off prepaid pension asset		(7,415)
Record Riverwood s merger-related expenses and debt issuance cost write-offs to the combined company s retained deficit		(54,834)

C In connection with the Merger, Riverwood s and Graphic s existing bank debt was refinanced and substantially all of Riverwood s and Graphic s senior and senior subordinated notes were purchased in tender offers or redeemed.

		Existing Combined Debt at June 30, 2003		Refinanced Pro Forma Combined Debt at June 30, 2003
Bank financing	$	762,951	$	1,341,053
Senior and senior subordinated notes		1,200,000		850,000
Other debt		24,304		24,304
Total	$	1,987,255	$	2,215,357

Refinanced pro forma combined debt at June 30, 2003 is classified in the unaudited condensed pro forma combined balance sheet as follows:

Short-term debt	$	39,747
Long-term debt		2,175,610
Total debt	$	2,215,357

Interest payable on existing debt refinanced was $43,988 at June 30, 2003.

The pro forma adjustments reflect the refinancing of the combined company s bank financing, senior notes and senior subordinated notes, including the write-off of unamortized debt issuance costs (see note B), premiums (see note B) and other costs from early extinguishment of debt and the recognition of new debt issuance costs related to the refinancing.

The pro forma interest expense adjustments reflect an average variable interest rate of 3.90% for the combined company s new bank debt and a blended fixed rate of 9.0% on the combined company s new senior and senior subordinated notes. A 1/8% change in the assumed variable interest rate related to the bank financing, without taking interest rate hedges into account, would change annual pro forma interest expense by approximately $1.7 million. The total blended interest rate on a pro forma basis approximated 5.9% for the six months ended June 30, 2003 and 6.0% for the year ended December 31, 2002. A 1/8% change in the assumed blended fixed rate on the combined company s new senior and senior subordinated notes would change pro forma interest expense by approximately $1.1 million.

D To reflect the new equity structure of the combined company, including the following:

Conversion of $100 million of Graphic s convertible preferred stock into common stock (accordingly there is no preferred stock dividend declared)

15.21-to-one stock split of Registrant s common stock

Issuance of 2,400,000 shares of common stock and common stock units under GPIC s long-term incentive plan

Change in certain Registrant s common shares from redeemable to non-redeemable

Issuance of one share of Registrant s common stock for each share of GPIC common stock

Upon completion of the preferred stock conversion and the Merger, approximately 201.0 million fully diluted shares of $0.01 par value of combined company common stock would have been outstanding as of June 30, 2003.

E To reflect vesting of certain of Graphic s unearned compensation on the date of Merger and issuance of restricted stock to certain Graphic management employees.

4. Unaudited Pro Forma Loss Per Share

The following table sets forth the computation of unaudited pro forma basic and diluted income per share before cumulative effect of change in accounting principle (in thousands, except for per share information):

	Year Ended December 31, 2002			Six Months Ended June 30, 2003		
	(Loss)	**Shares**	**Per share Amount**	**(Loss)**	**Shares**	**Per share Amount**
(Loss) per basic share before cumulative effect of change in accounting principle	$ (14,239)	198,453	$ (0.07)	$ (8,813)	198,321	$ (0.04)
Other dilutive equity securities (stock options and shares exchangeable into common stock)		2,715				
(Loss) per diluted share before cumulative effect of change in accounting principle	$ (14,239)	201,168	$ (0.07)	$ (8,813)	198,321	$ (0.04)

Shares utilized in the calculation of pro forma basic and diluted income per share above give effect to the 15.21 to 1 stock split of Registrant s common stock, as follows:

	Year Ended December 31, 2002	Six Months Ended

		June 30, 2003
Weighted average Registrant's shares outstanding	7,565	7,555
Stock split	15.21	15.21
	115,064	114,912
Registrant's shares issued in the Merger	83,389	83,409
	198,453	198,321

Other potentially dilutive securities, in thousands, totaling 21,786 and 20,859 in the six months ended June 30, 2003 and the year ended December 31, 2002 were excluded from the per share calculations above, because of their anti-dilutive effect. The additional securities consist of stock options.

(c) Exhibits.

Exhibit 2.1	Agreement and Plan of Merger, dated as of March 25, 2003, among Registrant, Merger Sub and GPIC. Attached as Annex A to the proxy statement/prospectus which forms a part of the Registration Statement on Form S-4 (Registration No. 333-104928) of Registrant and incorporated herein by reference.
Exhibit 2.2	Amendment No. 1 to Agreement and Plan of Merger, dated as of July 11, 2003, among Registrant, Merger Sub and GPIC. Attached as Annex A to the proxy statement/prospectus which forms a part of the Registration Statement on Form S-4 (Registration No. 333-104928) of Registrant and incorporated herein by reference.

Exhibit 23.1	Consent of PricewaterhouseCoopers LLP (for GPIC s financial statements).
Exhibit 99.1	Press release of Registrant, dated August 8, 2003.
Exhibit 99.2	Audited consolidated financial statements of GPIC at December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000.
Exhibit 99.3	Interim unaudited condensed consolidated financial statements of GPIC at June 30, 2003 and for the three months and six months ended June 30, 2003 and 2002.

Previously filed

SIGNATURES

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

GRAPHIC PACKAGING CORPORATION
(Registrant)

Date: October 22, 2003

By: /s/ STEPHEN A. HELLRUNG
Name: Stephen A. Hellrung
Title: Senior Vice President, General Counsel and Secretary

Exhibit Index

Exhibit Number	Description
Exhibit 2.1	Agreement and Plan of Merger, dated as of March 25, 2003, among Registrant, Merger Sub and GPIC. Attached as Annex A to the proxy statement/prospectus which forms a part of the Registration Statement on Form S-4 (Registration No. 333-104928) of Registrant and incorporated herein by reference.
Exhibit 2.2	Amendment No. 1 to Agreement and Plan of Merger, dated as of July 11, 2003, among Registrant, Merger Sub and GPIC. Attached as Annex A to the proxy statement/prospectus which forms a part of the Registration Statement on Form S-4 (Registration No. 333-104928) of Registrant and incorporated herein by reference.
Exhibit 23.1	Consent of PricewaterhouseCoopers LLP (for GPIC s financial statements).
Exhibit 99.1	Press release of Registrant, dated August 8, 2003.
Exhibit 99.2	Audited consolidated financial statements of GPIC at December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000.
Exhibit 99.3	Interim unaudited condensed consolidated financial statements of GPIC at June 30, 2003 and for the three months and six months ended June 30, 2003 and 2002.

Previously filed

FERC issued a preliminary determination that the authorizations requested, subject to some minor modifications, will be in the public interest. This order does not consider or evaluate any of the environmental issues in this proceeding. On April 19, 2007, the FERC issued the final Environmental Impact Statement, which addressed the potential environmental effects of the construction and operation of the Kinder Morgan Louisiana Pipeline. The final EIS was prepared to satisfy the requirements of the National Environmental Policy Act. It concluded that approval of the Kinder Morgan Louisiana Pipeline project would have limited adverse environmental impacts. On June 22, 2007, the FERC issued an order granting construction and operation of the project. Kinder Morgan Louisiana Pipeline officially accepted the order on July 10, 2007.

NGPL Louisiana Line

On October 10, 2006, in FERC Docket No. CP07-3, NGPL filed seeking approval to expand its Louisiana Line by 200,000 Dth/day. This $88 million project is supported by five-year agreements that fully subscribe the additional capacity. On July 2, 2007, the FERC issued an order granting construction and operation of the requested facilities. NGPL accepted the order on July 6, 2007. This expansion was placed in service during the first quarter of 2008.

See Note 1(K) *Other Investments*, for information regarding natural gas pipeline expansion filings for our equity investees, Rockies Express Pipeline LLC and Midcontinent Express Pipeline LLC.

17. Litigation, Environmental and Other Contingencies

Below is a brief description of our ongoing material legal proceedings, including any material developments that occurred in such proceedings during 2007. This note also contains a description of any material legal proceeding initiated during 2007 in which we are involved.

Federal Energy Regulatory Commission Proceedings

Kinder Morgan Energy Partners' SFPP, L.P. and CALNEV Pipe Line LLC subsidiaries are involved in proceedings before the FERC. SFPP is the subsidiary limited partnership that owns Kinder Morgan Energy Partners' Pacific operations. CALNEV Pipe Line LLC and related terminals was acquired from GATX Corporation and is not part of the Pacific operations. The tariffs and rates charged by SFPP and CALNEV are subject to numerous ongoing proceedings at the FERC, including shippers'

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

complaints and protests regarding interstate rates on these pipeline systems. In general, these complaints allege the rates and tariffs charged by SFPP and CALNEV are not just and reasonable.

As to SFPP, the issues involved in these proceedings include, among others: (i) whether certain of Kinder Morgan Energy Partners' Pacific operations' rates are "grandfathered" under the Energy Policy Act of 1992, referred to in this note as EPAct 1992, and therefore deemed to be just and reasonable; (ii) whether "substantially changed circumstances" have occurred with respect to any grandfathered rates such that those rates could be challenged; (iii) whether indexed rate increases may become effective without investigation; (iv) the capital structure to be used in computing the "starting rate base" of Kinder Morgan Energy Partners' Pacific operations; (v) the level of income tax allowance that Kinder Morgan Energy Partners' Pacific operations may include in its rates; and (vi) the recovery of civil and regulatory litigation expenses and certain pipeline reconditioning and environmental costs incurred by Kinder Morgan Energy Partners' Pacific operations.

In May 2005, the FERC issued a statement of general policy stating it will permit pipelines to include in cost of service a tax allowance to reflect actual or potential tax liability on their public utility income attributable to all partnership or limited liability company interests, if the ultimate owner of the interest has an actual or potential income tax liability on such income. Whether a pipeline's owners have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Although the new policy is generally favorable for pipelines that are organized as pass-through entities, it still entails rate risk due to the case-by-case review requirement. The new tax allowance policy and the FERC's application of that policy to Kinder Morgan Energy Partners' Pacific operations were appealed to the United States Court of Appeals for the District of Columbia Circuit, referred to in this note as the D.C. Court.

On May 29, 2007, the D.C. Court issued an opinion upholding the FERC's tax allowance policy. Because the extent to which an interstate oil pipeline is entitled to an income tax allowance is subject to a case-by-case review at the FERC, the level of income tax allowance to which SFPP will ultimately be entitled is not certain. The D.C. Court's May 29 decision also upheld the FERC's determination that a rate is no longer subject to grandfathering protection under EPAct 1992 when there has been a substantial change in the overall rate of return of the pipeline, rather than in one cost element. Further, the D.C. Court declined to consider arguments that there were errors in the FERC's method for determining substantial change, finding that the parties had not first raised such allegations with the FERC. On July 13, 2007, SFPP filed a petition for rehearing with the D.C. Court, arguing that SFPP did raise allegations with the FERC respecting these calculation errors. The D.C. Court denied rehearing of the May 29, 2007 decision on August 20, 2007, and the decision is now final.

In this note, we refer to SFPP, L.P. as SFPP; CALNEV Pipe Line LLC as Calnev; Chevron Products Company as Chevron; Navajo Refining Company, L.P. as Navajo; ARCO Products Company as ARCO; BP West Coast Products, LLC as BP WCP; Texaco Refining and Marketing Inc. as Texaco; Western Refining Company, L.P. as Western Refining; Mobil Oil Corporation as Mobil; ExxonMobil Oil Corporation as ExxonMobil; Tosco Corporation as Tosco; ConocoPhillips Company as ConocoPhillips; Ultramar Diamond Shamrock Corporation as Ultramar; Valero Energy Corporation as Valero; Valero Marketing and Supply Company as Valero Marketing; and America West Airlines, Inc., Continental Airlines, Inc., Northwest Airlines, Inc., Southwest Airlines Co. and US Airways, Inc., collectively, as the Airline Complainants.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Following is a listing of certain active FERC proceedings pertaining to Kinder Morgan Energy Partners' Pacific operations:

FERC Docket No. OR92-8, *et al.* Complainants/Protestants: Chevron; Navajo; ARCO; BP WCP; Western Refining; ExxonMobil; Tosco; and Texaco (Ultramar is an intervenor) Defendant: SFPP
Consolidated proceeding involving shipper complaints against certain East Line and West Line rates. All five issues (and others) described four paragraphs above are involved in these proceedings. Portions of this proceeding were appealed (and re-appealed) to the D.C. Court and remanded to the FERC. BP WCP, Chevron, and ExxonMobil requested a hearing before the FERC on remanded grandfathering and income tax allowance issues. The FERC issued an Order on Rehearing, Remand, Compliance, and Tariff Filings on December 26, 2007, which denied the requests for a hearing, affirmed the income tax allowance policy and further clarified the implementation of that policy, and required SFPP to file a compliance filing;

FERC Docket Nos. OR92-8-028, et al. Complainants/Protestants: BP WCP; ExxonMobil; Chevron; ConocoPhillips; and Ultramar Defendant: SFPP

Proceeding involving shipper complaints against SFPP's Watson Station rates. A settlement was reached for April 1, 1999 forward; whether SFPP owes reparations for shipments prior to that date is still before the FERC;

FERC Docket No. OR96-2, et al. Complainants/Protestants: All Shippers except Chevron (which is an intervenor) Defendant: SFPP

Consolidated proceeding involving shipper complaints against all SFPP rates. All five issues (and others) described four paragraphs above are involved in these proceedings. Portions of this proceeding were appealed (and re-appealed) to the D.C. Court and remanded to the FERC. The FERC issued an Order on Rehearing, Remand, Compliance, and Tariff Filings on December 26, 2007, which denied the requests for a hearing, affirmed the income tax allowance policy and further clarified the implementation of that policy, and required SFPP to file a compliance filing;

FERC Docket Nos. OR02-4 and OR03-5 Complainants/Protestant: Chevron Defendant: SFPP

Chevron initiated proceeding to permit Chevron to become complainant in OR96-2. Appealed to the D.C. Court and held in abeyance pending final disposition of the OR96-2 proceedings;

FERC Docket No. OR04-3 Complainants/Protestants: America West Airlines; Southwest Airlines; Northwest Airlines; and Continental Airlines Defendant: SFPP

Complaint alleges that West Line and Watson Station rates are unjust and unreasonable. Watson Station issues severed and consolidated into a proceeding focused only on Watson-related issues. The FERC has set the complaints against the West Line rates for hearing but denied the request to consolidate the dockets with the ongoing proceedings involving SFPP's North and Oregon Line rates;

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

FERC Docket Nos. OR03-5, OR05-4 and OR05-5 Complainants/Protestants: BP WCP; ExxonMobil; and ConocoPhillips (other shippers intervened) Defendant: SFPP

Complaints allege that SFPP's interstate rates are not just and reasonable. The FERC has set the complaints against the West and East Line rates for hearing, but denied the request to consolidate the dockets with the ongoing proceedings involving SFPP's North and Oregon Line rates;

FERC Docket No. OR03-5-001 Complainants/Protestants: BP WCP; ExxonMobil; and ConocoPhillips (other shippers intervened) Defendant: SFPP
The FERC severed the portions of the complaints in Docket Nos. OR03-5, OR05-4, and OR05-5 regarding SFPP's North and Oregon Line rates into a separate proceeding in Docket No. OR03-5-001, which has been set for hearing;

FERC Docket No. OR07-1 Complainant/Protestant: Tesoro Defendant: SFPP
Complaint alleges that SFPP's North Line rates are not just and reasonable. Complaint held in abeyance pending resolution at the D.C. Court of, among other things, income tax allowance and grandfathering issues. The D.C. Court issued an opinion on these issues on May 29, 2007, upholding the FERC's income tax allowance policy;

FERC Docket No. OR07-2 Complainant/Protestant: Tesoro Defendant: SFPP

Complaint alleges that SFPP's West Line rates are not just and reasonable. Complaint held in abeyance pending resolution at the D.C. Court of, among other things, income tax allowance and grandfathering issues. The D.C. Court issued an opinion on these issues on May 29, 2007, upholding the FERC's income tax allowance policy. A request that the FERC set the complaint for hearing which SFPP opposed is pending before the FERC;

FERC Docket No. OR07-3 Complainants/Protestants: BP WCP; Chevron; ExxonMobil; Tesoro; and Valero Marketing Defendant: SFPP

Complaint alleges that SFPP's North Line indexed rate increase was not just and reasonable. The FERC has dismissed the complaint and denied rehearing the dismissal. Petitions for review filed by BP WCP and ExxonMobil at the D.C. Court;

FERC Docket No. OR07-4 Complainants/Protestants: BP WCP; Chevron; and ExxonMobil Defendants: SFPP; Kinder Morgan G.P., Inc.; and Knight Inc.

Complaint alleges that SFPP's rates are not just and reasonable. Complaint held in abeyance pending resolution at the D.C. Court of, among other things, income tax allowance and grandfathering issues. The D.C. Court issued an opinion on these issues on May 29, 2007, upholding the FERC's income tax allowance policy;

FERC Docket Nos. OR07-5 and OR07-7 (consolidated) Complainants/Protestants: ExxonMobil and Tesoro Defendants: Calnev; Kinder Morgan G.P., Inc.; and Knight Inc.

Complaints allege that none of Calnev's current rates are just or reasonable. In light of the D.C. Court's May 29, 2007 ruling, on July 19, 2007, the FERC, among other things, dismissed with prejudice the complaints against Kinder Morgan G.P. Inc. and Knight Inc. and allowed complainants to file amended complaints. ExxonMobil filed a request for rehearing of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

dismissal of the complaints against Kinder Morgan G.P., Inc. and Knight Inc., which is currently pending before the FERC. The FERC has not acted on the amended complaints;

FERC Docket No. OR07-6 Complainant/Protestant: ConocoPhillips Defendant: SFPP

Complaint alleges that SFPP's North Line indexed rate increase was not just and reasonable. The FERC has dismissed the complaint and denied rehearing the dismissal. The FERC had consolidated this case with OR07-3 and issued orders that applied to both OR07-3 and OR07-6. Although the FERC orders in these dockets have been appealed by certain of the complainants in OR07-3, they have not been appealed by ConocoPhillips in OR07-6;

FERC Docket No. OR07-8 (consolidated with Docket No. OR07-11) Complainant/Protestant: BP WCP Defendant: SFPP

Complaint alleges that SFPP's 2005 indexed rate increase was not just and reasonable. On June 6, 2007, the FERC dismissed challenges to SFPP's underlying rate but held in abeyance the portion of the Complaint addressing SFPP's July 1, 2005 index-based rate increases. SFPP requested rehearing on July 6, 2007, which the FERC denied. On February 13, 2008, the FERC set this complaint for hearing, but referred it to settlement negotiations;

FERC Docket No. OR07-9 Complainant/Protestant: BP WCP Defendant: SFPP

Complaint alleges that SFPP's ultra low sulphur diesel (ULSD) recovery fee violates the filed rate doctrine and that, in any event, the recovery fee is unjust and unreasonable. On July 6, 2007, the FERC dismissed the complaint. BP WCP requested a rehearing, which the FERC denied. A petition for review was filed by BP WCP. The FERC's motion to dismiss or hold the case in abeyance is pending;

FERC Docket No. OR07-10 Complainants/Protestants: BP WCP; ConocoPhillips; Valero; and ExxonMobil Defendant: Calnev

Calnev filed a petition with the FERC on May 14, 2007, requesting that the FERC issue a declaratory order approving Calnev's proposed rate methodology and granting other relief with respect to a substantial proposed expansion of Calnev's mainline pipeline system. On July 20, 2007, the FERC granted Calnev's petition for declaratory order;

FERC Docket No. OR07-11 (consolidated with Docket No. OR07-8) Complainant/Protestant: ExxonMobil Defendant: SFPP

Complaint alleges that SFPP's 2005 indexed rate increase was not just and reasonable. On February 13, 2008, the FERC set this complaint for hearing, but referred it to settlement negotiations. It is now consolidated with the complaint in Docket No. OR07-8;

FERC Docket No. OR07-14 Complainants/Protestants: BP WCP and Chevron Defendants: SFPP; Calnev; Operating Limited Partnership "D"; Kinder Morgan Energy Partners, L.P.; Kinder Morgan Management LLC; Kinder Morgan G.P., Inc.; Knight Inc.; and Knight Holdco, LLC

Complaint alleges violations of the Interstate Commerce Act and the FERC's cash management regulations, seeks review of the FERC Form 6 annual reports of SFPP and Calnev, and again requests interim refunds and reparations. The FERC dismissed the complaint;

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

FERC Docket No. OR07-16 Complainant/Protestant: Tesoro Defendant: Calnev

Complaint challenges Calnev's 2005, 2006, and 2007 indexing adjustments. The FERC dismissed the complaint. A petition for review was filed by Tesoro. A scheduling order for briefs and oral argument has not yet been issued by the D.C. Court;

FERC Docket No. OR07-18 Complainants/Protestants: Airline Complainants; Chevron; and Valero Marketing Defendant: Calnev
Complaint alleges that Calnev's rates are unjust and unreasonable and that none of Calnev's rates are grandfathered under EPAct 1992. In December 2007, the FERC issued an order accepting and holding in abeyance the portion of the complaint against the non-grandfathered portion of Calnev's rates. The order also gave complainants 45 days to amend their complaint against the grandfathered portion of Calnev's rates in light of clarifications provided in the FERC's order;

FERC Docket No. OR07-19 Complainant/Protestant: ConocoPhillips Defendant: Calnev
Complaint alleges that Calnev's rates are unjust and unreasonable and that none of Calnev's rates are grandfathered under EPAct 1992. In December 2007, the FERC issued an order accepting and holding in abeyance the portion of the complaint against the non-grandfathered portion of Calnev's rates. The order also gave complainants 45 days to amend their complaint against the grandfathered portion of Calnev's rates in light of clarifications provided in the FERC's order;

FERC Docket No. OR07-20 Complainant/Protestant: BP WCP Defendant: SFPP
Complaint alleges that SFPP's 2007 indexed rate increase was not just and reasonable. In December 2007, the FERC dismissed the complaint. Complainant filed a request for rehearing which is currently pending before the FERC. In February 2008, the FERC accepted a joint offer of settlement that dismisses, with prejudice, the East Line index rate portion of the complaint in OR07-20;

FERC Docket No. OR07-22 Complainant/Protestant: BP WCP Defendant: Calnev
Complaint alleges that Calnev's rates are unjust and unreasonable and that none of Calnev's rates are grandfathered under EPAct 1992. In December 2007, the FERC issued an order giving complainant 45 days to amend its complaint in light of guidance provided by the FERC;

FERC Docket No. IS05-230 (North Line rate case) Complainants/Protestants: Shippers Defendant: SFPP

SFPP filed to increase North Line rates to reflect increased costs due to installation of new pipe between Concord and Sacramento, California. Various shippers protested. An administrative law judge decision is pending before the FERC on exceptions. On August 31, 2007, BP WCP and ExxonMobil filed a motion to reopen the record on the issue of SFPP's appropriate rate of return on equity, which SFPP answered on September 18, 2007. The FERC has yet to issue an order on shipper's motion;

FERC Docket No. IS05-327 Complainants/Protestants: Shippers Defendant: SFPP

SFPP filed to increase certain rates on its pipelines pursuant to the FERC's indexing methodology. Various shippers protested, but the FERC determined that the tariff filings were

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

consistent with its regulations. The D.C. Court dismissed a petition for review, citing a lack of jurisdiction to review a decision by the FERC not to order an investigation;

FERC Docket No. IS06-283 (East Line rate case) Complainants/Protestants: Shippers Defendant: SFPP

SFPP filed to increase East Line rates to reflect increased costs due to installation of new pipe between El Paso, Texas and Tucson, Arizona. Various shippers protested. In November 2007, the parties submitted a joint offer of settlement which was certified to the FERC in December 2007. In February 2008, the FERC accepted the joint offer of settlement which, among other things, resolved all protests and complaints related to the East Line Phase I Expansion Tariff;

FERC Docket No. IS06-296 Complainant/Protestant: ExxonMobil Defendant: Calnev

Calnev sought to increase its interstate rates pursuant to the FERC's indexing methodology. ExxonMobil filed a protest respecting Calnev's indexing adjustments. This proceeding is currently held in abeyance pending ongoing settlement discussions. Calnev has also filed a motion to dismiss or to hold the investigation in abeyance, which is pending before the FERC. Calnev and ExxonMobil have reached an agreement in principle to settle this and other dockets;

FERC Docket No. IS06-356 Complainants/Protestants: Shippers Defendant: SFPP

SFPP filed to increase certain rates on its pipelines pursuant to the FERC's indexing methodology. Various shippers protested, but the FERC found the tariff filings consistent with its regulations. The FERC has rescinded the index increase for the East Line rates, and SFPP has requested rehearing. The D.C. Court dismissed a petition for review, citing the rehearing request pending before the FERC. On September 20, 2007, the FERC denied SFPP's request for rehearing. In November 2007, all parties submitted a joint offer of settlement. In February 2008, the FERC accepted the joint offer of settlement which, among other things, resolved all protests and complaints related to the East Line 2006 Index Tariff;

FERC Docket No. IS07-137 (ULSD surcharge) Complainants/Protestants: Shippers Defendant: SFPP

SFPP filed tariffs to include a per barrel ULSD recovery fee and a surcharge for ULSD-related litigation costs on diesel products. Various shippers protested. Tariffs related to ULSD recovery fee accepted subject to refund and proceeding is being held in abeyance pending resolution of other proceedings involving SFPP. SFPP rescinded the ULSD litigation surcharge in compliance with a FERC order. Request for rehearing filed by Chevron and Tesoro. Request for rehearing filed by Chevron and Tesoro. The FERC ultimately denied rehearing in an order issued on November 13, 2007;

FERC Docket No. IS07-229 Complainants/Protestants: BP WCP and ExxonMobil Defendant: SFPP

SFPP filed to increase certain rates on its pipelines pursuant to the FERC's indexing methodology. Two shippers filed protests. The FERC found the tariff filings consistent with its regulations, but suspended the increased rates subject to refund pending challenges to SFPP's underlying rates. In November 2007, all parties submitted a joint offer of settlement. In February 2008, the FERC accepted the joint offer of settlement which, among other things, resolved all protests and complaints related to the East Line 2007 Index Tariff;

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

FERC Docket No. IS07-234 Complainants/Protestants: BP WCP and ExxonMobil Defendant: Calnev
Calnev filed to increase certain rates on its pipeline pursuant to the FERC's indexing methodology. Two shippers protested. The FERC found the tariff filings consistent with its regulations, but suspended the increased rates subject to refund pending challenges to SFPP's underlying rates. Calnev and ExxonMobil have reached an agreement in principle to settle this and other dockets;

FERC Docket No. IS08-28 Complainants/Protestants: ConocoPhillips; Chevron; BP WCP; ExxonMobil; Southwest Airlines; Western; and Valero Defendant: SFPP
SFPP filed to increase its East Line rates based on costs incurred related to an expansion. Various shippers filed protests, which SFPP answered. The FERC issued an order on November 29, 2007 accepting and suspending the tariff subject to refund. The proceeding is being held in abeyance pursuant to ongoing settlement negotiations; and

Motions to compel payment of interim damages (various dockets) Complainants/Protestants: Shippers Defendants: SFPP; Kinder Morgan G.P., Inc.; and Knight Inc.
Motions seek payment of interim refunds or escrow of funds pending resolution of various complaints and protests involving SFPP. The FERC denied shippers' refund requests in an order issued on December 26, 2007 in Docket Nos. OR92-8, et al

In 2003, Kinder Morgan Energy Partners made aggregate payments of $44.9 million for reparations and refunds pursuant to a FERC order related to Docket Nos. OR92-8 *et al.* In 2005, SFPP received a FERC order in OR92-8 and OR96-2 that directed it to submit compliance filings and revised tariffs. In accordance with the FERC's December 2005 order and its February 2006 order on rehearing, SFPP submitted a compliance filing to the FERC in March 2006, and rate reductions were implemented on May 1, 2006. Kinder Morgan Energy Partners estimates the impact of the rate reductions in 2007 was approximately $25 million, and Kinder Morgan Energy Partners estimates that the actual, partial year impact on Kinder Morgan Energy Partners' 2006 distributable cash flow was approximately $15.7 million. In addition, in December 2005, Kinder Morgan Energy Partners recorded accruals of $105.0 million for expenses attributable to an increase in its reserves related to its rate case liability.

In December 2007, as a follow-up to the March 2006 compliance filing, SFPP received a FERC order that directed it to submit revised compliance filings and revised tariffs. In conjunction with this order, Kinder Morgan Energy Partners' other FERC and CPUC rate cases, and other unrelated litigation matters, Kinder Morgan Energy Partners increased its litigation reserves by $140.0 million in the fourth quarter of 2007. We assume that, with respect to Kinder Morgan Energy Partners' SFPP litigation reserves, any additional reparations and accrued interest thereon will be paid no earlier than the fourth quarter of 2008. SFPP filed the revised compliance filings on February 26, 2008, and implemented new rates on March 1, 2008. We estimate that the impact of the new rates on Kinder Morgan Energy Partners' 2008 budget will be less than $3.0 million.

In general, if the shippers are successful in proving their claims, they are entitled to reparations or refunds of any excess tariffs or rates paid during the two-year period prior to the filing of their complaint, and Kinder Morgan Energy Partners' Pacific operations may be required to reduce the amount of its tariffs or rates for particular services. These proceedings tend to be protracted, with decisions of the FERC often appealed to the federal courts. Based on our review of these FERC

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

proceedings, we estimate that shippers are seeking approximately $290 million in reparation and refund payments and approximately $45 million in additional annual rate reductions.

California Public Utilities Commission Proceedings

On April 7, 1997, ARCO, Mobil and Texaco filed a complaint against SFPP with the California Public Utilities Commission, referred to in this note as the CPUC. The complaint challenges rates charged by SFPP for intrastate transportation of refined petroleum products through its pipeline system in the state of California and requests prospective rate adjustments.

In October 2002, the CPUC issued a resolution, referred to in this note as the Power Surcharge Resolution, approving a 2001 request by SFPP to raise its California rates to reflect increased power costs. The resolution approving the requested rate increase also required SFPP to submit cost data for 2001, 2002, and 2003, and to assist the CPUC in determining whether SFPP's overall rates for California intrastate transportation services are reasonable. The resolution reserves the right to require refunds, from the date of issuance of the resolution, to the extent the CPUC's analysis of cost data to be submitted by SFPP demonstrates that SFPP's California jurisdictional rates are unreasonable in any fashion.

On December 26, 2006, Tesoro filed a complaint challenging the reasonableness of SFPP's intrastate rates for the three-year period from December 2003 through December 2006 and requesting approximately $8 million in reparations. As a result of previous SFPP rate filings and related protests, the rates that are the subject of the Tesoro complaint are being collected subject to refund.

SFPP also has various, pending ratemaking matters before the CPUC that are unrelated to the above-referenced complaints and the Power Surcharge Resolution. Protests to these rate increase applications have been filed by various shippers. As a consequence of the protests, the related rate increases are being collected subject to refund.

All of the above matters have been consolidated and assigned to a single administrative law judge. At the time of the preparation of these notes to financial statements, it is unknown when a decision from the CPUC regarding the CPUC complaints and the Power Surcharge Resolution will be received. No schedule has been established for hearing and resolution of the consolidated proceedings other than the 1997 CPUC complaint and the Power Surcharge Resolution. Based on our review of these CPUC proceedings, we estimate that shippers are seeking approximately $100 million in reparation and refund payments and approximately $35 million in annual rate reductions.

Carbon Dioxide Litigation

Shores and First State Bank of Denton Lawsuits

Kinder Morgan CO_2 Company, L.P. (referred to in this note as Kinder Morgan CO_2), Kinder Morgan G.P., Inc., and Cortez Pipeline Company were among the named defendants in Shores, et al. v. Mobil Oil Corp., et al., No. GC-99-01184 (Statutory Probate Court, Denton County, Texas filed December 22, 1999) and First State Bank of Denton, et al. v. Mobil Oil Corp., et al., No. 8552-01 (Statutory Probate Court, Denton County, Texas filed March 29, 2001). These cases were originally filed as class actions on behalf of classes of overriding royalty interest owners (Shores) and royalty interest owners (Bank of Denton) for damages relating to alleged underpayment of royalties on carbon dioxide produced from the McElmo Dome Unit. On February 22, 2005, the trial judge dismissed both

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

cases for lack of jurisdiction. Some of the individual plaintiffs in these cases re-filed their claims in new lawsuits (discussed below).

Armor/Reddy Lawsuit

On May 13, 2004, William Armor filed a case alleging the same claims for underpayment of royalties on carbon dioxide produced from the McElmo Dome Unit against Kinder Morgan CO_2, Kinder Morgan G.P., Inc., and Cortez Pipeline Company among others. *Armor v. Shell Oil Company, et al*, No. 04-03559 (14th Judicial District Court, Dallas County, Texas filed May 13, 2004).

On May 20, 2005, Josephine Orr Reddy and Eastwood Capital, Ltd. filed a case in Dallas state district court alleging the same claims for underpayment of royalties. *Reddy and Eastwood Capital, Ltd. v. Shell Oil Company, et al*., No. 05-5021 (193rd Judicial District Court, Dallas County, Texas filed May 20, 2005). The defendants included Kinder Morgan CO_2 and Kinder Morgan Energy Partners, L.P. On June 23, 2005, the plaintiff in the Armor lawsuit filed a motion to transfer and consolidate the Reddy lawsuit with the Armor lawsuit. On June 28, 2005, the court in the Armor lawsuit ordered that the Reddy lawsuit be transferred and consolidated into the Armor lawsuit.

Effective March 5, 2007, the parties executed a final settlement agreement which provides for the dismissal of the lawsuit and the plaintiffs' claims with prejudice to being refiled. On June 12, 2007, the Dallas state district court signed its order dismissing the case and all claims with prejudice.

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

Kinder Morgan CO_2, Kinder Morgan Energy Partners, L.P. and Cortez Pipeline Company are among the defendants in a proceeding in the federal courts for the southern district of Texas. *Gerald O. Bailey et al. v. Shell Oil Company et al*., (Civil Action Nos. 05-1029 and 05-1829 in the U.S. District Court for the Southern District of Texas consolidated by Order dated July 18, 2005). The plaintiffs are asserting claims for the underpayment of royalties on carbon dioxide produced from the McElmo Dome unit. The plaintiffs assert claims for fraud/fraudulent inducement, real estate fraud, negligent misrepresentation, breach of fiduciary and agency duties, breach of contract and covenants, violation of the Colorado Unfair Practices Act, civil theft under Colorado law, conspiracy, unjust enrichment, and open account. Plaintiffs Gerald O. Bailey, Harry Ptasynski, and W.L. Gray & Co. have also asserted claims as private relators under the False Claims Act and for violation of federal and Colorado antitrust laws. The plaintiffs seek actual damages, treble damages, punitive damages, a constructive trust and accounting, and declaratory relief. The defendants have filed motions for summary judgment on all claims. No trial date has been set.

Effective March 5, 2007, all defendants and plaintiffs Bridwell Oil Company, the Alicia Bowdle Trust, and the Estate of Margaret Bridwell Bowdle executed a final settlement agreement which provides for the dismissal of these plaintiffs' claims with prejudice to being refiled. On June 10, 2007, the Houston federal district court entered an order of partial dismissal by which the claims by and against the settling plaintiffs were dismissed with prejudice. The claims asserted by Bailey, Ptasynski, and Gray are not included within the settlement or the order of partial dismissal.

Ptasynski Colorado Federal District Court Lawsuit

On April 7, 2006, Harry Ptasynski, one of the plaintiffs in the Bailey action discussed above, filed suit against Kinder Morgan G.P., Inc. in Colorado federal district court. Harry Ptasynski v. Kinder

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Morgan G.P., Inc., No. 06-CV-00651 (LTB) (U.S. District Court for the District of Colorado). Ptasynski, who holds an overriding royalty interest at McElmo Dome, asserted claims for civil conspiracy, violation of the Colorado Organized Crime Control Act, violation of Colorado antitrust laws, violation of the Colorado Unfair Practices Act, breach of fiduciary duty and confidential relationship, violation of the Colorado Payment of Proceeds Act, fraudulent concealment, breach of contract and implied duties to market and good faith and fair dealing, and civil theft and conversion. Ptasynski sought actual damages, treble damages, forfeiture, disgorgement, and declaratory and injunctive relief. The Colorado court transferred the case to Houston federal district court, and Ptasynski voluntarily dismissed the case on May 19, 2006. Ptasynski also filed an appeal in the Tenth Circuit seeking to overturn the Colorado court's order transferring the case to Houston federal district court. Harry Ptasynski v. Kinder Morgan G.P., Inc., No. 06-1231 (10th Cir.). Briefing in the appeal was completed on November 27, 2006. On April 4, 2007, the Tenth Circuit Court of Appeals dismissed the appeal as moot in light of Ptasynksi's voluntary dismissal of the case.

Bridwell Oil Company Wichita County Lawsuit

On March 1, 2004, Bridwell Oil Company, one of the named plaintiffs in the above described Bailey action, filed a new matter in which it asserted claims that are virtually identical to the claims it asserted in the Bailey lawsuit. Bridwell Oil Co. v. Shell Oil Co. et al., No. 160,199-B (78th Judicial District Court, Wichita County, Texas filed March 1, 2004). The defendants in this action include, among others, Kinder Morgan CO_2, Kinder Morgan Energy Partners, L.P., and Cortez Pipeline Company. This case was abated pending resolution of the Bailey action discussed above.

Effective March 5, 2007, the parties executed a final settlement agreement which provides for the dismissal of the lawsuit and the plaintiffs' claims with prejudice to being refiled. On June 14, 2007, the Wichita County state district court signed its order dismissing the case and all claims with prejudice.

CO_2 Claims Arbitration

Cortez Pipeline Company and Kinder Morgan CO_2, successor to Shell CO_2 Company, Ltd., were among the named defendants in CO_2 Committee, Inc. v. Shell Oil Co., et al., an arbitration initiated on November 28, 2005. The arbitration arose from a dispute over a class action settlement agreement which became final on July 7, 2003 and disposed of five lawsuits formerly pending in the U.S. District Court, District of Colorado. The plaintiffs in such lawsuits primarily included overriding royalty interest owners, royalty interest owners, and small share working interest owners who alleged underpayment of royalties and other payments on carbon dioxide produced from the McElmo Dome Unit. The settlement imposed certain future obligations on the defendants in the underlying litigation. The plaintiff in the arbitration is an entity that was formed as part of the settlement for the purpose of monitoring compliance with the obligations imposed by the settlement agreement. The plaintiff alleged that, in calculating royalty and other payments, defendants used a transportation expense in excess of what is allowed by the settlement agreement, thereby causing alleged underpayments of approximately $12 million. The plaintiff also alleged that Cortez Pipeline Company should have used certain funds to further reduce its debt, which, in turn, would have allegedly increased the value of royalty and other payments by approximately $0.5 million. Defendants denied that there was any breach of the settlement agreement. On August 7, 2006, the arbitration panel issued its opinion finding that defendants did not breach the settlement agreement. On October 25, 2006, the defendants filed an application to confirm the arbitration decision in New Mexico federal district court. On June 21, 2007, the New Mexico federal district court entered final judgment confirming the August 7, 2006 arbitration decision.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

On October 2, 2007, the plaintiff initiated a second arbitration (CO_2 Committee, Inc. v. Shell CO_2 Company, Ltd., aka Kinder Morgan CO_2 Company, L.P., et al.) against Cortez Pipeline Company, Kinder Morgan CO_2 and a Mobil entity. The second arbitration asserts claims similar to those asserted in the first arbitration. On October 11, 2007, the defendants filed a Complaint for Declaratory Judgment and Injunctive Relief in federal district court in New Mexico. The Complaint seeks dismissal of the second arbitration on the basis of res judicata. In November 2007, the plaintiff in the arbitration moved to dismiss the defendants' Complaint on the grounds that the issues presented should be decided by a panel in a second arbitration. In December 2007, the defendants in the arbitration filed a motion seeking summary judgment on their Complaint and dismissal of the second arbitration. No hearing date has been set.

MMS Notice of Noncompliance and Civil Penalty

On December 20, 2006, Kinder Morgan CO_2 received a "Notice of Noncompliance and Civil Penalty: Knowing or Willful Submission of False, Inaccurate, or Misleading Information Kinder Morgan CO_2 Company, L.P., Case No. CP07-001" from the U.S. Department of the Interior, Minerals Management Service. This Notice, and the MMS' position that Kinder Morgan CO_2 has violated certain reporting obligations, relates to a disagreement between the MMS and Kinder Morgan CO_2 concerning the approved transportation allowance to be used in valuing McElmo Dome carbon dioxide for purposes of calculating federal royalties. The Notice of Noncompliance and Civil Penalty assesses a civil penalty of approximately \$2.2 million as of December 15, 2006 (based on a penalty of \$500.00 per day for each of 17 alleged violations) for Kinder Morgan CO_2's alleged submission of false, inaccurate, or misleading information relating to the transportation allowance, and federal royalties for CO_2 produced at McElmo Dome, during the period from June 2005 through October 2006. The MMS contends that false, inaccurate, or misleading information was submitted in the 17 monthly Form 2014s containing remittance advice reflecting the royalty payments for the referenced period because they reflected Kinder Morgan CO_2's use of the Cortez Pipeline tariff as the transportation allowance. The MMS claims that the Cortez Pipeline tariff is not the proper transportation allowance and that Kinder Morgan CO_2 should have used its "reasonable actual costs" calculated in accordance with certain federal product valuation regulations as amended effective June 1, 2005. The MMS stated that civil penalties will continue to accrue at the same rate until the alleged violations are corrected.

The MMS set a due date of January 20, 2007 for Kinder Morgan CO_2's payment of the approximately \$2.2 million in civil penalties, with interest to accrue daily on that amount in the event payment is not made by such date. Kinder Morgan CO_2 has not paid the penalty. On January 2, 2007, Kinder Morgan CO_2 submitted a response to the Notice of Noncompliance and Civil Penalty challenging the assessment in the Office of Hearings and Appeals of the Department of the Interior. On February 1, 2007, Kinder Morgan CO_2 filed a petition to stay the accrual of penalties until the dispute is resolved. On February 22, 2007, an administrative law judge of the U.S. Department of the Interior issued an order denying Kinder Morgan CO_2's petition to stay the accrual of penalties. A hearing on the Notice of Noncompliance and Civil Penalty was originally set for December 10, 2007. In November 2007, the MMS and Kinder Morgan CO_2 filed a joint motion to vacate the hearing date and stay the accrual of additional penalties to allow the parties to discuss settlement. In November 2007, the administrative law judge granted the joint motion, stayed accrual of additional penalties for the period from November 6, 2007 to February 18, 2008, and reset the hearing date to March 24, 2008. The parties conducted settlement conferences on February 4, 2008 and February 12, 2008.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Kinder Morgan CO_2 disputes the Notice of Noncompliance and Civil Penalty and believes that it has meritorious defenses. Kinder Morgan CO_2 contends that use of the Cortez pipeline tariff as the transportation allowance for purposes of calculating federal royalties was approved by the MMS in 1984. This approval was later affirmed as open-ended by the Interior Board of Land Appeals in the 1990s. Accordingly, Kinder Morgan CO_2 has stated to the MMS that its use of the Cortez tariff as the approved federal transportation allowance is authorized and proper. Kinder Morgan CO_2 also disputes the allegation that it has knowingly or willfully submitted false, inaccurate, or misleading information to the MMS. Kinder Morgan CO_2's use of the Cortez Pipeline tariff as the approved federal transportation allowance has been the subject of extensive discussion between the parties. The MMS was, and is, fully apprised of that fact and of the royalty valuation and payment process followed by Kinder Morgan CO_2 generally.

MMS Order to Report and Pay

On March 20, 2007, Kinder Morgan CO_2 received an "Order to Report and Pay" from the Minerals Management Service. The MMS contends that Kinder Morgan CO_2 has over-reported transportation allowances and underpaid royalties in the amount of approximately $4.6 million for the period from January 1, 2005 through December 31, 2006 as a result of its use of the Cortez pipeline tariff as the transportation allowance in calculating federal royalties. As noted in the discussion of the Notice of Noncompliance and Civil Penalty proceeding, the MMS claims that the Cortez Pipeline tariff is not the proper transportation allowance and that Kinder Morgan CO_2 must use its "reasonable actual costs" calculated in accordance with certain federal product valuation regulations. The MMS set a due date of April 13, 2007 for Kinder Morgan CO_2's payment of the $4.6 million in claimed additional royalties, with possible late payment charges and civil penalties for failure to pay the assessed amount. Kinder Morgan CO_2 has not paid the $4.6 million, and on April 19, 2007, it submitted a notice of appeal and statement of reasons in response to the Order to Report and Pay, challenging the Order and appealing it to the Director of the MMS in accordance with 30 CFR 290.100, et seq. Also on April 19, 2007, Kinder Morgan CO_2 submitted a petition to suspend compliance with the Order to Report and Pay pending the appeal. The MMS granted Kinder Morgan CO_2's petition to suspend, and approved self-bonding on June 12, 2007. Kinder Morgan CO_2 filed a supplemental statement of reasons in support of its appeal of the Order to Report and Pay on June 15, 2007.

In addition to the March 2007 Order to Report and Pay, in April 2007, Kinder Morgan CO_2 received an "Audit Issue Letter" sent by the Colorado Department of Revenue on behalf of the U.S. Department of the Interior. In the letter, the Department of Revenue states that Kinder Morgan CO_2 has over-reported transportation allowances and underpaid royalties (due to the use of the Cortez pipeline tariff as the transportation allowance for purposes of federal royalties) in the amount of $8.5 million for the period from April 2000 through December 2004. Kinder Morgan CO_2 responded to the letter in May 2007, outlining its position why use of the Cortez tariff-based transportation allowance is proper. On August 8, 2007, Kinder Morgan CO_2 received an "Order to Report and Pay Additional Royalties" from the MMS. As alleged in the Colorado Audit Issue Letter, the MMS contends that Kinder Morgan CO_2 has over-reported transportation allowances and underpaid royalties in the amount of approximately $8.5 million for the period from April 2000 through December 2004. The MMS's claims underlying the August 2007 Order to Report and Pay are similar to those at issue in the March 2007 Order to Report and Pay. On September 7, 2007, Kinder Morgan CO_2 submitted a notice of appeal and statement of reasons in response to the August 2007 Order to Report and Pay,

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

challenging the Order and appealing it to the Director of the MMS in accordance with 30 CFR 290.100, et seq. Also on September 7, 2007, Kinder Morgan CO_2 submitted a petition to suspend compliance with the Order to Report and Pay pending the appeal. The MMS granted Kinder Morgan CO_2's petition to suspend, and approved self-bonding on September 11, 2007.

The MMS and Kinder Morgan CO_2 have agreed to stay the March 2007 and August 2007 Order to Report and Pay proceedings to allow the parties to discuss settlement. The parties conducted settlement conferences on February 4, 2008 and February 12, 2008.

Kinder Morgan CO_2 disputes both the March and August 2007 Orders to Report and Pay and the Colorado Department of Revenue Audit Issue Letter, and as noted above, it contends that use of the Cortez pipeline tariff as the transportation allowance for purposes of calculating federal royalties was approved by the MMS in 1984 and was affirmed as open-ended by the Interior Board of Land Appeals in the 1990s. The appeals to the MMS Director of the Orders to Report and Pay do not provide for an oral hearing. No further submission or briefing deadlines have been set.

J. Casper Heimann, Pecos Slope Royalty Trust and Rio Petro LTD, individually and on behalf of all other private royalty and overriding royalty owners in the Bravo Dome Carbon Dioxide Unit, New Mexico similarly situated v. Kinder Morgan CO_2 Company, L.P., No. 04-26-CL (8th Judicial District Court, Union County New Mexico)

This case involves a purported class action against Kinder Morgan CO_2 alleging that it has failed to pay the full royalty and overriding royalty ("royalty interests") on the true and proper settlement value of compressed carbon dioxide produced from the Bravo Dome Unit during the period beginning January 1, 2000. The complaint purports to assert claims for violation of the New Mexico Unfair Practices Act, constructive fraud, breach of contract and of the covenant of good faith and fair dealing, breach of the implied covenant to market, and claims for an accounting, unjust enrichment, and injunctive relief. The purported class is comprised of current and former owners, during the period January 2000 to the present, who have private property royalty interests burdening the oil and gas leases held by the defendant, excluding the Commissioner of Public Lands, the United States of America, and those private royalty interests that are not unitized as part of the Bravo Dome Unit. The plaintiffs allege that they were members of a class previously certified as a class action by the United States District Court for the District of New Mexico in the matter Doris Feerer, et al. v. Amoco Production Company, et al., USDC N.M. Civ. No. 95-0012 (the "Feerer Class Action"). Plaintiffs allege that Kinder Morgan CO_2's method of paying royalty interests is contrary to the settlement of the Feerer Class Action. Kinder Morgan CO_2 filed a motion to compel arbitration of this matter pursuant to the arbitration provisions contained in the Feerer Class Action settlement agreement, which motion was denied. Kinder Morgan CO_2 appealed this decision to the New Mexico Court of Appeals, which affirmed the decision of the trial court. The New Mexico Supreme Court granted further review in October 2006, and after hearing oral argument, the New Mexico Supreme Court quashed its prior order granting review. In August 2007, Kinder Morgan CO_2 filed a petition for writ of certiorari with the United States Supreme Court seeking further review. The Petition was denied in December 2007. The case is now proceeding in the trial court as a certified class action and the case is set for trial in September 2008.

In addition to the matters listed above, audits and administrative inquiries concerning Kinder Morgan CO_2's payments on carbon dioxide produced from the McElmo Dome and Bravo Dome Units

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

are currently ongoing. These audits and inquiries involve federal agencies and the states of Colorado and New Mexico.

Commercial Litigation Matters

Union Pacific Railroad Company Easements

SFPP and Union Pacific Railroad Company (the successor to Southern Pacific Transportation Company and referred to in this note as UPRR) are engaged in a proceeding to determine the extent, if any, to which the rent payable by SFPP for the use of pipeline easements on rights-of-way held by UPRR should be adjusted pursuant to existing contractual arrangements for the ten-year period beginning January 1, 2004 (*Union Pacific Railroad Company vs. Santa Fe Pacific Pipelines, Inc., SFPP, L.P., Kinder Morgan Operating L.P. "D", Kinder Morgan G.P., Inc., et al*., Superior Court of the State of California for the County of Los Angeles, filed July 28, 2004). In February 2007, a trial began to determine the amount payable for easements on UPRR rights-of-way. The trial is ongoing and is expected to conclude in the second quarter of 2008.

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. SFPP believes that it must pay for relocation of the pipeline only when so required by the railroad's common carrier operations, and in doing so, it need only comply with standards set forth in the federal Pipeline Safety Act in conducting 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 has appealed this decision. In addition, UPRR contends that it has complete discretion to cause the pipeline to be relocated at SFPP's expense at any time and for any reason, and that SFPP must comply with the more expensive American Railway Engineering and Maintenance-of-Way standards. Each party is seeking declaratory relief with respect to its positions regarding relocations.

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

United States of America, ex rel., Jack J. Grynberg v. K N Energy (Civil Action No. 97-D-1233, filed in the U.S. District Court, District of Colorado).

This multi-district litigation proceeding involves four lawsuits filed in 1997 against numerous Kinder Morgan companies. These suits were filed pursuant to the federal False Claims Act and allege underpayment of royalties due to mismeasurement of natural gas produced from federal and Indian lands. The complaints are part of a larger series of similar complaints filed by Mr. Grynberg against 77 natural gas pipelines (approximately 330 other defendants) in various courts throughout the country which were consolidated and transferred to the District of Wyoming.

In May 2005, a Special Master appointed in this litigation found that because there was a prior public disclosure of the allegations and that Grynberg was not an original source, the Court lacked

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

subject matter jurisdiction. As a result, the Special Master recommended that the Court dismiss all the Kinder Morgan defendants. In October 2006, the United States District Court for the District of Wyoming upheld the dismissal of each case against the Kinder Morgan defendants on jurisdictional grounds. Grynberg has appealed this Order to the Tenth Circuit Court of Appeals. A procedural schedule has been issued and briefing before the Court of Appeals will be completed in the spring of 2008. The oral argument is expected to take place in September 2008.

Prior to the dismissal order on jurisdictional grounds, the Kinder Morgan defendants filed Motions to Dismiss and for Sanctions alleging that Grynberg filed his Complaint without evidentiary support and for an improper purpose. On January 8, 2007, after the dismissal order, the Kinder Morgan defendants also filed a Motion for Attorney Fees under the False Claim Act. On April 24, 2007 the Court held a hearing on the Motions to Dismiss and for Sanctions and the Requests for Attorney Fees. A decision is still pending on the Motions to Dismiss and for Sanctions and the Requests for Attorney Fees.

Weldon Johnson and Guy Sparks, individually and as Representative of Others Similarly Situated v. CenterPoint Energy, Inc. et. al., No. 04-327-2 (Circuit Court, Miller County Arkansas).

On October 8, 2004, plaintiffs filed the above-captioned matter against numerous defendants including Kinder Morgan Texas Pipeline L.P.; Kinder Morgan Energy Partners, L.P.; Kinder Morgan G.P., Inc.; KM Texas Pipeline, L.P.; Kinder Morgan Texas Pipeline G.P., Inc.; Kinder Morgan Tejas Pipeline G.P., Inc.; Kinder Morgan Tejas Pipeline, L.P.; Gulf Energy Marketing, LLC; Tejas Gas, LLC; and MidCon Corp. (the "Kinder Morgan defendants"). The complaint purports to bring a class action on behalf of those who purchased natural gas from the CenterPoint defendants from October 1, 1994 to the date of class certification.

The complaint alleges that CenterPoint Energy, Inc., by and through its affiliates, has artificially inflated the price charged to residential consumers for natural gas that it allegedly purchased from the non-CenterPoint defendants, including the Kinder Morgan defendants. The complaint further alleges that in exchange for CenterPoint's purchase of such natural gas at above market prices, the non-CenterPoint defendants, including the Kinder Morgan defendants, sell natural gas to CenterPoint's non-regulated affiliates at prices substantially below market, which in turn sells such natural gas to commercial and industrial consumers and gas marketers at market price. The complaint purports to assert claims for fraud, unlawful enrichment and civil conspiracy against all of the defendants, and seeks relief in the form of actual, exemplary and punitive damages, interest, and attorneys' fees. On June 8, 2007, the Arkansas Supreme Court held that the Arkansas Public Service Commission has exclusive jurisdiction over any Arkansas plaintiffs' claims that consumers were overcharged for gas in Arkansas and mandated that any such claims be dismissed from this lawsuit. On February 14, 2008, the Arkansas Supreme Court clarified its previously issued order and mandated that the trial court dismiss the lawsuit in its entirety. Based on the information available to date and our preliminary investigation, the Kinder Morgan defendants believe that the claims against them are without merit and intend to defend against them vigorously.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Federal Investigation at Cora and Grand Rivers Coal Facilities

On June 22, 2005, Kinder Morgan Energy Partners announced that the Federal Bureau of Investigation was conducting an investigation related to its coal terminal facilities located in Rockwood, Illinois and Grand Rivers, Kentucky. The investigation involved certain coal sales from its Cora, Illinois and Grand Rivers, Kentucky coal terminals that occurred from 1997 through 2001. During this time period, Kinder Morgan Energy Partners sold excess coal from these two terminals for its own account, generating less than $15 million in total net sales. Excess coal is the weight gain that results from moisture absorption into existing coal during transit or storage and from scale inaccuracies, which are typical in the industry. During the years 1997 through 1999, Kinder Morgan Energy Partners collected, and, from 1997 through 2001, Kinder Morgan Energy Partners subsequently sold, excess coal for its own account, as Kinder Morgan Energy Partners believed it was entitled to do under then-existing customer contracts. Kinder Morgan Energy Partners conducted an internal investigation of the allegations and discovered no evidence of wrongdoing or improper activities at these two terminals.

In the fourth quarter of 2007, Kinder Morgan Energy Partners reached a civil settlement with the U.S. Attorney's office for the Southern District of Illinois pursuant to which Kinder Morgan Energy Partners paid approximately $25 million, in aggregate, to the Tennessee Valley Authority and other customers of the Cora and Grand Rivers terminals from 1997 through 1999. Kinder Morgan Energy Partners made no admission or acknowledgment of improper conduct as part of the settlement, and while Kinder Morgan Energy Partners continues to believe that its actions at its terminals were appropriate, Kinder Morgan Energy Partners determined that a civil resolution of the matter would be in its best interest. The settlement has been finalized, and Kinder Morgan Energy Partners recorded a $25 million increase in expense in the third quarter of 2007 associated with the settlement of this liability.

Queen City Railcar Litigation

On August 28, 2005, a railcar containing the chemical styrene began leaking styrene gas in Cincinnati, Ohio while en route to Kinder Morgan Energy Partners' Queen City Terminal. The railcar was sent by the Westlake Chemical Corporation from Louisiana, transported by Indiana & Ohio Railway, and consigned to Westlake at its dedicated storage tank at Queen City Terminals, Inc., a subsidiary of Kinder Morgan Bulk Terminals, Inc. The railcar leak resulted in the evacuation of many residents and the alleged temporary closure of several businesses in the Cincinnati area. A class action complaint and a suit filed by the City of Cincinnati arising out of this accident have been settled. However, one member of the settlement class, the Estate of George W. Dameron, opted out of the settlement, and the Adminstratrix of the Dameron Estate filed a wrongful death lawsuit on November 15, 2006 in the Hamilton County Court of Common Pleas, Case No. A0609990. The complaint, which is asserted against each of the defendants involved in the class action suit, alleges that styrene exposure caused the death of Mr. Dameron. Without admitting fault or liability, the parties have reached a settlement in principle of the Dameron Suit.

As part of the settlement of the class action claims, the non-Kinder Morgan Energy Partners defendants have agreed to settle remaining claims asserted by businesses and will obtain a release of such claims favoring all defendants, including Kinder Morgan Energy Partners and its affiliates, subject to the retention by all defendants of their claims against each other for contribution and indemnity. Kinder Morgan Energy Partners expects that a claim will be asserted by other defendants against Kinder Morgan Energy Partners seeking contribution or indemnity for any settlements funded

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

exclusively by other defendants, and Kinder Morgan Energy Partners expects to vigorously defend against any such claims.

Leukemia Cluster Litigation

Richard Jernee, et al v. Kinder Morgan Energy Partners, et al, No. CV03-03482 (Second Judicial District Court, State of Nevada, County of Washoe) ("Jernee").

Floyd Sands, et al v. Kinder Morgan Energy Partners, et al, No. CV03-05326 (Second Judicial District Court, State of Nevada, County of Washoe) ("Sands").

On May 30, 2003, plaintiffs, individually and on behalf of Adam Jernee, filed a civil action in the Nevada State trial court against Kinder Morgan Energy Partners and several Kinder Morgan related entities and individuals and additional unrelated defendants. Plaintiffs in the Jernee matter claim that defendants negligently and intentionally failed to inspect, repair and replace unidentified segments of their pipeline and facilities, allowing "harmful substances and emissions and gases" to damage "the environment and health of human beings." Plaintiffs claim that "Adam Jernee's death was caused by leukemia that, in turn, is believed to be due to exposure to industrial chemicals and toxins." Plaintiffs purport to assert claims for wrongful death, premises liability, negligence, negligence per se, intentional infliction of emotional distress, negligent infliction of emotional distress, assault and battery, nuisance, fraud, strict liability (ultra hazardous acts), and aiding and abetting, and seek unspecified special, general and punitive damages. On August 28, 2003, a separate group of plaintiffs, represented by the counsel for the plaintiffs in the Jernee matter, individually and on behalf of Stephanie Suzanne Sands, filed a civil action in the Nevada State trial court against the same defendants and alleging the same claims as in the Jernee case with respect to Stephanie Suzanne Sands. The Jernee case has been consolidated for pretrial purposes with the Sands case. In May 2006, the court granted defendants' motions to dismiss as to the counts purporting to assert claims for fraud, but denied defendants' motions to dismiss as to the remaining counts, as well as defendants' motions to strike portions of the complaint. Defendant Kennametal, Inc. has filed a third-party complaint naming the United States and the United States Navy (the "United States") as additional defendants. In response, the United States removed the case to the United States District Court for the District of Nevada and filed a motion to dismiss the third-party complaint. Plaintiff has also filed a motion to dismiss the United States and/or to remand the case back to state court. By order dated September 25, 2007, the United States District Court granted the motion to dismiss the United States from the case and remanded the Jernee and Sands cases back to the Second Judicial District Court, State of Nevada, County of Washoe. The cases will now proceed in the State Court. Based on the information available to date, our own preliminary investigation, and the positive results of investigations conducted by State and Federal agencies, we believe that the remaining claims against Kinder Morgan Energy Partners in these matters are without merit and intend to defend against them vigorously.

Pipeline Integrity and Releases

From time to time, our pipelines experience leaks and ruptures. These leaks and ruptures may cause explosions, fire, 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.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

We believe that we conduct our operations in accordance with applicable law. We seek to cooperate with state and federal regulatory authorities in connection with the clean up of the environment caused by such leaks and ruptures and with any investigations as to the facts and circumstances surrounding the incidents.

Kleberg County, Texas Gas Pipeline Rupture

On February 12, 2008, Kinder Morgan Energy Partners' Kinder Morgan Texas Pipeline incurred a failure on its 16-inch diameter natural gas pipeline in a remote area in Kleberg County, Texas, which resulted in an explosion and fire. The incident caused some property damage, however no serious physical injuries have been reported to date. Kinder Morgan Texas Pipeline notified appropriate regulatory agencies and is currently investigating the cause of the rupture.

Harrison County Texas Pipeline Rupture

On May 13, 2005, NGPL experienced a rupture on its 36-inch diameter Gulf Coast #3 natural gas pipeline in Harrison County, Texas. The pipeline rupture resulted in an explosion and fire that severely damaged the Harrison County Power Project plant ("HCCP"), an adjacent power plant. In addition, local residents within an approximate one-mile radius were evacuated by local authorities until the site was secured. On October 24, 2006, suit was filed under Cause No. 06-1030 in the 71st Judicial District Court of Harrison County, Texas against NGPL and us by Plaintiffs, Entergy Power Ventures, L.P., Northeast Texas Electric Cooperative, Inc., East Texas Electric Cooperative, Inc. and Arkansas Electric Cooperative Corporation, owners and interest holders in the HCCP. The suit asserted claims of breach of contract, negligence, gross negligence, and trespass, and sought to recover for property damage and for losses due to business interruption. On January 29, 2008, the parties engaged in mediation and agreed to settle all claims. The costs and fees associated with the litigation and the sums due under the settlement in excess of our $1 million retained liability will be funded by our insurers.

Walnut Creek, California Pipeline Rupture

On November 9, 2004, excavation equipment operated by Mountain Cascade, Inc., a third-party contractor on a water main installation project hired by East Bay Municipal Utility District, struck and ruptured an underground petroleum pipeline owned and operated by SFPP in Walnut Creek, California. An explosion occurred immediately following the rupture that resulted in five fatalities and several injuries to employees or contractors of Mountain Cascade, Inc. The explosion and fire also caused property damage.

In May 2005, the California Division of Occupational Safety and Health ("CalOSHA") issued two civil citations against Kinder Morgan Energy Partners relating to this incident assessing civil fines of approximately $0.1 million based upon its alleged failure to mark the location of the pipeline properly prior to the excavation of the site by the contractor. In June 2005, the Office of the California State Fire Marshal, Pipeline Safety Division, referred to as the CSFM, issued a notice of violation against Kinder Morgan Energy Partners which also alleged that it did not properly mark the location of the pipeline in violation of state and federal regulations. The CSFM assessed a proposed civil penalty of $0.5 million. The location of the incident was not SFPP's work site, nor did SFPP have any direct involvement in the water main replacement project. We believe that SFPP acted in accordance with applicable law and regulations, and further that according to California law, excavators, such as the contractor on the project, must take the necessary steps (including excavating with hand tools) to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

confirm the exact location of a pipeline before using any power operated or power driven excavation equipment. Accordingly, we disagree with certain of the findings of CalOSHA and the CSFM, and SFPP has appealed the civil penalties while, at the same time, is continuing to work cooperatively with CalOSHA and the CSFM to resolve these matters.

On September 21, 2007, KMGP Services Company, Inc., our subsidiary, entered into a plea agreement and civil settlement with the District Attorney of Contra Costa County pertaining to this accident. Under the terms of the plea agreement, KMGP Services Company, Inc. agreed to plead no contest to six counts of violating the California Labor Code. While initially constituted as felonies under the California Labor Code, the plea agreement contemplates that following the successful completion of an independent audit of Kinder Morgan Energy Partners' right-of-way protection policies and practices (likely in approximately one year), we may move to reduce the felony counts to misdemeanors. Pursuant to the plea agreement and civil settlement, in October 2007, we paid approximately $15 million.

As a result of the accident, nineteen separate lawsuits were filed. The majority of the cases were personal injury and wrongful death actions that alleged, among other things, that SFPP/Kinder Morgan Energy Partners failed to properly field mark the area where the accident occurred.

Following court ordered mediation, the Kinder Morgan Energy Partners defendants have settled with plaintiffs in all of the wrongful death cases and the personal injury and property damages cases. These settlements either have become final by order of the court or are awaiting court approval. The only civil cases which remain pending at present are: (i) a cross-claim for contribution and indemnity by an engineering company defendant against the Kinder Morgan defendants in which the court has entered summary judgment in favor of the Kinder Morgan defendants; and (ii) a challenge to the court-ordered allocation of settlement proceeds in one of the court-approved wrongful death settlements filed by a nonresident sibling in which the court has also granted summary judgment in favor of the Kinder Morgan defendants. Both of these judgments in favor of the Kinder Morgan defendants are subject to potential appeal.

Additionally, following this accident, Kinder Morgan Energy Partners reviewed and when appropriate, revised its pipeline policies and procedures to improve safety. Kinder Morgan Energy Partners has undertaken a number of actions to reduce future third-party damage to its pipelines, including adding line riders and locators, retaining third-party expertise, instituting enhanced line location training and education of employees and contractors, and investing in additional state-of-the-art line locating equipment. Kinder Morgan Energy Partners has also committed to various procedural requirements pertaining to construction near its pipelines.

Consent Agreement Regarding Cordelia, Oakland and Donner Summit California Releases

On May 21, 2007, Kinder Morgan Energy Partners and SFPP entered into a Consent Agreement with various governmental agencies to resolve civil claims relating to the unintentional release of petroleum products during three pipeline incidents in northern California. The releases occurred (i) in the Suisun Marsh area near Cordelia in Solano County in April 2004, (ii) in Oakland in February 2005 and (iii) near Donner Pass in April 2005. The agreement was reached with the United States Environmental Protection Agency, referred to in this note as the EPA, Department of the Interior, Department of Justice and the National Oceanic and Atmospheric Administration, as well as the State of California Department of Fish and Game, Office of Spill Prevention and Response, and the Regional Water Quality Control Boards for the San Francisco and Lahontan regions. Under the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Consent Agreement, Kinder Morgan Energy Partners agreed to pay approximately $3.8 million in civil penalties, $1.3 million in natural resource damages and assessment costs and approximately $0.2 million in agency response and future remediation monitoring costs. All of the civil penalties have been reserved for as of December 31, 2007. In addition, Kinder Morgan Energy Partners agreed to perform enhancements in its Pacific operations relative to its spill prevention, response and reporting practices, the majority of which have already been implemented.

The Consent Agreement was filed with the United States District Court for the Eastern District of California on May 29, 2007, and became effective July 26, 2007. Kinder Morgan Energy Partners has substantially completed remediation and restoration activities in consultation with the appropriate state and federal regulatory agencies at the location of each release.

EPA Notice of Proposed Debarment

On August 21, 2007, SFPP received a Notice of Proposed Debarment issued by the EPA. Pursuant to the Notice, the Suspension and Debarment Division of the EPA is proposing to debar SFPP from participation in future Federal contracts and assistance activities for a period of three years. The purported basis for the proposed debarment is SFPP's April 2005 agreement with the California Attorney General and the District Attorney of Solano County, California to settle misdemeanor charges of the unintentional, non-negligent discharge of diesel fuel, and the failure to provide timely notice of a threatened discharge to appropriate state agencies, in connection with the April 28, 2004 spill of diesel fuel into a marsh near Cordelia, California. SFPP believes that the proposed debarment is factually and legally unwarranted and intends to contest it. In addition, SFPP is currently engaged in discussions with the EPA to attempt to resolve this matter. Based upon our discussion to date, we do not believe that this matter will result in the debarment or suspension of SFPP.

Baker, California

In November 2004, the CALNEV Pipeline experienced a failure from external damage near Baker, California, resulting in a release of gasoline that affected approximately two acres of land in the high desert administered by the U.S. Bureau of Land Management. Remediation has been conducted and continues for product in the soils. All agency requirements have been met and the site will be closed upon completion of the soil remediation. The California Department of Fish & Game has alleged a small natural resource damage claim that is currently under review. CALNEV expects to work cooperatively with the Department of Fish & Game to resolve this claim.

Henrico County, Virginia

On April 17, 2006, Plantation Pipe Line Company, which transports refined petroleum products across the southeastern United States and which is 51.17% owned and operated by Kinder Morgan Energy Partners, experienced a pipeline release of turbine fuel from its 12-inch pipeline. The release occurred in a residential area and impacted adjacent homes, yards and common areas, as well as a nearby stream. The released product did not ignite and there were no deaths or injuries. Plantation estimates the amount of product released to be approximately 553 barrels. Immediately following the release, the pipeline was shut down and emergency remediation activities were initiated. Remediation and monitoring activities are ongoing under the supervision of the EPA and the Virginia Department of Environmental Quality, referred to as the VDEQ. Following settlement negotiations and discussions with the VDEQ, Plantation and the VDEQ entered into a Special Order on Consent under which

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Plantation agreed to pay a civil penalty of approximately $0.7 million to the VDEQ as well as reimburse the VDEQ for less than $0.1 million in expenses and oversight costs to resolve the matter. Plantation satisfied $0.2 million of the civil penalty by completing a supplemental environmental project in the form of a $0.2 million donation to the Henrico County Fire Department for the purchase of hazardous material spill response equipment.

Dublin, California

In June 2006, the SFPP pipeline experienced a leak near Dublin, California, resulting in a release of product that affected a limited area along a recreation path. Kinder Morgan Energy Partners has completed remediation activities and has petitioned the California Regional Water Quality Control Board for closure. The cause of the release was outside force damage.

Soda Springs, California

In August 2006, the SFPP pipeline experienced a failure near Soda Springs, California, resulting in a release of product that affected a limited area along Interstate Highway 80. Product impacts were primarily limited to soil in an area between the pipeline and Interstate Highway 80. Remediation and monitoring activities are ongoing under the supervision of the California Department of Fish & Game and Nevada County. The cause of the release was determined to be pinhole corrosion in an unpiggable 2-inch diameter bypass to the mainline valve. The bypass was installed to allow pipeline maintenance activity. The bypass piping was replaced at this location and all other similar designs on the pipeline segment were excavated, evaluated and replaced as necessary to avoid future risk of release. On January 30, 2008, Kinder Morgan Energy Partners entered into a settlement agreement with Nevada County and the state of California to resolve any outstanding civil penalties claims related to this release for $75,000.

Rockies Express Pipeline LLC Wyoming Construction Incident

On November 11, 2006, a bulldozer operated by an employee of Associated Pipeline Contractors, Inc, (a third-party contractor to Rockies Express Pipeline LLC, referred to in this note as REX), struck an existing subsurface natural gas pipeline owned by Wyoming Interstate Company, a subsidiary of El Paso Pipeline Group. The pipeline was ruptured, resulting in an explosion and fire. The incident occurred in a rural area approximately nine miles southwest of Cheyenne, Wyoming. The incident resulted in one fatality (the operator of the bulldozer) and there were no other reported injuries. The cause of the incident is under investigation by the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration, referred to as the PHMSA. Kinder Morgan Energy Partners is cooperating with this agency. Immediately following the incident, REX and El Paso Pipeline Group reached an agreement on a set of additional enhanced safety protocols designed to prevent the reoccurrence of such an incident.

In September 2007, the family of the deceased bulldozer operator filed a wrongful death action against Kinder Morgan Energy Partners, Rockies Express Pipeline LLC and several other parties in the District Court of Harris County, Texas, 189 Judicial District, at case number 2007-57916. The plaintiffs seek unspecified compensatory and exemplary damages plus interest, attorney's fees and costs of suit. Kinder Morgan Energy Partners has asserted contractual claims for complete indemnification for any and all costs arising from this incident, including any costs related to this lawsuit, against third parties

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

and their insurers. The parties are currently engaged in discovery. We do not expect the cost of any settlement or eventual judgment, if any, to be material.

Charlotte, North Carolina

On November 27, 2006, the Plantation Pipeline experienced a release of approximately 4,000 gallons of gasoline from a Plantation Pipe Line Company block valve on a delivery line into a terminal owned by a third-party company. Upon discovery of the release, Plantation immediately locked out the delivery of gasoline through that pipe to prevent further releases. Product had flowed onto the surface and into a nearby stream, which is a tributary of Paw Creek, and resulted in loss of fish and other biota. Product recovery and remediation efforts were implemented immediately, including removal of product from the stream. The line was repaired and put back into service within a few days. Remediation efforts are continuing under the direction of the North Carolina Department of Environment and Natural Resources (the "NCDENR"), which issued a Notice of Violation and Recommendation of Enforcement against Plantation on January 8, 2007. Plantation continues to cooperate fully with the NCDENR.

Although Plantation does not believe that penalties are warranted, it is engaging in settlement discussions with the EPA regarding a potential civil penalty for the November 2006 release as part of broader settlement negotiations with the EPA regarding this spill and two other historic releases from Plantation, including a February 2003 release near Hull, Georgia. Plantation has reached an agreement in principle with the Department of Justice and the EPA for all four releases for approximately $0.7 million, plus some additional work to be performed to prevent future releases. The parties are negotiating a consent decree. Although it is not possible to predict the ultimate outcome, we believe, based on our experiences to date, that the resolution of such items will not have a material adverse impact on our business, financial position, results of operations or cash flows.

In addition, in April 2007, during pipeline maintenance activities near Charlotte, North Carolina, Plantation discovered the presence of historical soil contamination near the pipeline, and reported the presence of impacted soils to the NCDENR. Subsequently, Plantation contacted the owner of the property to request access to the property to investigate the potential contamination. The results of that investigation indicate that there is soil and groundwater contamination which appears to be from an historical turbine fuel release. The groundwater contamination is underneath at least two lots on which there is current construction of single family homes as part of a new residential development. Further investigation and remediation are being conducted under the oversight of the NCDENR. Plantation is working with the owner of the property and the builder of the residential subdivision to address any potential claims that they may bring.

Barstow, California

The United States Department of Navy has alleged that historic releases of methyl tertiary-butyl ether, referred to as MTBE, from Calnev's Barstow terminal has (i) migrated underneath the Navy's Marine Corps Logistics Base in Barstow; (ii) impacted the Navy's existing groundwater treatment system for unrelated groundwater contamination not alleged to have been caused by Calnev, and (iii) could affect the MCLB's water supply system. Although Calnev believes that it has certain meritorious defenses to the Navy's claims, we are working with the Navy to agree upon an Administrative Settlement Agreement and Order on Consent for CERCLA Removal Action to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

reimburse the Navy for $0.5 million in past response actions, plus perform other work to ensure protection of the Navy's existing treatment system and water supply.

Oil Spill Near Westridge Terminal, Burnaby, British Columbia

On July 24, 2007, a third-party contractor installing a sewer line for the City of Burnaby struck a crude oil pipeline segment included within Kinder Morgan Energy Partners' Trans Mountain pipeline system near its Westridge terminal in Burnaby, BC, resulting in a release of approximately 1,400 barrels of crude oil. The release impacted the surrounding neighborhood, several homes and nearby Burrard Inlet. No injuries were reported. To address the release, Kinder Morgan Energy Partners initiated a comprehensive emergency response in collaboration with, among others, the City of Burnaby, the BC Ministry of Environment, the National Energy Board, and the National Transportation Safety Board. Cleanup and environmental remediation is continuing. The incident is currently under investigation by Federal and Provincial agencies. We do not expect this matter to have a material adverse impact on our financial position, results of operations or cash flows.

On December 20, 2007 Kinder Morgan Energy Partners initiated a lawsuit entitled *Trans Mountain Pipeline LP, Trans Mountain Pipeline Inc. and Kinder Morgan Canada Inc. v. The City of Burnaby, et al.*, Supreme Court of British Columbia, Vancouver Registry No. S078716. The suit alleges that the City of Burnaby and its agents are liable in damages including, but not limited to, all costs and expenses incurred by us as a result of the rupture of the pipeline and subsequent release of crude oil.

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

Environmental Matters

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

On April 23, 2003, Exxon Mobil Corporation filed a complaint in the Superior Court of New Jersey, Gloucester County. Kinder Morgan Energy Partners filed its answer to the complaint on June 27, 2003, in which it denied ExxonMobil's claims and allegations as well as included counterclaims against ExxonMobil. 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 ST Services, Inc. Prior to selling the terminal to GATX Terminals, ExxonMobil performed the environmental site assessment of the terminal required prior to sale pursuant to state law. During the site assessment, ExxonMobil discovered items that required remediation and the New Jersey Department of Environmental Protection issued an order that required ExxonMobil to perform various remediation activities to remove hydrocarbon contamination at the terminal. ExxonMobil, we understand, is still remediating the site and has not been removed as a responsible party from the state's cleanup order; however, ExxonMobil claims that the remediation continues because of GATX Terminals' storage of a fuel additive, MTBE, at the terminal during GATX Terminals' ownership of the terminal. When GATX Terminals sold the terminal to ST Services, the parties indemnified one another for certain environmental matters. When GATX Terminals was sold to Kinder Morgan Energy Partners, GATX Terminals' indemnification obligations, if any, to ST Services may have passed to Kinder Morgan

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Energy Partners. Consequently, at issue is any indemnification obligation Kinder Morgan Energy Partners may owe to ST Services for environmental remediation of MTBE at the terminal. The complaint seeks any and all damages related to remediating MTBE at the terminal, and, according to the New Jersey Spill Compensation and Control Act, treble damages may be available for actual dollars incorrectly spent by the successful party in the lawsuit for remediating MTBE at the terminal. The parties are currently involved in mandatory mediation with respect to the claims set out in the lawsuit.

On June 25, 2007, the New Jersey Department of Environmental Protection, the Commissioner of the New Jersey Department of Environmental Protection and the Administrator of the New Jersey Spill Compensation Fund, referred to collectively as the plaintiffs, filed a complaint against Exxon Mobil Corporation and GATX Terminals Corporation. The complaint was filed in Gloucester County, New Jersey. The plaintiffs have not yet served the complaint on either of the named defendants. The plaintiffs seek the costs and damages that the plaintiffs allegedly have incurred or will incur as a result of the discharge of pollutants and hazardous substances at the Paulsboro, New Jersey facility. The costs and damages that the plaintiffs seek include damages to natural resources. In addition, the plaintiffs seek an order compelling the defendants to perform or fund the assessment and restoration of those natural resource damages that are the result of the defendants' actions. As in the case brought by Exxon Mobil against GATX Terminals Corporation, the issue is whether the plaintiffs' claims are within the scope of the indemnity obligations GATX Terminals and therefore, Kinder Morgan Liquids Terminals, owes to ST Services.

The City of Los Angeles v. Kinder Morgan Energy Partners, L.P.; Kinder Morgan Liquids Terminals LLC; Kinder Morgan Tank Storage Terminals LLC; Continental Oil Company; Chevron Corporation, California Superior Court, County of Los Angeles, Case No. NC041463.

Kinder Morgan Energy Partners and some of its subsidiaries are defendants in a lawsuit filed in 2005 alleging claims for environmental cleanup costs and rent at the former Los Angeles Marine Terminal in the Port of Los Angeles. Plaintiff alleges that terminal cleanup costs could approach $18 million; however, we believe that the cleanup costs should be substantially less and that cleanup costs must be apportioned among all the parties to the litigation. Plaintiff also alleges that it is owed approximately $2.8 million in past rent and an unspecified amount for future rent. The judge bifurcated that rent issue from the causes of action related to the cleanup costs and trial regarding the rent issue was set for October 2007.

Plaintiff and the Kinder Morgan defendants have since agreed to a settlement in principle under which Kinder Morgan Energy Partners agreed to pay $3.2 million in satisfaction of all past and future rent obligations. In the fourth quarter of 2007, Kinder Morgan Energy Partners finalized the settlement terms, filed with the court for final approval, and paid the $3.2 million in satisfaction of all past and future rent obligations.

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 Kinder Morgan Energy Partners and several affiliates seeking injunctive relief and unspecified damages allegedly resulting from hydrocarbon and MTBE impacted soils and groundwater beneath the city's stadium property in San Diego arising from historic operations at the Mission Valley terminal facility. The case was filed in the Superior Court of California, San Diego County, case number 37-2007-00073033-CU-OR-CTL. On September 26, 2007,

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Kinder Morgan Energy Partners removed the case to the United States District Court, Southern District of California, case number 07CV1883WCAB. On October 3, 2007, Kinder Morgan Energy Partners filed a Motion to Dismiss the Complaint. On February 29, 2008, the court issued an Order granting in part and denying in part defendants' Motion to Dismiss. The parties are currently engaging in discovery. Kinder Morgan Energy Partners intends to vigorously defend against the claims asserted in the complaint. This site has been, and currently is, under the regulatory oversight and order of the California Regional Water Quality Control Board. We do not expect the cost of any settlement and remediation to be material.

Portland Harbor DOJ/EPA Investigation

The United States Department of Justice and the EPA are continuing to investigate potential criminal charges relating to an alleged instance of improper disposal at sea of potash, which allegedly occurred at the request of or with the knowledge of employees or third parties at a bulk terminal facility in Portland, Oregon, which Kinder Morgan Energy Partners operates. Kinder Morgan Energy Partners is fully cooperating with the investigation and are engaged in ongoing discussions with the office of the United States Attorney for the District of Oregon and the Department of Justice in an attempt to resolve this matter.

Louisiana Department of Environmental Quality Settlement

After conducting a voluntary compliance self-audit, in April 2006, Kinder Morgan Energy Partners voluntarily disclosed certain findings from the audit related to compliance with environmental regulations and permits at its Harvey and St. Gabriel Terminals to the Louisiana Department of Environmental Quality, referred to as the LDEQ. Following further discussion between the LDEQ and Kinder Morgan Energy Partners, in August 2007, the LDEQ issued a Consolidated Compliance Order and Notice of Potential Penalty for each of the two facilities. Kinder Morgan Energy Partners and the LDEQ have reached agreement on a proposed settlement agreement under which Kinder Morgan Energy Partners agrees to finalize certain work that it has already undertaken to ensure compliance with the environmental regulations at these two facilities and to pay a penalty of $0.3 million. The proposed settlement agreement is undergoing public comment pursuant to LDEQ regulations and then will be finalized.

Polychlorinated Biphenyls ("PCBs")-related Requests

In August 2007 and October 2007, NGPL and Knight Inc. received information requests from the Illinois Attorney General's Office and the EPA, respectively, regarding the presence of PCBs in natural gas transmission lines in Illinois and Missouri. We have responded to these requests. No proceeding or enforcement actions have been initiated.

In December 2007, a customer requested that NGPL reimburse it for its costs and related expenses incurred in connection with the clean up of PCBs in the customer's system. NGPL is evaluating the request. If and to the extent NGPL reimburses the customer, we do not currently expect that any such reimbursements would have a material adverse effect on us.

Other Environmental

We are subject to environmental cleanup and enforcement actions from time to time. In particular, the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

generally imposes joint and several liability for cleanup and enforcement costs on current or predecessor owners and operators of a site, among others, without regard to fault or the legality of the original conduct. Our operations are also subject to federal, state and local laws and regulations relating to protection of the environment. Although we believe our operations are in substantial compliance with applicable environmental law and regulations, risks of additional costs and liabilities are inherent in pipeline, terminal and carbon dioxide field and oil field operations, and there can be no assurance that we will not incur significant costs and liabilities. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, 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 air, water and waste violations issued by various governmental authorities related to compliance with environmental regulations. As we receive notices of non-compliance, we negotiate and settle these matters. We do not believe that these violations will have a material adverse affect on our business.

We are also currently involved in several governmental proceedings involving groundwater and soil remediation efforts under administrative orders or related state remediation programs issued by various regulatory authorities related to compliance with environmental regulations associated with our assets. We have established a reserve to address the costs associated with the cleanup.

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

Although it is not possible to predict the ultimate outcomes, we believe that the resolution of the environmental matters set forth in this note will not have a material adverse effect on our business, financial position, results of operations or cash flows. However, we are not able to reasonably estimate when the eventual settlements of these claims will occur and changing circumstances could cause these matters to have a material adverse impact. As of December 31, 2007, we have accrued an environmental reserve of $102.6 million. In addition, we have recorded a receivable of $38.0 million for expected cost recoveries that have been deemed probable. We believe the establishment of this environmental reserve is adequate such that the resolution of pending environmental matters will not have a material adverse impact on our business, cash flows, financial position or results of operation. As of December 31, 2006, our environmental reserve totaled $77.8 million. Additionally, many factors may change in the future affecting our reserve estimates, such as (i) regulatory changes, (ii) groundwater and land use near our sites, and (iii) changes in cleanup technology.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Litigation Relating to Proposed Kinder Morgan, Inc. "Going Private" Transaction

On May 28, 2006, Richard D. Kinder, our Chairman and Chief Executive Officer, together with other members of Kinder Morgan, Inc.'s management, co-founder Bill Morgan, current board members Fayez Sarofim and Mike Morgan, and investment partners Goldman Sachs Capital Partners, American International Group, Inc., The Carlyle Group and Riverstone Holdings LLC, submitted a proposal to our Board of Directors to acquire all of our outstanding common stock at a price of $100 per share in cash. On August 28, 2006, Kinder Morgan, Inc. entered into a definitive merger agreement with Knight Holdco LLC and Knight Acquisition Co. to effectuate the transaction at a price of $107.50 per share in cash.

Beginning on May 29, 2006, and in the days following, eight putative Class Action lawsuits were filed in Harris County (Houston), Texas and seven putative Class Action lawsuits were filed in Shawnee County (Topeka), Kansas against, among others, Kinder Morgan, Inc., its Board of Directors, and several corporate officers.

These cases are as follows:

Harris County, Texas

Cause No. 2006-33011; Mary Crescente v. Kinder Morgan, Inc., Richard D. Kinder, Edward H. Austin, Charles W. Battey, Stewart A. Bliss, Ted A. Gardner, William J. Hybl, Michael C. Morgan, Edward Randall III, Fayez S. Sarofim, H.A. True III, Douglas W.G. Whitehead, and James M. Stanford; in the 164th Judicial District Court, Harris County, Texas

Cause No. 2006-39364; CWA/ITU Negotiated Pension Plan, individually and on behalf of others similarly situated v. Kinder Morgan, Inc., Richard D. Kinder, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battery, H.A. True, III, Fayez Sarofim, James M. Stanford, Michael C. Morgan, Stewart A. Bliss, Edward Randall, III, and Douglas W.G. Whitehead; in the 129th Judicial District Court, Harris County, Texas

Cause No. 2006-33015; Robert Kemp, on behalf of himself and all other similarly situated v. Richard D. Kinder, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battey, H.A. True, III, Fayez Sarofim, James Stanford, Michael C. Morgan, Stewart A. Bliss, Edward Randall III, Douglas W. G. Whitehead, Kinder Morgan, Inc., GS Capital Partners V Fund, L.P., AIG Global Asset Management Holdings Corp., Carlyle Partners IV, L.P., and Carlyle/Riverstone Energy Partners III, L.P.; in the 113th Judicial District Court, Harris County, Texas

Cause No. 2006-34594; Dean Drulias v. Kinder Morgan, Inc., Richard D. Kinder, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battey, H.A. True III, Fayez S. Sarofim, James Stanford, Michael C. Morgan, Stewart A. Bliss, Edward Randall III, Douglas W.G. Whitehead, Goldman Sachs, American International Group, Inc., the Carlyle Group, and Riverstone Holdings, LLC; in the 333rd Judicial District Court, Harris County, Texas

Cause No. 2006-40027; J. Robert Wilson, On Behalf of Himself and All Others Similarly Situated v. Kinder Morgan, Inc., Richard D. Kinder, Michael C. Morgan, Fayez Sarofim, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battey, H.A. True, III, James M. Stanford, Stewart A. Bliss, Edward Randall, III, Douglas W.G. Whitehead, Bill Morgan, Goldman Sachs Capital Partners, American International Group, Inc., The Carlyle Group, Riverstone Holdings, L.L.C., C. Park Shaper,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Steven J. Kean, Scott E. Parker, and Tim Bradley; in the 270th Judicial District Court, Harris County, Texas

Cause No. 2006-33042; Sandra Donnelly, On Behalf of Herself and All Others Similarly Situated v. Kinder Morgan, Inc., Richard D. Kinder, Michael C. Morgan, Fayez S. Sarofim, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battey, H.A. True III, James M. Stanford, Stewart A. Bliss, Edward Randall III, and Douglas W.G. Whitehead; in the 61st Judicial District Court, Harris County, Texas

Cause No. 2006-34520; David Zeitz, On Behalf of Himself and All Others Similarly Situated v. Richard D. Kinder; in the 234th Judicial District Court, Harris County, Texas

Cause No. 2006-36184; Robert L. Dunn, Trustee for the Dunn Marital Trust, and the Police & Fire Retirement System of the City of Detroit v. Richard D. Kinder, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battey, H.A. True, III, Fayez Sarofim, James M. Stanford, Michael C. Morgan, Stewart A. Bliss, Edward Randall III, and Douglas W.G. Whitehead; in the 127th Judicial District Court, Harris County, Texas

By order of the Court dated June 26, 2006, each of the above-listed cases have been consolidated into the *Crescente v. Kinder Morgan, Inc. et al* case; in the 164th Judicial District Court, Harris County, Texas, which challenges the proposed transaction as inadequate and unfair to Kinder Morgan's public stockholders. Seven of the eight original petitions consolidated into this lawsuit raised virtually identical allegations. One of the eight original petitions (*Zeitz*) challenges the proposal as unfair to holders of the common units of Kinder Morgan Energy Partners and/or listed shares of Kinder Morgan Management. On September 8, 2006, interim class counsel filed their Consolidated Petition for Breach of Fiduciary Duty and Aiding and Abetting in which they alleged that Kinder Morgan's board of directors and certain members of senior management breached their fiduciary duties and the Sponsor Investors aided and abetted the alleged breaches of fiduciary duty in entering into the merger agreement. They seek, among other things, to enjoin the merger, rescission of the merger agreement, disgorgement of any improper profits received by the defendants, and attorneys' fees. Defendants filed Answers to the Consolidated Petition on October 9, 2006, denying the plaintiffs' substantive allegations and denying that the plaintiffs are entitled to relief.

Shawnee County, Kansas Cases

Cause No. 06C 801; Michael Morter v. Richard D. Kinder, Edward H. Austin, Jr., Charles W. Battey, Stewart A. Bliss, Ted A. Gardner, William J. Hybl, Michael C. Morgan, Edward Randall, III, Fayez S. Sarofim, H.A. True, III, and Kinder Morgan, Inc.; in the District Court of Shawnee County, Kansas, Division 12

Cause No. 06C 841; Teamsters Joint Counsel No. 53 Pension Fund v. Richard D. Kinder, Edward H. Austin, Charles W. Battey, Stewart A. Bliss, Ted A. Gardner, William J. Hybl, Michael C. Morgan, Edward Randall, III, Fayez S. Sarofim, H.A. True, III, and Kinder Morgan, Inc.; in the District Court of Shawnee County, Kansas, Division 12

Cause No. 06C 813; Ronald Hodge, Individually And On Behalf Of All Others Similarly Situated v. Kinder Morgan, Inc., Richard D. Kinder, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battery, H.A. True III, Fayez S. Sarofim, James M. Stanford, Michael C. Morgan, Stewart A. Bliss, Edward Randall, III, and Douglas W.G. Whitehead; in the District Court of Shawnee County, Kansas, Division 6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Cause No. 06C-864; Robert Cohen, Individually And On Behalf Of All Others Similarly Situated v. Kinder Morgan, Inc., Richard D. Kinder, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battery, H.A. True, III, Fayez Sarofim, James M. Stanford, Michael C. Morgan, Stewart A. Bliss, Edward Randall, III, and Douglas W.G. Whitehead; in the District Court of Shawnee County, Kansas, Division 6

Cause No. 06C-853; Robert P. Land, individually, and on behalf of all others similarly situated v. Edward H. Austin, Jr., Charles W. Battey, Stewart A. Bliss, Ted A. Gardner, William J. Hybl, Edward Randall, III, James M. Stanford, Fayez Sarofim, H.A. True, III, Douglas W.G. Whitehead, Richard D. Kinder, Michael C. Morgan, AIG Global Asset Management Holdings Corp., GS Capital Partners V Fund, LP, The Carlyle Group LP, Riverstone Holdings LLC, Bill Morgan and Kinder Morgan, Inc.; in the District Court of Shawnee County, Kansas, Division 6

Cause No. 06C-854; Dr. Douglas Geiger, individually, and on behalf of all others similarly situated v. Edward H. Austin, Jr., Charles W. Battey, Stewart A. Bliss, Ted A. Gardner, William J. Hybl, Edward Randall, III, James M. Stanford, Fayez Sarofim, H.A. True, III, Douglas W.G. Whitehead, Richard D. Kinder, Michael C. Morgan, AIG Global Asset Management Holding Corp., GS Capital Partners V Fund, LP, The Carlyle Group LP, Riverstone Holdings LLC, Bill Morgan and Kinder Morgan, Inc.; in the District Court of Shawnee County, Kansas, Division 6

Cause No. 06C-837; John Bolton, On Behalf of Himself and All Others Similarly Situated v. Kinder Morgan, Inc., Richard D. Kinder, Michael C. Morgan, Fayez Sarofim, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battey, H.A. True, III, James M. Stanford, Stewart A. Bliss, Edward Randall, III, Douglas W.G. Whitehead, William V. Morgan, Goldman Sachs Capital Partners, American International Group, Inc., The Carlyle Group, Riverstone Holdings LLC, C. Park Shaper, Steven J. Kean, Scott E. Parker and Tim Bradley; in the District Court of Shawnee County, Kansas, Division 6

By order of the Court dated June 26, 2006, each of the above-listed Kansas cases have been consolidated into the Consol. Case No. 06 C 801; *In Re Kinder Morgan, Inc. Shareholder Litigation*; in the District Court of Shawnee County, Kansas, Division 12. On August 1, 2006, the Court selected lead plaintiffs' counsel in the Kansas State Court proceedings. On August 28, 2006, the plaintiffs filed their Consolidated and Amended Class Action Petition in which they alleged that Kinder Morgan's board of directors and certain members of senior management breached their fiduciary duties and the Sponsor Investors aided and abetted the alleged breaches of fiduciary duty in entering into the merger agreement. They seek, among other things, to enjoin the stockholder vote on the merger agreement and any action taken to effect the acquisition of Kinder Morgan and its assets by the buyout group, damages, disgorgement of any improper profits received by the defendants, and attorney's fees.

On October 12, 2006, the District Court of Shawnee County, Kansas entered a Memorandum Decision and Order in which it ordered the parties in both the *Crescente v. Kinder Morgan, Inc. et al* case pending in Harris County Texas and the *In Re Kinder Morgan, Inc. Shareholder Litigation* case pending in Shawnee County Kansas to confer and to submit to the court recommendations for the "appointment of a Special Master or a Panel of Special Masters to control all of the pretrial proceedings in both the Kansas and Texas Class Actions arising out of the proposed private offer to purchase the stock of the public shareholders of Kinder Morgan, Inc."

By Order dated November 21, 2006, the Kansas District Court appointed the Honorable Joseph T. Walsh to serve as Special Master for *In Re Kinder Morgan, Inc. Shareholder Litigation* case pending in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Kansas. By Order dated December 6, 2006, the Texas District Court also appointed the Honorable Joseph T. Walsh to serve as Special Master in the *Crescente v. Kinder Morgan, Inc. et al.* case pending in Texas for the purposes of considering any applications for pretrial temporary injunctive relief. On November 21, 2006, the plaintiffs in *In Re Kinder Morgan, Inc. Shareholder Litigation* filed a Third Amended Class Action Petition with Special Master Walsh. This Petition was later filed under seal with the Kansas District Court on December 27, 2006. Defendants' answer to the Third Amended Class Action Petition was filed in March 2007.

Following extensive expedited discovery, the Plaintiffs in both consolidated actions filed an application for a preliminary injunction to prevent the holding of a special meeting of shareholders for the purposes of voting on the proposed merger, which was scheduled for December 19, 2006. The application was briefed by the parties between December 4 - December 13, 2006, and oral argument was heard by Special Master Walsh on December 14, 2006.

On December 18, 2006, Special Master Walsh issued a Report and Recommendation concluding, among other things, that "plaintiffs have failed to demonstrate the probability of ultimate success on the merits of their claims in this joint litigation." Accordingly, the Special Master concluded that the plaintiffs were "not entitled to injunctive relief to prevent the holding of the special meeting of KMI shareholders scheduled for December 19, 2006."

The parties are currently engaged in consolidated discovery in these matters.

In addition to the above-described consolidated putative Class Action cases, we are aware of two additional lawsuits that challenge either the proposal or the merger agreement.

On July 25, 2006 a civil action entitled David Dicrease, individually and on behalf of all others similarly situated v. Joseph Listengart, Edward H. Austin, Jr., Charles W. Battey, Stewart A. Bliss, Ted A. Gardner, William J. Hybl, Michael C. Morgan, Edward Randall, III, Fayez Sarofim, James M. Stanford, H.A. True, III, Douglas W.G. Whitehead, Richard D. Kinder, Kinder Morgan, Inc., Kinder Morgan Fiduciary Committee, John Does 1-30; Case 4:06-cv-02447, was filed in the United States District Court for the Southern District of Texas. This suit purports to be brought on behalf of the Kinder Morgan, Inc. Savings Plan (the "Plan") and a class comprised of all participants and beneficiaries of the Plan, for alleged breaches of fiduciary duties allegedly owed to the Plan and its participants by the defendants, in violation of the Employee Retirement Income Security Act ("ERISA"). More specifically, the suit asserts that defendants failed to prudently manage the Plan's assets (Count I); failed to appropriately monitor the Fiduciary Committee and provide it with accurate information (Count II); failed to provide complete and accurate information to the Plan's participants and beneficiaries (Count III); failed to avoid conflicts of interest (Count IV) and violated ERISA by engaging in a prohibited transaction (Count V). The relief requested seeks to enjoin the proposed transaction, damages allegedly incurred by the Plan and the participants, recovery of any "unjust enrichment" obtained by the defendants, and attorneys' fees and costs.

On January 8, 2007, the United States District Court granted plaintiffs' motion to dismiss the Dicrease case without prejudice, and the case was terminated on January 8, 2007.

On August 24, 2006, a civil action entitled City of Inkster Policeman and Fireman Retirement System, Derivatively on Behalf of Kinder Morgan, Inc., Plaintiffs v. Richard D. Kinder, Michael C. Morgan, William v. Morgan, Fayez Sarofim, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battey, H.A. True, III, James M. Stanford, Stewart A. Bliss, Edward Randall, III, Douglas W.G. Whitehead, Goldman Sachs Capital Partners, American International Group, Inc., The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Carlyle Group, Riverstone Holdings LLC, C. Park Shaper, Steven J. Kean, Scott E. Parker and R. Tim Bradley, Defendants and Kinder Morgan, Inc., Nominal Defendant; Case 2006-52653, was filed in the 270th Judicial District Court, Harris County, Texas. This putative derivative lawsuit was brought against certain of Kinder Morgan's senior officers and directors, alleging that the proposal constituted a breach of fiduciary duties owed to Kinder Morgan, Inc. Plaintiff also contends that the Sponsor Investors aided and abetted the alleged breaches of fiduciary duty. Plaintiff seeks, among other things, to enjoin the defendants from consummating the proposal, a declaration that the proposal is unlawful and unenforceable, the imposition of a constructive trust upon any benefits improperly received by the defendants, and attorney's fees. On November 20, 2007, defendants filed a Joint Motion to Dismiss for Lack of Jurisdiction, or in the Alternative, Motion for Final Summary Judgment. Plaintiffs opposed the motion, and oral argument was held on January 18, 2008. On February 22, 2008, the court entered a Final Order granting defendants' motion in full, ordering that plaintiff, the City of Inkster Policeman and Fireman Retirement System, take nothing on any and all of its claims against any and all defendants.

Defendants believe that the claims asserted in the litigations regarding the Going Private transaction are legally and factually without merit and intend to vigorously defend against them.

Express Pipeline System Oil Spill in Montgomery County, Missouri

On September 6, 2007, the Platte Pipeline, a crude oil pipeline in which we indirectly own a one-third interest and one of our subsidiaries operates, and which comprises a portion of our Kinder Morgan Canada KMP business segment, experienced a release of approximately 4,769 barrels of crude oil in a rural area in Montgomery County, Missouri. The released product did not ignite and there were no deaths or injuries. The pipeline was shut down, but was restarted following the repair with a voluntary operating pressure restriction. The majority of the released product was contained in a man-made pond. Clean up efforts are ongoing under the regulations of the Missouri Department of Natural Resources. On September 13, 2007, the PHMSA issued a Corrective Action Order requiring us to take certain actions including the pressure reduction to which we had already agreed. We have appealed that order and requested extensions of time to complete certain of the required activities. Although the internal and external investigations into the cause of the release are ongoing and no assurances can be made, based on available information, we believe that the ultimate resolution of this matter with PHMSA and the impacted landowners will not have a material adverse impact on our business, financial position or cash flows.

Other

We are a defendant in various lawsuits arising from the day-to-day operations of our businesses. Although no assurance can be given, we believe, based on our experiences to date, that the ultimate resolution of such items will not have a material adverse impact on our business, financial position, results of operations or cash flows.

Additionally, although it is not possible to predict the ultimate outcomes, we also believe, based on our experiences to date, that the ultimate resolution of these matters will not have a material adverse impact on our business, financial position, results of operations or cash flows. As of December 31, 2007, and December 31, 2006, we have recorded a total reserve for legal fees, transportation rate cases and other litigation liabilities in the amount of $249.4 million and $114.7 million, respectively. The reserve is primarily related to various claims from lawsuits arising from Kinder Morgan Energy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Litigation, Environmental and Other Contingencies (Continued)

Partners' Pacific operations' pipeline transportation rates, and the recorded amount is based on both the estimated amount associated with possible outcomes and probabilities of occurrence associated with such outcomes. We regularly assess the likelihood of adverse outcomes resulting from these claims in order to determine the adequacy of our liability provision.

18. Recent Accounting Pronouncements

On September 15, 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement establishes a single definition of fair value and a framework for measuring fair value in generally accepted accounting principles. SFAS No. 157 also expands disclosures about fair value measurements. The provisions of this Statement apply to other accounting pronouncements that require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements.

On February 12, 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The remainder of SFAS No. 157 was adopted by us effective January 1, 2008. The adoption of this Statement did not have an impact on our consolidated financial statements since we already apply its basic concepts in measuring fair values.

On September 29, 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statement Nos. 87, 88, 106 and 132(R)*. This Statement requires an employer to (i) recognize the overfunded or underfunded status of a defined benefit pension plan or postretirement benefit plan (other than a multiemployer plan) as an asset or liability in its statement of financial position (effective December 31, 2006 for us); (ii) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year and disclose certain additional information (effective December 31, 2008 for us); and (iii) recognize changes in the funded status of a plan in the year in which the changes occur through comprehensive income.

For us, the adoption of part (i) of SFAS No. 158 described above did not have a material effect on our statement of financial position as of December 31, 2006. For more information on our pensions and other postretirement benefit plans, and our disclosures regarding the provisions of this Statement, see Note 12.

FIN 48

In July 2006, the FASB issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, which became effective January 1, 2007. FIN 48 addressed the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based not only on the technical merits of the tax position based on tax law, but also the past administrative practices and precedents of the taxing authority. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Recent Accounting Pronouncements (Continued)

We adopted the provisions of FIN 48 on January 1, 2007. The total amount of unrecognized tax benefits as of the date of adoption was $63.1 million. We recorded a $4.8 million decrease to the opening balance of retained earnings as a result of the implementation of FIN 48.

Included in the balance of unrecognized tax benefits at January 1, 2007, are $41.6 million of tax benefits that, if recognized, would affect the effective tax rate.

A reconciliation of our gross unrecognized tax benefit for the year ended December 31, 2007 is as follows (in millions):

	2007
Balance at January 1, 2007	$ 63.1
Additions based on current year tax positions	9.8
Additions based on prior year tax positions	0.5
Reductions based on settlements with taxing authority	(21.4)
Reductions due to lapse in statute of limitations	(2.7)
Reductions for tax positions related to prior year	(7.8)
Balance at December 31, 2007	$ 41.5

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense, and as of January 1, 2007, we had $13.6 million of accrued interest and no accrued penalties. As of December 31, 2007, (i) we had $8.1 million of accrued interest and no accrued penalties; (ii) we believe it is reasonably possible that our liability for unrecognized tax benefits will decrease by $4.3 million during the next twelve months; and (iii) we believe approximately $13.0 million of the total $41.5 million of unrecognized tax benefits on our consolidated balance sheet as of December 31, 2007 would affect our effective tax rate in future periods in the event those unrecognized tax benefits were recognized. As a result of the Going Private transaction, an adjustment was made to goodwill for unrecognized tax benefits due to settlements with taxing authorities and a lapse in the statute of limitations of the Predecessor Company for a total decrease of $22.3 million. In the event unrecognized tax benefits of the Predecessor Company are recognized by the Successor Company in a future period, a subsequent adjustment will be made to goodwill and will not impact our effective tax rate.

We are subject to taxation, and have tax years open to examination for the periods 1999 - 2007, in the United States, various states, Mexico and Canada.

In June 2006, the FASB ratified the consensuses reached by the Emerging Issues Task Force on EITF 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)*. According to the provisions of EITF 06-3:

taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer may include, but are not limited to, sales, use, value added, and some excise taxes; and

that the presentation of such taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board Opinion No. 22 (as amended), *Disclosure of Accounting Policies*. In addition, for any such taxes that are reported on a gross basis, a company should

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Recent Accounting Pronouncements (Continued)

disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis.

EITF 06-3 applies to financial reports for interim and annual reporting periods beginning after December 15, 2006 (January 1, 2007 for us). The adoption of EITF 06-3 had no effect on our consolidated financial statements.

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement provides companies with an option to report selected financial assets and liabilities at fair value. The Statement's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities.

SFAS No. 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The Statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157, discussed above, and SFAS No. 107 *Disclosures about Fair Value of Financial Instruments*.

This Statement was adopted by us effective January 1, 2008, at which time no financial assets or liabilities, not previously required to be recorded at fair value by other authoritative literature, were designated to be recorded at fair value. As such, the adoption of this Statement did not have any impact on our consolidated financial statements.

On December 4, 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. This Statement changes the accounting and reporting for noncontrolling interests in consolidated financial statements. A noncontrolling interest, sometimes referred to as a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent.

Specifically, SFAS No. 160 establishes accounting and reporting standards that require (i) the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated balance sheet within equity, but separate from the parent's equity; (ii) the equity amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated income statement (consolidated net income and comprehensive income will be determined without deducting minority interest, however, earnings-per-share information will continue to be calculated on the basis of the net income attributable to the parent's shareholders); and (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently and similarly as equity transactions.

This Statement is effective for fiscal years, and interim period within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for us). Early adoption is not permitted. SFAS No. 160 shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Recent Accounting Pronouncements (Continued)

for its presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. We are currently reviewing the effects of this Statement.

On December 4, 2007, the FASB issued SFAS 141(R) (revised 2007), *Business Combinations*. Although this statement amends and replaces SFAS No. 141, it retains the fundamental requirements in SFAS No. 141 that (i) the purchase method of accounting be used for all business combinations; and (ii) an acquirer be identified for each business combination. SFAS No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This Statement applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including combinations achieved without the transfer of consideration; however, this Statement does not apply to a combination between entities or businesses under common control.

Significant provisions of SFAS No. 141(R) concern principles and requirements for how an acquirer (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (January 1, 2009 for us). Early adoption is not permitted. We are currently reviewing the effects of this Statement.

On March 19, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This Statement is an amendment to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 161 requires additional disclosures about an entity's derivative and hedging activities.

This Statement expands the disclosure requirements of SFAS No. 133 by requiring additional disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows.

This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 (January 1, 2009 for us) with early adoption permitted. We are currently reviewing the effects of this Statement.

19. Subsequent Events

In March 2008, Kinder Morgan Energy Partners completed a public offering of 5,750,000 of its common units at a price of $57.70 per unit, including common units sold pursuant to the underwriters' over-allotment option, less commissions and underwriting expenses. Kinder Morgan Energy Partners received net proceeds of $324.2 million for the issuance of these common units, and used the proceeds to reduce the borrowings under its commercial paper program.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Subsequent Events (Continued)

On March 14, 2008, Kinder Morgan Energy Partners entered into a purchase and sale agreement to sell its 25% interest in Thunder Creek Gas Services, LLC for approximately $50 million. Subject to certain closing conditions, the sale is expected to close in the second quarter of 2008.

On March 7, 2008, we terminated an interest rate swap agreement having a notional value of $275 million associated with Kinder Morgan Finance Company, ULC's 6.40% senior notes due 2036. We paid approximately $2.5 million to exit our position in this swap agreement, which amount will be amortized to interest expense over the period that the 6.40% debentures remain outstanding.

On February 29, 2008, Midcontinent Express Pipeline LLC, an equity method investee of Kinder Morgan Energy Partners, entered into a $1.4 billion credit agreement due February 28, 2011. The facility is with a syndicate of financial institutions with The Royal Bank of Scotland plc as the administrative agent. Borrowings under the credit agreement will be used to finance the construction of the Midcontinent Express Pipeline system and to pay related expenses.

On February 21, 2008, we commenced a cash tender offer to purchase up to $1.6 billion of Knight Inc.'s outstanding debt securities. In March 2008, we paid $1.6 billion in cash to repurchase $1.67 billion par value of debt securities. Proceeds from the completed sale of an 80% ownership interest in our NGPL business segment were used to fund this debt security purchase.

On February 15, 2008, the entire outstanding balances of our senior secured credit facility's Tranche A and Tranche B term loans and amounts outstanding at that time under our $1.0 billion revolving credit facility, on a combined basis totaling approximately $4.6 billion, were paid off with proceeds from the closing of the sale of an 80% ownership interest in our NGPL business segment.

On February 12, 2008, Kinder Morgan Energy Partners completed an additional public offering of senior notes. Kinder Morgan Energy Partners issued a total of $900 million in principal amount of senior notes, consisting of $600 million of 5.95% notes due February 15, 2018 and $300 million of 6.95% notes due January 15, 2038. Kinder Morgan Energy Partners received proceeds from the issuance of the notes, after underwriting discounts and commissions, of approximately $894.1 million, and Kinder Morgan Energy Partners used the proceeds to reduce the borrowings under its commercial paper program.

On February 12, 2008, Kinder Morgan Energy Partners completed an offering of 1,080,000 of its common units at a price of $55.65 per unit in a privately negotiated transaction. Kinder Morgan Energy Partners received net proceeds of $60.1 million for the issuance of these 1,080,000 common units, and used the proceeds to reduce the borrowings under its commercial paper program.

On December 10, 2007, we entered into a definitive agreement to sell an 80% ownership interest in our NGPL business segment to Myria, for approximately $5.9 billion, subject to certain adjustments. Pursuant to the purchase agreement, Myria acquired all 800 Class B shares and we retained all 200 Class A shares of MidCon Corp, which is the parent of NGPL. The closing of the sale occurred on February 15, 2008. We will continue to operate NGPL's assets pursuant to a 15-year operating agreement. Myria is comprised of a syndicate of investors led by Babcock & Brown, an international investment and specialized fund and asset management group.

On November 20, 2007, we entered into a definitive agreement to sell our interests in three natural gas-fired power plants in Colorado to Bear Stearns. The closing of the sale occurred on January 25, 2008, effective January 1, 2008, and we received net proceeds of $63.1 million.

Table of Contents

SELECTED QUARTERLY FINANCIAL DATA

KNIGHT INC. AND SUBSIDIARIES

Quarterly Operating Results for 2007

	Predecessor Company		Successor Company		
	Three Months Ended March 31	Two Months Ended May 31	One Month Ended June 30	Three Months Ended September 30	Three Months Ended December 31
	(In millions) (Unaudited)			(In millions) (Unaudited)	
Operating Revenues	$ 2,444.4	$ 1,720.7	$ 936.9	$ 2,609.0	$ 2,848.8
Gas Purchases and Other Costs of Sales	1,452.5	1,037.9	557.2	1,482.8	1,616.6
Other Operating Expenses	968.0	501.9	220.5	683.2	791.6
Operating Income	23.9	180.9	159.2	443.0	440.6
Other Income and (Expenses)	(181.8)	(120.2)	(110.0)	(278.3)	(178.6)
Income (Loss) from Continuing Operations Before Income Taxes	(157.9)	60.7	49.2	164.7	262.0
Income Taxes	87.7	47.8	21.3	74.6	131.5
Income (Loss) from Continuing Operations	(245.6)	12.9	27.9	90.1	130.5
Income (Loss) from Discontinued Operations, Net of Tax	233.2	65.4	2.3	(4.4)	0.6
Net Income (Loss)	$ (12.4)	$ 78.3	$ 30.2	$ 85.7	$ 131.1

SELECTED QUARTERLY FINANCIAL DATA

KNIGHT INC. AND SUBSIDIARIES

Quarterly Operating Results for 2006

	Predecessor Company			
	March 31	June 30	September 30	December 31
	(In millions) (Unaudited)			
Operating Revenues	$2,675.7	2,479.0	2,606.9	2,447.0
Gas Purchases and Other Costs of Sales	1,745.9	1,521.4	1,612.4	1,459.7
Other Operating Expenses	503.4	534.3	566.3	520.0
Operating Income	426.4	423.3	428.2	467.3
Other Income and (Expenses)	(213.4)	(210.3)	(206.0)	(229.2)
Income from Continuing Operations Before Income Taxes	213.0	213.0	222.2	238.1
Income Taxes	79.1	64.3	73.5	69.0
Income from Continuing Operations	133.9	148.7	148.7	169.1

Income (Loss) from Discontinued Operations, Net of Tax	59.8	8.5	(4.5)	(592.3)
Net Income (Loss)	$ 193.7	157.2	144.2	(423.2)

Table of Contents

Supplemental Information on Oil and Gas Producing Activities (Unaudited)

The Supplementary Information on Oil and Gas Producing Activities is presented as required by SFAS No. 69, *Disclosures about Oil and Gas Producing Activities*. The supplemental information includes capitalized costs related to oil and gas producing activities; costs incurred for the acquisition of oil and gas producing activities, exploration and development activities; and the results of operations from oil and gas producing activities.

Kinder Morgan CO_2 Company, L.P. and its consolidated subsidiaries (subsidiaries of Kinder Morgan Energy Partners) represent our only oil and gas producing activities. As discussed in Note 1(B) of the accompanying Notes to Consolidated Financial Statements, due to our adoption of EITF No. 04-5, beginning January 1, 2006, the accounts, balances and results of operations of Kinder Morgan Energy Partners are included in our consolidated financial statements and we no longer apply the equity method of accounting to our investment in Kinder Morgan Energy Partners. Therefore, the following supplemental information on oil and gas producing activities reflects our proportionate share of Kinder Morgan Energy Partners' capitalized costs, costs incurred and results of operations from oil and gas producing activities for the years 2005 and 2004, when we accounted for Kinder Morgan Energy Partners under the equity method.

Supplemental information is also provided for per unit production costs; oil and gas production and average sales prices; the estimated quantities of proved oil and gas reserves; the standardized measure of discounted future net cash flows associated with proved oil and gas reserves; and a summary of the changes in the standardized measure of discounted future net cash flows associated with proved oil and gas reserves.

Our capitalized costs consisted of the following (in millions):

Capitalized Costs Related to Oil and Gas Producing Activities

	December 31,		
	2007(1)	**2006(1)**	**2005(2)**
Consolidated Companies			
Wells and equipment, facilities and other	$1,612.5	$1,369.5	$166.8
Leasehold	348.1	347.4	48.7
Total proved oil and gas properties	1,960.6	1,716.9	215.5
Accumulated depreciation and depletion	(725.5)	(470.2)	(46.1)
Net capitalized costs	$1,235.1	$1,246.7	$169.4

(1) Amounts relate to Kinder Morgan CO_2 Company, L.P. and its consolidated subsidiaries.

(2) For the period presented, we accounted for Kinder Morgan Energy Partners under the equity method; therefore, amounts reflect our proportionate share of Kinder Morgan Energy Partners' capitalized costs related to oil and gas producing activities.

Includes capitalized asset retirement costs and associated accumulated depreciation. There are no capitalized costs associated with unproved oil and gas properties for the periods reported.

Table of Contents

Our costs incurred for property acquisition, exploration and development were as follows (in millions):

Costs Incurred in Exploration, Property Acquisitions and Development

	Successor Company	Predecessor Company		
	Seven Months Ended December 31, 2007(1)	Five Months Ended May 31, 2007(1)	Year Ended December 31, 2006(1)	2005(2)
Consolidated Companies				
Property Acquisition				
Proved oil and gas properties	$	$	$ 36.6	$ 1.0
Development	156.9	87.5	261.8	42.8

(1)
Amounts relate to Kinder Morgan CO_2 Company, L.P. and its consolidated subsidaries.

(2)
During the period presented, we accounted for Kinder Morgan Energy Partners under the equity method; therefore, amounts reflect our proportionate share of Kinder Morgan Energy Partners' costs incurred in exploration, property acquisitions and development.

There are no capitalized costs associated with unproved oil and gas properties for the periods reported. All capital expenditures were made to develop our proved oil and gas properties and no exploration costs were incurred for the periods reported.

Our results of operations from oil and gas producing activities for the seven months ended December 31, 2007, the five months ended May 31, 2007 and for each of the years 2006 and 2005 are shown in the following table (in millions):

	Successor Company	Predecessor Company		
	Seven Months Ended December 31, 2007(1)	Five Months Ended May 31, 2007(1)	Year Ended December 31, 2006(1)	2005(2)
Consolidated Companies				
Revenues(3)	$ 352.0	$ 237.7	$ 524.7	
Expenses:				
Production costs	147.2	96.7	208.9	
Other operating expenses(4)	34.9	22.0	66.4	
Depreciation, depletion and amortization expenses	151.9	106.6	169.4	
Total expenses	334.0	225.3	444.7	
Results of operations for oil and gas producing activities	$ 18.0	$ 12.4	$ 80.0	$ 18.2

(1)
Amounts relate to Kinder Morgan CO_2 Company, L.P. and its consolidated subsidaries.

(2)

During the period presented, we accounted for Kinder Morgan Energy Partners under the equity method, therefore, amounts reflect our proportionate share of Kinder Morgan Energy Partners' results of operations for oil and gas producing activities.

(3)
Revenues include losses attributable to our hedging contracts of $311.5 million, $122.7 million and $441.7 million for the seven months ended December 31, 2007, the five months ended May 31, 2007 and the year ended December 31, 2006, respectively.

Table of Contents

(4)
Consists primarily of carbon dioxide expense.

The table below represents estimates, as of December 31, 2007, of proved crude oil, natural gas liquids and natural gas reserves prepared by Netherland, Sewell and Associates, Inc. (independent oil and gas consultants) of Kinder Morgan CO_2 Company, L.P. and its consolidated subsidiaries' interests in oil and gas properties, all of which are located in the state of Texas. This data has been prepared using constant prices and costs, as discussed in subsequent paragraphs of this document. The estimates of reserves and future revenue in this document conforms to the guidelines of the United States Securities and Exchange Commission.

We believe the geologic and engineering data examined provides reasonable assurance that the proved reserves are recoverable in future years from known reservoirs under existing economic and operating conditions. Estimates of proved reserves are subject to change, either positively or negatively, as additional information becomes available and contractual and economic conditions change.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, that is, prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations or declines based upon future conditions. Proved developed reserves are the quantities of crude oil, natural gas liquids and natural gas expected to be recovered through existing investments in wells and field infrastructure under current operating conditions. Proved undeveloped reserves require additional investments in wells and related infrastructure in order to recover the production.

During 2007, Kinder Morgan Energy Partners filed estimates of our oil and gas reserves for the year 2006 with the Energy Information Administration of the U. S. Department of Energy on Form EIA-23. The data on Form EIA-23 was presented on a different basis, and included 100% of the oil and gas volumes from our operated properties only, regardless of our net interest. The difference between the oil reserves reported on Form EIA-23 and those reported herein exceeds 5%.

Reserve Quantity Information

	Consolidated Companies		
	Crude Oil (MBbls)	**NGLs (MBbls)**	**Nat. Gas (MMcf)(1)**
Proved developed and undeveloped reserves:			
As of December 31, 2004(2)	22,862	3,741	294
As of December 31, 2005(2)	21,567	2,884	327
As of December 31, 2006(3)	123,978	10,333	291
Revisions of Previous Estimates(3),(4)	10,361	2,784	1,077
Production(3)	(12,984)	(2,005)	(290)
As of December 31, 2007(3)	121,355	11,112	1,078
Proved developed reserves:			
As of December 31, 2004(2)	13,176	1,640	251
As of December 31, 2005(2)	11,965	1,507	251
As of December 31, 2006(3)	69,073	5,877	291
As of December 31, 2007(3)	70,868	5,517	1,078

(1)
Natural gas reserves are computed at 14.65 pounds per square inch absolute and 60 degrees Fahrenheit.

Table of Contents

(2) For the period presented, we accounted for Kinder Morgan Energy Partners under the equity method, therefore, amounts reflect our proportionate share of Kinder Morgan Energy Partners' proved reserves.

(3) Amounts relate to Kinder Morgan CO_2 Company, L.P. and its consolidated subsidaries.

(4) Associated with an expansion of the carbon dioxide flood project area of the SACROC unit.

The standardized measure of discounted cash flows and summary of the changes in the standardized measure computation from year-to-year are prepared in accordance with SFAS No. 69. The assumptions that underlie the computation of the standardized measure of discounted cash flows may be summarized as follows:

- the standardized measure includes our estimate of proved crude oil, natural gas liquids and natural gas reserves and projected future production volumes based upon year-end economic conditions;

- pricing is applied based upon year-end market prices adjusted for fixed or determinable contracts that are in existence at year-end;

- future development and production costs are determined based upon actual cost at year-end;

- the standardized measure includes projections of future abandonment costs based upon actual costs at year-end; and

- a discount factor of 10% per year is applied annually to the future net cash flows.

Our standardized measure of discounted future net cash flows from proved reserves were as follows (in millions):

Standardized Measure of Discounted Future Net Cash Flows From Proved Oil and Gas Reserves

	Year Ended December 31,		
	2007(1)	**2006(1)**	**2005(2)**
Consolidated Companies			
Future Cash Inflows from Production	$12,099.5	$ 7,534.6	$1,390.3
Future Production Costs	(3,536.2)	(2,617.9)	(418.8)
Future Development Costs(3)	(1,919.2)	(1,256.7)	(132.1)
Undiscounted Future Net Cash Flows	6,644.1	3,660.0	839.4
10% Annual Discount	(2,565.7)	(1,452.2)	(372.2)
Standardized Measure of Discounted Future Net Cash Flows	$ 4,078.4	$ 2,207.8	$ 467.2

(1) Amounts relate to Kinder Morgan CO_2 Company, L.P. and its consolidated subsidaries.

(2)

During the period presented, we accounted for Kinder Morgan Energy Partners under the equity method, therefore, amounts reflect our proportionate share of Kinder Morgan Energy Partners' standardized measure of discounted future net cash flows.

(3) Includes abandonment costs.

Table of Contents

The following table represents our estimate of changes in the standardized measure of discounted future net cash flows from proved reserves (in millions):

Changes in the Standardized Measure of Discounted Future Net Cash Flows From Proved Oil and Gas Reserves

	Year Ended December 31,		
	2007(1)	**2006(1)**	**2005(2)**
Consolidated Companies			
Present Value as of January 1	$2,207.8	$3,075.0	
Changes During the Year:			
Revenues Less Production and Other Costs(3)	(722.1)	(690.0)	
Net Changes in Prices, Production and Other Costs(3)	2,153.2	(123.0)	
Development Costs Incurred	244.5	261.8	
Net Changes in Future Development Costs	(547.8)	(446.0)	
Purchases of Reserves in Place		3.2	
Revisions of Previous Quantity Estimates(4)	510.8	(179.5)	
Improved Recovery			
Accretion of Discount	198.1	307.4	
Timing Differences and Other	33.9	(1.1)	
Net Change For the Year	1,870.6	(867.2)	
Present Value as of December 31	$4,078.4	$2,207.8	$467.2

(1) Amounts relate to Kinder Morgan CO_2 Company, L.P. and its consolidated subsidaries.

(2) During the period presented, we accounted for Kinder Morgan Energy Partners under the equity method, therefore, amounts reflect our proportionate share of Kinder Morgan Energy Partners' standardized measure of discounted future net cash flows.

(3) Excludes the effect of losses attributable to our hedging contracts of $434.2 million and $441.7 million for the years ended December 31, 2007 and 2006, respectively.

(4) 2007 revisions are associated with an expansion of the carbon dioxide flood project area for the SACROC unit. 2006 revisions are based on lower than expected recoveries from a section of the SACROC unit carbon dioxide flood project.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In millions)

	September 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 126.6	$ 148.6
Restricted Deposits	27.6	67.9
Accounts, Notes and Interest Receivable, Net	981.4	975.2
Inventories	44.2	37.8
Gas Imbalances	6.3	26.9
Assets Held for Sale		3,353.3
Fair Value of Derivative Instruments	37.8	37.1
Other	42.1	36.8
	1,266.0	4,683.6
Property, Plant and Equipment, Net		
Property, Plant and Equipment	16,648.9	15,080.9
Accumulated Depreciation, Depletion and Amortization	(744.6)	(277.0)
	15,904.3	14,803.9
Notes Receivable Related Parties	192.8	87.9
Investments	1,824.9	1,996.2
Goodwill	4,775.7	8,174.0
Other Intangibles, Net	256.2	321.1
Assets Held for Sale, Non-current		5,634.6
Fair Value of Derivative Instruments, Non-current	260.0	142.4
Deferred Charges and Other Assets	228.8	257.3
Total Assets	$ 24,708.7	$ 36,101.0

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

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited) (Continued)

(In millions)

	September 30, 2008	December 31, 2007
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities		
Current Maturities of Long-term Debt	$ 289.7	$ 79.8
Notes Payable	270.0	888.1
Cash Book Overdrafts	74.2	30.7
Accounts Payable	841.0	943.7
Accrued Interest	95.9	242.7
Accrued Taxes	252.7	728.2
Gas Imbalances	19.9	23.7
Liabilities Held for Sale		168.2
Fair Value of Derivative Instruments	611.6	594.7
Other	274.0	240.0
	2,729.0	3,939.8
Long-term Debt		
Outstanding Notes and Debentures	10,800.6	14,714.6
Deferrable Interest Debentures Issued to Subsidiary Trusts	35.7	283.1
Preferred Interest in General Partner of Kinder Morgan Energy Partners	100.0	100.0
Value of Interest Rate Swaps	233.8	199.7
	11,170.1	15,297.4
Deferred Income Taxes, Non-current	1,714.6	1,849.4
Liabilities Held for Sale, Non-current		2,424.1
Fair Value of Derivative Instruments, Non-current	1,018.7	836.8
Other Long-term Liabilities and Deferred Credits	579.7	618.0
	14,483.1	21,025.7
Minority Interests in Equity of Subsidiaries	3,474.3	3,314.0
Commitments and Contingencies (Notes 13 and 18)		
Stockholder's Equity		
Common Stock Authorized and Outstanding 100 Shares, Par Value $0.01 Per Share		
Additional Paid-in Capital	7,811.9	7,822.2
Retained Earnings (Deficit)	(3,399.2)	247.0
Accumulated Other Comprehensive Loss	(390.4)	(247.7)
	4,022.3	7,821.5
Total Liabilities and Stockholder's Equity	$ 24,708.7	$ 36,101.0

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

A-325

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In millions)

	Successor Company Three Months Ended September 30,	
	2008	**2007**
Operating Revenues		
Natural Gas Sales	$2,183.3	$1,451.8
Transportation and Storage	700.9	849.2
Oil and Product Sales	412.4	308.0
Total Operating Revenues	3,296.6	2,609.0
Operating Costs and Expenses		
Gas Purchases and Other Costs of Sales	2,179.2	1,482.8
Operations and Maintenance	360.8	357.0
General and Administrative	85.9	77.9
Depreciation, Depletion and Amortization	217.2	204.1
Taxes, Other Than Income Taxes	48.0	46.6
Other Expense (Income), Net	7.2	(2.4)
Total Operating Costs and Expenses	2,898.3	2,166.0
Operating Income	398.3	443.0
Other Income and (Expenses)		
Earnings of Equity Investees	42.9	26.7
Interest Expense, Net	(141.5)	(252.6)
Interest Expense Deferrable Interest Debentures, Net	(0.5)	(5.4)
Minority Interests	(106.8)	(52.4)
Other, Net	4.4	5.4
Total Other Income and (Expenses)	(201.5)	(278.3)
Income from Continuing Operations Before Income Taxes	196.8	164.7
Income Taxes	87.9	74.6
Income from Continuing Operations	108.9	90.1
Loss from Discontinued Operations, Net of Tax	(0.2)	(4.4)
Net Income	$ 108.7	$ 85.7

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

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (Continued)

(In millions)

	Successor Company		Predecessor Company
	Nine Months Ended September 30, 2008	Four Months Ended September 30, 2007	Five Months Ended May 31, 2007
Operating Revenues			
Natural Gas Sales	$ 6,369.8	$ 2,013.7	$ 2,430.6
Transportation and Storage	2,187.5	1,124.7	1,350.5
Oil and Product Sales	1,194.8	407.5	384.0
Total Operating Revenues	9,752.1	3,545.9	4,165.1
Operating Costs and Expenses			
Gas Purchases and Other Costs of Sales	6,433.9	2,040.0	2,490.4
Operations and Maintenance	977.4	463.8	476.1
General and Administrative	264.0	107.9	283.6
Depreciation, Depletion and Amortization	651.0	276.3	261.0
Taxes, Other Than Income Taxes	151.6	62.1	74.4
Other Expense (Income), Net	4.5	(6.4)	(2.3)
Goodwill Impairment	4,033.3		377.1
Total Operating Costs and Expenses	12,515.7	2,943.7	3,960.3
Operating Income (Loss)	(2,763.6)	602.2	204.8
Other Income and (Expenses)			
Earnings of Equity Investees	141.9	35.9	38.3
Interest Expense, Net	(493.8)	(336.1)	(241.1)
Interest Expense Deferrable Interest Debentures, Net	5.6	(7.3)	(9.1)
Minority Interests	(359.4)	(86.9)	(90.7)
Other, Net	18.1	6.1	0.6
Total Other Income and (Expenses)	(687.6)	(388.3)	(302.0)
Income (Loss) from Continuing Operations Before Income Taxes	(3,451.2)	213.9	(97.2)
Income Taxes	194.4	95.9	135.5
Income (Loss) from Continuing Operations	(3,645.6)	118.0	(232.7)
Income (Loss) from Discontinued Operations, Net of Tax	(0.6)	(2.1)	298.6
Net Income (Loss)	$ (3,646.2)	$ 115.9	$ 65.9

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

A-327

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In millions)

	Successor Company Nine Months Ended September 30, 2008	Successor Company Four Months Ended September 30, 2007	Predecessor Company Five Months Ended May 31, 2007
Cash Flows from Operating Activities			
Net Income (Loss)	$ (3,646.2)	$ 115.9	$ 65.9
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities			
(Income) Loss from Discontinued Operations, Net of Tax	0.6	13.2	(287.9)
Loss from Goodwill Impairment	4,033.3		377.1
Loss on Early Extinguishment of Debt	23.6		4.4
Depreciation, Depletion and Amortization	651.0	278.6	264.9
Deferred Income Taxes	46.4	14.2	138.7
Equity in Earnings of Equity Investees	(141.9)	(36.8)	(39.1)
Distributions from Equity Investees	185.0	45.1	48.2
Minority Interests in Income of Consolidated Subsidiaries	359.4	86.9	90.7
Gains from Property Casualty Indemnifications			(1.8)
Net Losses (Gains) on Sales of Assets	4.4	(7.0)	(2.6)
Mark-to-Market Interest Rate Swap Gain	(19.8)		
Foreign Currency Loss	0.2		15.5
Changes in Gas in Underground Storage	(28.0)	34.5	(84.2)
Changes in Working Capital Items	(851.7)	(13.6)	(202.9)
(Payment for) Proceeds from Termination of Interest Rate Swaps	(2.5)	(2.2)	51.9
Kinder Morgan Energy Partners' Rate Reparations, Refunds and Reserve Adjustments	(10.7)		
Other, Net	(19.3)	(16.7)	54.4
Cash Flows Provided by Continuing Operations	583.8	512.1	493.2
Net Cash Flows (Used in) Provided by Discontinued Operations	(0.7)	(2.5)	109.8
Net Cash Flows Provided by Operating Activities	583.1	509.6	603.0
Cash Flows from Investing Activities			
Purchase of Predecessor Stock		(11,534.3)	
Capital Expenditures	(1,922.8)	(656.1)	(652.8)
Proceeds from Sale of 80% Interest in NGPL PipeCo LLC, Net of $1.1 million Cash Sold	2,899.3		
Proceeds from NGPL PipeCo LLC Restricted Cash	3,106.4		
Acquisitions	(16.4)	(119.7)	(42.1)
Net Proceeds from (Investments in) Margin Deposits	40.3	(22.9)	(54.8)
Distributions from Equity Investees	92.5		
Other Investments	(342.1)	(17.5)	(29.7)
Change in Natural Gas Storage and NGL Line Fill Inventory	(2.5)	6.3	8.4
Property Casualty Indemnifications			8.0
Net Proceeds (Cost of Removal) from Sales of Other Assets	113.3	10.6	(1.5)

Net Cash Flows Provided by (Used in) Continuing Investing Activities		3,968.0		(12,333.6)		(764.5)
Net Cash Flows Provided by Discontinued Investing Activities				190.9		1,488.2
Net Cash Flows Provided by (Used in) Investing Activities	$	3,968.0	$	(12,142.7)	$	723.7

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

(In millions)

	Successor Company		Predecessor Company
	Nine Months Ended September 30, 2008	Four Months Ended September 30, 2007	Five Months Ended May 31, 2007
Cash Flows from Financing Activities			
Short-term Debt, Net	$ (323.1)	$ 62.7	$ (247.5)
Long-term Debt Issued	1,600.1	5,805.0	1,000.0
Long-term Debt Retired	(5,878.3)	(827.7)	(302.4)
Issuance of Kinder Morgan, G.P., Inc. Preferred Stock		100.0	
Discount on Early Extinguishment of Debt	69.2		
Cash Book Overdraft	43.5	(2.0)	(14.9)
Common Stock Issued			9.9
Excess Tax Benefits from Share-based Payment Arrangements			56.7
Cash Paid to Share-based Award Holders Due to Going Private Transaction		(181.1)	
Issuance of Kinder Morgan Management, LLC Shares			297.9
Contributions from Successor Investors		5,112.0	
Short-term Advances (to) from Unconsolidated Affiliates	2.7	(2.7)	2.3
Cash Dividends, Common Stock			(234.9)
Minority Interests, Contributions	385.0		
Minority Interests, Distributions	(463.3)	(127.6)	(248.9)
Debt Issuance Costs	(14.3)	(66.6)	(13.1)
Other, Net	8.9	0.5	(4.3)
Net Cash Flows (Used in) Provided by Continuing Financing Activities	(4,569.6)	9,872.5	300.8
Net Cash Flows Provided by Discontinued Financing Activities			140.1
Net Cash Flows (Used in) Provided by Financing Activities	(4,569.6)	9,872.5	440.9
Effect of Exchange Rate Changes on Cash	(3.5)	(2.4)	7.6
Cash Balance Included in Assets Held for Sale			(2.7)
Net Increase (Decrease) in Cash and Cash Equivalents	(22.0)	(1,763.0)	1,772.5
Cash and Cash Equivalents at Beginning of Period	148.6	1,902.3	129.8
Cash and Cash Equivalents at End of Period	$ 126.6	$ 139.3	$ 1,902.3

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

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. General

We are a large energy transportation and storage company, operating or owning an interest in approximately 37,000 miles of pipelines and approximately 165 terminals. We have both regulated and nonregulated operations. We also own all the common equity of the general partner of, and a significant limited partner interest in, Kinder Morgan Energy Partners, L.P., a publicly traded pipeline limited partnership. Our executive offices are located at 500 Dallas Street, Suite 1000, Houston, Texas 77002 and our telephone number is (713) 369-9000. Unless the context requires otherwise, references to "we," "us," "our," or the "Company" are intended to mean Knight Inc. (formerly Kinder Morgan, Inc.) and its consolidated subsidiaries both before and after the Going Private transaction discussed in Note 2 below. Unless the context requires otherwise, references to "Kinder Morgan Energy Partners" and "KMP" are intended to mean Kinder Morgan Energy Partners, L.P. and its consolidated subsidiaries.

Kinder Morgan Management, LLC, referred to as "Kinder Morgan Management" or "KMR," is a publicly traded Delaware limited liability company that was formed on February 14, 2001. Kinder Morgan G.P., Inc., the general partner of Kinder Morgan Energy Partners, owns all of Kinder Morgan Management's voting shares. Kinder Morgan Management, pursuant to a delegation of control agreement, has been delegated, to the fullest extent permitted under Delaware law, all of Kinder Morgan G.P., Inc.'s power and authority to manage and control the business and affairs of Kinder Morgan Energy Partners, L.P., subject to Kinder Morgan G.P., Inc.'s right to approve certain transactions.

2. Significant Accounting Policies

Basis of Presentation

We have prepared the accompanying unaudited interim consolidated financial statements under the rules and regulations of the Securities and Exchange Commission ("SEC"). Under such SEC rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our management believes, however, that our disclosures are adequate to make the information presented not misleading. The consolidated financial statements reflect normal adjustments, and also recurring adjustments that are, in the opinion of management, necessary for a fair presentation of our financial results for the interim periods. You should read these interim 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, 2007 ("2007 Form 10-K").

Our consolidated financial statements include the accounts of Knight Inc. and our majority-owned subsidiaries, as well as those of Kinder Morgan Energy Partners, Kinder Morgan Management and Triton Power Company LLC, which we have the ability to exercise significant influence over their operating and financial policies. Investments in jointly owned operations in which we hold a 50% or less interest (other than Kinder Morgan Energy Partners, Kinder Morgan Management and Triton Power Company LLC) are accounted for under the equity method. All material intercompany transactions and balances have been eliminated. Certain prior period amounts have been reclassified to conform to the current presentation.

On May 30, 2007, we completed our Going Private transaction whereby Kinder Morgan, Inc. merged with a wholly owned subsidiary of Knight Holdco LLC, with Kinder Morgan, Inc. continuing as

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

2. Significant Accounting Policies (Continued)

the surviving legal entity and subsequently renamed Knight Inc. Knight Holdco LLC is a private company owned by Richard D. Kinder, our Chairman and Chief Executive Officer; our co-founder William V. Morgan; former Kinder Morgan, Inc. board members Fayez Sarofim and Michael C. Morgan; other members of our senior management, most of whom are also senior officers of Kinder Morgan G.P., Inc. and Kinder Morgan Management; and affiliates of (i) Goldman Sachs Capital Partners, (ii) American International Group, Inc., (iii) The Carlyle Group, and (iv) Riverstone Holdings LLC. As a result of the Going Private transaction, we are now privately owned, our stock is no longer traded on the New York Stock Exchange, and we have adopted a new basis of accounting for our assets and liabilities. This transaction was a "business combination" for accounting purposes, requiring that these investors, pursuant to Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*, record the assets acquired and liabilities assumed at their fair market values as of the acquisition date, resulting in a new basis of accounting.

As a result of the application of the SEC rules and guidance regarding "push down" accounting, the investors' new accounting basis in our assets and liabilities is reflected in our financial statements effective with the closing of the Going Private transaction. Therefore, in the accompanying consolidated financial statements, transactions and balances prior to the closing of the Going Private transaction (the amounts labeled "Predecessor Company") reflect the historical accounting basis in our assets and liabilities, while the amounts subsequent to the closing (labeled "Successor Company") reflect the push down of the investors' new accounting basis to our financial statements. Hence, there is a blackline division on the financial statements and relevant notes, which is intended to signify that the amounts shown for periods prior to and subsequent to the Going Private transaction are not comparable.

As required by SFAS No. 141 (applied by the investors and pushed down to our financial statements), effective with the closing of the Going Private transaction, all of our assets and liabilities have been recorded at their estimated fair market values based on an allocation of the aggregate purchase price paid in the Going Private transaction. To the extent that we consolidate less than wholly owned subsidiaries (such as Kinder Morgan Energy Partners, Kinder Morgan Management and Triton Power Company LLC), the reported assets and liabilities for these entities have been given a new accounting basis only to the extent of our economic ownership interest in those entities. Therefore, the assets and liabilities of these entities are included in our financial statements, in part, at a new accounting basis reflecting the investors' purchase of our economic interest in these entities (approximately 50% in the case of Kinder Morgan Energy Partners and 14% in the case of Kinder Morgan Management). The remaining percentage of these assets and liabilities, reflecting the

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

2. Significant Accounting Policies (Continued)

continuing minority ownership interest, is included at its historical accounting basis. The purchase price paid in the Going Private transaction and the allocation of that purchase price is as follows:

	(In millions)
The Total Purchase Price Consisted of the Following	
Cash Paid	$ 5,112.0
Kinder Morgan, Inc. Shares Contributed	2,719.2
Equity Contributed	7,831.2
Cash from Issuances of Long-term Debt	4,696.2
Total Purchase Price	$ 12,527.4
The Allocation of the Purchase Price is as Follows	
Current Assets	$ 1,551.2
Investments	897.8
Goodwill	13,674.3
Property, Plant and Equipment, Net	15,520.0
Deferred Charges and Other Assets	1,639.8
Current Liabilities	(3,279.5)
Other Liabilities and Deferred Credits	
Deferred Income Taxes, Non-current	(2,519.4)
Other Deferred Credits	(1,786.3)
Long-term Debt	(9,855.9)
Minority Interests in Equity of Subsidiaries	(3,314.6)
	$ 12,527.4

The following is a reconciliation of shares purchased and contributed and the Going Private transaction purchase price (in millions except per share information):

	Number of Shares	Price per Share	Total Value
Shares Purchased with Cash	107.6	$ 107.50	$ 11,561.3
Shares Contributed			
Richard D. Kinder	24.0	$ 101.00	2,424.0
Other Knight Inc. Management and Board Members	2.7	$ 107.50	295.2
Total Shares Contributed	26.7		2,719.2
Total Shares Outstanding as of May 31, 2007	134.3		14,280.5
Less: Portion of Shares Acquired using Knight Inc. Cash on Hand			(1,756.8)

3.7

Add: Cash Contributions by Management At or After May 30, 2007	
Purchase Price	$ 12,527.4

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

2. Significant Accounting Policies (Continued)

The shares contributed by members of management and the board members other than Richard D. Kinder who were investors in the Going Private transaction were valued at $107.50 per share, the same as the amount per share paid to the public shareholders in the Going Private transaction. Richard D. Kinder agreed to value the shares he contributed at $101.00 per share because Mr. Kinder agreed to participate in the transaction at less than the merger price in order to help increase the merger price for the other public shareholders.

Transfer of Net Assets Between Entities Under Common Control

We account for the transfer of net assets between entities under common control by carrying forward the net assets recognized in the balance sheets of each combining entity to the balance sheet of the combined entity, and no other assets or liabilities are recognized as a result of the combination. Transfers of net assets between entities under common control do not affect the income statement of the combined entity.

3. Goodwill

Changes in the carrying amount of our goodwill for the nine months ended September 30, 2008 are summarized as follows:

	December 31, 2007	Acquisitions and Purchase Price Adjustments(1)	Impairment of Assets	Other(2)	September 30, 2008
			(In millions)		
Products Pipelines KMP	$ 2,179.4	$ (43.1)	$ (1,266.5)	$ (6.9)	$ 862.9
Natural Gas Pipelines KMP	3,201.0	266.8	(2,090.2)	(10.6)	1,367.0
CO_2 KMP	1,077.6	457.2		(3.7)	1,531.1
Terminals KMP	1,465.9	(3.2)	(676.6)	(4.5)	781.6
Kinder Morgan Canada KMP	250.1			(17.0)	233.1
Consolidated Total	$ 8,174.0	$ 677.7	$ (4,033.3)	$ (42.7)	$ 4,775.7

(1) Adjustments relate primarily to a reallocation between goodwill and property, plant, and equipment in our final purchase price allocation.

(2) Adjustments include (i) the translation of goodwill denominated in foreign currencies and (ii) reductions in the allocation of equity method goodwill due to reductions in our ownership percentage of Kinder Morgan Energy Partners.

We evaluate for the impairment of goodwill in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. For this purpose, we have six reporting units as follows: (i) Products Pipelines KMP (excluding associated terminals), (ii) Products Pipelines Terminals KMP (evaluated separately from Products Pipelines for goodwill purposes), (iii) Natural Gas Pipelines KMP, (iv) CO_2 KMP, (v) Terminals KMP and (vi) Kinder Morgan Canada KMP. For the investments we continue to account for under the equity method of accounting, the premium or excess cost over underlying fair value of net assets is referred to as equity method goodwill and is not subject to amortization but rather to impairment testing in accordance with APB No. 18, *The Equity Method of*

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

3. Goodwill (Continued)

Accounting for Investments in Common Stock. As of both September 30, 2008 and December 31, 2007, we have reported $138.2 million of equity method goodwill within the caption "Investments" in the accompanying interim Consolidated Balance Sheets.

In the second quarter of 2008, we finalized the purchase price allocation associated with our May 2007 Going Private transaction, establishing the fair values of our individual assets and liabilities including assigning the associated goodwill to our six reporting units, in each case as of the May 31, 2007 acquisition date. The goodwill that arose in conjunction with this acquisition, which constitutes all of our recorded goodwill, was determined to be associated with the general partner and significant limited partner interests in Kinder Morgan Energy Partners (a publicly traded master limited partnership, or "MLP") that we acquired as part of this business combination. The goodwill was attributable, in part, to the difference between the market multiples that are paid to acquire the general partner interest in an MLP and the market multiples that are (or would be) paid to acquire the individual assets that comprise the MLP.

In conjunction with our annual impairment test of the carrying value of this goodwill, performed as of May 31, 2008, we determined that the fair value of certain reporting units that are part of our investment in Kinder Morgan Energy Partners were less than the carrying values. In addition, the fair value of each reporting unit was determined from the present value of the expected future cash flows from the applicable reporting unit (inclusive of a terminal value calculated using a market multiple for the individual assets). For the reporting units where the fair value was less than the carrying value, we determined the implied fair value of goodwill. The implied fair value of goodwill within each reporting unit was then compared to the carrying value of goodwill of each such unit, resulting in the following goodwill impairment by our reporting units: Products Pipelines KMP (excluding associated terminals) $1.19 billion, Products Pipelines Terminals KMP (separate from Products Pipelines KMP for goodwill impairment purposes) $70 million, Natural Gas Pipelines KMP $2.09 billion, and Terminals KMP $677 million, for a total impairment of $4.03 billion. We have finalized our goodwill impairment calculation initially recorded in the second quarter of 2008. This resulted in an increase to the goodwill impairment by our Products Pipelines KMP (excluding associated terminals) reporting unit of $152.6 million and a decrease to the goodwill impairment by our Natural Gas Pipelines KMP reporting unit of $152.6 million, with no net impact to the total goodwill impairment charge. The goodwill impairment is a non-cash charge and does not have any impact on our cash flow.

While the fair value of the CO_2 KMP segment exceeded its carrying value as of the date of our goodwill impairment test, decreases in the market value of crude oil led us to reconsider this analysis as of September 30, 2008. This analysis again showed that the fair value of the CO_2 KMP segment exceeded its carrying value, however the amount by which the fair value exceeded the carrying value decreased. If the market price of crude oil continues to decline, we may need to record non-cash goodwill impairment charges on this reporting unit in future periods.

On April 18, 2007, we announced that Kinder Morgan Energy Partners would acquire the Trans Mountain pipeline system from us. This transaction was completed April 30, 2007. This transaction caused us to evaluate the fair value of the Trans Mountain pipeline system in determining whether goodwill related to these assets was impaired. Accordingly, based on our consideration of supporting information obtained regarding the fair values of the Trans Mountain pipeline system assets, we recorded a goodwill impairment charge of $377.1 million in the first quarter of 2007.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

4. Other Intangibles

Our intangible assets other than goodwill include customer relationships, contracts and agreements, technology-based assets, lease values and other long-term assets. These intangible assets have definite lives, are being amortized on a straight-line basis over their estimated useful lives, and are reported separately as "Other Intangibles, Net" in the accompanying interim Consolidated Balance Sheets. Following is information related to our intangible assets:

	September 30, 2008	December 31, 2007
	(In millions)	
Customer Relationships, Contracts and Agreements		
Gross Carrying Amount(1)	$ 270.9	$ 321.3
Accumulated Amortization	(25.7)	(11.6)
Net Carrying Amount	245.2	309.7
Technology-based Assets, Lease Values and Other		
Gross Carrying Amount	11.7	11.7
Accumulated Amortization	(0.7)	(0.3)
Net Carrying Amount	11.0	11.4
Total Other Intangibles, Net	$ 256.2	$ 321.1

(1) The change in the Gross Carrying Amount is primarily due to (i) a decrease of approximately $18 million for Kinder Morgan Energy Partners' allocated purchase price to Marine Terminals, Inc.'s bulk terminal assets and (ii) a decrease of approximately $32 million for Knight Inc.'s allocated purchase price to the assets belonging to the Products Pipelines, Natural Gas Pipelines, CO_2, and Terminals segments, related to the Going Private transaction. These adjustments had the effect of increasing "Goodwill" and decreasing "Other Intangibles, Net" by the described amounts.

Amortization expense on our intangibles consisted of the following:

	Successor Company				Predecessor Company
	Three Months Ended September 30,		Nine Months Ended September 30, 2008	Four Months Ended September 30, 2007	Five Months Ended May 31, 2007
	2008	2007			
			(In millions)		(In millions)
Customer Relationships, Contracts and Agreements	$4.6	$3.9	$ 14.1	$ 5.1	$ 6.1
	0.2	0.1	0.4	0.1	0.2

Technology-based Assets, Lease Value and Other					
Total Amortization	$4.8	$4.0	$ 14.5	$ 5.2	$ 6.3

As of September 30, 2008, the weighted-average useful lives for our intangible assets was approximately 16.8 years.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

5. Minority Interests

The caption "Minority Interests in Equity of Subsidiaries" in the accompanying interim Consolidated Balance Sheets consists of the following:

	September 30, 2008	December 31, 2007
	(In millions)	
Kinder Morgan Energy Partners	$ 1,717.8	$ 1,616.0
Kinder Morgan Management	1,705.8	1,657.7
Triton Power Company LLC	41.4	29.2
Other	9.3	11.1
	$ 3,474.3	$ 3,314.0

6. Related Party Transactions

Significant Investors

As discussed in Note 2, as a result of the Going Private transaction, a number of individuals and entities became significant investors in us via their investment in Knight Holdco LLC. By virtue of the size of their ownership interest, two of those investors became "related parties" to us as that term is defined in the authoritative accounting literature: (i) American International Group, Inc. and certain of its affiliates ("AIG") and (ii) Goldman Sachs Capital Partners and certain of its affiliates ("Goldman Sachs"). We enter into transactions with certain AIG affiliates in the ordinary course of their conducting insurance and insurance-related activities, although no individual transaction is, and all such transactions collectively are not, material to our consolidated financial statements. We conduct commodity risk management activities in the ordinary course of implementing our risk management strategies in which the counterparty to certain of our derivative transactions is an affiliate of Goldman Sachs. In conjunction with these activities, we are a party (through one of our subsidiaries engaged in the production of crude oil) to a hedging facility with J. Aron & Company/Goldman Sachs, which requires us to provide certain periodic information but does not require the posting of margin. As a result of changes in the market value of our derivative positions, we have recorded both amounts receivable from and payable to Goldman Sachs affiliates. At September 30, 2008 and December 31, 2007, the fair values of these derivative contracts are included in the accompanying interim Consolidated Balance Sheets within the captions indicated in the following table:

	September 30, 2008	December 31, 2007
	(In millions)	
Derivative Assets (Liabilities)		
Assets: Fair Value of Derivative Instruments, Non-current	$ 13.6	$
Current Liabilities: Fair Value of Derivative Instruments	$ (256.3)	$ (239.8)
Liabilities and Stockholder's Equity: Fair Value of Derivative Instruments, Non-current	$ (594.2)	$ (386.5)

Plantation Pipe Line Company Note Receivable

Kinder Morgan Energy Partners has a seven-year note receivable bearing interest at the rate of 4.72% per annum from Plantation Pipe Line Company, its 51.17%-owned equity investee. The

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

6. Related Party Transactions (Continued)

outstanding note receivable balance was $88.5 million and $89.7 million as of September 30, 2008 and December 31, 2007, respectively. Of these amounts, $2.5 million and $2.4 million, respectively, were included within "Current Assets: Accounts, Notes and Interest Receivable, Net" in our accompanying interim Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007 and the remainder was included within "Notes Receivable Related Parties" in our accompanying interim Consolidated Balance Sheets at each reporting date.

Express US Holdings LP Note Receivable

On June 30, 2008, we exchanged our C$113.6 million preferred equity interest in Express US Holdings LP for two subordinated notes from Express US Holdings LP with a combined face value of $111.4 million (C$113.6 million).

As of September 30, 2008, the outstanding note receivable balance, representing the translated amount included in our consolidated financial statements in U.S. dollars, was $106.7 million, and we included this amount in the accompanying interim Consolidated Balance Sheet within the caption "Notes Receivable Related Parties."

On August 28, 2008, Knight Inc. sold its one-third interest in the net assets of the Express pipeline system ("Express"), as well as Knight Inc.'s full ownership of the net assets of the Jet Fuel pipeline system ("Jet Fuel"), to Kinder Morgan Energy Partners. This transaction included the sale of Knight Inc.'s subordinated notes described above. Due to the inclusion of Kinder Morgan Energy Partners and its subsidiaries in our consolidated financial statements (resulting from the implementation of EITF 04-5), Knight Inc. accounted for this transaction as a transfer of net assets between entities under common control. Therefore, following Knight Inc.'s sale of Express and Jet Fuel to Kinder Morgan Energy Partners, Kinder Morgan Energy Partners recognized the assets and liabilities acquired at Knight Inc.'s carrying amounts (historical cost) at the date of transfer; see Note 14 for additional information relating to this sale.

NGPL PipeCo LLC

On February 15, 2008, Knight Inc. entered in to an Operations and Reimbursement agreement with Natural Gas Pipeline Company of America LLC, a wholly owned subsidiary of NGPL PipeCo LLC. The agreement provides for a $3.7 million monthly charge from Knight Inc. to Natural Gas Pipeline Company of America LLC related to general and administrative expenses. For the period from February 15, 2008 to September 30, 2008 and the three months ended September 30, 2008, these charges were $27.8 million and $11.1 million, respectively.

In addition, Kinder Morgan Energy Partners purchases transportation and storage services from NGPL PipeCo LLC. For the period from February 15, 2008 to September 30, 2008 and the three months ended September 30, 2008, these purchases totaled $5.0 million and $2.4 million, respectively.

7. Cash Flow Information

We consider all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

7. Cash Flow Information (Continued)

Changes in Working Capital Items (Net of Effects of Acquisitions and Sales)

	Successor Company		Predecessor Company
	Nine Months Ended September 30, 2008	Four Months Ended September 30, 2007	Five Months Ended May 31, 2007
	(In millions)		(In millions)
Accounts Receivable	$ (55.5)	$ 70.2	$ (31.9)
Materials and Supplies Inventory	(7.3)	0.8	(1.7)
Other Current Assets	29.0	3.6	0.5
Accounts Payable	(89.3)	(7.8)	26.3
Accrued Interest	(145.3)	(51.1)	(22.5)
Accrued Taxes	(502.3)	(47.0)	(114.0)
Other Current Liabilities	(81.0)	17.7	(59.6)
	$ (851.7)	$ (13.6)	$ (202.9)

Supplemental Disclosures of Cash Flow Information

	Successor Company		Predecessor Company
	Nine Months Ended September 30, 2008	Four Months Ended September 30, 2007	Five Months Ended May 31, 2007
	(In millions)		(In millions)
Cash Paid During the Period for			
Interest, Net of Amount Capitalized	$ 623.0	$ 390.3	$ 381.8
Income Taxes Paid, Including Prior Period Amounts	$ 622.9	$ 141.8	$ 133.3

During the nine months ended September 30, 2008, the four months ended September 30, 2007 and the five months ended May 31, 2007, Kinder Morgan Energy Partners acquired $3.4 million, $1.0 million and $18.5 million, respectively, of assets by the assumption of liabilities.

During the nine months ended September 30, 2008, we recognized non-cash activity of $45.8 million for unamortized fair value adjustments recorded in purchase accounting related to the Going Private transaction and $41.7 million for unamortized debt issuance costs, both associated with the early extinguishment of debt.

On June 30, 2008, we exchanged our preferred equity interest in Express US Holdings LP for two subordinated notes from Express US Holdings LP with a combined face value of $111.4 million (C$113.6 million); see Note 11 for additional information regarding this exchange.

In May 2007, Kinder Morgan Energy Partners issued 266,813 common units, representing approximately $15.0 million of value, in settlement of an obligation included in the purchase price of seven bulk terminal operations acquired from Trans-Global Solutions, Inc. on April 29, 2005.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

8. Income Taxes

Income Taxes from Continuing Operations included in our Consolidated Statements of Operations were as follows:

	Successor Company				Predecessor Company
	Three Months Ended September 30,		Nine Months Ended September 30,	Four Months Ended September 30,	Five Months Ended May 31,
	2008	2007	2008	2007	2007
	(In millions)				(In millions)
Income Taxes	$87.9	$74.6	$ 194.4	$ 95.9	$ 135.5
Effective Tax Rate(1)	44.7%	45.3%	33.4%	44.8%	48.4%

(1) Excludes goodwill impairment charges related to non-deductible goodwill; see Note 3.

During the nine months ended September 30, 2008, our effective tax rate was lower than the statutory federal income tax rate of 35% primarily due to (i) a reduction of approximately $53 million in deferred income tax liabilities, and income tax expense, related to the termination of certain of our subsidiaries' presence in Canada resulting in the elimination of future taxable gains and (ii) the special tax deduction permitted for dividends received from domestic corporations. These decreases to the effective tax rate were partially offset by state income taxes and the impact of consolidating the Kinder Morgan Management income tax provision.

During the three months ended September 30, 2008, three months ended September 30, 2007, four months ended September 30, 2007 and five months ended May 31, 2007, our effective tax rate was higher than the statutory federal income tax rate of 35% due to (i) state income taxes, (ii) the impact of consolidating the Kinder Morgan Management income tax provision, (iii) foreign earnings subject to different tax rates and (iv) the impact of consolidating Kinder Morgan Energy Partners' income tax provision. During the five months ended May 31, 2007, our effective tax rate was also higher due to non-deductible fees associated with the Going Private transaction.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

9. Comprehensive Income (Loss)

Our comprehensive income (loss) is as follows:

	Successor Company Three Months Ended September 30,	
	2008	2007
	(In millions)	
Net Income	$ 108.7	$ 85.7
Other Comprehensive Income (Loss), Net of Tax		
Change in Fair Value of Derivatives Utilized for Hedging Purposes	543.4	(25.5)
Reclassification of Change in Fair Value of Derivatives to Net Income	(70.5)	(20.2)
Employee Benefit Plans		
Prior Service Cost Arising During Period	(0.1)	
Net Gain Arising During Period	0.2	
Amortization of Net Loss Included in Net Periodic Benefit Costs		(0.1)
Change in Foreign Currency Translation Adjustment	(22.8)	14.1
Other Comprehensive Income (Loss), Net of Tax	450.2	(31.7)
Comprehensive Income	$ 558.9	$ 54.0

	Successor Company		Predecessor Company
	Nine Months Ended September 30, 2008	Four Months Ended September 30, 2007	Five Months Ended May 31, 2007
	(In millions)		(In millions)
Net Income (Loss)	$ (3,646.2)	$ 115.9	$ 65.9
Other Comprehensive Income (Loss), Net of Tax			
Change in Fair Value of Derivatives Utilized for Hedging Purposes	(253.5)	(44.5)	(21.3)
Reclassification of Change in Fair Value of Derivatives to Net Income	140.9	(21.1)	10.3
Employee Benefit Plans			
Prior Service Cost Arising During Period	0.2		(1.7)
Net Gain Arising During Period	1.3		11.4
Amortization of Prior Service Cost Included in Net Periodic Benefit Costs			(0.4)
Amortization of Net Loss Included in Net Periodic Benefit Costs	(0.1)	(0.1)	1.4

Change in Foreign Currency Translation Adjustment	(31.5)	12.7	40.1
Other Comprehensive Income (Loss), Net of Tax	(142.7)	(53.0)	39.8
Comprehensive Income (Loss)	$ (3,788.9)	$ 62.9	$ 105.7

A-340

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

9. Comprehensive Income (Loss) (Continued)

The Accumulated Other Comprehensive Loss balance of $390.4 million included in the accompanying interim Consolidated Balance Sheet at September 30, 2008 consisted of (i) $367.1 million representing unrecognized net losses on hedging activities, (ii) $5.2 million representing foreign currency translation gain adjustments and (iii) $0.2 million and $28.3 million representing unrecognized prior service costs and net losses relating to the employee benefit plans, respectively.

10. Kinder Morgan Management, LLC

On August 14, 2008, Kinder Morgan Management made a share distribution of 0.018124 shares per outstanding share (1,359,153 total shares) to shareholders of record as of July 31, 2008, based on the $0.99 per common unit distribution declared by Kinder Morgan Energy Partners. On November 14, 2008, Kinder Morgan Management will make a share distribution of 0.021570 shares per outstanding share (1,646,891 total shares) to shareholders of record as of October 31, 2008, based on the $1.02 per common unit distribution declared by Kinder Morgan Energy Partners. Kinder Morgan Management's distributions are paid in the form of additional shares or fractions thereof calculated by dividing the Kinder Morgan Energy Partners cash distribution per common unit by the average of the market closing prices of a Kinder Morgan Management share determined for a ten-trading day period ending on the trading day immediately prior to the ex-dividend date for the shares.

11. Business Combinations, Investments, and Sales

During the first nine months of 2008, we recorded purchase price adjustments related to Kinder Morgan Energy Partners' previously completed acquisitions of bulk terminal operations acquired effective May 30, 2007 and September 1, 2007, respectively and made a preliminary purchase price allocation related to a liquids terminal facility acquired by Kinder Morgan Energy Partners on August 15, 2008.

Vancouver Wharves

On May 30, 2007, Kinder Morgan Energy Partners purchased the Vancouver Wharves bulk marine terminal from British Columbia Railway Company, a crown corporation owned by the Province of British Columbia, for an aggregate consideration of $59.5 million, consisting of $38.8 million in cash and $20.7 million in assumed liabilities. The Vancouver Wharves facility is located on the north shore of the Port of Vancouver's main harbor and includes five deep-sea vessel berths situated on a 139-acre site. The terminal assets include significant rail infrastructure, dry bulk and liquid storage, and material handling systems that allow the terminal to handle over 3.5 million tons of cargo annually.

The acquisition both expanded and complemented Kinder Morgan Energy Partners' existing terminal operations and all of the acquired assets are included in the Terminals KMP business segment. Final purchase price adjustments were made in the first half of 2008 to reflect the fair value of acquired assets and expected value of assumed liabilities. The adjustments increased "Property, Plant and Equipment, Net" by $2.7 million, reduced working capital balances by $1.6 million, and increased "Other Long-term Liabilities and Deferred Credits" by $1.1 million. Based on Kinder Morgan Energy Partners' estimate of fair market values, we allocated $53.4 million of the combined purchase price to "Property, Plant and Equipment, Net," and $6.1 million to items included within "Current Assets."

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

11. Business Combinations, Investments, and Sales (Continued)

Marine Terminals, Inc.

On September 1, 2007, Kinder Morgan Energy Partners acquired certain bulk terminals assets from Marine Terminals, Inc. for an aggregate consideration of approximately $102.1 million, consisting of $100.8 million in cash and assumed liabilities of $1.3 million. The acquired assets and operations are primarily involved in the handling and storage of steel and alloys. The operations consist of two separate facilities located in Blytheville, Arkansas, and individual terminal facilities located in Decatur, Alabama, Hertford, North Carolina, and Berkley, South Carolina. Combined, the five facilities handle approximately 13.5 million tons of alloys and steel products annually and also provide stevedoring and harbor services, scrap handling, and scrap processing services to customers in the steel and alloys industry. The acquisition both expanded and complemented Kinder Morgan Energy Partners' existing ferro alloy terminal operations and will provide customers further access to Kinder Morgan Energy Partners' growing national network of marine and rail terminals. All of the acquired assets are included in the Terminals KMP business segment.

In the first nine months of 2008, Kinder Morgan Energy Partners paid an additional $0.5 million for purchase price settlements, and made purchase price adjustments to reflect final fair value of acquired assets and final expected value of assumed liabilities. Kinder Morgan Energy Partners' 2008 adjustments primarily reflected changes in the allocation of the purchase cost to intangible assets acquired. Based on Kinder Morgan Energy Partners' estimate of fair market values, we allocated $60.8 million of the combined purchase price to "Property, Plant and Equipment, Net," $21.7 million to "Other Intangibles, Net," $18.6 million to "Goodwill," and $1.0 million to "Current Assets: Other" and "Deferred Charges and Other Assets."

The allocation to "Other Intangibles, Net" included a $20.1 million amount representing the fair value of a service contract entered into with Nucor Corporation, a large domestic steel company with significant operations in the Southeast region of the United States. For valuation purposes, the service contract was determined to have a useful life of 20 years, and pursuant to the contract's provisions, the acquired terminal facilities will continue to provide Nucor with handling, processing, harboring and warehousing services.

The allocation to "Goodwill," which is expected to be deductible for tax purposes, was based on the fact that this acquisition both expanded and complemented Kinder Morgan Energy Partners' existing ferro alloy terminal operations and will provide Nucor and other customers further access to Kinder Morgan Energy Partners' growing national network of marine and rail terminals. We believe the acquired value of the assets, including all contributing intangible assets, exceeded the fair value of acquired identifiable net assets and liabilities in the aggregate, these factors represented goodwill.

Wilmington, North Carolina Liquids Terminal

On August 15, 2008, Kinder Morgan Energy Partners purchased certain terminal assets from Chemserve, Inc. for an aggregate consideration of $12.7 million, consisting of $11.8 million in cash and $0.9 million in assumed liabilities. The liquids terminal facility is located in Wilmington, North Carolina and stores petroleum products and chemicals. The terminal includes significant transportation infrastructure, and provides liquid and heated storage and custom tank blending capabilities for agricultural and chemical products. The acquisition both expanded and complemented Kinder Morgan Energy Partners' existing Mid-Atlantic region terminal operations, and all of the acquired assets are included in the Terminals KMP business segment. In the third quarter of 2008, we made a preliminary

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

11. Business Combinations, Investments, and Sales (Continued)

allocation of the purchase price to reflect the fair value of assets acquired; however, the final purchase price allocation is expected to be made in the fourth quarter of 2008, including a final allocation to "Goodwill."

Sale of 80% of NGPL PipeCo LLC

On February 15, 2008, we sold an 80% ownership interest in NGPL PipeCo LLC (formerly MidCon Corp.), which owns Natural Gas Pipeline of America and certain affiliates, collectively referred to as "NGPL," to Myria Acquisition Inc. ("Myria") for approximately $2.9 billion. We also received $3.0 billion of cash previously held in escrow related to a notes offering by NGPL PipeCo LLC in December 2007, the net proceeds of which were distributed to us principally as repayment of intercompany indebtedness and partially as a dividend, immediately prior to the closing of the sale to Myria. Pursuant to the purchase agreement, Myria acquired all 800 Class B shares and we retained all 200 Class A shares of NGPL PipeCo LLC. We will continue to operate NGPL's assets pursuant to a 15-year operating agreement. Myria is owned by a syndicate of investors led by Babcock & Brown, an international investment and specialized fund and asset management group. The total proceeds from this sale of $5.9 billion were used to pay off the entire outstanding balances of our senior secured credit facility's Tranche A and Tranche B term loans, to repurchase $1.67 billion of our outstanding debt securities and to reduce balances outstanding under our $1.0 billion revolving credit facility (see Note 13).

Investment in Rockies Express Pipeline

In the first nine months of 2008, Kinder Morgan Energy Partners made capital contributions of $306.0 million to West2East Pipeline LLC (the sole owner of Rockies Express Pipeline LLC) to partially fund its Rockies Express Pipeline construction costs. This cash contribution was recorded as an increase to "Investments" in the accompanying interim Consolidated Balance Sheet as of September 30, 2008, and it was included within "Cash Flows from Investing Activities: Other Investments" in the accompanying interim Consolidated Statement of Cash Flows for the nine months ended September 30, 2008. Kinder Morgan Energy Partners owns a 51% equity interest in West2East Pipeline LLC.

On June 24, 2008, Rockies Express Pipeline LLC completed a private offering of an aggregate $1.3 billion in principal amount of fixed rate senior notes. Rockies Express Pipeline LLC received net proceeds of approximately $1.29 billion from this offering, after deducting the initial purchasers' discount and estimated offering expenses, and virtually all of the net proceeds from the sale of the notes were used to repay Rockies Express Pipeline LLC's short-term commercial paper borrowings.

All payments of principal and interest in respect of these senior notes are the sole obligation of Rockies Express Pipeline LLC. Noteholders will have no recourse against Kinder Morgan Energy Partners, Sempra Energy or ConocoPhillips (the two other member owners of West2East Pipeline LLC), or against any of Kinder Morgan Energy Partners' or their respective officers, directors, employees, shareholders, members, managers, unitholders or affiliates for any failure by Rockies Express Pipeline LLC to perform or comply with its obligations pursuant to the notes or the indenture.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

11. Business Combinations, Investments, and Sales (Continued)

Midcontinent Express Pipeline LLC

In the first nine months of 2008, Kinder Morgan Energy Partners made capital contributions of $27.5 million to Midcontinent Express Pipeline LLC to partially fund its Midcontinent Express Pipeline construction costs. This cash contribution has been recorded as an increase to "Investments" in the accompanying Consolidated Balance Sheet as of September 30, 2008, and has been included within "Cash Flows from Investing Activities: Other Investments" in the accompanying Consolidated Statement of Cash Flows for the nine months ended September 30, 2008. Kinder Morgan Energy Partners owns a 50% equity interest in Midcontinent Express Pipeline LLC.

Kinder Morgan Energy Partners received, in the first nine months of 2008, an $89.1 million return of capital from Midcontinent Express Pipeline LLC. In February 2008, Midcontinent Express Pipeline LLC entered into and then made borrowings under a new $1.4 billion three-year, unsecured revolving credit facility due February 28, 2011. Midcontinent then made distributions (in excess of cumulative earnings) to its two member owners to reimburse them for prior contributions made to fund its pipeline construction costs, and this cash receipt has been included in "Distributions from Equity Investees" in the accompanying Consolidated Statement of Cash Flows for the nine months ended September 30, 2008.

Fayetteville Express Pipeline LLC

On October 1, 2008, Kinder Morgan Energy Partners announced that it has entered into a 50/50 joint venture with Energy Transfer Partners, L.P. to build and develop the Fayetteville Express Pipeline, a new natural gas pipeline that will provide shippers in the Arkansas Fayetteville Shale area with takeaway natural gas capacity, added flexibility, and further access to growing markets. Fayetteville Express Pipeline LLC will construct the approximately 185-mile pipeline, which will originate in Conway County, Arkansas, continue eastward through White County, Arkansas, and terminate at an interconnect with Trunkline Gas Company's pipeline in Quitman County, Mississippi. The new pipeline will also interconnect with NGPL's pipeline in White County, Arkansas, Texas Gas Transmission LLC's pipeline in Coahoma County, Mississippi, and ANR Pipeline Company's pipeline in Quitman County, Mississippi. NGPL's pipeline is operated and 20% owned by us.

The Fayetteville Express Pipeline will have an initial capacity of 2.0 billion cubic feet of natural gas per day. Pending necessary regulatory approvals, the approximately $1.3 billion pipeline project is expected to be in service by late 2010 or early 2011. Fayetteville Express Pipeline LLC has secured binding 10-year commitments totaling approximately 1.85 billion cubic feet per day, and depending on shipper support, capacity on the proposed pipeline may be increased.

Other Sales

On January 25, 2008, we sold our interests in three natural gas-fired power plants in Colorado to Bear Stearns. We received net proceeds of $63.1 million.

On April 1, 2008, Kinder Morgan Energy Partners sold its 25% interest in Thunder Creek Gas Services, LLC. Kinder Morgan Energy Partners received cash proceeds of approximately $50.7 million for its investment.

On June 30, 2008, Knight Inc. exchanged a $111.4 million (C$113.6 million) preferred equity interest in Express US Holdings LP and the accrued interest thereon for $40.5 million in cash (the

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

11. Business Combinations, Investments, and Sales (Continued)

majority of which was received in July 2008) and two subordinated notes issued by Express US Holdings LP with a combined face value of $111.4 million (C$113.6 million). Immediately prior to the exchange, the subordinated notes were held by two other partners in Express US Holdings LP. On August 28, 2008, Knight Inc. sold the one-third interest in the net assets of Express and our full ownership of Jet Fuel to Kinder Morgan Energy Partners. This transaction included the sale of the aforementioned subordinated notes. Due to the inclusion of Kinder Morgan Energy Partners and its subsidiaries in Knight Inc.'s consolidated financial statements (resulting from the implementation of EITF 04-5), Knight Inc. accounted for this transaction as a transfer of net assets between entities under common control. Therefore, following Kinder Morgan Energy Partners' acquisition of Express and Jet Fuel from Knight Inc., Kinder Morgan Energy Partners recognized the assets and liabilities acquired at Knight Inc.'s carrying amounts (historical cost) at the date of transfer; see Note 14. These notes are included in the accompanying interim Consolidated Balance Sheet at September 30, 2008, under the caption "Notes Receivable Related Parties." The two notes have an interest rate of 12%, payable quarterly, and are due on January 9, 2023.

12. Discontinued Operations

North System Natural Gas Liquids Pipeline System

In October 2007, Kinder Morgan Energy Partners completed the sale of its North System and its 50% ownership interest in the Heartland Pipeline Company to ONEOK Partners, L.P. for approximately $298.6 million in cash. In the nine months ended September 30, 2008, Kinder Morgan Energy Partners paid $2.4 million to ONEOK Partners, L.P. to fully settle both the sale of working capital items and the allocation of pre-acquisition investee distributions, and to partially settle the sale of liquids inventory balances. Due to the fair market valuation resulting from the Going Private transaction (see Note 2), the consideration Kinder Morgan Energy Partners received from the sale of its North System was equal to its carrying value; therefore no gain or loss was recorded on this disposal transaction. The North System consists of an approximately 1,600-mile interstate common carrier pipeline system that delivers natural gas liquids and refined petroleum products from south central Kansas to the Chicago area. Also included in the sale were eight propane truck-loading terminals located at various points in three states along the pipeline system, and one multi-product terminal complex located in Morris, Illinois. All of the assets were included in our Products Pipelines KMP business segment.

Terasen Pipelines (Corridor) Inc.

In June 2007, we completed the sale of Terasen Pipelines (Corridor) Inc. ("Corridor") to Inter Pipeline Fund, a Canada-based company. Corridor transports diluted bitumen from the Athabasca Oil Sands Project near Fort McMurray, Alberta, to the Scotford Upgrader near Fort Saskatchewan, Alberta. The sale did not include any other assets of Kinder Morgan Canada (formerly Terasen Pipelines). The sale price was approximately $711 million (C$760 million) plus the buyer's assumption of all of the debt related to Corridor, including the debt associated with the expansion taking place on Corridor at the time of the sale. The consideration was equal to Corridor's carrying value, therefore no gain or loss was recorded on this disposal transaction.

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

12. Discontinued Operations (Continued)

Terasen Inc.

We closed the sale of Terasen Inc. to Fortis Inc. on May 17, 2007, for sales proceeds of approximately $3.4 billion (C$3.7 billion) including cash plus the buyers' assumption of debt. The sale did not include the assets of Kinder Morgan Canada (formerly Terasen Pipelines) discussed in the preceding paragraph. We recorded a book gain on this disposition of $55.7 million in the second quarter of 2007. The sale resulted in a capital loss of $998.6 million for tax purposes. Approximately $223.3 million of this loss was utilized to reduce capital gains principally associated with the sale of our U.S.-based retail gas operations (see below) resulting in a tax benefit of approximately $82.2 million. The remaining capital loss carryforward of $775.3 million was utilized to reduce the capital gain associated with our sale of an 80% ownership interest in NGPL PipeCo LLC (see Note 11).

Natural Gas Distribution and Retail Operations

In March 2007, we completed the sale of our U.S.-based retail natural gas distribution and related operations to GE Energy Financial Services, a subsidiary of General Electric Company, and Alinda Investments LLC for $710 million and an adjustment for working capital. In conjunction with this sale, we recorded a pre-tax gain of $251.8 million (net of $3.9 million of transaction costs) in the first quarter of 2007. Our Natural Gas Pipelines KMP business segment (i) provides natural gas transportation and storage services and sells natural gas to and (ii) receives natural gas transportation and storage services, natural gas and natural gas liquids and other gas supply services from the discontinued U.S.-based retail natural gas distribution business. These transactions are continuing after the sale of this business and will likely continue to a similar extent into the future. For the five months ended May 31, 2007, revenues and expenses of our continuing operations totaling $3.1 million and $1.2 million, respectively for products and services sold to and purchased from our discontinued U.S.-based retail natural gas distribution operations prior to its sale in March 2007, have been eliminated in our accompanying interim Consolidated Statements of Operations. We are currently receiving fees from SourceGas, a subsidiary of General Electric Company, to provide certain administrative functions for a limited period of time and for the lease of office space. We do not have any significant continuing involvement in or retain any ownership interest in these operations and, therefore, the continuing cash flows discussed above are not considered direct cash flows of the disposed assets.

Earnings of Discontinued Operations

The financial results of discontinued operations have been reclassified for all periods presented and reported in the caption, "Income (Loss) from Discontinued Operations, Net of Tax" in our

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

12. Discontinued Operations (Continued)

accompanying interim Consolidated Statements of Operations. Summarized financial results of these operations are as follows:

	Successor Company				Predecessor Company
	Three Months Ended September 30,		Nine Months Ended September 30,	Four Months Ended September 30,	Five Months Ended May 31,
	2008	2007	2008	2007	2007
			(In millions)		(In millions)
Operating Revenues	$	$ 14.4	$	$ 19.2	$ 921.8
Income (Loss) from Discontinued Operations Before Income Taxes	(0.2)	(1.4)	(0.6)	0.9	393.2
Income Taxes		(3.0)		(3.0)	(94.6)
Income (Loss) from Discontinued Operations	$ (0.2)	$ (4.4)	$ (0.6)	$ (2.1)	298.6

The cash flows attributable to discontinued operations are included in our accompanying interim Consolidated Statements of Cash Flows for the nine months ended September 30, 2008, the four months ended September 30, 2007, and the five months ended May 31, 2007 in the captions "Net Cash Flows (Used in) Provided by Discontinued Operations," "Net Cash Flows Provided by Discontinued Investing Activities" and "Net Cash Flows Provided by Discontinued Financing Activities."

13. Financing

Credit Facilities

	September 30, 2008		
	Short-term Notes Payable	Commercial Paper Outstanding	Weighted-Average Interest Rate
	(In millions)		
Knight Inc. Secured Debt(1)	$ 270.0	$	3.62%
Kinder Morgan Energy Partners Unsecured Debt(2)	$ 295.0	$	5.00%

(1) The average short-term debt outstanding (and related weighted-average interest rate) was $196.8 million (3.61%) and $185.6 million (4.38%) during the three and nine months ended September 30, 2008, respectively.

(2)

The average short-term debt outstanding (and related weighted-average interest rate) was $163.5 million (3.34%) and $329.6 million (3.48%) during the three and nine months ended September 30, 2008, respectively.

The Knight Inc. $1.0 billion six-year senior secured credit facility matures on May 30, 2013 and includes a sublimit of $300 million for the issuance of letters of credit and a sublimit of $50 million for swingline loans. Knight Inc. does not have a commercial paper program.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

13. Financing (Continued)

The Kinder Morgan Energy Partners $1.85 billion five-year unsecured bank credit facility matures August 18, 2010 and can be amended to allow for borrowings up to $2.1 billion. Borrowings under the credit facility can be used for partnership purposes and as a backup for Kinder Morgan Energy Partners' commercial paper program. Borrowings under Kinder Morgan Energy Partners' commercial paper program reduce the borrowings allowed under its credit facility. On October 13, 2008, Standard & Poor's Rating Services lowered Kinder Morgan Energy Partners' short-term credit rating to A-3 from A-2. See Note 20 regarding subsequent events.

The outstanding balance under Kinder Morgan Energy Partners' five-year credit facility was $295.0 million as of September 30, 2008. As of December 31, 2007, there were no borrowings under the credit facility. As of December 31, 2007, Kinder Morgan Energy Partners had $589.1 million of commercial paper outstanding with an average interest rate of 5.58%. The borrowings under Kinder Morgan Energy Partners' commercial paper program were used principally to finance the acquisitions and capital expansions that Kinder Morgan Energy Partners made during 2007.

Kinder Morgan Energy Partners' five-year credit facility is with a syndicate of financial institutions and Wachovia Bank, National Association is the administrative agent. On September 15, 2008, Lehman Brothers Holdings Inc. filed for bankruptcy protection under the provisions of Chapter 11 of the U.S. Bankruptcy Code. No Lehman Brothers affiliate is an administrative agent for Kinder Morgan Energy Partners or any of its subsidiaries; however, one of the Lehman entities is a lending bank providing less than 5% of the commitments in Kinder Morgan Energy Partners' bank credit facility. Since Lehman Brothers declared bankruptcy, its affiliate, which is a party to Kinder Morgan Energy Partners' credit facility, has notified Kinder Morgan Energy Partners that it will not meet obligations to lend under that agreement. Thus, the available capacity of Kinder Morgan Energy Partners' facility will be reduced by the Lehman commitment (less than 5% of the facility). The commitments of the other banks remain unchanged and the facility is not defaulted.

As of September 30, 2008, the amount available for borrowing under Kinder Morgan Energy Partners' credit facility was reduced by an aggregate amount of $681.5 million, consisting of (i) a combined $375 million in three letters of credit that support its hedging of commodity price risks associated with the sale of natural gas, natural gas liquids and crude oil, (ii) a $100 million letter of credit that supports certain proceedings with the California Public Utilities Commission involving refined products tariff charges on the intrastate common carrier operations of Kinder Morgan Energy Partners' Pacific operations' pipelines in the state of California, (iii) a combined $86.9 million in three letters of credit that support tax-exempt bonds, (iv) a combined $55.9 million in letters of credit that support Kinder Morgan Energy Partners' pipeline and terminal operations in Canada, (v) a $26.8 million letter of credit that supports Kinder Morgan Energy Partners' indemnification obligations on the Series D note borrowings of Cortez Capital Corporation, (vi) a $19.9 million letter of credit that supports the construction of Kinder Morgan Energy Partners' Kinder Morgan Louisiana Pipeline (a natural gas pipeline), and (vii) a combined $17 million in other letters of credit supporting other obligations of Kinder Morgan Energy Partners and its subsidiaries.

Significant Debt Financing Transactions

On June 6, 2008, Kinder Morgan Energy Partners completed a public offering of a total of $700 million in principal amount of senior notes, consisting of $375 million of 5.95% notes due February 15, 2018, and $325 million of 6.95% notes due January 15, 2038. Kinder Morgan Energy

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

13. Financing (Continued)

Partners received proceeds from the issuance of the notes, after underwriting discounts and commissions, of approximately $687.7 million, and used the proceeds to reduce the borrowings under its commercial paper program. The notes due in 2018 constitute a further issuance of the $600 million aggregate principal amount of 5.95% notes Kinder Morgan Energy Partners issued on February 12, 2008 and form a single series with those notes. The notes due in 2038 constitute a further issuance of the combined $850 million aggregate principal amount of 6.95% notes Kinder Morgan Energy Partners issued on June 21, 2007 and February 12, 2008 and form a single series with those notes.

On February 12, 2008, Kinder Morgan Energy Partners completed a public offering of senior notes. Kinder Morgan Energy Partners issued a total of $900 million in principal amount of senior notes, consisting of $600 million of 5.95% notes due February 15, 2018, and $300 million of 6.95% notes due January 15, 2038. Kinder Morgan Energy Partners received proceeds from the issuance of the notes, after underwriting discounts and commissions, of approximately $894.1 million, and used the proceeds to reduce the borrowings under its commercial paper program. The notes due in 2038 constitute a further issuance of the $550 million aggregate principal amount of 6.95% notes Kinder Morgan Energy Partners issued on June 21, 2007 and form a single series with those notes.

In February 2008, approximately $4.6 billion of the proceeds from the completed sale of an 80% ownership interest in NGPL PipeCo LLC were used to pay off and retire our senior secured credit facility's Tranche A and Tranche B term loans and to pay down amounts outstanding at that time under our $1.0 billion revolving credit facility as follows:

	Debt Paid Down and/or Retired (In millions)
Knight Inc.	
Senior Secured Credit Term Loan Facilities	
Tranche A Term Loan, Due 2013	$ 995.0
Tranche B Term Loan, Due 2014	3,183.5
Credit Facility	
$1.0 billion Secured Revolver, Due May 2013	375.0
Total Paid Down and/or Retired	$ 4,553.5

In March 2008, using primarily proceeds from the completed sale of an 80% ownership interest in NGPL PipeCo LLC, along with cash on hand and borrowings under our $1.0 billion revolving credit

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

13. Financing (Continued)

facility, we repurchased approximately $1.67 billion par value of our outstanding debt securities for $1.6 billion in cash as follows:

	Par Value of Debt Repurchased (In millions)
Knight Inc.	
Debentures	
6.50% Series, Due 2013	$ 18.9
6.67% Series, Due 2027	143.0
7.25% Series, Due 2028	461.0
7.45% Series, Due 2098	124.1
Senior Notes	
6.50% Series, Due 2012	160.7
Kinder Morgan Finance Company, LLC	
6.40% Series, Due 2036	513.6
Deferrable Interest Debentures Issued to Subsidiary Trusts	
8.56% Junior Subordinated Deferrable Interest Debentures Due 2027	87.3
7.63% Junior Subordinated Deferrable Interest Debentures Due 2028	160.6
Repurchase of Outstanding Debt Securities	$ 1,669.2

On May 30, 2007, we terminated our $800 million five-year credit facility dated August 5, 2005 and entered into a $5.8 billion credit agreement with a syndicate of financial institutions and Citibank, N.A., as administrative agent. The senior secured credit facilities consist of the following: (i) a $1.0 billion senior secured Tranche A term loan facility with a term of six years and six months (subsequently retired), (ii) a $3.3 billion senior secured Tranche B term loan facility, with a term of seven years (subsequently retired), (iii) a $455 million senior secured Tranche C term loan facility with a term of three years (subsequently retired), and (iv)a $1.0 billion senior secured revolving credit facility with a term of six years. The revolving credit facility includes a sublimit of $300 million for the issuance of letters of credit and a sublimit of $50 million swingline loans and can be used for general corporate purposes.

On January 30, 2007, Kinder Morgan Energy Partners completed a public offering of senior notes, issuing a total of $1.0 billion in principal amount of senior notes, consisting of $600 million of 6.00% notes due February 1, 2017 and $400 million of 6.50% notes due February 1, 2037. Kinder Morgan Energy Partners received proceeds from the issuance of the notes, after underwriting discounts and commissions, of approximately $992.8 million, and used the proceeds to reduce the borrowings under its commercial paper program.

Since we are accounting for the Going Private transaction in accordance with SFAS No. 141, *Business Combinations*, we have adjusted our basis in our long-term debt to reflect its fair value and the adjustments are being amortized until the debt securities mature. The unamortized fair value adjustment balances reflected within the caption "Long-term Debt" in the accompanying interim Consolidated Balance Sheet at September 30, 2008 were $46.4 million and $0.6 million, representing a

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

13. Financing (Continued)

decrease to the carrying value of our long-term debt and an increase in the balance of our value of interest rate swaps, respectively.

Kinder Morgan Operating L.P. "A" and Kinder Morgan Canada Company

As part of the purchase price consideration for Kinder Morgan Energy Partners' January 1, 2007 acquisition of the remaining approximately 50.2% interest in the Cochin pipeline system that it did not already own, two of its subsidiaries issued a long-term note payable to the seller having a fair value of $42.3 million. Kinder Morgan Energy Partners valued the debt equal to the present value of amounts to be paid, determined using an annual interest rate of 5.40%. The principal amount of the note, along with interest, is due in five equal annual installments of $10.0 million on March 31 in each of 2008, 2009, 2010, 2011 and 2012. Kinder Morgan Energy Partners' subsidiaries Kinder Morgan Operating L.P. "A" and Kinder Morgan Canada Company are the obligors on the note, and as of September 30, 2008 and December 31, 2007, the outstanding balance under the note was $36.1 million and $44.6 million, respectively.

Central Florida Pipeline LLC Debt

On July 23, 2008, Central Florida Pipeline LLC, a Kinder Morgan Energy Partners subsidiary, paid $5.0 million to retire the outstanding principal amount of its 7.84% senior notes that matured on that date.

Kinder Morgan Operating L.P. "B" Debt

As of December 31, 2007, Kinder Morgan Energy Partners' subsidiary, Kinder Morgan Operating L.P. "B," was the obligor of a principal amount of $23.7 million of tax-exempt bonds due April 1, 2024. The bonds were issued by the Jackson-Union Counties Regional Port District, a political subdivision embracing the territories of Jackson County and Union County in the state of Illinois. These variable rate demand bonds bear interest at a weekly floating market rate and as of December 31, 2007, Kinder Morgan Energy Partners had an outstanding letter of credit issued by Wachovia in the amount of $24.1 million that backed-up the $23.7 million principal amount of the bonds and $0.4 million of accrued interest.

In September 2008, pursuant to the standby purchase agreement provisions contained in the bond indenture which require the sellers of those guarantees to buy the debt back certain investors elected to put (sell) back their bonds at par plus accrued interest. A total principal and interest amount of $5.2 million was tendered and drawn against Kinder Morgan Energy Partners' letter of credit and accordingly, Kinder Morgan Energy Partners paid this amount pursuant to the letter of credit reimbursement provisions. As of September 30, 2008, Kinder Morgan Energy Partners' outstanding balance under the bonds was $18.5 million, and the interest rate on these bonds was 9.65%. Kinder Morgan Energy Partners' outstanding letter of credit issued by Wachovia totaled $18.9 million, which backs-up the $18.5 million principal amount of the bonds and $0.4 million of interest on the bonds for up to 55 days computed at 12% per annum on the principal amount thereof.

Rockies Express Pipeline LLC

Pursuant to certain guaranty agreements, all three member owners of West2East Pipeline LLC (which owns all of the member interests in Rockies Express Pipeline LLC) have agreed to guarantee,

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

13. Financing (Continued)

severally in the same proportion as their percentage ownership of the member interests in West2East Pipeline LLC, borrowings under Rockies Express Pipeline LLC's (i) $2.0 billion five-year, unsecured revolving credit facility due April 28, 2011, (ii) $2.0 billion commercial paper program, and (iii) $600 million in principal amount of floating rate senior notes due August 20, 2009. The three member owners and their respective ownership interests consist of the following: Kinder Morgan Energy Partners' subsidiary Kinder Morgan W2E Pipeline LLC 51%, a subsidiary of Sempra Energy 25%, and a subsidiary of ConocoPhillips 24%.

Borrowings under the Rockies Express Pipeline LLC commercial paper program are primarily used to finance the construction of the Rockies Express interstate natural gas pipeline and to pay related expenses. The credit facility, which can be amended to allow for borrowings up to $2.5 billion, supports borrowings under the commercial paper program, and borrowings under the commercial paper program reduce the borrowings allowed under the credit facility. The $600 million in principal amount of senior notes were issued on September 20, 2007. The notes are unsecured and are not redeemable prior to maturity. Interest on the notes is paid and computed quarterly at an interest rate of three-month LIBOR (with a floor of 4.25%) plus a spread of 0.85%. See Note 20 regarding subsequent events.

Upon issuance of the notes, Rockies Express Pipeline LLC entered into two floating-to-fixed interest rate swap agreements having a combined notional principal amount of $600 million and maturity dates of August 20, 2009. On September 24, 2008, Rockies Express Pipeline LLC terminated one of the aforementioned interest rate swaps that had Lehman Brothers as the counterparty. The notional principal amount of the terminated swap agreement was $300 million. The remaining interest rate swap agreement effectively converts the interest expense associated with $300 million of these senior notes from its stated variable rate to a fixed rate of 5.47%.

As of September 30, 2008, in addition to the $600 million in senior notes, Rockies Express Pipeline LLC had $406.7 million of commercial paper outstanding with a weighted-average interest rate of approximately 3.58%, and outstanding borrowings of $447.5 million under its five-year facility. Accordingly, as of September 30, 2008, Kinder Morgan Energy Partners' contingent share of Rockies Express Pipeline LLC's debt was $741.6 million (51% of total guaranteed borrowings). In addition, there is a $31.4 million letter of credit outstanding as of September 30, 2008, issued by JP Morgan Chase. Kinder Morgan Energy Partners' contingent responsibility with regard to this letter of credit was $16.0 million (51% of face amount).

In October 2008, Standard & Poor's Rating Services lowered Rockies Express Pipeline LLC short-term credit rating to A-3 from A-2. As a result of this revision and current commercial paper market conditions, Rockies Express Pipeline LLC is unable to access additional commercial paper borrowings. However, Rockies Express Pipeline LLC expects that short-term financing and liquidity needs will continue to be met through borrowings made under its $2.0 billion five-year, unsecured revolving credit facility.

No Lehman Brothers affiliate is an administrative agent for Rockies Express Pipeline LLC; however, one of the Lehman affiliates is a lending bank providing less than 5% of Rockies Express Pipeline LLC's $2.0 billion credit facility. Since Lehman Brothers declared bankruptcy, its affiliate, which is a party to the Rockies Express Pipeline LLC credit facility, notified Rockies Express Pipeline LLC that it will not meet its obligations to lend under this agreement. Thus, the available capacity of Rockies Express Pipeline LLC's facility will be reduced by the Lehman commitment (less

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

13. Financing (Continued)

than 5% of the facility). The commitments of the other banks remain unchanged and the facility is not defaulted.

Midcontinent Express Pipeline LLC

Pursuant to certain guaranty agreements, each of the two member owners of Midcontinent Express Pipeline LLC have agreed to guarantee, severally in the same proportion as their percentage ownership of the member interests in Midcontinent Express Pipeline LLC, borrowings under Midcontinent Express Pipeline LLC's $1.4 billion three-year, unsecured revolving credit facility, entered into on February 29, 2008 and due February 28, 2011. The facility is with a syndicate of financial institutions with The Royal Bank of Scotland plc as the administrative agent. Borrowings under the credit agreement will be used to finance the construction of the Midcontinent Express Pipeline system and to pay related expenses. No Lehman Brothers affiliate is an administrative agent for Midcontinent Express Pipeline LLC; however, one of the Lehman affiliates is a lending bank providing less than 10% of Midcontinent Express Pipeline LLC's $1.4 billion credit facility. Since Lehman Brothers declared bankruptcy, its affiliate, which is a party to the Midcontinent Express Pipeline LLC credit facility, has notified Midcontinent Express Pipeline LLC that it will not meet its obligations to lend under that agreement. Thus, the available capacity of Midcontinent Express Pipeline LLC's facility will be reduced by the Lehman commitment (less than 10% of the facility). The commitments of the other banks remain unchanged and the facility is not defaulted.

Midcontinent Express Pipeline LLC is an equity method investee of Kinder Morgan Energy Partners, and the two member owners and their respective ownership interests consist of the following: Kinder Morgan Energy Partners' subsidiary Kinder Morgan Operating L.P. "A" 50%, and Energy Transfer Partners, L.P. 50%. As of September 30, 2008, Midcontinent Express Pipeline LLC had borrowed $525.0 million under its three-year credit facility. Accordingly, as of September 30, 2008, Kinder Morgan Energy Partners' contingent share of Midcontinent Express Pipeline LLC's debt was $262.5 million (50% of total borrowings). Furthermore, the revolving credit facility can be used for the issuance of letters of credit to support the construction of the Midcontinent Express Pipeline, and as of September 30, 2008, a letter of credit having a face amount of $33.3 million was issued under the credit facility. Accordingly, as of September 30, 2008, Kinder Morgan Energy Partners' contingent responsibility with regard to this outstanding letter of credit was $16.7 million (50% of total face amount).

In addition, Midcontinent Express Pipeline LLC entered into a $197 million reimbursement agreement dated September 4, 2007, with JPMorgan Chase as the administrative agent. The agreement included covenants and required payments of fees that are common in such arrangements, and both Kinder Morgan Energy Partners and Energy Transfer Partners, L.P. agreed to guarantee borrowings under the reimbursement agreement in the same proportion as the associated percentage membership interests. This reimbursement agreement expired on September 3, 2008.

Kinder Morgan Energy Partners' Common Units

On October 14, 2008, Kinder Morgan Energy Partners declared a cash distribution of $1.02 per common unit for the third quarter of 2008, payable on November 14, 2008 to unitholders of record as of October 31, 2008. On August 14, 2008, Kinder Morgan Energy Partners paid a quarterly distribution of $0.99 per common unit for the quarterly period ended June 30, 2008, of which $161.1 million was

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

13. Financing (Continued)

paid to the public holders (included in minority interests) of Kinder Morgan Energy Partners common units.

On March 3, 2008, Kinder Morgan Energy Partners completed a public offering of 5,750,000 of its common units at a price of $57.70 per unit, including common units sold pursuant to the underwriters' over-allotment option, less commissions and underwriting expenses. Kinder Morgan Energy Partners received net proceeds of $324.2 million for the issuance of these common units, and used the proceeds to reduce the borrowings under its commercial paper program.

On February 12, 2008, Kinder Morgan Energy Partners completed an offering of 1,080,000 of its common units at a price of $55.65 per unit in a privately negotiated transaction. Kinder Morgan Energy Partners received net proceeds of $60.1 million for the issuance of these 1,080,000 common units, and used the proceeds to reduce the borrowings under its commercial paper program.

The combined effect of the above transactions had the associated effects of increasing our (i) minority interests associated with Kinder Morgan Energy Partners by $368.9 million and (ii) associated accumulated deferred income taxes by $5.6 million and reducing our (i) goodwill by $25.8 million and (ii) paid-in capital by $16.0 million.

In connection with Kinder Morgan Energy Partners' acquisition on August 28, 2008 of Knight Inc.'s one-third ownership interest in Express and Knight Inc.'s full ownership of Jet Fuel, Kinder Morgan Energy Partners issued 2,014,693 common units to Knight Inc. The units were valued at $116.0 million. See Note 11 for additional information regarding this transaction.

Kinder Morgan G.P., Inc. Preferred Shares

On October 15, 2008, Kinder Morgan G.P., Inc.'s board of directors declared a quarterly cash distribution on its Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock of $20.825 per share payable on November 18, 2008 to shareholders of record as of October 31, 2008. On July 16, 2008, Kinder Morgan G.P., Inc.'s board of directors declared a quarterly cash dividend on its Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock of $20.825 per share, which was paid on August 18, 2008 to shareholders on record as of July 31, 2008.

Interest Expense

"Interest Expense, Net" as presented in the accompanying interim Consolidated Statements of Operations is interest expense net of the debt component of the allowance for funds used during construction, which was $11.0 million and $30.4 million for the three and nine months ended September 30, 2008, respectively and $11.7 million, $14.6 million, and $12.2 million for the three months ended September 30, 2007, the four months ended September 30, 2007, and the five months ended May 31, 2007, respectively. We also record as interest expense gains and losses from (i) the reacquisition of debt, (ii) the termination of interest rate swaps designated as fair value hedges for which the hedged liability has been extinguished and (iii) the termination of interest rate swaps designated as cash flow hedges for which the forecasted interest payments will no longer occur. During the nine months ended September 30, 2008, we recorded a $34.4 million loss from the early extinguishment of debt in the caption "Interest Expense, Net," consisting of an $18.1 million gain on the debt repurchased in the tender more than offset by a $41.7 million loss from the write-off of debt issuance costs associated with the $5.8 billion secured credit facility. We also recorded $10.8 million in

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

13. Financing (Continued)

gains from the early extinguishment of debt in the caption "Interest Expense Deferred Interest Debentures," and $19.8 million of gains from the termination of interest rate swaps designated as fair value hedges, for which the hedged liability was extinguished, in the caption "Interest Expense, Net" in the accompanying interim Consolidated Statements of Operations.

14. Business Segments

In accordance with the manner in which we manage our businesses, including the allocation of capital and evaluation of business segment performance, we report our operations in the following segments: (1) Natural Gas Pipeline Company of America LLC and certain affiliates ("NGPL"), a major interstate natural gas pipeline and storage system in which we currently have a 20% interest; (2) Power, the ownership and operation of natural gas-fired electric generation facilities; (3) Products Pipelines KMP, the ownership and operation of refined petroleum products pipelines that deliver gasoline, diesel fuel, jet fuel and natural gas liquids to various markets plus the ownership and/or operation of associated product terminals and petroleum pipeline transmix facilities; (4) Natural Gas Pipelines KMP, the ownership and operation of major interstate and intrastate natural gas pipeline and storage systems; (5) CO_2 KMP, the production, transportation and marketing of carbon dioxide ("CO_2") to oil fields that use CO_2 to increase production of oil plus ownership interests in and/or operation of oil fields in West Texas and the ownership and operation of a crude oil pipeline system in West Texas; (6) Terminals KMP, the ownership and/or operation of liquids and bulk terminal facilities and rail transloading and materials handling facilities located throughout the United States and Canada; and (7) Kinder Morgan Canada KMP, the ownership and operation of (i) a pipeline system that transports crude oil and refined products from Edmonton, Alberta, Canada to marketing terminals and refineries in British Columbia, Canada and the State of Washington, (ii) a one-third interest in a crude oil pipeline system that transports crude oil from Hardisty, Alberta, Canada through Casper, Wyoming to the Wood River, Illinois area and (iii) a 25-mile long pipeline system, transporting jet fuel to Vancouver International Airport.

In conjunction with our annual impairment test of the carrying value of this goodwill, performed as of May 31, 2008, we determined that the fair value of certain reporting units that are part of our investment in Kinder Morgan Energy Partners were less than the carrying values. The fair value of each reporting unit was determined from the present value of the expected future cash flows from the applicable reporting unit (inclusive of a terminal value calculated using a market multiple for the individual assets). The implied fair value of goodwill within each reporting unit was then compared to the carrying value of goodwill of each such unit, resulting in the following goodwill impairments by our reporting unit:

Products Pipelines KMP (excluding associated terminals) $1.19 billion,

Products Pipelines Terminals KMP (separate from Products Pipelines KMP for goodwill impairment purposes) $70 million,

Natural Gas Pipelines KMP $2.09 billion, and

Terminals KMP $677 million, for a total impairment of $4.03 billion.

We have finalized our goodwill impairment calculation initially recorded in the second quarter of 2008. This resulted in an increase to the goodwill impairment by our Products Pipelines KMP (excluding associated terminals) reporting unit of $152.6 million and a decrease to the goodwill

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

14. Business Segments (Continued)

impairment by our Natural Gas Pipelines KMP reporting unit of $152.6 million, with no net impact to the total goodwill impairment charge. The goodwill impairment is a non-cash charge and does not have any impact on our cash flow.

While the fair value of the CO_2 KMP segment exceeded its carrying value as of the date of our goodwill impairment test, decreases in the market value of crude oil led us to reconsider this analysis as of September 30, 2008. This analysis again showed that the fair value of the CO_2 KMP segment exceeded its carrying value, however the amount by which the fair value exceeded the carrying value decreased. If the market price of crude oil continues to decline, we may need to record non-cash goodwill impairment charges on this reporting unit in future periods. (See Note 3.)

On August 28, 2008, Knight Inc. sold its one-third interest in the net assets of Express and of the net assets of Jet Fuel to Kinder Morgan Energy Partners for approximately 2 million Kinder Morgan Energy Partners' common units worth approximately $116 million. Express is a crude oil pipeline system that runs from Alberta to Illinois. Jet Fuel is a fuel pipeline that serves the Vancouver, British Columbia airport. Results for Express were previously reported in prior filings in the segment referred to as "Express" and are now reported in the Kinder Morgan Canada KMP segment for all periods presented. Due to the inclusion of Kinder Morgan Energy Partners and its subsidiaries in Knight Inc.'s consolidated financial statements (resulting from the implementation of EITF 04-5), Knight Inc. accounted for this transaction as a transfer of net assets between entities under common control. Therefore, following Kinder Morgan Energy Partners' acquisition of Express and Jet Fuel from Knight Inc., Kinder Morgan Energy Partners recognized the assets and liabilities acquired at Knight Inc.'s carrying amounts (historical cost) at the date of transfer.

On February 15, 2008, we sold an 80% ownership interest in NGPL PipeCo LLC (formerly MidCon Corp.), which owns NGPL, to Myria Acquisition Inc. (See Note 11). As a result of the sale, beginning February 15, 2008, we account for our 20% ownership interest in NGPL PipeCo LLC as an equity method investment.

On January 25, 2008, we sold our interests in three natural gas-fired power plants in Colorado to Bear Stearns, effective January 1, 2008. We received net proceeds of $63.1 million (see Note 11).

On October 5, 2007, Kinder Morgan Energy Partners completed the sale of its North System and its 50% ownership interest in the Heartland Pipeline Company to ONEOK Partners, L.P. for approximately $300 million in cash. In filings prior to the sale, the North System and the equity investment in the Heartland Pipeline were reported in the Products Pipelines KMP business segment (see Note 12).

On June 15, 2007, we sold Corridor to Inter Pipeline Fund, a Canada-based company (see Note 12).

On April 30, 2007, Kinder Morgan, Inc. sold the Trans Mountain pipeline system to Kinder Morgan Energy Partners for approximately $550 million. The transaction was approved by the independent members of our board of directors and those of Kinder Morgan Management following the receipt, by each board, of separate fairness opinions from different investment banks. Due to the inclusion of Kinder Morgan Energy Partners and its subsidiaries in our consolidated financial statements (resulting from the implementation of EITF 04-5), we accounted for this transaction as a transfer of net assets between entities under common control. Therefore, following Kinder Morgan Energy Partners' acquisition of Trans Mountain from us, Kinder Morgan Energy Partners recognized

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

14. Business Segments (Continued)

the Trans Mountain assets and liabilities acquired at our carrying amounts (historical cost) at the date of transfer. As discussed in Note 3, based on an evaluation of the fair value of the Trans Mountain pipeline system, we recorded an estimated goodwill impairment charge of approximately $377.1 million in the first quarter of 2007. In April 2008, as a result of finalizing certain "true-up" provisions in Kinder Morgan Energy Partners' acquisition agreement related to Trans Mountain pipeline expansion spending, Kinder Morgan Energy Partners received a cash contribution of $23.4 million from us.

The results of Trans Mountain and Express were previously reported in prior filings in the "Trans Mountain-KMP" and "Express" segments, respectively. Knight Inc. sold Express and Jet Fuel to Kinder Morgan Energy Partners on August 28, 2008. Trans Mountain, Express, and Jet Fuel are now reported in the Kinder Morgan Canada KMP segment for all periods presented.

In March 2007, we completed the sale of our U.S. retail natural gas distribution and related operations to GE Energy Financial Services, a subsidiary of General Electric Company, and Alinda Investments LLC. In filings prior to the sale, we referred to these operations as the Kinder Morgan Retail business segment (see Note 12).

On May 17, 2007, we completed the sale of Terasen Inc. to Fortis Inc., a Canada-based company with investments in regulated distribution utilities (see Note 12). Execution of this sale agreement constituted a subsequent event of the type that, under GAAP, required us to consider the market value indicated by the definitive sales agreement in our 2006 goodwill impairment evaluation. Accordingly, an estimated goodwill impairment charge of approximately $650.5 million was recorded in 2006.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, 80% of the assets and liabilities associated with NGPL PipeCo LLC are included in our interim Consolidated Balance Sheet at December 31, 2007 in the captions "Current Assets: Assets Held for Sale," "Assets Held for Sale, Non-current," "Current Liabilities: Liabilities Held for Sale" and "Liabilities Held for Sale, Non-current" with the remaining 20% included in the caption "Investments." The financial results of Terasen Gas, Corridor, Kinder Morgan Retail, the North System and the equity investment in the Heartland Pipeline Company have been reclassified to discontinued operations for all periods presented. See Note 12 for additional information regarding discontinued operations.

The accounting policies we apply in the generation of business segment earnings are generally the same as those applied to our consolidated operations and described in Note 2, except that (i) certain items below the "Operating Income" line (such as interest expense) are either not allocated to business segments or are not considered by management in its evaluation of business segment performance, (ii) equity in earnings of equity method investees are included in segment earnings (these equity method earnings are included in "Other Income and (Expenses)" in the accompanying interim Consolidated Statements of Operations), (iii) certain items included in operating income (such as general and administrative expenses and depreciation, depletion and amortization ("DD&A")) are not considered by management in its evaluation of business segment performance and, thus, are not included in reported performance measures, (iv) gains and losses from incidental sales of assets are included in segment earnings and (v) our business segments that are also segments of Kinder Morgan Energy Partners include certain other income and expenses and income taxes in their segment earnings. With adjustment for these items, we currently evaluate business segment performance primarily based on Earnings before DD&A ("EBDA") in relation to the level of capital employed. We account for intersegment sales at market prices, while we account for asset transfers between Knight Inc. and Kinder Morgan Energy Partners at either market value or, in some instances, book value.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

14. Business Segments (Continued)

Business Segment Information

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
	(In millions)	
Segment Earnings before Depreciation, Depletion, Amortization and Amortization of Excess Cost of Equity Investments		
NGPL(1)	$ 11.5	$ 158.1
Power	1.6	5.0
Products Pipelines KMP(2),(4)	(22.4)	127.0
Natural Gas Pipelines KMP(2),(4)	337.6	142.3
CO_2 KMP(2)	237.7	184.2
Terminals KMP(2)	117.3	84.4
Kinder Morgan Canada KMP(2)	44.5	31.0
Total Segment Earnings Before DD&A	727.8	732.0
Depreciation, Depletion and Amortization	(217.2)	(204.1)
Amortization of Excess Cost of Equity Investments	(1.4)	(1.4)
Other Operating Income	11.1	0.2
General and Administrative Expense	(85.9)	(77.9)
Interest and Other, Net(3)	(246.4)	(304.9)
Add Back: Income Taxes Included in Segments Above(2)	8.8	20.8
Income from Continuing Operations Before Income Taxes	$ 196.8	$ 164.7
Revenues from External Customers		
NGPL(1)	$	$ 311.3
Power	17.5	21.0
Products Pipelines KMP	205.6	202.7
Natural Gas Pipelines KMP	2,359.4	1,526.8
CO_2 KMP	339.6	256.8
Terminals KMP	306.0	247.1
Kinder Morgan Canada KMP	57.2	43.3
Other	11.3	
Total Revenues	$ 3,296.6	$ 2,609.0
Intersegment Revenues		
NGPL(1)	$	$ 2.1
Terminals KMP	0.2	0.1
Total Intersegment Revenues	$ 0.2	$ 2.2

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

14. Business Segments (Continued)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
	(In millions)	
Depreciation, Depletion and Amortization		
NGPL(1)	$	$ 17.8
Power		0.1
Products Pipelines KMP	30.0	25.1
Natural Gas Pipelines KMP	24.2	20.9
CO_2 KMP	116.0	109.6
Terminals KMP	39.4	24.8
Kinder Morgan Canada KMP	7.6	5.8
Total Consolidated Depreciation, Depletion and Amortization	$ 217.2	$ 204.1
Capital Expenditures Continuing Operations		
NGPL(1)	$	$ 54.8
Products Pipelines KMP	46.6	68.1
Natural Gas Pipelines KMP	280.8	63.7
CO_2 KMP	135.8	111.7
Terminals KMP	105.4	139.0
Kinder Morgan Canada KMP	83.2	70.0
Other	0.3	
Total Capital Expenditures Continuing Operations	$ 652.1	$ 507.3

(1) Effective February 15, 2008, we sold an 80% ownership interest in NGPL PipeCo LLC to Myria. As a result of the sale, beginning February 15, 2008, we account for our 20% ownership interest in NGPL PipeCo LLC as an equity method investment.

(2) Income taxes of Kinder Morgan Energy Partners of $8.8 million and $20.8 million for the three months ended September 30, 2008 and 2007, respectively, are included in segment earnings before depreciation, depletion, amortization and amortization of excess cost of equity investments.

(3) Includes (i) interest expense, (ii) minority interests and (iii) miscellaneous other income and expenses not allocated to business segments.

(4) 2008 amount includes non-cash goodwill impairment charge (see Note 3).

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

14. Business Segments (Continued)

	Successor Company		Predecessor Company
	Nine Months Ended September 30, 2008	Four Months Ended September 30, 2007	Five Months Ended May 31, 2007
	(In millions)		(In millions)
Segment Earnings (Loss) before Depreciation, Depletion, Amortization and Amortization of Excess Cost of Equity Investments			
NGPL(1)	$ 116.2	$ 217.5	$ 267.4
Power	4.4	7.4	8.9
Products Pipelines KMP(2),(4)	(859.3)	174.4	224.4
Natural Gas Pipelines KMP(2),(4)	(1,546.9)	192.1	228.5
CO_2 KMP(2)	721.6	241.4	210.0
Terminals KMP(2),(4)	(293.2)	122.7	172.3
Kinder Morgan Canada KMP(2),(5)	114.0	42.7	(332.0)
Total Segment Earnings (Loss) Before DD&A	(1,743.2)	998.2	779.5
Depreciation, Depletion and Amortization	(651.0)	(276.3)	(261.0)
Amortization of Excess Cost of Equity Investments	(4.3)	(1.9)	(2.4)
Other Operating Income	27.9	0.6	2.9
General and Administrative Expense	(264.0)	(107.9)	(283.6)
Interest and Other, Net(3)	(836.7)	(419.6)	(348.2)
Add Back: Income Taxes Included in Segments Above(2)	20.1	20.8	15.6
Income (Loss) from Continuing Operations Before Income Taxes	$ (3,451.2)	$ 213.9	$ (97.2)
Revenues from External Customers			
NGPL(1)	$ 132.1	$ 410.5	$ 424.5
Power	38.2	29.9	19.9
Products Pipelines KMP	602.5	269.4	331.8
Natural Gas Pipelines KMP	6,916.6	2,114.7	2,637.6
CO_2 KMP	1,002.1	336.6	324.2
Terminals KMP	886.4	326.6	364.2
Kinder Morgan Canada KMP	145.4	58.2	62.9
Other	28.8		
Total Revenues	$ 9,752.1	$ 3,545.9	$ 4,165.1
Intersegment Revenues			
NGPL(1)	$ 0.9	$ 2.7	$ 2.0
Natural Gas Pipelines KMP			3.0
Terminals KMP	0.7	0.2	0.3

Other		(0.9)				
Total Intersegment Revenues	$	0.7	$	2.9	$	5.3

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

14. Business Segments (Continued)

	Successor Company		Predecessor Company
	Nine Months Ended September 30, 2008	Four Months Ended September 30, 2007	Five Months Ended May 31, 2007
	(In millions)		(In millions)
Depreciation, Depletion and Amortization			
NGPL(1)	$ 9.3	$ 23.7	$ 45.3
Power		0.1	(4.2)
Products Pipelines KMP	86.7	33.6	33.6
Natural Gas Pipelines KMP	75.5	27.7	26.8
CO_2 KMP	338.8	149.4	116.3
Terminals KMP	117.8	34.3	34.4
Kinder Morgan Canada KMP	22.9	7.3	8.2
Other		0.2	0.6
Total Consolidated Depreciation, Depletion and Amortization	$ 651.0	$ 276.3	$ 261.0
Capital Expenditures Continuing Operations			
NGPL(1)	$ 10.2	$ 69.9	$ 77.3
Products Pipelines KMP	167.4	91.4	79.5
Natural Gas Pipelines KMP	697.6	96.2	66.6
CO_2 KMP	384.2	140.1	133.3
Terminals KMP	346.0	180.9	169.9
Kinder Morgan Canada KMP	319.2	76.0	109.0
Other	(3.3)	1.6	17.2
Total Capital Expenditures Continuing Operations	$ 1,921.3	$ 656.1	$ 652.8

(1) Effective February 15, 2008, we sold an 80% ownership interest in NGPL PipeCo LLC to Myria. As a result of the sale, beginning February 15, 2008, we account for our 20% ownership interest in NGPL PipeCo LLC as an equity method investment.

(2) Income taxes of Kinder Morgan Energy Partners of $20.1 million, $20.8 million and $15.6 million for the nine months ended September 30, 2008, the four months ended September 30, 2007 and the five months ended May 31, 2007, respectively, are included in segment earnings before depreciation, depletion, amortization and amortization of excess cost of equity investments.

(3) Includes (i) interest expense, (ii) minority interests and (iii) miscellaneous other income and expenses not allocated to business segments.

(4) Nine months ended September 30, 2008 includes non-cash goodwill impairment charges (see Note 3).

A-361

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

14. Business Segments (Continued)

(5)
Five months ended May 31, 2007 includes a non-cash goodwill impairment charge (see Note 3).

	September 30, 2008
	(In millions)
Assets	
NGPL(1)	$ 724.2
Power	62.6
Products Pipelines KMP	5,516.7
Natural Gas Pipelines KMP	7,412.7
CO_2 KMP	4,436.9
Terminals KMP	4,299.1
Kinder Morgan Canada KMP	1,803.6
Total segment assets	24,255.8
Other(2)	452.9
Total Consolidated Assets	$ 24,708.7

(1)
Effective February 15, 2008, we sold an 80% ownership interest in NGPL PipeCo LLC to Myria. As a result of the sale, beginning February 15, 2008, we account for our 20% ownership interest in NGPL PipeCo LLC as an equity method investment.

(2)
Includes assets of cash, restricted deposits, market value of derivative instruments (including interest rate swaps) and miscellaneous corporate assets (such as information technology and telecommunications equipment) not allocated to individual segments.

15. Accounting for Derivative Instruments and Hedging Activities

We are exposed to risks associated with changes in the market price of natural gas, natural gas liquids and crude oil as a result of our expected future purchase or sale of these products. We have exposure to interest rate risk as a result of the issuance of variable and fixed rate debt and commercial paper and to foreign currency risk from our investments in businesses owned and operated outside the United States. Pursuant to our risk management policy, we engage in derivative transactions for the purpose of mitigating some of these risks, which transactions are accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and associated amendments ("SFAS No. 133").

Commodity Price Risk Management

Our normal business activities expose us to risks associated with changes in the market price of natural gas, natural gas liquids and crude oil. Reflecting the portion of changes in the value of derivative contracts that were not effective in offsetting underlying changes in expected cash flows (the ineffective portion of hedges), we recognized a pre-tax gain of less than $0.1 million and a pre-tax loss of $8.4 million in the three and nine months ended September 30, 2008, respectively. We recognized a pre-tax loss of approximately $0.2 million and a pre-tax gain of $0.3 million in the three months and four months ended September 30, 2007, respectively, and a pre-tax loss of $0.7 million in the five months ended May 31, 2007. The gains and losses for each respective period were a result of

A-362

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

15. Accounting for Derivative Instruments and Hedging Activities (Continued)

ineffectiveness of these hedges, which amounts are reported within the captions "Natural Gas Sales," "Oil and Product Sales" and "Gas Purchases and Other Costs of Sales" in the accompanying interim Consolidated Statements of Operations. As the hedged sales and purchases take place and we record them into earnings, we also reclassify the associated gains and losses included in accumulated other comprehensive income into earnings. During the three and nine months ended September 30, 2008, we reclassified $70.5 million of accumulated other comprehensive income and $140.9 million of accumulated other comprehensive loss, respectively, into earnings, as a result of hedged forecasted transactions occurring during these periods. During the three months and four months ended September 30, 2007 and the five months ended May 31, 2007, we reclassified accumulated other comprehensive income of $20.2 million and $21.1 million, and accumulated other comprehensive losses of $11.4 million, respectively, into earnings, as a result of hedged forecasted transactions occurring during these periods. Furthermore, during the three and nine months ended September 30, 2008, we reclassified $12.2 million of net gains, and $0.9 million of net losses, respectively, as a result of the discontinuance of cash flow hedges. During the five months ended May 31, 2007, we reclassified $1.1 million of net gains as a result of the discontinuance of cash flow hedges. During the third quarter of 2007, we did not reclassify any of our accumulated other comprehensive loss into earnings as a result of the discontinuance of cash flow hedges. During the next twelve months, we expect to reclassify approximately $120.3 million of accumulated other comprehensive loss into earnings.

Derivative instruments that are entered into for the purpose of mitigating commodity price risk include swaps, futures and options. The fair values of these derivative contracts reflect the amounts that we would receive or pay to terminate the contracts at the reporting date and are included in the accompanying interim Consolidated Balance Sheets within the captions indicated in the following table:

	September 30, 2008	December 31, 2007
	(In millions)	
Derivatives Asset (Liability)		
Current Assets: Fair Value of Derivative Instruments	$ 36.9	$ 37.1
Current Assets: Assets Held for Sale	$	$ 8.4
Assets: Fair Value of Derivative Instruments	$ 49.3	$ 4.4
Current Liabilities: Fair Value of Derivative Instruments, Non-current	$ (611.6)	$ (594.7)
Current Liabilities: Liabilities Held for Sale	$	$ (0.4)
Liabilities and Stockholders' Equity: Fair Value of Derivative Instruments, Non-current	$ (1,007.2)	$ (836.8)

Interest Rate Risk Management

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

Prior to the Going Private transaction, all of our interest rate swaps qualified for, and since the Going Private transaction, the new interest rate swaps that Kinder Morgan Energy Partners entered into in February 2008, discussed below, qualify for the "short-cut" method prescribed in SFAS No. 133

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

15. Accounting for Derivative Instruments and Hedging Activities (Continued)

for qualifying fair value hedges. Under this method, the carrying value of the swap is adjusted to its fair value as of the end of each reporting period, and an offsetting entry is made to adjust the carrying value of the debt securities whose fair value is being hedged. Interest expense is equal to the floating rate payments, which is accrued monthly and paid semi-annually.

In connection with the Going Private transaction, all of our debt, including debt of our subsidiary, Kinder Morgan Energy Partners, was remeasured and recorded on our balance sheet at fair value. Except for Corridor's outstanding interest rate swap agreements classified as held for sale, all of our interest rate swaps, and swaps of our subsidiary, Kinder Morgan Energy Partners, were re-designated as fair value hedges effective June 1, 2007. Because these swaps did not have a fair value of zero as of June 1, 2007, they did not meet the requirements for the "short-cut" method of assessing their effectiveness. Accordingly, the carrying value of the swap is adjusted to its fair value as of the end of each subsequent reporting period, and an offsetting entry is made to adjust the carrying value of the debt securities whose fair value is being hedged. Any hedge ineffectiveness resulting from the difference between the change in fair value of the interest rate swap and the change in fair value of the hedged debt instrument is recorded as interest expense in the current period. During the three and nine months ended September 30, 2008, no hedge ineffectiveness related to these hedges was recognized. Interest expense equal to the floating rate payments is accrued monthly and paid semi-annually.

As of December 31, 2007, we, and our subsidiary Kinder Morgan Energy Partners, were parties to interest rate swap agreements with notional principal amounts of $275 million and $2.3 billion, respectively, for a consolidated total of $2.575 billion. On March 7, 2008, we paid $2.5 million to terminate our remaining interest rate swap agreement having a notional value of $275 million associated with Kinder Morgan Finance Company, LLC's 6.40% senior notes due 2036. In February 2008, Kinder Morgan Energy Partners entered into two additional fixed-to-floating interest rate swap agreements having a combined notional principal amount of $500 million related to its $600 million 5.95% senior notes issued on February 12, 2008. Additionally, on June 6, 2008, following Kinder Morgan Energy Partner's issuance of $700 million in principal amount of senior notes in two separate series, Kinder Morgan Energy Partners entered into two additional fixed-to-floating interest rate swap agreements having a combined notional principal amount of $700 million. Therefore, as of September 30, 2008, we were not party to any interest rate swap agreements and Kinder Morgan Energy Partners was a party to fixed-to-floating interest rate swap agreements with a combined notional principal amount of $3.5 billion; effectively converting the interest expense associated with certain series of its senior notes from fixed rates to variable rates based on an interest rate of LIBOR plus a spread.

The fair value of interest rate swaps at September 30, 2008 of $199.2 million reflects $210.7 million and $11.5 million included in the accompanying interim Consolidated Balance Sheet within the captions "Assets: Fair Value of Derivative Instruments, Non-current" and "Liabilities and Stockholders' Equity: Fair Value of Derivative Instruments, Non-current," respectively. The fair value of interest rate swaps of $139.1 million as of December 31, 2007 is included in the accompanying interim Consolidated Balance Sheet within the caption "Assets: Fair Value of Derivative Instruments, Non-current." The total unamortized net gain on the termination of interest rate swaps of $27.2 million is included within the caption "Long-term Debt: Value of Interest Rate Swaps" in the accompanying interim Consolidated Balance Sheet at September 30, 2008. All of Kinder Morgan Energy Partners' swap agreements have termination dates that correspond to the maturity dates of the related series of senior notes and, as of

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

15. Accounting for Derivative Instruments and Hedging Activities (Continued)

September 30, 2008, the maximum length of time over which Kinder Morgan Energy Partners has hedged a portion of its exposure to the variability in the value of this debt due to interest rate risk is through January 15, 2038.

Net Investment Hedges

We are exposed to foreign currency risk from our investments in businesses owned and operated outside the United States. To hedge the value of our investment in Canadian operations, we have entered into various cross-currency interest rate swap transactions that have been designated as net investment hedges in accordance with SFAS No. 133. We have recognized no ineffectiveness through the income statement as a result of these hedging relationships during the three and nine months ended September 30, 2008, the three and four months ended September 30, 2007 and the five months ended May 31, 2007. The effective portion of the changes in fair value of these swap transactions is reported as a cumulative translation adjustment included in the caption "Accumulated Other Comprehensive Loss" in the accompanying interim Consolidated Balance Sheets. The combined notional value of our remaining cross-currency interest rate swaps at September 30, 2008 was approximately C$281.6 million. The fair value of the swaps as of September 30, 2008 was a liability of US$13.3 million, which is included in the caption "Other Long-term Liabilities and Deferred Credits" in the accompanying interim Consolidated Balance Sheet. In October 2008, we terminated cross-currency interest rate swaps with a notional amount of C$126.9 million for a net cash receipt of $150,000.

Credit Risk

As discussed in our 2007 Form 10-K, we and Kinder Morgan Energy Partners, our subsidiary, have counterparty credit risk as a result of our use of financial derivative contracts. Our counterparties consist primarily of financial institutions, major energy companies and local distribution companies. This concentration of counterparties may impact our overall exposure to credit risk, either positively or negatively in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions.

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

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

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

15. Accounting for Derivative Instruments and Hedging Activities (Continued)

In addition, in conjunction with the purchase of exchange-traded derivative contracts or when the market value of our derivative contracts with specific counterparties exceeds established limits, we are required to provide collateral to our counterparties, which may include posting letters of credit or placing cash in margin accounts. As of September 30, 2008 and December 31, 2007, we had three outstanding letters of credit totaling $375.0 million and $298.0 million, respectively, in support of our hedging of commodity price risks associated with the sale of natural gas, natural gas liquids and crude oil. Additionally, as of September 30, 2008 and December 31, 2007, we had cash margin deposits associated with our commodity contract positions and over-the-counter swap partners totaling $27.6 million and $67.9 million, respectively, and we reported these amounts as "Current Assets: Restricted Deposits" in our accompanying consolidated balance sheets.

We are also exposed to credit related losses in the event of nonperformance by counterparties to our interest rate swap agreements, and while we enter into these agreements primarily with investment grade counterparties and actively monitor their credit ratings, it is nevertheless possible that from time to time losses will result from counterparty credit risk. As of September 30, 2008, all of our interest rate swap agreements were with counterparties with investment grade credit ratings. Of the $210.7 million interest rate swap derivative asset at September 30, 2008, $92.2 million and $70.1 million of this value related to open positions with Citigroup and Merrill Lynch, respectively.

SFAS No. 157

On September 15, 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). In general, fair value measurements and disclosures are made in accordance with the provisions of this Statement and, while not requiring material new fair value measurements, SFAS No. 157 established a single definition of fair value in GAAP and expanded disclosures about fair value measurements. The provisions of this Statement apply to other accounting pronouncements that require or permit fair value measurements; the FASB, having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, ("FAS No. 157-2"). FAS No. 157-2 delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

Accordingly, we have not applied the provisions of SFAS No. 157 to (i) nonfinancial assets and liabilities initially measured at fair value in business combinations, (ii) reporting units or nonfinancial assets and liabilities measured at fair value in conjunction with goodwill impairment testing, (iii) other nonfinancial assets measured at fair value in conjunction with impairment assessments, and (iv) asset retirement obligations initially measured at fair value, although the fair value measurements we have made in these circumstances are not necessarily different from those that would be made had the provisions of SFAS No. 157 been applied. We adopted the remainder of SFAS No. 157 effective January 1, 2008, and the adoption did not have a material impact on our financial position, results of operations, or cash flows since we already apply its basic concepts in measuring fair value.

On October 10, 2008, the FASB issued FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ("FAS No. 157-3"). FAS No. 157-3 provides clarification regarding the application of SFAS No. 157 in inactive markets. The

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

15. Accounting for Derivative Instruments and Hedging Activities (Continued)

provisions of FAS No. 157-3 are effective immediately. This Staff Position did not have any material effect on our consolidated financial statements.

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less (or no) pricing observability and a higher degree of judgment utilized in measuring fair value.

SFAS No. 157 established a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defined three levels of inputs to the fair value measurement process, and requires that each fair value measurement 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 SFAS No. 157 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).

Derivative contracts can be exchange-traded or over-the-counter, referred to as OTC. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy if they are traded in an active market. We and Kinder Morgan Energy Partners value exchange-traded derivatives using quoted market prices for identical securities.

OTC derivatives are valued using models utilizing a variety of inputs including contractual terms; commodity, interest rate and foreign currency curves; and measures of volatility. The selection of a particular model and particular inputs to value an OTC derivative depends upon the contractual terms of the instrument as well as the availability of pricing information in the market. We and Kinder Morgan Energy Partners use similar models to value similar instruments. For OTC derivatives that trade in liquid markets, such as generic forwards and swaps, model inputs can generally be verified and model selection does not involve significant management judgment. Such instruments are typically classified within Level 2 of the fair value hierarchy.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Such instruments are classified within Level 3 of the fair value hierarchy. The valuations of these less liquid OTC derivatives are typically impacted by Level 1 and/or Level 2 inputs that can be observed in the market, as well as

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

15. Accounting for Derivative Instruments and Hedging Activities (Continued)

unobservable Level 3 inputs. Use of a different valuation model or different valuation input values could produce a significantly different estimate of fair value. However, derivatives valued using inputs unobservable in active markets are generally not material to our financial statements.

When appropriate, valuations are adjusted for various factors including credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Our fair value measurements of derivative contracts are adjusted for credit risk in accordance with SFAS No. 157, and as of September 30, 2008, our consolidated "Accumulated Other Comprehensive Loss" balance includes a gain of $14.1 million related to discounting the value of our energy commodity derivative liabilities for the effect of credit risk.

The following tables summarize the fair value measurements of ours and Kinder Morgan Energy Partners' (i) energy commodity derivative contracts, (ii) interest rate swap agreements and (iii) cross currency swaps as of September 30, 2008, based on the three levels established by SFAS No. 157 and do not include cash margin deposits, which are reported within the caption "Current Assets: Restricted Deposits" in the accompanying interim Consolidated Balance Sheets:

	Asset Fair Value Measurements as of September 30, 2008 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In millions)			
Energy Commodity Derivative Contracts(1)	$ 86.2	$ 1.8	$ 31.8	$ 52.6
Interest Rate Swap Agreements	$ 210.7	$	$ 210.7	$

	Liability Fair Value Measurements as of September 30, 2008 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In millions)			
Energy Commodity Derivative Contracts(2)	$(1,618.8)	$ (0.1)	$ (1,485.5)	$ (133.2)
Interest Rate Swap Agreements	$ (11.5)	$	$ (11.5)	$
Cross Currency Swaps	$ (13.3)	$	$ (13.3)	$

(1) Level 2 consists primarily of OTC West Texas Intermediate derivatives. Level 3 consists primarily of West Texas Sour derivatives and West Texas Intermediate options.

(2) Level 1 consists primarily of New York Mercantile Exchange ("NYMEX") Natural Gas futures. Level 2 consists primarily of OTC West Texas Intermediate derivatives. Level 3 consists primarily of West Texas Sour derivatives and West Texas Intermediate options.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

15. Accounting for Derivative Instruments and Hedging Activities (Continued)

The table below provides a summary of changes in the fair value of our Level 3 energy commodity derivative contracts for the three and nine months ended September 30, 2008:

	Significant Unobservable Inputs (Level 3)	
	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
	(In millions)	
Net Asset (Liability)		
Beginning Balance	$ (233.0)	$ (100.3)
Realized and Unrealized Net Losses	133.4	(52.9)
Purchases and Settlements	19.0	72.6
Balance as of September 30, 2008	$ (80.6)	$ (80.6)
Change in Unrealized Net Losses Relating to Contracts Still Held as of September 30, 2008	$ 138.5	$ (22.3)

16. Employee Benefits

Knight Inc.

Retirement Plans Components of Net Periodic Pension Cost

	Successor Company				Predecessor Company
	Three Months Ended September 30,		Nine Months Ended September 30, 2008	Four Months Ended September 30, 2007	Five Months Ended May 31, 2007
	2008	2007			
			(In millions)		(In millions)
Service Cost	$ 2.9	$ 2.7	$ 8.5	$ 3.6	$ 4.5
Interest Cost	3.6	3.3	10.8	4.5	5.6
Expected Return on Assets	(5.8)	(5.7)	(17.4)	(7.7)	(9.6)
Amortization of Prior Service Credit					0.1
Amortization of Net Loss					0.2
Net Periodic Pension Cost	$ 0.7	$ 0.3	$ 1.9	$ 0.4	$ 0.8

As of September 30, 2008, no contributions have been made and we do not expect to make any additional contributions to these plans during 2008. However, we may make contributions during 2009.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

16. Employee Benefits (Continued)

Other Postretirement Employee Benefits Components of Net Periodic Benefit Cost

	Successor Company				Predecessor Company
	Three Months Ended September 30,		Nine Months Ended September 30, 2008	Four Months Ended September 30, 2007	Five Months Ended May 31, 2007
	2008	2007			
			(In millions)		(In millions)
Service Cost	$ 0.1	$ 0.1	$ 0.3	$ 0.1	$ 0.2
Interest Cost	1.2	1.1	3.4	1.5	1.9
Expected Return on Assets	(1.8)	(1.6)	(5.0)	(2.1)	(2.7)
Amortization of Prior Service Credit					(0.7)
Amortization of Net Loss	(0.1)		(0.4)		2.0
Net Periodic Pension Cost	$(0.6)	$(0.4)	$ (1.7)	$ (0.5)	$ 0.7

In the nine months ended September 30, 2008, we contributed $1.5 million and NGPL contributed $7.2 million for a total of $8.7 million of plan contributions. We sold 80% of NGPL on February 15, 2008, and retain a 20% interest in NGPL (see Note 11). We do not expect to make any additional contributions to these plans during 2008.

Terasen Inc. Sold effective May 17, 2007; see Note 12

Terasen Inc. Retirement Plans Components of Net Periodic Pension Cost

	Predecessor Company For the Period January 1 - May 17, 2007
	(In millions)
Service Cost	$ 2.7
Interest Cost	4.4
Expected Return on Assets	(5.5)
Other	0.1
Net Periodic Pension Cost	$ 1.7

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

16. Employee Benefits (Continued)

Other Postretirement Employee Benefits Components of Net Periodic Benefit Cost

	Predecessor Company For the Period January 1 - May 17, 2007	
	(In millions)	
Service Cost	$	0.6
Interest Cost		1.4
Net Periodic Postretirement Benefit Cost	$	2.0

Kinder Morgan Energy Partners

Due to its acquisition of Trans Mountain, Kinder Morgan Energy Partners is a sponsor of pension plans for eligible Trans Mountain employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements that provide pension benefits in excess of Canadian statutory limits, and defined contributory plans. Kinder Morgan Energy Partners also provides postretirement benefits other than pensions for retired employees. The combined net periodic benefit costs for these Trans Mountain pension and postretirement benefit plans for the first nine months of 2008 was approximately $2.3 million. The combined net periodic benefit costs for these Trans Mountain pension and postretirement benefit plans for the five months ended May 31, 2007 and the four months ended September 30, 2007 were approximately $1.8 million and $1.4 million, respectively.

As of September 30, 2008, Kinder Morgan Energy Partners estimates that its overall net 2008 periodic pension and postretirement benefit costs for these plans will be approximately $3.1 million, recognized ratably over the year, although this estimate could change if there is a significant event, such as a plan amendment or a plan curtailment, which would require a remeasurement of liabilities. Kinder Morgan Energy Partners expects to contribute approximately $2.6 million to these benefit plans in 2008.

In connection with Kinder Morgan Energy Partners' acquisition of SFPP, L.P. (referred to as SFPP) and Kinder Morgan Bulk Terminals, Inc. in 1998, Kinder Morgan Energy Partners acquired certain liabilities for pension and postretirement benefits. Kinder Morgan Energy Partners provides medical and life insurance benefits to current employees, their covered dependents and beneficiaries of SFPP and Kinder Morgan Bulk Terminals. Kinder Morgan Energy Partners also provides the same benefits to former salaried employees of SFPP. Additionally, Kinder Morgan Energy Partners will continue to fund these costs for those employees currently in the plan during their retirement years. SFPP's postretirement benefit plan is frozen, and no additional participants may join the plan.

The noncontributory defined benefit pension plan covering the former employees of Kinder Morgan Bulk Terminals is the Knight Inc. Retirement Plan. The benefits under this plan are based primarily upon years of service and final average pensionable earnings; however, benefit accruals were frozen as of December 31, 1998.

As of September 30, 2008, Kinder Morgan Energy Partners estimates no overall net periodic postretirement benefit cost for the SFPP postretirement benefit plan for the year 2008; however, this estimate could change if a future significant event would require a remeasurement of liabilities. Net

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

16. Employee Benefits (Continued)

periodic benefit costs for the SFPP postretirement benefit plan was a credit of approximately $0.1 million in the five month period ended May 31, 2007, recognized ratably over the period, and $0.1 million for the four months ended September 30, 2007. The credits resulted in increases to income, largely due to amortization of an actuarial gain and a negative prior service cost. In addition, Kinder Morgan Energy Partners expects to contribute approximately $0.4 million to this postretirement benefit plan in 2008.

17. Regulatory Matters

The following updates the disclosure in Note 16 to the Consolidated Financial Statements included in our 2007 Form 10-K with respect to developments that occurred during the nine months ended September 30, 2008.

FERC Order No. 2004/690/717

Since November 2003, the FERC issued Orders No. 2004, 2004-A, 2004-B, 2004-C, and 2004-D, adopting new Standards of Conduct as applied to natural gas pipelines. The primary change from existing regulation was to make such standards applicable to an interstate natural gas pipeline's interaction with many more affiliates (referred to as "energy affiliates"). The Standards of Conduct require, among other things, separate staffing of interstate pipelines and their energy affiliates (but support functions and senior management at the central corporate level may be shared) and strict limitations on communications from an interstate pipeline to an energy affiliate.

However, on November 17, 2006, the United States Court of Appeals for the District of Columbia Circuit, in Docket No. 04-1183, vacated FERC Orders 2004, 2004-A, 2004-B, 2004-C, and 2004-D as applied to natural gas pipelines, and remanded these same orders back to the FERC.

On January 9, 2007, the FERC issued an Interim Rule, effective January 9, 2007, in response to the court's action. In the Interim Rule, the FERC readopted the Standards of Conduct, but revised or clarified with respect to issues that had been appealed to the court. Specifically, the following changes were made:

- the Standards of Conduct apply only to the relationship between interstate natural gas transmission pipelines and their marketing affiliates, not their energy affiliates;
- all risk management personnel can be shared;
- the requirement to post discretionary tariff actions was eliminated (but interstate natural gas pipelines must still maintain a log of discretionary tariff waivers);
- lawyers providing legal advice may be shared employees; and
- new interstate natural gas transmission pipelines are not subject to the Standards of Conduct until they commence service.

The FERC clarified that all exemptions and waivers issued under Order No. 2004 remain in effect. On January 18, 2007, the FERC issued a notice of proposed rulemaking ("NOPR") seeking comments regarding whether or not the Interim Rule should be made permanent for natural gas transmission providers ("January 18 NOPR"). On March 21, 2007, the FERC issued an Order on Clarification and Rehearing of the Interim Rule that granted clarification that the Standards of Conduct only apply to

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

17. Regulatory Matters (Continued)

natural gas transmission providers that are affiliated with a marketing or brokering entity that conducts transportation transactions on such natural gas transmission provider's pipeline.

On March 21, 2008, as part of an effort to undertake a broader review of the existing Standards of Conduct, the FERC issued a new notice of proposed rulemaking revamping the Standards of Conduct in order to make compliance and enforcement easier, rather than issuing a Final Rule on the January 18 NOPR. The intention of this action is to return to the core principles of the original Standards of Conduct, which established a functional separation between transmission and merchant personnel for natural gas and electric transmission providers. The new NOPR is made up of three rules: (i) independent functioning of transmission function employees from marketing function employees, (ii) the no-conduit rule prohibiting the passing and receipt of non-public transmission information and (iii) the transparency rule to detect undue discrimination. On October 16, 2008, the FERC issued a Final Rule in Order 717 revising the FERC Standards of Conduct for natural gas and electric transmission providers by eliminating Order No. 2004's concept of Energy Affiliates and corporate separation in favor of an employee functional approach as used in Order No. 497. A transmission provider is prohibited from disclosing to a marketing function employee non-public information about the transmission system or a transmission customer. The final rule also retains the long-standing no-conduit rule, which prohibits a transmission function provider from disclosing non-public information to marketing function employees by using a third party conduit. Additionally, the final rule requires that a transmission provider provide annual training on the Standards of Conduct to all transmission function employees, marketing function employees, officers, directors, supervisory employees, and any other employees likely to become privy to transmission function information. This rule will become effective on November 26, 2008.

Notice of Inquiry Financial Reporting

On February 15, 2007, the FERC issued a notice of inquiry seeking comment on the need for changes or revisions to the FERC's reporting requirements contained in the financial forms for gas and oil pipelines and electric utilities. Initial comments were filed by numerous parties on March 27, 2007, and reply comments were filed on April 27, 2007.

On September 20, 2007, the FERC issued for public comment in Docket No. RM07-9 a proposed rule that would revise its financial forms to require that additional information be reported by natural gas companies. The proposed rule would require, among other things, that natural gas companies (i) submit additional revenue information, including revenue from shipper-supplied gas, (ii) identify the costs associated with affiliate transactions, and (iii) provide additional information on incremental facilities and on discounted and negotiated rates. The FERC proposed an effective date of January 1, 2008, which means that forms reflecting the new requirements for 2008 would be filed in early 2009. Comments on the proposed rule were filed by numerous parties on November 13, 2007.

On March 21, 2008, the FERC issued a Final Rule regarding changes to the Form 2, 2-A and 3Q. The revisions were designed to enhance the forms' usefulness by updating them to reflect current market and cost information relevant to interstate pipelines and their customers. The rule is effective January 1, 2008 with the filing of the revised Form 3-Q beginning with the first quarter of 2009. The revised Form 2 and 2-A for calendar year 2008 material would be filed by April 30, 2009. On June 20, 2008, the FERC issued an Order Granting in Part and Denying in Part Rehearing and Granting Request for Clarification. No substantive changes were made to the March 21, 2008 Final Rule.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

17. Regulatory Matters (Continued)

Notice of Inquiry Fuel Retention Practices

On September 20, 2007, the FERC issued a Notice of Inquiry seeking comment on whether it should change its current policy and prescribe a uniform method for all interstate gas pipelines to use in recovering fuel gas and gas lost and unaccounted for. The Notice of Inquiry included numerous questions regarding fuel recovery issues and the effects of fixed fuel percentages as compared with tracking provisions. Comments on the Notice of Inquiry were filed by numerous parties on November 30, 2007.

Notice of Proposed Rulemaking Promotion of a More Efficient Capacity Release Market-Order 712

On November 15, 2007, the FERC issued a notice of proposed rulemaking in Docket No. RM 08-1-000 regarding proposed modifications to its Part 284 regulations concerning the release of firm capacity by shippers on interstate natural gas pipelines. The FERC proposes to remove, on a permanent basis, the rate ceiling on capacity release transactions of one year or less. Additionally, the FERC proposes to exempt capacity releases made as part of an asset management arrangement from the prohibition on tying and from the bidding requirements of section 284.8. Initial comments were filed by numerous parties on January 25, 2008. On June 19, 2008, the FERC issued a final rule in Order 712 regarding changes to the capacity release program. The FERC permitted market based pricing for short-term capacity releases of a year or less. Long-term capacity releases and a pipeline's sale of its own capacity remains subject to a price cap. The ruling would facilitate asset management arrangements by relaxing the FERC's prohibitions on tying and on its bidding requirements for certain capacity releases. The FERC further clarified that its prohibition on tying does not apply to conditions associated with gas inventory held in storage for releases for firm storage capacity. Finally, the FERC waived the prohibition on tying and bidding requirements for capacity releases made as part of state-approved retail open access programs. The final rule became effective on July 30, 2008.

Notice of Proposed Rulemaking Natural Gas Price Transparency

On April 19, 2007, the FERC issued a notice of proposed rulemaking in Docket Nos. RM07-10-000 and AD06-11-000 regarding price transparency provisions of Section 23 of the Natural Gas Act and the Energy Policy Act. In the notice, the FERC proposed to revise its regulations to (i) require that intrastate pipelines post daily the capacities of, and volumes flowing through, their major receipt and delivery points and mainline segments in order to make available the information to track daily flows of natural gas throughout the United States; and (ii) require that buyers and sellers of more than a de minimis volume of natural gas report annual numbers and volumes of relevant transactions to the FERC in order to make possible an estimate of the size of the physical U.S. natural gas market, assess the importance of the use of index pricing in that market, and determine the size of the fixed-price trading market that produces the information. The FERC believes these revisions to its regulations will facilitate price transparency in markets for the sale or transportation of physical natural gas in interstate commerce. Initial comments were filed on July 11, 2007 and reply comments were filed on August 23, 2007. In addition, the FERC conducted an informal workshop in this proceeding on July 24, 2007, to discuss implementation and other technical issues associated with the proposals set forth in the notice of proposed rulemaking.

In addition, on December 21, 2007, the FERC issued a new notice of proposed rulemaking in Docket No. RM08-2-000 regarding the daily posting provisions that were contained in Docket

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

17. Regulatory Matters (Continued)

Nos. RM07-10-000 and AD06-11-000. The new notice of proposed rulemaking proposes to exempt from the daily posting requirements those non-interstate pipelines that (i) flow less than ten million MMBtus of natural gas per year, (ii) fall entirely upstream of a processing plant, and (iii) deliver more than ninety-five percent (95%) of the natural gas volumes they flow directly to end-users. However, the new notice of proposed rulemaking expands the proposal to require that both interstate and non-exempt non-interstate pipelines post daily the capacities of, volumes scheduled at, and actual volumes flowing through, their major receipt and delivery points and mainline segments. Initial comments were filed by numerous parties on March 13, 2008. A Technical Conference was held on April 3, 2008. Numerous reply comments were received on April 14, 2008.

On December 26, 2007, the FERC issued Order No. 704 in this docket implementing only the annual reporting provisions of the notice of proposed rulemaking with minimal changes to the original proposal. The order became effective February 4, 2008. The initial report is due May 1, 2009 for calendar year 2008. Subsequent reports are due by May 1 of each year for the previous calendar year. Order 704 will require most, if not all Kinder Morgan natural gas pipelines to report annual volumes of relevant transactions to the FERC. Technical workshops were held on April 22, 2008 and May 19, 2008. The FERC issued Order 704-A on September 18, 2008. This order generally affirmed the rule, while clarifying what information certain natural gas market participants must report in Form 552. The revisions pertain to the reporting of transactions occurring in calendar year 2008. The first report is due May 1, 2009 and each May 1st thereafter for subsequent calendar years. Order 704-A became effective October 27, 2008.

FERC Equity Return Allowance

On April 17, 2008, the FERC adopted a new policy under Docket No. PL07-2-000 that allows master limited partnerships to be included in proxy groups for the purpose of determining rates of return for both interstate natural gas and oil pipelines. Additionally, the policy statement concluded that (i) there should be no cap on the level of distributions included in the FERC's current discounted cash flow methodology, (ii) the Institutional Brokers Estimated System forecasts should remain the basis for the short-term growth forecast used in the discounted cash flow calculation, (iii) there should be an adjustment to the long-term growth rate used to calculate the equity cost of capital for a master limited partnership, specifically the long-term growth rate would be set at 50% of the gross domestic product, and (iv) there should be no modification to the current respective two-thirds and one-third weightings of the short-term and long-term growth factors. Additionally, the FERC decided not to explore other methods for determining a pipeline's equity cost of capital at this time. The policy statement governs all future gas and oil rate proceedings involving the establishment of a return on equity, as well as those cases that are currently pending before either the FERC or an administrative law judge. On May 19, 2008, an application for rehearing was filed by The American Public Gas Association. On June 13, 2008, the FERC dismissed the request for rehearing.

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

17. Regulatory Matters (Continued)

Notice of Proposed Rulemaking Rural Onshore Low Stress Hazardous Liquids Pipelines

On September 6, 2006, the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration, referred to as the PHMSA, published a notice of proposed rulemaking (PHMSA 71 FR 52504) that proposed to extend certain threat-focused pipeline safety regulations to rural onshore low-stress hazardous liquid pipelines within a prescribed buffer of previously defined U.S. states. Low-stress hazardous liquid pipelines, except those in populated areas or that cross commercially navigable waterways, have not been subject to the safety regulations in PHMSA 49 C.F.R. Part 195.1. According to the PHMSA, unusually sensitive areas are areas requiring extra protection because of the presence of sole-source drinking water resources, endangered species, or other ecological resources that could be adversely affected by accidents or leaks occurring on hazardous liquid pipelines.

The notice proposed to define a category of "regulated rural onshore low-stress lines" (rural lines operating at or below 20% of specified minimum yield strength, with a diameter of eight and five-eighths inches or greater, located in or within a quarter-mile of a U.S. state) and to require operators of these lines to comply with a threat-focused set of requirements in Part 195 that already apply to other hazardous liquid pipelines. The proposed safety requirements addressed the most common threats corrosion and third party damage to the integrity of these rural lines. The proposal is intended to provide additional integrity protection, to avoid significant adverse environmental consequences, and to improve public confidence in the safety of unregulated low-stress lines.

Since the new notice is a proposed rulemaking in which the PHMSA will consider initial and reply comments from industry participants, it is not clear what impact the final rule will have on the business of our intrastate and interstate liquids pipeline companies.

Natural Gas Pipeline Expansion Filings

Rockies Express Pipeline-Currently Certificated Facilities

Kinder Morgan Energy Partners operates and owns a 51% ownership interest in West2East Pipeline LLC, a limited liability company that is the sole owner of Rockies Express Pipeline LLC, and operates Rockies Express Pipeline. ConocoPhillips owns a 24% ownership interest in West2East Pipeline LLC and Sempra Energy holds the remaining 25% interest. When construction of the entire Rockies Express Pipeline project is completed, Kinder Morgan Energy Partners' ownership interest will be reduced to 50% at which time the capital accounts of West2East Pipeline LLC will be trued up to reflect Kinder Morgan Energy Partners' 50% economics in the project. According to the provisions of current accounting standards, because Kinder Morgan Energy Partners will receive 50% of the economic benefits from the Rockies Express project on an ongoing basis, Kinder Morgan Energy Partners is not considered the primary beneficiary of West2East Pipeline LLC and thus, accounts for its investment under the equity method of accounting.

On August 9, 2005, the FERC approved the application of Rockies Express Pipeline LLC, formerly known as Entrega Gas Pipeline LLC, to construct 327 miles of pipeline facilities in two phases. For phase I (consisting of two pipeline segments), Rockies Express was granted authorization to construct and operate approximately 136 miles of pipeline extending northward from the Meeker Hub, located at the northern end of Kinder Morgan Energy Partners' TransColorado pipeline system in Rio Blanco County, Colorado, to the Wamsutter Hub in Sweetwater County, Wyoming (segment 1), and then construct approximately 191 miles of pipeline eastward to the Cheyenne Hub in Weld County,

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

17. Regulatory Matters (Continued)

Colorado (segment 2). Construction of segments 1 and 2 has been completed, with interim service commencing on segment 1 on February 24, 2006, and full in-service of both segments on February 14, 2007. For phase II, Rockies Express was authorized to construct three compressor stations, referred to as the Meeker, Big Hole and Wamsutter compressor stations. The Meeker and Wamsutter stations went into service in January 2008. Construction of the Big Hole compressor station commenced in the second quarter of 2008, and the expected in service date for the compressor station is in the second quarter of 2009.

Rockies Express Pipeline-West Project

On April 19, 2007, the FERC issued a final order approving the Rockies Express application for authorization to construct and operate certain facilities comprising its proposed "Rockies Express-West Project." This project is the first planned segment extension of the Rockies Express' facilities described above, and it is comprised of approximately 713 miles of 42-inch diameter pipeline extending from the Cheyenne Hub to an interconnection with Panhandle Eastern Pipe Line located in Audrain County, Missouri. The project also includes certain improvements to existing Rockies Express facilities located to the west of the Cheyenne Hub. Construction on Rockies Express-West commenced on May 21, 2007. Rockies Express-West began interim service for up to 1.4 billion cubic feet per day of natural gas on the West segment's first 503 miles of pipe on January 12, 2008. The project commenced deliveries to Panhandle Eastern Pipe Line, at Audrain County, Missouri, on the remaining 210 miles of pipe on May 20, 2008. The Rockies Express-West pipeline segment transports approximately 1.5 million cubic feet per day of natural gas across five states: Wyoming, Colorado, Nebraska, Kansas and Missouri.

Rockies Express replaced certain pipe to reflect a higher class location and conducted further hydrostatic testing of portions of its system during September 2008 to satisfy DOT testing requirements to operate at its targeted higher operating pressure. This pipe replacement and hydrostatic testing, conducted from September 3, 2008 through September 26, 2008, resulted in the temporary outage of pipeline delivery points and an overall reduction of firm capacity available to firm shippers. By the terms of the Rockies Express FERC Gas Tariff, firm shippers are entitled to daily reservation revenue credits for non-force majeure and planned maintenance outages. The estimated impact of these revenue credits is included in results of operations for the three and nine months ended September 30, 2008.

Rockies Express Pipeline-East Project

On April 30, 2007, Rockies Express filed an application with the FERC requesting a certificate of public convenience and necessity that would authorize construction and operation of the Rockies Express-East Project. The Rockies Express-East Project will be comprised of approximately 639 miles of 42-inch diameter pipeline commencing from the terminus of the Rockies Express-West pipeline to a terminus near the town of Clarington in Monroe County, Ohio and will be capable of transporting approximately 1.8 billion cubic feet per day of natural gas.

By order issued May 30, 2008, the FERC authorized the certificate to construct the Rockies Express Pipeline-East Project. Construction commenced on the Rockies Express-East pipeline segment on June 26, 2008. Delays in securing permits and regulatory approvals, as well as weather-related delays, have caused Rockies Express to set revised project completion dates. Rockies Express-East is currently projected to commence service on April 1, 2009 to interconnects upstream of Lebanon,

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

17. Regulatory Matters (Continued)

followed by service to the Lebanon Hub in Warren County, Ohio beginning June 15, 2009, with final completion and deliveries to Clarington, Ohio commencing by November 1, 2009.

Current market conditions for consumables, labor and construction equipment along with certain provisions in the final regulatory orders have resulted in increased costs for the project and have impacted certain projected completion dates. For example, our current estimate of total completed costs on the Rockies Express Pipeline is approximately $6.0 billion (consistent with Kinder Morgan Energy Partners' October 15, 2008 third quarter earnings press release).

Kinder Morgan Interstate Gas Transmission Pipeline

On August 6, 2007, Kinder Morgan Interstate Gas Transmission Pipeline LLC (referred to as KMIGT) filed in FERC Docket CP07-430, for regulatory approval to construct and operate a 41-mile, $30 million natural gas pipeline from the Cheyenne Hub to markets in and around Greeley, Colorado, referred to as the Colorado Lateral. When completed, the Colorado Lateral will provide firm transportation of up to 55 million cubic feet per day to a local utility under long-term contract. The FERC issued a draft environmental assessment on the project on January 11, 2008, and comments on the project were received February 11, 2008. On February 21, 2008, the FERC granted the certificate application. On July 8, 2008, in response to a rehearing request by Public Service Company of Colorado (referred to as PSCo) the FERC granted rehearing and denied KMIGT recovery in initial transportation rates $6.2 million in costs associated with non-jurisdictional laterals constructed by KMIGT to serve Atmos. The recourse rate adjustment does not have any material effect on the negotiated rate paid by Atmos to KMIGT or the economics of the project. On July 25, 2008, KMIGT filed an amendment to its certification application seeking authorization to revise its initial rates for transportation service on the Colorado Lateral to reflect updated construction costs for jurisdictional mainline facilities. The FERC approved the revised initial recourse rates on August 22, 2008.

PSCo, a competitor serving markets off the Colorado Lateral, also filed a complaint before the State of Colorado Public Utilities Commission ("CoPUC") against Atmos, the anchor shipper on the project. The CoPUC conducted a hearing on April 14, 2008 on the complaint. On June 9, 2008, PSCo also filed before the CoPUC seeking a temporary cease and desist order to halt construction of the lateral facilities being constructed by KMIGT to serve Atmos. Atmos filed a response to that motion on June 24, 2008. By order dated June 27, 2008 an administrative law judge for the CoPUC denied PSCo's request for a cease and desist order. On September 4, 2008, an administrative law judge for the CoPUC issued an order wherein it denied PSCo's claim to exclusivity to serve Atmos and the Greeley market area but affirmed PSCo's claim that Atmos' acquisition of the delivery laterals is not in the ordinary course of business and requires separate approvals. Accordingly, Atmos may require a certificate of public convenience and necessity ("CPCN") related to the delivery lateral facilities from KMIGT. Atmos' application and approval for a CPCN is not expected to delay the November 2008 commencement of service on the facilities.

On December 21, 2007, KMIGT filed, in Docket CP 08-44, for approval to expand its system in Nebraska to serve incremental ethanol and industrial load. No protests to the application were filed and the project was approved by the FERC. Construction commenced on April 9, 2008. These facilities went into service in October 2008.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

17. Regulatory Matters (Continued)

Kinder Morgan Louisiana Pipeline

On September 8, 2006, in FERC Docket No. CP06-449-000, Kinder Morgan Louisiana Pipeline LLC filed an application with the FERC requesting approval to construct and operate the Kinder Morgan Louisiana Pipeline. The natural gas pipeline will extend approximately 135 miles from Cheniere's Sabine Pass liquefied natural gas terminal in Cameron Parish, Louisiana, to various delivery points in Louisiana and will provide interconnects with many other natural gas pipelines, including NGPL. The project is supported by fully subscribed capacity and long-term customer commitments with Chevron and Total. The entire estimated project cost is now expected to be approximately $1.0 billion (consistent with our October 15, 2008 third quarter earnings press release), and it is expected to be fully operational during the second quarter of 2009.

On March 15, 2007, the FERC issued a preliminary determination that the authorizations requested, subject to some minor modifications, will be in the public interest. This order does not consider or evaluate any of the environmental issues in this proceeding. On April 19, 2007, the FERC issued the final environmental impact statement, or ("EIS"), which addressed the potential environmental effects of the construction and operation of the Kinder Morgan Louisiana Pipeline. The final EIS was prepared to satisfy the requirements of the National Environmental Policy Act. It concluded that approval of the Kinder Morgan Louisiana Pipeline project would have limited adverse environmental impacts. On June 22, 2007, the FERC issued an order granting construction and operation of the project. Kinder Morgan Louisiana Pipeline officially accepted the order on July 10, 2007.

On July 11, 2008, Kinder Morgan Louisiana Pipeline filed an amendment to its certificate application, seeking authorization to revise its initial rates for transportation service on the Kinder Morgan Louisiana Pipeline system to reflect updated construction costs for the project. The amendment was accepted by the FERC on August 14, 2008.

Midcontinent Express Pipeline

On October 9, 2007, in Docket No. CP08-6-000, Midcontinent Express Pipeline LLC filed an application with the FERC requesting a certificate of public convenience and necessity that would authorize construction and operation of the approximately 500-mile Midcontinent Express Pipeline natural gas transmission system.

The Midcontinent Express Pipeline will create long-haul, firm transportation takeaway capacity either directly or indirectly connected to natural gas producing regions located in Texas, Oklahoma and Arkansas. The pipeline will originate in southeastern Oklahoma and traverse east through Texas, Louisiana, Mississippi, and terminate at an interconnection with the Transco Pipeline near Butler, Alabama. The Midcontinent Express Pipeline is a 50/50 joint venture between Kinder Morgan Energy Partners and Energy Transfer Partners, L.P., and it has a total capital cost of approximately $1.9 billion including the expansion capacity (consistent with Kinder Morgan Energy Partners' October 15, 2008 third quarter earnings press release). Initial design capacity for the pipeline was 1.5 billion cubic feet of natural gas per day, which was fully subscribed with long-term binding commitments from creditworthy shippers. A successful binding open season was recently completed which will increase the main segment of the pipeline's capacity to 1.8 billion cubic feet per day subject to regulatory approval.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

17. Regulatory Matters (Continued)

On July 25, 2008, the FERC approved the application made by Midcontinent Express Pipeline to construct and operate the 500-mile Midcontinent Express Pipeline natural gas transmission system along with the lease of 272 million cubic feet of capacity on the Oklahoma intrastate system of Enogex Inc. Midcontinent Express Pipeline accepted the FERC Certificate on July 30, 2008. Mobilization for construction of the pipeline began in the third quarter of 2008, and subject to the receipt of regulatory approvals, interim service on the first portion of the pipeline is expected to be available by the second quarter of 2009 with full in service in the third quarter of 2009.

Kinder Morgan Liquid Terminals

With regard to several of Kinder Morgan Energy Partners' liquids terminals, it is working with the U.S. Department of Transportation to supplement its compliance program for certain of its tanks and internal piping. Kinder Morgan Energy Partners anticipates the program will call for incremental capital spending over the next several years to improve and/or add to its facilities. These improvements will enhance the tanks and piping previously considered outside the jurisdiction of DOT to conduct DOT jurisdictional transfers of products. Kinder Morgan Energy Partners' original estimate called for an incremental $3 million to $5 million of annual capital spending over the next six to ten years for this work; however, it continues to assess the amount of capital that will be required and the amount may exceed the original estimate.

Kinder Morgan Texas Pipeline LLC

On May 30, 2008, Kinder Morgan Texas Pipeline LLC filed in Docket No. PR08-25-000 a petition seeking market-based rate authority for firm and interruptible storage services performed under section 311 of the Natural Gas Policy Act of 1978 (NGPA) at the North Dayton Gas Storage Facility in Liberty County, Texas, and at the Markham Gas Storage Facility in Matagorda County, Texas. On October 3, 2008, the FERC approved this petition that became effective May 30, 2008.

Herscher Galesville Storage Field

On December 7, 2007, NGPL filed an application with the FERC seeking approval to expand its Herscher Galesville storage field in Kankakee County, Illinois to add 10 Bcf of incremental firm storage service for five expansion shippers. The FERC issued its Certificate Order approving the expansion on August 11, 2008 and on August 15, 2008, it was accepted. The project is fully supported by contracts ranging from 5 to 10 years. We own 20% of NGPL through our equity investment in PipeCo LLC.

Other

Current market conditions for, among other things, consumables, labor and construction equipment, and permitting conditions, have adversely affected and will likely continue to adversely affect, final costs and completion dates for our natural gas construction projects.

18. Litigation, Environmental and Other Contingencies

Below is a brief description of our ongoing material legal proceedings including any material developments that occurred in such proceedings during the nine months ended September 30, 2008. Additional information with respect to these proceedings can be found in Note 17 to the Consolidated

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

Financial Statements included in our 2007 Form 10-K. The note also contains a description of any material legal proceedings that were initiated against us during the three months ended September 30, 2008.

Federal Energy Regulatory Commission Proceedings

Kinder Morgan Energy Partners' SFPP, L.P. and Calnev Pipe Line LLC subsidiaries are involved in various proceedings before the FERC. The tariffs and rates charged by SFPP and Calnev are subject to numerous ongoing proceedings at the FERC, including shippers' complaints and protests regarding interstate rates on these pipeline systems. In general, these complaints allege the rates and tariffs charged by SFPP and Calnev are not just and reasonable.

As to SFPP, the issues involved in these proceedings include, among others (i) whether certain of Kinder Morgan Energy Partners' Pacific operations' rates are "grandfathered" under the Energy Policy Act of 1992, referred to in this note as EPAct 1992, and therefore deemed to be just and reasonable, (ii) whether "substantially changed circumstances" have occurred with respect to any grandfathered rates such that those rates could be challenged, (iii) whether indexed rate increases may become effective without investigation, (iv) the capital structure to be used in computing the "starting rate base" of Kinder Morgan Energy Partners' Pacific operations, (v) the level of income tax allowance SFPP may include in its rates, and (vi) the recovery of civil and regulatory litigation expenses and certain pipeline reconditioning and environmental costs incurred by Kinder Morgan Energy Partners' Pacific operations.

In May 2005, the FERC issued a statement of general policy stating it will permit pipelines to include in cost of service a tax allowance to reflect actual or potential tax liability on their public utility income attributable to all partnership or limited liability company interests, if the ultimate owner of the interest has an actual or potential income tax liability on such income. Whether a pipeline's owners have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Although the revised policy is generally favorable for pipelines that are organized as tax pass-through entities, it still entails rate risk due to the case-by-case review requirement.

In this note, we refer to SFPP, L.P. as SFPP; Calnev Pipe Line LLC as Calnev; Chevron Products Company as Chevron; Navajo Refining Company, L.P. as Navajo; ARCO Products Company as ARCO; BP West Coast Products, LLC as BP WCP; Texaco Refining and Marketing Inc. as Texaco; Western Refining Company, L.P. as Western Refining; Mobil Oil Corporation as Mobil; ExxonMobil Oil Corporation as ExxonMobil ; Tosco Corporation as Tosco; ConocoPhillips Company as ConocoPhillips; Ultramar Diamond Shamrock Corporation/Ultramar Inc. as Ultramar; Valero Energy Corporation as Valero; Valero Marketing and Supply Company as Valero Marketing; and America West Airlines, Inc., Continental Airlines, Inc., Northwest Airlines, Inc., Southwest Airlines Co. and US Airways, Inc., collectively, as the Airline Complainants.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

Following are a summary of developments during the nine months of 2008 and a listing of certain active FERC proceedings pertaining to Kinder Morgan Energy Partners' Pacific operations:

FERC Docket No. OR92-8, *et al.* Complainants/Protestants: Chevron; Navajo; ARCO; BP WCP; Western Refining; ExxonMobil ; Tosco; and Texaco (Ultramar is an intervenor) Defendant: SFPP

Consolidated proceeding involving shipper complaints against certain East Line and West Line rates. All six issues (and others) described above are involved in these proceedings. Portions of this proceeding were appealed (and re-appealed) to the United States Court of Appeals for the District of Columbia Circuit, referred to in this note as the D.C. Court, and remanded to the FERC. Portions of this proceeding are currently being held in abeyance by the D.C. Court pending completion of agency proceedings. BP WCP, Chevron, and ExxonMobil requested a hearing before the FERC on remanded grandfathering and income tax allowance issues. The FERC issued an Order on Rehearing, Remand, Compliance, and Tariff Filings on December 26, 2007, which denied the requests for a hearing, and ruled on SFPP's March 7, 2006 compliance filing and remand issues. The FERC, *inter alia*, affirmed its income tax allowance policy, further clarified the implementation of that policy with respect to SFPP, and required SFPP to file a compliance filing. On February 15, 2008, the FERC issued an order granting and denying rehearing regarding certain findings in the December 2007 order;

FERC Docket No. OR92-8-025 Complainants/Protestants: BP WCP; ExxonMobil ; Chevron; ConocoPhillips; and Ultramar Defendant: SFPP

Proceeding involving shipper complaints against rates charged prior to April 1, 1999 at SFPP's Watson Station drain-dry facilities. settlement reserved the issue of whether reparations were owed for the period prior to April 1, 1999. On February 12, 2008, the FERC ruled that SFPP owed reparations for shipments prior to April 1, 1999, and in March 2008, SFPP made the required reparation payments of $23.3 million. SFPP filed a petition for review of the February 12, 2008 order at the D.C. Court, and the case is now being briefed;

FERC Docket No. OR96-2, *et al.* Complainants/Protestants: All Shippers except Chevron (which is an intervenor) Defendant: SFPP

Consolidated proceeding involving shipper complaints against all SFPP rates. All six issues (and others) described above are involved in these proceedings. Portions of this proceeding were appealed (and re-appealed) to the D.C. Court and remanded to the FERC. Portions of this proceeding are currently being held in abeyance by the D.C. Court pending completion of agency proceedings. The FERC issued an Order on Rehearing, Remand, Compliance, and Tariff Filings on December 26, 2007, which denied the requests for a hearing and ruled on SFPP's March 7, 2006 compliance filing and remand issues. The FERC, *inter alia*, affirmed its income tax allowance policy and further clarified the implementation of that policy with respect to SFPP, and required SFPP to file a compliance filing. On February 15, 2008, the FERC issued an order granting and denying rehearing regarding certain findings in the December 2007 order. On May 2, 2008, the FERC issued an order reopening the record for a paper hearing on issues related to rate of return on equity applicable to the Sepulveda Line service in light of the FERC's policy statement issued in April 2008 regarding the methodology for determining returns on equity. The parties have filed a settlement regarding the sole issue of the numeric value of

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

the rate of return on equity to be applied in this proceeding with respect to the Sepulveda Line service that, upon approval by the FERC, would obviate the need for the paper hearing;

FERC Docket Nos. OR02-4 and OR03-5 Complainant/Protestant: Chevron Defendant: SFPP
Chevron initiated proceeding to permit Chevron to become complainant in OR96-2. Appealed to the D.C. Court and held in abeyance pending final disposition of the OR96-2 proceedings;

FERC Docket No. OR04-3 Complainants/Protestants: America West Airlines; Southwest Airlines; Northwest Airlines; and Continental Airlines Defendant: SFPP

Complaint alleges that West Line and Watson Station rates are unjust and unreasonable. Unsettled Watson Station issues severed and consolidated into a proceeding focused only on Watson-related issues, which has now been settled (see above under FERC Docket No. OR92-8-025)The FERC has set the complaints against the West Line rates for hearing (see below FERC Docket Nos. OR03-5-000, OR05-4, and OR05-5);

FERC Docket Nos. OR03-5, OR05-4 and OR05-5 Complainants/Protestants: BP WCP; ExxonMobil; and ConocoPhillips (other shippers intervened) Defendant: SFPP

Complaints allege that SFPP's interstate rates are not just and reasonable. The portion of the complaints challenging SFPP's West Line and East Line rates (OR03-5-000) is scheduled for hearing in November 2008. A hearing was held in May of 2008 regarding the portion of the complaints challenging SFPP's North Line and Oregon Line rates (see below under FERC Docket No. OR03-5-001);

FERC Docket No. OR03-5-001 Complainants/Protestants: BP WCP; ExxonMobil ; and ConocoPhillips (other shippers intervened) Defendant: SFPP

The FERC severed the portions of the complaints in Docket Nos. OR03-5, OR05-4, and OR05-5 regarding SFPP's North and Oregon Line rates into a separate proceeding in Docket No. OR03-5-001. A hearing was held in May 2008 and an initial decision is expected in December 2008;

FERC Docket No. OR07-1 Complainant/Protestant: Tesoro Defendant: SFPP

Complaint alleges that SFPP's North Line rates are not just and reasonable. The FERC is holding the complaint in abeyance pending resolution at the D.C. Court of, among other things, income tax allowance and grandfathering issues. The D.C. Court issued an opinion on these issues on May 29, 2007, upholding the FERC's income tax allowance policy;

FERC Docket No. OR07-2 Complainant/Protestant: Tesoro Defendant: SFPP

Complaint alleges that SFPP's West Line rates are not just and reasonable. The FERC is holding the complaint in abeyance pending resolution at the D.C. Court of, among other things, income tax allowance and grandfathering issues. The D.C. Court issued an opinion on these issues on May 29, 2007, upholding the FERC's income tax allowance policy. A request that the FERC set the complaint for hearing which SFPP opposed is pending before the FERC;

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

FERC Docket No. OR07-3 Complainants/Protestants: BP WCP; Chevron; ExxonMobil; Tesoro; and Valero Marketing Defendant: SFPP

Complaint alleges that SFPP's North Line indexed rate increase was not just and reasonable. The FERC dismissed the complaint and denied rehearing. Petitions for review were filed by BP WCP and ExxonMobil at the D.C. Court. This proceeding is currently in abeyance pending a decision by the D.C. Court in the Tesoro review proceeding related to Docket No. OR07-16;

FERC Docket No. OR07-4 Complainants/Protestants: BP WCP; Chevron; and ExxonMobil Defendants: SFPP; Kinder Morgan G.P., Inc.; and Knight Inc.

Complaint alleges that SFPP's rates are not just and reasonable. The FERC is holding the complaint in abeyance pending resolution at the D.C. Court of, among other things, income tax allowance and grandfathering issues. The D.C. Court issued an opinion on these issues on May 29, 2007, upholding the FERC's income tax allowance policy. Complainants have withdrawn the portions of the complaint directed to SFPP's affiliates;

FERC Docket Nos. OR07-5 and OR07-7 (consolidated) Complainants/Protestants: ExxonMobil and Tesoro Defendants: Calnev; Kinder Morgan G.P., Inc.; and Knight Inc.

Complaints allege that none of Calnev's current rates are just or reasonable. On July 19, 2007, the FERC accepted and held in abeyance the portion of the complaints against the non-grandfathered portion of Calnev's rates, dismissed with prejudice the complaints against Calnev's affiliates, and allowed complainants to file amended complaints regarding the grandfathered portion of Calnev's rates. Pursuant to a settlement, ExxonMobil filed a notice in April of 2008 withdrawing its complaint in Docket No. OR07-5 and its motion to intervene in Docket No. OR07-7. Tesoro's complaint in Docket No. OR07-7 is still pending before the FERC;

FERC Docket No. OR07-6 Complainant/Protestant: ConocoPhillips Defendant: SFPP

Complaint alleges that SFPP's North Line indexed rate increase was not just and reasonable. The FERC dismissed the complaints in Docket Nos. OR07-3 and OR07-6 in a single order, without consolidating the complaints, and denied the request for rehearing of the dismissal filed in Docket No. OR07-3. Although the FERC orders in these dockets have been appealed by certain of the complainants in Docket No. OR07-3, they were not appealed by ConocoPhillips in Docket No. OR07-6. The FERC's decision in Docket No. OR07-6 is now final;

FERC Docket Nos. OR07-8 and OR07-11 (consolidated) Complainants/Protestants: BP WCP and ExxonMobil Defendant: SFPP

Complaints allege that SFPP's 2005 indexed rate increase was not just and reasonable. Although the FERC dismissed challenges to SFPP's underlying rate, the FERC declined to dismiss the portion of the OR07-8 Complaint addressing SFPP's July 1, 2005 index-based rate increases. A settlement has been certified to the FERC, and FERC action on the settlement is pending;

FERC Docket No. OR07-9 Complainant/Protestant: BP WCP Defendant: SFPP

Complaint alleges that SFPP's ultra low sulphur diesel (ULSD) recovery fee violates the filed rate doctrine and that, in any event, the recovery fee is unjust and unreasonable. Following

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

dismissal of the complaint by FERC, BP WCP filed a petition for review which the D.C. Court dismissed in March of 2008;

FERC Docket No. OR07-14 Complainants/Protestants: BP WCP and Chevron Defendants: SFPP; Calnev, and several affiliates

Complaint alleges violations of the Interstate Commerce Act and FERC's cash management regulations, seeks review of the FERC Form 6 annual reports of SFPP and Calnev, and again requests interim refunds and reparations. The FERC dismissed the complaints, but directed SFPP and Calnev to review their cash management agreements and records to confirm compliance with FERC requirements and to make corrections, if necessary. Cash management agreements have been filed in compliance with the FERC's directive;

FERC Docket No. OR07-16 Complainant/Protestant: Tesoro Defendant: Calnev

Complaint challenges Calnev's 2005, 2006, and 2007 indexing adjustments. The FERC dismissed the complaint. A petition for review was filed at the D.C. Court by Tesoro, briefing is complete, and oral argument is scheduled for November 18, 2008;

FERC Docket No. OR07-18 Complainants/Protestants: Airline Complainants; Chevron; and Valero Marketing Defendant: Calnev

Complaint alleges that Calnev's rates are unjust and unreasonable and that none of Calnev's rates are grandfathered under EPAct 1992. In December 2007, the FERC issued an order accepting and holding in abeyance the portion of the complaint against the non-grandfathered portion of Calnev's rates. Pursuant to a FERC order, an amended complaint regarding the grandfathering issue has been filed. The FERC has not acted on the amended complaint;

FERC Docket No. OR07-19 Complainant/Protestant: ConocoPhillips Defendant: Calnev

Complaint alleges that Calnev's rates are unjust and unreasonable and that none of Calnev's rates are grandfathered under EPAct 1992. In December 2007, the FERC issued an order accepting and holding in abeyance the portion of the complaint against the non-grandfathered portion of Calnev's rates. Pursuant to the FERC order, an amended complaint regarding the grandfathering issue has been filed. The FERC has not acted on the amended complaint;

FERC Docket No. OR07-20 Complainant/Protestant: BP WCP Defendant: SFPP

Complaint alleges that SFPP's 2007 indexed rate increase was not just and reasonable. The FERC dismissed the complaint and complainant filed a request for rehearing. Prior to a FERC ruling on the request for rehearing, the parties reached a settlement. In February 2008, FERC accepted a joint offer of settlement that dismissed, with prejudice, the East Line index rate portion of the complaint in OR07-20 for the period from June 1, 2006 through and to November 30, 2007. Petition for review was filed by BP WCP at the D.C. Court. This proceeding is currently in abeyance pending a decision by the D.C. Court in the Tesoro review proceeding related to Docket No. OR07-16;

FERC Docket No. OR07-22 Complainant/Protestant: BP WCP Defendant: Calnev

Complaint alleges that Calnev's rates are unjust and unreasonable and that none of Calnev's rates are grandfathered under EPAct 1992. Pursuant to a FERC order, and amended complaint

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

regarding the grandfathering issue has been filed, but the FERC has not acted on the amended complaint;

FERC Docket No. OR08-13 Complainants/Protestants: BP WCP and ExxonMobil Defendant: SFPP

Complaint alleges that all of SFPP's rates are unjust and unreasonable. SFPP filed an answer on August 28, 2008. The FERC has not acted on the complaint. A settlement has been filed with the FERC with respect to the East Line portion of this complaint, and FERC action on the settlement is pending;

FERC Docket No. OR08-15 Complainants/Protestants: BP WCP and ExxonMobil Defendant: SFPP

Complaint challenges SFPP's indexing adjustments that went into effect on July 1, 2008. SFPP filed an answer on September 8, 2008. The FERC has not acted on the complaint. A settlement has been filed with the FERC with respect to the East Line portion of this complaint, and FERC action on the settlement is pending;

FERC Docket No. IS05-230 (North Line rate case) Complainants/Protestants: Shippers Defendant: SFPP

SFPP filed to increase North Line rates to reflect increased costs due to installation of new pipe between Concord and Sacramento, California. Various shippers protested. Administrative law judge's decision is pending before the FERC on exceptions. On August 31, 2007, BP WCP and ExxonMobil filed a motion to reopen the record on the issue of SFPP's appropriate rate of return on equity, which SFPP answered on September 18, 2007. On May 2, 2008, the FERC issued an order reopening the record in Docket No. IS05-230 for a paper hearing on issues related to rate of return on equity in light of the FERC's policy statement issued in April of 2008 regarding the methodology for determining returns on equity. The parties have filed a settlement regarding the sole issue of the numeric value of the rate of return on equity to be applied in this proceeding that, upon approval by the FERC, would obviate the need for the paper hearing;

FERC Docket No. IS05-327 Complainants/Protestants: Shippers Defendant: SFPP

SFPP filed to increase certain rates on its pipelines pursuant to the FERC's indexing methodology. Various shippers protested, but the FERC determined that the tariff filings were consistent with its regulations. The FERC denied rehearing. The D.C. Court dismissed a petition for review, citing a lack of jurisdiction to review a decision by the FERC not to order an investigation;

FERC Docket No. IS06-283 (East Line rate case) Complainants/Protestants: Shippers Defendant: SFPP

SFPP filed to increase East Line rates to reflect increased costs due to installation of new pipe between El Paso, Texas and Tucson, Arizona. Various shippers protested. This proceeding has been resolved by a settlement that has been approved by the FERC. SFPP made the payments to the parties to the settlement on April 8, 2008 and certified to the FERC that such payments were made on April 9, 2008;

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

FERC Docket No. IS06-296 Complainant/Protestant: ExxonMobil Defendant: Calnev
Calnev increased its interstate rates pursuant to the FERC's indexing methodology. ExxonMobil protested the indexing adjustment. This proceeding has been resolved by a settlement. On April 18, 2008, ExxonMobil filed a notice withdrawing its protest in Docket No. IS06-296;

FERC Docket No. IS06-356 Complainants/Protestants: Shippers Defendant: SFPP
SFPP filed to increase certain rates on its pipelines pursuant to the FERC's indexing methodology. Various shippers protested. The FERC generally found the tariff filings consistent with its regulations, but rescinded the index increase for the East Line rates. SFPP requested rehearing regarding the FERC's decision as to the East Line rates, which the FERC denied. In February 2008, the FERC accepted a joint offer of settlement which, among other things, resolved all protests and complaints related to the East Line 2006 indexing adjustment. SFPP made the payments to the parties to the settlement on April 8, 2008;

FERC Docket No. IS07-137 (Ultra Low Sulfur Diesel (ULSD) surcharge) Complainants/Protestants: Shippers Defendant: SFPP

SFPP filed tariffs reflecting a ULSD recovery fee on diesel products and a ULSD litigation surcharge, and various shippers protested the tariffs. The FERC accepted, subject to refund, the ULSD recovery fee, rejected the ULSD litigation surcharge. Chevron and Tesoro filed requests for rehearing, which the FERC denied by operation of law. BP WCP petitioned the D.C. Court for review of the FERC's denial, the FERC filed a motion to dismiss, and the D.C. Court granted the FERC's motion. In May 2008, the FERC set this proceeding for hearing and initiated settlement proceedings, which have resulted in a settlement in principle between the parties;

FERC Docket No. IS07-229 Complainants/Protestants: BP WCP and ExxonMobil Defendant: SFPP

SFPP filed to increase certain rates on its pipelines pursuant to the FERC's indexing methodology. Two shippers filed protests. The FERC found the tariff filings consistent with its regulations but suspended the increased rates subject to refund pending challenges to SFPP's underlying rates. In February 2008, the FERC accepted a joint offer of settlement, which among other things, resolved all protests and complaints related to the East Line 2007 indexing adjustment. In April 2008, SFPP certified payments under the settlement agreement;

FERC Docket No. IS07-234 Complainants/Protestants: BP WCP and ExxonMobil Defendant: Calnev

Calnev filed to increase certain rates on its pipeline pursuant to FERC's indexing methodology. Two shippers protested. The FERC found the tariff filings consistent with its regulations but suspended the increased rates subject to refund pending challenges to SFPP's underlying rates. Calnev and ExxonMobil reached an agreement to settle this and other dockets. On April 18, 2008, ExxonMobil filed a notice withdrawing its protest in Docket No. IS07-234;

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

FERC Docket No. IS08-28 Complainants/Protestants: ConocoPhillips; Chevron; BP WCP; ExxonMobil ; Southwest Airlines; Western; and Valero Defendant: SFPP
SFPP filed to increase its East Line rates based on costs incurred related to an expansion. Various shippers filed protests. Docket No. IS08-389 has been consolidated with this proceeding. A settlement has been filed with the FERC, and FERC action on the settlement is pending;

FERC Docket No. IS08-302 Complainants/Protestants: Chevron; BP WCP; ExxonMobil; and Tesoro Defendant: SFPP

SFPP filed to increase certain rates on its pipelines pursuant to FERC's indexing methodology. Certain shippers protested. The FERC found the tariff filings consistent with its regulations but suspended the increased rates subject to refund (except for the Oregon Line rate) pending challenges to SFPP's underlying rates;

FERC Docket No. IS08-389 Complainants/Protestants: ConocoPhillips, Valero, Southwest Airlines Co., Navajo, Western Defendant: SFPP

SFPP filed to decrease rates on its East Line. In July of 2008, various shippers protested, claiming that the rates should have been further decreased. On July 29, 2008, the FERC accepted and suspended the tariff, subject to refund, to become effective August 1, 2008, consolidated the proceeding with Docket No. IS08-28, and held in abeyance further action pending the outcome of settlement negotiations. A settlement has been filed with the FERC, and FERC action on the settlement is pending;

FERC Docket No. IS08-390 Complainants/Protestants: BP WCP, ExxonMobil, ConocoPhillips, Valero, Chevron, the Airlines Defendant: SFPP

SFPP filed to increase rates on its West Line. In July 2008, various shippers protested, claiming that the rates are unjust and unreasonable. On July 29, 2008, the FERC suspended the tariffs, to become effective August 1, 2008, subject to refund. A procedural schedule is in place and discovery is ongoing. A hearing is scheduled for June 2009; and

Motions to compel payment of interim damages (various dockets) Complainants/Protestants: Shippers Defendants: SFPP; Kinder Morgan G.P., Inc.; and Knight Inc.

Motions seek payment of interim refunds or escrow of funds pending resolution of various complaints and protests involving SFPP. The FERC denied shippers' refund requests in an order issued on December 26, 2007 in Docket Nos. OR92-8, *et al.* On March 19, 2008, ConocoPhillips and Tosco filed a Motion for Interim Refund and Reparations Order. SFPP filed a response on April 3, 2008. The FERC has yet to act on the parties' motion.

In December 2005, SFPP received a FERC order in Docket Nos. OR92-8, *et al.* and OR96-2, *et al.* that directed it to submit compliance filings and revised tariffs. In accordance with the FERC's December 2005 order and its February 2006 order on rehearing, SFPP submitted a compliance filing to the FERC in March 2006, and rate reductions were implemented on May 1, 2006.

In December 2007, as a follow-up to the March 2006 compliance filing, SFPP received a FERC order that directed it to submit revised compliance filings and revised tariffs. In conjunction with this order, Kinder Morgan Energy Partners' Pacific operations' other FERC and California Public Utilities Commission rate cases, and other unrelated litigation matters, Kinder Morgan Energy Partners

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

increased its litigation reserves by $140.0 million in the fourth quarter of 2007. We assume that, with respect to SFPP litigation reserves, any reparations and accrued interest thereon will be paid no earlier than the first quarter of 2009. In accordance with the FERC's December 2007 order and its February 2008 order on rehearing, SFPP submitted a compliance filing to the FERC in February 2008, and further rate reductions were implemented on March 1, 2008. We estimate that the impact of the new rates on Kinder Morgan Energy Partners' 2008 budget will be less than $3.0 million.

In the second quarter of 2008, SFPP and Calnev made combined settlement payments to various shippers totaling approximately $6.9 million and in general, if the shippers are successful in proving their claims, they are entitled to reparations or refunds of any excess tariffs or rates paid during the two year period prior to the filing of their complaint, and Kinder Morgan Energy Partners' SFPP and Calnev operations may be required to reduce the amount of their tariffs or rates for particular services. These proceedings tend to be protracted, with decisions of the FERC often appealed to the federal courts. Based on our review of these FERC proceedings, we estimate that as of September 30, 2008, shippers are seeking approximately $267 million in reparation and refund payments and approximately $45 million in additional annual rate reductions.

California Public Utilities Commission Proceedings

On April 7, 1997, ARCO, Mobil and Texaco filed a complaint against SFPP with the California Public Utilities Commission, referred to in this note as the CPUC. The complaint challenges rates charged by SFPP for intrastate transportation of refined petroleum products through its pipeline system in the state of California and requests prospective rate adjustments and refunds with respect to previously untariffed charges for certain pipeline transportation and related services.

In October 2002, the CPUC issued a resolution, referred to in this note as the Power Surcharge Resolution, approving a 2001 request by SFPP to raise its California rates to reflect increased power costs. The resolution approving the requested rate increase also required SFPP to submit cost data for 2001, 2002, and 2003, and to assist the CPUC in determining whether SFPP's overall rates for California intrastate transportation services are reasonable. The resolution reserves the right to require refunds, from the date of issuance of the resolution, to the extent the CPUC's analysis of cost data to be submitted by SFPP demonstrates that SFPP's California jurisdictional rates are unreasonable in any fashion.

On December 26, 2006, Tesoro filed a complaint challenging the reasonableness of SFPP's intrastate rates for the three-year period from December 2003 through December 2006 and requesting approximately $8 million in reparations. As a result of previous SFPP rate filings and related protests, the rates that are the subject of the Tesoro complaint are being collected subject to refund.

SFPP also has various, pending ratemaking matters before the CPUC that are unrelated to the above-referenced complaints and the Power Surcharge Resolution. Protests to these rate increase applications have been filed by various shippers. As a consequence of the protests, the related rate increases are being collected subject to refund.

All of the above matters have been consolidated and assigned to a single administrative law judge. At the time of the preparation of these notes to consolidated financial statements, it is unknown when a decision from the CPUC regarding the CPUC complaints and the Power Surcharge Resolution will be received. No schedule has been established for hearing and resolution of the consolidated

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

proceedings other than the 1997 CPUC complaint and the Power Surcharge Resolution. Based on our review of these CPUC proceedings, we estimate that shippers are seeking approximately $100 million in reparation and refund payments and approximately $35 million in annual rate reductions.

On June 6, 2008, as required by CPUC order, SFPP and Calnev Pipe Line Company filed separate general rate case applications, neither of which request a change in existing pipeline rates and both of which assert that existing pipeline rates are reasonable. On September 26, 2008, SFPP filed an amendment to its general rate case application, requesting CPUC approval of a $5 million rate increase for intrastate transportation services that became effective November 1, 2008. No action has been taken by the CPUC with respect to either the SFPP amended general rate case filing or the Calnev general rate case filing.

Carbon Dioxide Litigation

Shores and First State Bank of Denton Lawsuits

Kinder Morgan CO_2 Company, L.P. (referred to in this note as Kinder Morgan CO_2), Kinder Morgan G.P., Inc., and Cortez Pipeline Company were among the named defendants in Shores, et al. v. Mobil Oil Corp., et al., No. GC-99-01184 (Statutory Probate Court, Denton County, Texas filed December 22, 1999) and First State Bank of Denton, et al. v. Mobil Oil Corp., et al., No. 8552-01 (Statutory Probate Court, Denton County, Texas filed March 29, 2001). These cases were originally filed as class actions on behalf of classes of overriding royalty interest owners (Shores) and royalty interest owners (Bank of Denton) for damages relating to alleged underpayment of royalties on carbon dioxide produced from the McElmo Dome Unit. On February 22, 2005, the trial judge dismissed both cases for lack of jurisdiction. Some of the individual plaintiffs in these cases re-filed their claims in new lawsuits (discussed below).

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

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

Effective March 5, 2007, all defendants and plaintiffs Bridwell Oil Company, the Alicia Bowdle Trust, and the Estate of Margaret Bridwell Bowdle executed a final settlement agreement which provides for the dismissal of these plaintiffs' claims with prejudice to being refiled. On June 10, 2007, the Houston federal district court entered an order of partial dismissal by which the claims by and against the settling plaintiffs were dismissed with prejudice. The claims asserted by Bailey, Ptasynski, and Gray are not included within

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

the settlement or the order of partial dismissal. Effective April 8, 2008, the Shell and Kinder Morgan defendants and plaintiff Gray entered into an indemnification agreement that provides for the dismissal of Gray's claims with prejudice.

On April 22, 2008, the federal district court granted defendants' motions for summary judgment and ruled that plaintiffs Bailey, Ptasynski, and Gray take nothing on their claims. The court entered final judgment in favor of defendants on April 30, 2008. Defendants have filed a motion seeking sanctions against plaintiff Bailey. The plaintiffs have appealed the final judgment to the United States Fifth Circuit Court of Appeals.

CO_2 Claims Arbitration

Cortez Pipeline Company and Kinder Morgan CO_2, successor to Shell CO_2 Company, Ltd., were among the named defendants in CO_2 Committee, Inc. v. Shell Oil Co., et al., an arbitration initiated on November 28, 2005. The arbitration arose from a dispute over a class action settlement agreement, which became final on July 7, 2003 and disposed of five lawsuits formerly pending in the U.S. District Court, District of Colorado. The plaintiffs in such lawsuits primarily included overriding royalty interest owners, royalty interest owners, and small share working interest owners who alleged underpayment of royalties and other payments on carbon dioxide produced from the McElmo Dome Unit. The settlement imposed certain future obligations on the defendants in the underlying litigation. The plaintiff in the arbitration is an entity that was formed as part of the settlement for the purpose of monitoring compliance with the obligations imposed by the settlement agreement. The plaintiff alleged that, in calculating royalty and other payments, defendants used a transportation expense in excess of what is allowed by the settlement agreement, thereby causing alleged underpayments of approximately $12 million. The plaintiff also alleged that Cortez Pipeline Company should have used certain funds to further reduce its debt, which, in turn, would have allegedly increased the value of royalty and other payments by approximately $0.5 million. Defendants denied that there was any breach of the settlement agreement. On August 7, 2006, the arbitration panel issued its opinion finding that defendants did not breach the settlement agreement. On October 25, 2006, the defendants filed an application to confirm the arbitration decision in New Mexico federal district court. On June 21, 2007, the New Mexico federal district court entered final judgment confirming the August 7, 2006 arbitration decision.

On October 2, 2007, the plaintiff initiated a second arbitration (CO_2 Committee, Inc. v. Shell CO_2 Company, Ltd., aka Kinder Morgan CO_2 Company, L.P., et al.) against Cortez Pipeline Company, Kinder Morgan CO_2 and an ExxonMobil entity. The second arbitration asserts claims similar to those asserted in the first arbitration. On October 11, 2007, the defendants filed a Complaint for Declaratory Judgment and Injunctive Relief in federal district court in New Mexico. The Complaint seeks dismissal of the second arbitration on the basis of res judicata. In November 2007, the plaintiff in the arbitration moved to dismiss the defendants' Complaint on the grounds that the issues presented should be decided by a panel in a second arbitration. In December 2007, the defendants in the arbitration filed a motion seeking summary judgment on their Complaint and dismissal of the second arbitration. On May 16, 2008, the federal district court in New Mexico granted the plaintiff's motion to dismiss. On June 2, 2008, the defendants in the arbitration filed a motion in the New Mexico federal district court seeking an order confirming that the panel in the first arbitration can preside over the second arbitration. On June 3, 2008, the plaintiff filed a request with the American Arbitration Association seeking administration of the arbitration.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

MMS Notice of Noncompliance and Civil Penalty

On December 20, 2006, Kinder Morgan CO_2 received a "Notice of Noncompliance and Civil Penalty: Knowing or Willful Submission of False, Inaccurate, or Misleading Information Kinder Morgan CO_2 Company, L.P., Case No. CP07-001" from the U.S. Department of the Interior, Minerals Management Service, referred to in this note as the MMS. This Notice, and the MMS's position that Kinder Morgan CO_2 has violated certain reporting obligations, relates to a disagreement between the MMS and Kinder Morgan CO_2 concerning the approved transportation allowance to be used in valuing McElmo Dome carbon dioxide for purposes of calculating federal royalties. The Notice of Noncompliance and Civil Penalty assesses a civil penalty of approximately $2.2 million as of December 15, 2006 (based on a penalty of $500.00 per day for each of 17 alleged violations) for Kinder Morgan CO_2's alleged submission of false, inaccurate, or misleading information relating to the transportation allowance, and federal royalties for CO_2 produced at McElmo Dome, during the period from June 2005 through October 2006. The MMS contends that false, inaccurate, or misleading information was submitted in the 17 monthly Form 2014s containing remittance advice reflecting the royalty payments for the referenced period because they reflected Kinder Morgan CO_2's use of the Cortez Pipeline tariff as the transportation allowance. The MMS claims that the Cortez Pipeline tariff is not the proper transportation allowance and that Kinder Morgan CO_2 should have used its "reasonable actual costs" calculated in accordance with certain federal product valuation regulations as amended effective June 1, 2005. The MMS stated that civil penalties will continue to accrue at the same rate until the alleged violations are corrected.

The MMS set a due date of January 20, 2007 for Kinder Morgan CO_2's payment of the approximately $2.2 million in civil penalties, with interest to accrue daily on that amount in the event payment is not made by such date. Kinder Morgan CO_2 has not paid the penalty. On January 2, 2007, Kinder Morgan CO_2 submitted a response to the Notice of Noncompliance and Civil Penalty challenging the assessment in the Office of Hearings and Appeals of the Department of the Interior. On February 1, 2007, Kinder Morgan CO_2 filed a petition to stay the accrual of penalties until the dispute is resolved. On February 22, 2007, an administrative law judge of the U.S. Department of the Interior issued an order denying Kinder Morgan CO_2's petition to stay the accrual of penalties. A hearing on the Notice of Noncompliance and Civil Penalty was originally set for December 10, 2007. In November 2007, the MMS and Kinder Morgan CO_2 filed a joint motion to vacate the hearing date and stay the accrual of additional penalties to allow the parties to discuss settlement. In November 2007, the administrative law judge granted the joint motion, stayed accrual of additional penalties for the period from November 6, 2007 to February 18, 2008, and reset the hearing date to March 24, 2008. The parties conducted settlement conferences on February 4, 2008 and February 12, 2008. On February 14, 2008, the parties filed a joint motion seeking to vacate the March 24, 2008 hearing and to stay the accrual of additional penalties to allow the parties to continue their settlement discussions. On March 4, 2008, the administrative law judge granted the joint motion. The parties reached a settlement of the Notice of Noncompliance and Civil Penalty. The settlement agreement is subject to final MMS approval.

Kinder Morgan CO_2 disputes the Notice of Noncompliance and Civil Penalty and believes that it has meritorious defenses. Kinder Morgan CO_2 contends that use of the Cortez Pipeline tariff as the transportation allowance for purposes of calculating federal royalties was approved by the MMS in 1984. This approval was later affirmed as open-ended by the Interior Board of Land Appeals in the 1990s. Accordingly, Kinder Morgan CO_2 has stated to the MMS that its use of the Cortez Pipeline

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

tariff as the approved federal transportation allowance is authorized and proper. Kinder Morgan CO_2 also disputes the allegation that it has knowingly or willfully submitted false, inaccurate, or misleading information to the MMS. Kinder Morgan CO_2's use of the Cortez Pipeline tariff as the approved federal transportation allowance has been the subject of extensive discussion between the parties. The MMS was, and is, fully apprised of that fact and of the royalty valuation and payment process followed by Kinder Morgan CO_2 generally.

MMS Order to Report and Pay

On March 20, 2007, Kinder Morgan CO_2 received an "Order to Report and Pay" from the MMS. The MMS contends that Kinder Morgan CO_2 has over-reported transportation allowances and underpaid royalties in the amount of approximately $4.6 million for the period from January 1, 2005 through December 31, 2006 as a result of its use of the Cortez Pipeline tariff as the transportation allowance in calculating federal royalties. As noted in the discussion of the Notice of Noncompliance and Civil Penalty proceeding, the MMS claims that the Cortez Pipeline tariff is not the proper transportation allowance and that Kinder Morgan CO_2 must use its "reasonable actual costs" calculated in accordance with certain federal product valuation regulations. The MMS set a due date of April 13, 2007 for Kinder Morgan CO_2's payment of the $4.6 million in claimed additional royalties, with possible late payment charges and civil penalties for failure to pay the assessed amount. Kinder Morgan CO_2 has not paid the $4.6 million, and on April 19, 2007, it submitted a notice of appeal and statement of reasons in response to the Order to Report and Pay, challenging the Order and appealing it to the Director of the MMS in accordance with 30 C.F.R. Sec. 290.100, et seq. Also on April 19, 2007, Kinder Morgan CO_2 submitted a petition to suspend compliance with the Order to Report and Pay pending the appeal. The MMS granted Kinder Morgan CO_2's petition to suspend, and approved self-bonding on June 12, 2007. Kinder Morgan CO_2 filed a supplemental statement of reasons in support of its appeal of the Order to Report and Pay on June 15, 2007.

In addition to the March 2007 Order to Report and Pay, in April 2007, Kinder Morgan CO_2 received an "Audit Issue Letter" sent by the Colorado Department of Revenue on behalf of the U.S. Department of the Interior. In the letter, the Department of Revenue states that Kinder Morgan CO_2 has over-reported transportation allowances and underpaid royalties (due to the use of the Cortez Pipeline tariff as the transportation allowance for purposes of federal royalties) in the amount of $8.5 million for the period from April 2000 through December 2004. Kinder Morgan CO_2 responded to the letter in May 2007, outlining its position why use of the Cortez tariff-based transportation allowance is proper. On August 8, 2007, Kinder Morgan CO_2 received an "Order to Report and Pay Additional Royalties" from the MMS. As alleged in the Colorado Audit Issue Letter, the MMS contends that Kinder Morgan CO_2 has over-reported transportation allowances and underpaid royalties in the amount of approximately $8.5 million for the period from April 2000 through December 2004. The MMS's claims underlying the August 2007 Order to Report and Pay are similar to those at issue in the March 2007 Order to Report and Pay. On September 7, 2007, Kinder Morgan CO_2 submitted a notice of appeal and statement of reasons in response to the August 2007 Order to Report and Pay, challenging the Order and appealing it to the Director of the MMS in accordance with 30 C.F.R. Sec. 290.100, et seq. Also on September 7, 2007, Kinder Morgan CO_2 submitted a petition to suspend compliance with the Order to Report and Pay pending the appeal. The MMS granted Kinder Morgan CO_2's petition to suspend, and approved self-bonding on September 11, 2007.

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

The MMS and Kinder Morgan CO_2 have agreed to stay the March 2007 and August 2007 Order to Report and Pay proceedings to allow the parties to discuss settlement. The parties conducted settlement conferences on February 4, 2008 and February 12, 2008 and reached a settlement of the March 2007 and August 2007 Orders to Report and Pay. The settlement agreement is subject to final MMS approval.

Kinder Morgan CO_2 disputes both the March and August 2007 Orders to Report and Pay and the Colorado Department of Revenue Audit Issue Letter, and as noted above, it contends that use of the Cortez Pipeline tariff as the transportation allowance for purposes of calculating federal royalties was approved by the MMS in 1984 and was affirmed as open-ended by the Interior Board of Land Appeals in the 1990s. The appeals to the MMS Director of the Orders to Report and Pay do not provide for an oral hearing. No further submission or briefing deadlines have been set.

J. Casper Heimann, Pecos Slope Royalty Trust and Rio Petro LTD, individually and on behalf of all other private royalty and overriding royalty owners in the Bravo Dome Carbon Dioxide Unit, New Mexico similarly situated v. Kinder Morgan CO_2 Company, L.P., No. 04-26-CL (8^{th} Judicial District Court, Union County New Mexico)

This case involves a purported class action against Kinder Morgan CO_2 alleging that it has failed to pay the full royalty and overriding royalty ("royalty interests") on the true and proper settlement value of compressed carbon dioxide produced from the Bravo Dome Unit during the period beginning January 1, 2000. The complaint purports to assert claims for violation of the New Mexico Unfair Practices Act, constructive fraud, breach of contract and of the covenant of good faith and fair dealing, breach of the implied covenant to market, and claims for an accounting, unjust enrichment, and injunctive relief. The purported class is comprised of current and former owners, during the period January 2000 to the present, who have private property royalty interests burdening the oil and gas leases held by the defendant, excluding the Commissioner of Public Lands, the United States of America, and those private royalty interests that are not unitized as part of the Bravo Dome Unit. The plaintiffs allege that they were members of a class previously certified as a class action by the United States District Court for the District of New Mexico in the matter Doris Feerer, et al. v. Amoco Production Company, et al., USDC N.M. Civ. No. 95-0012 (the "Feerer Class Action"). Plaintiffs allege that Kinder Morgan CO_2's method of paying royalty interests is contrary to the settlement of the Feerer Class Action. Kinder Morgan CO_2 filed a motion to compel arbitration of this matter pursuant to the arbitration provisions contained in the Feerer Class Action settlement agreement, which motion was denied. Kinder Morgan CO_2 appealed this decision to the New Mexico Court of Appeals, which affirmed the decision of the trial court. The New Mexico Supreme Court granted further review in October 2006, and after hearing oral argument, the New Mexico Supreme Court quashed its prior order granting review. In August 2007, Kinder Morgan CO_2 filed a petition for writ of certiorari with the United States Supreme Court seeking further review. The petition was denied in December 2007. The case was tried in the trial court in September 2008. The plaintiffs sought $6.8 million in actual damages as well as punitive damages. The jury returned a verdict finding that Kinder Morgan did not breach the settlement agreement and did not breach the claimed duty to market carbon dioxide. The jury also found that Kinder Morgan breached a duty of good faith and fair dealing and found compensatory damages of $0.3 million and punitive damages of $1.2 million. On October 16, 2008, the trial court entered judgment on the verdict.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

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

Commercial Litigation Matters

Union Pacific Railroad Company Easements

SFPP and Union Pacific Railroad Company (the successor to Southern Pacific Transportation Company and referred to in this note as UPRR) are engaged in a proceeding to determine the extent, if any, to which the rent payable by SFPP for the use of pipeline easements on rights-of-way held by UPRR should be adjusted pursuant to existing contractual arrangements for the ten-year period beginning January 1, 2004 (*Union Pacific Railroad Company vs. Santa Fe Pacific Pipelines, Inc., SFPP, L.P., Kinder Morgan Operating L.P. "D", Kinder Morgan G.P., Inc., et al.,* Superior Court of the State of California for the County of Los Angeles, filed July 28, 2004). In February 2007, a trial began to determine the amount payable for easements on UPRR rights-of-way. The trial is ongoing and is expected to conclude in the first quarter of 2009.

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. SFPP believes that it must pay for relocation of the pipeline only when so required by the railroad's common carrier operations, and in doing so, it need only comply with standards set forth in the federal Pipeline Safety Act in conducting 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 has appealed this decision. In addition, UPRR contends that it has complete discretion to cause the pipeline to be relocated at SFPP's expense at any time and for any reason, and that SFPP must comply with the more expensive American Railway Engineering and Maintenance-of-Way standards. Each party is seeking declaratory relief with respect to its positions regarding relocations.

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

United States of America, ex rel., Jack J. Grynberg v. K N Energy (Civil Action No. 97-D-1233, filed in the U.S. District Court, District of Colorado).

This multi-district litigation proceeding involves four lawsuits filed in 1997 against numerous Kinder Morgan companies. These suits were filed pursuant to the federal False Claims Act and allege underpayment of royalties due to mismeasurement of natural gas produced from federal and Indian lands. The complaints are part of a larger series of similar complaints filed by Mr. Grynberg against 77 natural gas pipelines (approximately 330 other defendants) in various courts throughout the country that were consolidated and transferred to the District of Wyoming.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

In May 2005, a Special Master appointed in this litigation found that because there was a prior public disclosure of the allegations and that Grynberg was not an original source, the Court lacked subject matter jurisdiction. As a result, the Special Master recommended that the Court dismiss all the Kinder Morgan defendants. In October 2006, the United States District Court for the District of Wyoming upheld the dismissal of each case against the Kinder Morgan defendants on jurisdictional grounds. Grynberg has appealed this Order to the Tenth Circuit Court of Appeals. Briefing was completed and oral argument was held on September 25, 2008. No decision has yet been issued.

Prior to the dismissal order on jurisdictional grounds, the Kinder Morgan defendants filed Motions to Dismiss and for Sanctions alleging that Grynberg filed his Complaint without evidentiary support and for an improper purpose. On January 8, 2007, after the dismissal order, the Kinder Morgan defendants also filed a Motion for Attorney Fees under the False Claim Act. On April 24, 2007, the Court held a hearing on the Motions to Dismiss and for Sanctions and the Requests for Attorney Fees. A decision is still pending on the Motions to Dismiss and for Sanctions and the Requests for Attorney Fees.

Weldon Johnson and Guy Sparks, individually and as Representative of Others Similarly Situated v. CenterPoint Energy, Inc. et. al., No. 04-327-2 (Circuit Court, Miller County Arkansas).

On October 8, 2004, plaintiffs filed the above-captioned matter against numerous defendants including Kinder Morgan Texas Pipeline L.P.; Kinder Morgan Energy Partners, L.P.; Kinder Morgan G.P., Inc.; KM Texas Pipeline, L.P.; Kinder Morgan Texas Pipeline G.P., Inc.; Kinder Morgan Tejas Pipeline G.P., Inc.; Kinder Morgan Tejas Pipeline, L.P.; Gulf Energy Marketing, LLC; Tejas Gas, LLC; and MidCon Corp. (the "Kinder Morgan defendants"). The complaint purports to bring a class action on behalf of those who purchased natural gas from the CenterPoint defendants from October 1, 1994 to the date of class certification.

The complaint alleges that CenterPoint Energy, Inc., by and through its affiliates, has artificially inflated the price charged to residential consumers for natural gas that it allegedly purchased from the non-CenterPoint defendants, including the Kinder Morgan defendants. The complaint further alleges that in exchange for CenterPoint's purchase of such natural gas at above market prices, the non-CenterPoint defendants, including the Kinder Morgan defendants, sell natural gas to CenterPoint's non-regulated affiliates at prices substantially below market, which in turn sells such natural gas to commercial and industrial consumers and gas marketers at market price. The complaint purports to assert claims for fraud, unlawful enrichment and civil conspiracy against all of the defendants, and seeks relief in the form of actual, exemplary and punitive damages, interest, and attorneys' fees. On June 8, 2007, the Arkansas Supreme Court held that the Arkansas Public Service Commission ("APSC") exclusive jurisdiction over any Arkansas plaintiffs' claims that consumers were overcharged for gas in Arkansas and mandated that any such claims be dismissed from this lawsuit. On February 14, 2008, the Arkansas Supreme Court clarified its previously issued order and mandated that the trial court dismiss the lawsuit in its entirety. On February 29, 2008, the trial court dismissed the case in its entirety. The APSC has initiated an investigation into the allegations set forth in the plaintiffs' complaint.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

Leukemia Cluster Litigation

Richard Jernee, et al. v. Kinder Morgan Energy Partners, et al., No. CV03-03482 (Second Judicial District Court, State of Nevada, County of Washoe) ("Jernee").

Floyd Sands, et al. v. Kinder Morgan Energy Partners, et al., No. CV03-05326 (Second Judicial District Court, State of Nevada, County of Washoe) ("Sands").

On May 30, 2003, plaintiffs, individually and on behalf of Adam Jernee, filed a civil action in the Nevada State trial court against Kinder Morgan Energy Partners and several Kinder Morgan related entities and individuals and additional unrelated defendants. Plaintiffs in the Jernee matter claim that defendants negligently and intentionally failed to inspect, repair and replace unidentified segments of their pipeline and facilities, allowing "harmful substances and emissions and gases" to damage "the environment and health of human beings." Plaintiffs claim that "Adam Jernee's death was caused by leukemia that, in turn, is believed to be due to exposure to industrial chemicals and toxins." Plaintiffs purport to assert claims for wrongful death, premises liability, negligence, negligence per se, intentional infliction of emotional distress, negligent infliction of emotional distress, assault and battery, nuisance, fraud, strict liability (ultra hazardous acts), and aiding and abetting, and seek unspecified special, general and punitive damages. On August 28, 2003, a separate group of plaintiffs, represented by the counsel for the plaintiffs in the Jernee matter, individually and on behalf of Stephanie Suzanne Sands, filed a civil action in the Nevada State trial court against the same defendants and alleging the same claims as in the Jernee case with respect to Stephanie Suzanne Sands. The Jernee case has been consolidated for pretrial purposes with the Sands case. In May 2006, the court granted defendants' motions to dismiss as to the counts purporting to assert claims for fraud, but denied defendants' motions to dismiss as to the remaining counts, as well as defendants' motions to strike portions of the complaint. Defendant Kennametal, Inc. has filed a third-party complaint naming the United States and the United States Navy (the "United States") as additional defendants. In response, the United States removed the case to the United States District Court for the District of Nevada and filed a motion to dismiss the third-party complaint. Plaintiff has also filed a motion to dismiss the United States and/or to remand the case back to state court. By order dated September 25, 2007, the United States District Court granted the motion to dismiss the United States from the case and remanded the Jernee and Sands cases back to the Second Judicial District Court, State of Nevada, County of Washoe. The cases will now proceed in the State Court. Based on the information available to date, our own preliminary investigation, and the positive results of investigations conducted by State and Federal agencies, we believe that the remaining claims against Kinder Morgan Energy Partners in these matters are without merit and intend to defend against them vigorously.

Pipeline Integrity and Releases

From time to time, our pipelines experience leaks and ruptures. These leaks and ruptures may cause explosions, fire, 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.

We believe that we conduct our operations in accordance with applicable law. We seek to cooperate with state and federal regulatory authorities in connection with the cleanup of the

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

environment caused by such leaks and ruptures and with any investigations as to the facts and circumstances surrounding the incidents.

Pasadena Terminal Fire

On September 23, 2008, a fire occurred in the pit 3 manifold area of our Pasadena, Texas terminal facility. One of our employees was injured and subsequently died. In addition, the pit 3 manifold was severely damaged. The cause of the incident is currently under investigation by the Railroad Commission of Texas and the United States Occupational Safety and Health Administration. The remainder of the facility returned to normal operations within twenty-four hours of the incident.

Walnut Creek, California Pipeline Rupture

On November 9, 2004, excavation equipment operated by Mountain Cascade, Inc., a third-party contractor on a water main installation project hired by East Bay Municipal Utility District, struck and ruptured an underground petroleum pipeline owned and operated by SFPP in Walnut Creek, California. An explosion occurred immediately following the rupture that resulted in five fatalities and several injuries to employees or contractors of Mountain Cascade, Inc. The explosion and fire also caused property damage.

On May 5, 2005, the California Division of Occupational Safety and Health ("CalOSHA") issued two civil citations against Kinder Morgan Energy Partners relating to this incident assessing civil fines of approximately $0.1 million based upon its alleged failure to mark the location of the pipeline properly prior to the excavation of the site by the contractor. On March 24, 2008, Kinder Morgan Energy Partners agreed to a settlement with CalOSHA by which the two citations would be reduced to two "unclassified" violations of the CalOSHA regulations and Kinder Morgan Energy Partners would pay a fine of $140,000. The settlement is currently awaiting approval by the CalOSHA Appeals Board.

On June 27, 2005, the Office of the California State Fire Marshal, Pipeline Safety Division, referred to as the CSFM, issued a notice of violation against Kinder Morgan Energy Partners, which also alleged that it did not properly mark the location of the pipeline in violation of state and federal regulations. The CSFM assessed a proposed civil penalty of $0.5 million. On September 9, 2008, Kinder Morgan Energy Partners reached an agreement with the CSFM to settle the proposed civil penalty for approximately $0.3 million with no admission of liability.

As a result of the accident, nineteen separate lawsuits were filed. The majority of the cases were personal injury and wrongful death actions that alleged, among other things, that SFPP/Kinder Morgan Energy Partners failed to properly field mark the area where the accident occurred.

Following court ordered mediation, the Kinder Morgan Energy Partners defendants have settled with plaintiffs in all of the wrongful death cases and the personal injury and property damages cases. The only remaining civil case is a claim for equitable indemnity by an engineering company defendant against Kinder Morgan G.P. Services Co., Inc. Kinder Morgan Energy Partners has filed a Motion for Summary Judgment with respect to all of the claims in this matter, which motion is currently pending.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

Rockies Express Pipeline LLC Wyoming Construction Incident

On November 11, 2006, a bulldozer operated by an employee of Associated Pipeline Contractors, Inc., (a third-party contractor to Rockies Express Pipeline LLC, referred to in this note as REX), struck an existing subsurface natural gas pipeline owned by Wyoming Interstate Company, a subsidiary of El Paso Pipeline Group. The pipeline was ruptured, resulting in an explosion and fire. The incident occurred in a rural area approximately nine miles southwest of Cheyenne, Wyoming. The incident resulted in one fatality (the operator of the bulldozer) and there were no other reported injuries. The cause of the incident was investigated by the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration, referred to as the PHMSA. In March 2008, the PHMSA issued a Notice of Probable Violation, Proposed Civil Penalty and Proposed Compliance Order ("NOPV") to El Paso Corporation in which it concluded that El Paso failed to comply with federal law and its internal policies and procedures regarding protection of its pipeline, resulting in this incident. To date, the PHMSA has not issued any NOPV's to REX, and we do not expect that it will do so. Immediately following the incident, REX and El Paso Pipeline Group reached an agreement on a set of additional enhanced safety protocols designed to prevent the reoccurrence of such an incident.

In September 2007, the family of the deceased bulldozer operator filed a wrongful death action against Kinder Morgan Energy Partners, REX and several other parties in the District Court of Harris County, Texas, 189 Judicial District, at case number 2007-57916. The plaintiffs seek unspecified compensatory and exemplary damages plus interest, attorney's fees and costs of suit. Kinder Morgan Energy Partners has asserted contractual claims for complete indemnification for any and all costs arising from this incident, including any costs related to this lawsuit, against third parties and their insurers. On March 25, 2008, the defendants entered into a settlement agreement with one of the plaintiffs, the decedent's daughter, resolving any and all of her claims against Kinder Morgan Energy Partners, REX and its contractors. Kinder Morgan Energy Partners was indemnified for the full amount of this settlement by one of REX's contractors. On October 17, 2008, the remaining plaintiffs filed a Notice of Nonsuit, which dismissed the remaining claims against all defendants without prejudice to the plaintiffs' ability to re-file their claims at a later date.

Charlotte, North Carolina

On November 27, 2006, the Plantation Pipeline experienced a release of approximately 4,000 gallons of gasoline from a Plantation Pipe Line Company block valve on a delivery line into a terminal owned by a third party company. Upon discovery of the release, Plantation immediately locked out the delivery of gasoline through that pipe to prevent further releases. Product had flowed onto the surface and into a nearby stream, which is a tributary of Paw Creek, and resulted in loss of fish and other biota. Product recovery and remediation efforts were implemented immediately, including removal of product from the stream. The line was repaired and put back into service within a few days. Remediation efforts are continuing under the direction of the North Carolina Department of Environment and Natural Resources (the "NCDENR"), which issued a Notice of Violation and Recommendation of Enforcement against Plantation on January 8, 2007. Plantation continues to cooperate fully with the NCDENR.

Although Plantation does not believe that penalties are warranted, it is engaging in settlement discussions with the EPA regarding a potential civil penalty for the November 2006 release as part of broader settlement negotiations with the EPA regarding this spill and three other historic releases from

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

Plantation, including a February 2003 release near Hull, Georgia. Plantation has entered into a consent decree with the Department of Justice and the EPA for all four releases for approximately \$0.7 million, plus some additional work to be performed to prevent future releases. Although it is not possible to predict the ultimate outcome, we believe, based on our experiences to date, that the ultimate resolution of such items will not have a material adverse impact on our business, financial position, results of operations or cash flows.

In addition, in April 2007, during pipeline maintenance activities near Charlotte, North Carolina, Plantation discovered the presence of historical soil contamination near the pipeline, and reported the presence of impacted soils to the NCDENR. Subsequently, Plantation contacted the owner of the property to request access to the property to investigate the potential contamination. The results of that investigation indicate that there is soil and groundwater contamination, which appears to be from an historical turbine fuel release. The groundwater contamination is underneath at least two lots on which there is current construction of single-family homes as part of a new residential development. Further investigation and remediation are being conducted under the oversight of the NCDENR. Plantation reached a settlement with the builder of the residential subdivision. Plantation continues to negotiate with the owner of the property to address any potential claims that it may bring.

Barstow, California

The United States Department of Navy has alleged that historic releases of methyl tertiary-butyl ether, referred to as MTBE, from Calnev's Barstow terminal has (i) migrated underneath the Navy's Marine Corps Logistics Base (the "MCLB") in Barstow, (ii) impacted the Navy's existing groundwater treatment system for unrelated groundwater contamination not alleged to have been caused by Calnev, and (iii) affected the MCLB's water supply system. Although Calnev believes that it has certain meritorious defenses to the Navy's claims, it is working with the Navy to agree upon an Administrative Settlement Agreement and Order on Consent for CERCLA Removal Action to reimburse the Navy for \$0.5 million in past response actions, plus perform other work to ensure protection of the Navy's existing treatment system and water supply.

Oil Spill Near Westridge Terminal, Burnaby, British Columbia

On July 24, 2007, a third-party contractor installing a sewer line for the City of Burnaby struck a crude oil pipeline segment included within Kinder Morgan Energy Partners' Trans Mountain pipeline system near its Westridge terminal in Burnaby, BC, resulting in a release of approximately 1,400 barrels of crude oil. The release impacted the surrounding neighborhood, several homes and nearby Burrard Inlet. No injuries were reported. To address the release, Kinder Morgan Energy Partners initiated a comprehensive emergency response in collaboration with, among others, the City of Burnaby, the BC Ministry of Environment, the National Energy Board, and the National Transportation Safety Board. Cleanup and environmental remediation is near completion. The incident is currently under investigation by Federal and Provincial agencies. We do not expect this matter to have a material adverse impact on our financial position, results of operations or cash flows.

On December 20, 2007, Kinder Morgan Energy Partners initiated a lawsuit entitled *Trans Mountain Pipeline LP, Trans Mountain Pipeline Inc. and Kinder Morgan Canada Inc. v. The City of Burnaby, et al.*, Supreme Court of British Columbia, Vancouver Registry No. S078716. The suit alleges that the City of Burnaby and its agents are liable for damages including, but not limited to, all costs and expenses

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

incurred by Kinder Morgan Energy Partners as a result of the rupture of the pipeline and subsequent release of crude oil. Defendants have denied liability and discovery has begun.

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

Additionally, although it is not possible to predict the ultimate outcomes, we also believe, based on our experiences to date, that the ultimate resolution of these matters will not have a material adverse impact on our business, financial position, results of operations or cash flows. As of September 30, 2008, and December 31, 2007, we have recorded a total reserve for legal fees, transportation rate cases and other litigation liabilities in the amount of $232.5 million and $249.4 million, respectively. The reserve is primarily related to various claims from lawsuits arising from Kinder Morgan Energy Partners' Pacific operations' pipeline transportation rates, and the contingent amount is based on both the circumstances of probability and reasonability of dollar estimates. We regularly assesses the likelihood of adverse outcomes resulting from these claims in order to determine the adequacy of our liability provision.

Environmental Matters

ExxonMobil Corporation v. GATX Corporation, Kinder Morgan Liquids Terminals, Inc. and ST Services, Inc.

On April 23, 2003, ExxonMobil Corporation filed a complaint in the Superior Court of New Jersey, Gloucester County. Kinder Morgan Energy Partners filed its answer to the complaint on June 27, 2003, in which it denied ExxonMobil 's claims and allegations as well as included counterclaims against ExxonMobil. 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 ST Services, Inc. Prior to selling the terminal to GATX Terminals, ExxonMobil performed the environmental site assessment of the terminal required prior to sale pursuant to state law. During the site assessment, ExxonMobil discovered items that required remediation and the New Jersey Department of Environmental Protection issued an order that required ExxonMobil to perform various remediation activities to remove hydrocarbon contamination at the terminal. ExxonMobil, we understand, is still remediating the site and has not been removed as a responsible party from the state's cleanup order; however, ExxonMobil claims that the remediation continues because of GATX Terminals' storage of a fuel additive, MTBE, at the terminal during GATX Terminals' ownership of the terminal. When GATX Terminals sold the terminal to ST Services, the parties indemnified one another for certain environmental matters. When GATX Terminals was sold to Kinder Morgan Energy Partners, GATX Terminals' indemnification obligations, if any, to ST Services may have passed to Kinder Morgan Energy Partners.

Consequently, at issue is any indemnification obligation Kinder Morgan Energy Partners may owe to ST Services for environmental remediation of MTBE at the terminal. The complaint seeks any and all damages related to remediating MTBE at the terminal, and, according to the New Jersey Spill Compensation and Control Act, treble damages may be available for actual dollars incorrectly spent by the successful party in the lawsuit for remediating MTBE at the terminal. The parties are currently

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

involved in mandatory mediation met in June and October 2008. No progress was made at any of the mediations. The parties continue to conduct limited discovery. Currently, the mediation judge has ordered all parties' technical consultants to meet to discuss and finalize a remediation program. Following that meeting, it is anticipated that the parties will again convene for another mediation.

On June 25, 2007, the New Jersey Department of Environmental Protection, the Commissioner of the New Jersey Department of Environmental Protection and the Administrator of the New Jersey Spill Compensation Fund, referred to collectively as the plaintiffs, filed a complaint against ExxonMobil Corporation and GATX Terminals Corporation. The complaint was filed in Gloucester County, New Jersey. Both ExxonMobil and Kinder Morgan Energy Partners filed third-party complaints against ST Services seeking to bring ST Services into the case. ST Services filed motions to dismiss the third-party complaints. Recently, the court denied ST Services' motions to dismiss and ST Services is now joined in the case. Defendants will now file their answers in the case. The plaintiffs seek the costs and damages that the plaintiffs allegedly have incurred or will incur as a result of the discharge of pollutants and hazardous substances at the Paulsboro, New Jersey facility. The costs and damages that the plaintiffs seek include damages to natural resources. In addition, the plaintiffs seek an order compelling the defendants to perform or fund the assessment and restoration of those natural resource damages that are the result of the defendants' alleged actions. As in the case brought by ExxonMobil against GATX Terminals, the issue is whether the plaintiffs' claims are within the scope of the indemnity obligations between GATX Terminals (and therefore, Kinder Morgan Liquids Terminals) and ST Services. ST Services is the current owner and operator at the facility. The court may consolidate the two cases.

Mission Valley Terminal Lawsuit

In August 2007, the City of San Diego, on its own behalf and purporting to act on behalf of the People of the state of California, filed a lawsuit against Kinder Morgan Energy Partners and several affiliates seeking injunctive relief and unspecified damages allegedly resulting from hydrocarbon and MTBE impacted soils and groundwater beneath the city's stadium property in San Diego arising from historic operations at the Mission Valley terminal facility. The case was filed in the Superior Court of California, San Diego County, case number 37-2007-00073033-CU-OR-CTL. On September 26, 2007, Kinder Morgan Energy Partners removed the case to the United States District Court, Southern District of California, case number 07CV1883WCAB. On October 3, 2007, Kinder Morgan Energy Partners filed a Motion to Dismiss all counts of the Complaint. The court denied in part and granted in part the Motion to Dismiss and gave the City leave to amend their complaint. The City submitted its Amended Complaint and we filed an Answer. The parties have commenced with discovery. This site has been, and currently is, under the regulatory oversight and order of the California Regional Water Quality Control Board.

In June 2008, we received an Administrative Civil Liability Complaint from the California Regional Water Quality Control Board for violations and penalties associated with permitted surface water discharge from the remediation system operating at the Mission Valley terminal facility. Currently, we are negotiating a settlement that should include a reduction of alleged violations and associated penalties as well as resolve any past and future issues related to permitted surface water discharge from the remediation system. We do not expect the cost of the settlement to be material.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

Portland Harbor DOJ/EPA Investigation

In April 2008, Kinder Morgan Energy Partners reached an agreement in principle with the United States Attorney's office for the District of Oregon and the United States Department of Justice regarding a former employee's involvement in the improper disposal of potash (potassium chloride) into the Pacific Ocean in August 2003 at Kinder Morgan Energy Partners' Portland, Oregon bulk terminal facility. The incident involved an employee making arrangements to have a customer's shipment of potash, which had become wet and no longer met specifications for commercial use, improperly disposed of at sea without a permit. On August 13, 2008, we completed the settlement.

Kinder Morgan Energy Partners has fully cooperated with the government's investigation and promptly adopted measures at the terminal to avoid future incidents of this nature. To settle the matter, Kinder Morgan Energy Partners entered a plea to a criminal violation of the Ocean Dumping Act, pay a fine of approximately $0.2 million, and make a community service payment of approximately $0.1 million to the Oregon Governor's Fund for the Environment. As part of the settlement, the government and Kinder Morgan Energy Partners acknowledge in a joint factual statement of fact filed with the court that (i) no harm was done to the environment, (ii) the former employee's actions constituted a violation of company policy, (iii) Kinder Morgan Energy Partners did not benefit financially from the incident, and (iv) no personnel outside of the Portland terminal either approved or had any knowledge of the former employee's arrangements.

Polychlorinated Biphenyls ("PCBs")-related Requests

In August 2007 and October 2007, NGPL and Knight Inc. received information requests from the Illinois Attorney General's Office and the EPA, respectively, regarding the presence of PCBs in natural gas transmission lines in Illinois and Missouri. We have responded to these requests. No proceeding or enforcement actions have been initiated.

In December 2007, a customer requested that NGPL reimburse it for its costs and related expenses incurred in connection with the clean up of PCBs in the customer's system. NGPL has evaluated the request and reached a settlement with the customer on April 23, 2008 to reimburse it for certain costs. This reimbursement did not have a material adverse effect on us.

Other Environmental

We are subject to environmental cleanup and enforcement actions from time to time. In particular, the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) generally imposes joint and several liability for cleanup and enforcement costs on current or predecessor owners and operators of a site, among others, without regard to fault or the legality of the original conduct. Our operations are also subject to federal, state and local laws and regulations relating to protection of the environment. Although we believe our operations are in substantial compliance with applicable environmental law and regulations, risks of additional costs and liabilities are inherent in pipeline, terminal and carbon dioxide field and oil field operations, and there can be no assurance that we will not incur significant costs and liabilities. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from our operations, could result in substantial costs and liabilities to us.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

We are currently involved in several governmental proceedings involving air, water and waste violations issued by various governmental authorities related to compliance with environmental regulations. As we receive notices of non-compliance, we negotiate and settle these matters. We do not believe that these violations will have a material adverse affect on our business.

We are also currently involved in several governmental proceedings involving groundwater and soil remediation efforts under administrative orders or related state remediation programs issued by various regulatory authorities related to compliance with environmental regulations associated with our assets. We have established a reserve to address the costs associated with the cleanup.

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

Although it is not possible to predict the ultimate outcomes, we believe that the resolution of the environmental matters set forth in this note will not have a material adverse effect on our business, financial position, results of operations or cash flows. However, we are not able to reasonably estimate when the eventual settlements of these claims will occur and changing circumstances could cause these matters to have a material adverse impact. As of September 30, 2008, we have accrued an environmental reserve of $78.4 million, and we believe the establishment of this environmental reserve is adequate such that the resolution of pending environmental matters will not have a material adverse impact on our business, cash flows, financial position or results of operation. As of December 31, 2007, our environmental reserve totaled $102.6 million. Additionally, many factors may change in the future affecting our reserve estimates, such as (i) regulatory changes, (ii) groundwater and land use near our sites, and (iii) changes in cleanup technology. Associated with the environmental reserve, we have recorded a receivable of $24.7 million and $38.0 million as of September 30, 2008 and December 31, 2007, respectively, for expected cost recoveries that have been deemed probable.

Litigation Relating to the "Going Private" Transaction

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

By order of the Harris County District Court dated June 26, 2006, each of the eight Harris County cases were consolidated into the *Crescente v. Kinder Morgan, Inc. et al* case, Cause No. 2006-33011, in the 164th Judicial District Court, Harris County, Texas, which challenges the proposed transaction as inadequate and unfair to Kinder Morgan, Inc.'s public stockholders. On September 8, 2006, interim class counsel filed their Consolidated Petition for Breach of Fiduciary Duty and Aiding and Abetting in which they alleged that Kinder Morgan, Inc.'s board of directors and certain members of senior management breached their fiduciary duties and the Sponsor Investors aided and abetted the alleged breaches of fiduciary duty in entering into the merger agreement. They sought, among other things, to

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

enjoin the merger, rescission of the merger agreement, disgorgement of any improper profits received by the defendants, and attorneys' fees. Defendants filed Answers to the Consolidated Petition on October 9, 2006, denying the plaintiffs' substantive allegations and denying that the plaintiffs are entitled to relief.

By order of the District Court of Shawnee County, Kansas dated June 26, 2006, each of the seven Kansas cases were consolidated into the Consol. Case No. 06 C 801; *In Re Kinder Morgan, Inc. Shareholder Litigation*; in the District Court of Shawnee County, Kansas, Division 12. On August 28, 2006, the plaintiffs filed their Consolidated and Amended Class Action Petition in which they alleged that Kinder Morgan's board of directors and certain members of senior management breached their fiduciary duties and the Sponsor Investors aided and abetted the alleged breaches of fiduciary duty in entering into the merger agreement. They sought, among other things, to enjoin the stockholder vote on the merger agreement and any action taken to effect the acquisition of Kinder Morgan and its assets by the buyout group, damages, disgorgement of any improper profits received by the defendants, and attorney's fees.

In late 2006, the Kansas and Texas Courts appointed the Honorable Joseph T. Walsh to serve as Special Master in both consolidated cases "to control all of the pretrial proceedings in both the Kansas and Texas Class Actions arising out of the proposed private offer to purchase the stock of the public shareholders of Kinder Morgan, Inc." On November 21, 2006, the plaintiffs in *In Re Kinder Morgan, Inc. Shareholder Litigation* filed a Third Amended Class Action Petition with Special Master Walsh. This Petition was later filed under seal with the Kansas District Court on December 27, 2006.

Following extensive expedited discovery, the Plaintiffs in both consolidated actions filed an application for a preliminary injunction to prevent the holding of a special meeting of shareholders for the purposes of voting on the proposed merger, which was scheduled for December 19, 2006.

On December 18, 2006, Special Master Walsh issued a Report and Recommendation concluding, among other things, that "plaintiffs have failed to demonstrate the probability of ultimate success on the merits of their claims in this joint litigation." Accordingly, the Special Master concluded that the plaintiffs were "not entitled to injunctive relief to prevent the holding of the special meeting of KMI shareholders scheduled for December 19, 2006."

Plaintiffs moved for class certification in January, 2008. Defendants opposed this motion, which is currently pending.

In August, September and October, 2008, the Plaintiffs in both consolidated cases voluntarily dismissed without prejudice the claims against those Kinder Morgan, Inc.'s directors who did not participate in the buyout (including the dismissal of the members of the special committee of the board of directors), Kinder Morgan, Inc. and Knight Acquisition, Inc.

The parties are currently engaged in consolidated discovery in these matters.

On August 24, 2006, a civil action entitled City of Inkster Policeman and Fireman Retirement System, Derivatively on Behalf of Kinder Morgan, Inc., Plaintiffs v. Richard D. Kinder, Michael C. Morgan, William v. Morgan, Fayez Sarofim, Edward H. Austin, Jr., William J. Hybl, Ted A. Gardner, Charles W. Battey, H.A. True, III, James M. Stanford, Stewart A. Bliss, Edward Randall, III, Douglas W.G. Whitehead, Goldman Sachs Capital Partners, American International Group, Inc., The Carlyle Group, Riverstone Holdings LLC, C. Park Shaper, Steven J. Kean, Scott E. Parker and R. Tim

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Litigation, Environmental and Other Contingencies (Continued)

Bradley, Defendants and Kinder Morgan, Inc., Nominal Defendant; Case 2006-52653, was filed in the 270th Judicial District Court, Harris County, Texas. This putative derivative lawsuit was brought against certain of Kinder Morgan, Inc.'s senior officers and directors, alleging that the proposal constituted a breach of fiduciary duties owed to Kinder Morgan, Inc. Plaintiff also contends that the Sponsor Investors aided and abetted the alleged breaches of fiduciary duty. Plaintiff seeks, among other things, to enjoin the defendants from consummating the proposal, a declaration that the proposal is unlawful and unenforceable, the imposition of a constructive trust upon any benefits improperly received by the defendants, and attorney's fees. In November 2007, defendants filed a Joint Motion to Dismiss for Lack of Jurisdiction, or in the Alternative, Motion for Final Summary Judgment. Plaintiffs opposed the motion. In February 2008, the court entered a Final Order granting defendants' motion in full, ordering that plaintiff, the City of Inkster Policeman and Fireman Retirement System, take nothing on any and all of its claims against any and all defendants. In April 2008, Plaintiffs filed an appeal of the judgment in favor of all defendants in the Texas Court of Appeal, First District. The appeal is currently pending.

Defendants believe that the claims asserted in the litigations regarding the Going Private transaction are legally and factually without merit and intend to vigorously defend against them.

Other

We are a defendant in various lawsuits arising from the day-to-day operations of our businesses. Although no assurance can be given, we believe, based on our experiences to date, that the ultimate resolution of such items will not have a material adverse impact on our business, financial position, results of operations or cash flows.

Additionally, although it is not possible to predict the ultimate outcomes, we believe, based on our experiences to date, that the ultimate resolution of these matters will not have a material adverse impact on our business, financial position, results of operations or cash flows. As of September 30, 2008 and December 31, 2007, we have recorded a total reserve for legal fees, transportation rate cases and other litigation liabilities in the amount of $232.5 million and $249.4 million, respectively. The reserve is primarily related to various claims from lawsuits related to SFPP and the contingent amount is based on both probability of realization and our ability to reasonably estimate liability dollar amounts. We regularly assess the likelihood of adverse outcomes resulting from these claims in order to determine the adequacy of our liability provision.

19. Recent Accounting Pronouncements

SFAS No. 157 and FASB Staff Position No. FAS 157-3

For information on SFAS No. 157 and FASB Staff Position No. FAS 157-3, see Note 15, "Accounting for Derivative Instruments and Hedging Activities" under the heading "SFAS No. 157."

SFAS No. 159

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement provides companies with an option to report selected financial assets and liabilities at fair value. The Statement's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Statement also establishes presentation and disclosure requirements designed to

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

19. Recent Accounting Pronouncements (Continued)

facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities.

SFAS No. 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The Statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157, discussed in Note 15, "SFAS No. 157", and SFAS No. 107 *Disclosures about Fair Value of Financial Instruments*.

This Statement was adopted by us effective January 1, 2008, at which time no financial assets or liabilities, not previously required to be recorded at fair value by other authoritative literature, were designated to be recorded at fair value. As such, the adoption of this Statement did not have any impact on our consolidated financial statements.

SFAS 141(R)

On December 4, 2007, the FASB issued SFAS No. 141R (revised 2007), *Business Combinations*. Although this statement amends and replaces SFAS No. 141, it retains the fundamental requirements in SFAS No. 141 that (i) the purchase method of accounting be used for all business combinations; and (ii) an acquirer be identified for each business combination. SFAS No. 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This Statement applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including combinations achieved without the transfer of consideration; however, this Statement does not apply to a combination between entities or businesses under common control.

Significant provisions of SFAS No. 141R concern principles and requirements for how an acquirer (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (January 1, 2009 for us). Early adoption is not permitted. We are currently reviewing the effects of this Statement.

SFAS No. 160

On December 4, 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. This Statement changes the accounting and reporting for noncontrolling interests in consolidated financial statements. A noncontrolling interest, sometimes referred to as a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent.

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

19. Recent Accounting Pronouncements (Continued)

Specifically, SFAS No. 160 establishes accounting and reporting standards that require (i) the ownership interests in subsidiaries held by parties other than the parent to be clearly identified, labeled, and presented in the consolidated balance sheet within equity, but separate from the parent's equity, (ii) the equity amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated income statement (consolidated net income and comprehensive income will be determined without deducting minority interest, however, earnings-per-share information will continue to be calculated on the basis of the net income attributable to the parent's shareholders); and (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently and similarly as equity transactions.

This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for us). Early adoption is not permitted. SFAS No. 160 is to be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for its presentation and disclosure requirements, which are to be applied retrospectively for all periods presented. We do not anticipate that the adoption of this Statement will have a material effect on our consolidated financial statements.

SFAS No. 161

On March 19, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This Statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and is intended to help investors better understand how derivative instruments and hedging activities affect an entity's financial position, financial performance and cash flows through enhanced disclosure requirements. The enhanced disclosures include, among other things, (i) a tabular summary of the fair value of derivative instruments and their gains and losses, (ii) disclosure of derivative features that are credit-risk related to provide more information regarding an entity's liquidity, and (iii) cross-referencing within footnotes to make it easier for financial statement users to locate important information about derivative instruments.

This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 (January 1, 2009 for us). Early application is encouraged. We do not anticipate that the adoption of this Statement will have a material effect on our consolidated financial statements.

EITF 07-4

In March 2008, the Emerging Issues Task Force reached a consensus on Issue No. 07-4, or EITF 07-4, *Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships*. EITF 07-4 provides guidance for how current period earnings should be allocated between limited partners and a general partner when the partnership agreement contains incentive distribution rights.

This Issue is effective for fiscal years beginning after December 15, 2008 (January 1, 2009 for Kinder Morgan Energy Partners), and interim periods within those fiscal years. Earlier application is not permitted, and the guidance in this Issue is to be applied retrospectively for all financial statements presented. We do not anticipate that the adoption of this Issue will have a material effect on our consolidated financial statements.

Table of Contents

KNIGHT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

19. Recent Accounting Pronouncements (Continued)

FSP No. FAS 142-3

On April 25, 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This Staff Position amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. This Staff Position is effective for financial statements issued for fiscal years beginning after December 15, 2008 (January 1, 2009 for us), and interim periods within those fiscal years. Early adoption is prohibited. We do not anticipate that the adoption of this Staff Position will have a material effect on our consolidated financial statements.

SFAS No. 162

On May 9, 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This Statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities.

Statement No. 162 establishes that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. Statement No. 162 is effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*, and is only effective for nongovernmental entities. We expect the adoption of this Statement will have no affect on our consolidated financial statements.

20. Subsequent Events

On October 13, 2008, Standard & Poor's Rating Services lowered Kinder Morgan Energy Partners, Rockies Express LLC, and Cortez Capital Corporation's short-term credit rating to A-3 from A-2. As a result of these revisions and current commercial paper market conditions, Kinder Morgan Energy Partners, Rockies Express LLC and Cortez Capital Corporation are unable to access commercial paper borrowings. However, Kinder Morgan Energy Partners, Rockies Express LLC and Cortez Capital Corporation expect that short-term financing and liquidity needs will continue to be met through borrowings made under their respective long-term bank credit facilities.

Also on October 13, 2008, Standard & Poor's Rating Services revised its outlook on Kinder Morgan Energy Partners' long-term credit rating to negative from stable (but affirmed Kinder Morgan Energy Partners' long-term credit rating of BBB), due to Kinder Morgan Energy Partners' previously announced expected delay and cost increases associated with the completion of the Rockies Express Pipeline project.

In October 2008, an additional principal amount of $0.6 million was tendered and drawn against Kinder Morgan Energy Partners' letter of credit issued by Wachovia and Kinder Morgan Energy Partners paid this amount pursuant to the letter of credit reimbursement provisions.

Kinder Morgan Energy Partners' available borrowing capacity increased $168.5 million from September 30, 2008 to October 31, 2008, primarily related to reductions in letters of credit outstanding in support of derivative activities.

Table of Contents

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. Other Expenses of Issuance and Distribution.

Shown below are the expenses (other than underwriting discounts) expected to be incurred by Kinder Morgan Management, LLC (the "Company") in connection with the issuance and distribution of the securities being registered. No such fees are expected to be incurred by either Kinder Morgan Energy Partners, L.P. or Knight Inc. With the exception of the SEC registration fee and the NYSE listing fees, the amounts shown below are estimates:

SEC Registration Fee	$ 16,365
Legal Fees and Expenses	500,000
Accounting Fees and Expenses	200,000
Fees and Expenses of Transfer Agent	2,500
NYSE Listing Fees	37,500
Printing Fees	150,000
Miscellaneous	43,635
Total	$950,000

ITEM 15. Indemnification of Directors and Officers.

Kinder Morgan Management, LLC

Section 18-108 of the Delaware Limited Liability Company Act provides that, subject to such standards and restrictions, if any, as are set forth in its limited liability company agreement, a limited liability company may, and shall have the power to, indemnify and hold harmless any member or manager or other person from and against any and all claims and demands whatsoever. The Company's limited liability company agreement provides that the Company will, to the extent deemed advisable by the Company's board of directors, indemnify any person who is or was an officer or director of the Company, the record holder of the Company's voting shares, and any person who is or was an officer, director or affiliate of the record holder of the Company's voting shares, from liabilities arising by reason of such persons' status, provided that the indemnitee acted in good faith and in a manner which such indemnitee believed to be in, or not opposed to, the best interests of the Company and, with respect to any criminal proceeding, had no reasonable cause to believe such indemnitee's conduct was unlawful. Such liabilities include any and all losses, claims, damages, liabilities (joint or several), expenses (including, without limitation, legal fees and expenses), judgments, fines, penalties, interest, settlements and other amounts. Officers and directors of the Company are also indemnified by Kinder Morgan Energy Partners, L.P., as described below. Officers and directors of the Company who are also officers and directors of Knight Inc. are also entitled to indemnification from Knight Inc. as described below.

Kinder Morgan Energy Partners, L.P.

Section 17-108 of the Delaware Limited Partnership Act provides that, subject to such standards and restrictions, if any, as are set forth in its partnership agreement, a limited partnership may, and shall have the power to, indemnify and hold harmless any partner or other person from and against any and all claims and demands whatsoever. The Partnership Agreement for Kinder Morgan Energy Partners, L.P. provides that Kinder Morgan Energy Partners, L.P. will indemnify Kinder Morgan G.P., Inc. (the "KM General Partner"), any Departing Partner (as defined in that Partnership Agreement) and any person who is or was an officer or director of the KM General Partner or any Departing Partner, to the fullest extent permitted by law. Kinder Morgan Energy Partners, L.P. will also indemnify the Company and any person who is or was a manager, officer or director of the Company to the same extent as such provisions apply to KM General Partner and any of KM General Partner's officers and directors. In addition, Kinder Morgan Energy Partners, L.P. may indemnify, to the extent deemed advisable by the KM General Partner and to the fullest extent permitted by law, any person who is or was an officer or director of the KM General Partner or any Departing Partner or an affiliate of the KM General Partner or any Departing Partner or who is or was serving at the request of the KM General Partner or any Departing Partner or any affiliate of the KM General Partner or any Departing Partner as an officer, director, employee, partner, agent or trustee of another person. These indemnitees will be indemnified from and against any and all losses, claims, damages, liabilities (joint or several), expenses (including, without limitation, legal fees and expenses), judgments, fines, penalties, interest, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as an officer, director, employee, partner, agent or trustee of the KM General Partner, any Departing Partner or any of their affiliates or a person serving at the request of Kinder Morgan Energy Partners, L.P. in another entity in a similar capacity, provided that in each case the indemnitee acted in good faith and in a manner which such indemnitee believed to be in, or not opposed to, the best interests of Kinder Morgan Energy Partners, L.P., and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful. Any indemnification under these provisions will be only out of the assets of Kinder Morgan Energy Partners, L.P., and the KM General Partner shall not be personally liable for, or have any obligation to contribute or loan funds or assets to Kinder Morgan Energy Partners, L.P. to enable it to effectuate such indemnification. Kinder Morgan Energy Partners, L.P. is authorized to purchase (or to reimburse the KM General Partner or its affiliates for the cost of) insurance against any liability asserted against or expense incurred by such person in connection with Kinder Morgan Energy Partners, L.P.'s activities.

Article XII(c) of the Certificate of Incorporation of the KM General Partner (the "corporation" therein), contains the following provisions relating to indemnification of directors and officers:

> "(c) Each director and each officer of the corporation (and his heirs, executors and administrators) shall be indemnified by the corporation against expenses reasonably incurred by him in connection with any claim made against him or any action, suit or proceeding to which he may be made a party, by reason of his being or having been a director or officer of the corporation (whether or not he continues to be a director or officer of the corporation at the time of incurring such expenses), except in cases where the claim made against him shall be admitted by him to be just, and except in cases where such action, suit or proceeding shall be settled prior to adjudication by payment of all or a substantial portion of the amount claimed, and except in cases in which he shall be adjudged in such action, suit or proceeding to be liable or to have been derelict in the performance of his duty as such director or officer. Such right of indemnification shall not be exclusive of other rights to which he may be entitled as a matter of law."

Officers and directors of the KM General Partner who are also officers and directors of Knight Inc. and/or the Company are also entitled to indemnification from Knight Inc. pursuant to Knight Inc.'s articles of incorporation and/or the Company's limited liability company agreement, as the case may be.

Knight Inc.

Section 17-6305 of the Kansas General Corporation Law provides that a Kansas corporation shall have power to indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action or suit (including an action by or in the right of the corporation to procure a judgment in its favor) or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director, officer, employee or agent of

Table of Contents

the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit by or in the right of the corporation, including attorney fees, and against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, including attorney fees, if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation; and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. Article Seven of Knight Inc.'s articles of incorporation requires it to provide substantially the same indemnification of its directors and officers as that authorized by Kansas General Corporation Law.

Kinder Morgan Management, LLC, Kinder Morgan Energy Partners, L.P., the KM General Partner and Knight Inc.

The Form of Underwriting Agreement filed as Exhibit 1.1 hereto, under certain circumstances, provides for indemnification by the underwriters of the directors, officers and controlling persons of the Company, Kinder Morgan Energy Partners, L.P., the KM General Partner and Knight Inc.

The Company, Kinder Morgan Energy Partners, L.P., the KM General Partner and Knight Inc. maintain liability insurance policies covering their officers and directors against some liabilities, including certain liabilities under the Securities Act, that may be incurred by them.

Item 16. Exhibits.

Exhibit Number	Description of Exhibit
1.1*	Form of Underwriting Agreement.
3.1	Form of Certificate of Formation of the Company (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-55868) and incorporated herein by reference).
3.2	Second Amended and Restated Limited Liability Company Agreement of the Company, as amended (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 30, 2007 and incorporated herein by reference).
3.3	Amended and Restated Articles of Incorporation of Knight Inc. and amendments thereto (filed as Exhibit 3.1 to Knight Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference).
3.4	Bylaws of Kinder Morgan, Inc. (filed as Exhibit 3.2 to Knight Inc.'s Current Report on Form 8-K filed on June 5, 2007 and incorporated herein by reference).
4.1	Form of certificate representing shares of the Company (filed as Exhibit 4.3 to the Company's Registration Statement on Form 8-A/A filed on July 24, 2002 and incorporated herein by reference).
4.2	Form of certificate representing the i-units of Kinder Morgan Energy Partners, L.P. (included as an exhibit to the Third Amended and Restated Agreement of Limited Partnership filed as Exhibit 4.4 hereto).
4.3	Form of Purchase Provisions between the Company and Knight Inc. (formerly Kinder Morgan, Inc.) (included as Annex B to the Second Amended and Restated Limited Liability Company Agreement filed as Exhibit 3.2 hereto).

Table of Contents

Exhibit Number	Description of Exhibit
4.4	Third Amended and Restated Agreement of Limited Partnership of Kinder Morgan Energy Partners, L.P. (filed as Exhibit 3.1 to Kinder Morgan Energy Partners, L.P.'s Form 10-Q for the quarter ended June 30, 2001 (Commission File No. 1-11234) and incorporated herein by reference).
4.5	Amendment No. 1 to the Third Amended and Restated Agreement of Limited Partnership of Kinder Morgan Energy Partners, L.P. (filed as Exhibit 99.1 to Kinder Morgan Energy Partners, L.P.'s Current Report on Form 8-K, filed November 22, 2004, and incorporated herein by reference).
4.6	Amendment No. 2 to the Third Amended and Restated Agreement of Limited Partnership of Kinder Morgan Energy Partners, L.P. (filed as Exhibit 99.1 to Kinder Morgan Energy Partners, L.P.'s Current Report on Form 8-K, filed May 5, 2005, and incorporated herein by reference).
4.7	Amendment No. 3 to the Third Amended and Restated Agreement of Limited Partnership of Kinder Morgan Energy Partners, L.P. (filed as Exhibit 3.1 to Kinder Morgan Energy Partners, L.P.'s Form 8-K, filed April 21, 2008, and incorporated herein by reference).
4.8	Registration Rights Agreement among the Company, Kinder Morgan Energy Partners, L.P. and Knight Inc. (formerly Kinder Morgan, Inc.) (filed as Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (Commission File No. 1-16459) and incorporated herein by reference).
5.1**	Opinion of Bracewell & Giuliani LLP as to the legality of the securities being offered.
8.1**	Opinion of Bracewell & Giuliani LLP as to certain federal income tax matters.
10.1	Employment Agreement dated October 7, 1999, between the Company and Richard D. Kinder (filed as Exhibit 99.D of the Schedule 13D filed by Mr. Kinder on November 16, 1999 (Commission File No. 1-06446) and incorporated herein by reference).
10.2	2005 Annual Incentive Plan of Kinder Morgan, Inc. (filed as Appendix D to Kinder Morgan, Inc.'s 2005 Proxy Statement on Schedule 14A filed on April 1, 2005 and incorporated herein by reference).
10.3	Kinder Morgan, Inc. Amended and Restated 1999 Stock Plan (filed as Appendix A to Kinder Morgan, Inc.'s 2006 Proxy Statement on Schedule 14A filed on April 3, 2006 and incorporated herein by reference).
10.4	Form of Indemnification Agreement between Kinder Morgan, Inc. and each member of the Special Committee of the Board of Directors (filed as Exhibit 10.1 to Kinder Morgan, Inc.'s Current Report on Form 8-K filed on June 16, 2006 and incorporated herein by reference).
10.5	Acquisition Agreement dated as of February 26, 2007, by and among Kinder Morgan, Inc., 3211953 Nova Scotia Company and Fortis Inc. (filed as Exhibit 1.01 to Kinder Morgan, Inc.'s Current Report on Form 8-K filed on March 1, 2007 and incorporated herein by reference).
10.6	Retention and Relocation Agreement, dated as of March 5, 2007, between Kinder Morgan, Inc. and Scott E. Parker (filed as Exhibit 10.2 to Kinder Morgan, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 and incorporated herein by reference).

Table of Contents

Exhibit Number	Description of Exhibit
10.7	Credit Agreement, dated as of May 30, 2007 among Kinder Morgan, Inc. and Knight Acquisition Co., as the borrower, the several lenders from time to time parties to the credit agreement and Citibank, N.A., as administrative agent and collateral agent (filed as Exhibit 4.1 to Kinder Morgan, Inc.'s Current Report on Form 8-K filed on June 5, 2007 and incorporated herein by reference).
10.8	Purchase Agreement, dated as of December 10, 2007, between Knight Inc. and Myria Acquisition Inc. (filed as Exhibit 10.1 to Knight Inc.'s Current Report on Form 8-K filed on December 11, 2007 and incorporated herein by reference).
10.9	First Amendment to Retention and Relocation Agreement, dated as of July 16, 2008, between Knight Inc. and Scott E. Parker (filed as Exhibit 10.1 to Knight Inc.'s Current Report on Form 8-K filed on July 25, 2008 and incorporated herein by reference).
21.1	Subsidiaries of Knight Inc. (filed as Exhibit 21.1 to Knight Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 and incorporated herein by reference).
23.1**	Consent of Bracewell & Giuliani LLP (included in their opinions filed as Exhibits 5.1 and 8.1).
23.2**	Consent of PricewaterhouseCoopers LLP.
23.3**	Consent of PricewaterhouseCoopers LLP.
23.4**	Consent of Netherland, Sewell & Associates, Inc.
24.1***	Powers of Attorney with respect to the Company.
24.2***	Powers of Attorney with respect to Kinder Morgan Energy Partners, L.P.
24.3***	Powers of Attorney with respect to Knight Inc.

*
To be filed by amendment or Current Report on Form 8-K.

**
Filed herewith.

***
Previously filed.

ITEM 17. Undertakings.

(a) For the purpose of determining liability of the registrants under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrants undertake that in a primary offering of securities of the undersigned registrants pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrants will be sellers to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrants relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrants or used or referred to by the undersigned registrants;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrants or their securities provided by or on behalf of the undersigned registrants; and

Table of Contents

(iv) Any other communication that is an offer in the offering made by the undersigned registrants to the purchaser.

(b) The undersigned registrants hereby undertake that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrants' annual reports pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrants pursuant to the foregoing provisions, or otherwise, the registrants have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrants of expenses incurred or paid by a director, officer or controlling person of the registrants in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrants will, unless in the opinion of their counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by them is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement on Form S-3 or amendment thereto to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas on February 11, 2009.

KINDER MORGAN MANAGEMENT, LLC

By: /s/ JOSEPH LISTENGART

Joseph Listengart
Vice President, General Counsel and Secretary

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement on Form S-3 or amendment thereto has been signed below by the following persons in the indicated capacities on February 11, 2009:

/s/ KIMBERLY A. DANG Kimberly A. Dang	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ GARY L. HULTQUIST* Gary L. Hultquist	Director
/s/ RICHARD D. KINDER Richard D. Kinder	Director, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ C. PARK SHAPER* C. Park Shaper	Director
/s/ PERRY M. WAUGHTAL* Perry M. Waughtal (constituting a majority of the board)	Director

*By: /s/ JOSEPH LISTENGART

Joseph Listengart
Attorney-in-fact for persons indicated

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement on Form S-3 or amendment thereto to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas on February 11, 2009.

KINDER MORGAN ENERGY PARTNERS, L.P.

By: Kinder Morgan G.P., Inc.
its general partner

By: Kinder Morgan Management, LLC,
its delegate

By: /s/ JOSEPH LISTENGART

Joseph Listengart
Vice President, General Counsel and Secretary

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement on Form S-3 or amendment thereto has been signed below by the following persons in the indicated capacities on February 11, 2009:

/s/ KIMBERLY A. DANG Kimberly A. Dang	Vice President and Chief Financial Officer of Kinder Morgan Management, LLC (Principal Financial Officer and Principal Accounting Officer)
/s/ GARY L. HULTQUIST* Gary L. Hultquist	Director of Kinder Morgan Management, LLC
/s/ RICHARD D. KINDER Richard D. Kinder	Director, Chairman of the Board and Chief Executive Officer of Kinder Morgan Management, LLC (Principal Executive Officer)
/s/ C. PARK SHAPER* C. Park Shaper	Director of Kinder Morgan Management, LLC
/s/ PERRY M. WAUGHTAL* Perry M. Waughtal (constituting a majority of the board)	Director of Kinder Morgan Management, LLC

*By: /s/ JOSEPH LISTENGART

Joseph Listengart
Attorney-in-fact for persons indicated

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement on Form S-1 or amendment thereto to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas on February 11, 2009.

KNIGHT INC.

By: /s/ JOSEPH LISTENGART

Joseph Listengart
Vice President, General Counsel and Secretary

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement on Form S-1 or amendment thereto has been signed below by the following persons in the indicated capacities on February 11, 2009:

/s/ KIMBERLY A. DANG Kimberly A. Dang	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ RICHARD D. KINDER Richard D. Kinder	Director, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ KENNETH A. PONTARELLI* Kenneth A. Pontarelli	Director
/s/ C. PARK SHAPER* C. Park Shaper	Director

*By: /s/ JOSEPH LISTENGART

Joseph Listengart
Attorney-in-fact for persons indicated

Table of Contents

INDEX TO EXHIBITS

Exhibit Number	Description of Exhibit
1.1*	Form of Underwriting Agreement.
3.1	Form of Certificate of Formation of the Company (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-55868) and incorporated herein by reference).
3.2	Second Amended and Restated Limited Liability Company Agreement of the Company, as amended (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 30, 2007 and incorporated herein by reference).
3.3	Amended and Restated Articles of Incorporation of Knight Inc. and amendments thereto (filed as Exhibit 3.1 to Knight Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference).
3.4	Bylaws of Kinder Morgan, Inc. (filed as Exhibit 3.2 to Knight Inc.'s Current Report on Form 8-K filed on June 5, 2007 and incorporated herein by reference).
4.1	Form of certificate representing shares of the Company (filed as Exhibit 4.3 to the Company's Registration Statement on Form 8-A/A filed on July 24, 2002 and incorporated herein by reference).
4.2	Form of certificate representing the i-units of Kinder Morgan Energy Partners, L.P. (included as an exhibit to the Third Amended and Restated Agreement of Limited Partnership filed as Exhibit 4.4 hereto).
4.3	Form of Purchase Provisions between the Company and Knight Inc. (formerly Kinder Morgan, Inc.) (included as Annex B to the Second Amended and Restated Limited Liability Company Agreement filed as Exhibit 3.2 hereto).
4.4	Third Amended and Restated Agreement of Limited Partnership of Kinder Morgan Energy Partners, L.P. (filed as Exhibit 3.1 to Kinder Morgan Energy Partners, L.P.'s Form 10-Q for the quarter ended June 30, 2001 (Commission File No. 1-11234) and incorporated herein by reference).
4.5	Amendment No. 1 to the Third Amended and Restated Agreement of Limited Partnership of Kinder Morgan Energy Partners, L.P. (filed as Exhibit 99.1 to Kinder Morgan Energy Partners, L.P.'s Current Report on Form 8-K, filed November 22, 2004, and incorporated herein by reference).
4.6	Amendment No. 2 to the Third Amended and Restated Agreement of Limited Partnership of Kinder Morgan Energy Partners, L.P. (filed as Exhibit 99.1 to Kinder Morgan Energy Partners, L.P.'s Current Report on Form 8-K, filed May 5, 2005, and incorporated herein by reference).
4.7	Amendment No. 3 to the Third Amended and Restated Agreement of Limited Partnership of Kinder Morgan Energy Partners, L.P. (filed as Exhibit 3.1 to Kinder Morgan Energy Partners, L.P.'s Form 8-K, filed April 21, 2008, and incorporated herein by reference).
4.8	Registration Rights Agreement among the Company, Kinder Morgan Energy Partners, L.P. and Knight Inc. (formerly Kinder Morgan, Inc.) (filed as Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (Commission File No. 1-16459) and incorporated herein by reference).

5.1** Opinion of Bracewell & Giuliani LLP as to the legality of the securities being offered.

8.1** Opinion of Bracewell & Giuliani LLP as to certain federal income tax matters.

Table of Contents

Exhibit Number	Description of Exhibit
10.1	Employment Agreement dated October 7, 1999, between the Company and Richard D. Kinder (filed as Exhibit 99.D of the Schedule 13D filed by Mr. Kinder on November 16, 1999 (Commission File No. 1-06446) and incorporated herein by reference).
10.2	2005 Annual Incentive Plan of Kinder Morgan, Inc. (filed as Appendix D to Kinder Morgan, Inc.'s 2005 Proxy Statement on Schedule 14A filed on April 1, 2005 and incorporated herein by reference).
10.3	Kinder Morgan, Inc. Amended and Restated 1999 Stock Plan (filed as Appendix A to Kinder Morgan, Inc.'s 2006 Proxy Statement on Schedule 14A filed on April 3, 2006 and incorporated herein by reference).
10.4	Form of Indemnification Agreement between Kinder Morgan, Inc. and each member of the Special Committee of the Board of Directors (filed as Exhibit 10.1 to Kinder Morgan, Inc.'s Current Report on Form 8-K filed on June 16, 2006 and incorporated herein by reference).
10.5	Acquisition Agreement dated as of February 26, 2007, by and among Kinder Morgan, Inc., 3211953 Nova Scotia Company and Fortis Inc. (filed as Exhibit 1.01 to Kinder Morgan, Inc.'s Current Report on Form 8-K filed on March 1, 2007 and incorporated herein by reference).
10.6	Retention and Relocation Agreement, dated as of March 5, 2007, between Kinder Morgan, Inc. and Scott E. Parker (filed as Exhibit 10.2 to Kinder Morgan, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 and incorporated herein by reference).
10.7	Credit Agreement, dated as of May 30, 2007 among Kinder Morgan, Inc. and Knight Acquisition Co., as the borrower, the several lenders from time to time parties to the credit agreement and Citibank, N.A., as administrative agent and collateral agent (filed as Exhibit 4.1 to Kinder Morgan, Inc.'s Current Report on Form 8-K filed on June 5, 2007 and incorporated herein by reference).
10.8	Purchase Agreement, dated as of December 10, 2007, between Knight Inc. and Myria Acquisition Inc. (filed as Exhibit 10.1 to Knight Inc.'s Current Report on Form 8-K filed on December 11, 2007 and incorporated herein by reference).
10.9	First Amendment to Retention and Relocation Agreement, dated as of July 16, 2008, between Knight Inc. and Scott E. Parker (filed as Exhibit 10.1 to Knight Inc.'s Current Report on Form 8-K filed on July 25, 2008 and incorporated herein by reference).
21.1	Subsidiaries of Knight Inc. (filed as Exhibit 21.1 to Knight Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 and incorporated herein by reference).
23.1**	Consent of Bracewell & Giuliani LLP (included in their opinions filed as Exhibits 5.1 and 8.1).
23.2**	Consent of PricewaterhouseCoopers LLP.
23.3**	Consent of PricewaterhouseCoopers LLP.
23.4**	Consent of Netherland, Sewell & Associates, Inc.
24.1***	Powers of Attorney with respect to the Company.

24.2*** Powers of Attorney with respect to Kinder Morgan Energy Partners, L.P.

24.3*** Powers of Attorney with respect to Knight Inc.

---

*
To be filed by amendment or Current Report on Form 8-K.

**
Filed herewith.

***
Previously filed.