Shareowner Rebuttal to Kinder Morgan Statement in Opposition of Shareholder Resolution Requesting Report on Plans to Address Climate Change

Lead filer: First Affirmative Financial Network

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Kinder Morgan shareholders are encouraged to vote FOR the following resolution filed on behalf of Waterglass LLC:

*Kinder Morgan prepare a report by October 2014, omitting proprietary information and prepared at reasonable cost, on the company’s goals and plans to address global concerns regarding fossil fuels and their contribution to climate change, including analysis of long and short term financial and operational risks to the company.*

The supporting statement specifically requests that the report include discussion of:

- Risks and opportunities of lower carbon scenarios in which global coal demand declines significantly due to evolving policy, technology, or consumer responses to address climate change;
- Whether and how the company’s capital allocation plans account for the risks and opportunities inherent in these scenarios;
- Plans to manage these risks, such as avoiding major new investments related to high-carbon energy sources and/or returning more capital to shareholders;
- Assumptions regarding deployment of CCS;
- The board of Directors’ role in overseeing capital allocation and climate risk reduction strategies.

Full disclosure by Kinder Morgan to each of these requests is vital so that shareholders have a full understanding of how the company is managing the financial and operational risks presented by climate change and to evaluate the short and long term value of their investment.

**Kinder Morgan discloses risks, but fails to disclose how those risks are evaluated and managed**

The company acknowledges the importance of these issues in their 10-K, and the risks that they could pose to the company and to shareholder value (see details below).
Yet their statement in opposition to this resolution states that they believe their current business strategy is appropriate and that the information requested by the shareholder resolution “would not cause us to modify our disciplined approach to allocating capital or our commitment to positioning ourselves for the future”.

Shareholders are entitled to know how their company has evaluated the risks they identify in their 10-K SEC filing, and how they came to the conclusion that they do not need to modify their business plan. The shareholder resolution requests that the Kinder Morgan provide shareholders this vital and essential analysis.

The Resolution and the Kinder Morgan 10-K

The resolution requests a report to shareholders, and identifies several elements that should be included in such a report. The company’s 10-K identifies risks associated with the issues raised in the resolution, but does not identify how it is addressing these risks.

The resolution requests the report include discussion of “Risks and opportunities of lower carbon scenarios“. The company recognizes these risks – but has not evaluated the potential magnitude of these risks. Specifically, the Climate Change section of the KMI 10-K (for the Fiscal Year ending December 31, 2013) states:

“Although we currently cannot predict the magnitude and direction of these impacts, greenhouse gas regulations could have material adverse effects on our business, financial position, results of operations or cash flows.”

The resolution requests the report include discussion of “Whether and how the company’s capital allocation plans account for the risks and opportunities inherent in these scenarios.” The shareholder resolution points to how under these scenarios global economic conditions may change dramatically. The company acknowledges the potential risk. In the 10-K section on risk they state that:

“Our operating results may be adversely affected by unfavorable economic and market conditions.”

“If global economic and market conditions (including volatility in commodity markets), or economic conditions in the U.S. or other key markets, remain uncertain or persist, spread or deteriorate further, we may experience material impacts on our business, financial condition and results of operations.”

The resolution requests the report include discussion of “Plans to manage these risks, such as avoiding major new investments related to high-carbon energy sources and/or returning more capital to shareholders”.

In a number of places in the 10-K the company identifies these risks to the companies to which they provide transport of their products and other services. Yet they do not follow up with an analysis of
what would be the consequences to Kinder Morgan’s business strategy if their customers were economically impacted by these issues -- such as a widespread drop in demand for the company’s transport or terminal services or the loss of key customers due to declining demand for high carbon fossil fuels.

For example, the company recognizes that “emission controls required under the Federal Clean Air Act and other similar federal, state and provincial laws could require significant capital expenditures at our facilities.” They also recognize that Federal regulations “could increase our costs related to operating and maintaining our facilities and could require us to install new emission controls on our facilities, acquire allowances for our greenhouse gas emissions, pay taxes related to our greenhouse gas emissions and administer and manage a greenhouse gas emissions program and such increased costs could be significant.”

While they do discuss general financial risks to their customers on page 38 of the 10K, climate change magnifies risks to many of their customers, and how these risks might impact Kinder Morgan is not explained.

The resolution requests the report include discussion of “Assumptions regarding deployment of CCS”.

The company identifies its CO₂ business as benefiting from deployment of CCS technology and the board’s statement in opposition indicates ongoing “discussions with several customers regarding potential carbon capture and storage (CCS) projects…”

However, assumptions made by Kinder Morgan regarding the viability and necessary investment commitment for successful wide-spread deployment of CCS technology are not disclosed. This information is important -- particularly within the context of the company’s ongoing investment in infrastructure supporting coal customers -- given the central role CCS is likely to have to play for coal-burning customers such as electric utilities, the current nascent state of CCS technology development and the high uncertainty of when or even if the technology will be an environmentally and economically viable option.

The resolution’s supporting statement emphasizes the particular vulnerability of the company’s continued coal-related investments. The International Energy Agency (IEA) concludes that “No more than one-third of proven reserves of fossil fuels can be consumed prior to 2050 if the world is to achieve the 2°C goal, unless carbon capture and storage (CCS) technology is widely deployed” and “almost two-thirds of these carbon reserves are related to coal.” The supporting statement also includes a statement from Goldman Sachs that “most thermal coal growth projects will struggle to earn a positive return for their owners.” HSBC indicates declining coal demand after 2020 that could reduce the current discounted cash flow valuation of coal producers by 44%, and both the World Bank and European Investment Bank have placed restrictions on the financing of coal projects.

Kinder Morgan’s 10K acknowledges that “Acquisition strategy and expansion programs require access to new capital.” It also points out that the terms of its partnership agreement dictate that most cash generated by operations is distributed, making the company heavily reliant on access to affordable capital. The company does not provide any evaluation of how possible additional restrictions on access
to capital for coal and other fossil fuel infrastructure projects could influence its various expansion plans.

The resolution requests that the report include discussion of “The board of Directors’ role in overseeing capital allocation and climate risk reduction strategies.”

We were not able to find a discussion by the company on the role of the Board of Directors in overseeing these issues.

Conclusion

Both Peabody Energy and Exxon Mobil have recently publicly agreed to issue reports on carbon asset risk. Kinder Morgan needs to do the same. A central risk to expanding and maintaining its capital intensive, long-lived, fossil fuel transportation businesses is the possibility of stranded assets and/or reduced profits resulting from a wide variety of efforts to reduce greenhouse gas emissions. These efforts include everything from international treaties to pending U.S. regulations on new and existing power plants, to the rapidly growing market share and falling price of renewable energy. The scientific community, the IEA and many governments around the world have clearly stated that greenhouse gas emissions must fall by something on the order of 80% by 2050, and that the longer it takes to reduce emissions the higher the price will be to act in the future. This is a serious threat to many of Kinder Morgan’s businesses and expansion plans and shareholder need to know how the company and its board views this threat and what steps Kinder Morgan is taking to reduce the risks over the short, medium and long term.

This is not a solicitation of authority to vote your proxy. Please DO NOT send us your proxy card; the proponent is not able to vote your proxies, nor does this communication contemplate such an event. The proponent urges shareholders to vote FOR this resolution following the instruction provided on the management's proxy mailing.