MEMO

SUBJECT: Grounds for a Yes vote on Kinder Morgan shareholder resolution requesting a sustainability report

DATE: April 8, 2014

CONTACT: Patrick Doherty, New York State Comptroller's Office

Dear Kinder Morgan Shareholder:

We encourage you to support the resolution on the 2014 Kinder Morgan proxy ballot, which calls upon the Company to:

RESOLVED: *Shareholders request Kinder Morgan issue an annual sustainability report describing the company's short- and long-term responses to ESG-related issues. The report should be prepared at reasonable cost, omit proprietary information, and be available to shareholders by October, 2014.*

RATIONALE FOR A YES VOTE

1. Kinder Morgan's sustainability-related disclosure does not adequately describe the company's environmental, social and governance (ESG) policies, practices and goals.

2. Sustainability reporting is an important element of business success for companies like Kinder Morgan.

3. Kinder Morgan lags behind its peers on sustainability policies, practices, and disclosure.

1. Kinder Morgan's sustainability-related disclosure does not adequately describe the company's environmental, social and governance (ESG) policies, practices and goals.

Kinder Morgan's main sustainability disclosure is offered primarily via:

- A brief Corporate Responsibility overview page signed by the CEO emphasizing safety, philanthropy and CEO pay. It also links to Kinder's Code of Business Conduct and Ethics, which focuses mostly on legal compliance as well as broad concepts such honesty and integrity.
- Several corporate responsibility web pages including:
    - Some data on worker injuries and gas pipeline incidents, including some helpful comparisons to industry averages.
    - A set of pages on pipeline safety with each page focusing on a unique audience such as: residences and businesses, farmers and ranchers, schools and work sites.

- A page covering 2013 accomplishments. The "Environment" section of this page is comprised of three sentences on Kinder Morgan's ethanol and biodiesel businesses.
- A one-page policy statement on environment, health, and safety that is meant to summarize the Kinder Morgan commitment to EHS principles. While the statement includes a broad goal to "achieve continuous performance improvement," we were unable to find specific goals for most environmental and social issues that are important for the Company.
- The Company's 10-K identifies some risks associated with the issues raised in the resolution, but generally does not identify specifically how it is addressing these risks.

We do not believe that the information provided constitutes adequate ESG disclosure for the following reasons:

- Addressing environmental risks is core to the business model of energy transportation and storage companies like Kinder Morgan
- Kinder does not provide up-to-date data and trends for nearly all important environmental, and social metrics except for worker safety and certain pipeline incidents
- We were not able to find company-wide quantitative goals for any ESG issues such as: greenhouse gas (GHGs) or methane emissions, energy efficiency, water use, or pollution.
- Due to lack of data, trends, and goals, comparisons to Kinder Morgan's peers on most key ESG metrics (except certain safety metrics) are difficult/impossible.
- Kinder Morgan also faces physical risks to its assets from rising seas and more severe weather. These risks should be disclosed along with mitigation strategies and associated cost estimates.
- On the issue of physical risk from climate change, Kinder Morgan's 2013 10K states:

  > To the extent these phenomena occur, they could damage our physical assets, especially operations located in low-lying areas near coasts and river banks, and facilities situated in hurricane-prone regions. **However, the timing and location of these climate change impacts is not known with any certainty and, in any event, these impacts are expected to manifest themselves over a long time horizon. Thus, we are not in a position to say whether the physical impacts of climate change pose a material risk to our business, financial position, results of operations or cash flows.**[1] (Emphasis added.)

  However, we found photos[2] and articles / blogs[3] on recent flooding of Kinder Morgan coal export facilities resulting from storms and storm surge. Since there is clear evidence of sea level rise due to climate change, and clear linkages to the resulting increased storm surge, it seems to us that the photos prove that Kinder has ALREADY incurred costs related to climate change, raising serious concerns about their statement above saying they are unable to determine whether the physical risks of climate change pose material risks to their business.
- Investors would benefit from more comprehensive reporting all in one place; without this

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[1] http://www.sec.gov/) Archives/edgar/data/1506307/000150630714000010/kmi-2013x10k.htm#s897F761F1F7F404BCE3039BD397A9B0F (p.40

[2] http://blog.skytruth.org/2013/01/coal-exports-are-you-safe.html

[3] http://healthygulf.org/201210021945/blog/healthy-waters-/-dead-zone/birds-eye-view-outrageous-dirty-secret-they-dont-want-you-to-see

investors are left struggling to assess the company's performance on important ESG issues

- Kinder Morgan seems to lack specific policies on board oversight of ESG and stakeholder engagement (although the Code of Business Conduct and Ethics has been adopted by the Board)

The lack of ESG information contrasts with Kinder Morgan's aspirational statement on its Environment and Safety web page. For example: "At Kinder Morgan, we are committed to public safety, protection of the environment and operation of our facilities in compliance with all applicable rules and regulations. It is our goal to work openly and cooperatively with all stakeholders regarding environmental, health, and safety (EHS) issues."[4] Yet we could not find any description of stakeholder engagement processes on Kinder Morgan's web site except as part of regulatory and company documents related to individual projects.

Much of the information provided on the web pages is similarly vague and aspirational. For example, Kinder Morgan states that the company demonstrates a commitment to excellence by reporting environmental, health and safety performance to the public.[5] We did find a few pages with data on OSHA recordable injuries/illnesses, company vehicle accidents, and pipeline incidents that contain informative and comparative data, a useful approach that should be used with other relevant types of ESG disclosure -- although trends could be identified more clearly. A sustainability report would provide this data highlighting trends and goals (where applicable) for the full range of material and emerging ESG issues that are important to Kinder, such as those identified above in bold text.

Kinder also seems to lack governance processes for managing environmental and social issues such as: board oversight of ESG policies and formal stakeholder engagement processes. These items are often described in sustainability reports. The terms "environment," "environmental," and "stakeholder," were not found in a word search of the Kinder's Governance Guidelines for the Board of Directors.[6]

Clearly, Kinder Morgan can do much more to disclose actions related to their stated commitment to environmental protection and transparency. The principles laid out by Kinder Morgan indicate a willingness to dedicate time and resources to capturing the benefits of sustainable business practices. However, what is currently lacking is: 1) disclosure of specific risks, opportunities, goals, data and trends covering most ESG issues; 2) disclosure of company-wide practices related to social issues such as community impacts of operations and pollution; 3) data on most ESG issues that facilitates comparison to peers; and 4) information on stakeholder engagement beyond project-specific information.

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[4] http://www.kindermorgan.com/ehs/

[5] http://www.kindermorgan.com/ehs/ehs_performance/

[6] http://www.kindermorgan.com/about_us/KMR_GOVERNANCE_GUIDELINES.pdf

2. Sustainability Reporting is an important element of business success for Companies Like Kinder Morgan.

A key purpose of publishing a sustainability report is to inform investors, customers, employees, and the public, in a comprehensive way, about significant environmental and social risks (and opportunities) faced by Kinder Morgan.

Another important audience for sustainability reports is data aggregators – of ESG and financial information – such as Bloomberg, MSCI and providers of indexes such as the Dow Jones Sustainability Index. Without data that is easily comparable between companies – the kind of data provided by more than 4,000 companies worldwide who use the Global Reporting Initiative (GRI) metrics[7]– the ESG data aggregators may have difficulty populating their databases and sharing the information with Kinder Morgan investors and stakeholders.

Environmental issues present key risks to Kinder Morgan including: community and environmental safety, carbon asset risk, physical risks, and social license to operate. For example, siting coal export facilities involves convincing regulators and local communities that Kinder Morgan can be trusted to protect, workers, community members and the environment.

In addition, the storage and use of coal, gas, oil and petroleum coke can lead to water and air pollution. Future export and or use of fossil fuels could be restricted due to environmental regulations, particularly related to climate change. Kinder Morgan faces a separate shareholder resolution this year on the topic of carbon asset risk and the potential for stranded assets. Both Exxon Mobil and Peabody Energy have greed to issue reports on this important topic.

76 percent of executives polled by McKinsey & Company "say sustainability contributes positively to shareholder value in the long term, and 50 percent see short-term value creation."[8]

According to a 2013 KPMG report on sustainability reporting, of the Global Fortune 250 companies, "fully 95% now report on CR [corporate responsibility] activities…. The number of companies now reporting on CR has continued to rise since KPMG's last CR study in 2013. Indeed, where CR reporting was once merely considered an 'optional but nice' activity, it now seems to have become standard practice for most large multinational companies, almost regardless of where they operate around the world…. 80% of the Global Fortune 250 are now aligning to GRI reporting standards."[9] GRI guidelines have become the accepted standard for sustainability reporting, with more than 4,000 companies currently using the guidelines.[10]

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[7] https://www.globalreporting.org/Pages/default.aspx

[8]http://www.mckinsey.com/insights/sustainability/how_companies_manage_sustainability_mckinsey_global_survey_results

[9]http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/kpmg-survey-of-corporate-responsibility-reporting-2013.pdf, p.11, http://database.globalreporting.org

[10] http://en.wikipedia.org/wiki/Global_Reporting_Initiative

Analysis of ESG data is fast becoming a mainstream investment practice, as demonstrated by the rapid growth of investor groups such as the Principles for Responsible Investment (PRI, described below).[11] In this context, common standards such as GRI are necessary for many of the same reasons that accounting standards are necessary. Imagine if all companies based their financial reporting on very little numeric data, customized reporting metrics, and heavy use of anecdotes and aspirational statements – and then spread this reporting in multiple places such as their web site, CDP's web site, and their annual report, without any sort of index to guide investors. This system clearly would not serve the needs of investors or businesses, yet this is Kinder Morgan's approach to sustainability reporting (although they appear to not respond to the CDP survey). And while GRI offers standard metrics that assist with comparisons across companies, it also offers a high level of flexibility in that companies can report on those metrics that are most relevant to the firm.

Investors assessing energy companies in (or for) their portfolios, need relevant, reliable, and comparable information about a companies' business practices to make investment judgments based on a robust assessment of the companies' environmental, social and governance policies in addition to traditional financial metrics. Shareholders require assurance that company managers are reducing environmental health and business risks by addressing real operational hazards and are capturing the genuine, measurable business rewards flowing from environmental management practices that lower costs and increase profits. Sustainability reporting is important for this kind of disclosure.

3. Kinder Morgan lags behind its peers on sustainability policies, practices, and disclosure.

Many of Kinder Morgan's peers in the oil and gas sector produce standard sustainability reports following GRI guidelines. Each of the companies listed below issues comprehensive GRI reports covering many issues discussed in this memo, including things such as: goals for management, implementation plans, processes for board involvement, and materiality analysis.

Enbridge, Inc.
http://www.enbridge.com/MediaCentre/News/Expanding-Sustainability-Reporting.aspx

-Report: 2013 Sustainability Report based on GRI guidelines
-Stakeholder Engagement: Engagement activities contribute to projects and concerns related to the company
-Quantitative Data: Energy consumption, water usage, GHG emissions, spill data

Spectra Energy
http://www.spectraenergy.com/Sustainability/

- Report: 2011 Sustainability Report based on GRI guidelines, "updated with key 2012 data points and material information"
- Stakeholder Engagement: Principles established to engage with stakeholders as a

[11] http://www.unpri.org/signatories/

critical part of business success

- Quantitative Data: GHG emissions, other air pollutants, water use, energy consumption, spill data

TransCanada
http://www.transcanada.com/4718.html

- Report: 2012 Corporate Social Responsibility Report based on GRI guidelines
- Stakeholder Engagement: "TransCanada's Stakeholder Relations Framework. The Framework describes social license as 'the level of acceptance and approval continually granted to an organization's operations or projects by the local community and other stakeholders.'
- Materiality analysis process recently put in place.
- Quantitative Data: GHG emissions, spills

Conclusion

Sustainability reporting is particularly crucial for Kinder Morgan. As an energy transport and handling business, the company faces environmental and social risks that directly impact the company's core businesses. On ESG disclosure, Kinder has clearly fallen behind its peers and the broader business community. Standardized sustainability reporting is the most concrete way to address these concerns.