

PROXY MEMORANDUM

Date:

March 17, 2017

To:

Kinder Morgan Inc. Shareholders

Subject:

Shareholder resolution requesting an assessment of the medium and long-term portfolio impacts of technological advances and global climate change policies

Lead Filer:

First Affirmative Financial Network, on behalf of Mark Demanes

Contact:

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We urge shareholders to vote “FOR” the following shareholder resolution that will appear on the Kinder Morgan Inc. (“KMI”, “the Company”) proxy statement and be presented for a vote at the 2017 annual meeting:

RESOLVED:

Shareholders request that, beginning in 2018, KMI publish an assessment of the medium and long-term portfolio impacts of technological advances and global climate change policies. The assessment can be incorporated into existing reporting and should analyze the impacts on KMI’s portfolio of assets and planned capital expenditures under a scenario in which reduction in fossil fuel demand results from technological advances, carbon restrictions and related rules or commitments adopted by governments consistent with the globally agreed upon two degree target. The report should be overseen by a committee of independent directors, omit proprietary information, and be prepared at reasonable cost.

Summary

First Affirmative has filed shareholder resolutions with KMI addressing carbon asset risk for four consecutive years, with the 2016 resolution being supported by 27.1% of shareholders. The Company has made some modest improvements in their public disclosures, including implementing

somewhat more explicit disclosures in their 10K and publishing a statement on climate change¹, much of which is duplicated in the Board of Directors statement of opposition to this proposal. Nevertheless, the Company's approach to managing and disclosing climate change risks does not appear to have changed substantially.

Climate change is an issue of increasing concern to many investors, particularly in light of the recent Paris Agreement that 196 countries signed and entered into force on November 4, 2016. The Paris Agreement set goals to keep temperature rise to well below 2 degrees C (3.6 degrees F) and the pursuit of enhanced efforts to limit temperature increase to 1.5 degrees C (2.7 degrees F).²

We believe that:

- KMI's current capital expenditure plans continue to expose the company to the risk that its infrastructure assets may become stranded as policies and markets move to support low-carbon power generation.
- The Company's disclosures to date do not fulfill the request of this shareholder proposal because they do not test the long-term resilience of the Company's planned capital expenditures against a scenario or scenarios to limit global warming to an increase of no more than 2 degrees over pre-industrial levels.
- Two-degree scenario analysis will help the Company adapt its business model and capital allocation processes to a low-carbon future.

The KMI Statement on Climate Change is Not a Substitute for the Disclosure Requested by this Resolution

While the statement does recognize that addressing climate change is a global priority, the content of the statement is primarily a summary of the Company's understanding of the benefits of natural gas in comparison to other higher carbon content fossil fuels.

The Company is correct in its assessment that natural gas is much lower in carbon emissions than the coal it is displacing. However methane emissions from leaks that can occur throughout the natural gas production and transportation system can quickly erode the comparative benefit of natural gas when compared to other fossil fuels.

The statement makes no mention of the risks presented by the continued and increasing capital deployment by the Company to build infrastructure to facilitate the transport of much higher carbon

¹ http://www.kindermorgan.com/content/docs/Climate_Change_KM_Statement.pdf

² http://unfccc.int/paris_agreement/items/9444.php

fuels, most notably the Trans Mountain Pipeline expansion to transport one of the most carbon intensive fuels - oil sands bitumen.

Natural Gas

Over half of the Company's earnings are generated from the transportation, processing and storage of natural gas. While the Company will no doubt continue to benefit in the short and medium term from the continued development of this business segment, the Company's assumption that "natural gas is the cleanest burning fossil fuel with significantly lower emissions than coal or fuel oil"³ is not necessarily accurate due to uncertainty about levels of fugitive methane emissions from the well head to delivery.⁴ Methane, though much shorter living, is 86 times more powerful in trapping heat than CO₂ over a 20 year period.

The relative benefit of natural gas is almost entirely dependent on the ability to prevent methane from entering the atmosphere. Industry-wide, incremental improvements to prevent the escape of methane are laudable, but the net benefits of these improvements are by no means certain and individual accidents can quickly negate the positive effects. The recent incident at Alliso Canyon highlights this issue: 97,100 metric tons of methane was released into the atmosphere over the course of 112 days in late 2015 and early 2016.⁵

Recent research also indicates that switching US electricity generation from coal- to natural gas fired power stations may not, in fact, significantly lower greenhouse gas emissions, even assuming zero methane leakage and despite the lower emissions per unit of electricity generated by gas plants. Instead, this coal to natural gas shift risks delaying the deployment and cost-competitiveness of renewable electricity technologies, calling into question the concept of an ideal "bridge fuel."⁶

Should it be determined that the transition to natural gas from coal provides fewer benefits in mitigating climate change than is currently assumed, there is significant risk to the Company given the importance of natural gas consumption to the current business model. The projected growth in natural gas consumption to offset declines in coal use may not materialize, particularly as non-fossil fuel sources become more affordable and as storage issues are addressed.

Oil Sands

A cornerstone of planned capital expenditures and future cash flows for the Company is the Trans Mountain Expansion Project, which is designed to increase the nominal capacity of the current system from 300,000 bpd to 890,000 bpd for transporting Canadian oil sands to world markets via British Columbia and the Pacific Northwest. This project has a revised price tag of \$6.8 billion which already up from last year's \$5 billion projection, is likely to increase further.

³ http://ir.kindermorgan.com/sites/kindermorgan.investorhq.businesswire.com/files/event/additional/17_AD_pres_vF-REFORMAT.pdf

⁴ <http://insideclimatenews.org/news/20150128/methane-leaks-gas-pipelines-far-exceed-official-estimates-harvard-study-finds>

⁵ <https://www.esrl.noaa.gov/csd/projects/alisocanyon.html>

⁶ <http://iopscience.iop.org/article/10.1088/1748-9326/9/9/094008#er1501440s4>

Although recently approved by the Canadian federal government, progress is likely to be impeded by organized opposition to the project throughout its route. This opposition extends beyond aboriginal groups and environmentalists to major governmental municipalities, including Vancouver and Burnaby. Nine requests for judicial review had already been filed as of January 20, 2017, an indication that significant legal bills will add to the projected cost.⁷

As a high carbon fuel oil sands bitumen, like coal, is vulnerable to regulatory action. Should momentum build to meet Paris Agreement goals, continued efforts to curb oilsands production are likely constraining the future need for the substantial increase in capacity that this expansion represents. Production costs also make the proposed expansion particularly vulnerable to scenarios involving reduced demand and/or lower prices. Capital expenditure decisions should be considered within the context of this risk.

Conclusion

A central risk to expanding and maintaining KMI's 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. The fossil fuel industry in particular, including KMI, must adequately prepare for the "2 degree" scenario and share its analysis of the risks with shareholders. Actions to reduce both the present and future impacts of climate change pose a serious threat to the vast majority of KMI's customers—and to KMI's businesses that rely on those customers.

NOTE: 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 instructions provided on the management's proxy mailing.

Mention of a specific company or security should not be considered an endorsement or a recommendation to buy or sell that security. Past performance is no guarantee of future investment results.

⁷ <http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/vancouver-seeking-judicial-review-of-trans-mountain-pipeline-expansion/article34116846/>