

KINDER MORGAN, INC.
Form 10-Q
October 21, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from _____ to _____

Commission file number: 001-35081

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

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

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

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

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

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

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

As of October 20, 2016, the registrant had 2,232,364,274 Class P shares outstanding.

KINDER MORGAN, INC. AND SUBSIDIARIES
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KINDER MORGAN, INC. AND SUBSIDIARIES
GLOSSARY

Company Abbreviations

CIG	=Colorado Interstate Gas Company, L.L.C.	KMLP	=Kinder Morgan Louisiana Pipeline LLC
Copano	=Copano Energy, L.L.C.	KMP	=Kinder Morgan Energy Partners, L.P. and its majority-owned and controlled subsidiaries
CPG	=Cheyenne Plains Gas Pipeline Company, L.L.C.	KMR	=Kinder Morgan Management, LLC
Elba Express	=Elba Express Company, L.L.C.	MEP	=Midcontinent Express Pipeline LLC
EPB	=El Paso Pipeline Partners, L.P. and its majority-owned and controlled subsidiaries	SFPP	=SFPP, L.P.
EPNG	=El Paso Natural Gas Company, L.L.C.	SLNG	=Southern LNG Company, L.L.C.
Hiland	=Hiland Partners, LP	SNG	=Southern Natural Gas Company, L.L.C.
KMEP	=Kinder Morgan Energy Partners, L.P.	TGP	=Tennessee Gas Pipeline Company, L.L.C.
KMGP	=Kinder Morgan G.P., Inc.		
KMI	=Kinder Morgan, Inc. and its majority-owned and/or controlled subsidiaries		

Unless the context otherwise requires, references to “we,” “us,” or “our,” are intended to mean Kinder Morgan, Inc. and its majority-owned and/or controlled subsidiaries.

Common Industry and Other Terms

/d	=per day	EPA	=United States Environmental Protection Agency
BBtu	=billion British Thermal Units	FASB	=Financial Accounting Standards Board
Bcf	=billion cubic feet	FERC	=Federal Energy Regulatory Commission
CERCLA	=Comprehensive Environmental Response, Compensation and Liability Act	GAAP	=United States Generally Accepted Accounting Principles
CO ₂	=carbon dioxide or our CO ₂ business segment	LLC	=limited liability company
DCF	=distributable cash flow	MBbl	=thousand barrels
DD&A	=depreciation, depletion and amortization	MMBbl	=million barrels
EBDA	=earnings before depreciation, depletion and amortization expenses, including amortization of excess cost of equity investments	NGL	=natural gas liquids
		OTC	=over-the-counter

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

Information Regarding Forward-Looking Statements

This report includes forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as “anticipate,” “believe,” “intend,” “plan,” “projection,” “forecast,” “strategy,” “position,” “continue,” “estimate,” “expect,” “may,” or the negative of those terms or other variations of them or comparable terminology. In particular, expressed or implied statements concerning future actions, conditions or events, future operating results or the ability to generate sales, income or cash flow or to pay dividends are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future actions, conditions or events and future results of operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict.

See “Information Regarding Forward-Looking Statements” and Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Form 10-K) and Item 1A “Risk Factors” included elsewhere in this report for a more detailed description of factors that may affect the forward-looking statements. You should keep these risk factors in mind when considering forward-looking statements. These risk factors could cause our actual results to differ materially from those contained in any forward-looking statement. Because of these risks and uncertainties, you should not place undue reliance on any forward-looking statement. We plan to provide updates to projections included in this report when we believe previously disclosed projections no longer have a reasonable basis.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Revenues				
Natural gas sales	\$719	\$744	\$1,740	\$2,206
Services	2,006	2,015	6,154	5,948
Product sales and other	605	948	1,775	2,613
Total Revenues	3,330	3,707	9,669	10,767
Operating Costs, Expenses and Other				
Costs of sales	971	1,106	2,454	3,281
Operations and maintenance	576	612	1,744	1,707
Depreciation, depletion and amortization	549	617	1,652	1,725
General and administrative	171	160	550	540
Taxes, other than income taxes	106	108	324	339
Loss on impairments and divestitures, net	76	385	307	489
Other income, net	(1)	(2)	—	(5)
Total Operating Costs, Expenses and Other	2,448	2,986	7,031	8,076
Operating Income	882	721	2,638	2,691
Other Income (Expense)				
Earnings from equity investments	137	114	343	330
Loss on impairments and divestitures of equity investments, net	(350)	—	(344)	(26)
Amortization of excess cost of equity investments	(15)	(13)	(45)	(39)
Interest, net	(472)	(540)	(1,384)	(1,524)
Other, net	12	9	42	33
Total Other Expense	(688)	(430)	(1,388)	(1,226)
Income Before Income Taxes	194	291	1,250	1,465
Income Tax Expense	(377)	(108)	(744)	(521)
Net (Loss) Income	(183)	183	506	944
Net (Income) Loss Attributable to Noncontrolling Interests	(5)	3	(7)	4
Net (Loss) Income Attributable to Kinder Morgan, Inc.	(188)	186	499	948
Preferred Stock Dividends	(39)	—	(117)	—

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Net (Loss) Income Available to Common Stockholders	\$(227)	\$186	\$382	\$948
Class P Shares				
Basic (Loss) Earnings Per Common Share	\$(0.10)	\$0.08	\$0.17	\$0.43
Basic Weighted Average Common Shares Outstanding	2,230	2,203	2,229	2,173
Diluted (Loss) Earnings Per Common Share	\$(0.10)	\$0.08	\$0.17	\$0.43
Diluted Weighted Average Common Shares Outstanding	2,230	2,203	2,229	2,181
Dividends Per Common Share Declared for the Period	\$0.125	\$0.510	\$0.375	\$1.480

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

KINDER MORGAN, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net (loss) income	\$(183)	\$183	\$506	\$944
Other comprehensive income (loss), net of tax				
Change in fair value of hedge derivatives (net of tax (expense) benefit of \$(29), \$(60), \$11 and \$(25), respectively)	50	104	(19)	44
Reclassification of change in fair value of derivatives to net income (net of tax benefit of \$23, \$37, \$92 and \$111, respectively)	(39)	(63)	(158)	(192)
Foreign currency translation adjustments (net of tax benefit (expense) of \$11, \$45, \$(38) and \$98, respectively)	(20)	(79)	65	(170)
Benefit plan adjustments (net of tax expense of \$(3), \$-, \$(9) and \$(4), respectively)	6	1	16	7
Total other comprehensive loss	(3)	(37)	(96)	(311)
Comprehensive (loss) income	(186)	146	410	633
Comprehensive (income) loss attributable to noncontrolling interests	(5)	3	(7)	4
Comprehensive (loss) income attributable to KMI	\$(191)	\$149	\$403	\$637

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

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

	September 30, 2016	December 31, 2015
	(Unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 357	\$ 229
Restricted deposits	888	60
Accounts receivable, net	1,282	1,315
Fair value of derivative contracts	281	507
Inventories	325	407
Other current assets	230	306
Total current assets	3,363	2,824
Property, plant and equipment, net	38,780	40,547
Investments	7,358	6,040
Goodwill	22,163	23,790
Other intangibles, net	3,384	3,551
Deferred income taxes	4,595	5,323
Deferred charges and other assets	1,961	2,029
Total Assets	\$ 81,604	\$ 84,104
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of debt	\$ 2,944	\$ 821
Accounts payable	1,192	1,324
Accrued interest	505	695
Accrued contingencies	413	298
Accrued taxes	278	165
Other current liabilities	712	762
Total current liabilities	6,044	4,065
Long-term liabilities and deferred credits		
Long-term debt		
Outstanding	36,708	40,632
Preferred interest in general partner of KMP	100	100
Debt fair value adjustments	1,710	1,674
Total long-term debt	38,518	42,406
Other long-term liabilities and deferred credits	2,074	2,230
Total long-term liabilities and deferred credits	40,592	44,636
Total Liabilities	46,636	48,701
Commitments and contingencies (Notes 3 and 9)		
Stockholders' Equity		
Class P shares, \$0.01 par value, 4,000,000,000 shares authorized, 2,230,085,392 and 2,229,223,864 shares, respectively, issued and outstanding	22	22
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 9.75% Series A Mandatory Convertible, \$1,000 per share liquidation preference, 1,600,000 shares issued and outstanding	—	—
Additional paid-in capital	41,701	41,661

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Retained deficit	(6,560) (6,103)
Accumulated other comprehensive loss	(557) (461)
Total Kinder Morgan, Inc.'s stockholders' equity	34,606	35,119	
Noncontrolling interests	362	284	
Total Stockholders' Equity	34,968	35,403	
Total Liabilities and Stockholders' Equity	\$ 81,604	\$ 84,104	

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

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KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities		
Net income	\$506	\$944
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	1,652	1,725
Deferred income taxes	767	524
Amortization of excess cost of equity investments	45	39
Loss on impairments and divestitures, net	307	489
Loss on impairments and divestitures of equity investments, net	344	26
Earnings from equity investments	(343)	(330)
Distributions from equity investment earnings	321	289
Noncash pension benefit credits	—	(78)
Changes in components of working capital, net of the effects of acquisitions and dispositions		
Accounts receivable, net	26	304
Income tax receivable	—	195
Inventories	68	2
Other current assets	(20)	82
Accounts payable	(46)	(264)
Accrued interest, net of interest rate swaps	(158)	(72)
Accrued contingencies and other current liabilities	140	6
Rate reparations, refunds and other litigation reserve adjustments	31	3
Other, net	(145)	(377)
Net Cash Provided by Operating Activities	3,495	3,507
Cash Flows From Investing Activities		
Acquisitions of assets and investments, net of cash acquired	(333)	(1,919)
Capital expenditures	(2,109)	(2,999)
Proceeds from sale of equity interests in subsidiaries, net	1,402	—
Sale of property, plant and equipment, investments, and other net assets, net of removal costs	250	45
Contributions to investments	(389)	(69)
Distributions from equity investments in excess of cumulative earnings	158	181
Other, net	(26)	39
Net Cash Used in Investing Activities	(1,047)	(4,722)
Cash Flows From Financing Activities		
Issuances of debt	8,485	12,281
Payments of debt	(9,135)	(11,893)
Restricted cash held in escrow for debt repayment	(776)	—
Debt issue costs	(15)	(20)
Issuances of common shares	—	3,833
Cash dividends - common shares	(839)	(3,084)
Cash dividends - preferred shares	(115)	—
Repurchases of warrants	—	(12)

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Contributions from noncontrolling interests	88	7
Distributions to noncontrolling interests	(17)	(25)
Other, net	—	(1)
Net Cash (Used in) Provided by Financing Activities	(2,324)	1,086
Effect of Exchange Rate Changes on Cash and Cash Equivalents	4	(7)
Net increase (decrease) in Cash and Cash Equivalents	128	(136)
Cash and Cash Equivalents, beginning of period	229	315
Cash and Cash Equivalents, end of period	\$357	\$179
Non-cash Investing and Financing Activities		
Assets acquired by the assumption or incurrence of liabilities	\$43	\$1,680
Net assets contributed to equity investment	\$37	\$46
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for interest (net of capitalized interest)	\$1,598	\$1,596
Cash paid (refunded) during the period for income taxes, net	\$4	\$(183)
The accompanying notes are an integral part of these consolidated financial statements.		

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KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In Millions)

(Unaudited)

	Common stock		Preferred stock		Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Stockholders' equity		Non-controlling interests	Total
	Issued shares	Par value	Issued shares	Par value				attributable to KMI			
Balance at December 31, 2015	2,229	\$ 22	2	\$ —	\$41,661	\$(6,103)	\$(461)	\$35,119	\$284		\$35,403
Restricted shares	1				47			47			47
Net income						499		499	7		506
Distributions									(17)		(17)
Contributions									88		88
Preferred stock dividends						(117)		(117)			(117)
Common stock dividends						(839)		(839)			(839)
Other					(7)			(7)			(7)
Other comprehensive loss							(96)	(96)			(96)
Balance at September 30, 2016	2,230	\$ 22	2	\$ —	\$41,701	\$(6,560)	\$(557)	\$34,606	\$362		\$34,968

	Common stock		Preferred stock		Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Stockholders' equity		Non-controlling interests	Total
	Issued shares	Par value	Issued shares	Par value				attributable to KMI			
Balance at December 31, 2014	2,125	\$ 21	—	\$ —	\$36,178	\$(2,106)	\$(17)	\$34,076	\$350		\$34,426
Issuances of common shares	101	1			3,832			3,833			3,833
Repurchase of warrants					(12)			(12)			(12)
EP Trust I Preferred security conversions	1				23			23			23
Warrants exercised					2			2			2
Restricted shares	1				40			40			40
Net income						948		948	(4)		944
Distributions									(25)		(25)
Contributions									7		7
Common stock dividends						(3,084)		(3,084)			(3,084)
Other					(1)			(1)			(1)
Other comprehensive loss							(311)	(311)			(311)
Balance at September 30, 2015	2,228	\$ 22	—	\$ —	\$40,062	\$(4,242)	\$(328)	\$35,514	\$328		\$35,842

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

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

1. General

Organization

We are the largest energy infrastructure company in America. We own an interest in or operate approximately 84,000 miles of pipelines and 180 terminals. Our pipelines transport natural gas, refined petroleum products, crude oil, condensate, CO₂ and other products, and our terminals transload and store petroleum products, ethanol and chemicals, and handle such products as coal, petroleum coke and steel. We are also the leading producer and transporter of CO₂, which is utilized for enhanced oil recovery projects in North America.

Basis of Presentation

General

Our reporting currency is U.S. dollars, and all references to dollars are U.S. dollars, unless stated otherwise. Our accompanying unaudited consolidated financial statements have been prepared under the rules and regulations of the United States Securities and Exchange Commission (SEC). These rules and regulations conform to the accounting principles contained in the FASB's Accounting Standards Codification, the single source of GAAP. Under such rules and regulations, all significant intercompany items have been eliminated in consolidation.

In our opinion, all adjustments, which are of a normal and recurring nature, considered necessary for a fair presentation of our financial position and operating results for the interim periods have been included in the accompanying consolidated financial statements, and certain amounts from prior periods have been reclassified to conform to the current presentation. Interim results are not necessarily indicative of results for a full year; accordingly, you should read these consolidated financial statements in conjunction with our consolidated financial statements and related notes included in our 2015 Form 10-K.

Impairments and Divestitures

During the three and nine months ended September 30, 2016, we recorded non-cash pre-tax losses on impairments and divestitures netting to \$76 million and \$307 million, respectively. The three and nine months ended September 30, 2016 included (i) an \$84 million loss on the sale of a 50% interest in our SNG natural gas pipeline system; (ii) losses of \$1 million and \$9 million, respectively, on a held-for-sale Transmix facility within our Products Pipelines business segment; and (iii) a \$9 million net gain and a \$3 million net loss, respectively, on other asset disposals. The nine months ended September 30, 2016 also included (i) \$106 million of project write-offs on our Northeast Energy Direct (NED) Market project within our Natural Gas Pipelines business segment; (ii) a \$21 million project write-off within our CO₂ business segment; (iii) a \$20 million impairment related to certain terminals with significant coal operations within our Terminals business segment; and (iv) \$64 million of write-offs associated with our Palmetto project within our Products Pipelines business segment. The project write-offs recorded in the nine months ended September 30, 2016 were driven by management's assessment of the probability of those projects moving forward based on insufficient progress in obtaining contractual commitments from customers in the New England market, in the case of the NED Market project, and an unfavorable action by the Georgia legislature regarding permitting for refined products pipelines affecting the Palmetto project.

During the three and nine months ended September 30, 2015, we recorded non-cash pre-tax losses on impairments and divestitures netting to \$385 million and \$489 million, respectively. These amounts include (i) \$99 million for the nine

months ended September 30, 2015 of impairments and project write-offs related to certain gas gathering and processing assets within our midstream operations of our Natural Gas Pipelines business segment; (ii) \$388 million and \$397 million for the three and nine months ended September 30, 2015, respectively, within our CO₂ business segment primarily related to our Goldsmith oil and gas field, primarily driven by a decrease in commodity prices; and (iii) \$3 million and \$7 million for the three and nine months ended September 30, 2015, respectively, of net gains on other asset disposals.

During the three and nine months ended September 30, 2016, we recorded \$350 million and \$344 million, respectively, of non-cash pre-tax net losses on impairments and divestitures of equity investments, primarily related to an impairment of our equity investment in MEP within our Natural Gas Pipelines business segment. Based on commercial discussions during the third quarter of 2016 with current and potential shippers on MEP regarding the outlook for long-term transportation contract rates, we concluded the fair value of our investment was other than temporarily impaired, thereby resulting in a write-down of

our investment. During the nine months ended September 30, 2015, we recorded \$26 million non-cash pre-tax losses on impairments of equity investments in certain gas gathering operations within our Natural Gas Pipelines business segment.

As conditions warrant, we routinely evaluate our assets for potential triggering events that could impact the fair value of certain assets or our ability to recover the carrying value of long-lived assets. Such assets include accounts receivable, equity investments, goodwill, other intangibles and property, plant and equipment, including oil and gas properties and in-process construction. Depending on the nature of the asset, these evaluations require the use of significant judgments including but not limited to judgments related to customer credit worthiness, future cash flow estimates, future volume and long-term contract rate expectations, current and future commodity prices, regulatory environment, management's decisions to dispose of certain assets and estimates of the fair values of our reporting units, as well as general economic conditions and the related demand for products handled or transported by our assets. For example, to the extent future commodity prices are significantly lower than current market expectations and thereby unfavorably affect our customers' investment decisions, we may identify additional triggering events that may require future evaluations of the recoverability of the carrying value of our long-lived assets, investments, and goodwill which could result in further impairment charges. Because certain of our assets, including our oil and gas producing properties, have been written down to fair value, any deterioration in fair value that exceeds the rate of depletion of the related asset would result in further impairments. Such non-cash impairments could have a significant effect on our results of operations, which would be recognized in the period in which the carrying value is determined to not be recoverable. Certain of these impairments are based on Level 3 estimates of fair value using income approach valuation methodologies which include assumptions regarding commodity prices, future cash flows, terminal values and discount rates. We believe our methodologies are standard techniques and results would not vary materially using a reasonable range of assumptions.

In the fourth quarter 2015, we recorded a \$1,150 million impairment of goodwill associated with our Natural Gas Pipeline - Non-Regulated reporting unit triggered by decreases in market valuations in our industry which were caused by the commodity price environment at that time. Our May 31, 2016 annual goodwill impairment test indicated our remaining goodwill is recoverable, and no event indicating a goodwill impairment has occurred subsequent to that date.

We expect that the carrying value of our Natural Gas Pipelines - Non-Regulated reporting unit will continue to approximate fair value so long as our estimate of future cash flows and the market valuation remain consistent with current levels. A prolonged period of lower commodity prices could result in further deterioration of market multiples, comparable sales transactions prices, weighted average costs of capital, and our cash flow estimates. Unfavorable changes to any one or combination of these factors, particularly for our Natural Gas Pipelines - Non-Regulated reporting unit, would result in a change to the reporting unit fair values which could lead to further impairment charges. Such potential impairment could have a significant effect on our results of operations.

Earnings per Share

We calculate earnings per share using the two-class method. Earnings were allocated to Class P shares of common stock and participating securities based on the amount of dividends paid in the current period plus an allocation of the undistributed earnings or excess distributions over earnings to the extent that each security participates in earnings or excess distributions over earnings. Our unvested restricted stock awards, which may be stock or stock units issued to management employees and include dividend equivalent payments, do not participate in excess distributions over earnings.

The following tables set forth the allocation of net income available to shareholders of Class P shares and participating securities and the reconciliation of Basic Weighted Average Common Shares Outstanding to Diluted Weighted Average Common Shares Outstanding (in millions):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Class P shares	\$(228)	\$182	\$379	\$938
Participating securities:				
Restricted stock awards(a)	1	4	3	10
Net (Loss) Income Available to Common Stockholders	\$(227)	\$186	\$382	\$948

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Basic Weighted Average Common Shares Outstanding	2,230	2,203	2,229	2,173
Effect of dilutive securities:				
Warrants	—	—	—	8
Diluted Weighted Average Common Shares Outstanding	2,230	2,203	2,229	2,181

(a) As of September 30, 2016, there were approximately 9 million such restricted stock awards.

The following maximum number of potential common stock equivalents are antidilutive and, accordingly, are excluded from the determination of diluted earnings per share (in millions on a weighted-average basis):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Unvested restricted stock awards	9	8	8	7
Warrants to purchase our Class P shares(a)	293	296	293	290
Convertible trust preferred securities	8	8	8	8
Mandatory convertible preferred stock(b)	58	n/a	58	n/a

n/a - not applicable

(a) Each warrant entitles the holder to purchase one share of our common stock for an exercise price of \$40 per share, payable in cash or by cashless exercise, at any time until May 25, 2017. The potential dilutive effect of the warrants does not consider the assumed proceeds to KMI upon exercise.

(b) Until our mandatory convertible preferred shares are converted to common shares, on or before the expected mandatory conversion date of October 26, 2018, the holder of each preferred share participates in our earnings by receiving preferred dividends.

2. Acquisitions and Divestiture

Acquisition of Terminal Assets from and Joint Venture With BP Products North America Inc. (BP)

On February 1, 2016, we completed the acquisition of 15 products terminals and associated infrastructure from BP for \$349 million, including a transaction deposit paid in 2015 and working capital adjustments paid in 2016. In conjunction with this transaction, we and BP formed a joint venture, with an equity ownership interest of 75% and 25%, respectively. Subsequent to the acquisition, we contributed 14 of the acquired terminals to the joint venture, which we operate, and the remaining terminal is solely owned by us. BP acquired its 25% interest in the joint venture for \$84 million, which we reported as “Contributions from noncontrolling interests” within our accompanying consolidated statement of cash flows for the nine months ended September 30, 2016. Of the acquired assets, 10 terminals are included in our Terminals business segment and 5 terminals are included in our Products Pipelines business segment based on synergies with each segment’s respective existing operations.

Allocation of Purchase Price

The evaluation of the assigned fair values for the BP terminals acquisition is ongoing and subject to adjustment. As of September 30, 2016, our preliminary allocation of the purchase price for the BP terminals acquisition and the adjusted purchase price allocations for the Hiland acquisition and Royal Vopak terminals acquisition, both completed in February 2015, are detailed below (in millions).

	Acquisitions		
	BP Terminal Assets	Hiland	Royal Vopak Terminal Assets
Purchase Price Allocation:			
Current assets	\$2	\$79	\$ 2
Property, plant and equipment	396	1,492	155
Goodwill	—	310	6
Deferred charges and other assets(a)	—	1,498	—
Total assets acquired	398	3,379	163
Current liabilities	—	(253)	(1)
Debt	—	(1,413)	—
Other liabilities	(49)	(4)	(4)
Cash consideration	\$349	\$1,709	\$ 158

(a) Primarily consists of customer contracts and relationships with a weighted average amortization period of 16.4 years.

After measuring all of the identifiable tangible and intangible assets acquired and liabilities assumed at fair value on the acquisition date, goodwill is an intangible asset representing the future economic benefits expected to be derived from an acquisition that are not assigned to other identifiable, separately recognizable assets. We believe the primary items that generated our goodwill are both the value of the synergies created between the acquired assets and our pre-existing assets, and our expected ability to grow the business we acquired by leveraging our pre-existing business experience. We apply a look through method of recording deferred income taxes on the outside book-tax basis differences in our investments. As a result, no deferred income taxes are recorded associated with non-deductible goodwill recorded at the investee level.

Sale of Equity Interest in SNG

On September 1, 2016, we completed the sale of a 50% interest in our SNG natural gas pipeline system to The Southern Company (Southern Company), receiving proceeds of \$1.4 billion, and the formation of a joint venture, which includes our remaining 50% interest in SNG. We used the proceeds from the sale to reduce outstanding debt (see Note 3). We recognized a pre-tax loss of \$84 million on the sale of our interest in SNG which is included within "Loss on impairments and divestitures, net" on the accompanying consolidated statements of income for the three and nine months ended September 30, 2016. As a result of this transaction, we no longer hold a controlling interest in SNG or Bear Creek Storage Company, LLC (Bear Creek) (50% of which is owned by SNG) and, as such, we now account for our remaining equity interests in SNG and Bear Creek as equity investments.

3. Debt

We classify our debt based on the contractual maturity dates of the underlying debt instruments. We defer costs associated with debt issuance over the applicable term. These costs are then amortized as interest expense in our accompanying consolidated statements of income.

The following table provides detail on the principal amount of our outstanding debt balances. The table amounts exclude all debt fair value adjustments, including debt discounts, premiums and issuance costs (in millions):

	September 30, 2016	December 31, 2015
KMI		
Unsecured term loan facility, variable rate, due January 26, 2019(a)	\$ 1,000	\$ —
Senior notes, 1.50% through 8.25%, due 2016 through 2098(b)	13,326	13,346
Credit facility due November 26, 2019	—	—
Commercial paper borrowings	—	—
KMP		
Senior notes, 2.65% through 9.00%, due 2016 through 2044	19,485	19,985
TGP senior notes, 7.00% through 8.375%, due 2016 through 2037(a)	1,540	1,790
EPNG senior notes, 5.95% through 8.625%, due 2017 through 2032	1,115	1,115
Copano senior notes, 7.125%, due April 1, 2021(c)	—	332
CIG senior notes, 4.15% and 6.85%, due 2026 and 2037(d)	475	100
SNG notes, 4.40% through 8.00%, due 2017 through 2032(e)	—	1,211
Other Subsidiary Borrowings (as obligor)		
Kinder Morgan Finance Company, LLC, senior notes, 5.70% through 6.40%, due 2016 through 2036(a)	786	1,636
Hiland Partners Holdings LLC, senior notes, 5.50% and 7.25%, due 2020 and 2022	974	974
EPC Building, LLC, promissory note, 3.967%, due 2016 through 2035	435	443
Trust I preferred securities, 4.75%, due March 31, 2028	221	221
KMGP, \$1,000 Liquidation Value Series A Fixed-to-Floating Rate Term Cumulative Preferred Stock	100	100
Other miscellaneous debt	295	300
Total debt – KMI and Subsidiaries	39,752	41,553
Less: Current portion of debt(a)(e)(f)	2,944	821
Total long-term debt – KMI and Subsidiaries(g)	\$ 36,808	\$ 40,732

On January 26, 2016, we entered into a \$1.0 billion three-year unsecured term loan facility with a variable interest rate, which is determined in the same manner as interest on our revolving credit facility borrowings. In January 2016, we repaid \$850 million of maturing 5.70% senior notes, and in February 2016, we repaid \$250 million of maturing 8.00% senior notes primarily using proceeds from the three-year term loan. Since we refinanced a portion of the maturing debt with proceeds from long-term debt, we classified \$1 billion of the maturing debt within “Long-term debt” on our consolidated balance sheet as of December 31, 2015.

Amount includes senior notes that are denominated in Euros and have been converted and are respectively reported above at the September 30, 2016 exchange rate of 1.1235 U.S. dollars per Euro and the December 31, 2015 exchange rate of 1.0862 U.S. dollars per Euro. For the nine months ended September 30, 2016, our debt balance increased by \$47 million as a result of the change in the exchange rate of U.S. dollars per Euro. The increase in debt due to the changes in exchange rates is offset by a corresponding change in the value of cross-currency swaps reflected in “Deferred charges and other assets” and “Other long-term liabilities and deferred credits” on our consolidated balance sheets. At the time of issuance, we entered into cross-currency swap agreements associated with these senior notes, effectively converting these Euro-denominated senior notes to U.S. dollars (see Note 5 “Risk Management—Foreign Currency Risk Management”).

- On September 30, 2016, we repaid the \$332 million principal amount of 7.125% senior notes due 2021, plus accrued interest. We recognized a \$28.3 million gain from the early extinguishment of debt, included within “Interest, net” on the accompanying consolidated statements of income for the three and nine months ended
- (c) September 30, 2016 consisting of an \$11.8 million premium on the debt repaid and a \$40.1 million gain from the write-off of unamortized purchase accounting associated with the extinguished debt. Copano continues to be a subsidiary guarantor under a cross guarantee agreement (see Note 11).
- On August 16, 2016, CIG completed a private offering of \$375 million in principal amount of 4.15% senior notes due August 15, 2026. The net proceeds of \$372 million received from the offering were used to reduce debt
- (d) incurred as the result of the repayment of CIG’s senior notes that matured in 2015 and for general corporate purposes.
- Due to the September 1, 2016 sale of a 50% interest in SNG, we no longer consolidate SNG’s accounts in our
- (e) consolidated financial statements. As of the transaction date, SNG had \$1,211 million of debt outstanding (including a current portion of \$500 million).

(f) Amounts include outstanding credit facility borrowings, commercial paper borrowings and other debt maturing within 12 months (see “—Current Portion of Debt” below).

Excludes our “Debt fair value adjustments” which, as of September 30, 2016 and December 31, 2015, increased our combined debt balances by \$1,710 million and \$1,674 million, respectively. In addition to all unamortized debt

(g) discount/premium amounts, debt issuance costs and purchase accounting on our debt balances, our debt fair value adjustments also include amounts associated with the offsetting entry for hedged debt and any unamortized portion of proceeds received from the early termination of interest rate swap agreements.

We and substantially all of our wholly owned domestic subsidiaries are a party to a cross guarantee agreement whereby each party to the agreement unconditionally guarantees, jointly and severally, the payment of specified indebtedness of each other party to the agreement. Also, see Note 11.

Credit Facilities

On January 26, 2016, in accordance with the terms of our revolving credit agreement, we increased the capacity of our revolving credit agreement from \$4.0 billion to \$5.0 billion. The other terms of the revolving credit agreement remain the same. Our availability under this facility as of September 30, 2016 was \$4,832 million, which is net of \$168 million in letters of credit. Borrowings under our revolving credit facility can be used for working capital and other general corporate purposes and as a backup to our commercial paper program. Borrowings under our commercial paper program reduce the borrowings allowed under our credit facility.

Current Portion of Debt

In addition to outstanding credit facility borrowings, commercial paper borrowings, and other debt maturing within 12 months, our current portion of debt includes the current portion of the following significant series of long-term notes:

As of September 30, 2016

- \$600 million 6.00% notes due February 2017
- \$300 million 7.50% notes due April 2017
- \$355 million 5.95% notes due April 2017
- \$786 million 7.00% notes due June 2017
- \$749 million 7.25% notes originally due October 2020 (see “—Subsequent Event” below)

As of December 31, 2015

- \$500 million 3.50% notes due March 2016

Long-term Debt Issuances, Repayments and Other Significant Changes in Debt

The following are significant long-term debt issuances, repayments and other significant changes made during the nine months ended September 30, 2016:

Issuances	\$1.0 billion unsecured term loan facility due 2019
	\$375 million 4.15% notes due 2026
Repayments	\$850 million 5.70% notes due 2016
	\$500 million 3.50% notes due 2016
	\$250 million 8.00% notes due 2016
	\$67 million 8.25% notes due 2016
	\$332 million 7.125% notes due 2021
Other significant changes	\$1,211 million reduction due to the deconsolidation of SNG, including a current portion of \$500 million (see Note 2)

Subsequent Event

On October 1, 2016, a portion of the proceeds from the sale of a 50% interest in SNG was used to repay the \$749 million principal amount of Hiland's 7.25% senior notes due 2020, plus accrued interest. As of September 30, 2016, funds for this early extinguishment were held in escrow as a restricted deposit and included in the accompanying consolidated balance sheet

within “Restricted deposits.” As of September 30, 2016, we classified the \$749 million of senior notes as “Current portion of debt” within the accompanying consolidated balance sheet.

4. Stockholders’ Equity

Common Equity

As of September 30, 2016, our common equity consisted of our Class P common stock. For additional information regarding our Class P common stock, see Note 11 to our consolidated financial statements included in our 2015 Form 10-K.

Common Dividends

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Per common share cash dividend declared for the period	\$0.125	\$0.51	\$0.375	\$1.48
Per common share cash dividend paid in the period	\$0.125	\$0.49	\$0.375	\$1.42

On October 19, 2016, our board of directors declared a cash dividend of \$0.125 per common share for the quarterly period ended September 30, 2016, which is payable on November 15, 2016 to common shareholders of record as of November 1, 2016.

Mandatory Convertible Preferred Stock

On October 30, 2015, we completed an offering of 32,000,000 depositary shares, each of which represents a 1/20th interest in a share of our 1,600,000 shares of 9.750% Series A mandatory convertible preferred stock, with a liquidating preference of \$1,000 per share (equal to a \$50 liquidation preference per depositary share). For additional information regarding our mandatory convertible preferred stock, see Note 11 to our consolidated financial statements included in our 2015 Form 10-K.

Preferred Dividends

On July 20, 2016, our board of directors declared a cash dividend of \$24.375 per share of our mandatory convertible preferred stock (equivalent of \$1.21875 per depositary share) for the period from and including July 26, 2016 through and including October 25, 2016, which is payable on October 26, 2016 to mandatory convertible preferred shareholders of record as of October 11, 2016.

5. Risk Management

Certain of our business activities expose us to risks associated with unfavorable changes in the market price of natural gas, NGL and crude oil. We also have exposure to interest rate and foreign currency risk as a result of the issuance of our debt obligations. Pursuant to our management’s approved risk management policy, we use derivative contracts to hedge or reduce our exposure to certain of these risks. In addition, prior to May 2016, we had power forward and swap contracts related to legacy operations of acquired businesses.

Energy Commodity Price Risk Management

As of September 30, 2016, we had the following outstanding commodity forward contracts to hedge our forecasted energy commodity purchases and sales:

	Net open position long/(short)
Derivatives designated as hedging contracts	
Crude oil fixed price	(19.4) MMBbl
Crude oil basis	(2.2) MMBbl
Natural gas fixed price	(27.5) Bcf
Natural gas basis	(12.8) Bcf
Derivatives not designated as hedging contracts	
Crude oil fixed price	(0.1) MMBbl
Natural gas fixed price	(9.9) Bcf
Natural gas basis	(3.3) Bcf
NGL and other fixed price	(2.6)