WHEREAS: Oil and gas companies are legally required to decommission certain long-lived tangible assets at the end of their useful lives. These liabilities are recognized as Asset Retirement Obligations (AROs). AROs are critical accounting estimates,[1] yet useful details on midstream AROs are frequently omitted from financial reports due to uncertainty about the timing of decommissioning.

Demand for natural gas and petroleum products will decrease as the global economy decarbonizes. In 2022, the International Energy Agency (IEA) projected near-term peaks in demand for each fossil fuel, including a plateau in natural gas demand by the end of this decade, based on existing policy. Even in the highest-consumption scenario of the IEA's 2022 World Energy Outlook, the Inflation Reduction Act cuts projected U.S. natural gas demand in 2030 by more than 40 billion cubic meters compared with last year's projections.[2] Consequently, the time to decommission pipelines, processing facilities, and other oil and gas infrastructure will likely occur sooner than originally anticipated and investors have little insight into the associated costs and the likely impact to company value.

Kinder Morgan owns an interest in or operates approximately 83,000 miles of pipelines and 143 terminals, which are primarily used for the transportation and processing of high-carbon products.[3] While pipelines are responsible for over 80% of Kinder Morgan's revenue, the company does not presently recognize the AROs for decommissioning "pipelines, certain processing plants and distribution facilities, and certain liquids and bulk terminal facilities."[4] Rather, the company maintains that it "currently cannot reasonably estimate the fair value of these obligations because the associated assets have indeterminate lives."[5]

Near-term changes in regulatory or economic conditions as a result of the energy transition could materially accelerate the settlement of these liabilities. If companies choose not to recognize the fair value of AROs on grounds that assets have indeterminate lives, it is imperative that they disclose the undiscounted costs to settle these material off-balance sheet liabilities. Otherwise, investors cannot assess the true risk-adjusted value of their investment.

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[1] https://www.sec.gov/rules/interp/33-8350.htm
[2] https://www.iea.org/reports/world-energy-outlook-2022/executive-summary
[3] https://d18rn0p25nwr6d.cloudfront.net/CIK-0001506307/f85c7d4e-9096-4a13-811e-8af7523d5e9a.pdf, p.4
[4] https://d18rn0p25nwr6d.cloudfront.net/CIK-0001506307/f85c7d4e-9096-4a13-811e-8af7523d5e9a.pdf, p.81
[5] Ibid.

BE IT RESOLVED: Shareholders request that Kinder Morgan publish an audited report, at reasonable expense and omitting proprietary information, disclosing the undiscounted expected value to settle obligations for AROs and addressing how the assumptions of the IEA's Net Zero by 2050 pathway would affect the estimated remaining useful lives of those assets.

SUPPORTING STATEMENT: At Board discretion, we recommend that the report also include:

- A range of potential settlement dates based on assets' estimated economic lives for a range of energy transition scenarios;
- Probabilities assigned by the company to each of these potential settlement dates;
- Whether, based on known information, it is reasonably possible that these assumptions and estimates will change in the near term.

The granularity of this reporting may be by asset categories or by individual assets, at Board discretion. This information will allow investors to assess ARO liabilities considering the energy transition underway.