
PRELIMINARY DRAFT

Knight Updated Preliminary Model Outputs

May 13, 2006

PRELIMINARY DRAFT

I. Status Quo Financials

Status Quo – Knight, Inc.

Income Statement and Cash Flow Data

US\$ in millions, except per share data

| <u>Income Statement</u> | <u>2007E</u> | <u>2008E</u> | <u>2009E</u> | <u>2010E</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| Segment EBITDA | | | | |
| NGPL | \$ 626 | \$ 647 | \$ 670 | \$ 696 |
| Terasen Gas | 331 | 337 | 343 | 350 |
| KM Canada | - | - | - | - |
| Retail | 80 | 82 | 85 | 88 |
| Power | 24 | 24 | 24 | 24 |
| G&A | (75) | (80) | (85) | (90) |
| EBITDA (ex Equity Income) | 985 | 1,009 | 1,036 | 1,067 |
| Equity Income - Non-KMP and KMR | 32 | 32 | 38 | 38 |
| Equity Income - KMP and KMR | 859 | 1,150 | 1,332 | 1,468 |
| Minority Interest | (86) | (115) | (132) | (147) |
| EBITDA | \$ 1,790 | \$ 2,076 | \$ 2,274 | \$ 2,427 |
| Depreciation and Amortization | 218 | 223 | 227 | 232 |
| EBIT | 1,572 | 1,853 | 2,047 | 2,195 |
| Net Interest Expense | (434) | (454) | (457) | (456) |
| Other Income/(Expense) | 0 | 0 | 0 | 0 |
| EBT | 1,138 | 1,400 | 1,591 | 1,739 |
| Book Tax Expense | (399) | (506) | (582) | (642) |
| Net Income | 739 | 894 | 1,009 | 1,097 |
| Average Shares Outstanding | 134 | 132 | 132 | 131 |
| EPS | \$ 5.51 | \$ 6.76 | \$ 7.65 | \$ 8.36 |
| Dividend Per Share | \$ 3.85 | \$ 4.25 | \$ 4.70 | \$ 5.20 |
| "Back of the Envelope" Free Cash Flow Per Share | | | | |
| Net Income | \$ 739 | \$ 894 | \$ 1,009 | \$ 1,097 |
| D&A | 218 | 223 | 227 | 232 |
| Deferred Tax Expense | (110) | 69 | 70 | 70 |
| Maintenance CAPEX | (242) | (242) | (242) | (242) |
| "Back of the Envelope" Free Cash Flow | 605 | 943 | 1,064 | 1,157 |
| Dividends | 516 | 562 | 620 | 682 |
| Cash Flow Available After Dividend | 89 | 382 | 444 | 474 |
| Free Cash Flow Per Share | \$ 4.52 | \$ 7.14 | \$ 8.07 | \$ 8.81 |

Knight Status Quo Value Creation

Sensitivity Analysis

US\$ in dollars

| Present Value of Pro Forma 2009 Combined Share Price | | | | | | Premium to Current Price of \$87.90 | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|-------------------------------------|--------|--------|--------|--------|--------|
| Forward P/E Multiple | | | | | | Forward P/E Multiple | | | | | |
| Discount Rate | | | | | | Discount Rate | | | | | |
| | 15.0 x | 16.0 x | 17.0 x | 18.0 x | 19.0 x | | 15.0 x | 16.0 x | 17.0 x | 18.0 x | 19.0 x |
| 10.0% | \$ 104.77 | \$ 111.05 | \$ 117.33 | \$ 123.61 | \$ 129.89 | 10.0% | 19.2% | 26.3% | 33.5% | 40.6% | 47.8% |
| 12.0% | 99.44 | 105.39 | 111.34 | 117.29 | 123.24 | 12.0% | 13.1% | 19.9% | 26.7% | 33.4% | 40.2% |
| 14.0% | 94.47 | 100.11 | 105.76 | 111.40 | 117.04 | 14.0% | 7.5% | 13.9% | 20.3% | 26.7% | 33.2% |
| 16.0% | 89.83 | 95.19 | 100.55 | 105.90 | 111.26 | 16.0% | 2.2% | 8.3% | 14.4% | 20.5% | 26.6% |
| 18.0% | 85.50 | 90.59 | 95.68 | 100.77 | 105.86 | 18.0% | -2.7% | 3.1% | 8.9% | 14.6% | 20.4% |

Note: Includes dividends received.

II. Restructuring Case

Illustrative Knight, Inc. Restructuring Assumptions

US\$ in millions

Assumptions

- Knight, Inc. receives \$1,600 in proceeds from asset sales
 - \$750: 100% of Trans Mountain sold to Knight Partners
 - \$720: 100% of Retail
 - \$175: 100% of Power
 - \$225: 75% of Corridor – additional \$377 of debt removed from the balance sheet
 - \$270 in tax leakage
 - \$36: 75% of Corridor sold
 - \$(33): 100% of Power sold
 - \$135: 100% of Retail sold
 - \$131: 100% of Trans Mountain dropped down to Knight Partners
- Knight, Inc existing debt of \$5,744 (excluding Terasen Gas and Corridor debt) refinanced at 110%
 - Proceeds from assets sales and NGPLCo IPO used to fund tender
 - NGPLCo raises \$2,179 in unsecured debt at 6.5%
 - GPCo raises \$1,500 of unsecured debt at 6.5%
- Knight, Inc. contributes 100% of NGPL and 100% of Terasen Gas to Knight NGPLCo
 - 20% IPO of NGPLCo at 9.0x LTM EBITDA fully distributed multiple
 - 10% IPO discount
 - 5% gross spread
 - \$20mm in legal and other transaction fees
 - Remaining 80% stake is spun-off to shareholders of Knight, Inc.
- Knight, Inc. effectively becomes Knight GPCo
 - \$20mm annual G&A costs
 - Assumed to trade at a yield range of 3.5% to 5.0%

Transaction Risks

- Achieving value in asset divestitures
- Share price assumption for repurchases
- Multiple contraction for Knight, Inc.
- Trading value of NGPLCo
- Taxes
- Interest rates
- Oil prices
- MLP yield
- Project overruns or delays
- Regulatory challenges or changes
- On-going or new litigation exposure
- Continued complexity

Knight NGPLCo

US\$ in millions, except per share data

| <u>Knight NGPLCo - Income Statement</u> | <u>2007E</u> | <u>2008E</u> | <u>2009E</u> | <u>2010E</u> |
|---|-----------------|-----------------|-----------------|-----------------|
| Segment EBITDA | | | | |
| NGPL | \$ 626 | \$ 647 | \$ 670 | \$ 696 |
| Terasen Gas | 331 | 337 | 343 | 350 |
| Equity Income - CustomerWorks / NGPL | 10 | 10 | 10 | 10 |
| Equity Income - Knight Canada | 21 | 22 | 27 | 28 |
| G&A | (54) | (58) | (63) | (67) |
| EBITDA | \$ 934 | \$ 957 | \$ 987 | \$ 1,017 |
| <u>Depreciation and Amortization</u> | <u>(196)</u> | <u>(201)</u> | <u>(205)</u> | <u>(209)</u> |
| EBIT | 738 | 756 | 783 | 808 |
| Interest Expense | (229) | (223) | (213) | (203) |
| Other Income/(Expense) | 0 | 0 | 0 | 0 |
| EBT | 510 | 534 | 570 | 606 |
| <u>Book Tax Expense</u> | <u>(173)</u> | <u>(182)</u> | <u>(193)</u> | <u>(206)</u> |
| Net Income | 337 | 352 | 377 | 399 |
| Average Shares Outstanding | 134 | 134 | 134 | 134 |
| EPS | \$ 2.51 | \$ 2.63 | \$ 2.81 | \$ 2.98 |
| | | | | |
| LTM EBITDA Multiple (Fully Distributed) | 9.0 x | 9.0 x | 9.0 x | 9.0 x |
| Knight NGPLCo Share Price | \$ 46.82 | \$ 49.34 | \$ 52.56 | \$ 55.86 |
| Forward P/E | 17.8 x | 17.6 x | 17.6 x | NA |
| Dividend Per Share (25% Payout Ratio) | \$ 0.63 | \$ 0.66 | \$ 0.70 | \$ 0.74 |
| Dividend Yield | 1.3% | 1.3% | 1.3% | 1.3% |
| | | | | |
| <u>Selected Cash Flow Data</u> | <u>2007E</u> | <u>2008E</u> | <u>2009E</u> | <u>2010E</u> |
| Net Income | 337 | 352 | 377 | 399 |
| Equity Income | (10) | (10) | (10) | (10) |
| Cash from Equity Investments | 10 | 10 | 10 | 10 |
| D&A | 196 | 201 | 205 | 209 |
| <u>Deferred Taxes</u> | <u>(48)</u> | <u>25</u> | <u>23</u> | <u>22</u> |
| Funds From Operations (FFO) | 485 | 577 | 605 | 631 |
| Change in Working Capital | (27) | (27) | (27) | (27) |
| Maintenance Capex | (215) | (215) | (215) | (215) |
| Growth Capex | (113) | (113) | (113) | (113) |
| Dividends | (84) | (88) | (94) | (100) |
| Cash Available for Debt Repayment | 46 | 134 | 155 | 176 |
| Debt Repayment | (46) | (134) | (155) | (176) |
| Debt Raised | 2,179 | - | - | - |
| | | | | |
| <u>Debt Summary</u> | <u>2007E</u> | <u>2008E</u> | <u>2009E</u> | <u>2010E</u> |
| Unsecured Debt Outstanding at Beginning of Year | 2,179 | 2,133 | 1,999 | 1,844 |
| Additional Debt Issuance (Paydown) | (46) | (134) | (155) | (176) |
| Unsecured Debt Outstanding at End of Year | 2,133 | 1,999 | 1,844 | 1,668 |
| Interest Expense | (140) | (134) | (125) | (114) |
| | | | | |
| Terasen Gas Debt | 1,611 | 1,611 | 1,611 | 1,611 |
| Interest Expense | (88) | (88) | (88) | (88) |
| | | | | |
| Total Debt | 3,744 | 3,610 | 3,454 | 3,279 |
| | | | | |
| <u>Credit Metrics</u> | <u>2007E</u> | <u>2008E</u> | <u>2009E</u> | <u>2010E</u> |
| Debt / LTM EBITDA | 4.0 x | 3.8 x | 3.5 x | 3.2 x |
| LTM EBITDA / Interest | 4.1 | 4.3 | 4.6 | 5.0 |
| FFO / Interest | 3.1 | 3.6 | 3.8 | 4.1 |
| FFO / Debt | 13.0% | 16.0% | 17.5% | 19.2% |

Knight GPCo

US\$ in millions, except per share data

| <u>Knight GPCo - Income Statement and Cash Flow</u> | <u>2007E</u> | <u>2008E</u> | <u>2009E</u> | <u>2010E</u> |
|---|------------------|------------------|------------------|------------------|
| Knight Partners LP Distribution | 109 | 130 | 146 | 156 |
| Knight Partners GP Distribution | 650 | 874 | 1,022 | 1,127 |
| G&A | (20) | (20) | (20) | (20) |
| EBITDA | 739 | 984 | 1,148 | 1,263 |
| <u>Existing Debt Interest Expense</u> | <u>(98)</u> | <u>(98)</u> | <u>(98)</u> | <u>(98)</u> |
| EBT | 641 | 886 | 1,051 | 1,165 |
| <u>Taxes</u> | <u>(244)</u> | <u>(337)</u> | <u>(399)</u> | <u>(443)</u> |
| Net Income | 397 | 549 | 651 | 722 |
| Maintenance Capex | (4) | (4) | (4) | (4) |
| Growth Capex | (16) | (46) | (2) | (6) |
| Proceeds from Asset Sales | 1,600 | - | - | - |
| Asset Sales Debt Paydown | (1,455) | - | - | - |
| Tender Premium | (145) | - | - | - |
| Knight NGPLCo IPO Proceeds (Net of 10% Discount) | 1,141 | - | - | - |
| NGPLCo IPO Gross Spread (5%) | (57) | - | - | - |
| Transaction Fees | (20) | - | - | - |
| NGPLCo IPO Proceeds Debt Paydown | (967) | - | - | - |
| Tender Premium | (97) | - | - | - |
| Debt Raised at GPCo | 1,500 | - | - | - |
| Debt Raised at NGPLCo | 2,179 | - | - | - |
| Debt Tender | (3,323) | - | - | - |
| Tender Premium | (332) | - | - | - |
| <u>Gross Spread on Debt Issuance</u> | <u>(24)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Cash Available for Dividend | 377 | 500 | 645 | 712 |
| Dividend Paid | (377) | (500) | (645) | (712) |
| Debt Summary | 2007E | 2008E | 2009E | 2010E |
| Total Cash | - | - | - | - |
| Existing Debt Outstanding at Beginning of Year | 7,732 | 1,500 | 1,500 | 1,500 |
| Corridor Debt Removed | (377) | - | - | - |
| Terasen Gas Debt Removed | (1,611) | - | - | - |
| NGPLCo IPO Proceeds Debt Paydown | (967) | - | - | - |
| Asset Sales Debt Paydown | (1,455) | - | - | - |
| Debt Tender | (3,323) | - | - | - |
| <u>Debt Raised at GPCo</u> | <u>1,500</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Debt Outstanding at End of Year | 1,500 | 1,500 | 1,500 | 1,500 |
| Shares Outstanding | 134 | 134 | 134 | 134 |
| Dividend / Share | 2.82 | 3.73 | 4.82 | 5.32 |
| Cash Flow Yield (Fully Distributed) | 4.5% | 4.5% | 4.5% | 4.5% |
| Knight GPCo Share Price | \$ 62.56 | \$ 82.89 | \$ 107.00 | \$ 118.15 |
| Knight NGPLCo Share Price (80%) | 37.45 | 39.48 | 42.05 | 44.69 |
| NGPLCo and GPCo Combined Value to Shareholders | \$ 100.02 | \$ 122.37 | \$ 149.05 | \$ 162.84 |
| Cumulative Dividends | 3.44 | 7.83 | 13.35 | 19.41 |
| Value at 1/1/2007 - 18% Discount Rate | 87.68 | 93.51 | 98.84 | 94.00 |

PRELIMINARY DRAFT

Restructuring Case 8

Knight Restructuring Value Creation Analysis

US\$ in dollars

Present Value of Pro Forma 2010 Combined Share Price¹

| | | GPCo Trading Yield | | | |
|----------------------------|-------|--------------------|----------|----------|----------|
| | | 3.50% | 4.00% | 4.50% | 5.00% |
| NGPLCo LTM EBITDA Multiple | 8.5 x | \$ 109.49 | \$ 99.69 | \$ 92.08 | \$ 85.98 |
| | 9.0 | 111.41 | 101.62 | 94.00 | 87.91 |
| | 9.5 | 113.34 | 103.55 | 95.93 | 89.83 |
| | 10.0 | 115.27 | 105.47 | 97.85 | 91.76 |
| | 10.5 | 117.19 | 107.40 | 99.78 | 93.69 |

Premium to Current Price of \$87.90¹

| | | GPCo Trading Yield | | | |
|----------------------------|-------|--------------------|-------|-------|-------|
| | | 3.50% | 4.00% | 4.50% | 5.00% |
| NGPLCo LTM EBITDA Multiple | 8.5 x | 24.6% | 13.4% | 4.8% | -2.2% |
| | 9.0 | 26.8% | 15.6% | 6.9% | 0.0% |
| | 9.5 | 28.9% | 17.8% | 9.1% | 2.2% |
| | 10.0 | 31.1% | 20.0% | 11.3% | 4.4% |
| | 10.5 | 33.3% | 22.2% | 13.5% | 6.6% |

Present Value of Pro Forma 2010 Combined Share Price²

| | | GPCo Trading Yield | | | |
|---------------|-------|--------------------|-----------|-----------|-----------|
| | | 3.50% | 4.00% | 4.50% | 5.00% |
| Discount Rate | 12.0% | \$ 137.28 | \$ 125.21 | \$ 115.82 | \$ 108.31 |
| | 14.0% | 127.89 | 116.65 | 107.91 | 100.91 |
| | 16.0% | 119.30 | 108.81 | 100.65 | 94.13 |
| | 18.0% | 111.41 | 101.62 | 94.00 | 87.91 |
| | 20.0% | 104.17 | 95.01 | 87.89 | 82.19 |

Premium to Current Price of \$87.90²

| | | GPCo Trading Yield | | | |
|----------------------------|-------|--------------------|-------|-------|-------|
| | | 3.50% | 4.00% | 4.50% | 5.00% |
| NGPLCo LTM EBITDA Multiple | 12.0% | 56.2% | 42.4% | 31.8% | 23.2% |
| | 14.0% | 45.5% | 32.7% | 22.8% | 14.8% |
| | 16.0% | 35.7% | 23.8% | 14.5% | 7.1% |
| | 18.0% | 26.8% | 15.6% | 6.9% | 0.0% |
| | 20.0% | 18.5% | 8.1% | 0.0% | -6.5% |

Note: Includes dividends received.

¹ Assumes 18.0% discount rate.

² Assumes NGPLCo trades at 9.0x LTM EBITDA.

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Restructuring Case 9