

Kinder Morgan's Conditional Capital: When Should Approval Become Commitment?

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A strategy case for MBA students and working professionals

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Case status: Constructed teaching case. Kinder Morgan has not disclosed the identity or economics of the nearly \$400 million project cohort or a pending board decision on the gates posed here.

A decision between approval and commitment

At 4:29 p.m. Eastern on July 22, Kinder Morgan, Inc. (KMI) had just released second-quarter results. Its 4:30 p.m. earnings webcast had not yet begun. The release reported that the board had given contingent approval to nearly \$400 million of projects, which were not yet included in the company's committed project backlog. The release did not identify the projects or explain the conditions attached to approval. [C1, "2026 Outlook," line 137; C5]

The distinction mattered. A contingent approval could preserve a path to construction while leaving time to resolve uncertainty. Moving a project into committed backlog would represent a stronger capital and execution commitment. KMI's leadership needed a disciplined way to decide what evidence was sufficient-and how much delay might cost.

This is a governance problem, not a project valuation exercise. The public record offers no project-level cash flows, customer contracts, permit status, schedule, cost estimates, cancellation terms or expected returns for the nearly \$400 million. The company did not say that this cohort included any of the separately named projects discussed in the release. Its identities and economics remain unknown.

Growth was visible, but project-level demand was not

KMI reported second-quarter adjusted EBITDA of \$2.199 billion and adjusted earnings of \$821 million. It said operating cash flow was \$2 billion and free cash flow after capital expenditures was \$1 billion; leverage at quarter-end was 3.6x. These were company-reported figures, with adjusted measures defined by KMI. One strong quarter did not establish that every proposed expansion would earn an adequate return. [C1, lines 123-134]

The company described a \$9.6 billion project backlog, down \$500 million from the first quarter after projects entered service. About 92% of the backlog was natural gas, and more than 60% was tied to power generation and local distribution company demand. The nearly \$400 million of contingent approvals sat outside that backlog. KMI said it expected to fund virtually all of its

existing backlog internally while supporting dividends and maintaining its balance-sheet objective. That statement did not disclose how the additional cohort would affect capital allocation. [C1, lines 130-143]

KMI reported natural-gas transport volumes up 7% year over year, chiefly attributing the increase to LNG deliveries, Texas intrastate services, Mexico exports and Arizona power demand. Management also pointed to growth in LNG exports, power demand and industrial activity as sources of opportunity. Those results and views supported a case for timely expansion. They did not establish contracted utilization or returns for the unidentified proposals. [C1, lines 129-131, 147-150]

Exhibit 1. KMI's disclosed portfolio and capital context

Reported item	Q2 2026 disclosure	What it does not establish
Project backlog	\$9.6bn	Project economics for the contingent approvals
Contingently approved projects, outside backlog	Nearly \$400m	Project identities, approval conditions or commitment timing
Natural gas share of backlog	About 92%	Customer mix or contract quality of the contingent set
Backlog tied to power generation and LDC demand	More than 60%	Project-specific load forecasts or shipper credit
Quarter-end leverage	3.6x	Covenant headroom or the funding effect of a new commitment
2026 declared-dividend budget	\$1.19 per share	A guarantee that every growth project fits alongside dividends

Source: KMI's July 22, 2026 second-quarter release. The figures describe different scopes; the nearly \$400m is not part of the \$9.6bn backlog. [C1, lines 130-143]

A multiple that answers a narrower question

KMI said the remaining \$8.5 billion in its backlog was expected to produce an aggregate first-full-year Project EBITDA multiple of about 5.6x. KMI defines this as its share of invested capital divided by estimated Project EBITDA in a specified operating year. The company excludes certain CO₂ enhanced-oil-recovery and gathering-and-processing projects from the calculation. [C1, lines 137-139; C4, slides 9-10]

The multiple can help describe the scale of capital relative to a selected year's EBITDA for that backlog. It is not an NPV, IRR, yield, cost of capital or risk-adjusted return. It does not capture the full timing of construction and cash flows, asset life, taxes, maintenance capital, project risk or financing. Nor is it a return hurdle for the contingent approvals.

The release also described named projects with different evidence profiles. SSE4 and Mississippi Crossing had received Final Environmental Impact Statements, while final FERC certificate orders were still expected later in July. Amarillo was described as fully subscribed long-term capacity, but its application was expected later in the third quarter. Cumberland had entered service in May. These examples illustrated customer commitment, regulatory process and execution milestones across KMI's portfolio; none was identified as part of the contingent nearly-\$400m cohort. [C1, lines 159-167; C3]

The cost of waiting-and of moving too soon

For a capital-intensive pipeline project, construction can make much of the investment difficult to reverse. If management can wait while retaining a credible right to proceed, additional information about customer commitments, permits, costs and timing can be valuable. But delay can also sacrifice an in-service window, a customer relationship or a scarce position in a growing market. The size of either effect depends on facts not disclosed for this project cohort. [A1, pp. 1112-1124]

Contracts can reduce demand and financing uncertainty by committing customers to use capacity. Yet duration, ship-or-pay terms, shipper credit, flexibility, termination rights and competing capacity all affect what a commitment is worth. Research on LNG investment finds that long-term contracts can support investment while also limiting flexibility when conditions change. LNG contracts are not KMI pipeline contracts, so the study offers a mechanism to consider, not a numerical forecast for KMI. [A2, pp. 1-7, 10-17, 35-42]

The leadership team therefore faced two credible explanations. Rising gas transport volumes and demand from power, LNG and industrial customers could make speed valuable. Unresolved project economics, permitting and construction uncertainty could instead favor preserving the option to wait. Neither a sector demand narrative nor the aggregate 5.6x backlog multiple could settle the choice.

The assignment

For this case, assume KMI's leadership team must recommend a decision rule for the contingent approvals: what evidence should trigger conversion into committed backlog and full construction commitment? This is a classroom assignment, not a claim that KMI had announced such a vote or that its board could preserve the approvals indefinitely. Whether conditional approval can be extended, staged or withdrawn is itself a question for the team to investigate.

Develop a practical gate system that addresses:

- **Commercial readiness:** What level and quality of customer commitment is sufficient? How should shipper credit, duration, volume flexibility, termination rights and competing capacity be assessed?
- **Regulatory and execution readiness:** Which permits, land, route, engineering, procurement and construction milestones must be resolved, and which risks can be managed after commitment?
- **Economic resilience:** What project-specific return evidence and downside sensitivities should the board require? How should management present timing, cost ranges, utilization and alternatives without treating the 5.6x multiple as a project return?
- **Portfolio fit:** How should the proposal affect internally funded capital, leverage, dividends, maintenance needs and other opportunities under downside conditions?
- **Value of waiting:** What information could arrive, by when, and what is the explicit cost of waiting for it? What event would justify faster commitment?
- **Governance:** Who owns each gate, how often is progress reviewed, and what are the rules to proceed, pause, re-scope or stop?

Do not assume the unidentified projects are SSE4, Mississippi Crossing, South Texas Enhancement, Amarillo or any other named proposal. Do not invent their costs, customers, return forecasts, permits or board conditions. A useful answer can specify thresholds as

principles and identify the project data that would be needed to populate them.

Discussion questions

1. Should KMI convert the contingent approvals into committed backlog now, preserve them conditionally while seeking more information, or allow some proposals to lapse? What facts would change your answer?
2. Which customer and contract characteristics best demonstrate bankable demand, and where could long-term commitments introduce rigidity?
3. What should count as sufficient regulatory and execution readiness? Which uncertainties can be tolerated, mitigated or staged?
4. How should management compare the cost of delay with the value of waiting for new information?
5. What project-specific economic evidence should the board see? Why is the 5.6x backlog multiple insufficient to answer this question?
6. How would a contingent project affect KMI's internal-funding, leverage and dividend commitments in a downside case?
7. Design a review calendar and explicit proceed, pause, re-scope and stop rules. Which assumptions should management disclose to the board?

Source note

The information set closes July 22, 2026, at 4:29 p.m. ET-after the Q2 results 8-K was accepted at 4:09:59 p.m. ET and one minute before the 4:30 p.m. webcast. The webcast, earnings call and Q&A are excluded, as are the July 24 Form 10-Q, July 31 FERC orders and all later outcomes. Full citations, exact locators, versions and research limitations appear in the research source register. Financial cases and Excel analysis are deferred.