KINDER MORGAN

Corporate Development and Capital Markets

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Agenda

- General Partner Incentive – Math or Morality?
- KMR vs. KMP Price
- Capital Expenditures
  - Sustaining Cap Ex
  - Expansion Cap Ex
- Proposed Dividend Policy Change
- Acquisition Outlook and Financing

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An MLP Unit is NOT a Common Stock

- An MLP is not taxed at entity level
- An MLP is required to distribute all available cash on a quarterly basis
- All MLPs provide GP with significant participation in growth
- Distributions to unit holders are largely tax deferred
- Unit holders are "limited partners" with limited voting rights

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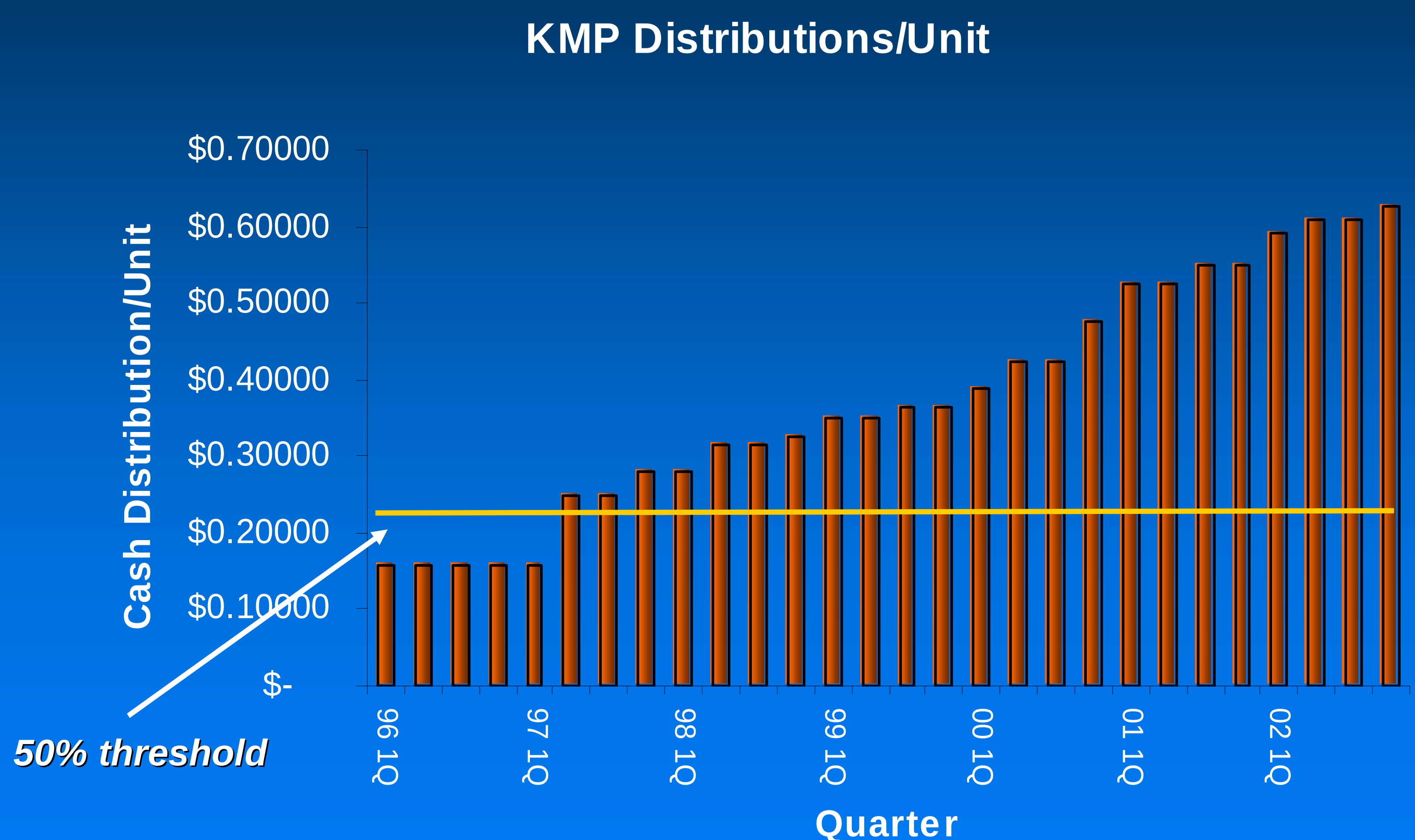
General Partner Incentive - Background

- **General:**
  - GP/LP split established by partnership agreement
  - All MLPs structured with a GP incentive fee
  - Of thirteen pipeline MLPs, all except 2 have a top tier of 45-50%
    - EPD (25%) and KPP (30%)
  - Of thirteen pipeline MLPs, 4 are currently in highest tier.
    - BPL, EPN, TPP, KMP
- **KMP:**
  - GP/LP split established by partnership agreement more than 10 years ago
  - GP entered 50% tier in 2Q 1997
  - GP is in high splits only because LP distributions have grown tremendously
  - KMP has been at “mathematical” cost of capital disadvantage for some time

General Partner Incentive - Future

- **At present, no reason to restructure the partnership**
  - Going forward return to LP is attractive
    - 7% yield plus 8-10% annual growth implies 15%-17% total return potential
  - Has not impacted our ability to grow distribution and provide unit holders with very attractive return historically
  - Has not impacted our ability to raise capital
  - Has not impacted our ability to do accretive acquisitions
  - GP in higher tiers provides LP with more downside protection
  - Restructure is complicated – requires unit holder vote, fair treatment of KMI shareholders (and possibly KMI shareholder vote)

KMP has grown distribution 2.5 X since achieving 50% tier



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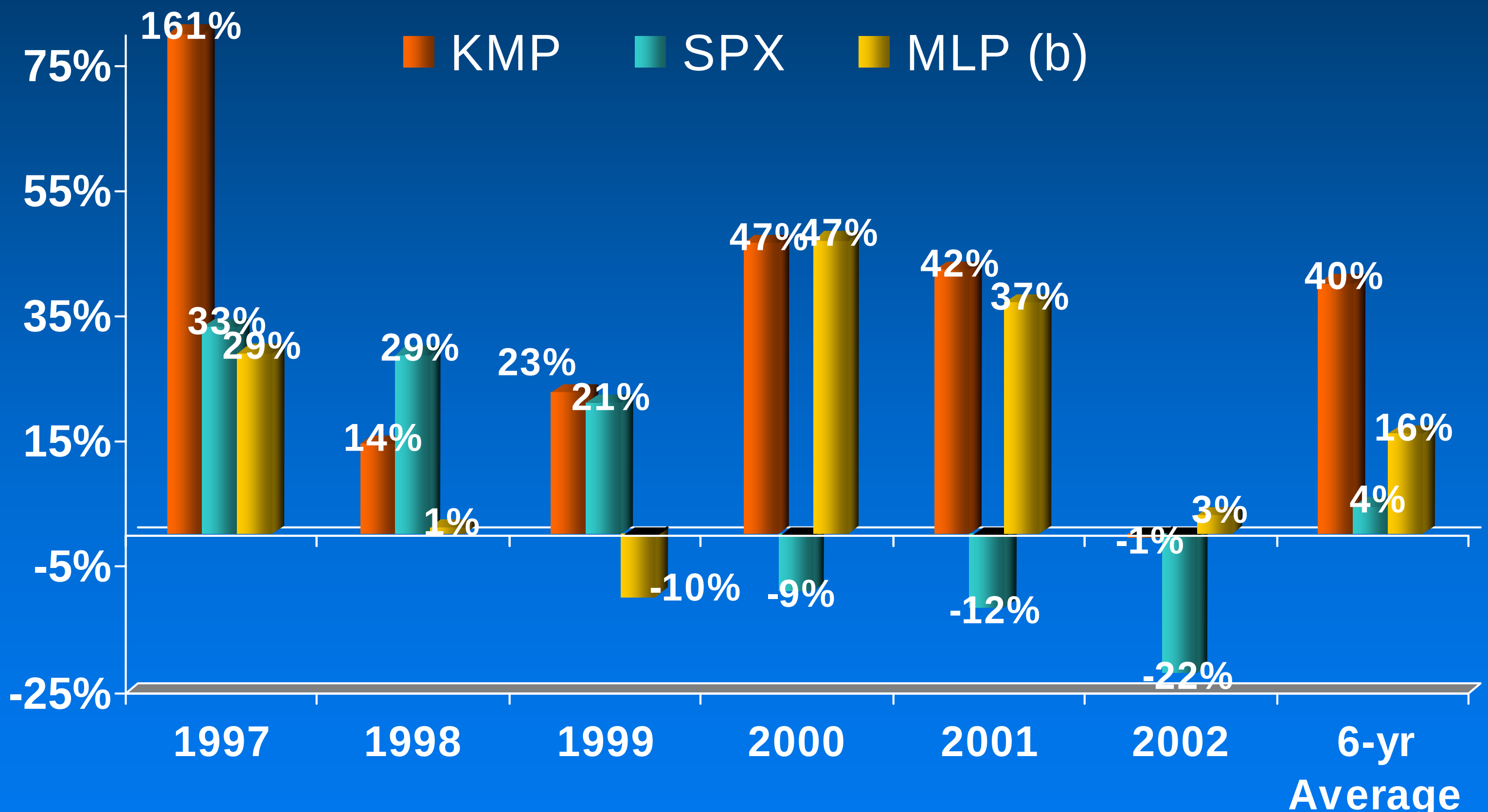
KMP has provided investors attractive return since entering 50% tier

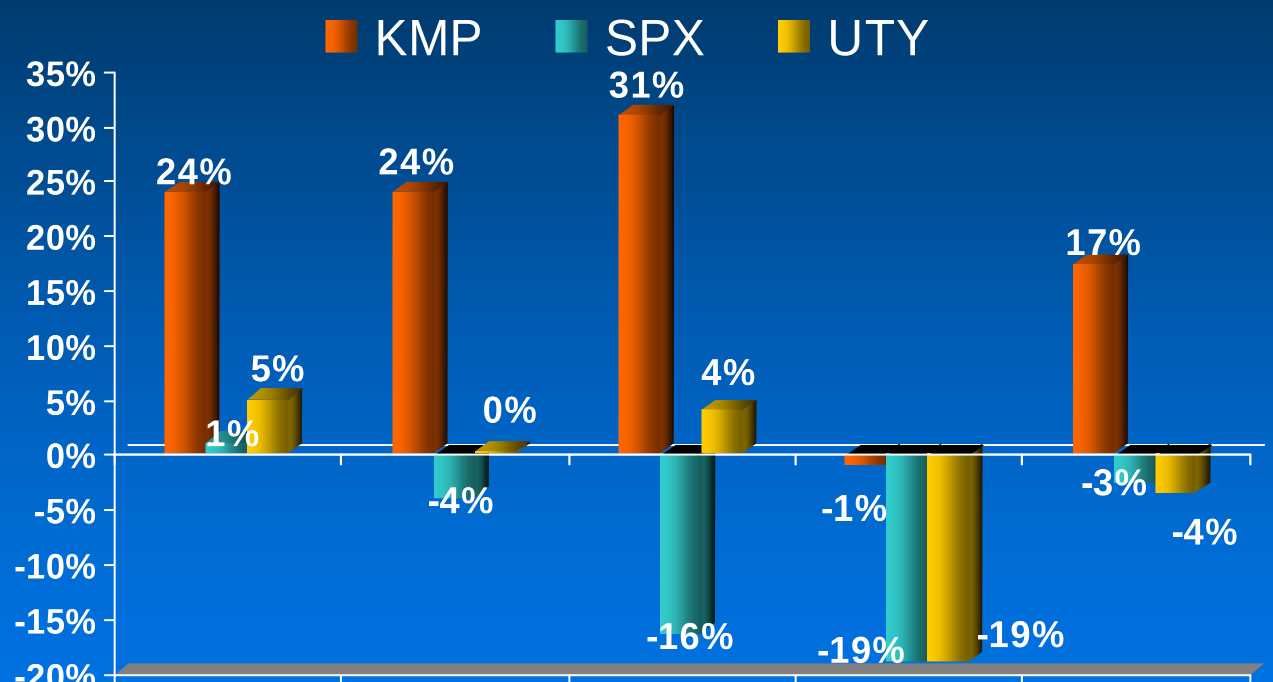
Comparative Annual Returns (a)



(a) Annual return for indicated year calculated on a monthly basis assuming dividends are reinvested.
(b) Salomon Smith Barney MLP Composite

KMP has raised $1.8 B of equity since entering 50%

Comparative Annual Returns Since Offering (a)



Offering	97 KMP	98 KMP	00 KMP	01 KMR	02 KMR	Total
Offering Amount	$13	$258	$163	$1,042	$343	$1,819
Growth in Distribution	150%	122%	72%	19%	2%	

(a) SPX and UTY are annual returns calculated on a monthly basis from month of offering through December 31, 2002 assuming dividends reinvested (Bloomberg). KMR returns are annual returns calculated on a daily basis from the closing price on the day of the offering through December 31, 2002 assuming dividends reinvested. The KMR 02 offering returns are the only exception. They are the monthly return (not annual) calculated on monthly basis for 5 months beginning July 31, 2002. The annual returns are 46%, -6% and -8%.

KMP has and can make accretive acquisitions

Cost of Equity		**Cost of Debt**	
Nominal Yield	7.0%	10-year Fixed (50%)	6.5%
GP Gross-Up	4.5%	10-year Floating (50%)	4.5%
Pre-Tax Cost of Equity	11.5%	Pre-Tax Cost of Debt	5.5%

60% 40%

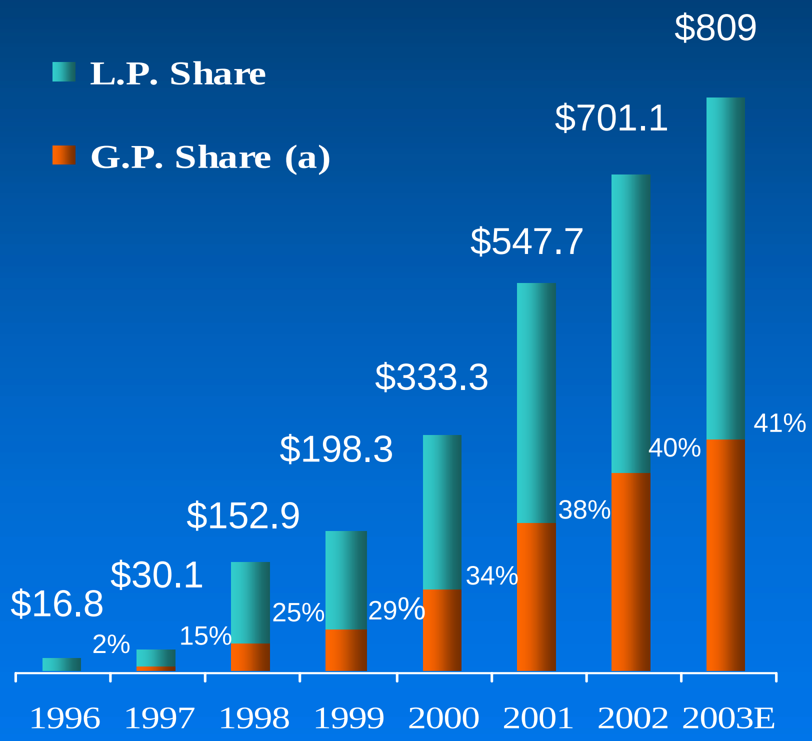
Weighted Average Cost of Capital = 9.1%

VS.

Acquisition multiples of:

6.0X	16.7%
7.0X	14.3%
8.0X	12.5%

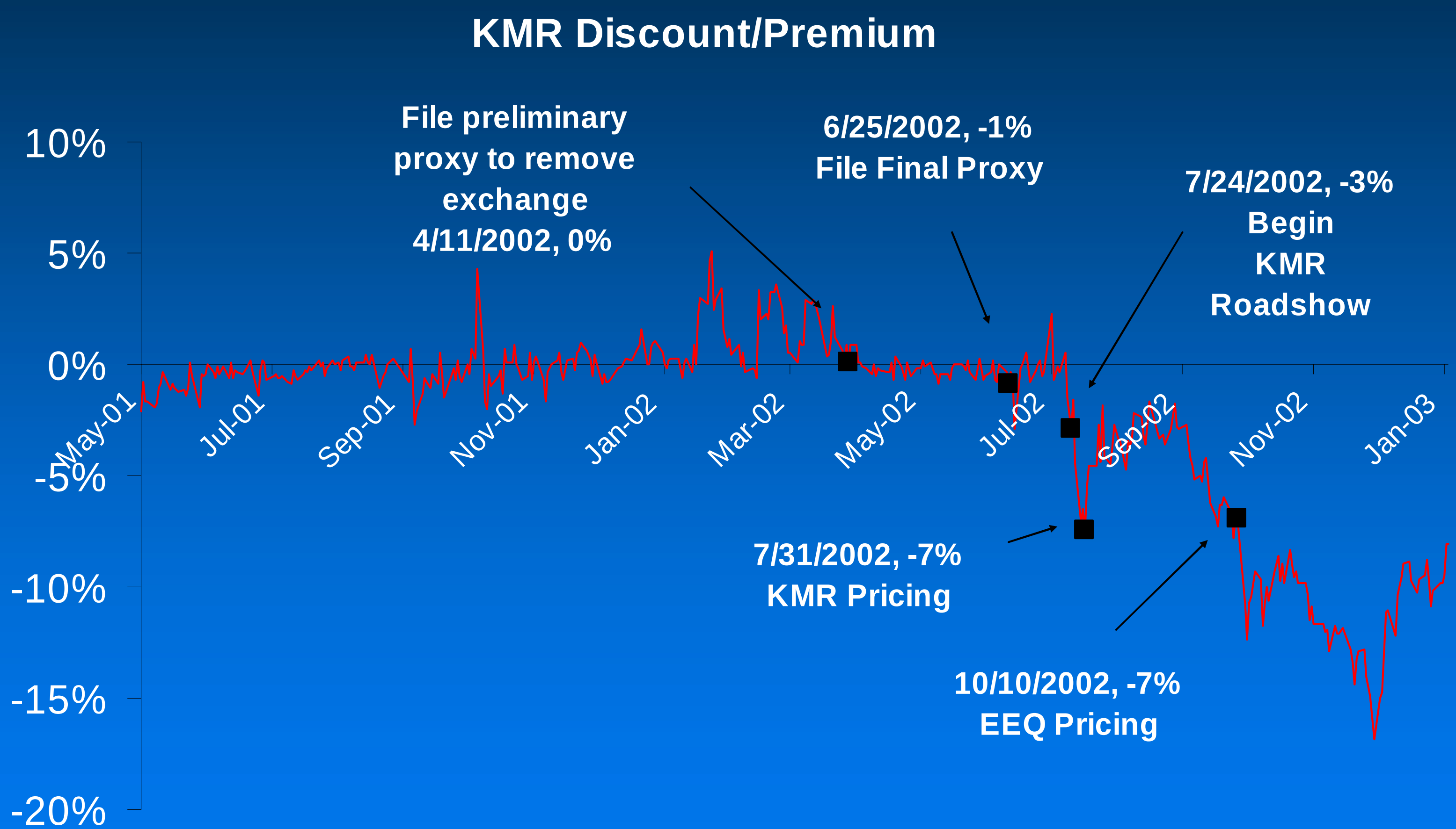
GP in 50% tier offers LP more downside protection



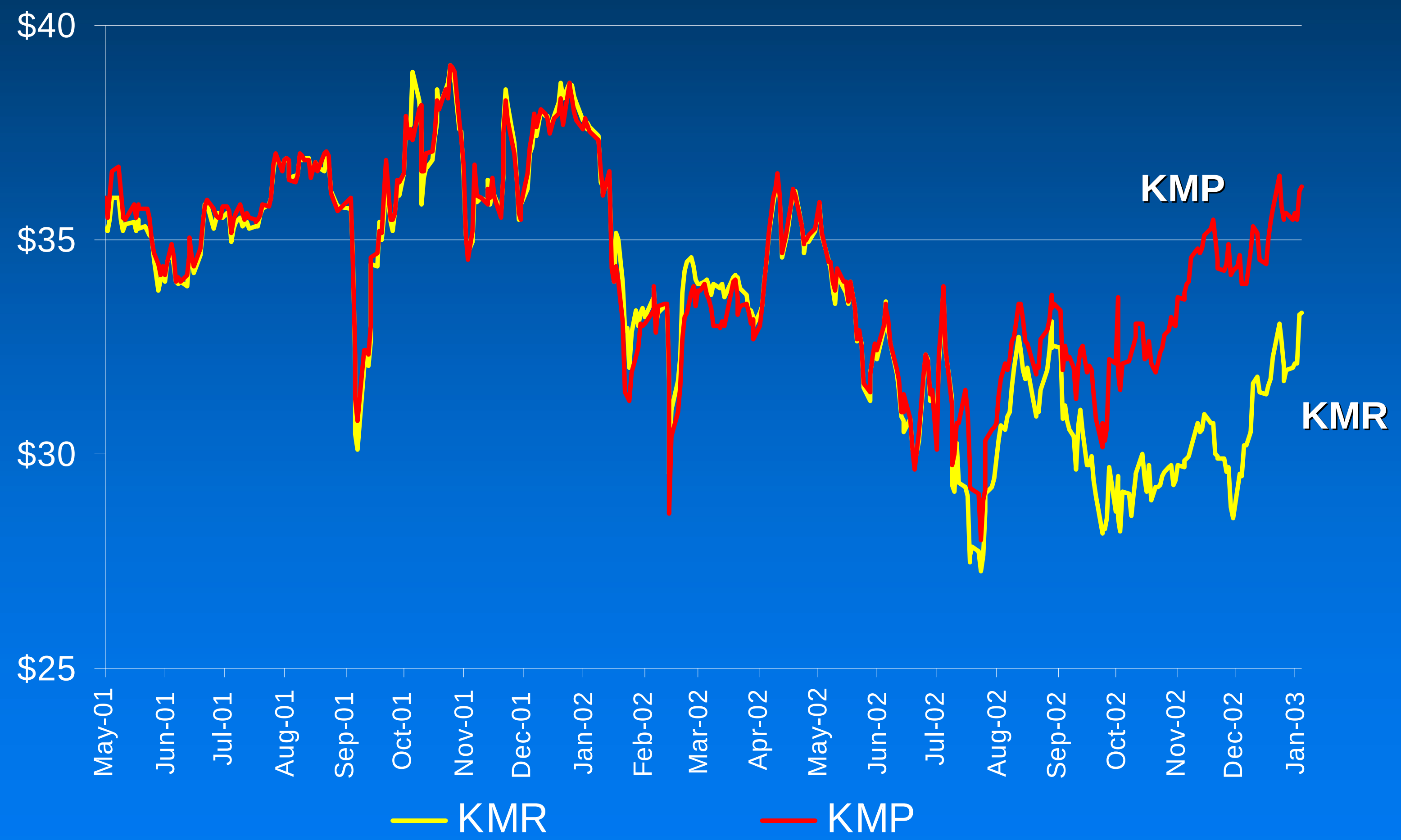
	KMP Distribution Per LP Unit (b)	General Partner	Limited Partner
Tier I	$0.00 to $0.605	2%	98%
Tier II	$0.605 to $0.715	15%	85%
Tier III	$0.715 to $0.935	25%	75%
Tier IV	> $0.935	50%	50%

(a) Includes only the 2% GP Interest - does not include limited partner units owned by GP/KMI
(b) Annual calculation. Actual calculations are made quarterly at 25% of distribution target shown

KMR vs. KMP


KMR Discount/Premium
10%
5%
0%
-5%
-10%
-15%
-20%
May-01
Jul-01
Sep-01
Nov-01
Jan-02
Mar-02
May-02
Jul-02
Sep-02
Nov-02
Jan-03
File preliminary proxy to remove exchange
4/11/2002, 0%
6/25/2002, -1%
File Final Proxy
7/24/2002, -3%
Begin KMR Roadshow
7/31/2002, -7%
KMR Pricing
10/10/2002, -7%
EEQ Pricing

KMP vs. KMR Price Chart



KMR was created for institutions

	KMR	KMP
Distributions	Shares	Cash
Yield	7.5%	7.0%
Voting Rights	In Parity with KMP	Limited
Mandatory Purchase	Assures value in liquidation (a)	No
Optional Purchase	Yes	Yes
<u>Tax Considerations</u>		
Allocated Taxable Income	No	Yes
Non-Qualifying Income	No	Yes
UBTI	No	Yes
K-1s	No	Yes
State Filing Obligations	No	Yes

(a) and in certain other events.

KMR is a Tax Efficient Way to Own KMP

- Higher Current Yield When KMR Trades at a Discount
  - KMP Cash Distribution / KMR Price (10 days prior to ex-dividend)
- Same or Better Terminal Value
  - guarantee upon mandatory purchase events of higher of KMP or KMR value
- Same Voting Rights as KMP
- Taxes
  - Share distributions are not taxed and reduce per share basis
  - One year after purchase, all gains (including most recent share distribution) are long term capital gains
- KMI BOD has authorized KMI to act opportunistically to repurchase KMR shares

Capital Expenditures

Two Types of Capital Expenditures:

- Maintenance (Sustaining)
  - Does not expand capacity
  - Deducted from cash to determine distributable cash flow
- Expansion
  - Expands capacity
  - Over $400 million in 2003
  - Equity portion funded primarily by KMR paid-in-kind distribution
    - KMR = $2.63 X 46 million shares = $120 equity

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Maintenance Cap Ex

- Why doesn't KMP's maintenance cap ex equal depreciation?

2003 Maintenance Cap Ex =	$95 million
2003 Maintenance Expense =	$60 million
Total Maintenance	$155 million
2003 Depreciation Expense =	$216 million

  - Maintenance cap ex varies greatly depending on age of pipe, historical maintenance and size of pipe
  - New technology has significantly improved maintenance costs
  - Depreciation expense is based on GAAP
  - Depreciation reflects purchase price versus original cost
- Budget built from bottom up by operations based on need and long term plan
- Management ownership creates little incentive to sacrifice long term for the short term

Proposed Dividend Tax Cut - KMI

- Effect on KMI is very positive
  - Currently $200 million returned to equity through combination of dividends and share repurchase
  - If tax law changed, all $200 million could be returned through dividend, approximately 4% yield
  - Allows investor vs. company to make reinvestment decision

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Proposed Dividend Tax Cut - KMP

- Effect on KMP is neutral
  - Who is affected?
    - Traditional C-corps and utilities would benefit
    - REITs, Fixed Income (Bonds/Treasury), MLP would not benefit
  - Two Fundamental Questions:
    - Does change result in new money flowing to dividend yielding stocks or simply a reallocation of current capital?
    - Does change result in change in dividend policy change for C-corps (i.e. significantly higher dividends) and thus increased investment options for investor?
  - Kinder Morgan viewpoint:
    - MLP is more tax efficient. No tax at corporate level and tax deferral for investor
    - MLPs offer higher yield and more growth than other yield investment alternatives
    - Increased focus on yield results in new money flowing into yielding securities, primarily utilities. MLP will be largely unaffected relative to utilities.
    - Very few C-Corps are in position to significantly increase dividend yield to compete with higher yielding alternatives. Thus, investor will not have significantly increased alternatives.

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Acquisition Environment

- Pipeline MLPs spent about $6.5 billion on acquisitions in 2002 (a)
- KMP spent approximately $180 million on acquisitions, primarily terminals
- Several major pipelines traded – Northern Natural Gas, Central, MAPCO. Kern River in negotiated transaction
- Acquisition multiples in the range of 6.5-8X EBITDA
- KMP not winning bidder:
  - EBITDA vs. DCF
  - Views about rate cases/growth
- Competitive environment comparable to historical, but players have changed
  - Enron, Williams, Dynegy selling assets, not buying
  - MLPs active early, but now many are balance sheet constrained
  - New entrants: private equity, AIG, utilities, Mid-American
- Looking ahead: Continue with disciplined strategy, particularly given internal growth prospects

(a) Salomon Smith Barney, MLP Monthly Update, January 2003

Partnership has many financing options

- KMP offering
- KMR offering
- Private placement
- Preferred instrument
- Joint venture
- Hybrid