



## Lehman Brothers Energy Industry Bond Conference

January, 2001

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# Stable Assets, Extraordinary Growth

- Innovative, Tax-Advantaged MLP / C-Corp. Structure
- Strong cash flow growth driven by KMP
- Stable set of fee-based assets
  - Turnaround of “Old KN” assets complete
  - Significant organic growth from KMP
- Track record of delivering organic and acquisition growth

# Unique Financial Structure

## ■ KMI Senior Management

- Owns 25% of KMI
- Owns approximately 330,000 KMP units
- Rich Kinder and Bill Morgan have \$1/year salaries, no bonus, no options

## ■ GP Economics

- \$150 million of cash distributions to KMI for 2000
- Second largest and fastest-growing asset of KMI

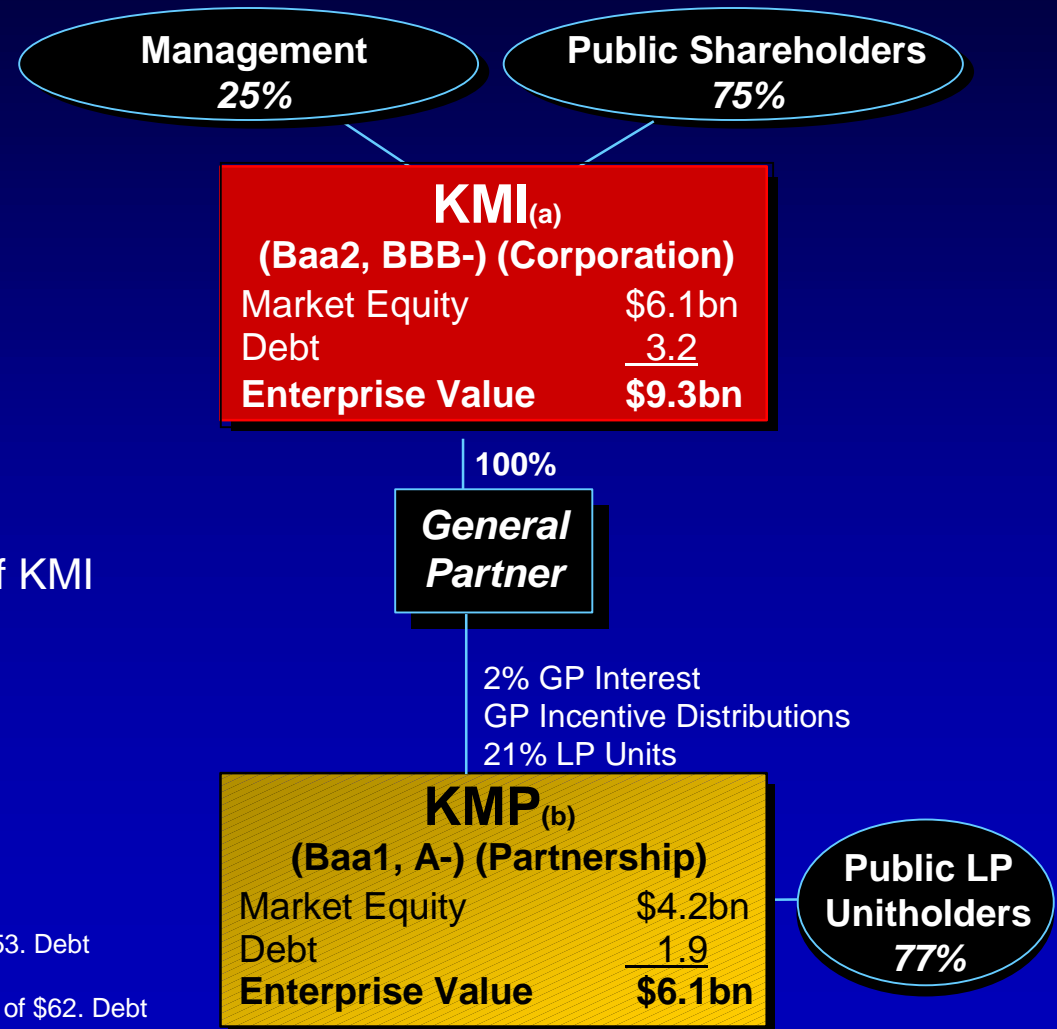
## ■ KMP generates growth and income

- approximately 6.4% tax deferred yield
- has increased per unit distributions at approximately 32% CAGR (c)

(a) Market equity and enterprise values assume 116M shares o/s and a price of \$53. Debt balance as of 12/31

(b) Market equity and enterprise values assume 67.5M shares o/s and a unit price of \$62. Debt balance as of 12/31

(c) Calculated since 2/97 when current management assumed control



# GP Incentive Distribution Calculation

Under the MLP structure, as unitholder distributions are increased, the General Partner gets an increasingly larger share of the upside

	LP Distribution/Unit	LP%	GP%	LP Share (a)	GP Share (a)
Tier 1	\$0.00 to \$1.21	98%	2%	\$81.7	\$ 1.7
Tier 2	1.21 to 1.43	85	15	14.9	2.6
Tier 3	1.43 to 1.87	75	25	29.7	9.9
Tier 4	> 1.87	50	50	<u>130.3</u>	<u>130.3</u>
<b>Total Distribution to Partners @ \$3.80 / Unit</b>				<b>\$256.6</b>	<b>\$144.5</b>
<b>Percent of Total</b>				<b>64%</b>	<b>36%</b>

(a) Based on 67.5M units outstanding

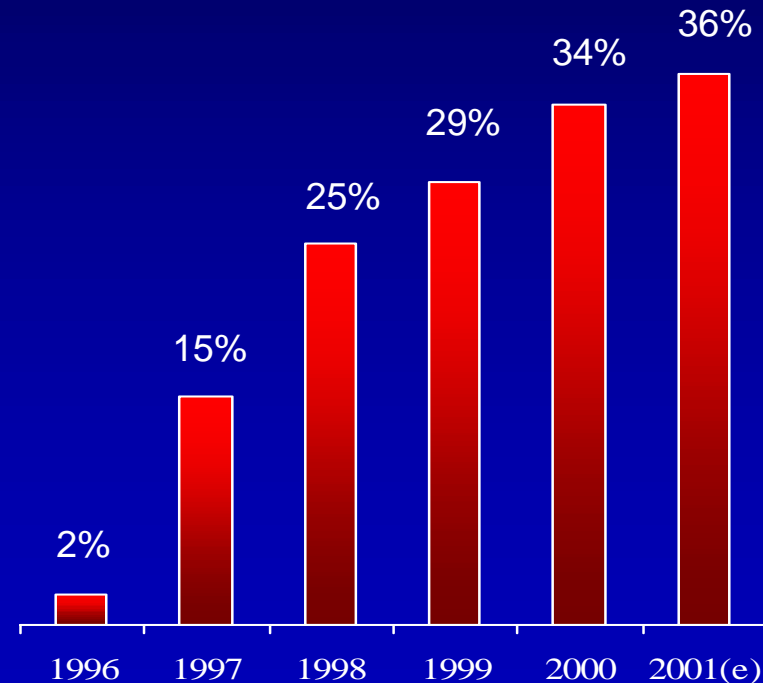
# How KMP Impacts KMI

As the per-unit KMP distributions have increased, the GP's percentage of total cash flow has grown dramatically

KMP Distribution/Unit



KMI % of KMP Cash Flow (a)



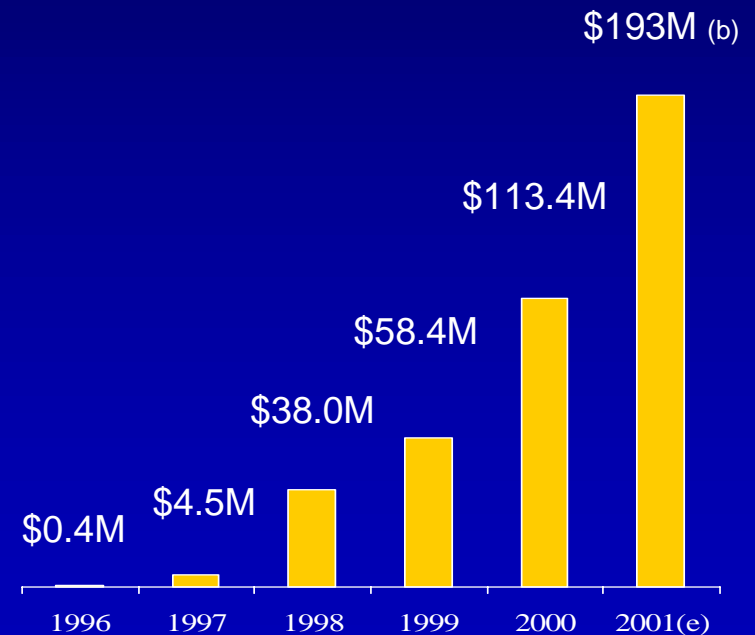
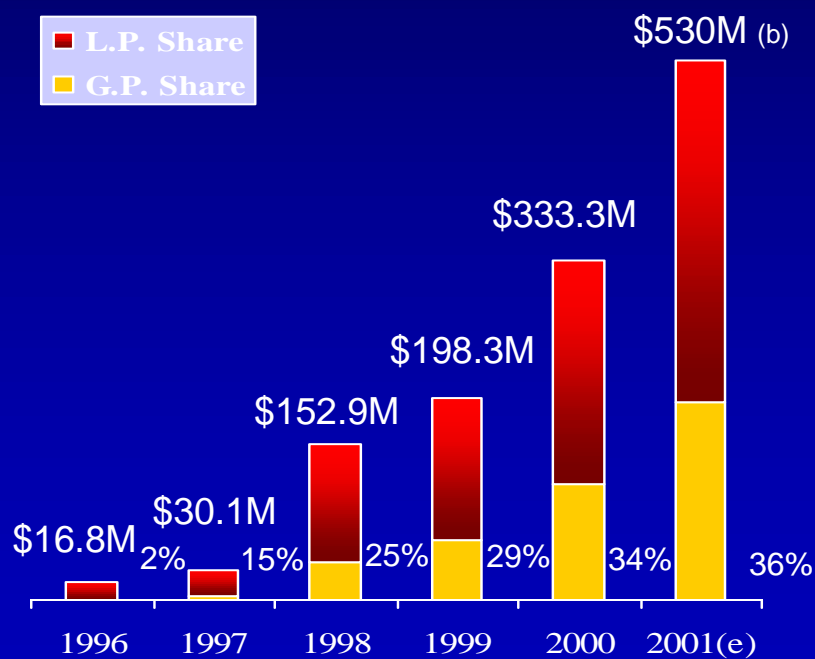
(a) Includes only the 2% GP Interest - does not include L.P. units owned by the G.P. (KMI)

# How KMP Impacts KMI

The combination of growth in both KMP's total cash flow and KMI's share of that total has produces exponential cash flow growth for KMI's GP interest

## KMP Total Cash Distributions

## KMI's 2% G.P. Interest (a)

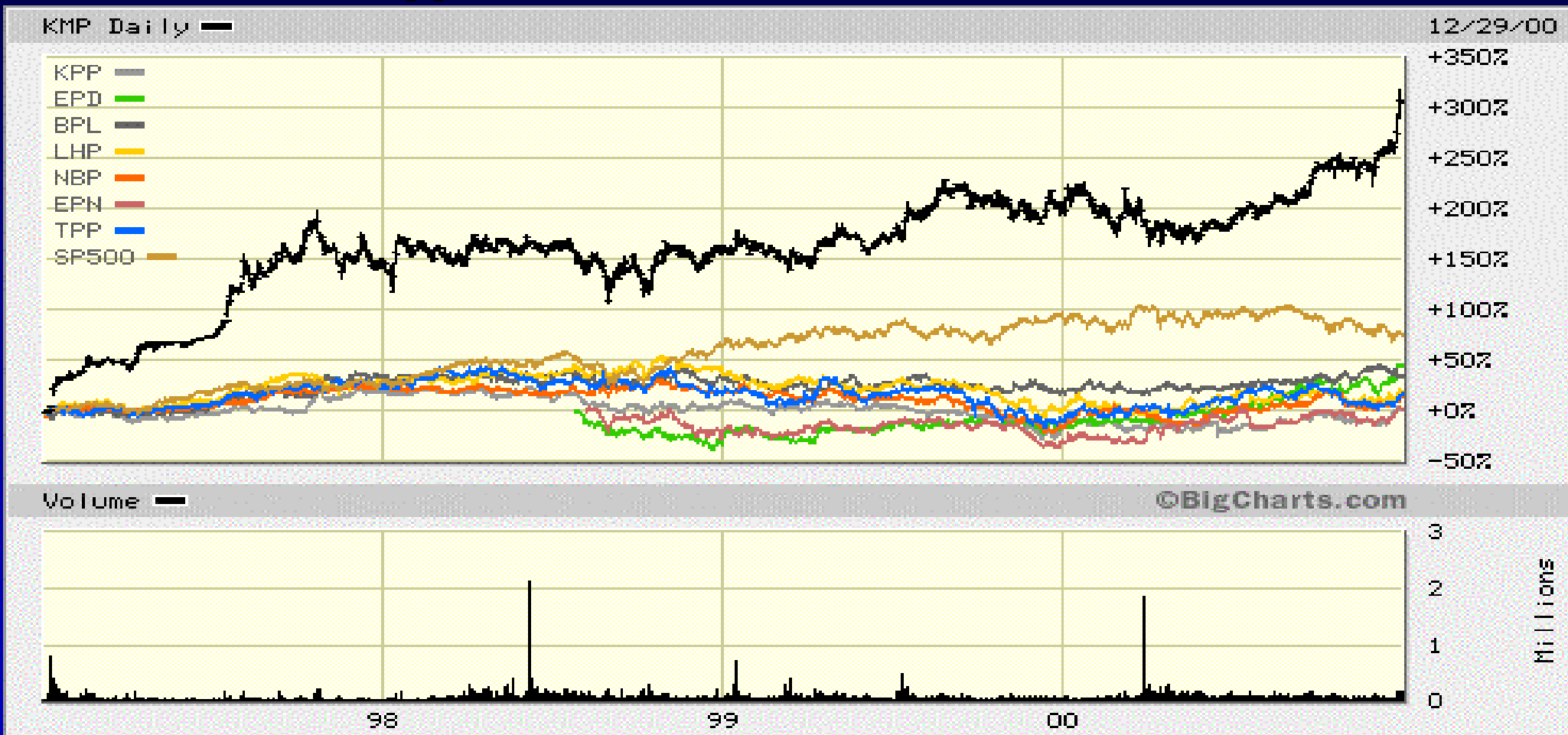


(a) Includes only the 2% GP Interest - does not include L.P. units owned by GP/KMI

(b) Assumes yearly average distribution of \$3.90 on 86.3M units outstanding

# KMP vs. S&P 500 & Other Pipeline MLP's

KMP vs. S&P 500 & other pipeline MLP's from 01/01/1997 - 12/29/00



# KMI vs. S&P 500

KMI vs. S&P 500 from 7/01/1999 - 12/29/00





# Kinder Morgan, Inc.

## Segments

2001 Expected Earnings Contribution (b)

### Market Position

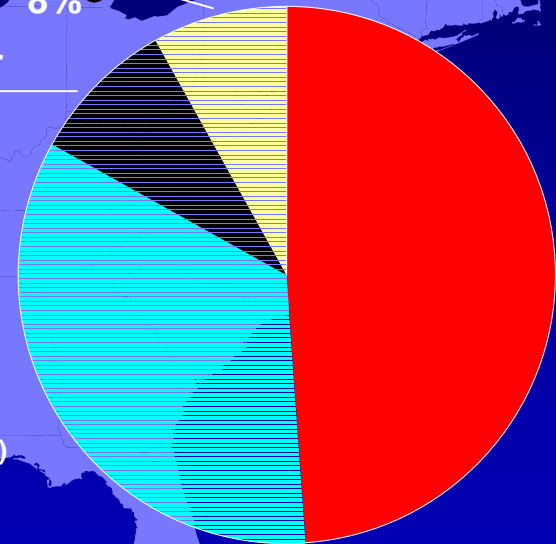
- One of the largest midstream energy companies in U.S.
- 30,000 miles of natural gas and products pipelines

Power & Other  
9%

Retail  
8%

KMP  
34%(a)

NGPL  
49%



(a) Does not include amortization of excess investment of approximately \$28M

(b) Excludes corporate G&A

# KMI Growth Overview

- **General Partner incentive structure will drive earnings growth in future**
  - Internal growth on KMP's pipes and terminals
  - Acquisition opportunities
- **Growth in gas-fired power generation**
  - Near-term opportunities for KMI Power earnings growth
  - Longer-term growth for NGPL

# KMI Recurring Earnings

	1999	2000	Expected Growth Rate 2000 - 2001
Kinder Morgan Energy Partners:			
Equity in Earnings	15,733	140,913	60 - 80%
Amortization of Excess Investment	(7,335)	(28,317)	
Segment Earnings:			
NGPL	306,507	342,887	0 - 5%
KMIGT	53,924	-	
Retail	20,104	49,732	5 - 10%
KMTP	16,554	29,318	
Power and Other	32,158	34,962	60 - 80%
Total Segment Earnings	437,645	569,495	
General and Administrative Expenses	(85,591)	(58,087)	
Interest Expense	(251,920)	(243,155)	
Other, Net	(6,078)	(23,495)	
Recurring earnings before income taxes	94,056	244,758	
Income Taxes	(35,208)	(98,023)	
Recurring earnings	58,848	146,735	
Diluted earnings per share	\$ 0.73	\$ 1.28	30 - 40%
Average shares outstanding	80,358	115,030	
Systems Throughput (Trillion Btus):			
NGPL	1,449.9	1,459.3	
Retail	56.6	72.6	
KMTP	575.3	654.4	

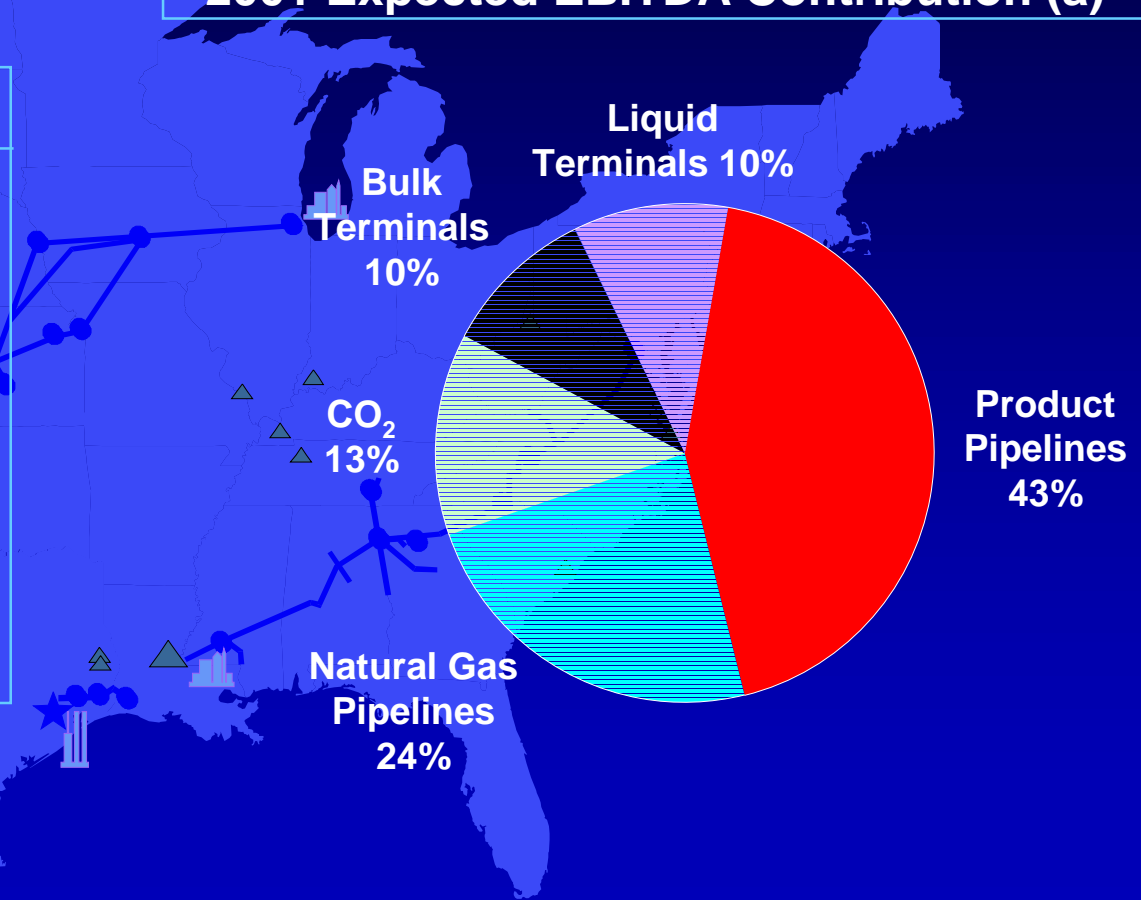
# Kinder Morgan Energy Partners

## Premier Pipeline MLP

2001 Expected EBITDA Contribution (a)

### Market Position

- Largest pipeline MLP
- Largest independent refined products pipeline system
- Second largest independent petroleum products terminal system (post-GATX)
- Second largest independent chemical terminal system (post-GATX)



(a) Excludes corporate G&A

# KMP Internal Growth Strategy

- **Enhance utilization of existing assets to capture upside of fixed cost economics**
  - Southern California expansions
  - Plantation mainline expansion
  
- **Continue to reduce costs**
  - Plantation operations
  - Enhanced productivity in field operations
  
- **Stay focused on midstream asset operation to reduce risk**
  - Pipelines and terminals
  - Fee-based
  - Limit exposure to commodity price risk

# KMP Recurring Earnings

	<u>1999</u>	<u>2000</u>	<u>Expected Growth 2000 - 2001</u>
<b>Segment Earnings Contribution:</b>			
Product Pipelines	\$ 212,248	\$ 221,168	35 - 45%
Natural Gas Pipelines	2,714	112,917	25 - 35%
CO <sub>2</sub> Pipelines	15,215	67,970	15 - 25%
Bulk Terminals	35,767	37,629	40 - 50%
General and Administrative	(35,612)	(60,065)	
Net Debt Costs (Includes Interest Income)	(52,607)	(93,284)	
Less: Minority Interest	<u>(2,891)</u>	<u>(7,987)</u>	
Recurring Net Income before General Partner's interest	174,834	278,348	
General Partner's Interest	<u>(56,273)</u>	<u>(109,470)</u>	
Recurring Net Income available to Limited partners	<u>\$ 118,561</u>	<u>\$ 168,878</u>	
Net income - \$/unit	\$ 2.42	\$ 2.67	
DD&A - \$/unit	1.04	1.44	
Sustaining capex - \$/unit	<u>(0.48)</u>	<u>(0.56)</u>	
Distributable cashflow - \$/unit	<u>\$ 2.97</u>	<u>\$ 3.56</u>	
Total distribution - \$/unit	<u>\$ 2.85</u>	<u>\$ 3.43</u>	

# Acquisition Strategy

## Acquisitions are key to the success of KMI/KMP

- **Acquire fee-based pipelines and terminals in high growth markets**
- **Make decisions based on conservative assumptions**
- **Must be immediately accretive to both KMP and KMI**
- **KMP is very competitive in the acquisition arena**
  - KMP values assets on a pre-tax basis
    - 10% pre-tax cost of equity
    - compares to 15% after-tax cost for typical C Corp.
  - KMP has the lowest cash cost of equity in the MLP universe
    - KMP tracks a 150-200 bpt premium to the pipeline MLP average
    - KMP tracks a 50-100 bpt premium to the closest competitors
  - Focus on asset operation makes us a preferred partner
  - Low-cost discipline maximizes cash flow
- **Objective is cash flow growth/accretion**

# Acquisition Opportunities

- **Rationalization by major oil companies**
  - FTC requirements
  - Internal restructuring
  - Other oil companies following suit
- **Liquids pipelines and terminals consolidation opportunities**
- **Bulk terminals acquisition opportunities**
- **Continued restructuring in the natural gas industry**



# GATX Overview

On November 30, 2000, KMP agreed to acquire the domestic pipelines and terminals of GATX Corp.

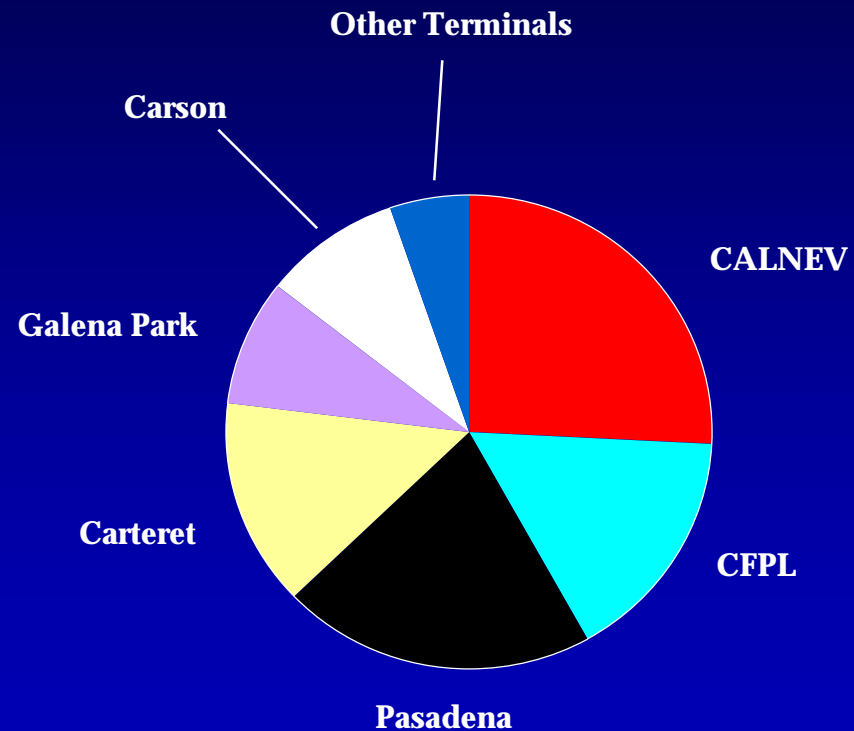
- **Purchase price was approximately \$1.15 bn in cash and assumed debt:**
  - CALNEV Pipeline
  - Central Florida Pipeline
  - 12 Petroleum products and chemical terminals
- **Transaction is immediately accretive**
  - 7.6x expected 2001 EBITDA
  - 8.6x expected 2001 cash flow
- **2001 projections incorporate conservative assumptions**
  - Revenue growth rates consistent with near-term demographics
  - Great majority of terminal revenues are under contract
  - Overhead cost cuts consistent with bottom-up analysis and track record in previous transactions
- **Expect good long-term growth due to favorable demographics in Nevada and Florida and opportunities for incremental terminal expansions**

# GATX - Acquisition Overview

## Asset Contribution Breakdown <sup>(1)</sup> :

### EBITDA Contribution by Asset:

CALNEV(CA, NV)	26 %
CFPL (FL)	16 %
Pasadena (TX)	21 %
Carteret (NY)	14 %
Galena Park (TX)	9 %
Carson (CA)	9 %
<u>Other Terminals</u>	<u>5 %</u>
<b>Total</b>	<b>100%</b>



(1) Approximate percentage of expected 01' EBITDA

# GATX - Pipeline Overview

GATX Pipelines serve high growth markets in Nevada and Florida

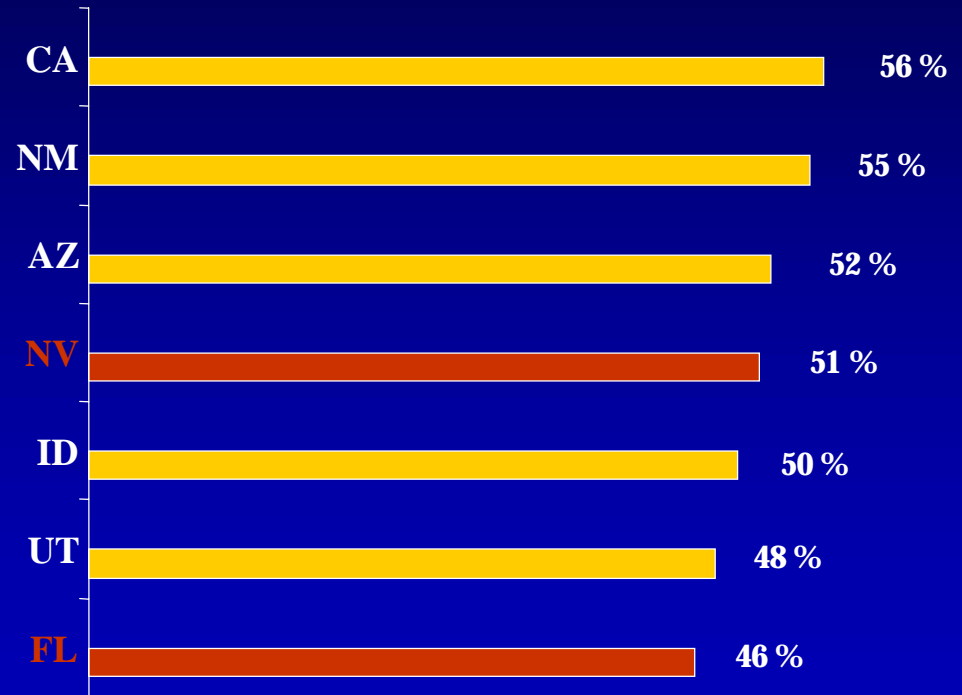
## ■ CALNEV Pipeline

- CALNEV is a fee-based pipeline serving the attractive Las Vegas market, receiving product from Kinder Morgan's Pacific System at Colton, California
- 14" mainline is approximately 75% utilized
- Opportunity to increase throughput with new pumps

## ■ Central Florida Pipeline Company

- Central Florida is a fee-based pipeline transporting product from Tampa to the growing Orlando, Florida market
- Approximately 61% utilized in 1999

**Fastest Growing States 1995 - 2025 (1)**



(1) Fastest growing of the 48 contiguous states based on U.S. Census Bureau's May 1997 estimate of the populations of states as of July 1, 1995 and July 1, 2025

# GATX - Terminal Overview

**GATX Terminals makes KMP the second largest independent petroleum storage company in the U.S. and the second largest chemical storage company in the U.S. based on capacity**

- **U.S. Terminals consist of 12 terminals with 35.6 MMBbls of capacity for the storage of both petroleum products and chemicals**
  - 4 terminals make up over 80% of the EBITDA (Carteret NY, Galena Park and Pasadena TX, and Carson CA)
  - Petroleum products make up approximately 71% and chemicals make up approximately 29% of total revenues
  - Well located in Chicago, Houston, New York, and major West Coast cities with
    - Consistent high demand for fee-based services
    - Good performance in a variety of market conditions
  - Kinder Morgan pipelines receive from or inject into several terminals
    - Linnton at the Port of Portland (Oregon)
    - Willbridge at the Port of Portland (Oregon)
    - Carson at the Port of Los Angeles (California)

# KMI Credit Ratios

	1998	1999	2000E	2001E	2002E
Debt / EBITDA	6.7 x	6.0 x	4.9 x	3.7 x	3.1 x
Cashflow / Interest	2.4 x	1.9 x	2.3 x	2.8 x	3.6 x
Cashflow / Fixed Charges	2.2 x	1.8 x	2.1 x	2.7 x	3.0 x
EBITDA / Interest	2.8 x	2.6 x	2.8 x	3.1 x	4.2 x
EBIT / Interest	2.1 x	2.0 x	2.3 x	2.5 x	3.5 x
Debt / Capitalization	72.3 %	66.6 %	62.0 %	49.6 %	46.3 %

# KMP Credit Ratios

	1997	1998	1999	2000E	2001E	2002E
Debt / EBITDA	3.7 x	3.1 x	4.0 x	4.0 x	3.3 x	3.0 x
Cashflow / Interest	2.1 x	3.3 x	5.3 x	4.8 x	4.6 x	5.2 x
Cashflow / Fixed Charges	1.9 x	3.1 x	4.9 x	4.6 x	4.5 x	5.2 x
EBITDA / Interest	3.3 x	5.0 x	5.7 x	5.1 x	4.7 x	5.3 x
EBIT / Interest	2.4 x	4.0 x	4.7 x	4.1 x	3.7 x	4.3 x
Debt / Capitalization	49.4 %	31.4%	40.3 %	46.8 %	42.9 %	42.9 %

# Outstanding Issues

	<u>Maturity</u>	<u>Amount</u>	<u>Coupon</u>
<b>KMI</b> (Baa2, BBB-)	<b>Nov-01</b>	<b>400</b>	<b>6.45</b>
	<b>Mar-03</b>	<b>500</b>	<b>6.45</b>
	<b>Mar-05</b>	<b>500</b>	<b>6.65</b>
	<b>Mar-08</b>	<b>300</b>	<b>6.7</b>
	<b>Mar-28</b>	<b>500</b>	<b>7.25</b>
<b>KMP</b> (Baa1, A-)	<b>Mar-02</b>	<b>200</b>	<b>Floating</b>
	<b>Mar-05</b>	<b>200</b>	<b>8.0</b>
	<b>Feb-09</b>	<b>250</b>	<b>6.3</b>
	<b>Nov-10</b>	<b>250</b>	<b>7.5</b>

**More to be issued in 1Q 01 for GATX and other acquisitions**

# Key Credit Considerations

## Management Depth & Experience

- Experienced management team with significant industry experience
- Excellent management track record in improving asset performance

## Operating Strength

- The largest independent products pipeline in the U.S.
- Large and diverse portfolio of strategically positioned assets
- Business enhancement and cost saving opportunities
- Limited commodity price risk
- Established track record of accretive acquisitions

## Financial Flexibility

- Conservative capitalization and a willingness to finance acquisitions with equity
- Long-lived assets with stable cash flows
- Low maintenance capital expenditure requirements