



## Kinder Morgan

### Stable Platforms – Exceptional Growth

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Kinder Morgan Management LLC

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# History

- **1997 - Rich Kinder, Bill Morgan & partners bought the general partner of a small Master Limited Partnership (MLP) and changed the name to Kinder Morgan Energy Partners (KMP). KMP had enterprise value of \$300million.**
- **Strategy was to create first growth MLP in America.**
- **1998 – Acquired Santa Fe Pacific products pipeline for \$1.4 bn.**
- **1999 – Private general partner of KMP merged with KN Energy . Rich Kinder and Bill Morgan assume management and change the name to Kinder Morgan Inc. (KMI).**
- **2000 – KMP acquired \$1.2 bn in product pipelines and terminals from GATX.**
- **2001 – KMI, KMP, and KMR achieve enterprise value of \$18 billion and KMI is added to S&P 500 Index.**

# Historical Performance

Management has delivered superior returns to all shareholders

- **KMP Total Return since formation** **650% (01/01/97 – 10/31/01)**
- **KMI Total Return since merger announcement** **286% (07/01/99 – 10/31/01)**
- **KMR Total Return since IPO** **9% (05/14/01 – 10/31/01)**

# Different Strategy

Kinder Morgan has a different strategy than other midstream companies:

- Focused on stable, fee-based assets
- No trading business
- Avoid commodity exposure
- Unique financial structure
- Large management ownership

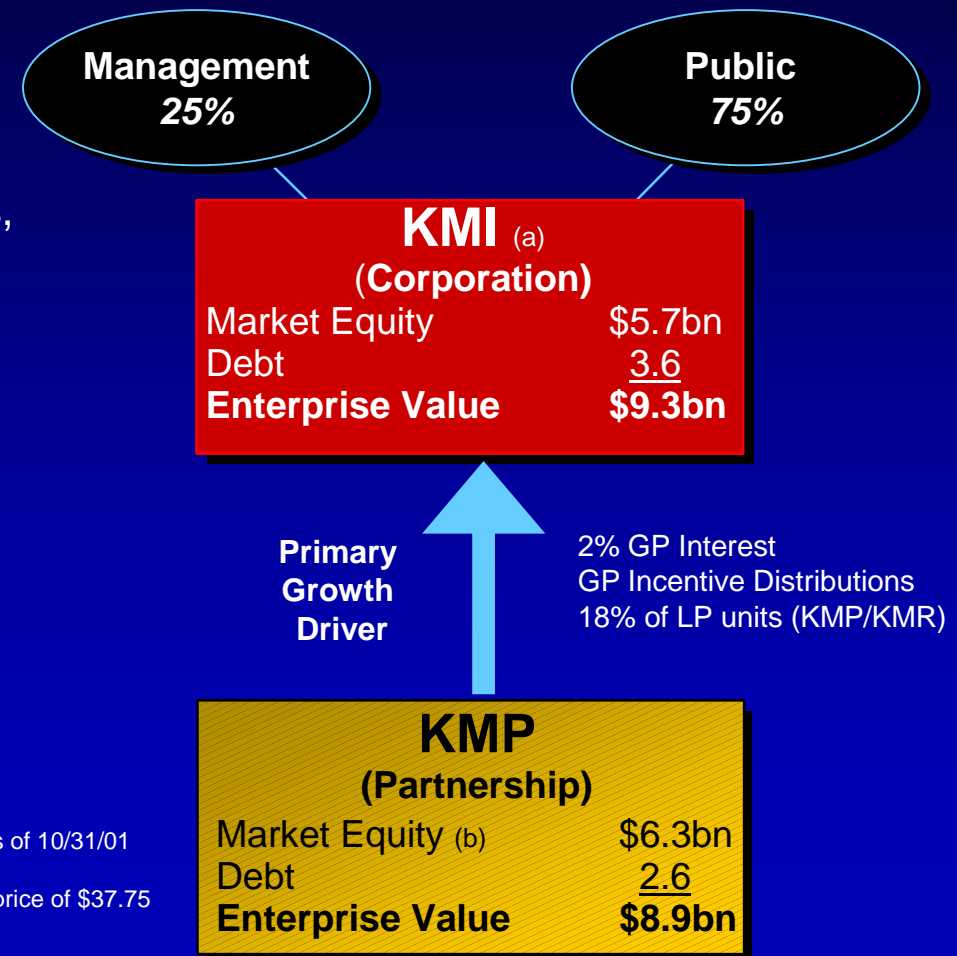
# Unique Financial Structure

## ■ Senior Management

- Owns 25% of KMI
- Rich Kinder (Chairman & CEO) and Bill Morgan (Vice Chairman) have \$1/year salaries, no bonus, no options
- Recently announced \$300mm share repurchase

## ■ KMP drives growth at KMI

- KMP is the fastest growing segment of KMI
- Tax advantaged partnership structure
- Strong internal growth plus acquisitions



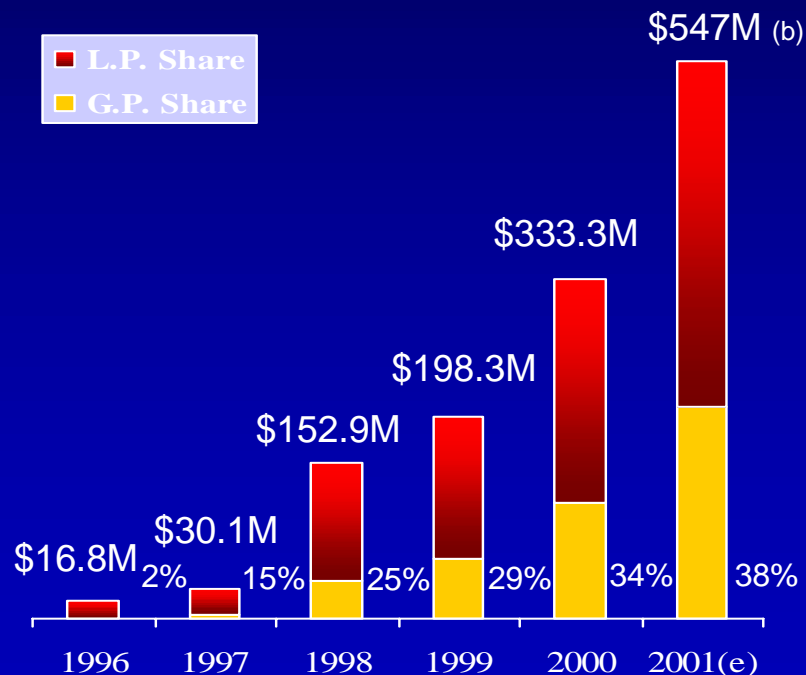
(a) Market cap. and enterprise values based on 115.3mm shares o/s and a price of \$49.63 as of 10/31/01 and debt balance as of 9/30/01

(b) Market cap based on 165mm common units, a common unit price of \$38.25, and a KMR price of \$37.75 as of 10/31/01. Debt balance as of 9/30/01

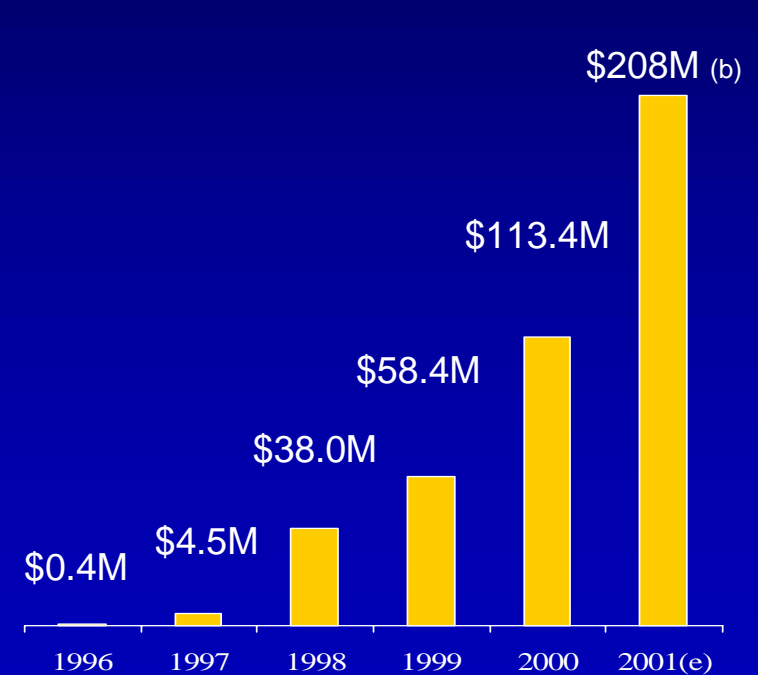
# How KMP Impacts KMI

The combination of growth in both KMP's total cash flow and KMI's share of that total has produced dramatic 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 and KMR shares owned by GP/KMI

(b) Assumes yearly average distribution of \$2.15 on 165M units outstanding in quarters 2-4 and 135M outstanding in quarter 1.

# KMP: Exceptional Distribution Growth<sup>(a)</sup>

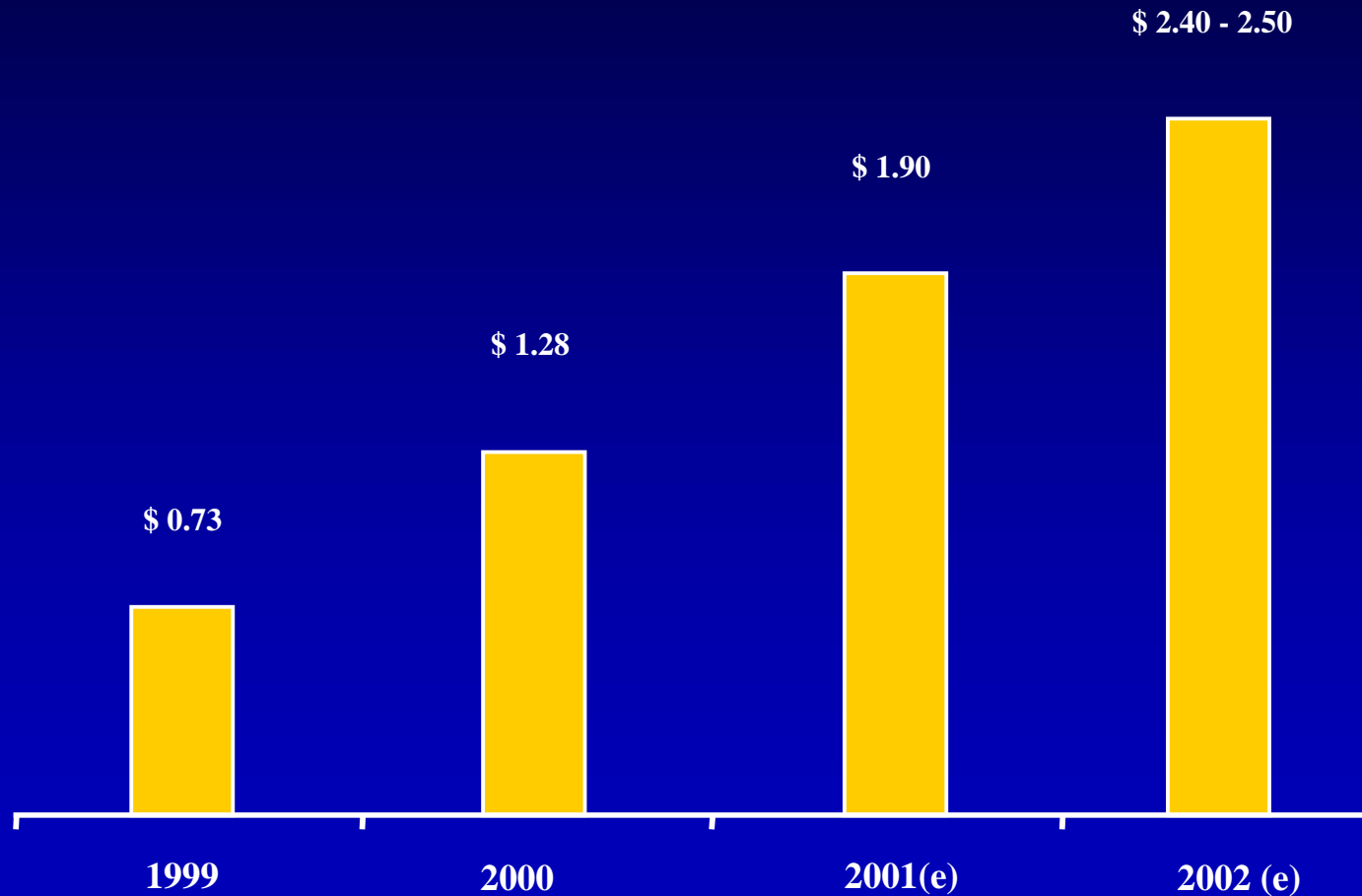
Management targets 15% distribution growth annually



(a) Historical and projected year-end run rate for KMP distribution per unit ( equal to Q4 distribution x4)

# KMI: Exceptional EPS Growth<sup>(a)</sup>

Management targets 20 – 30% EPS growth annually

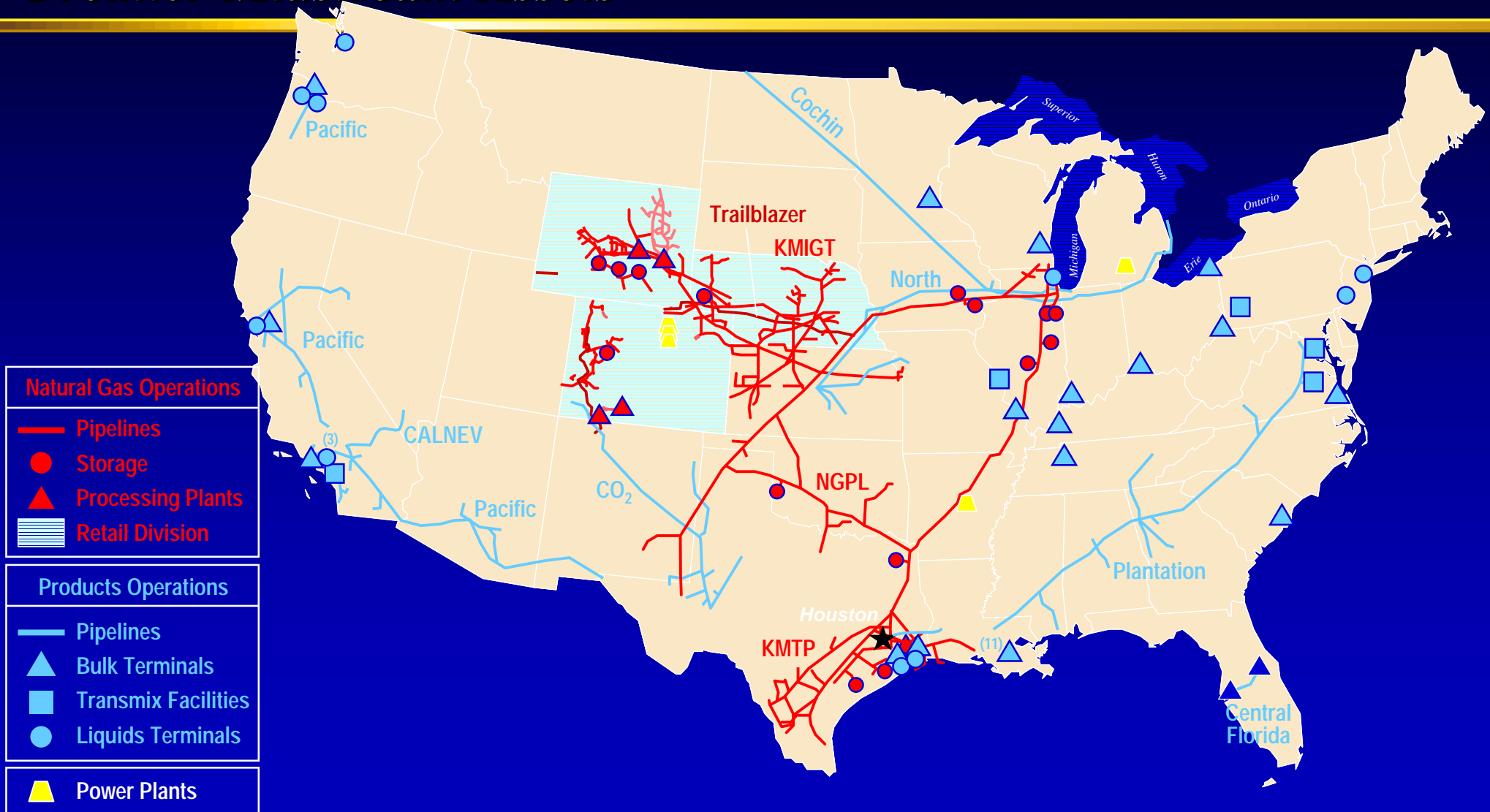


(a) Recurring Diluted EPS



# Kinder Morgan System Map

## Premier Midstream Assets



# Kinder Morgan

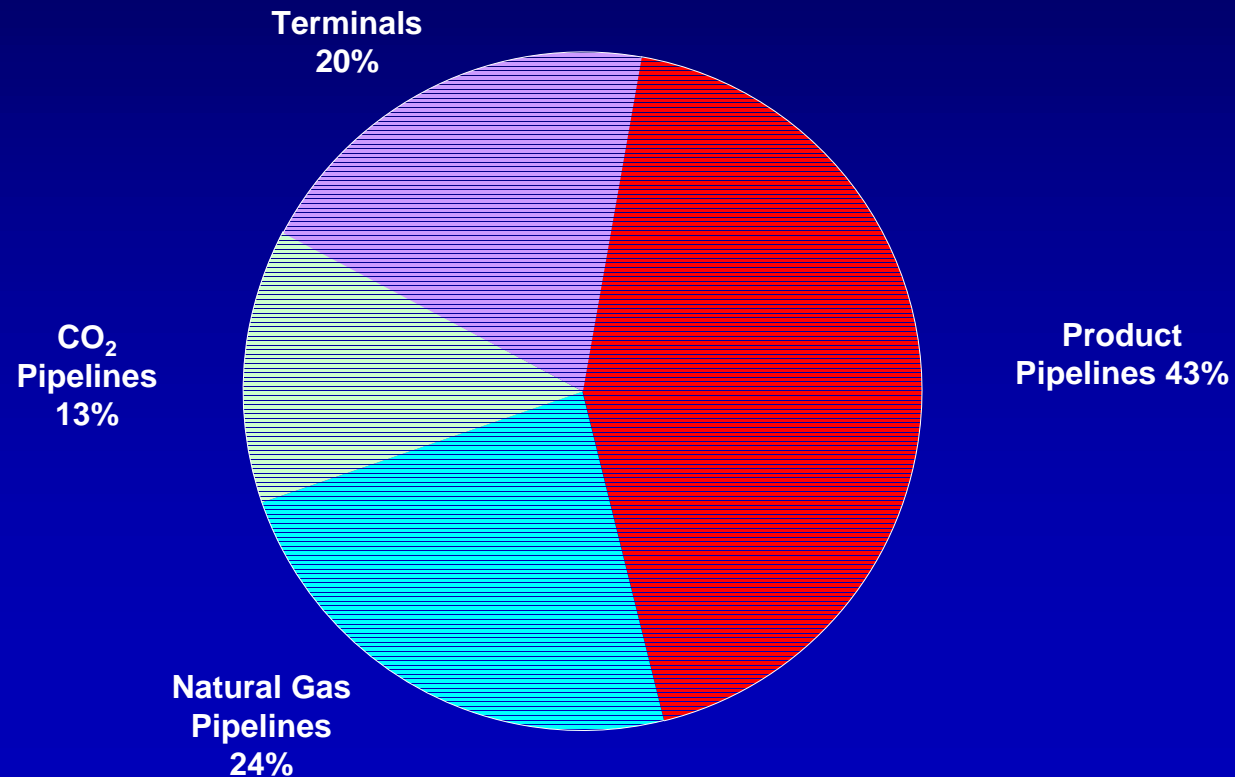
## *Market Position*

- Largest pipeline MLP
- Largest independent refined products pipeline system
- Largest CO<sub>2</sub> transporter
- Largest independent bulk terminal operator
- Largest liquids terminal operator
- Major natural gas transporter

# Kinder Morgan Energy Partners

## *Segment Overview*

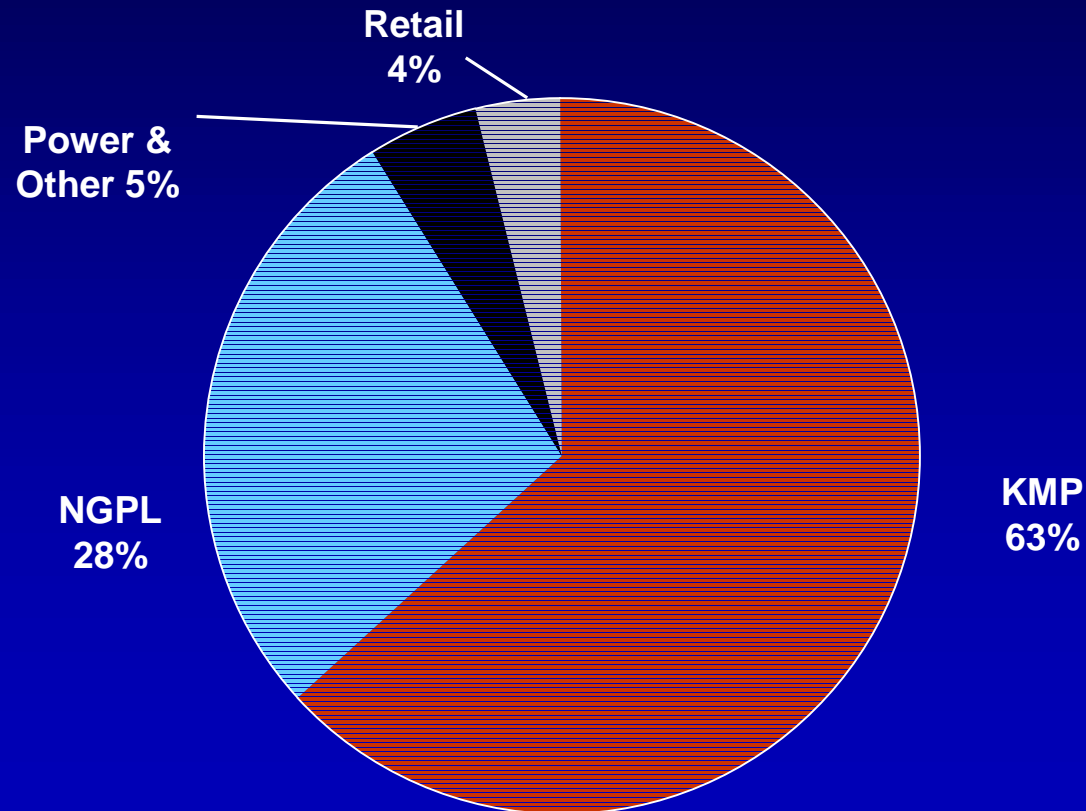
### 2001 Estimated Earnings Contribution



# Kinder Morgan Inc.

## *Segment Overview*

### 2001 Estimated Pretax Earnings Contribution<sup>(a)</sup>



(a) Allocates interest expense and G&A pro-rata to 3 operating segments, before extraordinary items

# Kinder Morgan Grows Through:

## ■ Internal Growth

- Favorable demographics
- Excess capacity

## ■ Expansion projects

- Significant infrastructure needs
- Superior returns on capital

## ■ Acquisitions

- Excellent track record
- Significant competitive advantages

# Internal Growth Summary

## KMP

## Primary Internal Growth Driver

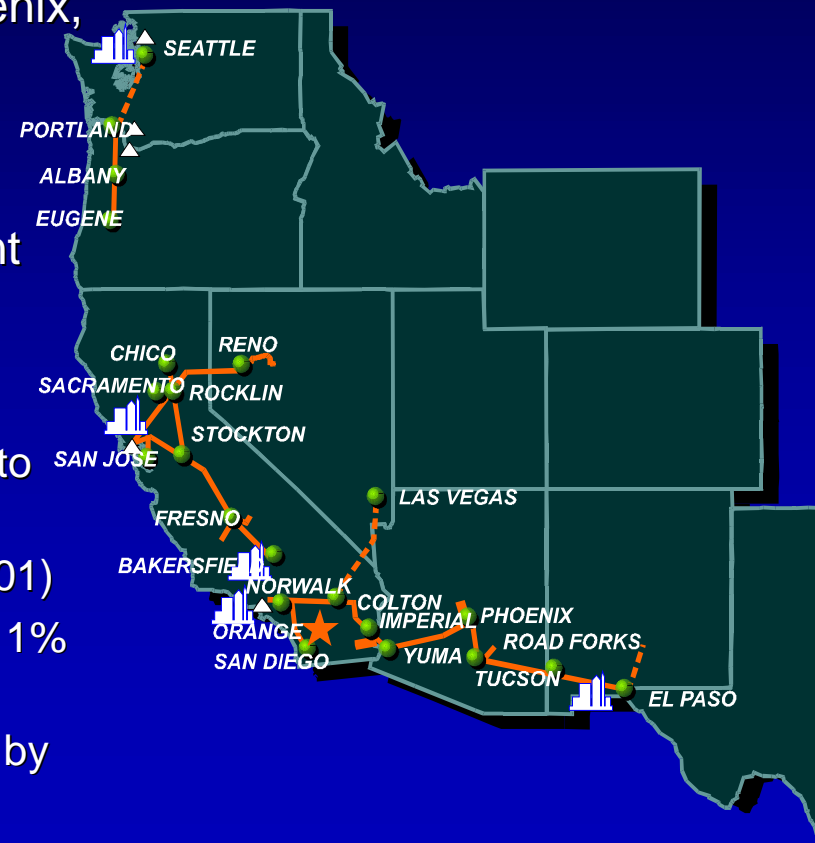
- Products Pipes • Demographic movements to West and South East U.S.
- Nat. Gas Pipes • Increased production in Rockies and growth in gas – fired generation
- CO2 Pipes • Maturation of on-shore oil basins in United States
- Terminals • Increased refinery utilization, increased product specifications, and increased use of low sulfur coals

## KMI

- G.P. of KMP • G.P. incentive structure leveraging KMP internal growth drivers (above)
- NGPL • Servicing additional 3,000 – 4,000 MW of gas-fired generating capacity annually
- Power • Continued development/construction of plants for Williams and Mirant
- Retail • Rapid customer growth on West Slope of Colorado

# Internal Growth Case Study: Pacific System

- Transports gasoline, diesel and jet fuel to some of the fastest growing markets in U.S. (i.e. Las Vegas, Phoenix, San Diego)
- Demographic growth drives volume growth
- Excess capacity for next 8-10 years without significant capital
- Virtually all revenue growth drops to the bottom line
  - Paid same fee regardless of commodity price (e.g. LA to Phoenix is approx. \$1.30 / bbl)
  - Volume growth is 3% - 5% per year (4.7% first half of '01)
  - Due to simplified regulation, tariff is increased at PPI – 1% each July 1 (2.75% in '01)
  - Slight variable cost (power to pump the product) offset by productivity improvements



# Announced Expansion Projects

<u>Segment</u>	<u>Project</u>	<u>Capital</u>	<u>In Service Date</u>
KMP – Gas pipelines	Trailblazer expansion	\$ 40 million	June 2002
KMP – Gas Pipelines	KMTP for Calpine	\$ 15 million	Q3 2002
KMP – Gas Pipelines	Hinshaw Pipeline	\$ 70 million	Spring 2003
Product Pipelines	CALNEV Expansion	\$ 9 million	Q2 2002
Terminals	Shipyard River	\$ 18 million	Q1 2001
Terminals	Liquid terminal expansion	\$ 17 million	Various over 2002
Terminals	Delta Terminals	\$ 25 million	Various over 3 years
Terminals	Dakota Expansion	\$ 20 million	4Q 2002
CO2	SACROC Expansion	\$ 29 million	Q1 2002
NGPL	St. Louis Expansion	\$ 35 million	June 2002
NGPL	Horizon expansion	\$ 40 million	April 2002
Power	Williams Toll (MI)	\$ 50-70 million	Summer 2002
Power	Williams Toll (MO, IL)	\$100 – 140 million	Summer 2003
Power	Southern plant – Little Rock	<u>\$ 60 million</u>	Summer 2002
		Approx \$550	



# Acquisition Track Record

Acquisitions	Approximate Value (\$mm)
6 Deals in 1997-1998	\$ 1,720
4 Deals in 1999	950
Milwaukee / Dakota Terminal	25
80% Shell CO <sub>2</sub>	212
CRC CO <sub>2</sub> Pipeline / SACROC	53
Buckeye Transmix	38
Cochin Pipeline (34.8%)	126
Delta Terminals	114
Duke Transmix	11
Phase II Dropdown (KMTP)	300
Marathon JV (CO <sub>2</sub> )	40
GATX Pipelines & Terminals	1,170
Pinney Dock Terminals	42
Vopak Terminals	44
Oxy Pipeline	360
Boswell	20
Stolt	70
<b>Total</b>	<b>\$5,295</b>

# Kinder Morgan Advantages as Acquirer

## ■ Pretax MLP Structure

- Significant cost of capital advantage vs. traditional C Corporations
- Significant scale and cost of capital advantage vs. other MLP's

## ■ Track record of eliminating overhead

## ■ Focus on Asset Operation

- Not viewed as a competitor (i.e. no marketing and trading)
- Simplifies integration of acquired businesses
- Creates opportunities for follow-on capital investment

# Business Strategy

Since the formation of Kinder Morgan, management has:

- **Focused on stable, fee-based assets which are core to the energy infrastructure of growing markets**
  - Virtually no commodity price risk
  - No marketing and trading business
- **Increased utilization of assets while controlling costs**
  - Classic fixed cost businesses with little variable costs
  - Improve productivity to drop most of top-line growth to bottom line
- **Leveraged economies of scale from incremental acquisitions**
  - Reduce needless overhead
  - Apply best practices to core operations
- **Maximized benefit of a unique financial structure which fits with strategy**
  - MLP avoids double taxation on distributions from high cash flow businesses
  - Strong balance sheet allows flexibility when raising capital for acquisitions / expansions

# Unique Investment Opportunity

- **Kinder Morgan generates growth from stable, fee-based businesses while avoiding commodity price risk**
- **KMP/KMR**
  - High current yield of 5.8%
  - Low-risk internal growth from favorable demographic trends
  - Significant upside potential by extending acquisition track record
  - Focus on cash flow for distributions
  - Expect continued strong growth in distribution per unit
- **KMI**
  - Extraordinary growth through GP
  - Unique management incentives via inside ownership
  - Generating significant free cash flow (\$330 million in 2001)
  - Expect to grow earnings at 20-30% for foreseeable future



## Appendix

# KMP Acquisition Matrix

## Accretion per KMP Unit (\$) <sup>(a)</sup>

**Hypothetical  
Value of  
Acquisitions**

**Multiple of Distributable Cash Flow**

**\$1,250M**

**\$ 0.40**

**\$ 0.24**

**\$ 0.14**

**1,000M**

**0.32**

**0.20**

**0.12**

**750M**

**0.25**

**0.15**

**0.09**

**500M**

**0.17**

**0.10**

**0.06**

**Target \$0.15 - 0.20**

(a) Assumes acquisition financed 60% equity / 40% debt, pre-tax debt cost of 7.0%, a \$2.20 annual distribution, a unit/KMR share price of \$38.00, and outstanding units of 165 million.

The above figures regarding acquisition accretion potential are based on various forward-looking assumptions made by the management of Kinder Morgan. While Kinder Morgan believes that these assumptions are reasonable, it can give no assurance that such results will materialize

# KMI Acquisition Matrix

## Accretion per KMI Common Share (\$) <sup>(a)</sup>

Hypothetical Value of Acquisitions	Multiple of Distributable Cash Flow		
	5.0 X	6.5 X	8.0 X
\$1,250M	\$ 0.54	\$ 0.37	\$ 0.27
1,000M	0.43	0.30	0.22
750M	0.33	0.23	0.16
500M	0.22	0.15	0.11

**Target \$0.25 - 0.30**

(a) Assumes acquisition financed 60% equity / 40% debt, pre-tax debt cost of 7.0%, a \$2.20 annual distribution, a unit/KMR share price of \$38.00, outstanding units of 165 million and 121.4 million fully diluted KMI shares.

The above figures regarding acquisition accretion potential are based on various forward-looking assumptions made by the management of Kinder Morgan. While Kinder Morgan believes that these assumptions are reasonable, it can give no assurance that such results will materialize

# KMR Offering Summary (Post Split)

- **Issuer:** Kinder Morgan Management, LLC
- **Size:** 29.75 million shares (originally filed 17 million)
- **Price:** \$35.205 (indication on original filing was \$29.875)
- **Gross Proceeds<sup>(a)</sup>:** \$1,047 million (indication original filing was \$508) which returned KMP to 40% debt target
- **Distribution/Yield:** In parity with KMP common units (approx – 5.8%)  
Distribution in additional shares
- **Exchange Feature:** Exchangeable into common units of KMP owned by KMI

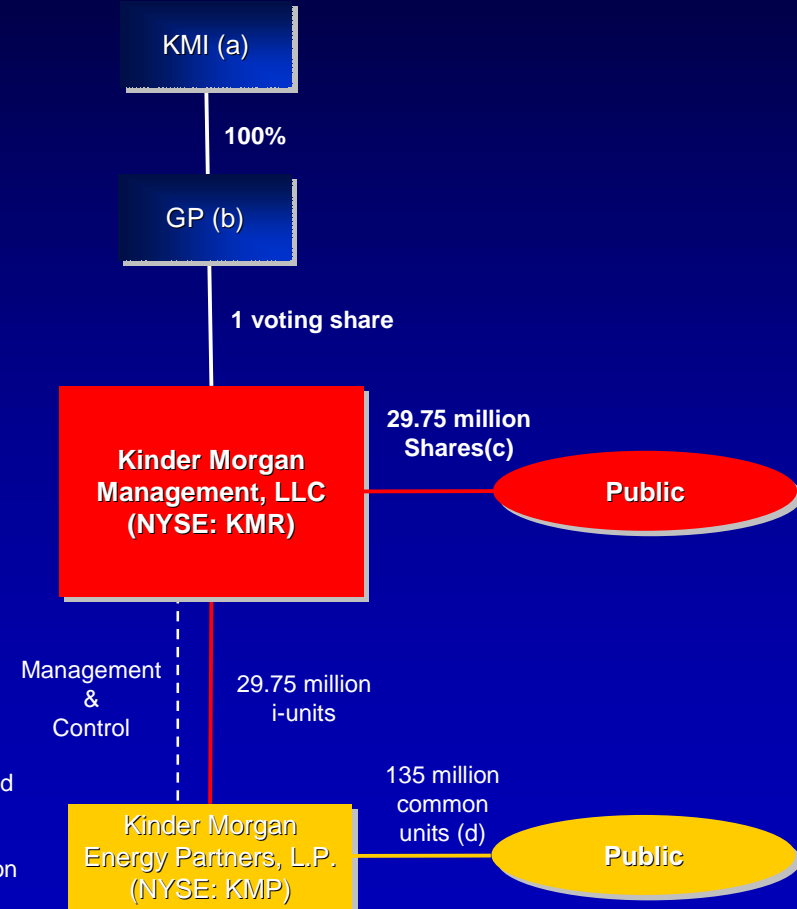
(a) Amounts stated are before underwriters discount and any greenshoe



# Kinder Morgan Management, LLC

- Provides KMP access to the institutional market, allowing KMP to accelerate its growth strategy
- Manages and controls the operations of KMP
- Owns a new class of KMP limited partnership interests (“i-units”)
- Has equivalent economics to and same voting rights as KMP common units
- KMI bought 10% of the offering

- (a) Owns 22.6 million common units, 5.4 million class B units, and 2.98 million KMR shares including those held by subsidiaries, including Kinder Morgan, G.P., Inc – does not include dividends paid on KMR shares since offering
- (b) Owns 2% general partner interest in KMP, including operating partnership interests and incentive distribution rights
- (c) Includes 2.975 million shares (10%) owned by KMI – does not include dividends paid on KMR shares since offering
- (d) Includes common and class B units owned by affiliates of KMI



# KMR is KMP

	KMR	KMP
Distributions	Shares	Cash
Yield	5.8%	5.8%
Exchangeability	KMP Common Units	None
Voting Rights	In Parity with KMP	Limited
Optional Purchase	Yes	Yes
Mandatory Purchase	Yes	No
<b><u>Tax Considerations</u></b>		
Allocated Taxable Income	No	Yes
Non-Qualifying Income	No	Yes
UBTI	No	Yes
K-1s	No	Yes
State Filing Obligations	No	Yes

# KINDER MORGAN

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November 2001