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Natural Gas Pipelines

Deb Macdonald

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Infrastructure Development

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Need for Natural Gas Infrastructure

- EIA predicts demand for natural gas to grow at 2% per year from 23 Tcf currently to 34 Tcf by 2020.
- Foster Associates indicates peak day requirements will grow from approximately 131 Bcf/d currently to over 170 Bcf/d in 2020.
- National Petroleum Council predicts that roughly 40,000 miles of new gas transmission lines and 275,000 miles of distribution mains will be needed by 2015.
- FERC holding regional conferences on adequacy of energy infrastructure.
- New infrastructure will be needed to move gas from remote sources being developed (deep water Gulf of Mexico, Alaska, coal bed methane and traditional production in the Rocky Mountains) and to facilitate imports into Mexico.

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Challenges for Infrastructure Development

- FERC's review of its Negotiated Rate Policy
  - Has allowed sponsors/shippers to negotiate project benefits/risks
  - Majority of new projects have been done with Negotiated Rates
  - Provides long-term certainty for sponsors and shippers
- Turmoil in the "Merchant Energy Company" sector
  - Merchants have consistently anchored new infrastructure projects
  - LDCs and producers are beginning to step-up
  - New contract structures may be necessary
- Environmental
- Access to Capital

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Kinder Morgan Advantages

- Opportunity
  - Large existing asset base leads to significant expansion and extension opportunities
- Access to Capital
  - Best in class balance sheet ensures access to capital
- Efficient Structure
  - MLP efficiently capitalizes long-lived pre-tax assets
- Low cost discipline

Infrastructure Development

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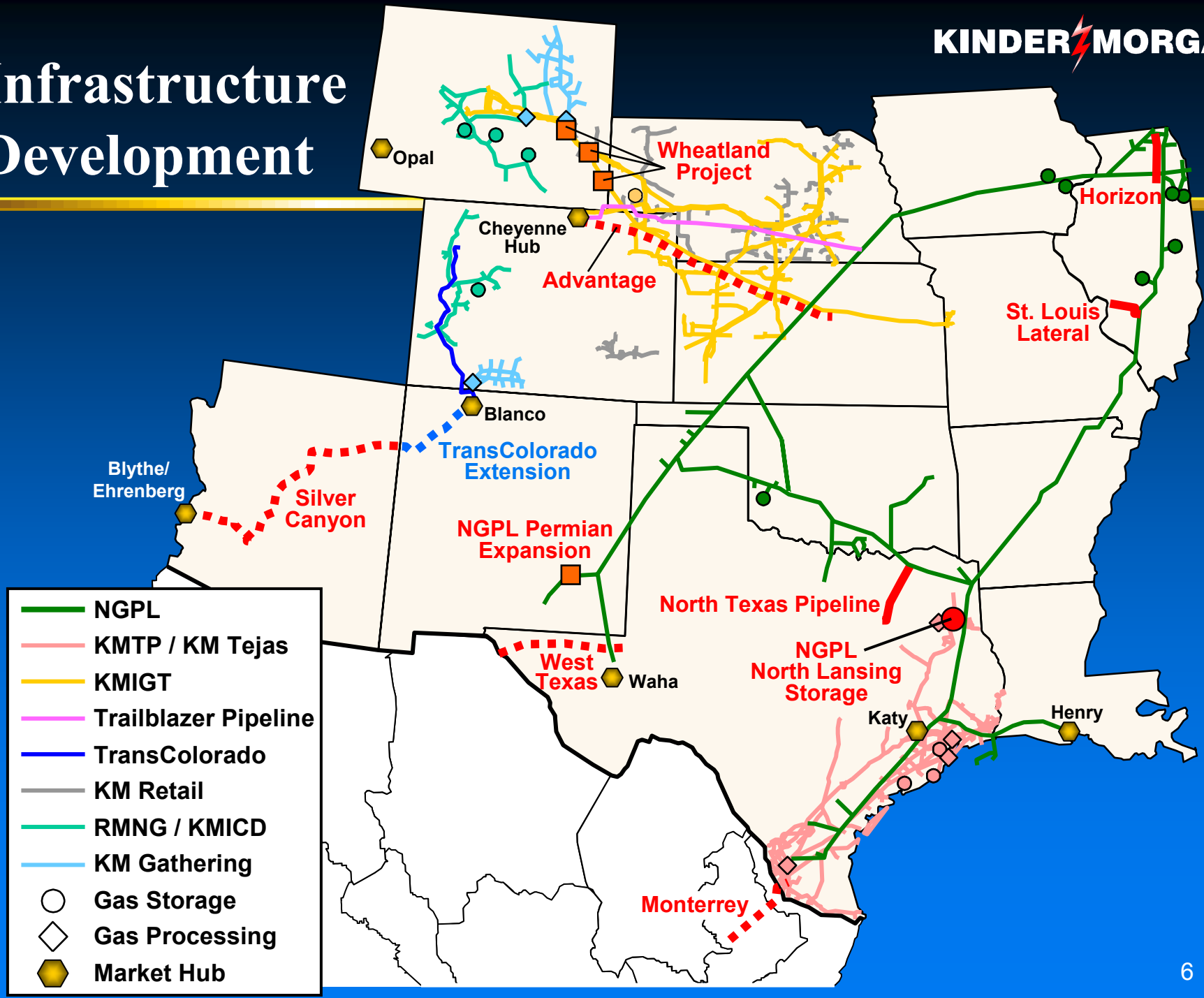

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Areas of Focus Going Forward

- Incremental markets strategic to existing assets
- Mexico's growing needs to import U.S. production
- Rocky Mountain/San Juan supply bottlenecks
- Southwest need for capacity

Incremental Markets
Strategic to Existing Assets

- NGPL Permian Expansion
- NGPL St. Louis Extension
- Horizon Pipeline
- NGPL North Lansing Storage Expansion
- North Texas

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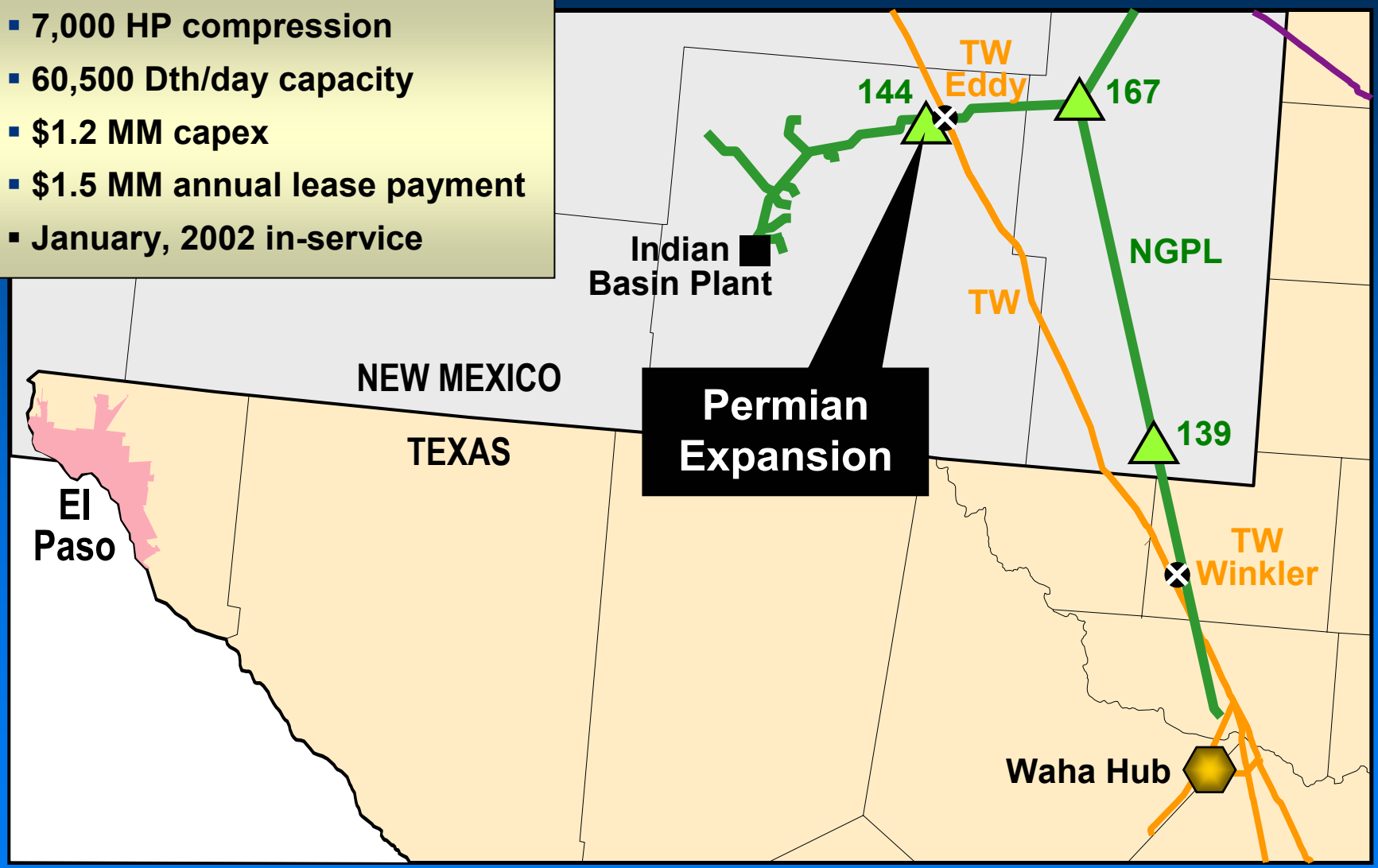
NGPL Permian Expansion

- 7,000 HP compression
- 60,500 Dth/day capacity
- $1.2 MM capex
- $1.5 MM annual lease payment
- January, 2002 in-service



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NGPL St. Louis Lateral

- 50 miles of 24” pipe
- 300,000 Dth/day capacity
- $37 MM capex
- 10 year contract life
- September, 2002 in-service



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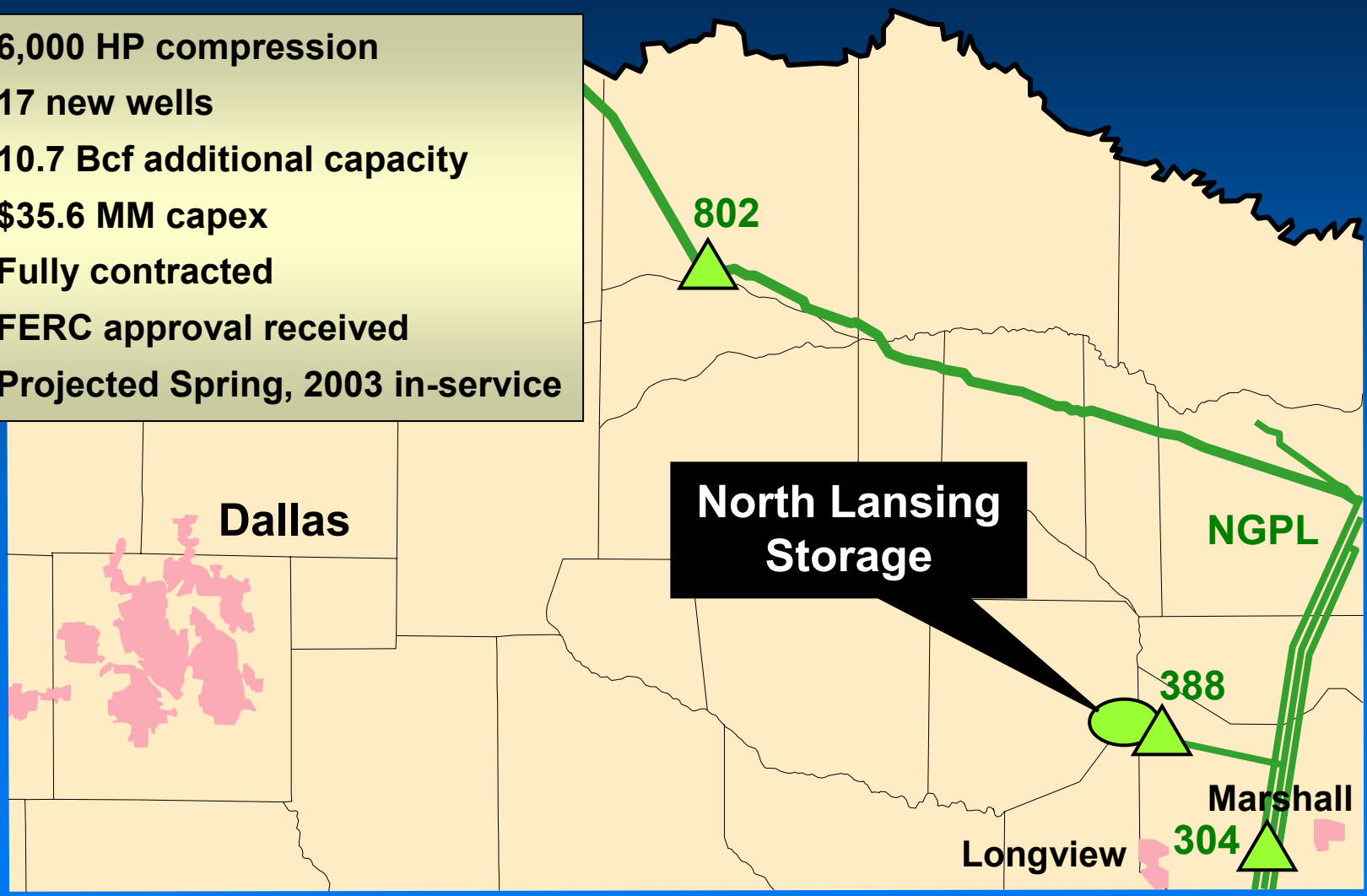
NGPL North Lansing Storage Expansion

- 6,000 HP compression
- 17 new wells
- 10.7 Bcf additional capacity
- $35.6 MM capex
- Fully contracted
- FERC approval received
- Projected Spring, 2003 in-service



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Horizon Pipeline

- Joint venture with Nicor
- 28 miles of 36” pipe
- 42 miles of NGPL leased capacity
- 8,900 HP compression
- 380,000 Dth/day capacity
- 10 year average contract life
- $80 MM capex
- May, 2002 in-service



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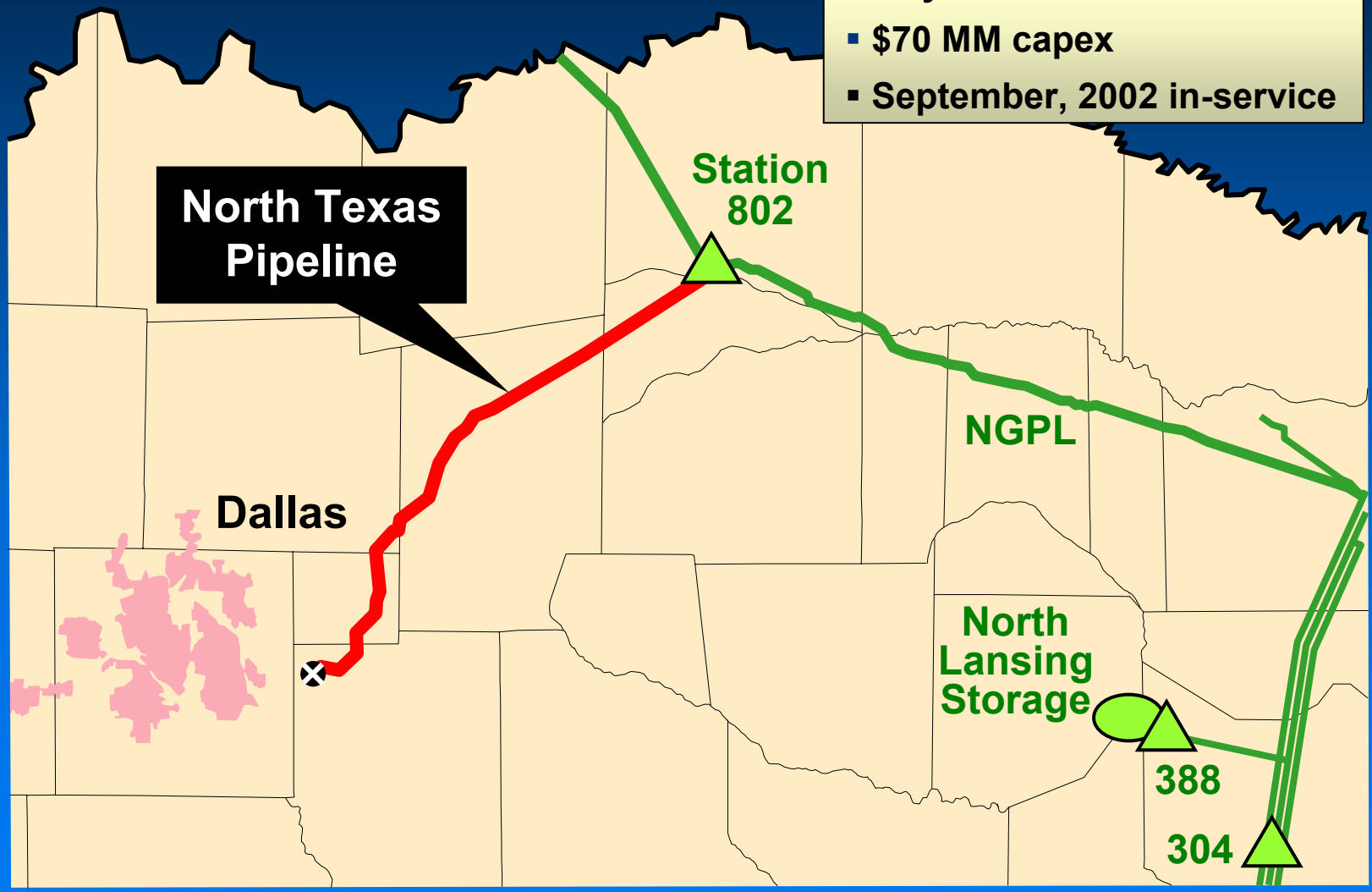
North Texas Pipeline

- 82 miles of 30” pipe
- 325,000 Dth/day capacity
- 30 year contract life
- $70 MM capex
- September, 2002 in-service



Mexico

- Monterrey Pipeline
- West Texas Pipeline

The National Challenge

Th ark t for nat ral gas n M co ll gro fro to 9 Bcf n th n xt ars t s x ct that an ll gro
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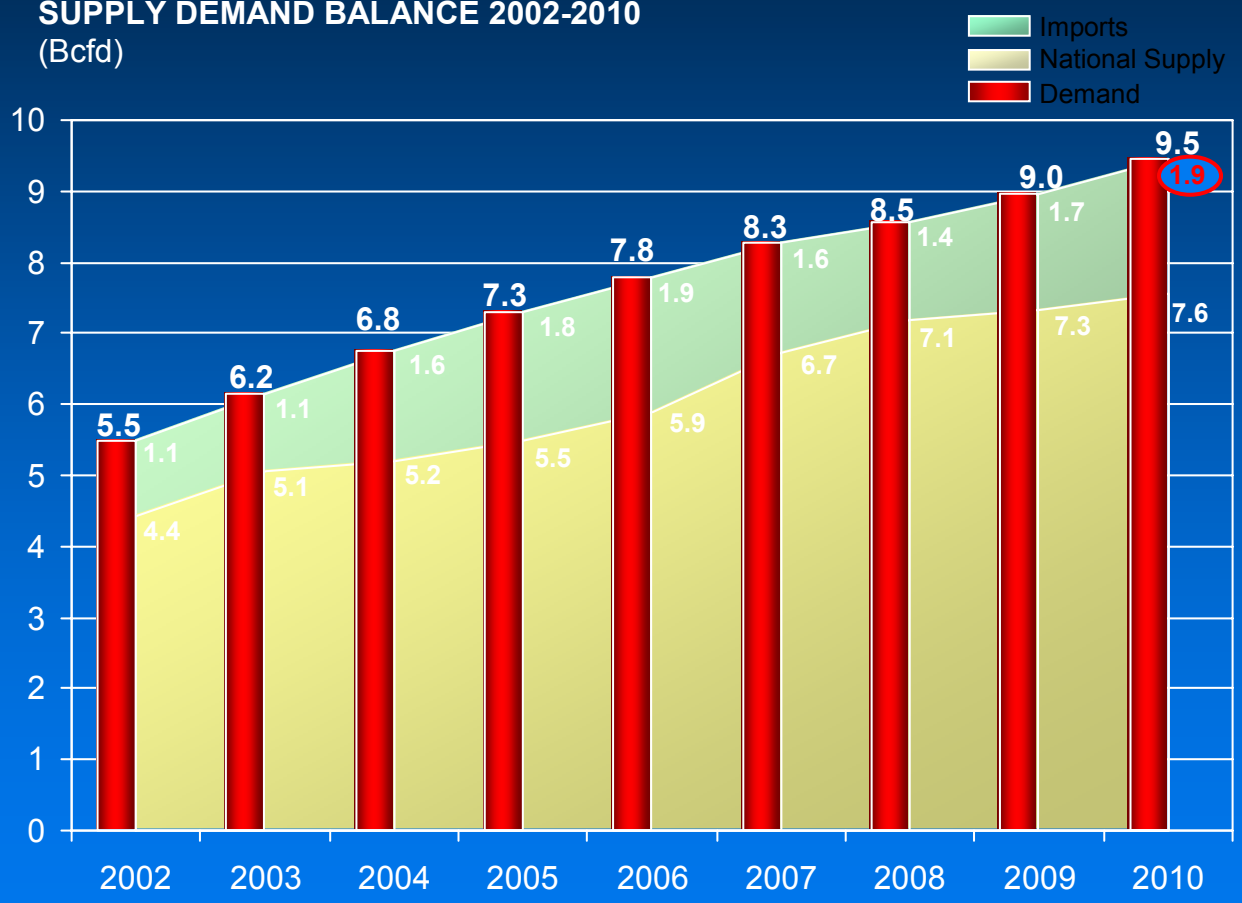


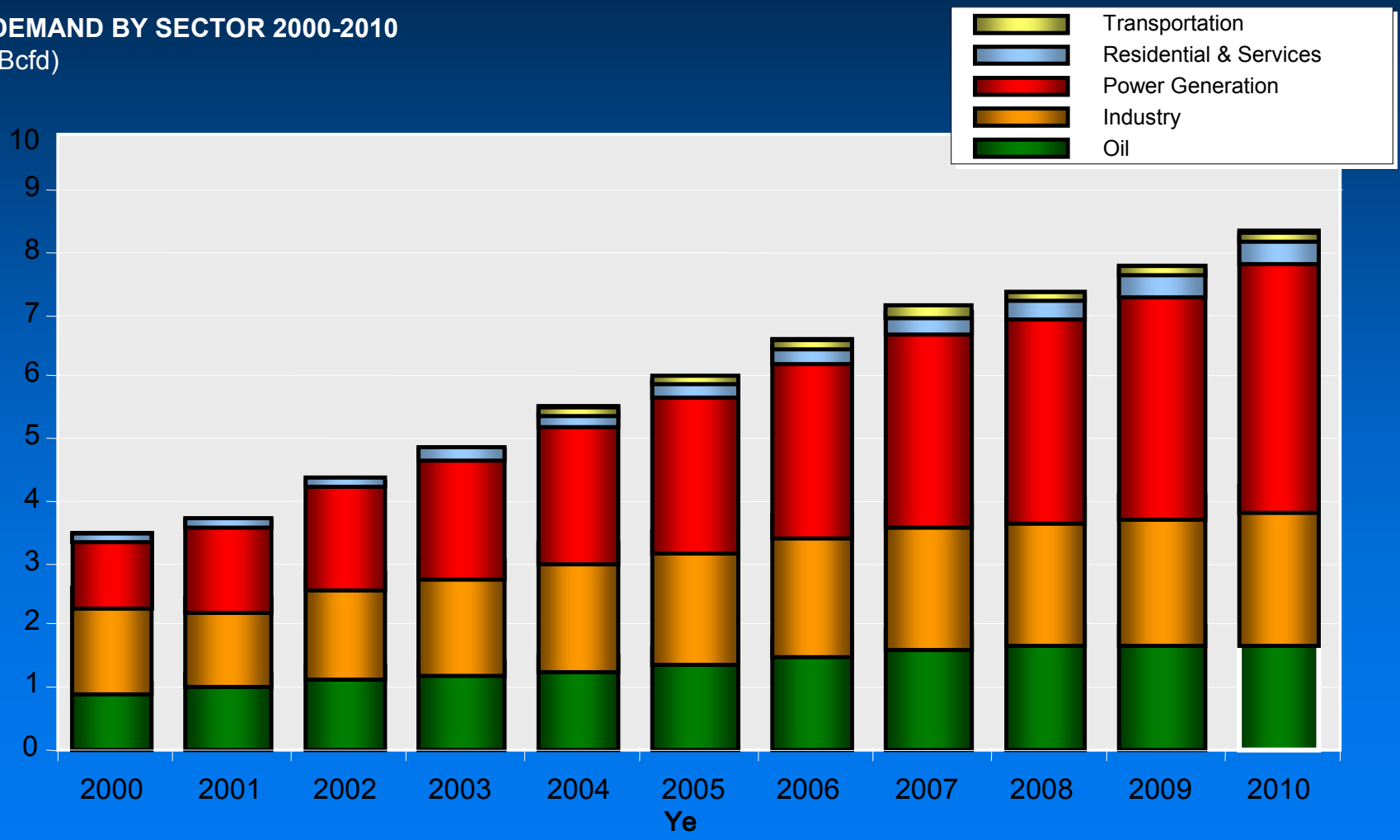
- By 2010 imports in the amount of 1.9 Bcfd will be required
- While supply will have a CAGR of 6.3% from 2002 to 2010,demand will increase at a CAGR of 8.1% during the same period.
- Imported gas is currently used to satisfy demand.

Source: Prospectiva del Mercado de Gas Natural 2001-2010, Secretaria de Energia, Mexico. Expergo analysis

Demand Growth by Market Segment

Th gro th n th nat ral gas ark t s n gr at art to th c rr nt an for cast ncr as of n co n c cl gas f r o r lants thro gho t th co ntr

DEMAND BY SECTOR 2000-2010
(Bcfd)



Source: Prospectiva del Mercado de Gas Natural 2001-2010, Secretaria de Energia, Mexico. Expergo analysis

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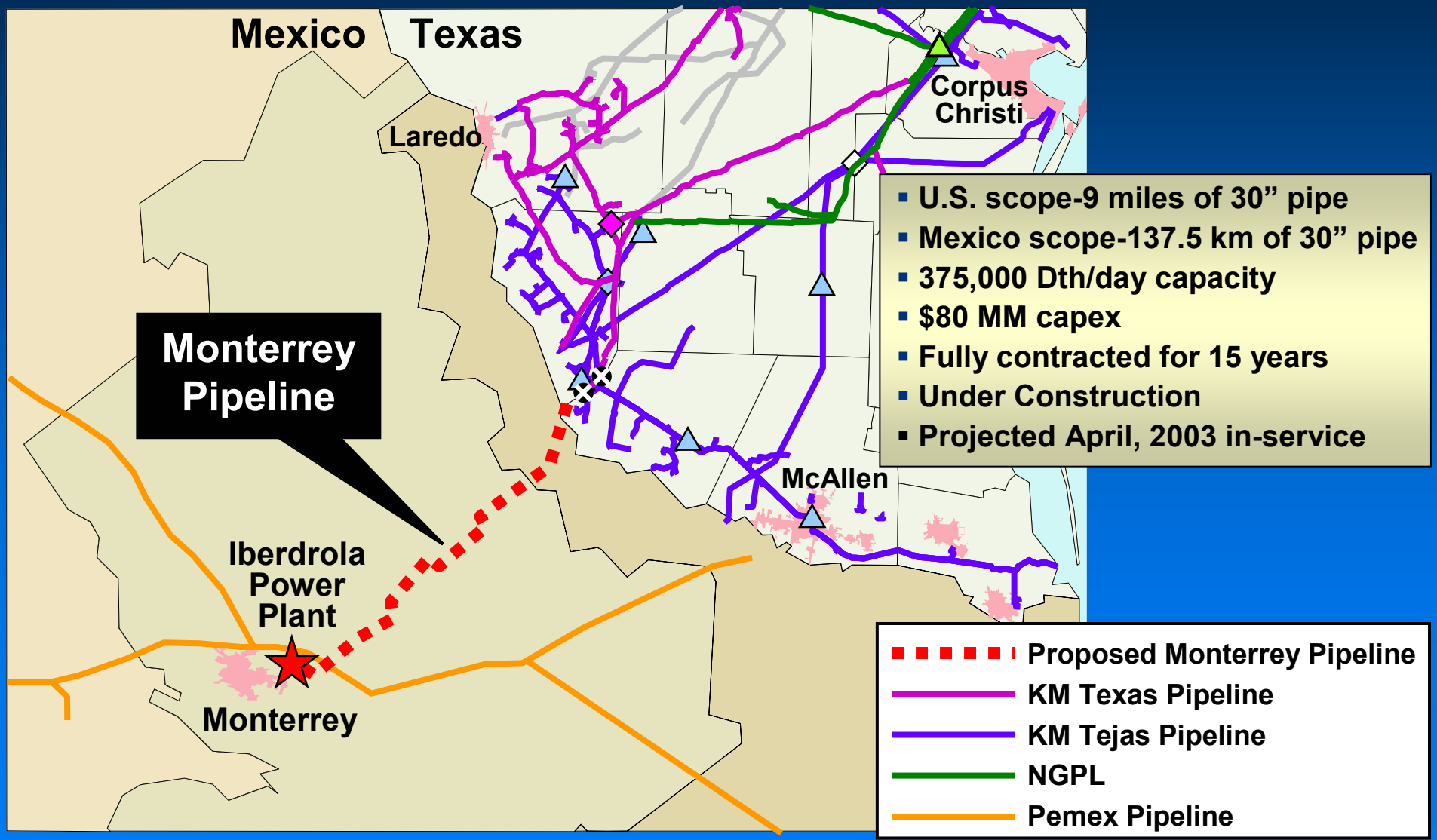
Monterrey Pipeline



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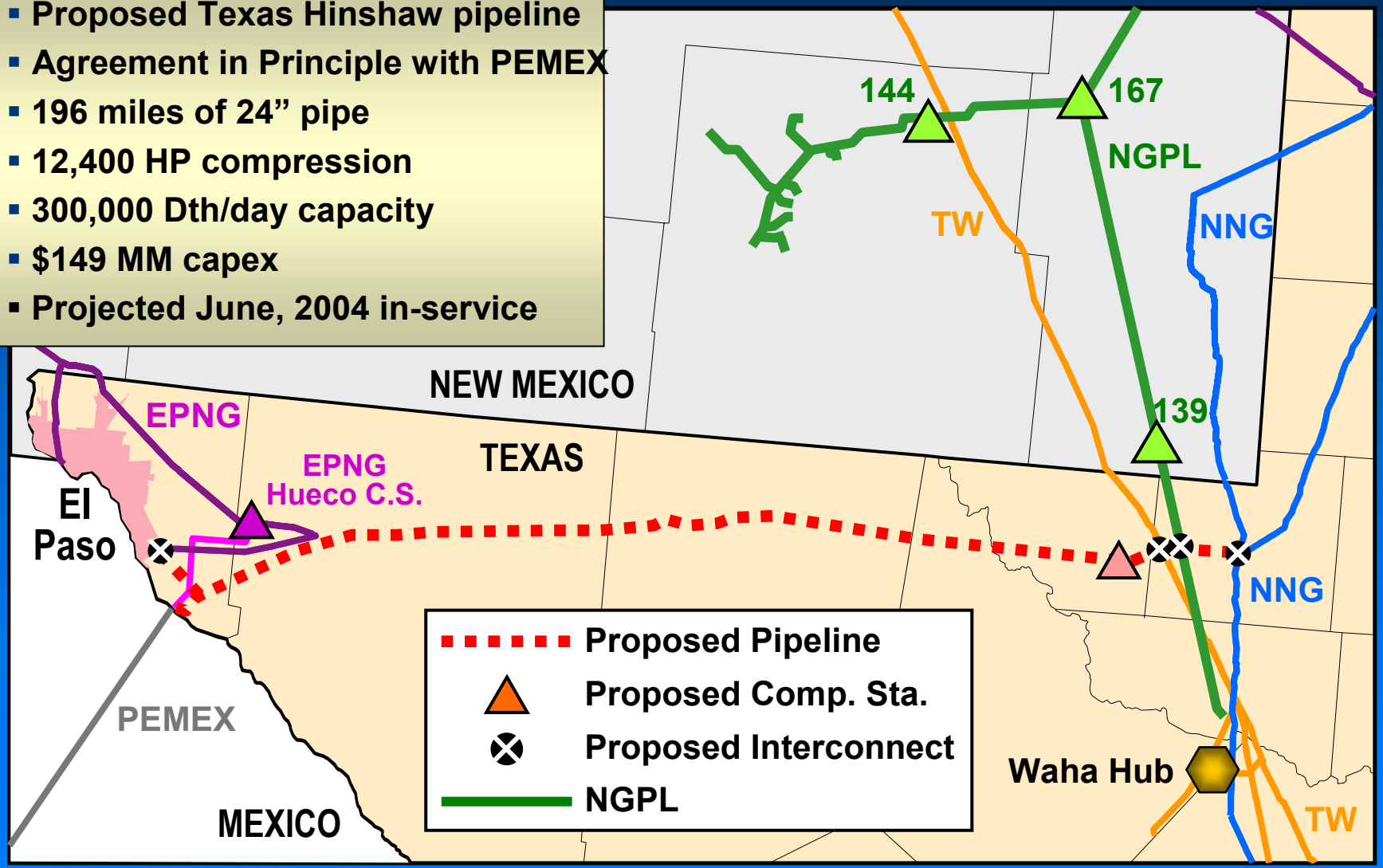
Proposed West Texas Pipeline

- Proposed Texas Hinshaw pipeline
- Agreement in Principle with PEMEX
- 196 miles of 24” pipe
- 12,400 HP compression
- 300,000 Dth/day capacity
- $149 MM capex
- Projected June, 2004 in-service



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Rocky Mountain/Southwest

- Trailblazer Expansion – Completed
- Trailblazer Expansion – Proposed
- CMC Storage Expansion
- Advantage
- Wheatland
- TransColorado
- Silver Canyon

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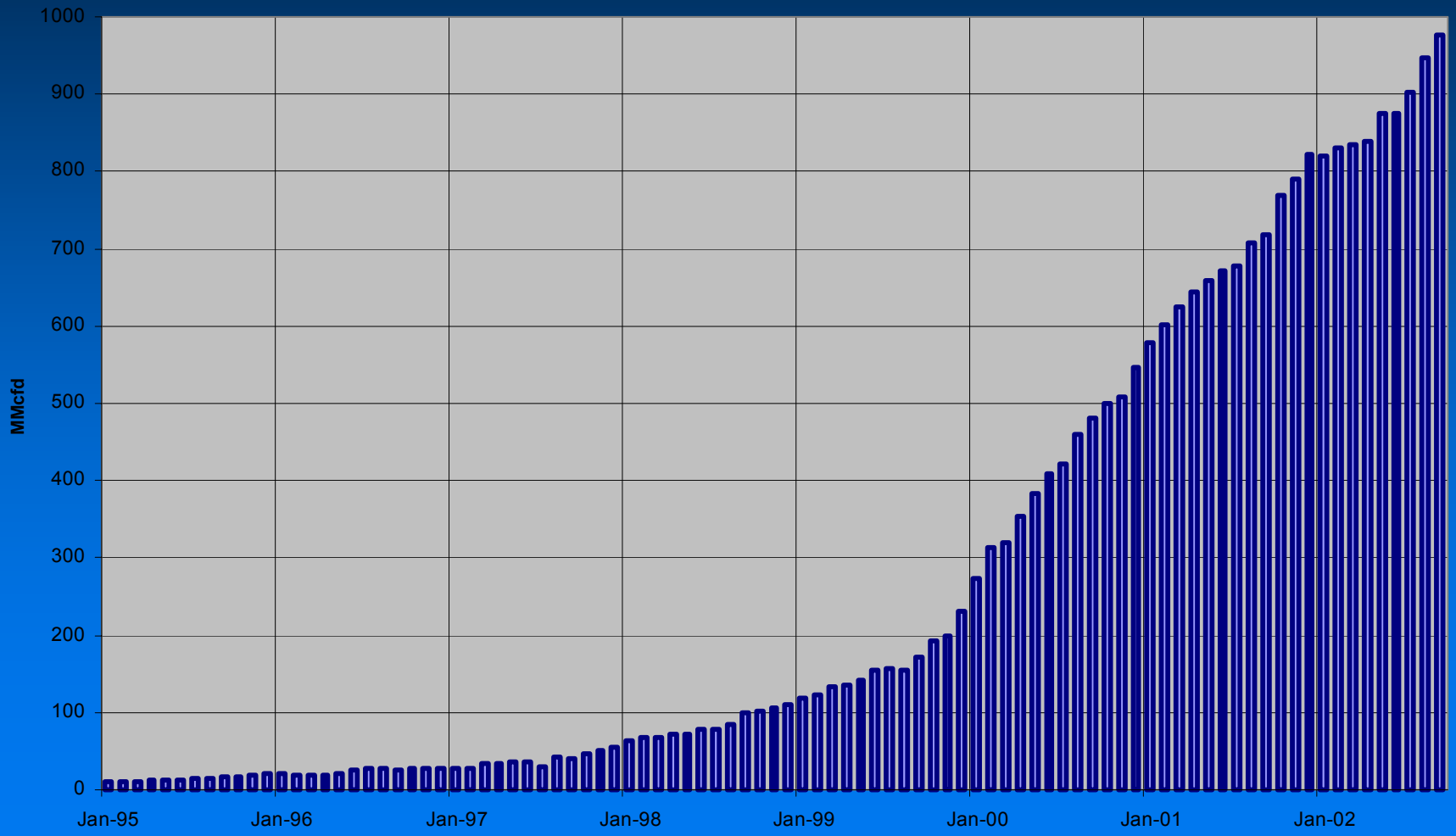
Powder River Basin Coal Bed Methane

MMcfd: Total Reserves estimated at 25 Tcf -- >70 years of production at current rates



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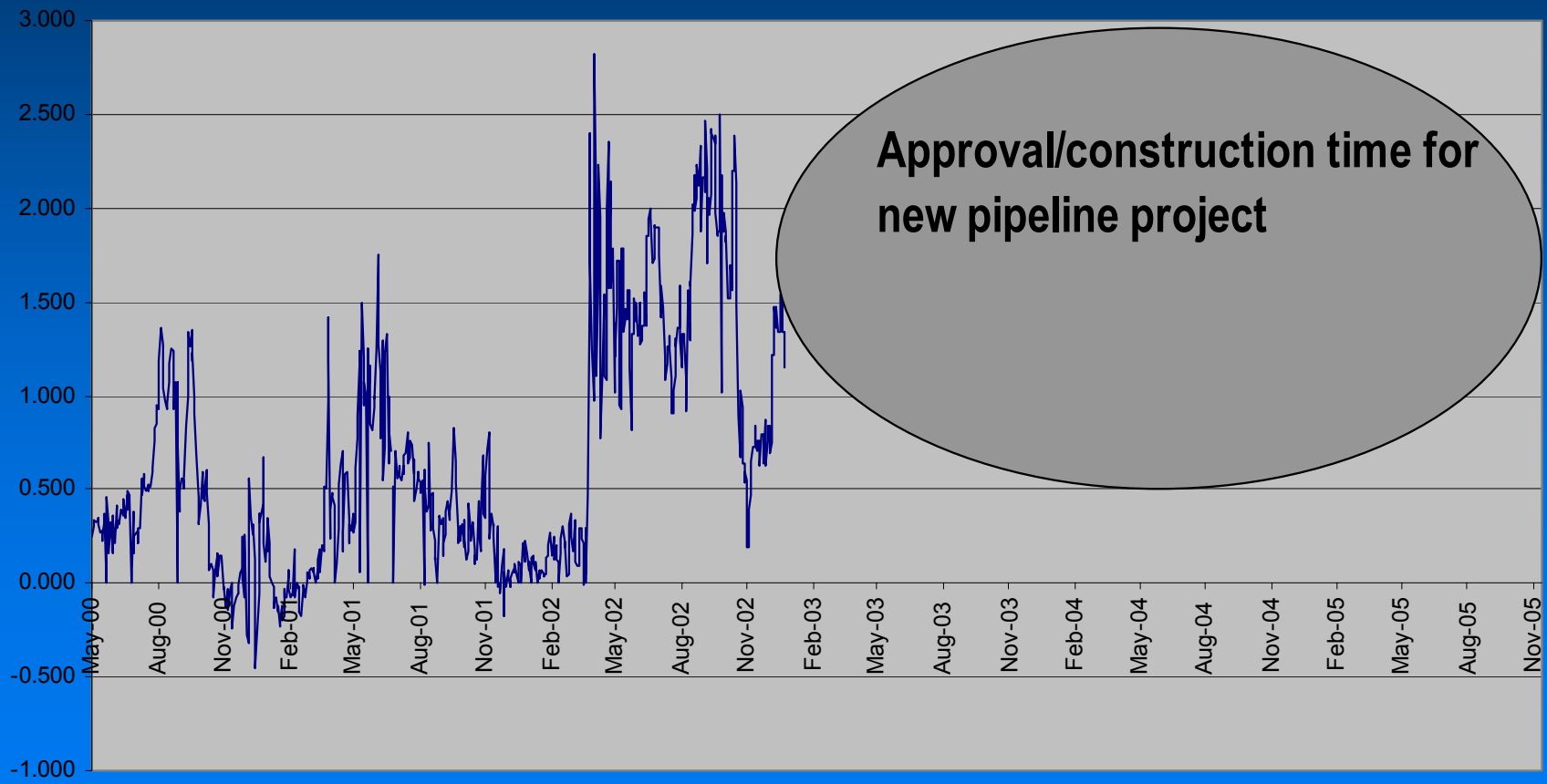
Cheyenne to NGPL Basis

Since Inception of Cheyenne Posting



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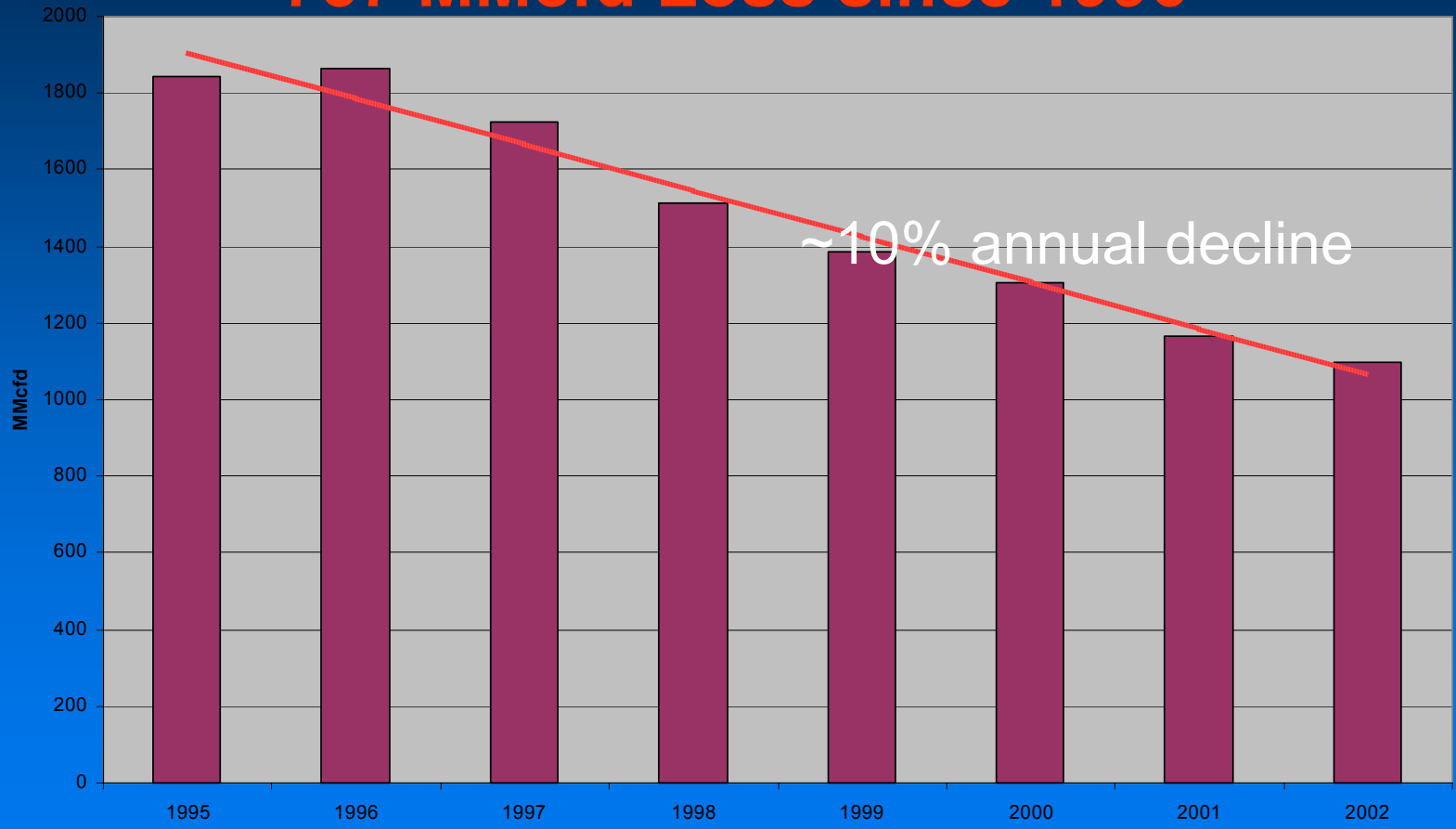
Kansas Hugoton Production Declining

757 MMcfd Loss since 1996



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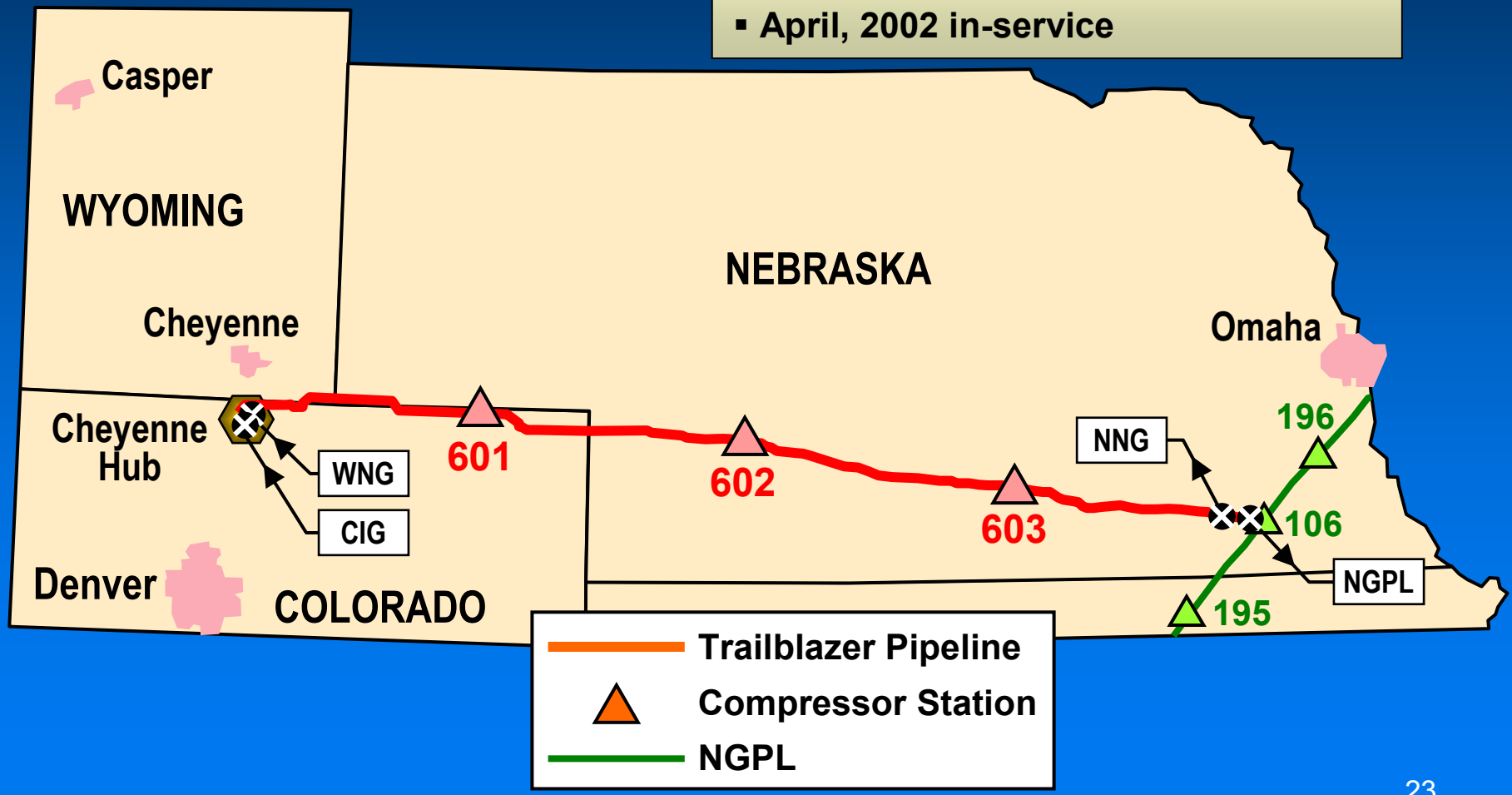
Trailblazer Pipeline

- 50,000 HP compression at 3 stations
- 324,000 Dth/day capacity
- $50 MM capex
- 10 year average contract life
- April, 2002 in-service



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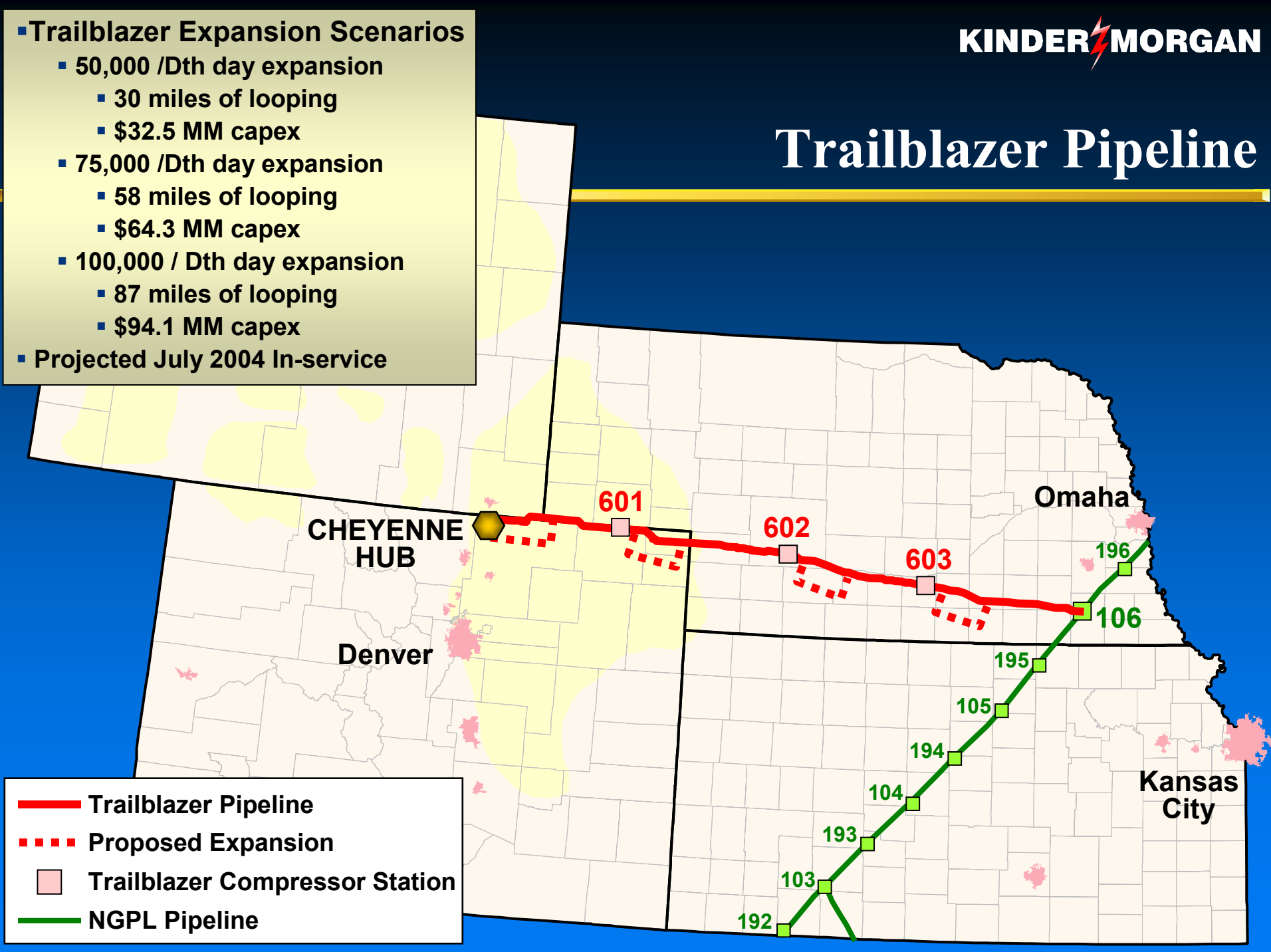
Trailblazer Pipeline

- Trailblazer Expansion Scenarios
  - 50,000 /Dth day expansion
    - 30 miles of looping
    - $32.5 MM capex
  - 75,000 /Dth day expansion
    - 58 miles of looping
    - $64.3 MM capex
  - 100,000 / Dth day expansion
    - 87 miles of looping
    - $94.1 MM capex
- Projected July 2004 In-service



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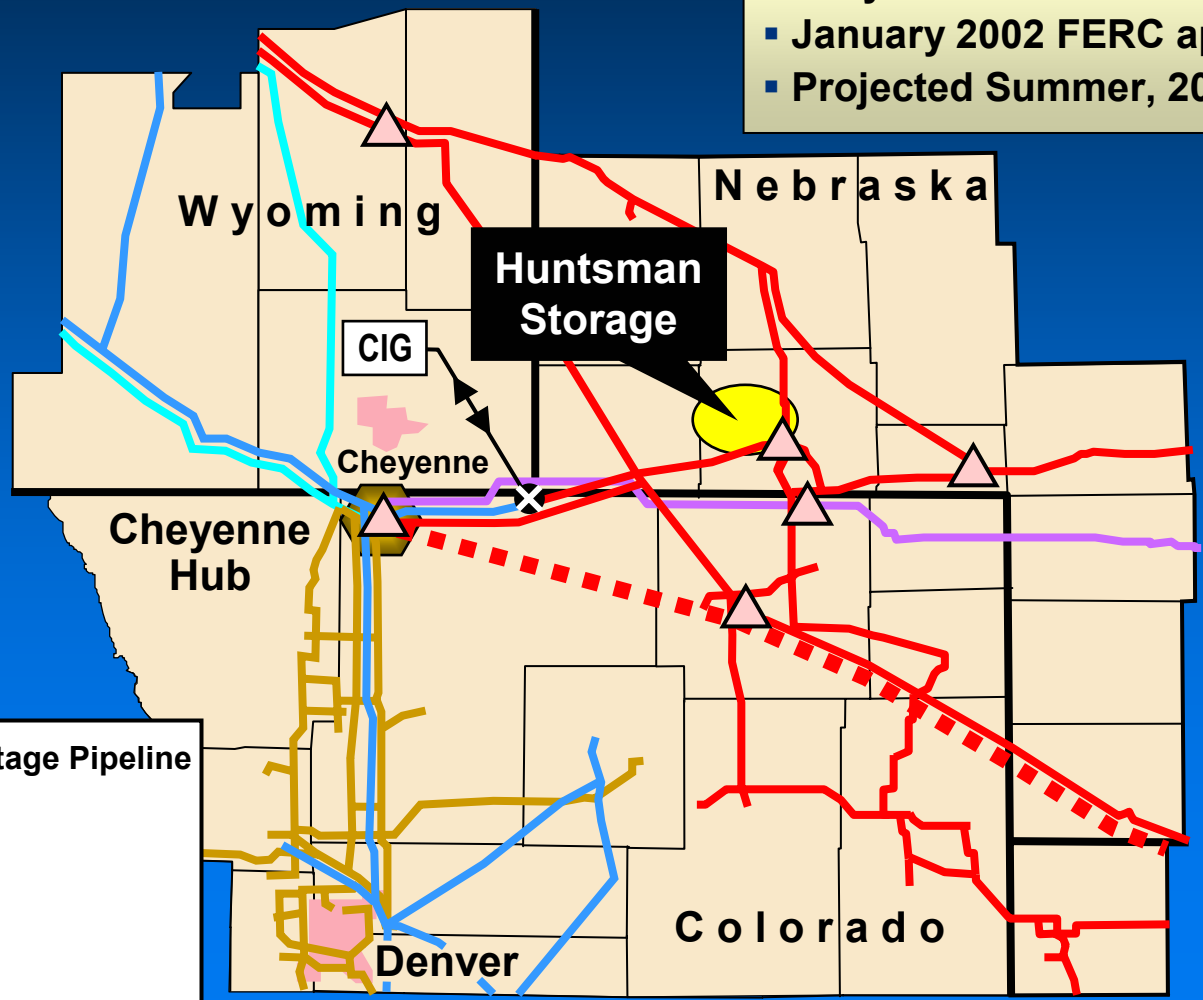
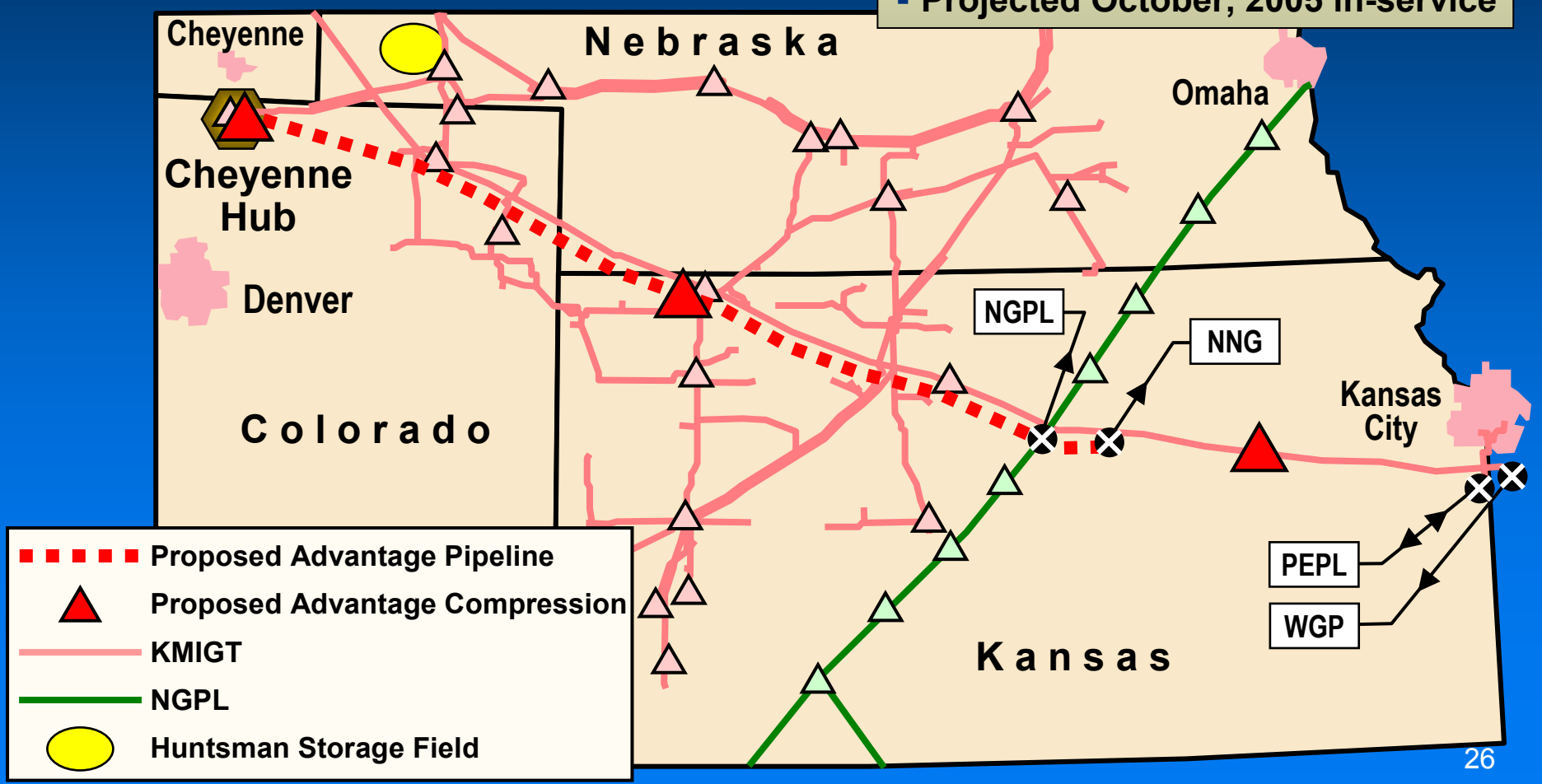
Cheyenne Market Center

- 11,300 HP compression
- 10 new wells
- 6.0 Bcf additional capacity
- $28.4 MM capex
- Fully contracted for 10 years
- January 2002 FERC application
- Projected Summer, 2004 in-service



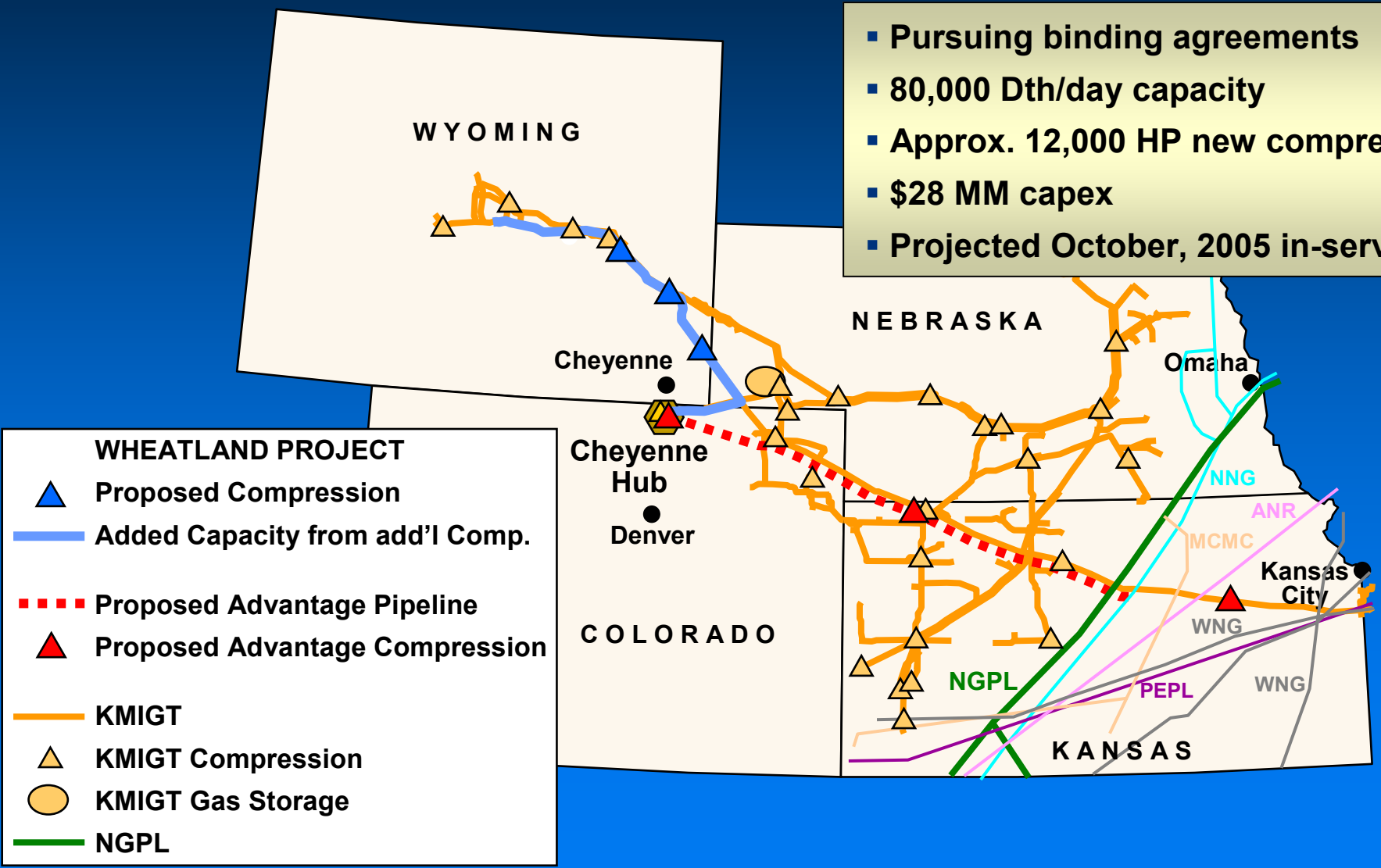
KMIGT's Proposed Advantage Pipeline

- Pursuing binding agreements
- 411 miles of 24" pipe
- 26,700 HP compression
- 330,000 Dth/day capacity
- $287 MM capex
- Projected October, 2005 in-service



KMIGT's Proposed Wheatland Expansion Project

- Pursuing binding agreements
- 80,000 Dth/day capacity
- Approx. 12,000 HP new compression
- $28 MM capex
- Projected October, 2005 in-service



TransColorado-Silver Canyon

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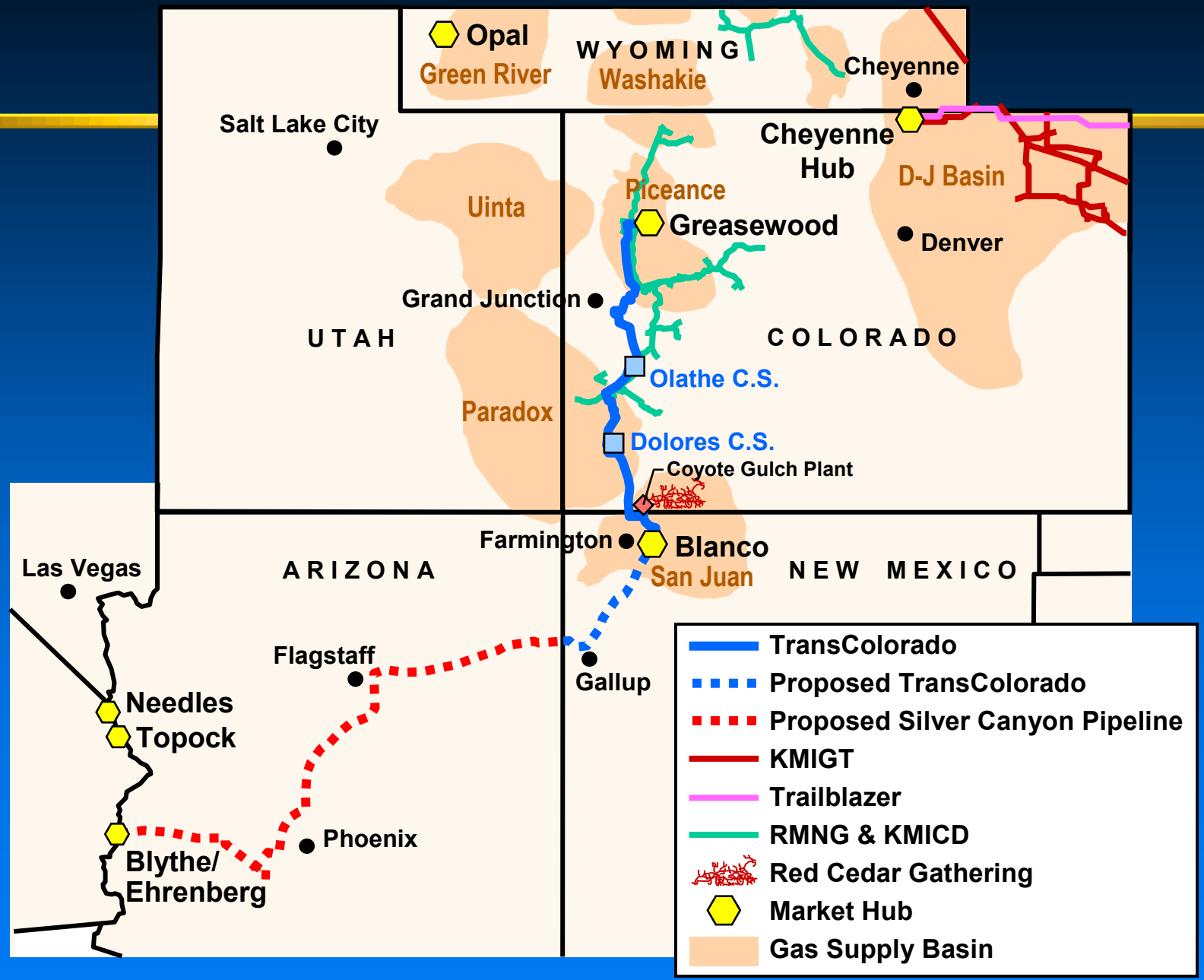

TransColorado/Silver Canyon Strategy

TransColorado Options:

- 150 MMcf/d incremental long-haul capability from mainline compression additions
- Potential extensions to supply sources
- Potential mainline looping for additional long-haul capability
- Potential 750 MMcf/d extension from Blanco to Gallup/Window Rock to relieve San Juan Triangle constraints
- Staggered in-service dates to meet development profiles

TransColorado/Silver Canyon Strategy

Silver Canyon Options:

- 750 MMCf/d capacity from Gallup/Window Rock
- Delivery options in New Mexico, Phoenix area, Blythe/Ehrenberg into SoCal Gas and North Baja
- Potential interconnects with proposed storage developments: Desert Crossing and Copper Eagle in Arizona and SoCal Gas in California

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TransColorado/Silver Canyon Strategy

Benefits:

- Outlet for Rocky Mountain production
- Relieves San Juan Triangle constraints
- Develops Gallup/Window Rock as hub interconnecting to Silver Canyon, Transwestern and El Paso Natural Gas – with downstream optionality on moving gas east or west
- Meets the needs of Arizona/New Mexico/California markets left short in the allocation of El Paso system capacity
- Connects Rocky Mountain/San Juan supply to the North Baja Pipeline to meet Mexico's import needs
- Competitively priced transport with significantly lower fuel rates than alternatives
- Flexible contract terms

TransColorado/Silver Canyon Strategy

Estimated Capex:

- TransColorado - up to $250 million
- Silver Canyon - up to $740 million

Potential in-service dates:

- From 2nd quarter 2004 to 2nd quarter 2006 depending on customer needs

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Success to Date

- Internal Growth Projects at Kinder Morgan both at KMI and KMP
  - $238.2 million completed in 2002, 5 projects*
  - $293.6 million contracted/in process, 4 projects
  - 5 additional projects proposed/open season
- Existing asset base provides platform for growth
- Expansions and new projects supported by long-term, firm contracts with fixed, negotiated rates

*Includes 100% of Horizon Capex

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Overall Gas Pipeline Update

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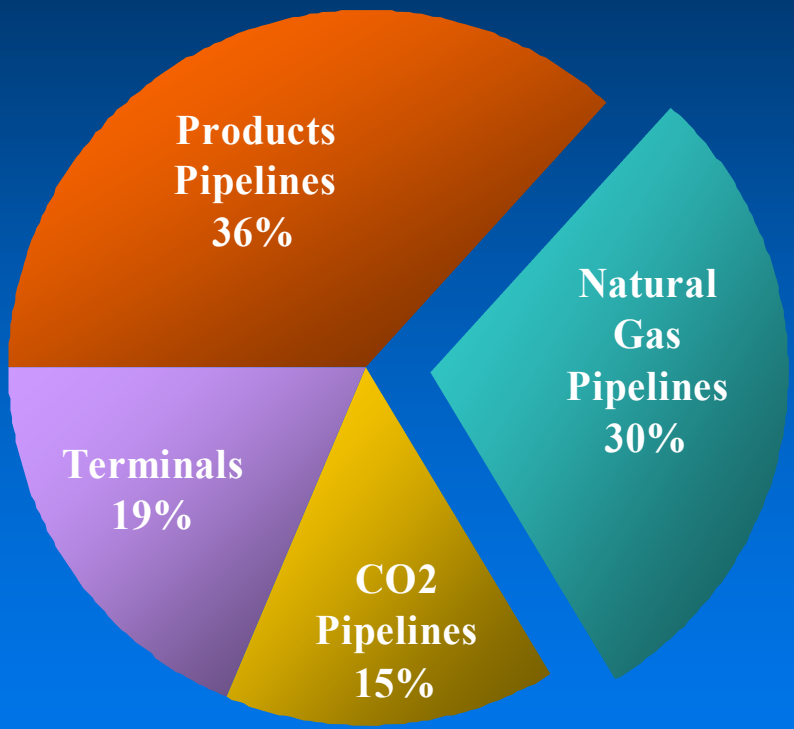
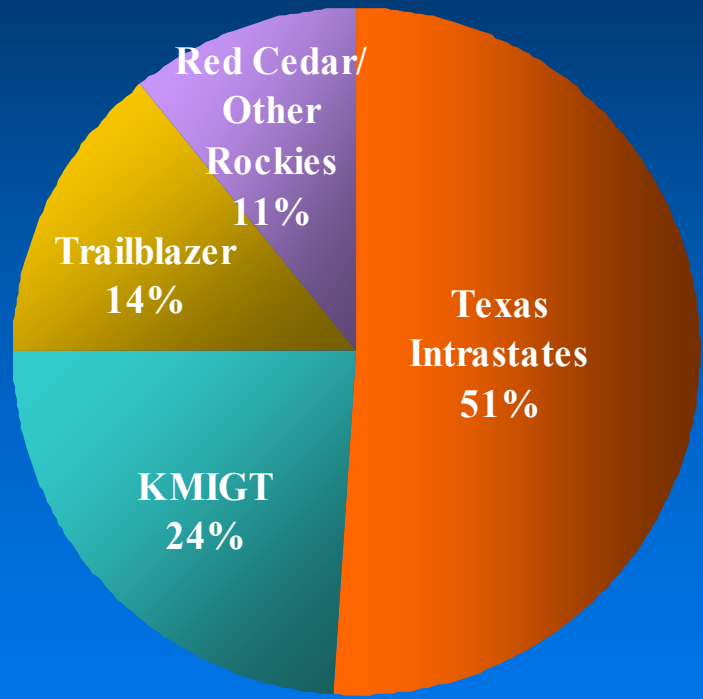
KMP Natural Gas Pipelines Segment Overview (a)





(a) 2003 budgeted distributable cash flow before allocation of G&A and interest

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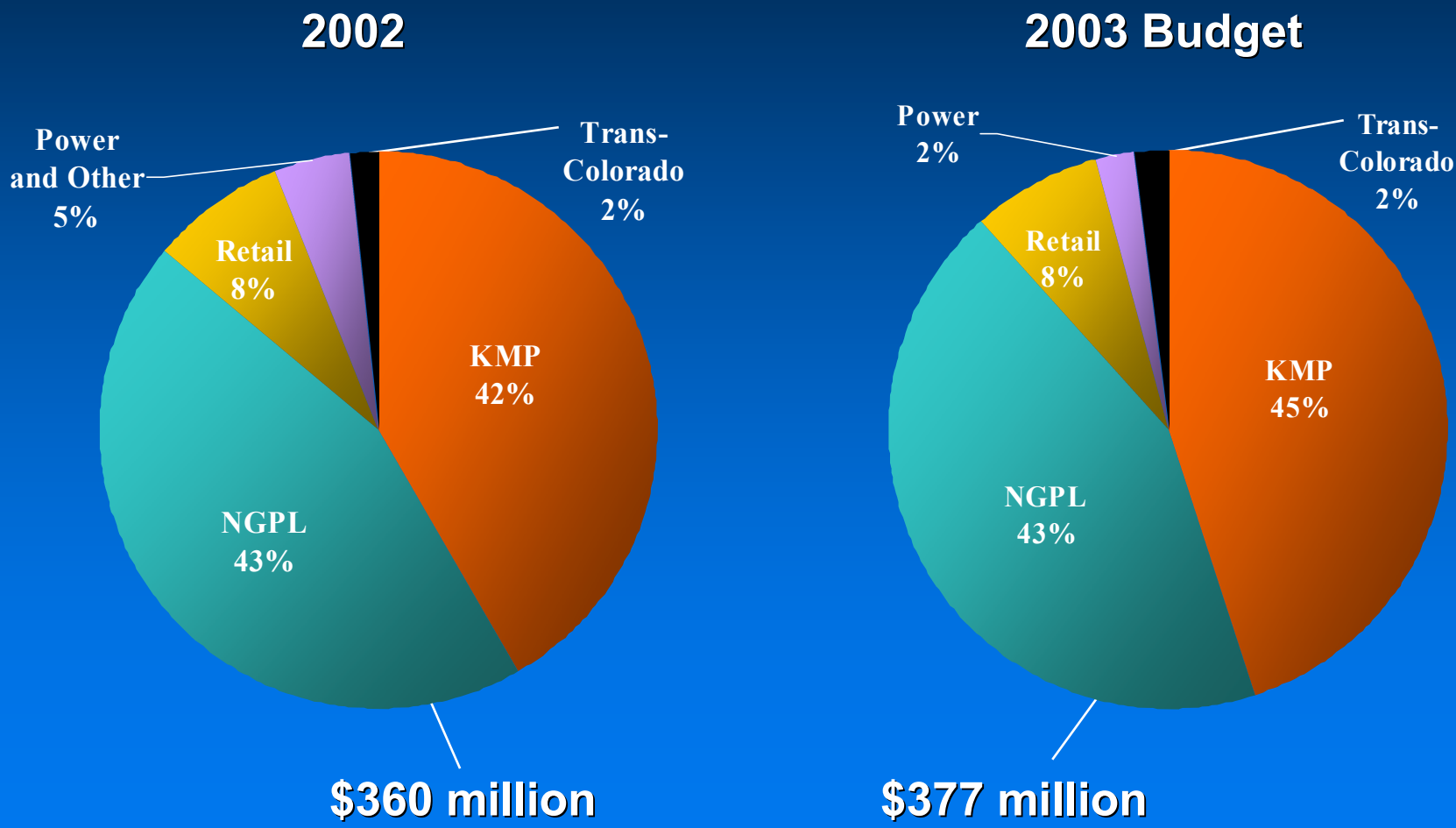
KMP Pipelines' Trend

	'01 Actuals	'02 Budget	'02 Actuals	'03 Budget
Income before DD&A	$227 MM	$347 MM	$325 MM	$365 MM

- Growth from '01 to '02
  - Tejas acquisition
  - Trailblazer expansion/acquisition of Enron/CIG interests
- Deficit from '02 budget of $22 MM
  - KMTP's conversion to fee-based storage program
    - Limits downside risk and earnings variability
    - Limits upside in rising gas price environment
  - Tejas' failure to capture projected commercial upsides
    - Caused by credit crunch in merchant energy sector
- '03 Budget
  - Full year of Tejas
  - Includes commercial upside on Tejas from BP transaction
  - Offset by $10.3 MM increased sustaining capex related to new integrity regulations

NGPL Impact on KMI Earnings



(a) 2002 results and 2003 budgeted segment earnings before allocation of G&A and interest expense. KMP includes: (i) general partner interest, (ii) earnings from 18 million KMP units and (iii) earnings from 14 million KMR units.

Pipeline Update

- KMIGT
  - Stable earnings base
  - Long-term contracts (average 7(transport) to 8 (storage) years)
  - Existing assets subject to limited competition
  - Increase in Rocky Mountain production will drive growth

- Trailblazer
  - Stable earnings base
  - Long-term contracts (average 8 years)
  - Increase in Rocky Mountain production will drive growth

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Pipeline Update

- Horizon
  - Stable earnings base
  - Long-term contracts (average 9 years)
  - Platform for expansion to serve power generation growth in Northern Illinois, Indiana, and Wisconsin

- TransColorado
  - Extraordinary earnings growth from 2001 to 2002
  - Substantial increase in production adjacent to pipeline
  - Increased North End (Phase II) throughput to current average of 280 dt/d
  - Expansion/extension opportunities to be explored
  - Expansion would include terming up existing contracts
  - Current average term of 3 years

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NGPL Update

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Rollover Negotiations Completed

- NICOR
  - 997,000 dt/d FTS
  - 24.4 Bcf DSS
  - 16.4 Bcf NSS
  - Rolled for 3-year term
  - Sold incremental 84,500 dt/d FTS Dec. '02 – Feb. –'03
- NIPSCO
  - 255,100 peak/138,000 off-peak dt/d long-haul FTS
  - 10.5 Bcf DSS
  - 80,000 dt/d market-area FTS
  - 40,000 dt/d Louisiana FTS
  - Rolled entire portfolio for 3.3 year term
  - Sold 25,000 dt/d incremental long-haul FTS for same term
- MidAmerican
  - 115,000 peak/85,000 off-peak dt/d FTS
  - 10 Bcf DSS
  - Rolled for 2 years

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Rollover Negotiations Completed

- Peoples
  - 19.2 BCF NSS; Rolled for 3 years
  - 175,000 peak/29,000 off-peak dt/d market area (short-haul) FTS
  - Rolled for 3-year term and extended 65,000/d peak/29,000/d off-peak dt/d to long-haul FTS at higher rate
- Wisconsin Electric
  - 71,000 dt/d long-haul FTS rolled to 3/31/04
  - 33,133 dt/d annual FTS converted to winter-only
  - 10,000 dt/d market area FTS rolled for one-year term
  - 1.2 BCF DSS rolled for one year term
  - Acquired 2.25 Bcf incremental NSS capacity for 5 year term [volume ratchets down over term]
- Aggregate annual revenue associated with LDC rollover excluding upside sharing on index-based FTS:
  - $151.0 MM

NGPL FTS Capacity Summary (Volumes in TBtu/d)

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	Long Haul	Louisiana and Crosshaul	Total
Contract MDQ Expiring in 2003	**2.01**	**.63**	**2.64**
Re-contracted	**1.29**	**.46**	**1.76**
Remaining Capacity	**.72**	**.17**	**.90**

Renegotiation of NSS
Summary for 2003

Available Capacity

- 88.6 TBtu expiring /available in 2003

Sold

- 64.2 TBtu sold
- Average term = 3.34 years (23 month to 5 year contracts)
- Average rate = $.4750 (max rate = $.4912)

Remaining

- 24.4 TBtu expiring in March - April

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Renegotiation of DSS
Summary for 2003

Available Capacity

- 21.73 TBtu expiring in 2003

Sold

- 21.68 TBtu sold
- Average Term = 2.43 years
- Average Rate = $1.248 (max rate = $1.368)

Remaining

- 0.05 TBtu expiring in the fall

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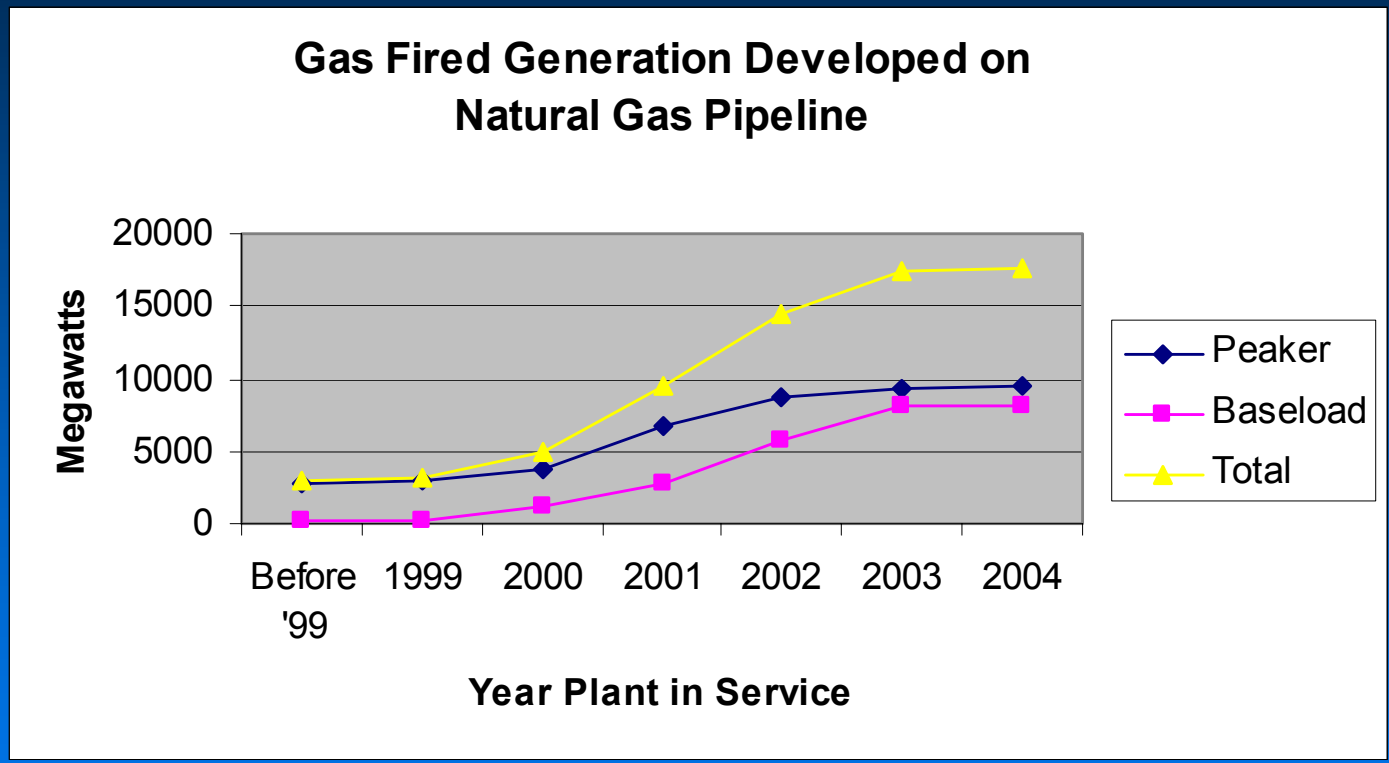
Natural's Gas Fired Power Generation Market

Megawatts under construction for in-service thru 2004…



	Before '99	1999	2000	2001	2002	2003	2004		Total
Peaker	2,700	300	700	3,029	1,915	585	300	=	9,529
Baseload	225	0	1,000	1,612	2,995	2,320	0	=	8,152
Total	2,925	300	1,700	4,641	4,910	2,905	300	=	17,681
# of Plants	2	1	4	10	8	4	1	=	31

Numbers include both plants directly and indirectly connected to NGPL

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Texas Intrastate Pipeline Group Update

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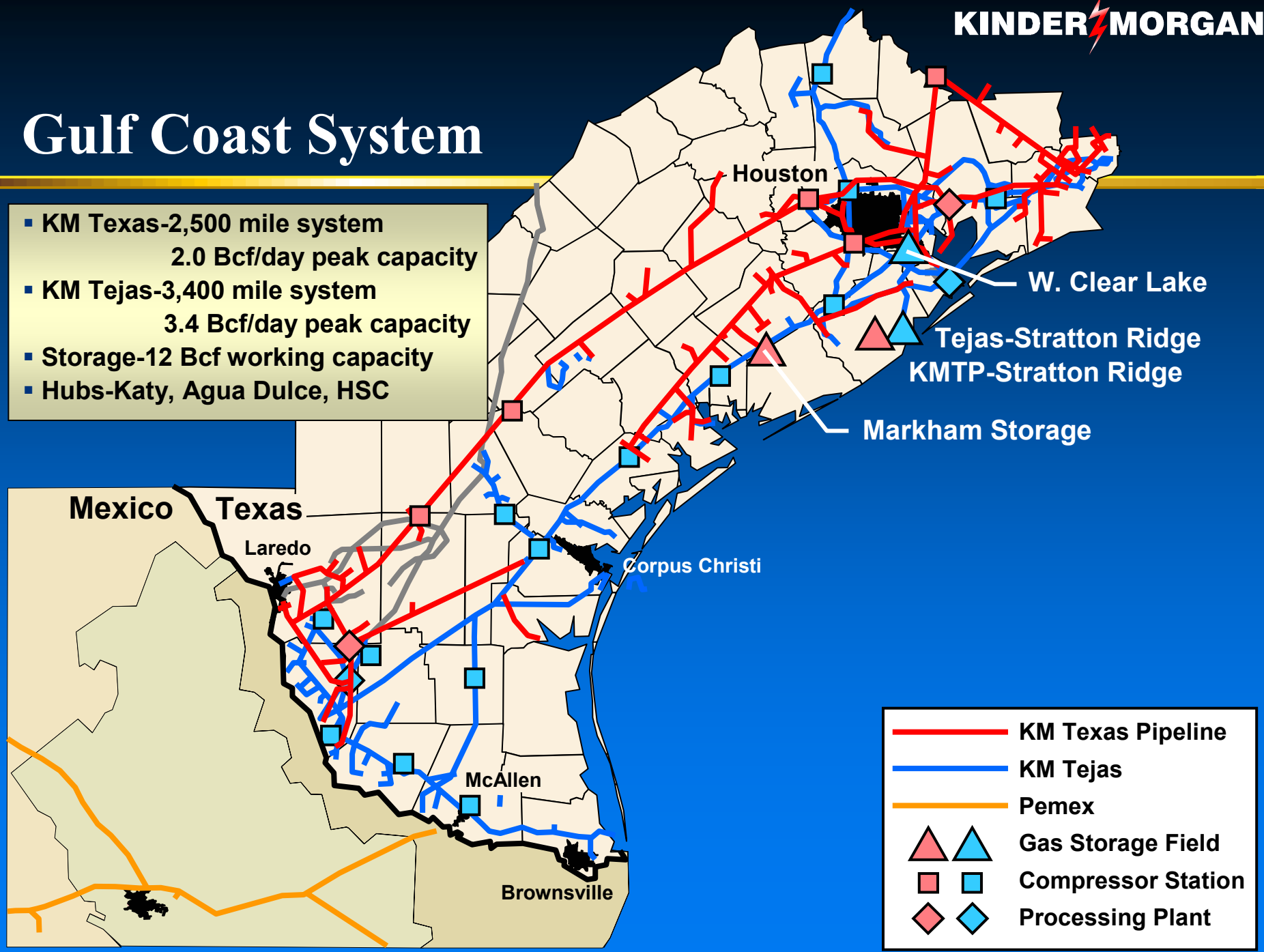
Gulf Coast System

- KM Texas-2,500 mile system
  2.0 Bcf/day peak capacity
- KM Tejas-3,400 mile system
  3.4 Bcf/day peak capacity
- Storage-12 Bcf working capacity
- Hubs-Katy, Agua Dulce, HSC



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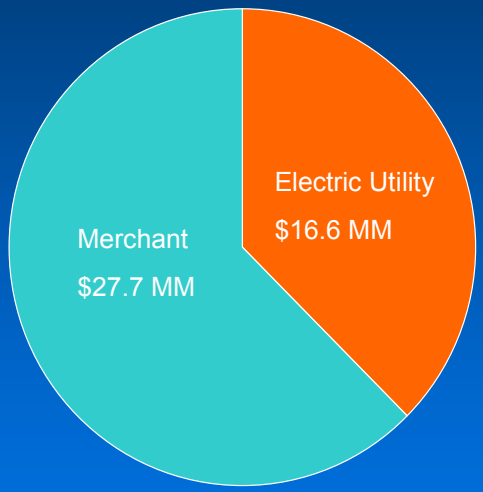
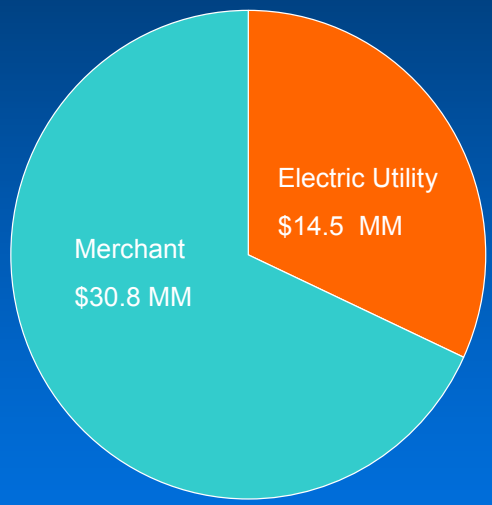
Strategy – Texas Intrastate Group

- Integration of Tejas and KMTP
  - Physical interconnects
  - Commercial integration
- Minimize commodity and basis risk
  - Includes conversion to fee-based storage program
- Increase operational efficiencies
  - Fuel efficiency
  - Gas loss and unaccounted for
- Targeted market expansion opportunities
- Aggressive supply acquisition program

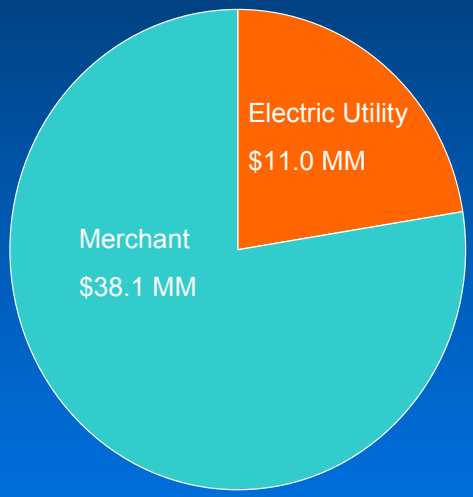
Electric Generation – Texas Intrastate Group



2001: $44.3 MM



2002 est: $45.3 MM



2003 est: $49.1 MM

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Contracting Success – Texas Intrastate Group

- BP
  - Firm Transportation and Storage
    - Term: September 1, 2002 to March 31, 2006 and year to year thereafter unless terminated with 2 years' notice
    - Transport Volumes: 600,000/d ramping up to 1 Bcf/d in '03
    - Sales Volume: 50% of transport volume
    - Storage Volume: 5.4 Bcf ramping up to 19 Bcf in '03
- Coral Power
  - Sales:
    - Term: 3 years beginning July 1, 2002
    - Sales Volume: 18.5 bcf/year minimum delivered to the Tenaska Gateway plant in Rusk County, Texas
- Southern Union
  - Firm purchase obligation of 27.375 Bcf over 5-year term, July 1, 2002 to June 30, 2007. Minimum of 20,000/d and maximum of 50,000/d
  - 4 Bcf of winter/summer service for 5 years

Contracting Success – Texas Intrastate Group

- CPS at San Antonio
  - Combined firm transport/sales obligation of 50,000/d for 2-year term, July 1, 2002 to June 30, 2004
- Praxair, Inc. – Sales contract
  - Texas City Facility
    - 100% requirements contract; 15 year term beginning 1st quarter of 2004
    - Initial volumes of 40,000/d increasing to a maximum of 72,000/d starting July 2007
  - Port Arthur Facility
    - 15,000/d for 5 years beginning 2nd Quarter of 2004
- In excess of 400,000 MMBtu/d of expiring or evergreen gas purchase contracts have been extended and in excess of 250,000 MMBtu/d of incremental supply was connected to KMTP/Tejas in 2002

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Regulatory Developments

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Regulatory Developments

- Order No. 637
  - —Almost a non-event for KM pipelines
- Tighter Creditworthiness Provisions
  - —NGPL's "test case" pending
- Review of Negotiated Rate Policy

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Regulatory Developments

- Rate Case Filing Requirements

  NGPL
  - No filing requirement
  - Any change under NGA 5 prospective

  KMIGT
  - No filing requirement
  - Cost and revenue study in 2004
  - Any change prospective

  TransColorado
  - No filing requirement
  - Any change prospective

Regulatory Developments

Horizon Pipeline

- Three-year filing requirement
- Section 4 filing due mid-2005
- Existing agreements are negotiated rate deals Rate Case Filing Requirements

Trailblazer

- Rate decrease filed November 29, 2002
- Rates effective January 1, 2003
- Hearing no later than October 2003 with initial decision by March 2004
- Expansion done under negotiated rates not impacted by change in recourse rate

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Pipeline Safety & Integrity Development

Pipeline Safety Improvement Act of 2002

- Applies to interstate pipelines regulated by DOT
- Baseline integrity assessments required in high consequence areas within 10 years
  - 50% of highest risk segments must be completed within 5 years
- Reassessment required every 7 years
- Estimated impact on sustaining capex
  - KMI - $10.1 MM increase from ’02 budget
  - KMP - $2.6 MM increase from ’02 budget

Texas Railroad Commission Integrity Regulations

- Baseline assessments – 50% mileage required by 12/31/2005; remainder by 12/31/2010 (all lines regardless of class location)
- Estimated impact on sustaining capex: $7.8 MM annual increase from ’02 budget