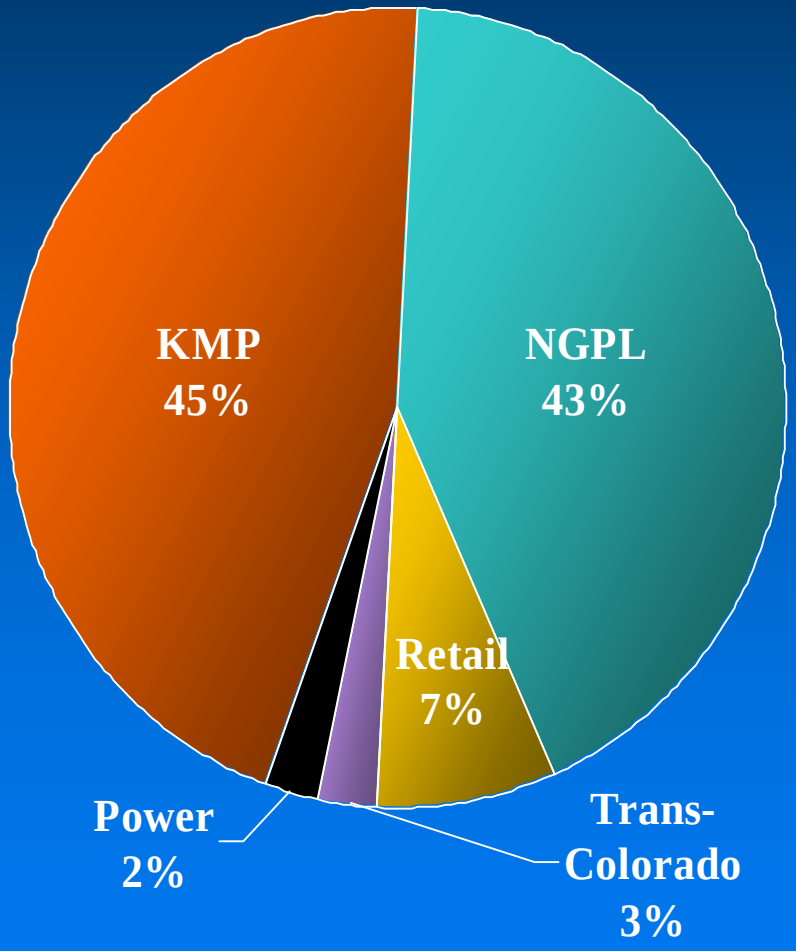
KINDER MORGAN

Natural Gas Pipelines

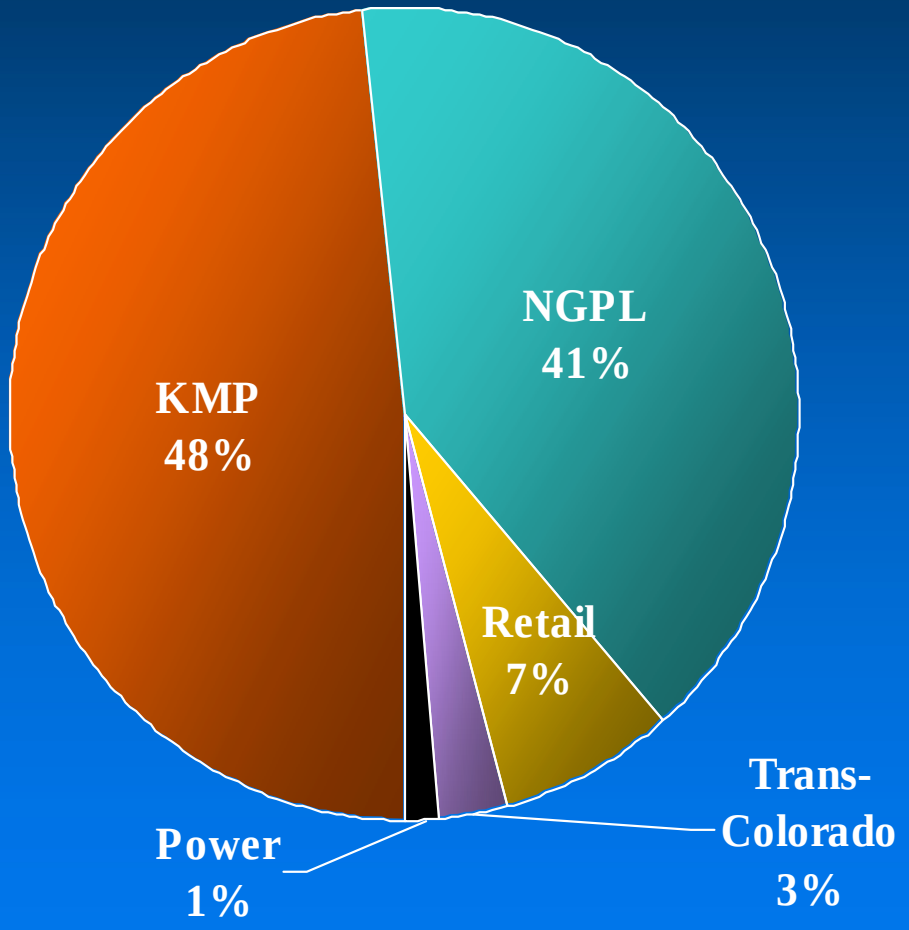
Deb Macdonald/Steve Kean

NGPL Impact on KMI Earnings

2003 Actual

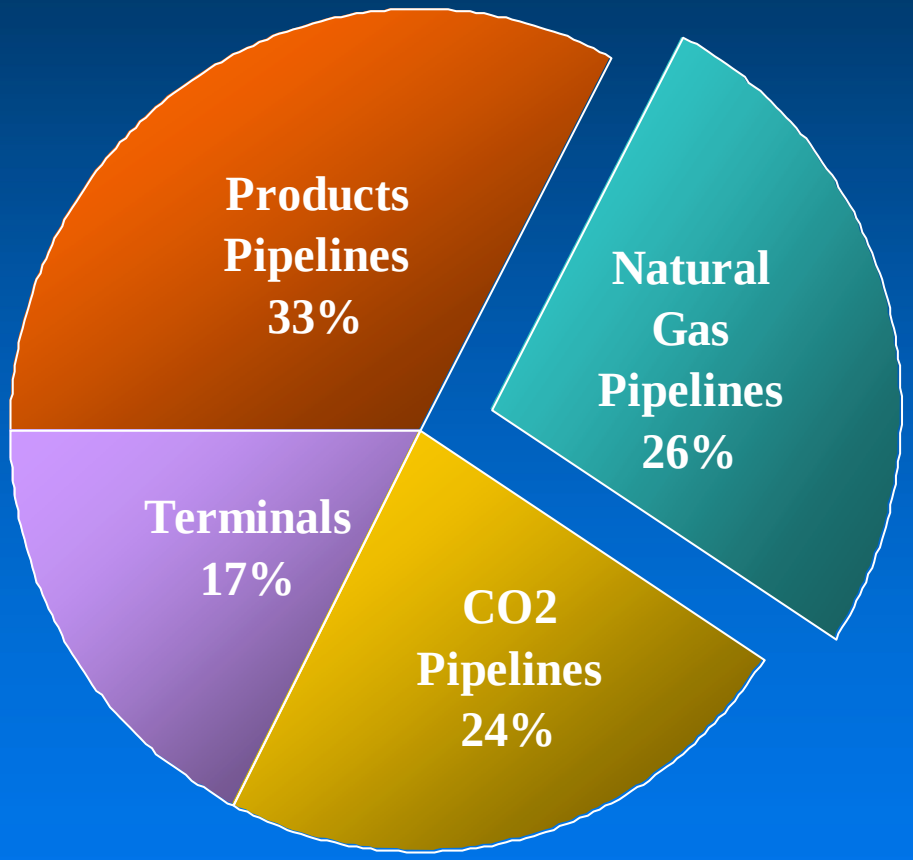


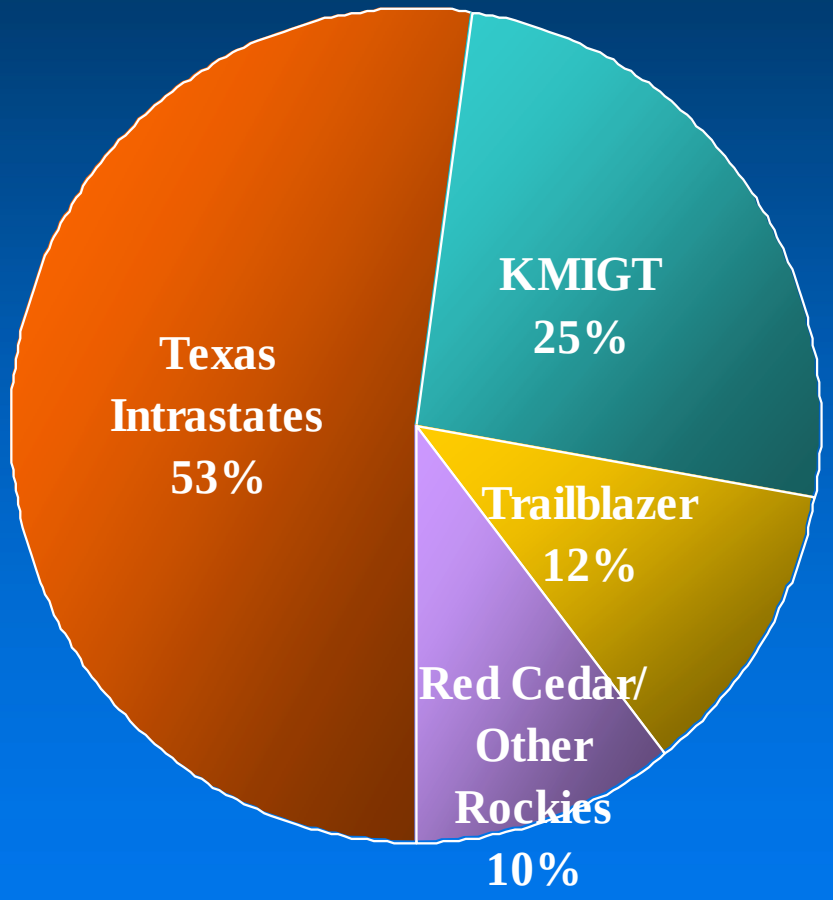
2004 Budget



(a) 2003 results and 2004 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 15 million KMR units.

KMP Natural Gas Pipelines (a)





(a) 2004 budgeted distributable cash flow before allocation of G&A and interest

KMP Natural Gas Pipelines' Trend

	'02 Actuals	'03 Actuals	'04 Budget
Income before DD&A	$325 MM	$373 MM	$383 MM
DCF	$311 MM	$346 MM	$349 MM

Growth from '02 to '03

- Full year of Tejas
- Full year of revenue from Trailblazer expansion
- Partial year revenues from North Texas and Monterrey pipelines

'04 Budget

- CMC revenues on KMIGT
- Trailblazer revenues down due to implementation of rate case settlement
- Full year of North Texas and Monterrey pipelines
- Includes partial year of Rancho Pipeline; full year of BP contract at full volume
- Offset by increased sustaining capex

KMP Texas Intrastates

	'02 Actuals	'03 Actuals	'04 Budget
Income before DD&A	$144 MM	$190 MM	$203 MM
DCF	$138 MM	$175 MM	185 MM

Growth from '02 to '03

- Full year of Tejas
- BP contract volume increase
- Monterrey and North Texas pipelines in service for partial year

KMTP/Tejas

Comparison to Acquisition Models:

	2003		2004	
	Model	Actual	Model	Actual
DCF	$152 mm	$156 mm	$156 MM	$162 mm

Sustaining Capital: Approach to Pipeline Integrity

- Ongoing process of risk ranking of the entire pipeline network
- PIRAMID software program
- Engineering, technical support and field operations management input
- Multi-year approach constantly adjusted, incorporating updated information.

Sustaining Capital: A Long-Term Viewpoint

- DOT Requirements: Pipeline Safety Act of 2002
  - Years 1-5: 50% of highest risk, Highest Consequences Area (HCA)
  - Years 6 - 10: Other 50% of HCA
  - Reassessment – every 7 years thereafter
- Texas Regulatory Requirements:
  - Years 1- 5: 50% of all pipeline network, highest risk
  - Years 6 -10: Other 50%
  - Reassessment – every 5 years thereafter
- Kinder Morgan Interstates and Intrastates combined:

	2002	2003	2004	% of Total Miles
Miles of Pipeline:	823	1,600	1,631	20%

- Mechanical Integrity also a significant component

Infrastructure Development

Infrastructure

- In – Service 2003
  - NGPL North Lansing Storage Expansion
  - Monterrey Pipeline in Mexico

- In – Service 2004
  - KMIGT CMC Storage Expansion
  - TransColorado Expansion
  - Texas Intrastates' Rancho Pipeline

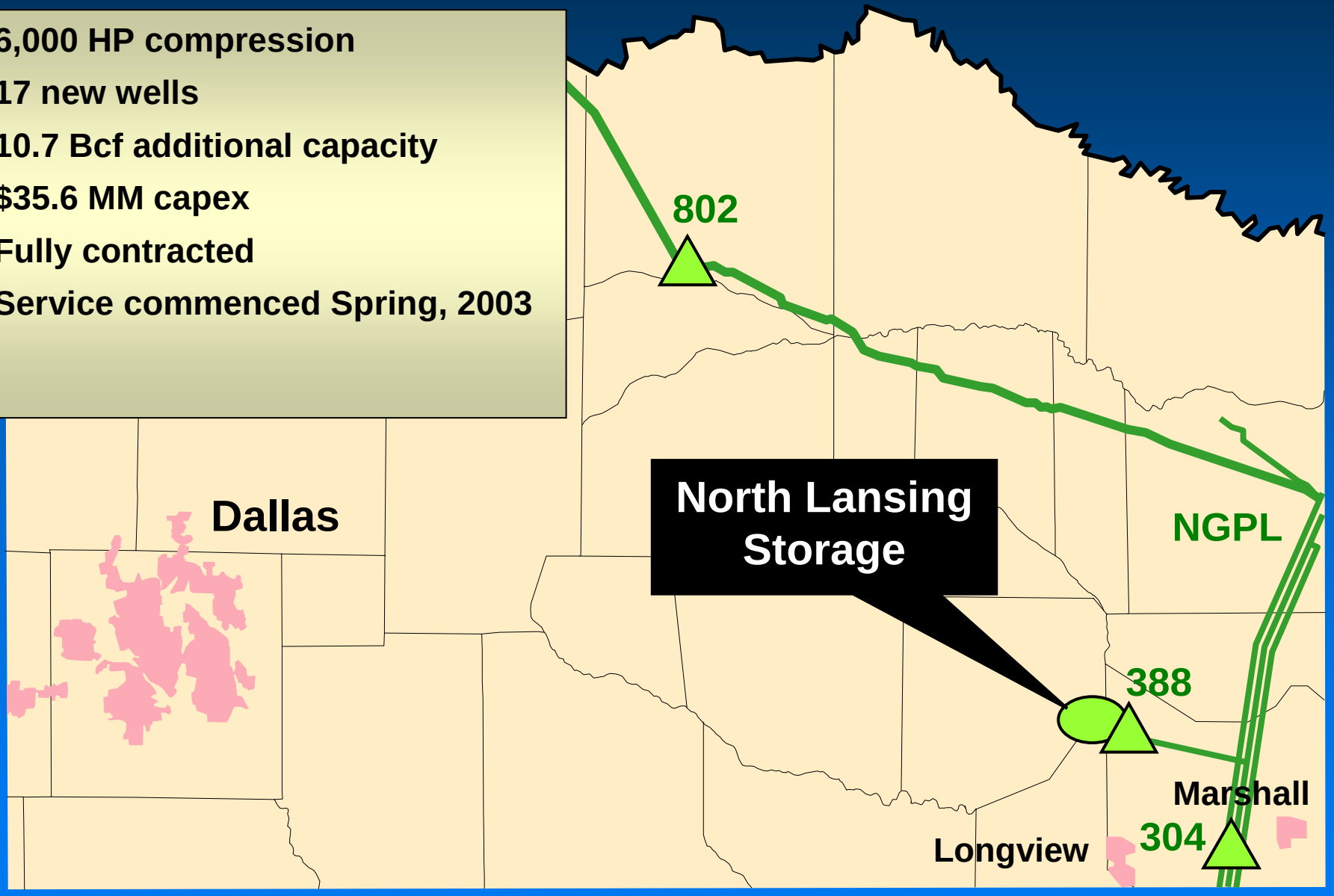
Infrastructure

- Proposed: In – Service 2005
  - Texas Intrastates' Dallas Pipeline
  - Texas Intrastates' Markham Storage Expansion

- Proposed: In – Service 2006
  - West Texas Pipeline
  - Advantage Southern Pipeline
  - Piceance – Cheyenne Pipeline
  - Silver Canyon Pipeline

NGPL North Lansing Storage Expansion

- 6,000 HP compression
- 17 new wells
- 10.7 Bcf additional capacity
- $35.6 MM capex
- Fully contracted
- Service commenced Spring, 2003



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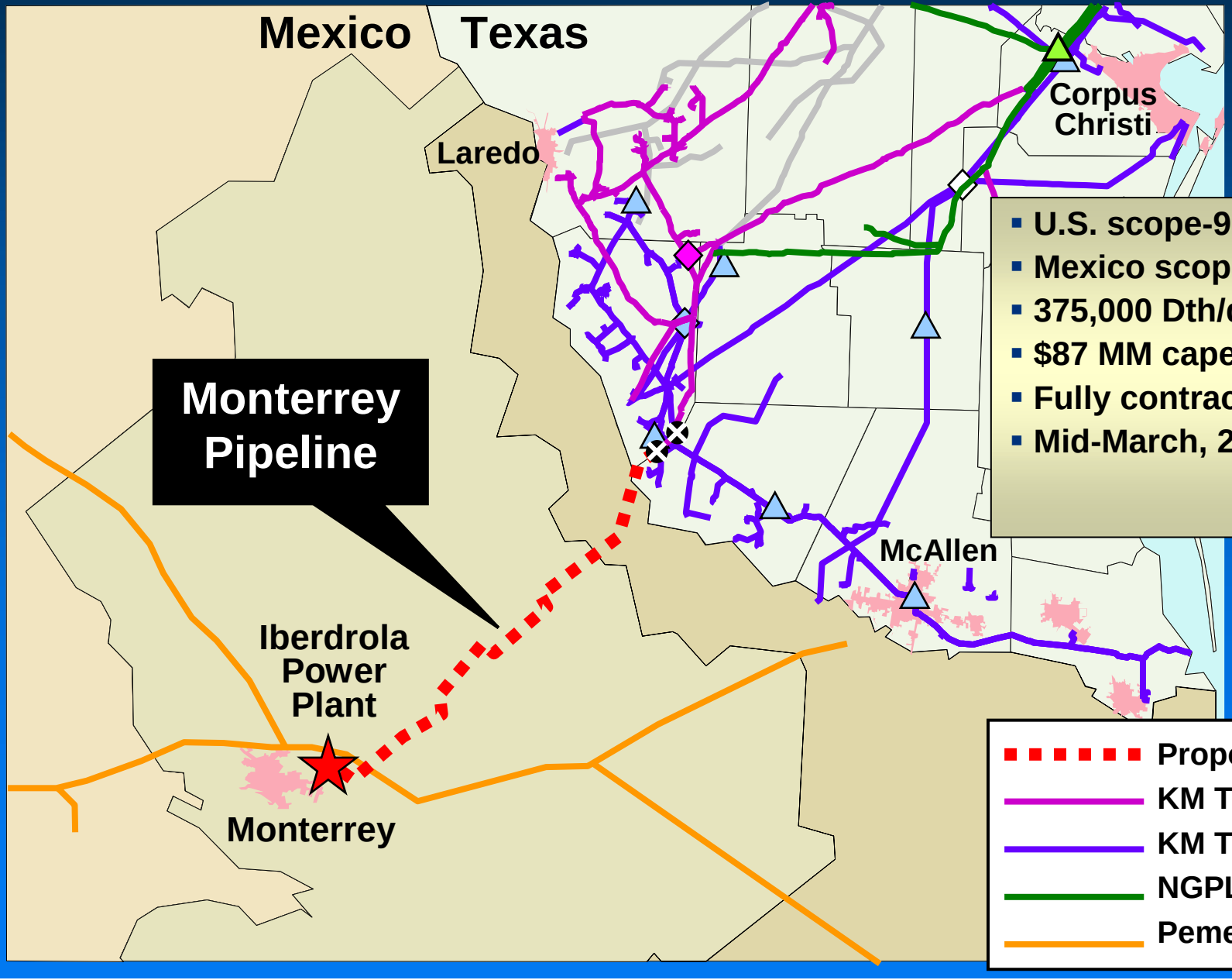
Monterrey Pipeline



- U.S. scope-9 miles of 30” pipe
- Mexico scope-137.5 km of 30” pipe
- 375,000 Dth/day capacity
- $87 MM capex
- Fully contracted for 15 years
- Mid-March, 2003 in-service

- Proposed Monterrey Pipeline
- KM Texas Pipeline
- KM Tejas Pipeline
- NGPL
- Pemex Pipeline

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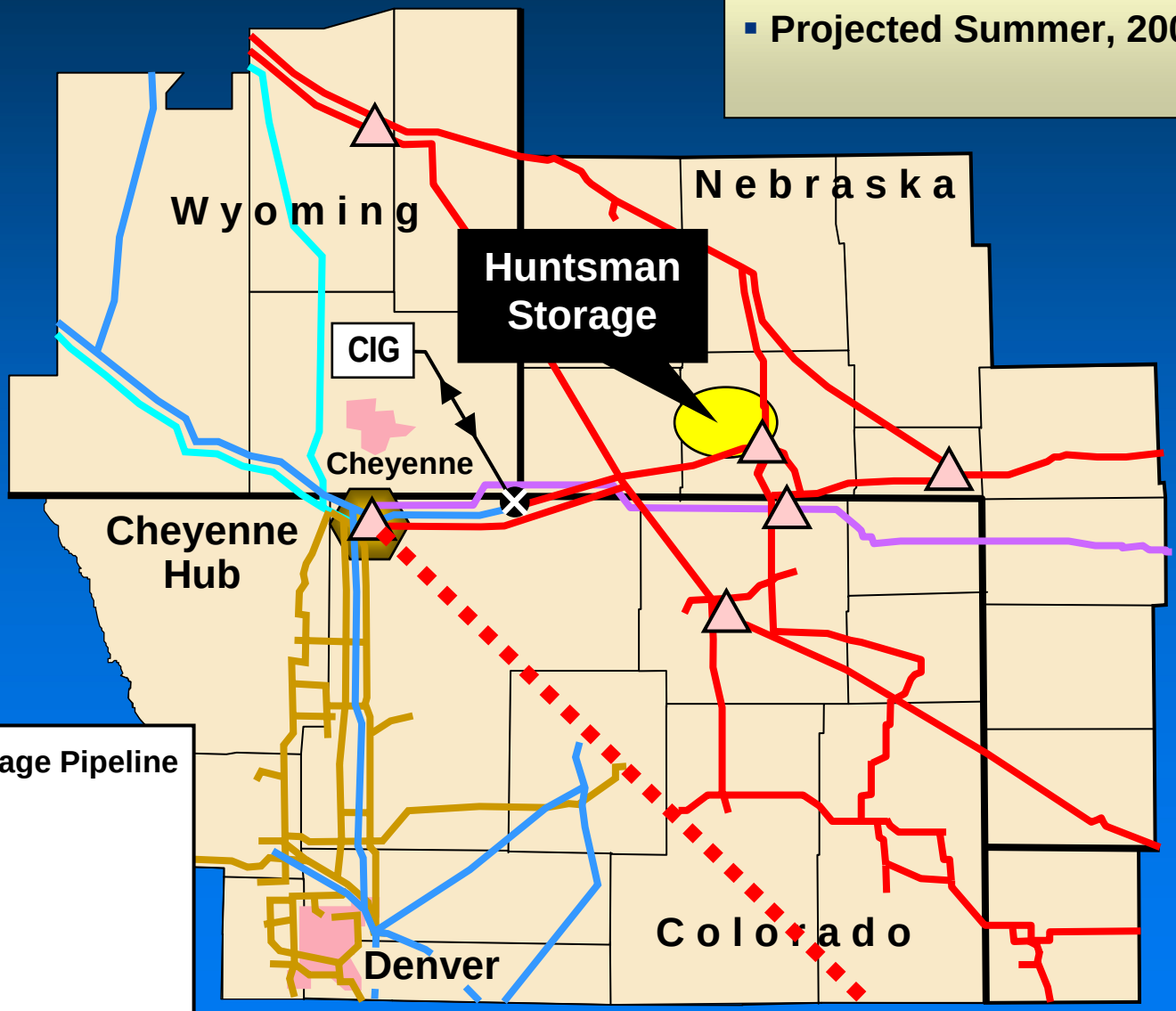
Cheyenne Market Center

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

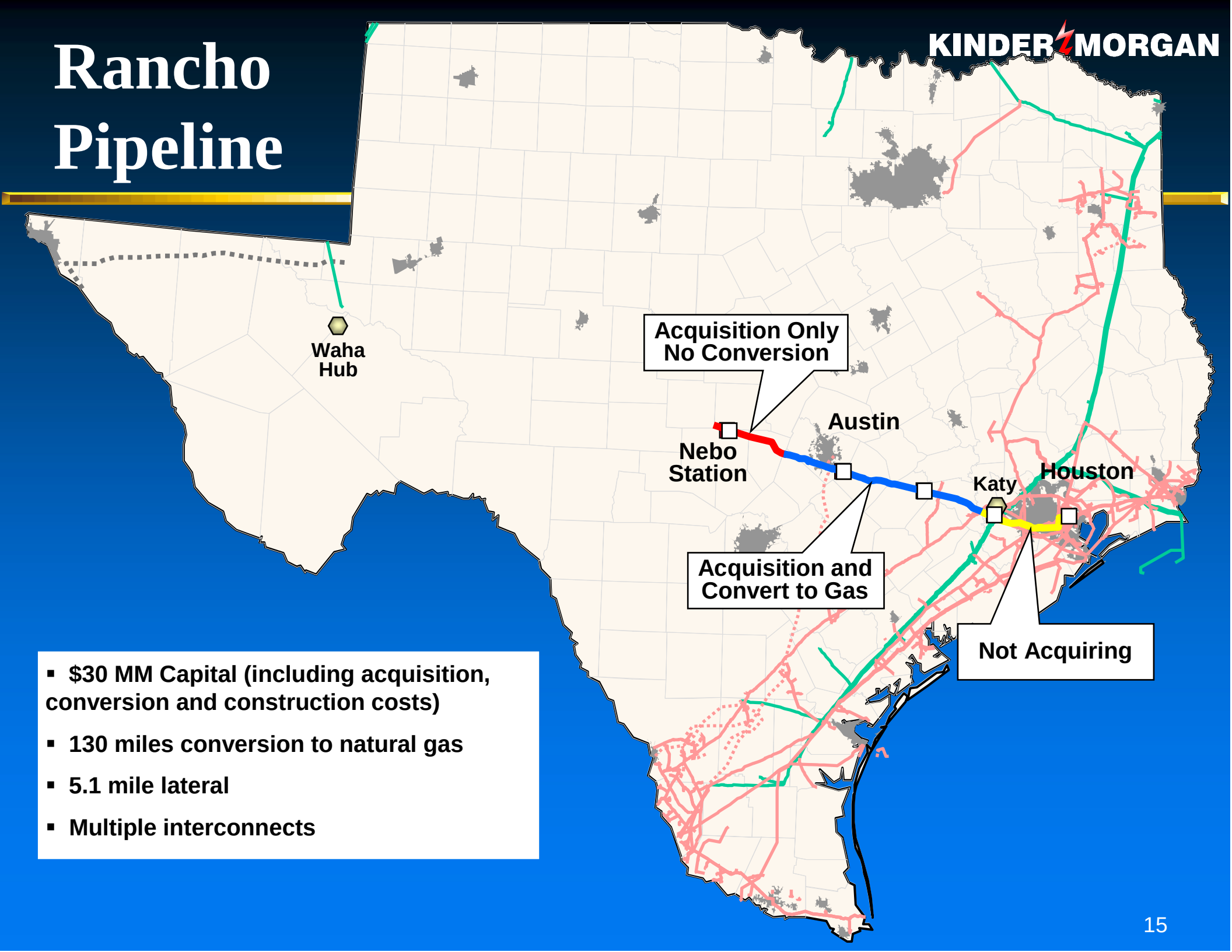


TransColorado Expansion

- $33 MM Capex
- 20,000 H.P.
- 125 MDth/d Capacity
- Fully contracted for 10 years
- Projected August, 2004 In-Service



Rancho Pipeline



- $30 MM Capital (including acquisition, conversion and construction costs)
- 130 miles conversion to natural gas
- 5.1 mile lateral
- Multiple interconnects

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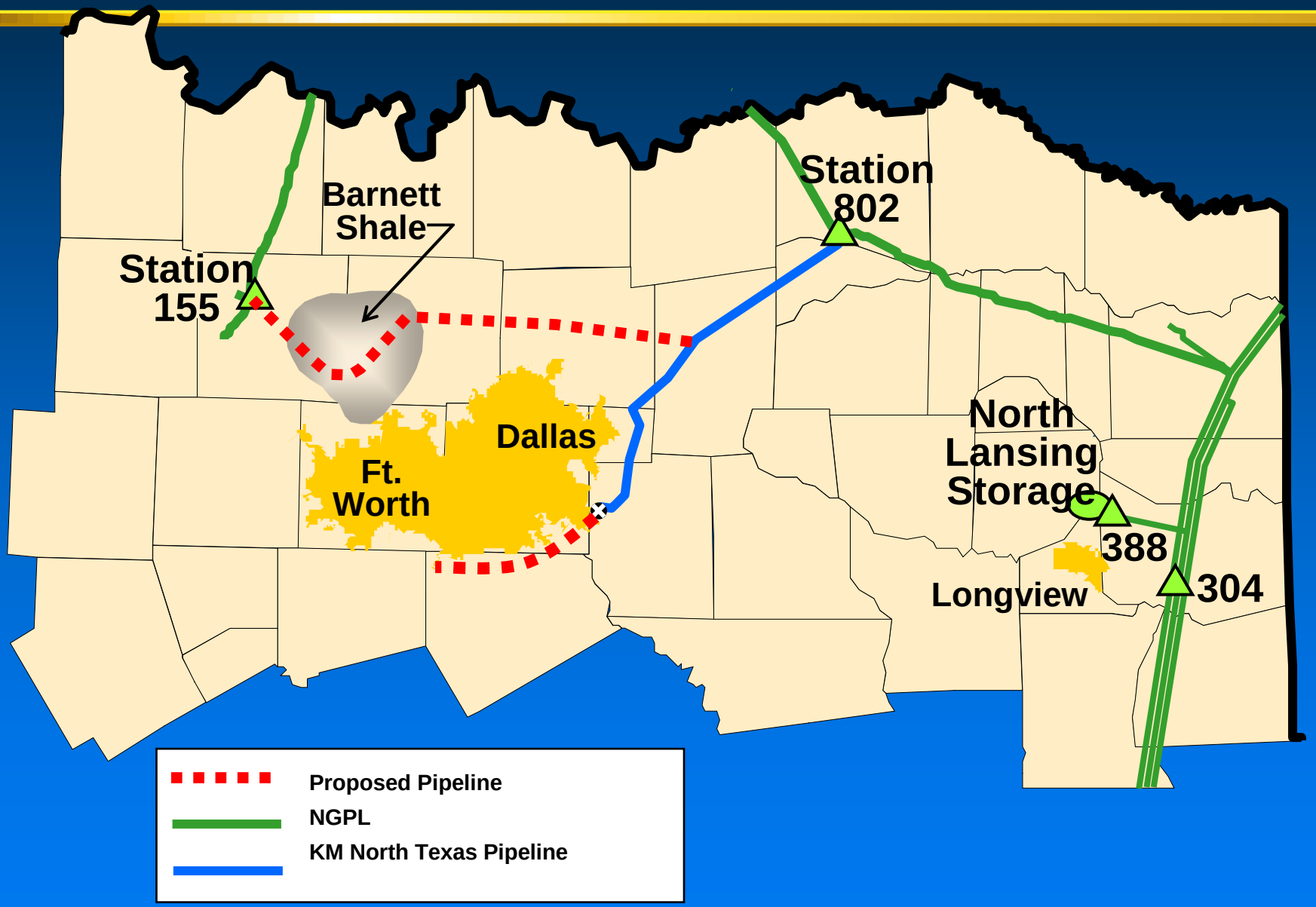
Kinder Morgan DFW Project Map



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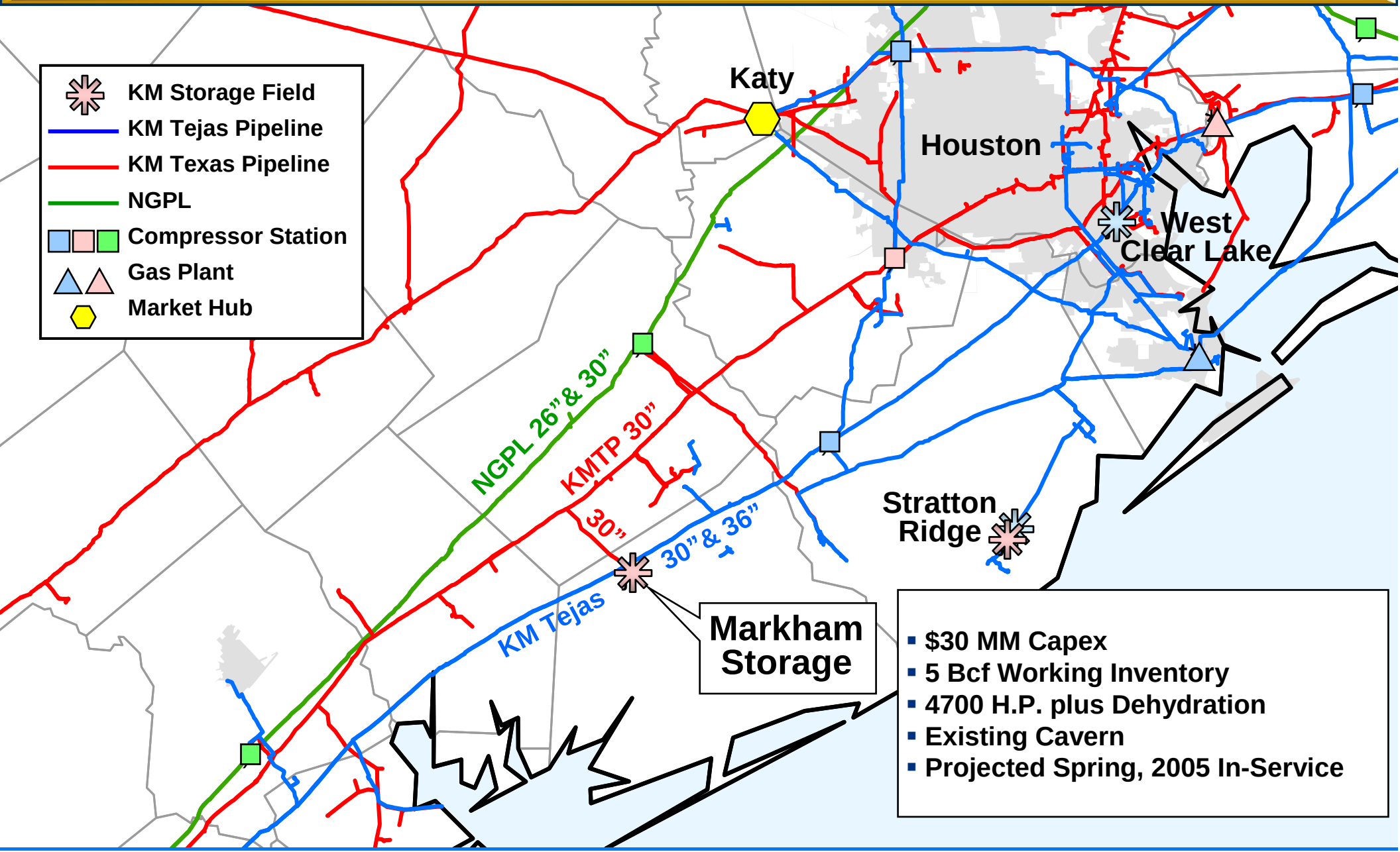
Markham Storage



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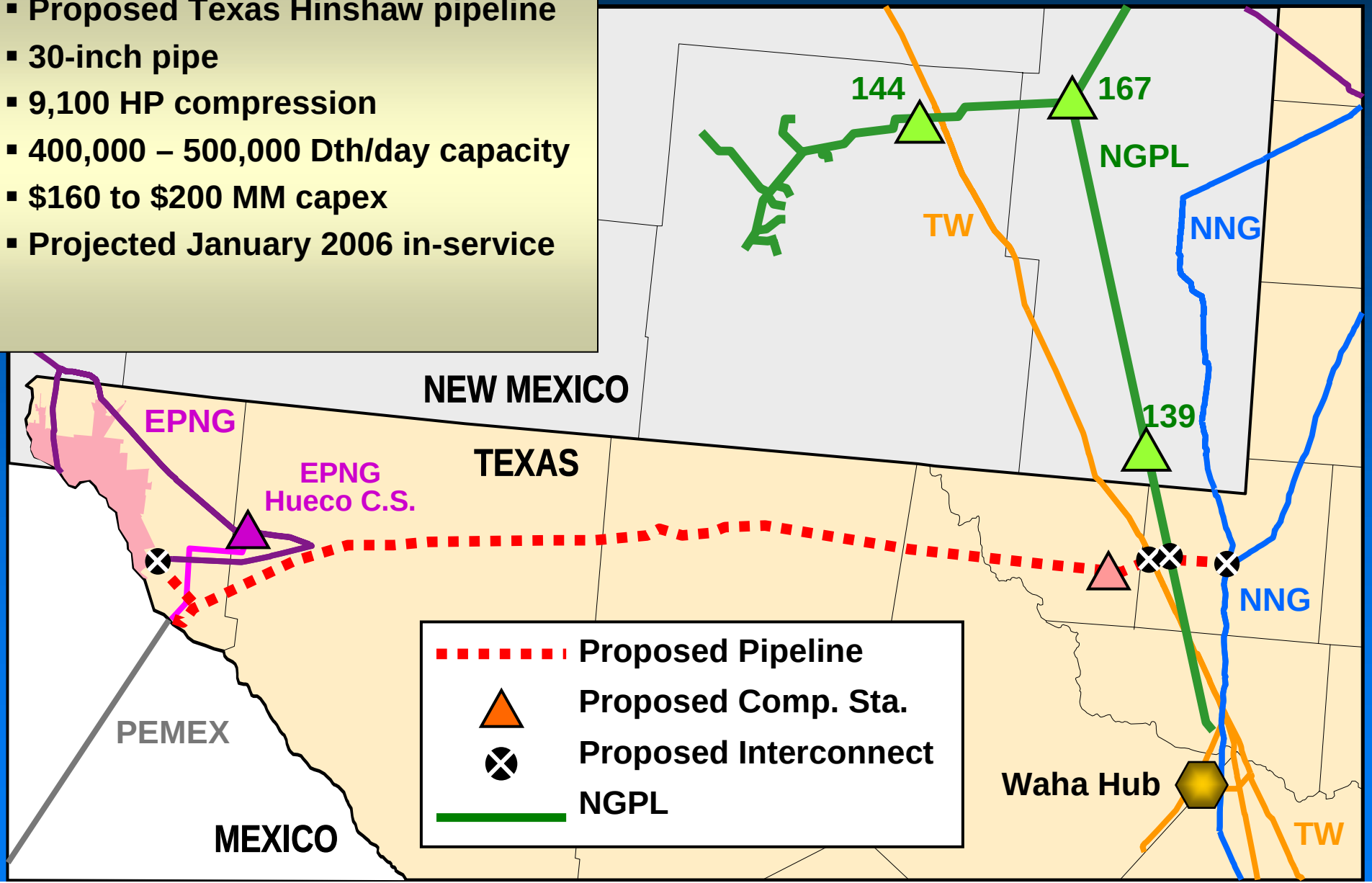
Proposed West Texas Pipeline

- Proposed Texas Hinshaw pipeline
- 30-inch pipe
- 9,100 HP compression
- 400,000 – 500,000 Dth/day capacity
- $160 to $200 MM capex
- Projected January 2006 in-service



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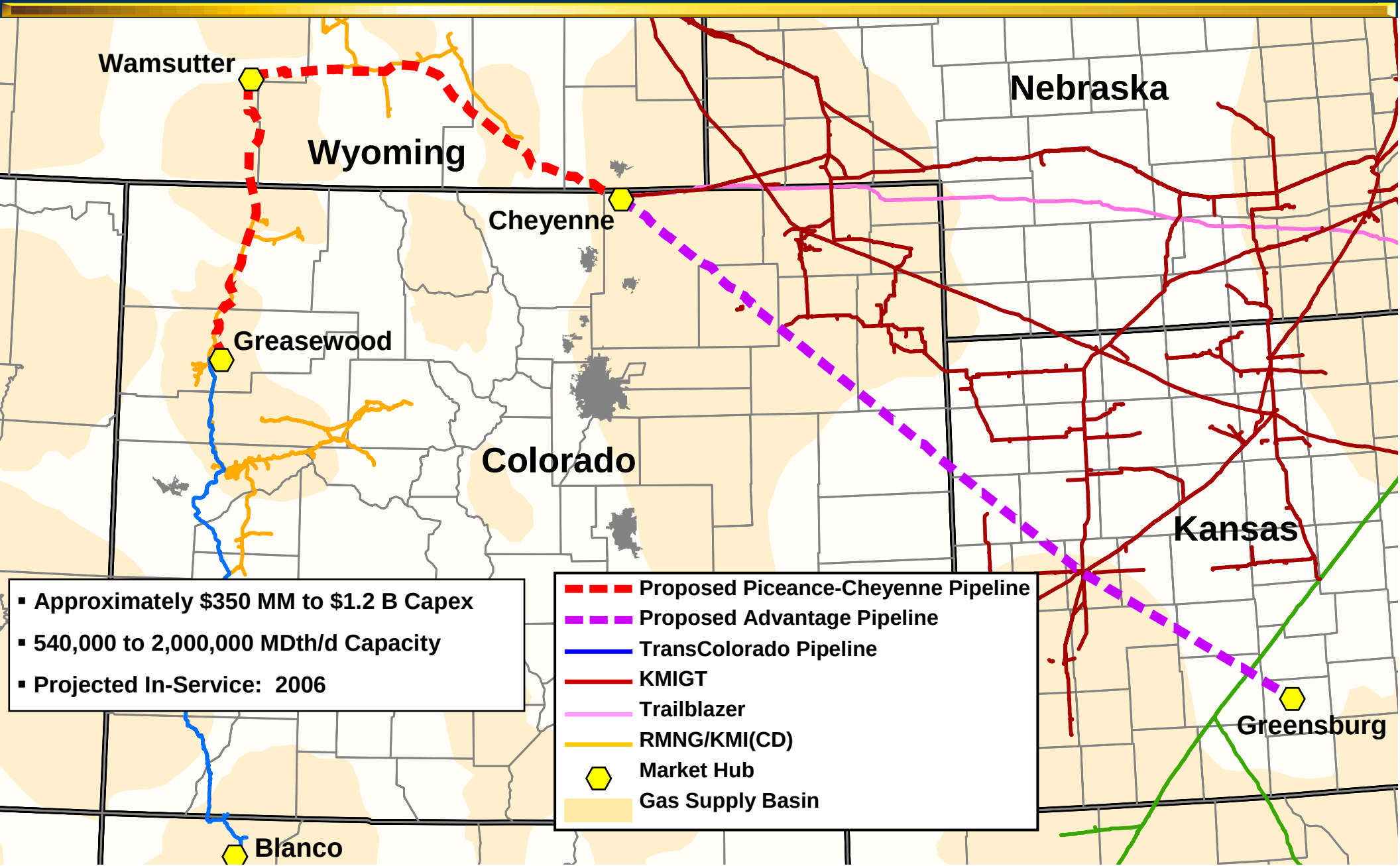
Piceance to Cheyenne and Advantage Pipelines



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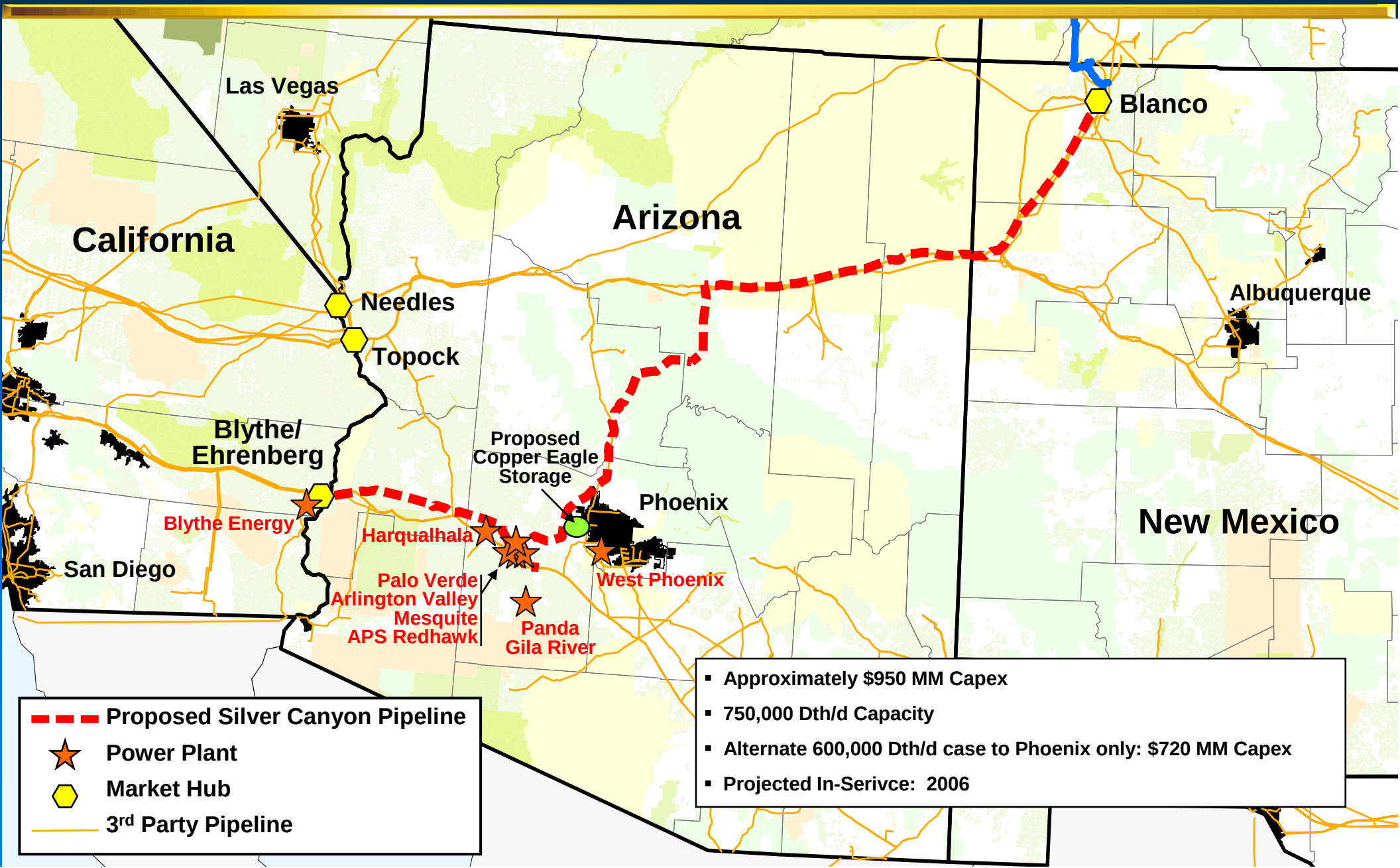
Silver Canyon Pipeline



Interstate Pipelines Update

NGPL

- Contract expirations less significant in 2004 vs. 2003
- Significant recontracting success already for 2004
- Success in buy-outs with merchant energy companies exiting the business or in bankruptcy
- De minimus remaining bankruptcy exposure/100% reserved
- New players on the system have replaced the large merchant energy companies that formerly held capacity
- Collections: on average 99%+ of invoices collected by month end
- Average contract term remains about 3 years
- Modest increase in margins/volumes
- New power plant development at a halt
- No rate case obligation

NGPL FTS Capacity Summary (Volumes in TBtu/d)

	Long-Haul 3.3 TBtu/d	Louisiana/Crosshaul .378/.975 TBtu/d	Total 4.653 TBtu/d
Contract MDQ Expiring in 2003	**2.01**	**0.63**	**2.64**
Sold as of January 2003	**1.29**	**0.46**	**1.76**
Remaining 2003 Availability at Beginning of Quarter**	**Q1 - 1.00% Q2 - 0.75% Q3 - 0.15% Q4 - 4.50%**	**Q1 - 2.70% Q2 - 4.40% Q3 -10.00% Q4 - 3.00%**	
Contract MDQ Expiring in 2004	**0.67**	**0.09**	**0.76**
Sold as of January 2004	**0.35**	**0.04**	**0.39**
Remaining Expirations in 2004	**0.32**	**0.05**	**0.37**

**** During 3rd and 4th Quarters some capacity was unavailable due to integrity testing.**

2004 FTS Availability/Expirations* Remaining by Quarter (Volume in Dth/day)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Cumulative 2004
Amarillo Mainline	10,000	30,000	30,000	230,000	**230,000**
Gulf Coast Mainline	50,000	167,000	219,000	147,000	**147,000**
Louisiana Line	30,000	70,000	69,000	65,000	**65,000**
Crosshaul	40,000	62,000	62,000	62,000	**62,000**
Total (Mainline)	60,000	197,000	249,000	377,000	**377,000**
% of Mainline Capacity	1.8%	6.0%	7.5%	11.0%	**11.0%**

***Cumulative (not additive) by Quarter**

NGPL DSS Capacity

2003		2004	
2003 Contract Expirations:	21.73 TBtu	2004 Availability:	18.01 TBtu
Sold as of January 2003:	21.68 TBtu	Sold As of January 2004:	100%*
Sold as of Spring 2003:	100%`		

* Represents availability less conversion of 1.5 TBtu of DSS to 4.5 TBtu of NSS in 2004

NGPL NSS Capacity

2003		2004	
2003 Contract Expirations:	88.6 TBtu*	2004 Availability:	38.6 TBtu
Sold as of January 2003:	64.2 TBtu	Sold As of January 2004:	100%
Sold as of Spring 2003:	100%`		

* Represents contract expirations and conversion of 1.5 TBtu of DSS to 4.5 TBtu of NSS

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Significant Rollovers

- Peoples Gas/North Shore Gas
  - Rolled 12.65 Bcf of DSS for 3 year term
  - Rolled 123,000 Dth/d long-haul FTS for 2 year term
  - Contracted for 59,000 Dth/d summer only FTS for summer ’03 - ’04 and then rolled for three additional summers
  - Rolled 60,000 Dth/d winter-only market area FTS for three winters
- Interstate Power & Light (Alliant)
  - Rolled 33,918 Dth/d (peak)/24,918 Dth/d (off-peak) of long-haul FTS
  - Rolled 2.2 Bcf of DSS
  - 3 year term

Significant Rollovers

- Wisconsin Electric
  - Rolled 111,000 Dth/d annual long-haul FTS
  - Rolled 19,133 Dth/d winter-only FTS
  - Rolled for 5 years with MDQ; Rachets years 3 to 5
  - Rolled 1.2 Bcf of DSS for 3 year term
- Procter & Gamble
  - Rolled 14,400 Dth/d short-haul FTS
  - Contracted for 2,500 Dth/d incremental FTS starting 3/31/05
  - 5 year term

Significant Rollovers

- Laclede Gas
  - Rolled 20,000 Dth/d long-haul FTS
  - 1 year term
- NICOR Gas
  - Rolled 100,000 Dth/d ’03 – ’04 winter-only FTS for additional winter of ’04 – ’05
  - Rolled 100,000 Dth/d long-haul FTS from April ’04 to March ’07
  - Rolled 40,000 Dth/d long-haul FTS from April ’05 to March ’07
- Marathon
  - 101,975 Dth/d short-haul FTS
  - 1 year term

Significant Rollovers

- International Steel Group
  - 10,000 Dth/d of long-haul FTS
  - 18 month term

- Aquila Networks
  - Rolled 1,402 Dth/d annual FTS-G
  - Rolled 24,000 Dth/d annual FTS
  - Rolled 50,000 Dth/d winter-only FTS
  - Rolled.05 Bcf of DSS
  - Rolled 3.56 Bcf of NSS
  - All for 5 year term
  - Contracted for incremental 22,500 Dth/d FTS for 5 year term to serve Nebraska & Iowa load

Significant New Contracts

BP Canada Energy Marketing

- Contracted 250,000 Dth/d long-haul FTS for 3 years commencing May ’03
- Contracted 7 Bcf NSS storage for ’03 to ’04; extended for second-year term to ’05
- Rolled 3 Bcf additional NSS starting April ’04 for 1 year

Virginia Power

- 13,000 Dth/d long-haul FTS for 22 month term commencing June ’03
- 50,000 Dth/d long-haul FTS for 18 month term commencing October ’03

Significant New Contracts

Tenaska

- 50,000 Dth/d long-haul FTS for 13 month term beginning 10/01/03
- 20,000 Dth/d (peak)/10,000 Dth/d (off-peak) for one year term beginning 11/01/03

University of Illinois

- Contracted 10,000 Dth/d incremental long-haul FTS for 29 months beginning October ’03

Other New Shippers to System

- Sequent Energy
- Constellation
- PPM (Pacific Corp)
- Enstor
- Kansas Energy Partners
- Chalkley Transmission

KMIGT

- Stable earnings base
- Existing assets subject to limited competition
- No rate case filing requirement
  - cost and revenue study in 2004
- Lower re-contracting risk

KMIGT

- Contract Expirations

		Dth/d	Percent of Total Cap
2004			
	Long-haul	94,935	11%
	Short-haul	12,851	2%
	Displacement	18,609	2%
	Total	126,395	15%
2005			
	Long-haul	16,625	2%
	Short-haul	10,234	1%
	Displacement	0	0%
	Total	26,859	3%

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Trailblazer

- Stable earnings base
- Access to Rocky Mountain supply
- Low cost provider
- Supply source for NGPL
- Looping necessary for any further expansion
- De minimus contract expirations until 2007:
  - 2004: 0%
  - 2005: 8%

Trailblazer

- Rate Case Status
  - Contested settlement pending before FERC
  - BP and Marathon severed as contesting parties
  - Hearing held for contesting parties October 2003
  - ALJ decision expected March, 2004

- Settlement Provisions
  - Decrease in rate for existing system from 12¢ to 9¢ per Dth effective January 1, 2004
  - Contesting parties continue to pay existing rate until FERC order on ALJ decision; new rate is prospective only
  - Negotiated rates on 2002 Expansion remain in place for term of contracts
  - New rate case to be effective January 1, 2010

TransColorado

- 100% Kinder Morgan ownership
- 2003 revenue in 1st and 2nd Quarters benefited from index-based contracts and basis spreads between Rockies and San Juan pre-Kern River expansion
- 2003 long haul capacity fully contracted
- De minimus resubscription risk prior to 2008
- 2004 expansion fully contracted for 10 years
- Exploring subsequent expansion through looping and compression to feed Silver Canyon
- Subsequent expansions fueled by dramatic increase in production in Uinta, Paradox and Piceance basins
- No rate case obligation

Production Trends

2003 2nd Quarter Average (Change from 2002)
MMcf/d



Source: Lippman Consulting, Inc.

Regulatory Update

- **Negotiated Rate Policy Statement**
  - Banned indexed negotiated rates
  - Preserved fixed rates for new construction
  - Rehearing pending
- **Energy Affiliate Rule**
  - Major change in definition of energy affiliates so that Hinshaw and intrastate pipelines, producers, gatherers and processors are now energy affiliates
  - Rehearing was requested on the inclusion of Hinshaw and intrastate pipelines as an energy affiliate
  - Major impact of the Order involves the separation of functions between transmission function employees of the Interstate Pipeline and the employees of the Energy Affiliate

Texas Intrastate Pipelines Update

Steve Kean

Texas Natural Gas System

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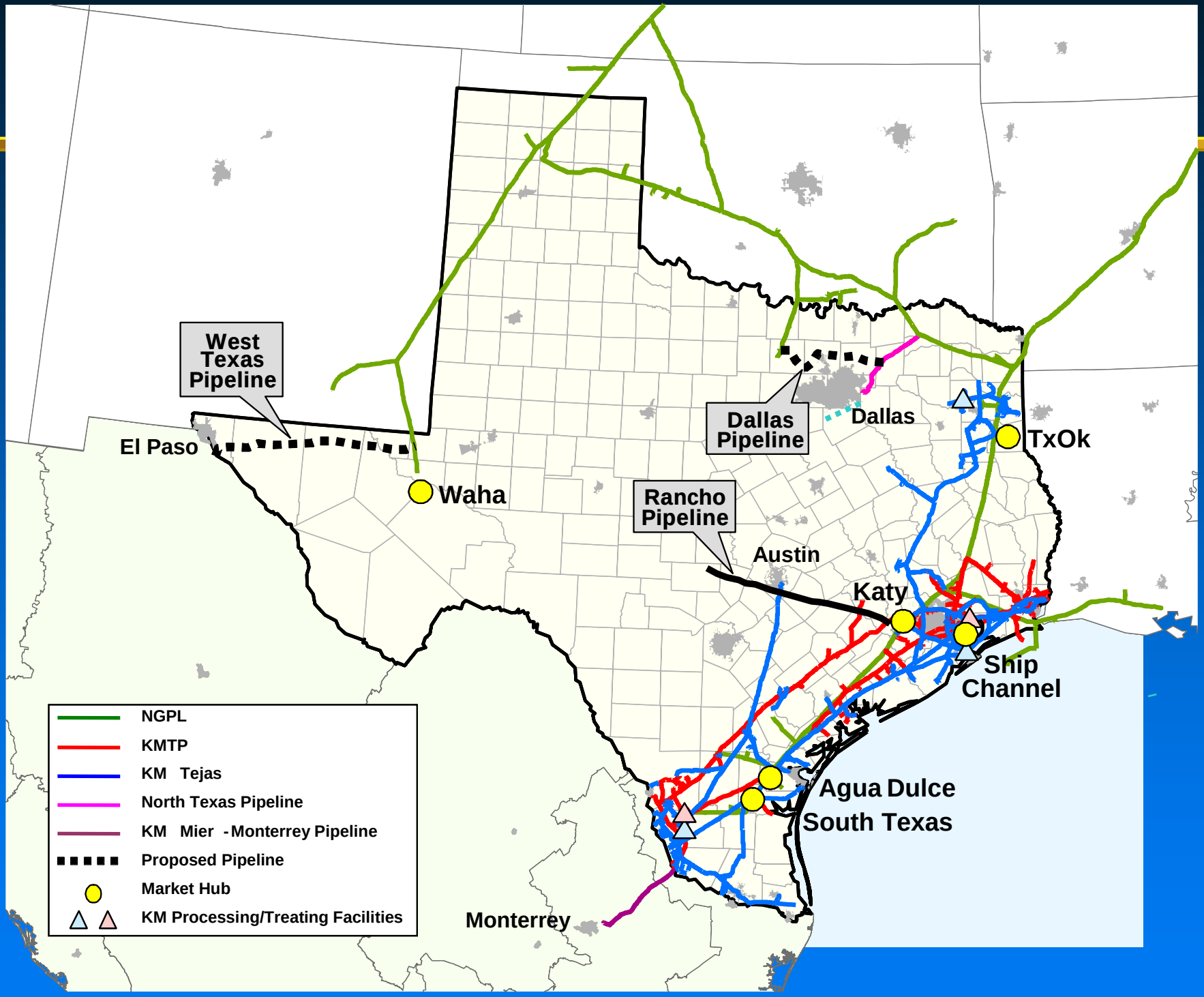

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Business Description

- Capacity: approximately 5 bcf/day
- Throughput: 4 – 4.5 bcf/day
- Storage Capacity: 120 bcf (including WCL)
- Processing/Treating Capacity: 250 MMcf/day
- Market: HSC Industrial, LDC, Utility, and Merchant Power

Business Description

- **Market**
  - Flat market in Houston Ship Channel; highly competitive
  - Growth opportunities: Austin, Dallas, Mexico
  - Hub-to-hub spreads tightening (at least seasonally)
  - Significant pipeline participation in sales business (low % gross margin)
  - Texas Railroad Commission regulation
  - State-specific pipeline safety/integrity rules
  - Substantial exports to Mexico

- **KM Intrastates**
  - Storage assets contracted under fee-for-service arrangement
  - Sales business is index based (hedged)
  - Opportunities to capture additional margin (i.e. beyond hub-to-hub basis)
  - KM exports to Mexico are about half of U.S. total; significant fuel savings

Objectives and Strategy

Objectives	Strategy
▪ Enhance base business	• Modest volume growth on existing system, so growth dependent on margin enhancement • Segment market/services -swing service -pressure -quality • Reach supplies and markets away from hubs to capture additional margin
▪ Grow earnings through expansion projects	• Build out to less-contested, growing markets • Austin, Dallas, Mexico • On system storage expansions/enhancements
▪ Reduce exposure to sales business	• Migrate customers to fee for service • New expansions predominantly transport service • Purchases and sales priced relative to index • Tight controls/risk management -credit -contract provisions -reporting/data capture -collections -system balance and position management • Fuel recovery in pricing (% HSC purchases)

Progress to Date

- Fee for service transition
  - BP and PEMEX contracts
  - New expansions predominately transport/storage rather than merchant- - Monterrey and North Texas
  - Storage sold out as service
  - Reduce credit exposure by converting some high risk sales customers to transport
- Significant reduction in exposure to “KM credit watch” customers
  - From $35 million to $10-15 million
  - About $100,000 lost to bad credit (on about $5 billion in revenues)
- Solid collections performance
- Fuel collections exceed fuel use
- Successful in selling higher margin service enhancements

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Tejas Integration

- Tejas integration
  - Interconnection capability expanded from .3 bcf/day to 1.7 bcf/day
  - Legal consolidation of Tejas entities
- Improved systems processes and controls
  - Remote metering capabilities for 90% of volume
  - Management of volumetric exposure to inadvertent positions
  - Marginal cost analysis from gas control/optimization group interaction
  - More frequent, more automated, more accurate reporting of system activity from volumes to allocations to pricing to collections

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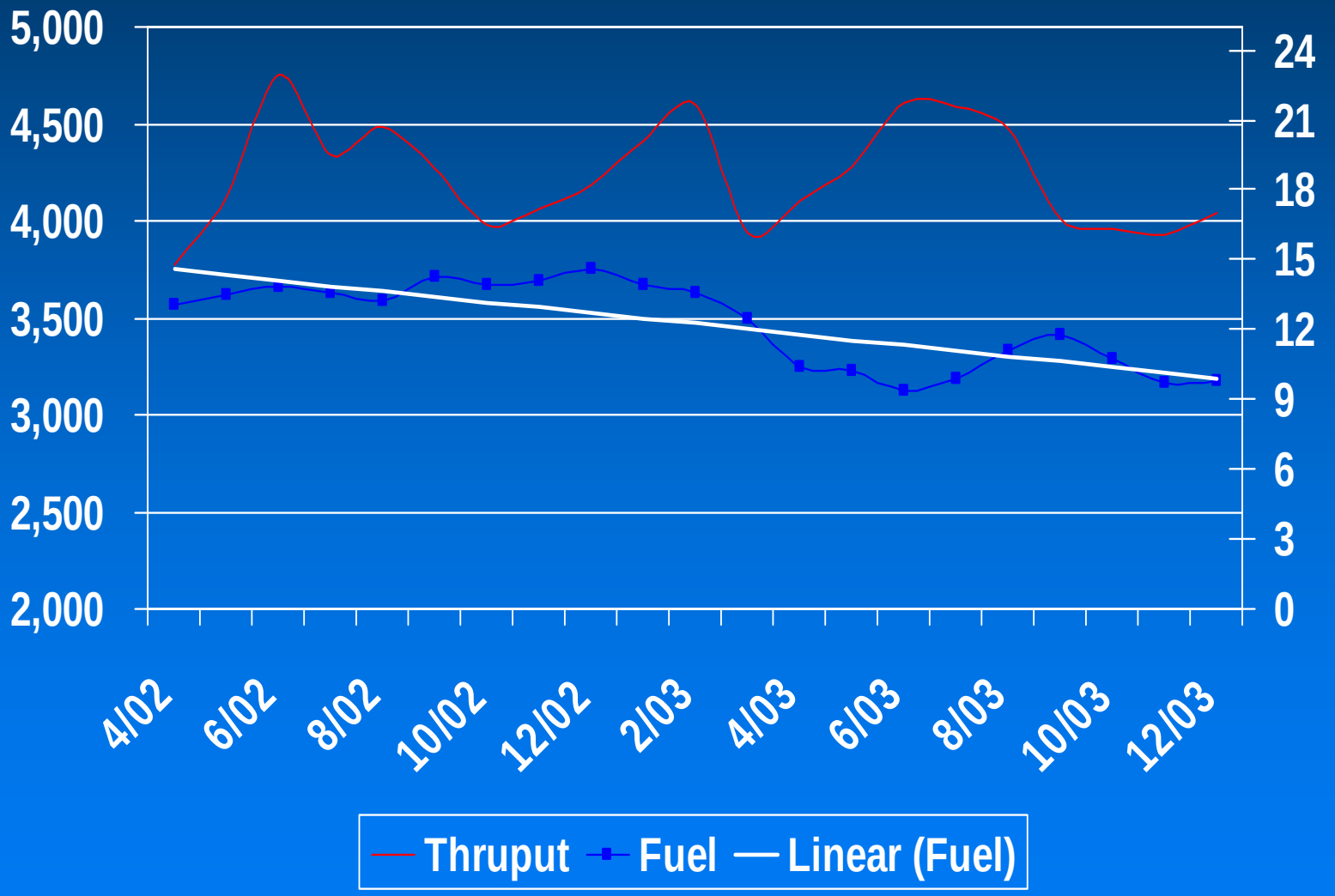
Intrastate Physical Throughput Vs Fuel



Infrastructure Opportunities

- Austin
- Dallas
- Mexico
- Storage Expansion
- LNG

Rancho Pipeline

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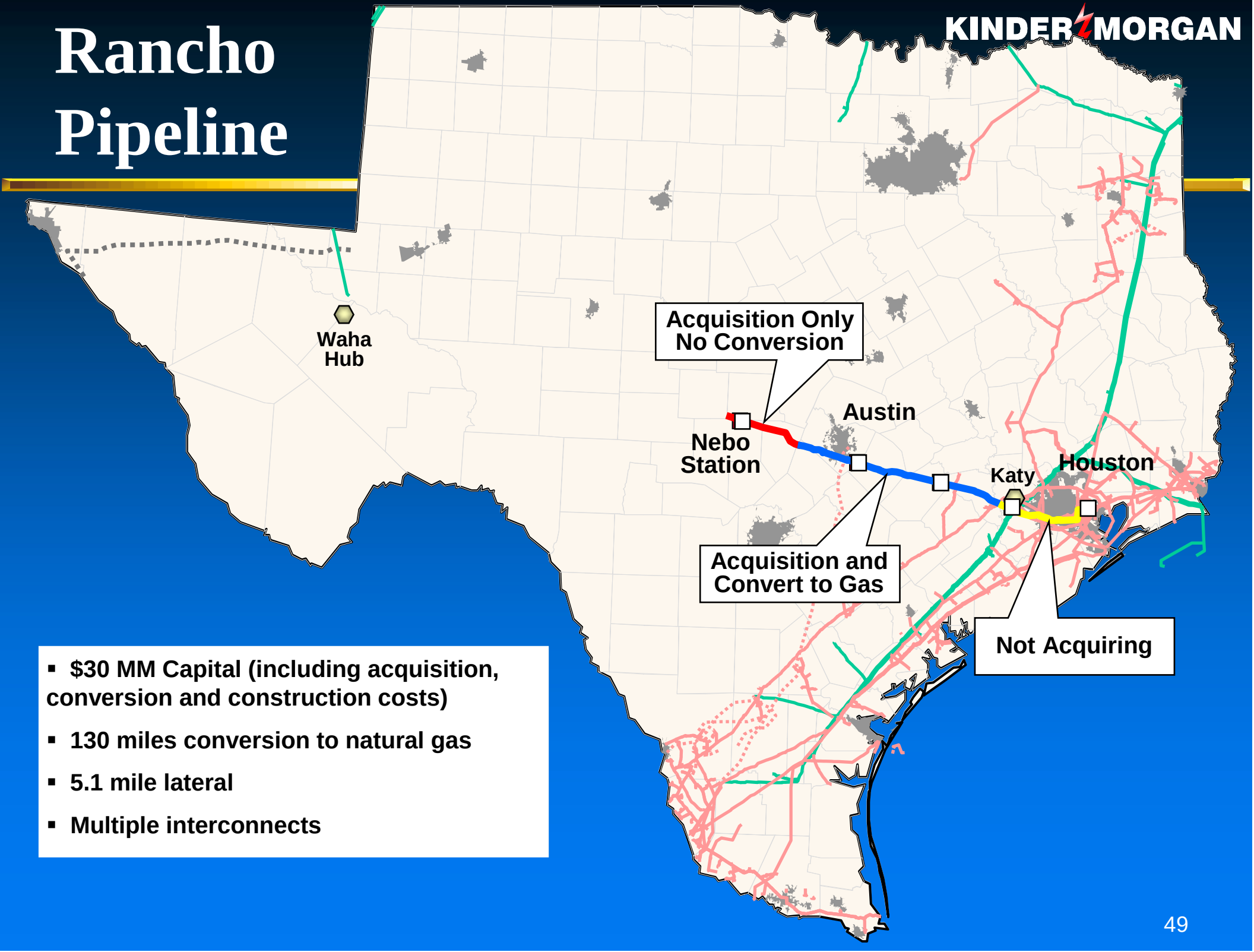

- $30 MM Capital (including acquisition, conversion and construction costs)
- 130 miles conversion to natural gas
- 5.1 mile lateral
- Multiple interconnects

Rancho Pipeline Opportunity

Project Description: Acquire 172 mile segment of the 24" Rancho Crude Oil Pipeline from Katy to just west of Austin and convert to natural gas service.

Strategy: Expand capacity into the growing Austin market area at lower than new construction cost, while adding to service that can be offered on the existing joint venture line.

Customers:

	Annual Bcf	Peak MMcfd
Power Utility	29.2	140
Gas Utility	2.0	100
Pipeline (Potential)	8.7	50
Merchant Power (Potential)	14.6	40
Power Utility (Potential)	14.6	40
Merchant Power (Potential)	14.6	40

Facilities Required: Convert 130 miles of pipe to gas service (clean, hydro, mainline valves every 20 miles)
Interconnect with KMTP line near Katy
Interconnect with JV line near Austin
Interconnect with Austin Energy Sand Hill plant (acquire Lone Star lateral or new build)

Capital Cost: $30 million for acquisition, lateral construction and conversion (no new compression initially)

In-Service: July 1, 2004 target

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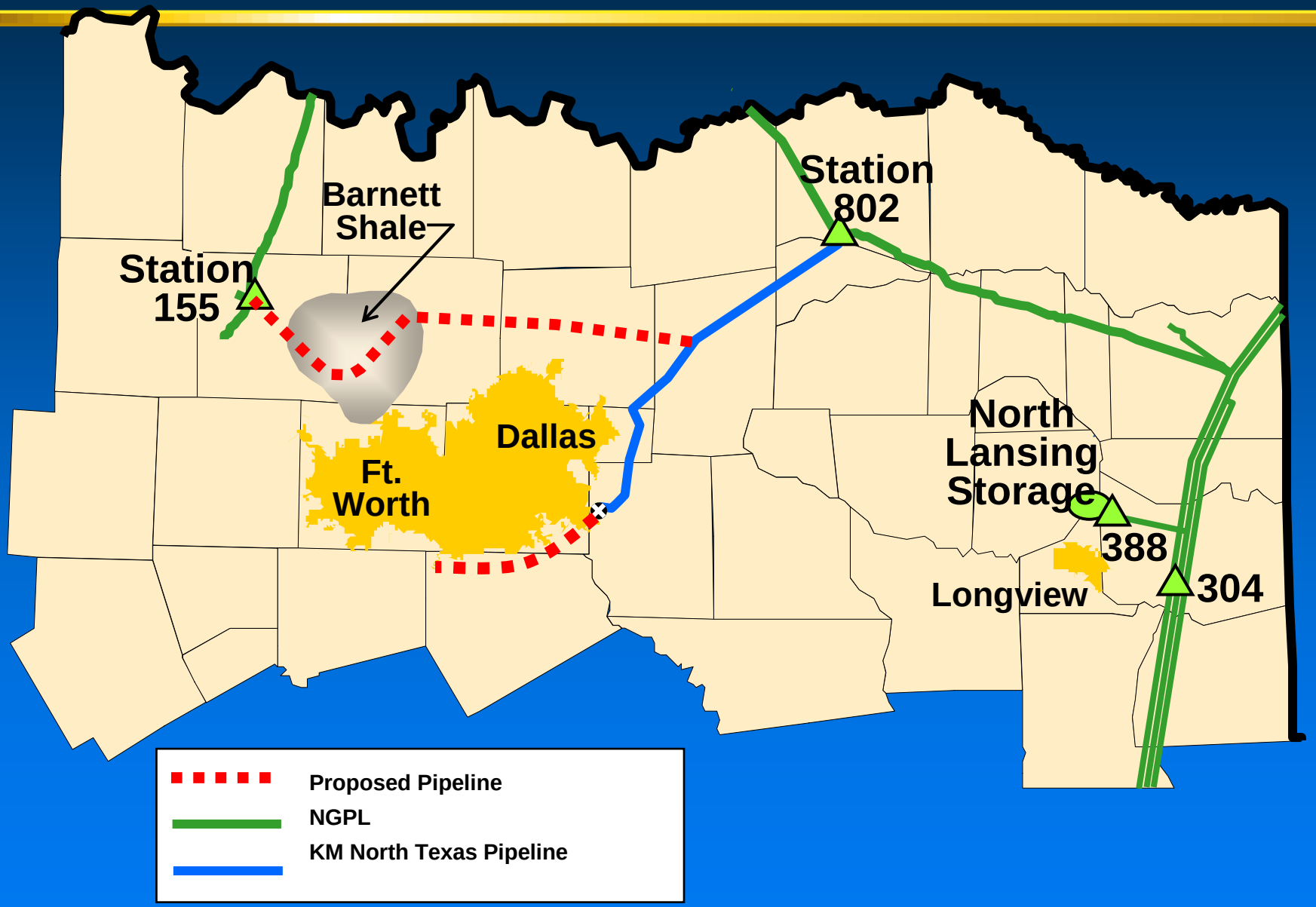
Kinder Morgan DFW Project Map



Dallas Area Expansion Project

Opportunity: Shale	**Develop new pipeline project to support significant production growth out of the Barnett area and market growth in the Dallas area.**
Project Description:	**Pipe Size 20” - 30” with capacity of 170MMBtu/d – 400 MMBtu/d. Depending on market support**
Options:	**1) Build new pipeline around the north side of the Dallas-Fort Worth area** **Approximately 50 miles** **2) Build new pipeline on the south side of Dallas with delivery into the southern end of Kinder Morgan’s North Texas Pipeline** **Approximately 110 miles**
Capital Requirements:	**Range from $48MM to $100MM depending on option selected**
Next Steps:	**Determine level of customer/producer support** **Finalize project scope and capital requirements** **Enter into binding agreements**
Target In-service Date:	**2nd Quarter 2005**

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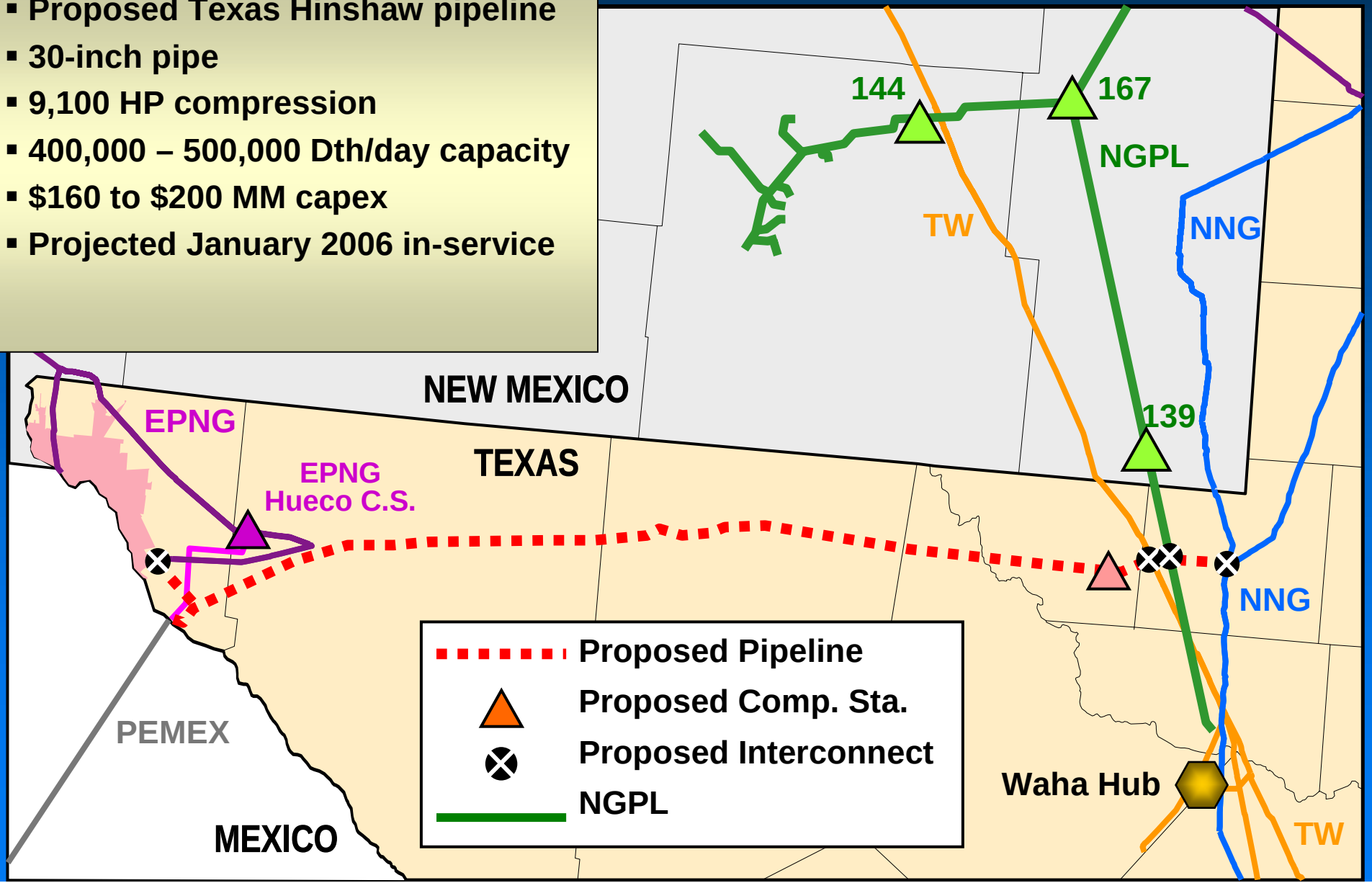
Proposed West Texas Pipeline

- Proposed Texas Hinshaw pipeline
- 30-inch pipe
- 9,100 HP compression
- 400,000 – 500,000 Dth/day capacity
- $160 to $200 MM capex
- Projected January 2006 in-service



Kinder Morgan West Texas

Timeframe

- PEMEX decision March – April ‘04
- Projected In-service January ‘06

Description

- 300,000 to 500,000 MMBtu contract
- Interconnection with NGPL and Transwestern in Permian
- CAPEX $160-200MM

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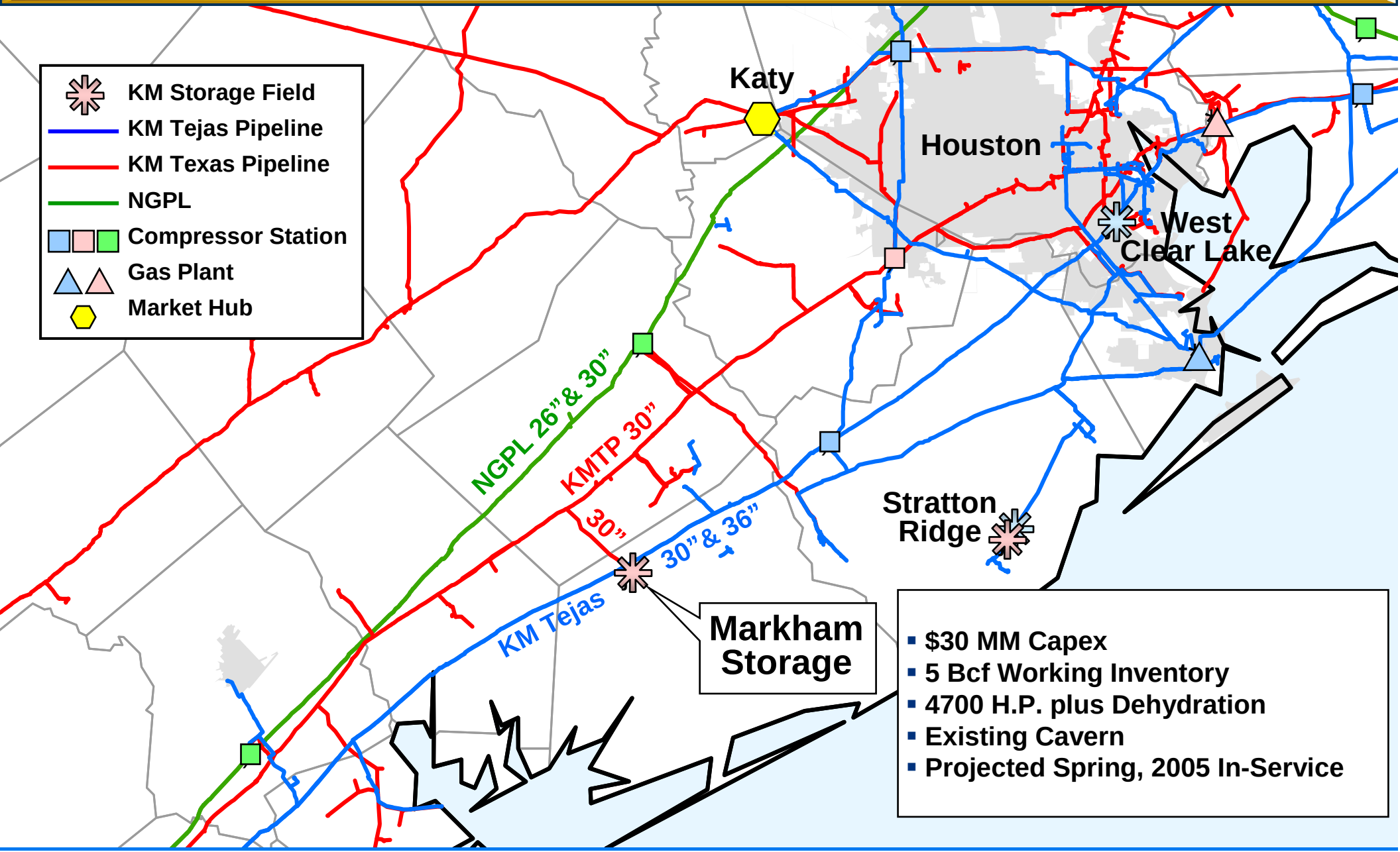
Markham Storage



Markham Gas Storage Facility Expansion

Project Description:	**Create an incremental 5 bcf of working capacity that could be sold as multi-cycle storage.**
Rationale:	**Low cost storage expansion utilizing existing infrastructure (with added compression)**
Customers:	**PEMEX, independent power producers, industrial end users, large gas producers**
Capital Cost:	**$30 million**

Timetable:

- **Discussion on-going with potential customers; PEMEX decision not expected earlier than 2nd Quarter 2004**
- **Earliest in-service date early 2005.**

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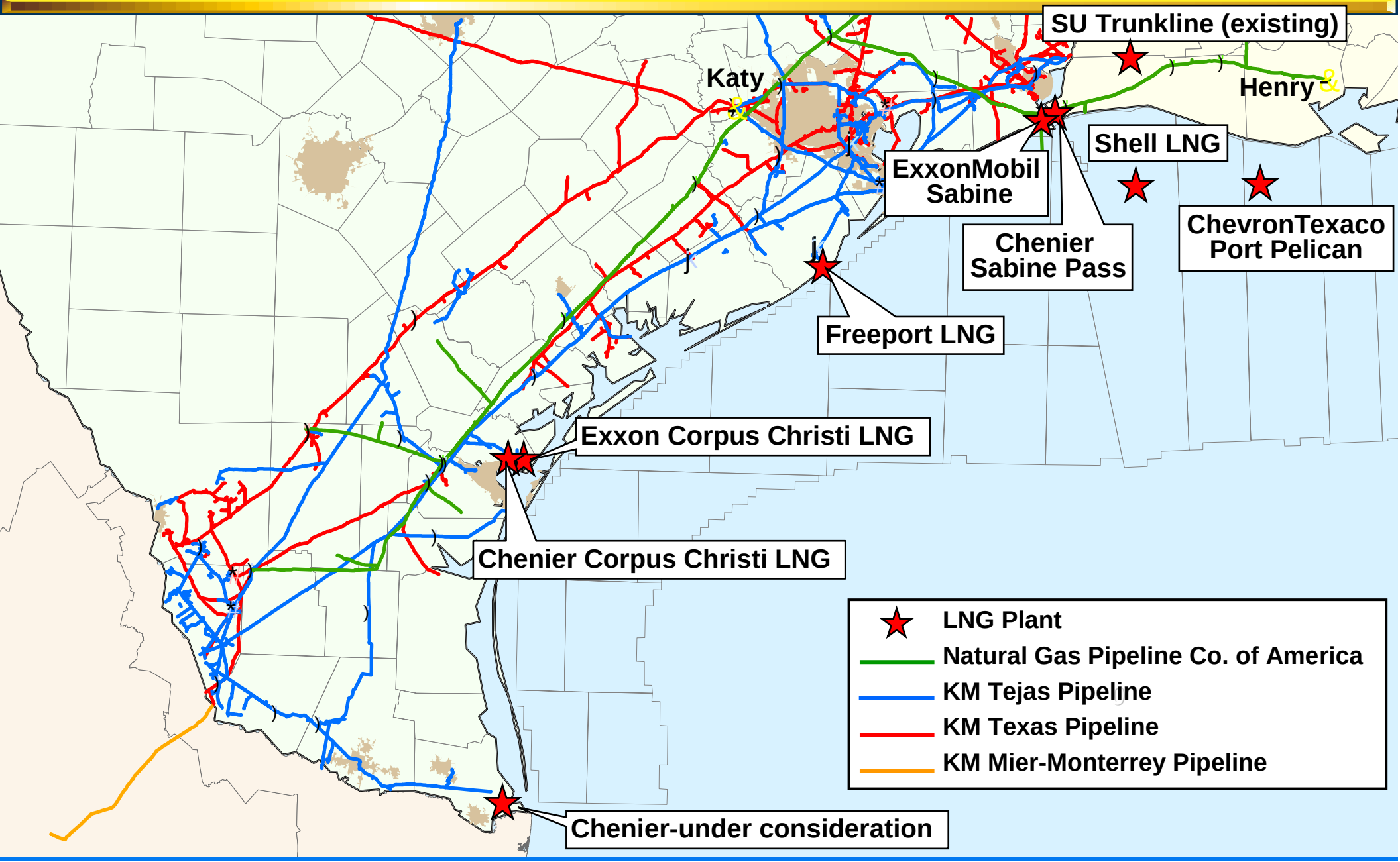
Existing & Proposed Gulf Coast LNG Plant Locations



LNG

- KM's likely role is as provider of takeaway capacity and downstream services (e.g. storage)
- Objective: attract LNG to KM systems
- Proposals sent to several developers on Gulf Coast
- Current focus – Freeport LNG

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Key Challenges

- Significant sustaining capex and maintenance costs for regulatory compliance continue in ‘04 and ‘05
- Market declines possible, particularly in commodity chemicals sector
- Credit quality
- Decline in hub-to-hub spreads
- Continuing effort to reduce exposure to sales business

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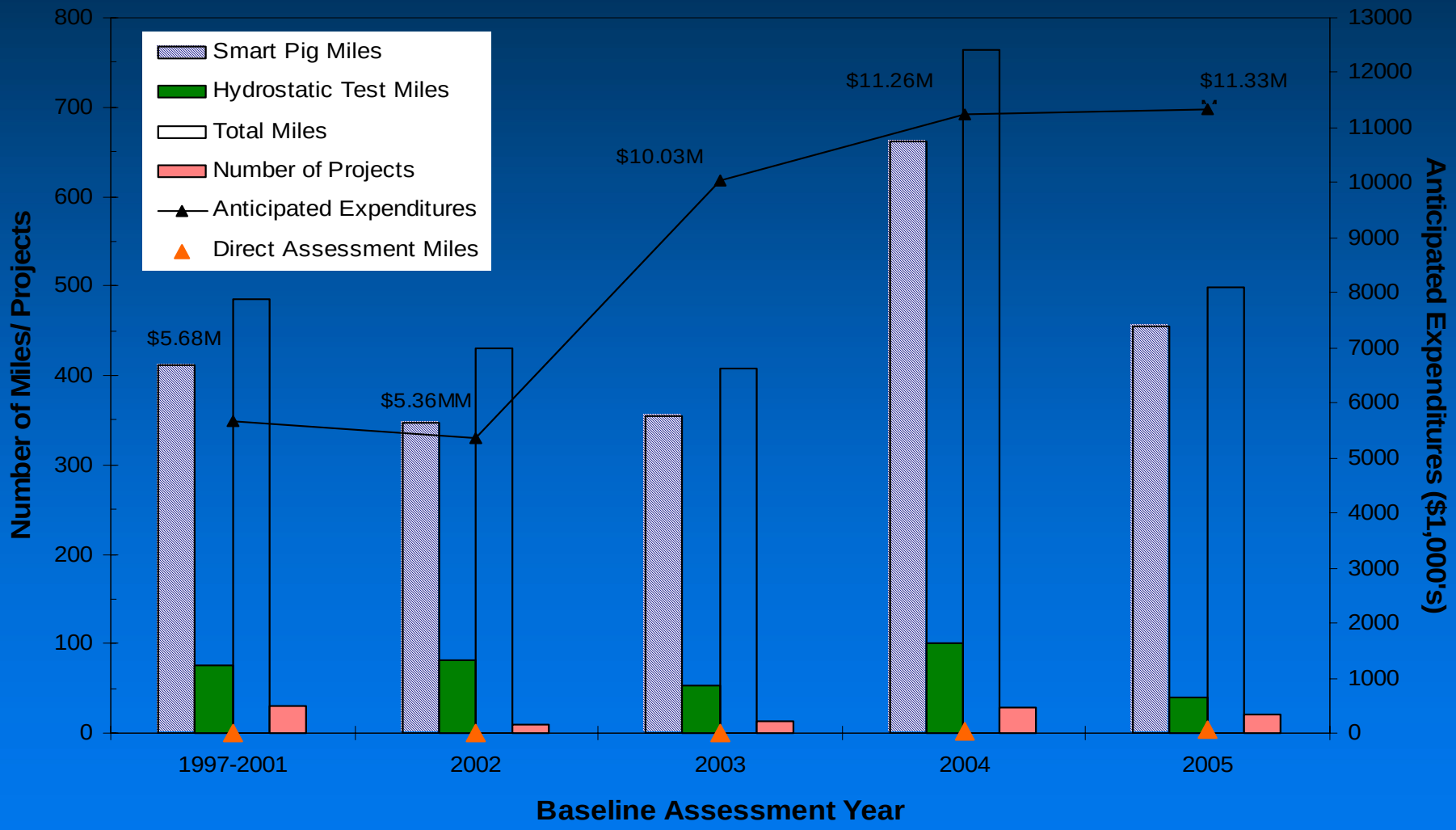
KMTP/Tejas Proposed Baseline Assessment Yr Versus Number of Miles/ Projects and Anticipated Capital Expenditures



- **50% Complete by end '05**

Conclusion

- Modest base business growth
- Good performance from capital projects
- Significant growth opportunities from new projects
- Actively managing our key challenges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