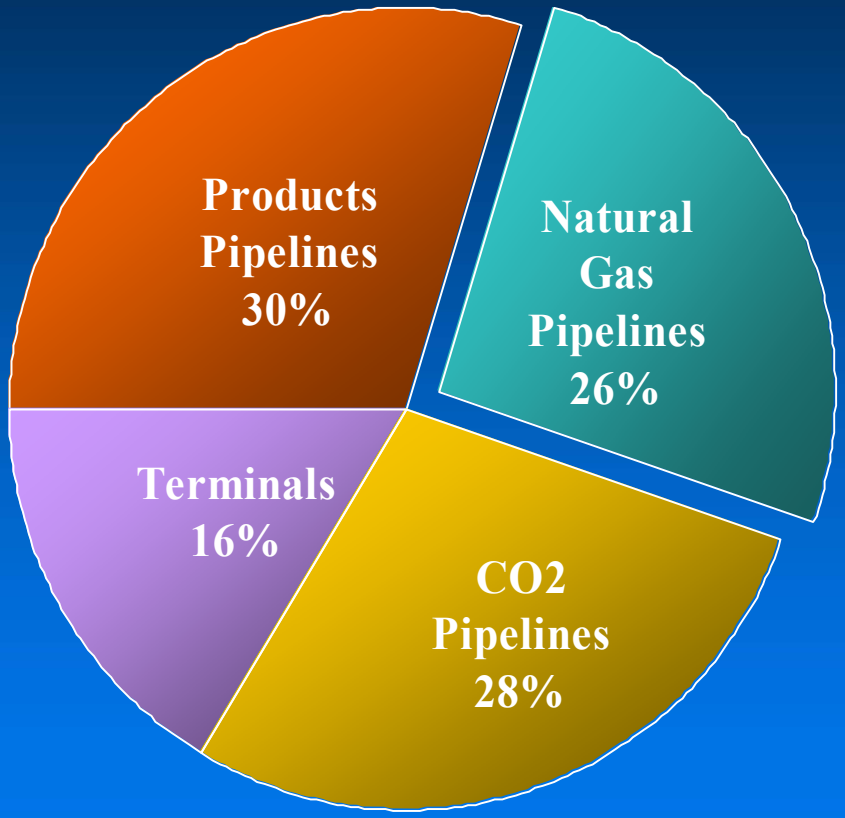
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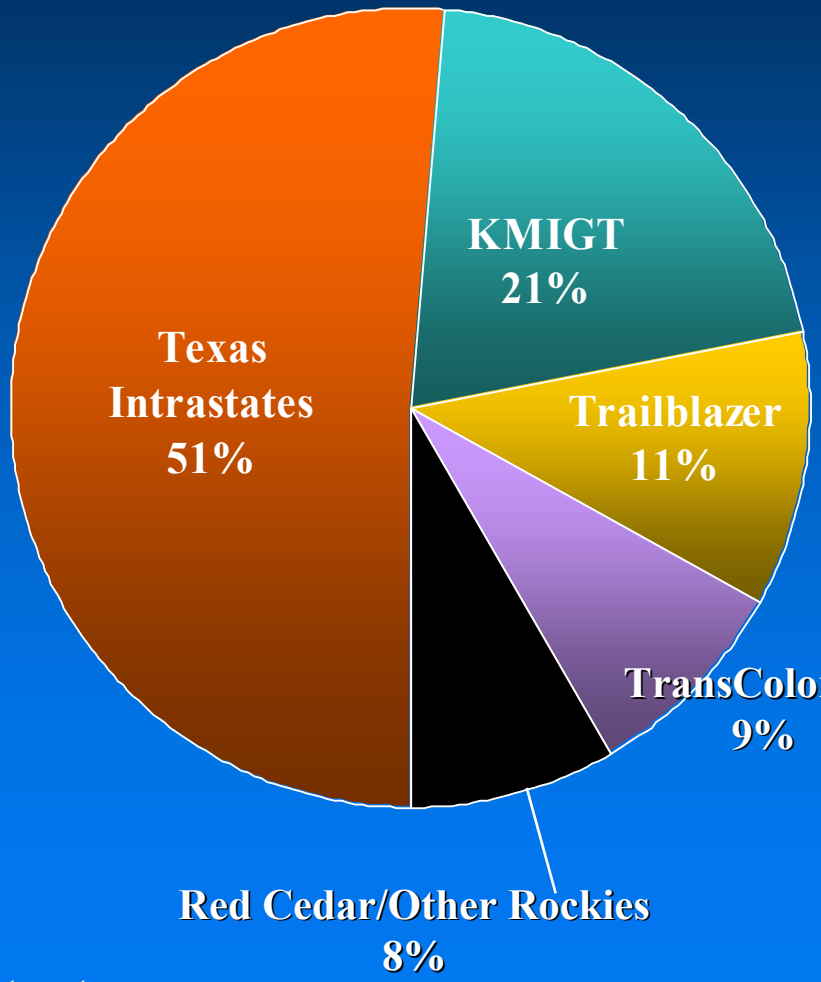
Texas Intrastate Pipelines Update

Steve Kean

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2005 Natural Gas Segment Overview (a)





(a) 2005 budgeted distributable cash flow before G&A and interest

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Overview

- Results
- Market Environment
- Business Description
- Strategy (esp. sales business)
- Expansion Projects
- Outlook

Overall Financial Performance

($000's)

	2002*			2003			2004		
	Op Inc	EBDA	DCF	Op Inc	EBDA	DCF	Op Inc	EBDA	DCF
KM Intrastate	$124,269	$148,126	$142,116	$146,940	$172,060	$157,505	$186,120	$213,126	$197,286
Y-Y % Change				18.2%	16.2%	10.8%	26.7%	23.9%	25.3%
Monterrey	$0	$0	$0	$7,990	$9,174	$9,111	$8,445	$10,053	$10,002
North Texas	$3,000	$3,000	$3,000	$7,549	$8,726	$8,726	$10,055	$11,353	$11,353
Total	**$127,269**	**$151,126**	**$145,116**	**$162,479**	**$189,960**	**$175,342**	**$204,620**	**$234,532**	**$218,641**
Y-Y % Change				27.7%	25.7%	20.8%	25.9%	23.5%	24.7%

* Added one month for Tejas

- Strong asset position
- Reduced risk in sales business – keeping more of what we earn, effectively managing "inadvertent" positions
- Some success in charging for embedded services (quality, swing, pressure)
- Increased utilization (combined sales and transport up 2% year over year)
- Good cost control (e.g. glu)
- Strong performance from KM Intrastate Capital projects

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Market Environment

- Texas is the largest gas producing state and the largest gas consuming state
  - 15.9 Bcf/day production
  - 11.2 Bcf/day consumption
- Consequently, Texas market developed a substantial intrastate pipeline network
- Intensely competitive, especially on the gulf coast; significant industrial consumption
- Significant pipeline participation in sales business
- Unique, stricter, pipeline safety/integrity regulation

Market Environment - Trends

- Hub-to-Hub spreads tightening: Mexico effect
- Credit quality improving - - recovery in manufacturing and chemical sectors
- Gas quality issues becoming increasingly important - - lower quality on some new production and more sensitive end uses
- Market is low growth/flat
  - New industrial facilities being developed in the Houston Ship Channel, but …
  - increased energy efficiency throughout the complex
- Attractive growth opportunities outside of traditional market area – Austin, Dallas

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Business Description

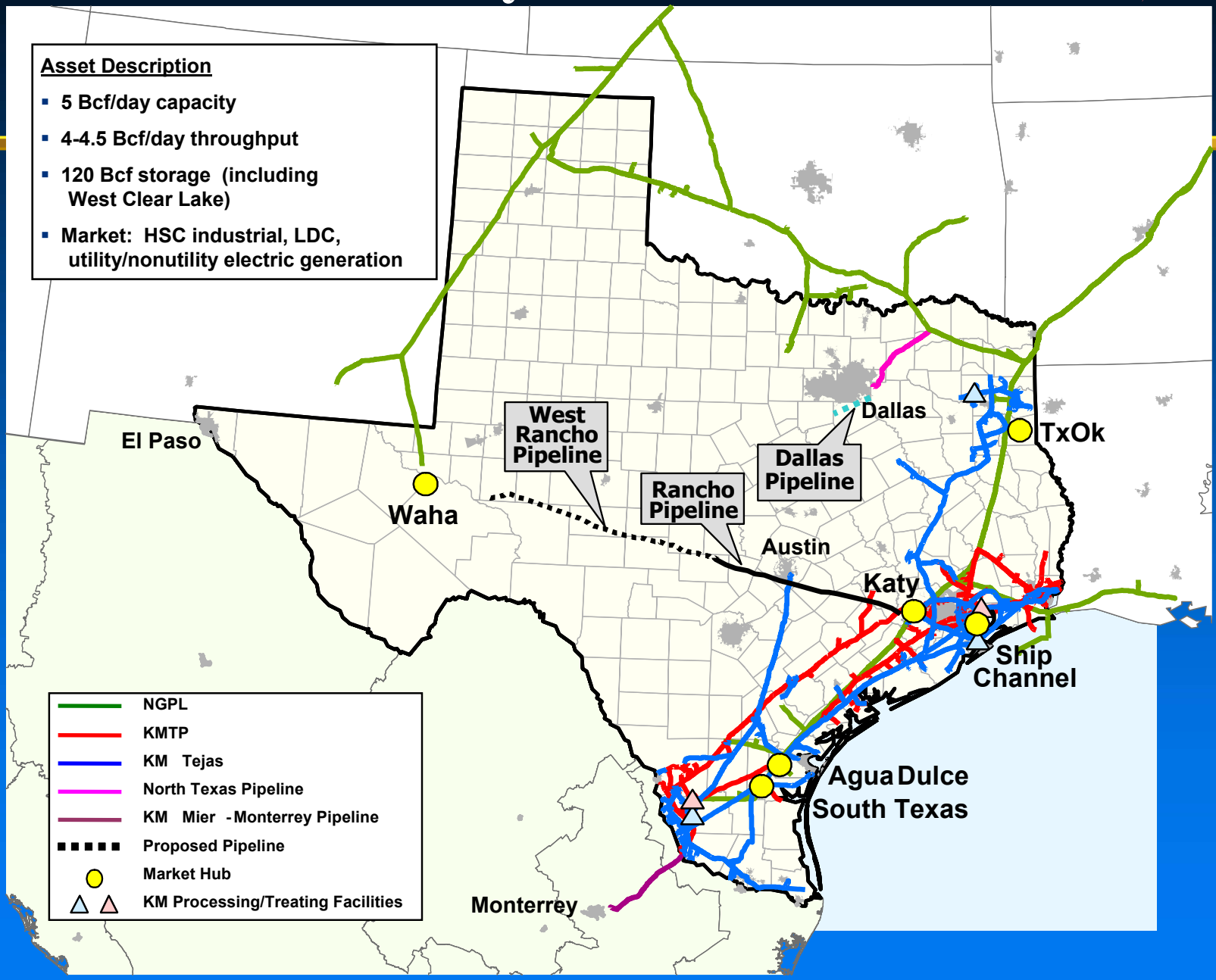
- Assets
- Services

Texas Natural Gas System

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Asset Description

- 5 Bcf/day capacity
- 4-4.5 Bcf/day throughput
- 120 Bcf storage (including West Clear Lake)
- Market: HSC industrial, LDC, utility/nonutility electric generation



Business Description – Services (indicative % contribution to gross margin)

- Purchase/Sales (50%)
  - Producer to end user
  - Priced relative to index (hedged)
  - Fuel component in purchase pricing
  - Some embedded swing/storage service
- Transport (30%)
  - Over 2 Bcf/day under term transport arrangements
  - Customers include: BP, CenterPoint, Conoco, Calpine
- Storage (10%)
  - All storage capacity sold under term arrangements
  - Customers include: Coral, BP, CenterPoint, Austin Energy, Texas Gas Services (Oneok)
  - Storage obligations and rights not coterminous
- Processing/Treating (10%)
  - Service is typically embedded in purchase agreements
  - 1 Bcf processing capacity (owned and third party); .25 Bcf treating capacity
  - Contract structure limits exposure to liquids price fluctuations

Contracted Capacity and Term

Sales & Transportation

	MMBtu Volume/Day	Avg Term Remaining
Commodity	2,529,901	2 yr, 6 mo
Demand	2,527,500	4 yr, 0 mo
Total	5,057,401	3 yr, 3 mo

w/o Daily & Mo	MMBtu Volume/Day	Avg Term Remaining
Commodity	1,943,335	3 yr, 3 mo
Demand	2,527,500	4 yr, 0 mo
Total	4,470,835	3 yr, 8 mo

Storage

	MMBtu	Avg Term Remaining
Storage Volume/Term	123,850,000	6 yr, 10 mo

Without Coral	MMBtu	Avg Term Remaining
Storage Volume/Term	27,850,000	5 yr, 3 mo

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Objectives and Strategy

Objectives	Strategy	Results
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	• Solid margin growth, particularly on sales business • Success in charging for value added services • Offsetting spread compression with supply away from hubs.
Grow earnings through expansion projects	• Build out to less-contested, growing markets • Austin, Dallas, Mexico • On system storage expansions/enhancements	• Rancho on-time, on-budget; with upside potential • Closed Rancho West End • Secured commitment for Markham storage expansion • "Getting close" on South Dallas Barnett Shale project.
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)	• May be reaching limit on migration to transport (especially at today's hub-to-hub spreads) • Controls are working – fewer, less consequential negative surprises • Contract structures also reducing exposure (e.g. FOM/GD split)

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Strategy – Sales Business Overview

- Customers (producers and end users) desire the service
- Margins are higher (especially when compared to current basis spreads on the pipeline)
- But… it is a low % margin business in a highly volatile commodity
- ⇨ Description of the Risk: Inadvertent position (inadvertent long in a falling market; inadvertent short in a rising market) due to variability in production and/or consumption
- ⇨ Mitigation
  - Index – based pricing
  - Fuel component in many purchase contracts
  - Swing pricing (not in all contracts….yet)
    - "split" contracts on supply side
    - separate pricing for swing on demand side

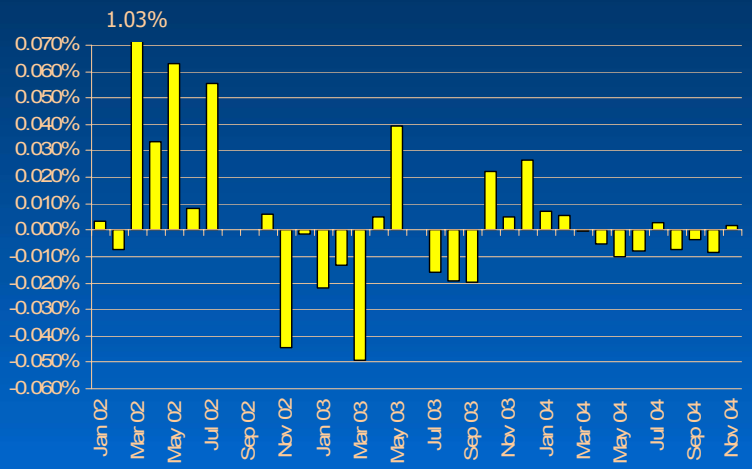
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Strategy – Sales Business Overview (cont'd)

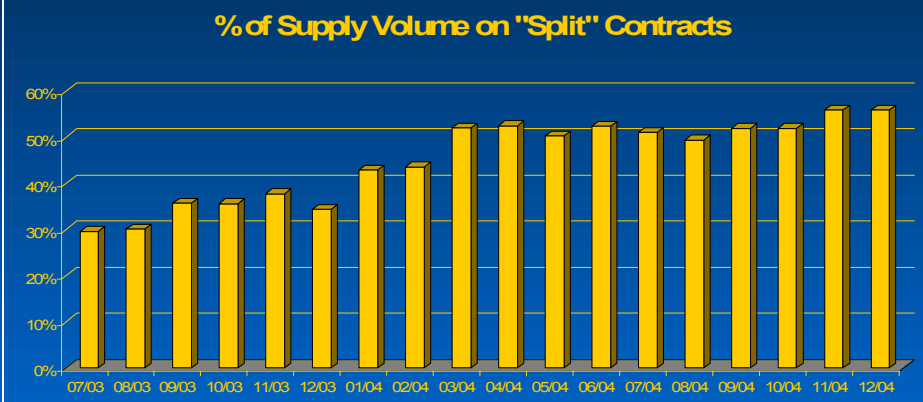
- Tight controls:
  - Credit
  - More real time measurement
  - More OBAs with cash out provisions
  - Tighter contract language
  - Better systems - - multiple reports to support position management
  - Systems don't do everything - - people are familiar with their data
- ⇨ Residual Risk
  - Credit: a "surprise" counterparty bankruptcy
  - Not all measurement is real time
  - Some allocations are post hoc (e.g. processing plants)
  - Index postings
- ⇨ Mitigation of Residual Risk
  - Portfolio effect
  - Employee culture – continuous improvement ethic

Controls Process

Volume Accuracy



Gas Purchases



Trade Receivables

- Collected within 30 days: 99.51
- Collected within 90 days: 99.95%

Through December 2004

Credit

- No significant defaults on trade receivables
  (≤ $100,000/year)
  (on almost $6 billion in revenue).

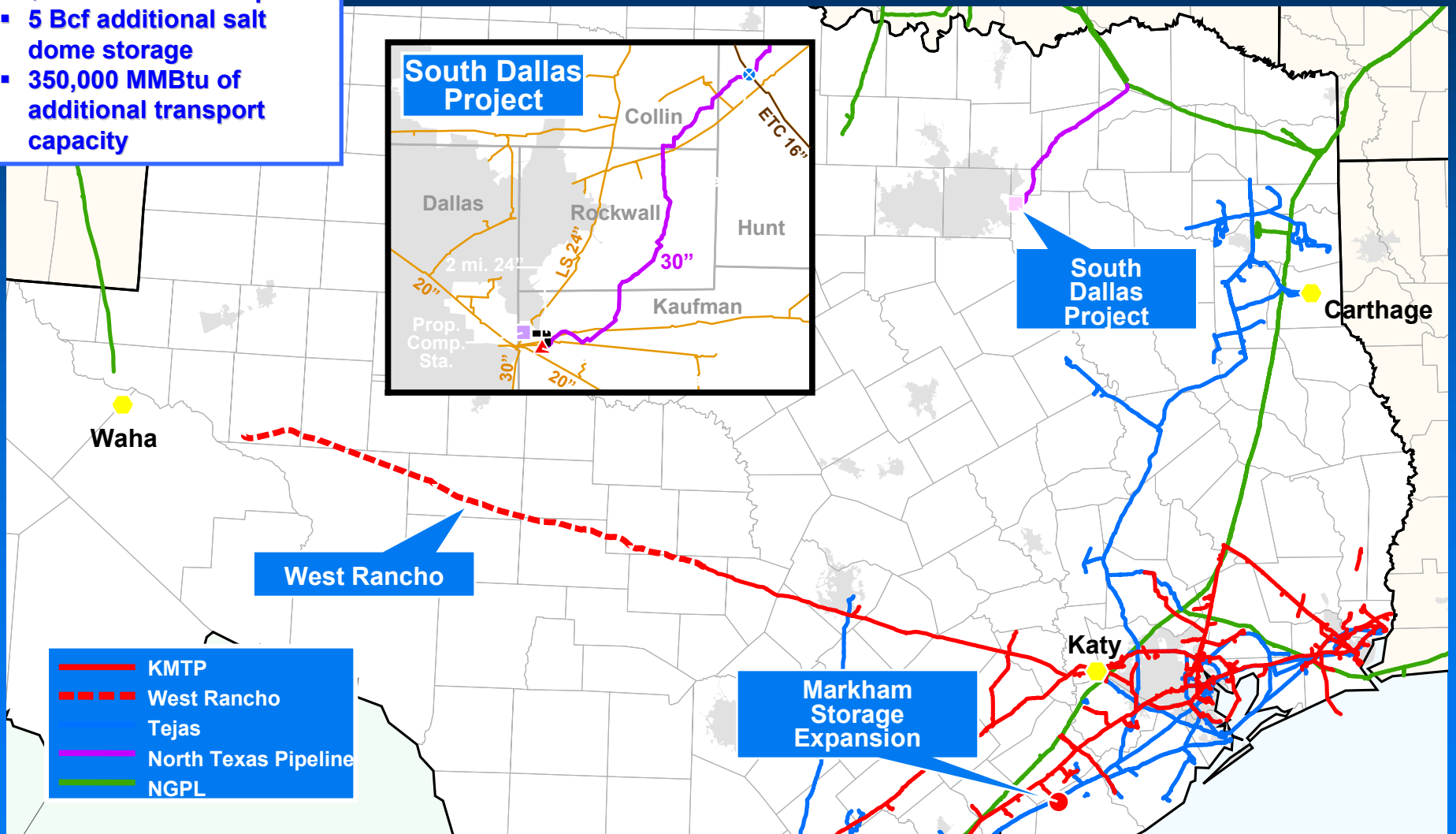
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Strategy – Sales Business

- Better controls have reduced, but not eliminated, exposure to sales business
- But, increasing migration to fee-only transport and storage would mean surrendering margin
- Long term: (Keep what we can make the most of and sell what others can make the most of)
  - Keep commitment to sales business: hold capacity for purchase/sales business from producers-end users
  - Improve margins on value-added services
  - Culture of continuous improvement on controls and data reliability
  - Sell storage and hub to hub transport to third parties
  - Consider holding capacity on new projects (e.g. West Rancho, South Dallas)

Expansion Projects

- $75 – 100 MM of capital
- 5 Bcf additional salt dome storage
- 350,000 MMBtu of additional transport capacity



Expansion Projects – Dallas Area

- Opportunity – planned Barnett Shale exploration and production is constrained by the available pipeline capacity.
- KM project – build new facilities and enter into upstream transportation arrangements to bring over 200,000 MMBtu/day of Barnett Shale gas into the existing KM North Texas pipeline for redelivery to
  - attached generation
  - TxOK zone
- Shippers are anxious to proceed. We are finalizing 3rd party arrangements.
- Expect in service in the latter part of this year.

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Expansion Projects – West Rancho

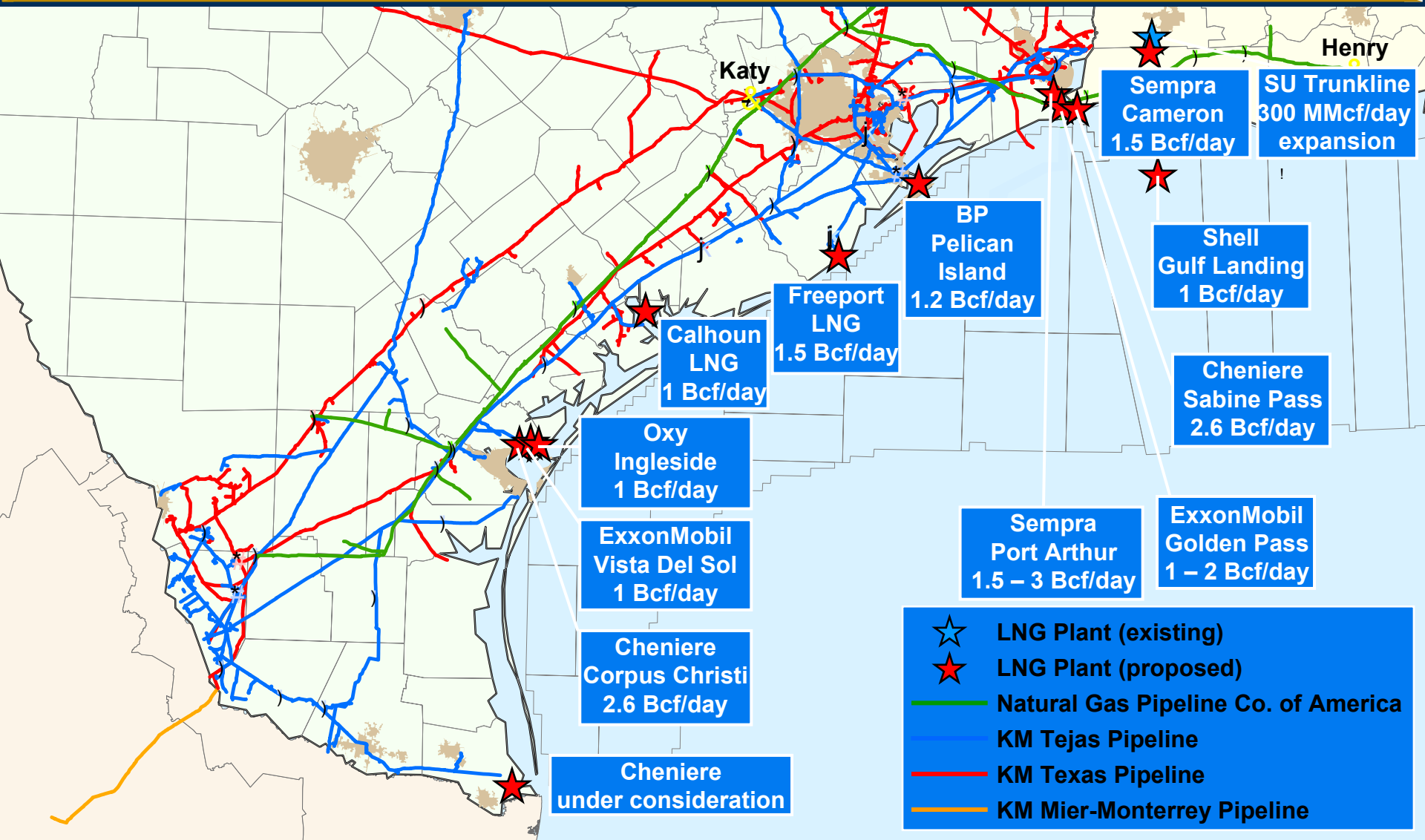
- East end of Rancho (Katy to Austin) in service in July and under budget
- Acquired West End of Rancho crude line in 2004; can be converted from Waha area eastbound to Austin
- Working with several shippers for long term commitments to the project
- Substantial basis differentials from Waha to Katy

Expansion Projects – Markham Storage

- Using existing salt cavern (already leached)
- Connected to KM Texas system
- Adding compression and surface facilities can make 5 Bcf of working capacity available by the end of this year
- Anchor shipper secured

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Gulf Coast LNG Projects



Expansion Opportunities – Point of View on LNG

- LNG on the Texas Gulf Coast is highly likely
- KM Texas well positioned to provide services
  - header system (intrastate)
  - downstream services: swing management (storage)
- LNG terminals will be controlled by the majors
- But …. downstream services (e.g. to smooth out deliveries) have potential

Outlook and Conclusions

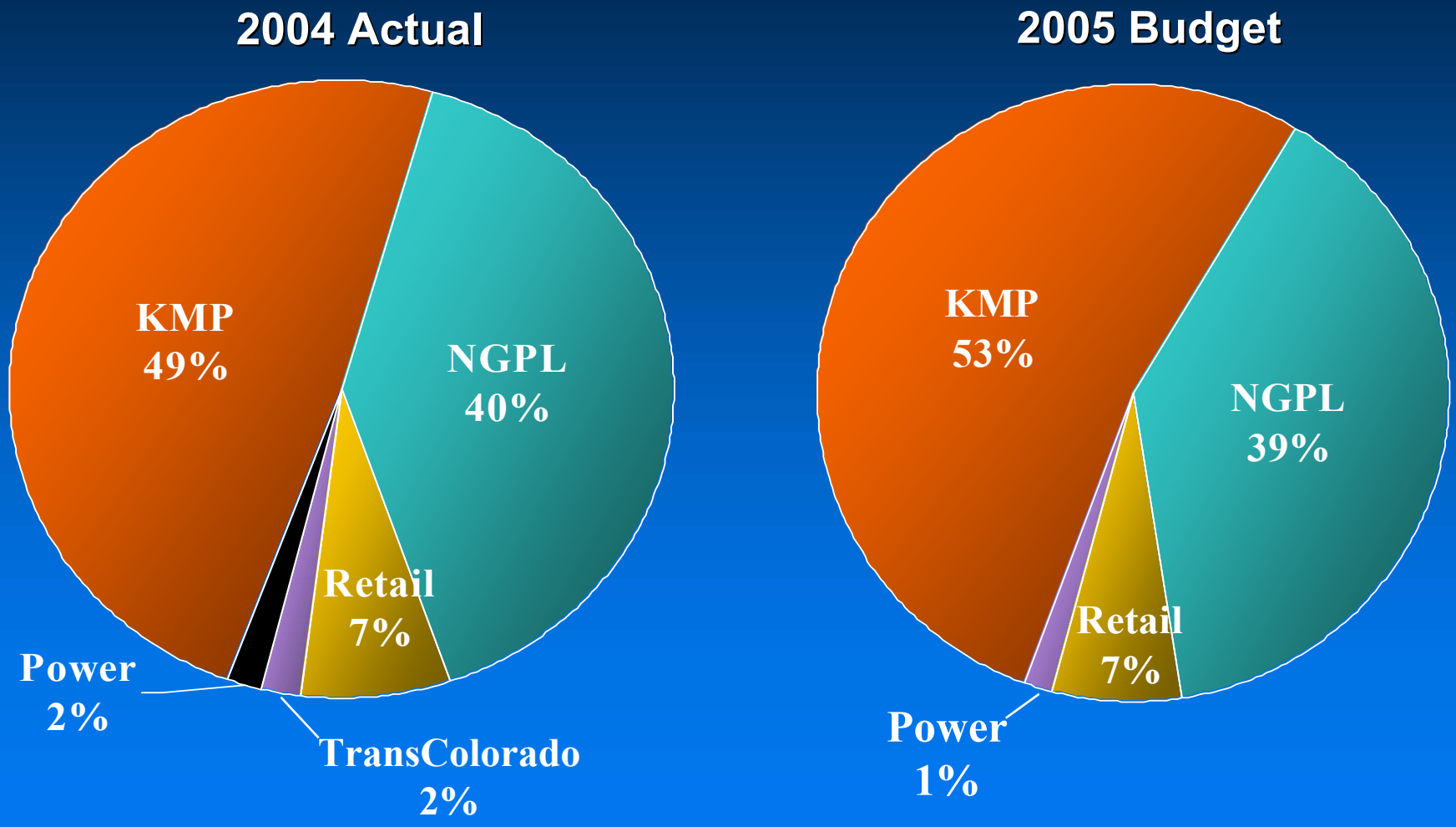
- Asset is substantially more stable
- “Best pipeline asset position in Texas”
- Making progress on incremental margin improvement in existing market while aggressively pursuing new markets
- Actively managing our risks and exposures

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Natural Gas Pipeline Company of America (NGPL)
KMIGT and Trailblazer

Scott Parker

NGPL Impact on KMI Earnings (a)



(a) 2004 results and 2005 budgeted segment earnings before G&A and interest expense. KMP includes: (i) general partner interest, (ii) earnings from 20 million KMP units and (iii) earnings from 15 million KMR units.

NGPL Pipeline and Storage System Overview



NGPL SYSTEM

- Over 10,000 Miles of Pipe
- 61 Compressor Stations with 1.0 Million HP

Peak Day Deliverability-Market	Bcf/d
Amarillo Line	1.7
Gulf Coast Line	1.6
Market Storage (delivered)	2.5
Total	**5.8**
Louisiana Line	**0.9**
A/G Line	**0.7**
Field Storage	
Lansing	1.1
Sayre	0.4

Storage Working Gas	Bcf
Illinois	71
Iowa	46
Production Area	126
Total	**243**

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NGPL Competitive Advantages

- Well Connected to the Marketplace
  - Local Distribution Companies “LDCs”
  - Gas Fired Power Plants
  - Other Downstream Markets
- Storage
  - Size & Integrated Services
- Diverse Supply Basins
  - Access to most Major Supply Basins
  - Pools for customers to sell and buy gas on NGPL Pipeline
- Flexible / Redundant Infrastructure
  - Reliable

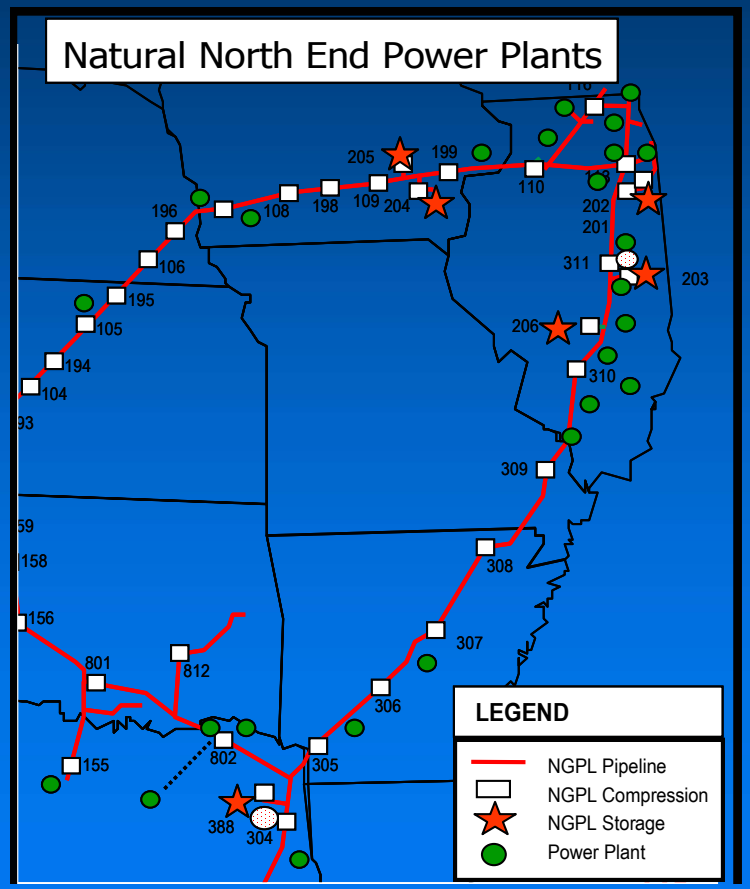
Competitive Advantages…
Well Connected to the Marketplace

Interconnected with Midwest LDCs

Major Market LDCs	NGPL Total Point Capacity (Bbtu/d)	NGPL Total Physical Interconnects
Nicor – Chicago Suburbs	10,547	79
Peoples/No. Shore – Chicago & No Subs	6,976	31
NIPSCO - Indiana	1,815	5
MidAmerican - Iowa	1,273	35
Illinois Power – Central Illinois	630	28
IES Utilities - Iowa	269	28
Wisconsin Electric - Wisconsin	251	3
Interstate Power - Iowa	136	1
CILCO – Central Illinois	198	5
CIPS – Southern / Central Illinois	131	7
Total	22,226	222

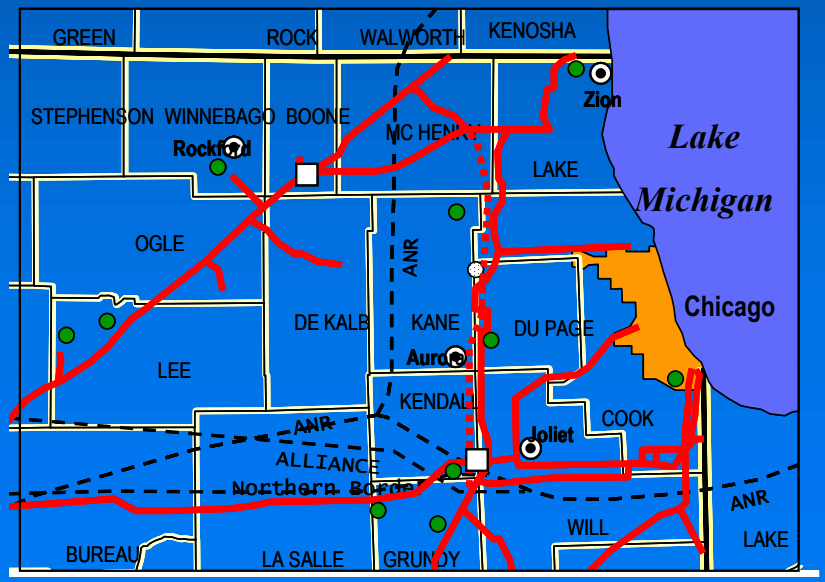
Competitive Advantages…
Well Connected to the Marketplace

Interconnected with Gas Fired Power Plants



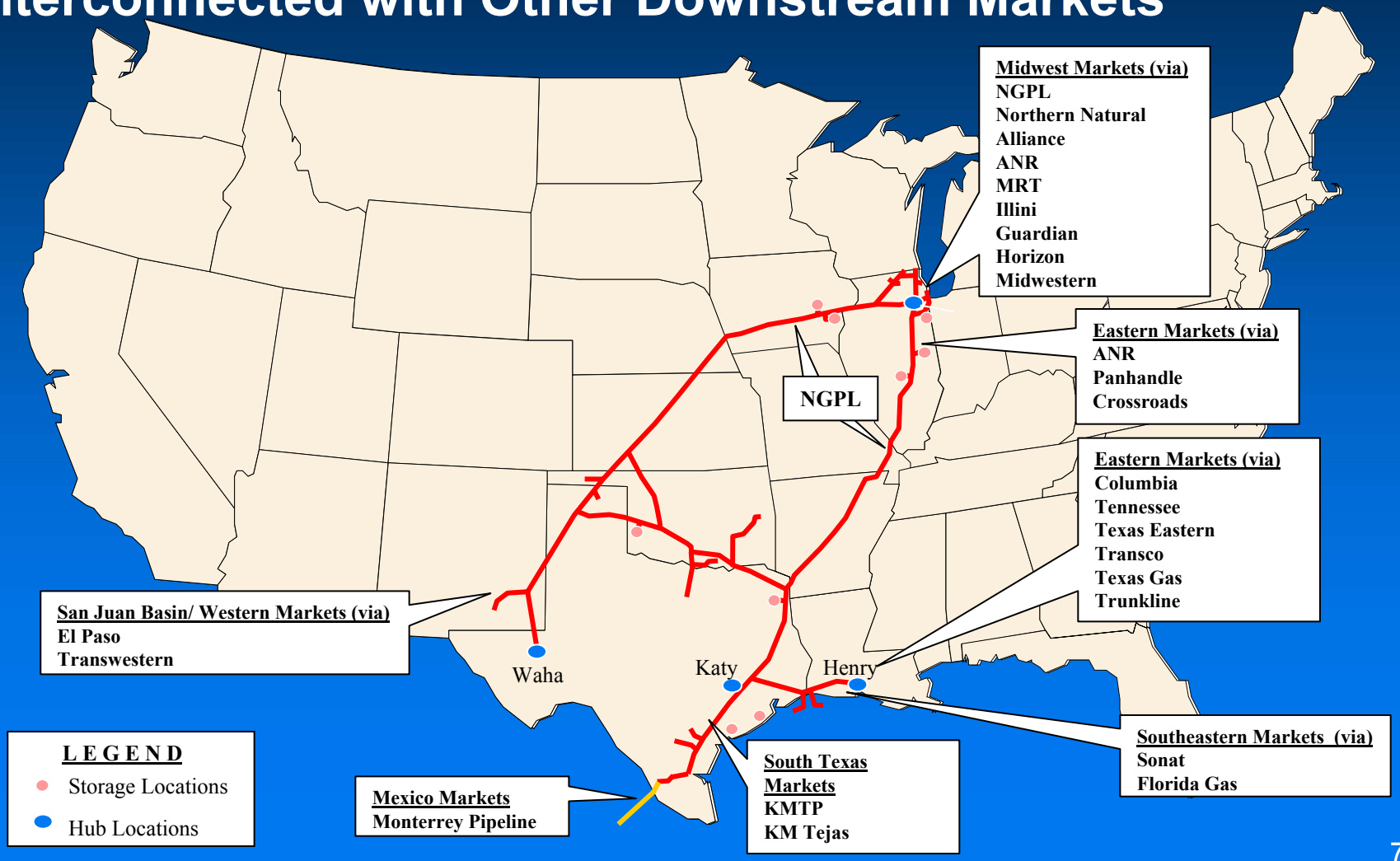
Gas Fired Electric Generation on NGPL

- Over 17,700 MW of Electric Generation connected
- Plants have been constructed in last few years and are widely disbursed
- Many gas fired power plants currently have a low utilization factor, as utilization grows with electric demand plants will need incremental supply.



Competitive Advantages…
Well Connected to the Marketplace

Interconnected with Other Downstream Markets



Competitive Advantages… Storage Assets

- **243 Bcf of Working Gas**
- **Firm or Interruptible services**
  - Delivered Storage Service “DSS” is no-notice packaged service where deliveries (or withdrawals) include transport on NGPL
  - NSS can be packaged with transport for no-notice injections and off-peak withdrawals
- **Storage peaking swing-up capability to meet demand**
  2.5 Bcf/d Market, 4.0 Bcf/d total
- **Mainline and Storage - a powerful combination**
  Reliability
  Flexibility
  Swing Service
  Point to Point, Area to Area Wheeling
- **Some Competitors have limited or no storage services**
  - Northern Border – No Storage Services
  - Alliance – No Storage Services
  - Northern Natural Gas – 55.3 Bcf
  - Panhandle / Trunkline – 43.7 Bcf

Competitive Advantages… Access to most Major Supply Basins

	Annual Production Bcf[1]	Daily Average Bcf
Amarillo Line		
Anadarko	1,350	3.7
Hugoton	940	2.6
Permian	1,510	4.1
Rockies (WY*, CO)	1,770	4.8
Canadian (via NBPL)	770	2.1
Canadian (via Alliance)	570	1.6
Gulf Coast Line		
Offshore – Texas*	1,210	3.3
Offshore – Louisiana*	3,910	10.7
South Texas (Onshore)	2,460	6.7
So Louisiana (Onshore)*	930	2.5
East Texas	1,040	2.8
Arkoma	490	1.3
Total	16,950	46.4

[1]Year 2002 except as indicated by *, which are 2001.
Sources: EIA, Canadian NEB, state agencies.



Competitive Advantages… Flexible / Redundant Infrastructure

- **Excellent Reliability for Firm Service Customers**
  - OFO (operational flow order) days - flexibility is decreased.
    - Winter 04/05 – 0 days
    - Winter 03/04 – 0 days Summer 04 – 0 days
  - Firm Curtailment days - effected pipeline segment capacity is unavailable for nominations.
    - 2005 - 0 days
    - 2004 - 2 days (Black Marlin tie-in - no firm service curtailed)
    - 2003 - 0 days
- **Flexible System Operation and Reliability Created by:**
  - Operating storage fields in aggregate
  - A multi-path system that has multiple lines in a right of way including the redundancy created by the Cross Haul pipeline
- **Redundant System Compression at Many Locations**

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NGPL – Base Business

- **Limited unsubscribed Capacity**
- **Significant recontracting success already for 2005**
- **Seeing high customer demand and increased margins on:**
  - Amarillo and Louisiana Line Transport
  - NSS Storage Service
- **Average contract term remains about 3 years**
- **Collections: on average 99.4% of invoices collected by month end**
- **No rate case obligation**

Current Position - Limited Unsubscribed FTS Capacity

Amarillo Mainline (1.7 TBtu/d)	**Sold Out**
Gulf Coast Mainline (1.6 TBtu/d)	158,000 long haul available April '05* 74,133 winter only available Nov '05
Louisiana Line (.9 TBtu/d)	**Sold Out**
Cross Haul (.7 TBtu/d)	**Sold Out**

* Note: 158,000 equal 4.8% of Long haul Mainline Capacity

Limited 2005 FTS Expirations By Quarter (Volume in Dth/day)

Significant recontracting success already. NGPL had 18.7% of capacity expiring in 2005, today only 5.8% of mainline remains to be recontracted.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Cumulative 2005
Amarillo Mainline (1.7 Tbtu/d)	0	300	0	44,425	**44,725**
Gulf Coast Mainline (1.6 Tbtu/d)	0	0	61,270	86,800	**148,070**
Louisiana Line (.9 TBtu/d)	50,000	0	0	46,500	**96,500**
Crosshaul (.6 TBtu/d)	0	0	0	5,000	**5,000**
Total (Mainline 3.3 TBtu/d)	0	300	61,270	131,225	**192,795**
% of Mainline Capacity	0.0%	0.0%	1.8%	4.0%	**5.8%**

Note: In 2005 NGPL has 4.8% long haul capacity available for sale (from previous slide) adding the 5.8% long haul capacity expiring (from above) = **10.6% to be contracted in 2005**

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Historic & Future Long Haul FTS Expirations

Recent History:

- Mainline FTS Expirations that occurred in 2003 = 61%
- Mainline FTS Expirations that occurred in 2004 = 20%

2005 and Beyond:

- Mainline FTS Expirations remaining in 2005 = 6%
- Mainline FTS Expirations in 2006 = 51%
- Mainline FTS Expirations in 2007 = 14%

NGPL Storage Services
NSS (field storage) & DSS (no notice market storage)

- **NSS Storage Capacity**
  - Currently Sold out - No NSS Storage Capacity available for sale
  - All NSS contracts expiring in 2005 have been recontracted
    - Majority for a long term (5 years) at an increased margin

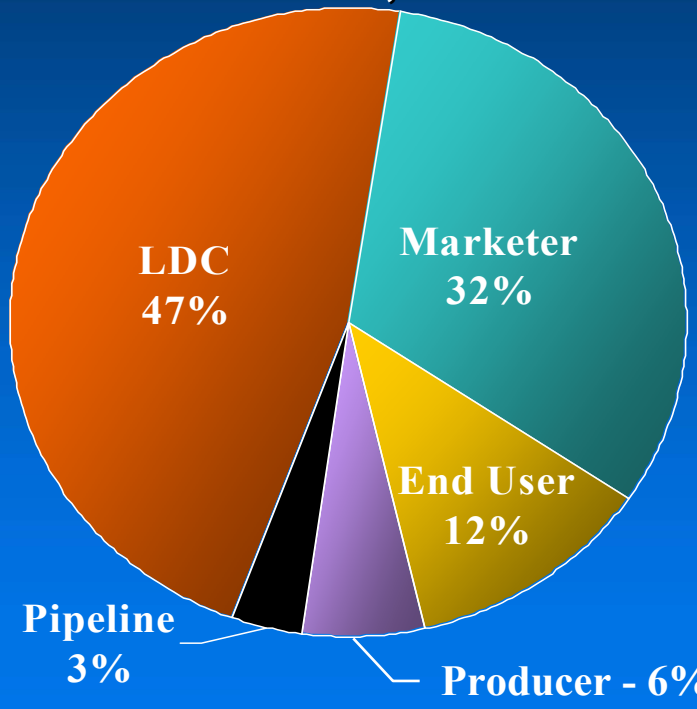
2003 Contract Expirations:	88.6	TBtu	(Sold 100% by Spring 2003)
2004 Contract Expirations:	38.6	TBtu	(Sold 100% by January 2004)
2005 Contract Expirations:	33.8	TBtu	(All recontracted as of Jan. 2005)
2006 Contract Expirations:	43.9	TBtu	
2007 Contract Expirations:	27.9	TBtu	

- **DSS Storage Capacity**
  - **Currently Sold out – No DSS Storage Capacity available for sale**

2005 Contract Expirations:	1.5	TBtu	(recontracted as of Jan 2005)
2006 Contract Expirations:	10.5	TBtu	
2007 Contract Expirations:	52.1	TBtu	

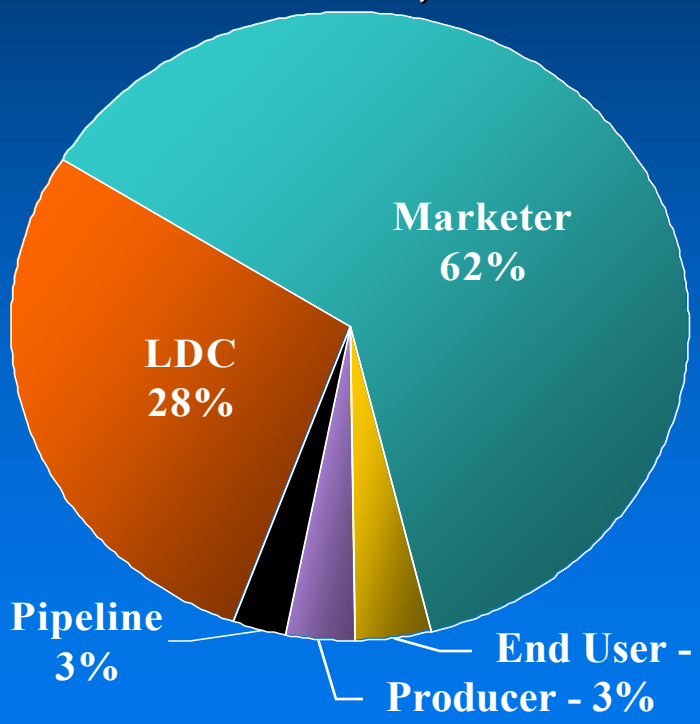
NGPL Customers by Service

Firm Transport by Customer Type
As of Jan 1st, 2005



- Average contract term for FT is 3.2 yrs

"NSS" Storage by Customer Type
As of Jan 1st, 2005



- "DSS" Storage is 100% held by LDCs
- Average contract term for NSS is 2.9 yrs
- Average contract term for DSS is 2.0 yrs

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Sustaining Capex – Reinvestment in the Asset

Sustaining Capex Trend-NGPL				
ITEM	2002	2003	2004	2005
	Actual	Actual	Actual	Budget
	(Unburdened)	(Unburdened)	(Unburdened)	(Unburdened)
Ordinary Sustaining Capex	$17,645,489	$21,106,732	$17,358,558	$19,518,382
Pipeline Integrity				
Capex	$10,342,155	$15,545,828	$9,020,000	$15,138,670
Expensed			$7,830,000	$10,332,829
Sub-Total Pipeline Integrity	$10,342,155	$15,545,828	$16,850,000	$25,471,499
Sub-Total Compession Integrity	$25,686,289	$15,259,635	$24,308,859	$28,966,067
Total Annual Sustaining Capex	**$53,673,933**	**$51,912,195**	**$58,517,417**	**$73,955,948**

- **Projected Capex increasing for all categories in 2005 versus 2004**
- **Portion of '04 & '05 work will be expensed due to proposed FERC accounting change**
- **Expect 2005 run rate will reflect future years Capex expenditures**

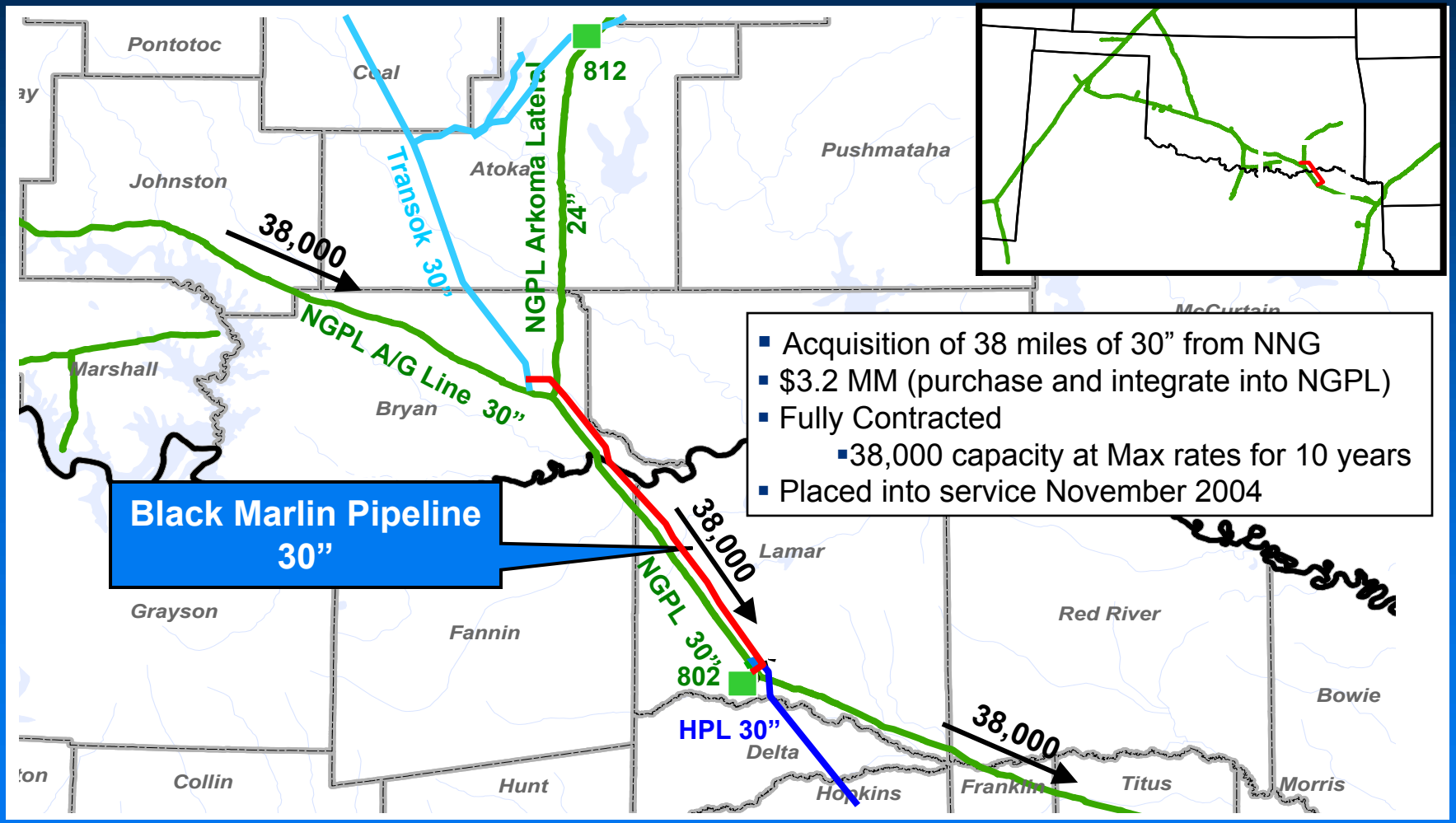
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NGPL Infrastructure Development

Focused on Growing the Asset

	Expansion Capex
Projects In-Service 2004	
Black Marlin Acquisition	$3.2
Projects In-Service 2005	
Iowa Storage Expansion	$14.3
Proposed Projects In-Service 2006	
A-G Cross Haul Expansion	$20.7
Sayre Storage Expansion	$35.3
Future Projects	
Proposed No Lansing Storage Expansion	$60.0
LNG Header (KMP Investment)	$89.0
Total Projected Investment:	$222.5

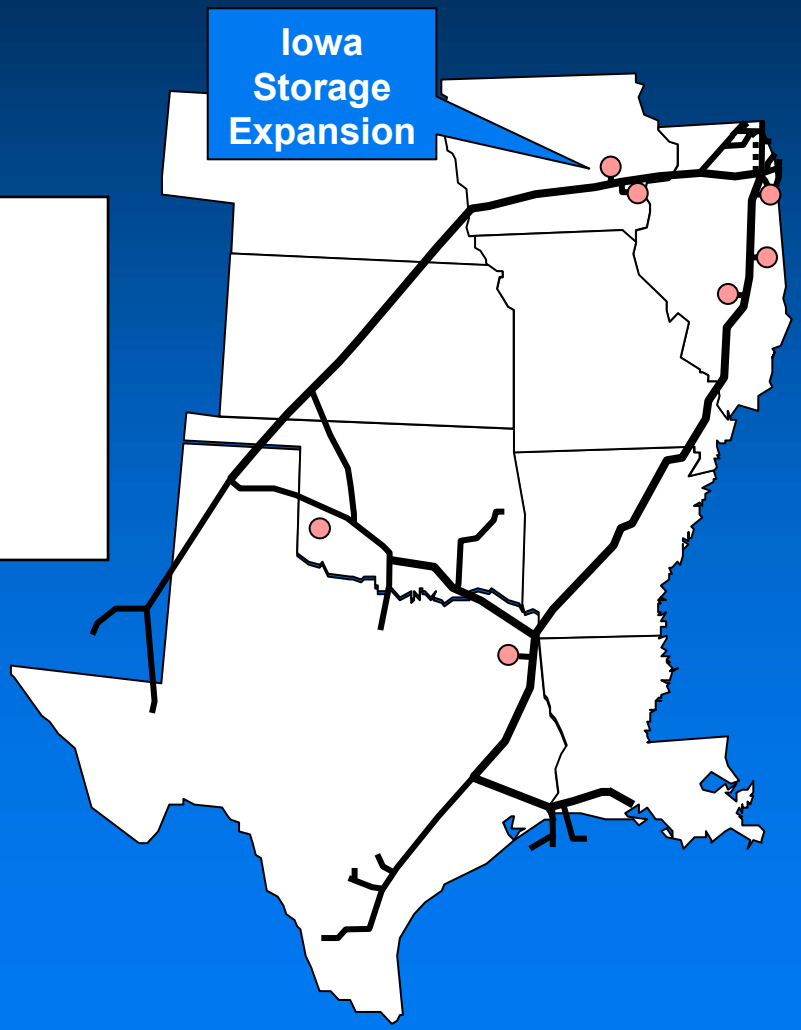
Acquisition of Black Marlin Pipeline



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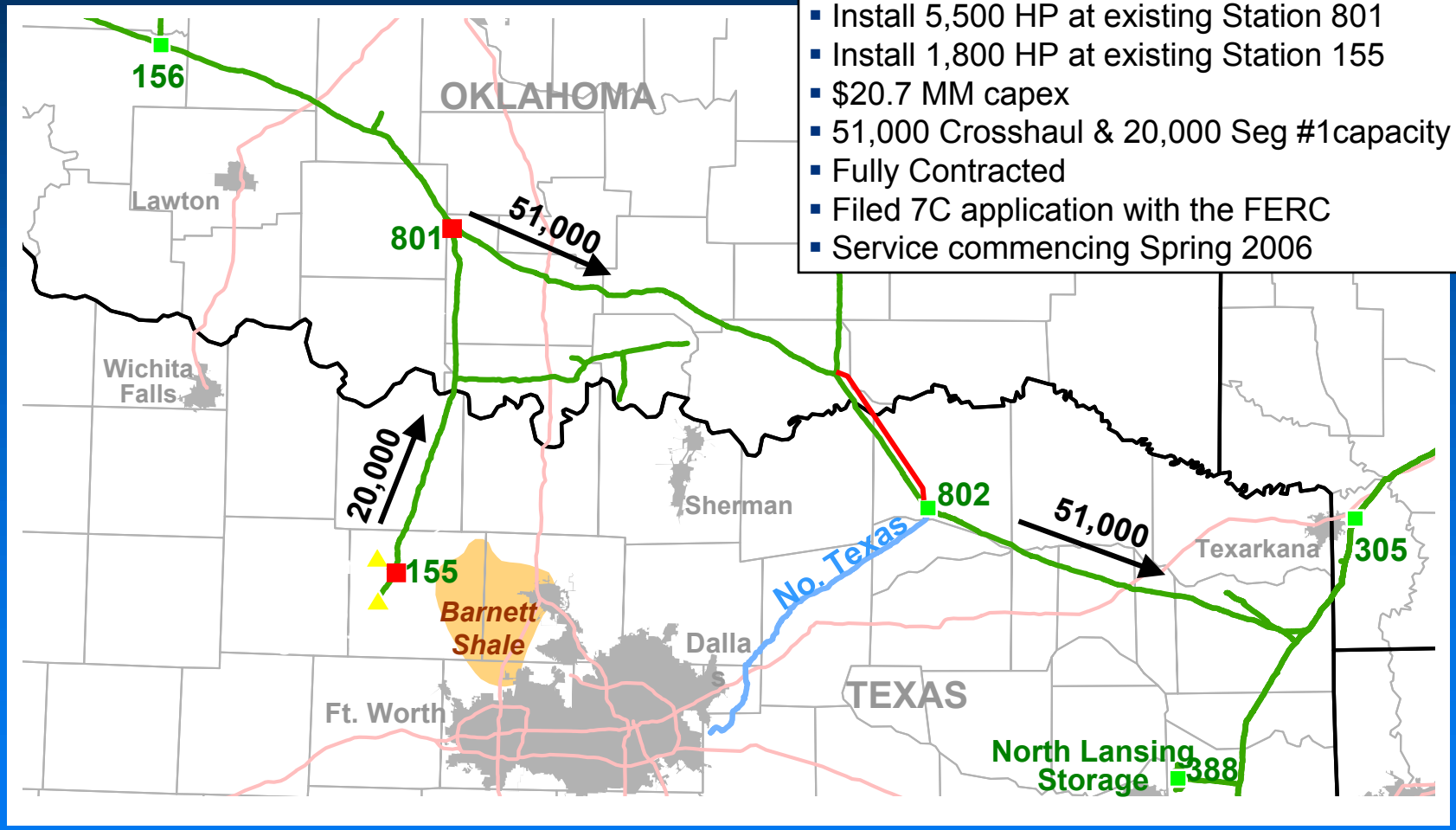
4.4 Bcf Iowa Storage NSS Service

- Install 3,500 HP
- Install 2.5 miles of field loop line
- $14.3 MM capex
- 4.4 Bcf of additional storage capacity
- Fully Contracted
- Service commencing Spring 2005



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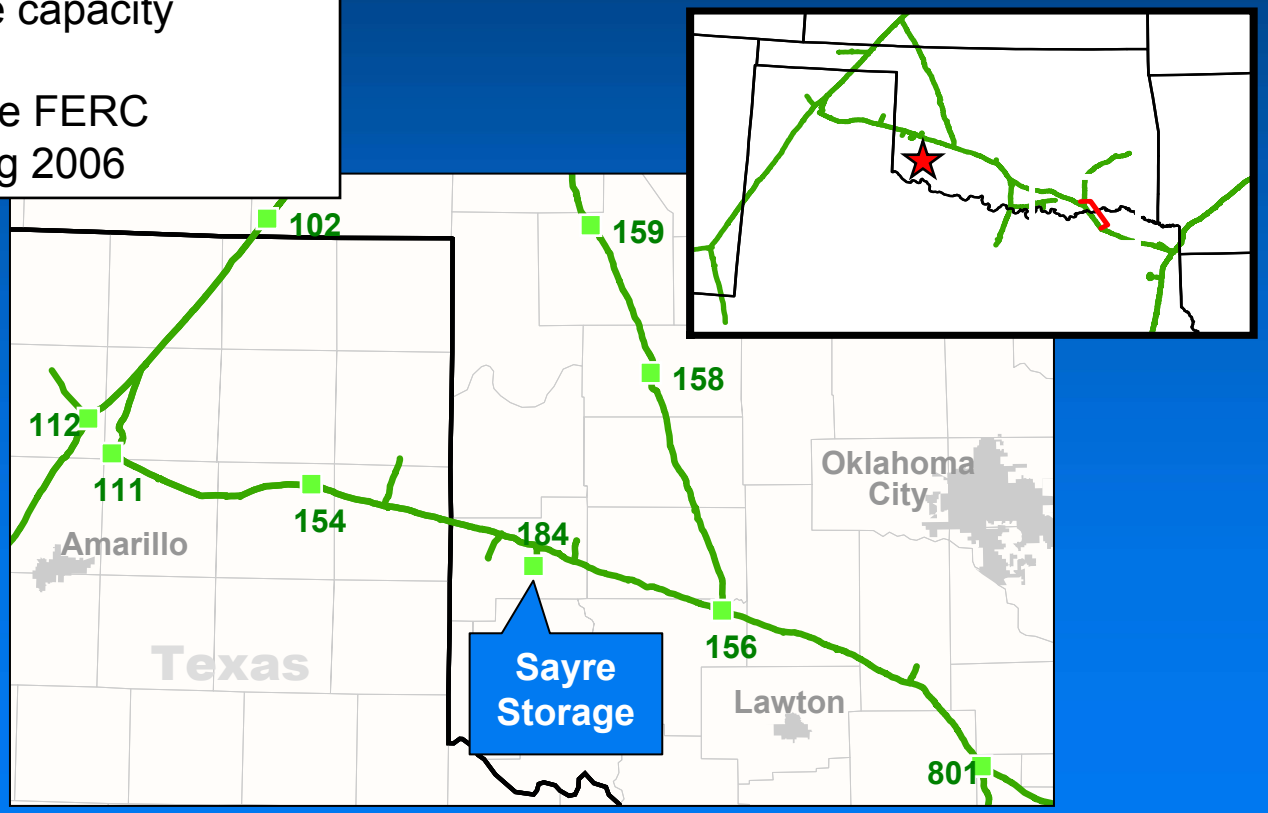
A-G Cross Haul Expansion



- Install 5,500 HP at existing Station 801
- Install 1,800 HP at existing Station 155
- $20.7 MM capex
- 51,000 Crosshaul & 20,000 Seg #1capacity
- Fully Contracted
- Filed 7C application with the FERC
- Service commencing Spring 2006

10 Bcf Sayre Storage Expansion

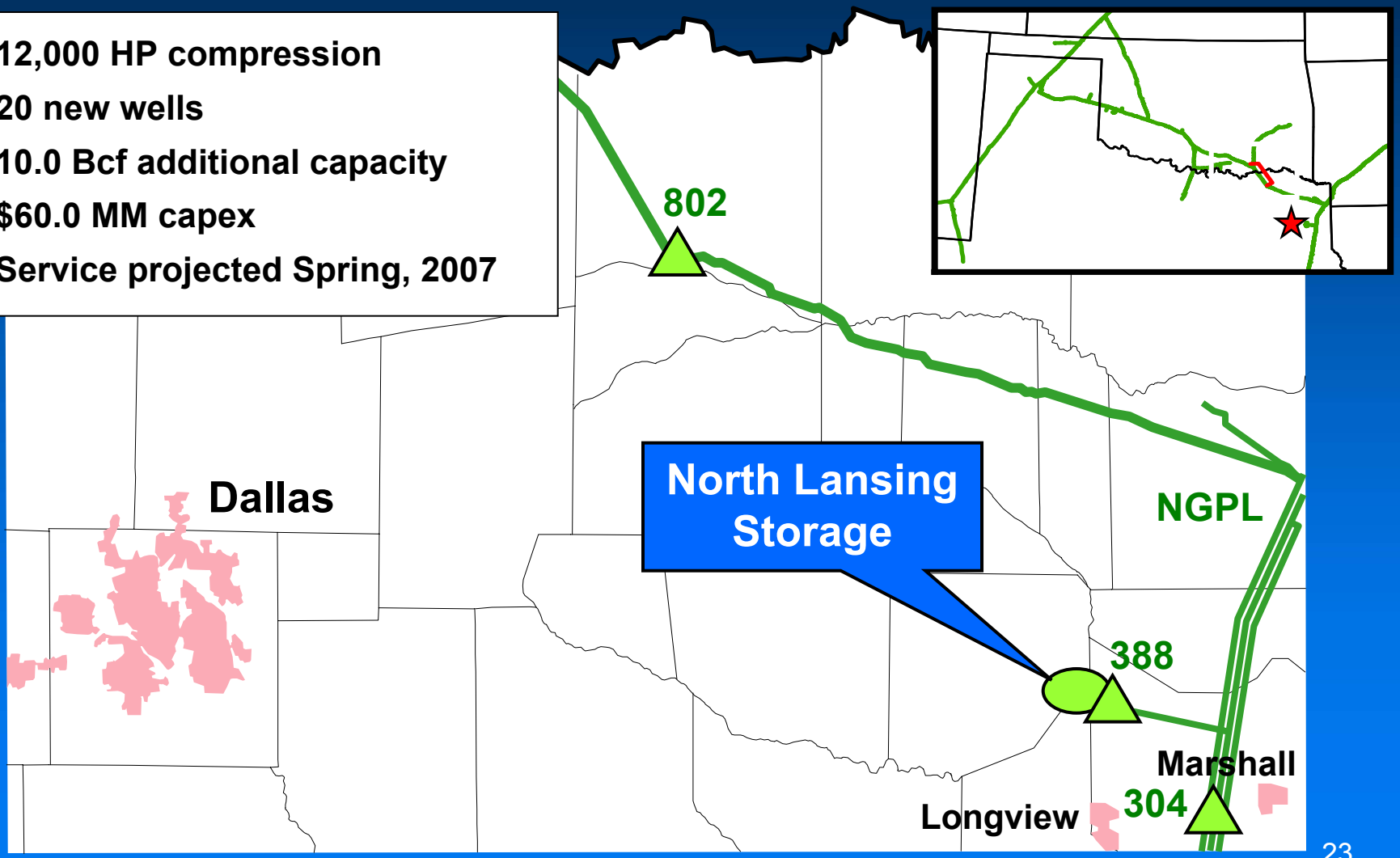
- Install 7,500 HP at existing Station 184
- 22 new wells, gathering looping
- $35.3 MM capex
- 10 Bcf of additional storage capacity
- Fully Contracted
- Filed 7C application with the FERC
- Service commencing Spring 2006



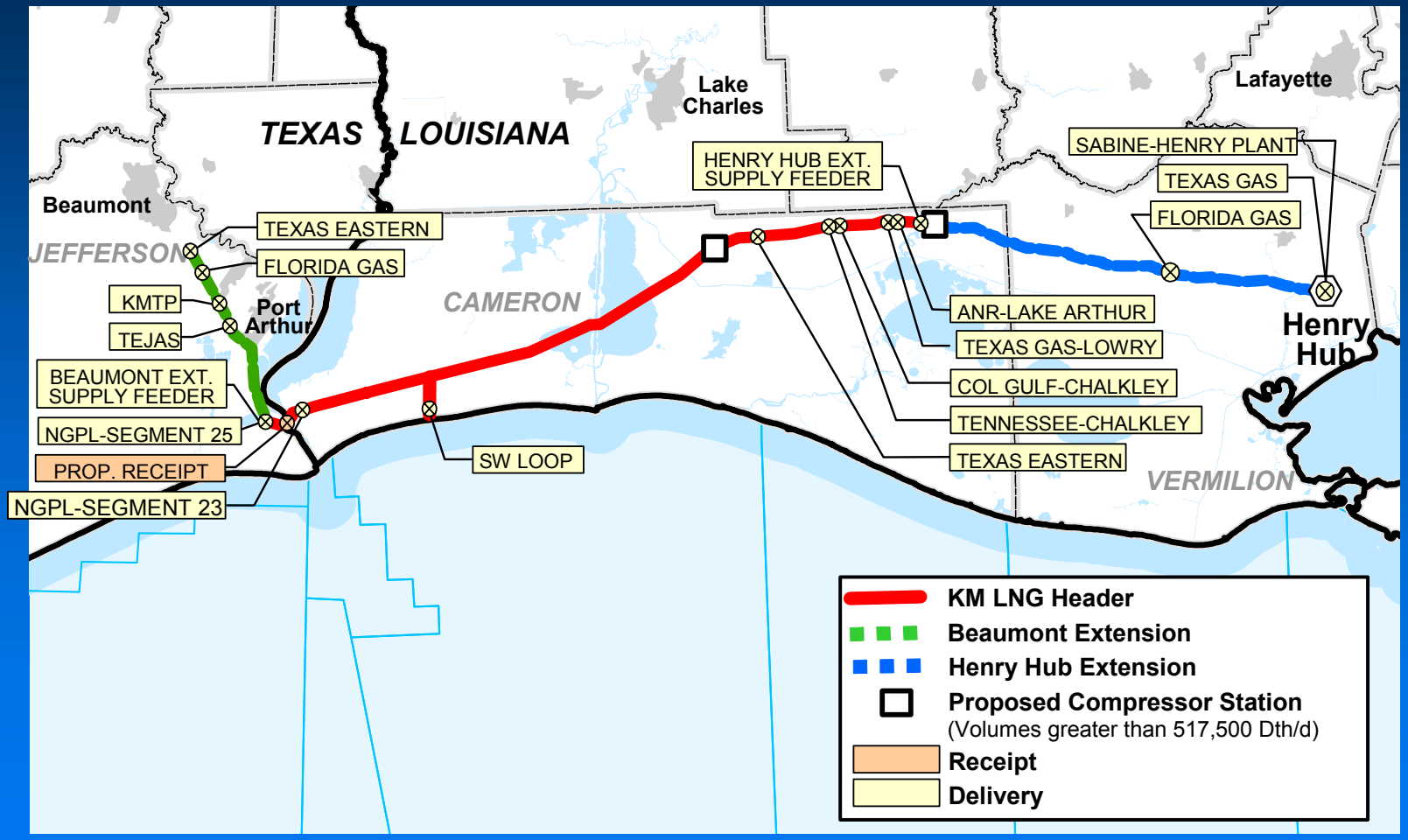
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Future Project – No Lansing Storage Expansion

- 12,000 HP compression
- 20 new wells
- 10.0 Bcf additional capacity
- $60.0 MM capex
- Service projected Spring, 2007



LNG Header Strategy (KMP Investment)



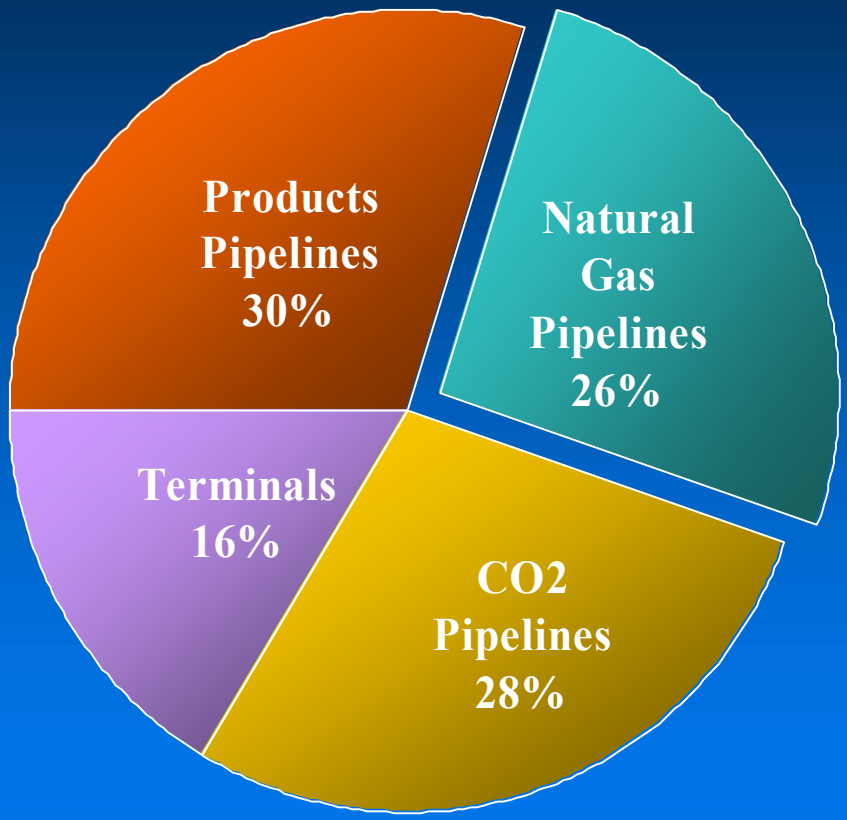
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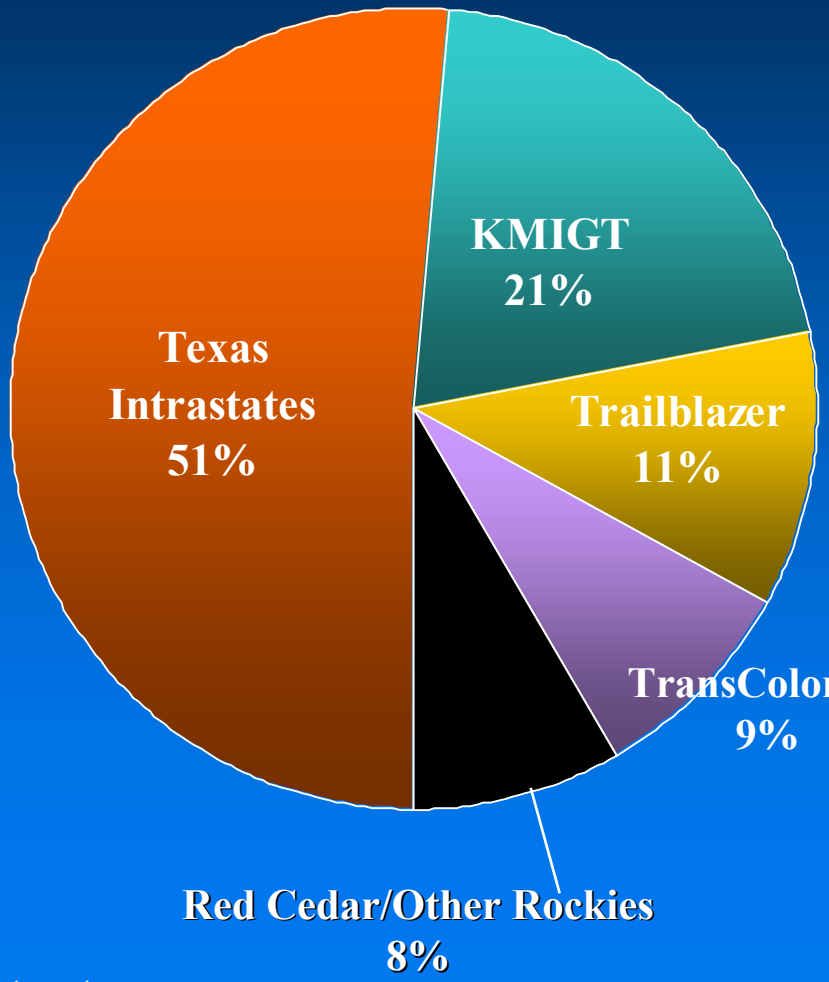
LNG Header Strategy

- **New 77 mile pipeline owned by KM Energy Partners to connect LNG Terminals to the Pipeline Grid**
  - Only 23 miles of new pipeline, $89 MM Total Capex
  - 77 miles of pipeline leased from NGPL provides project with substantial downstream interconnects and minimal environmental impact (NGPL customers and capacity not negatively impacted)
- **Anticipated initial capacity of 1.0 Bcf/d**
  - Have a signed contingent 20 yr Precedent Agreement
  - Open season on-going
  - Anticipated in service January 2009
  - Expandable via compression
- **Benefits to NGPL – Access to Supply**
  - Access up to 2.5 bcf/d of LNG Gas for transport on NGPL's long haul pipeline or injection into Storage

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2005 KMP Natural Gas Segment Overview (a)

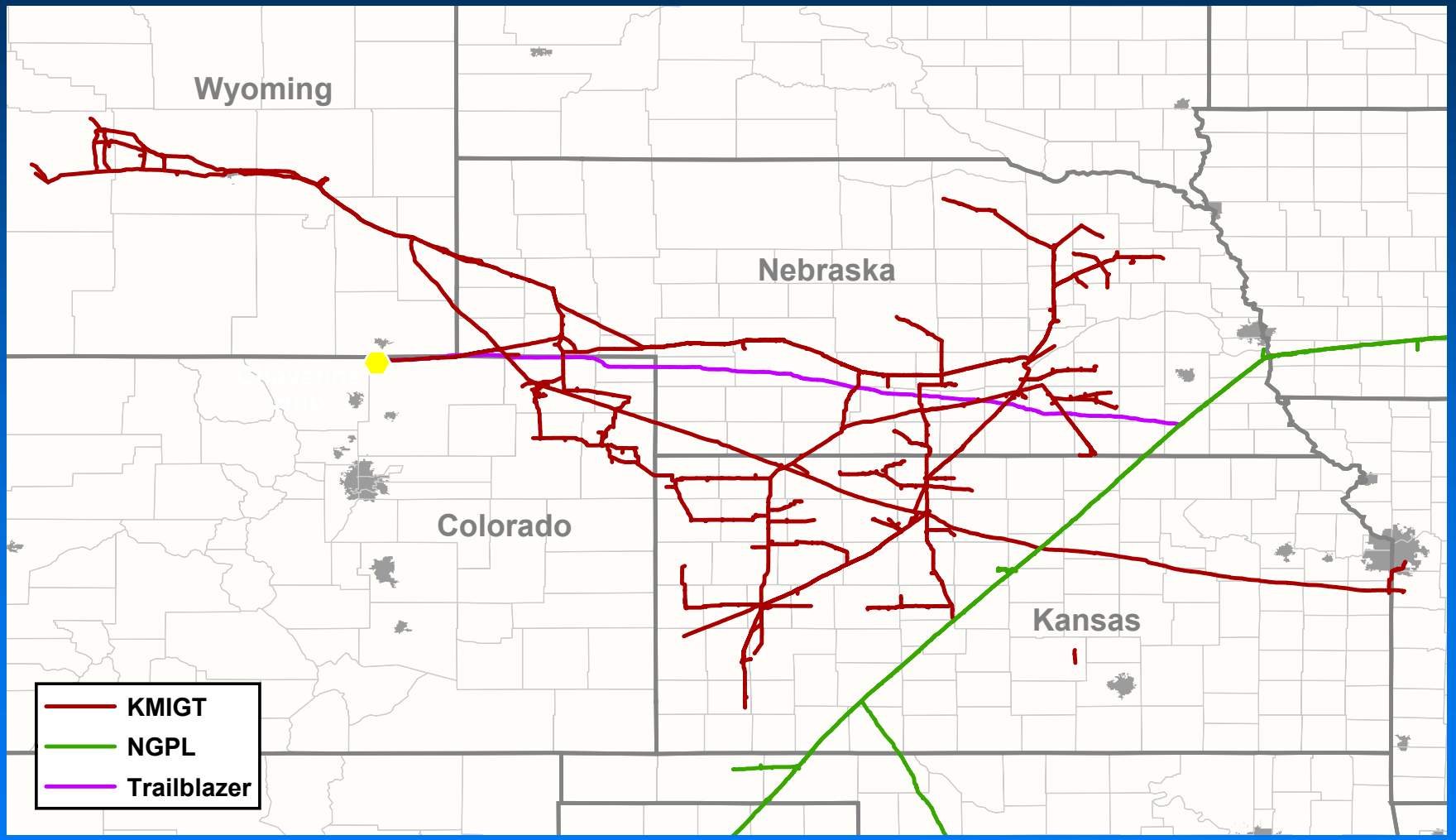




(a) 2005 budgeted distributable cash flow before G&A and interest

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KMIGT and Trailblazer Pipelines



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Trailblazer

- Stable earnings base
- Access to Rocky Mountain supply
- Low cost provider
- Long-term contracts
  - Average FT contract term = 4 yrs
  - Average FT expansion contract term = 8.4 yrs
  - Recent contract renewals have been for 10 years
- Rate Case settlement in 2004
  - No rate case filing requirement until 2009
- Looping necessary for any further expansion

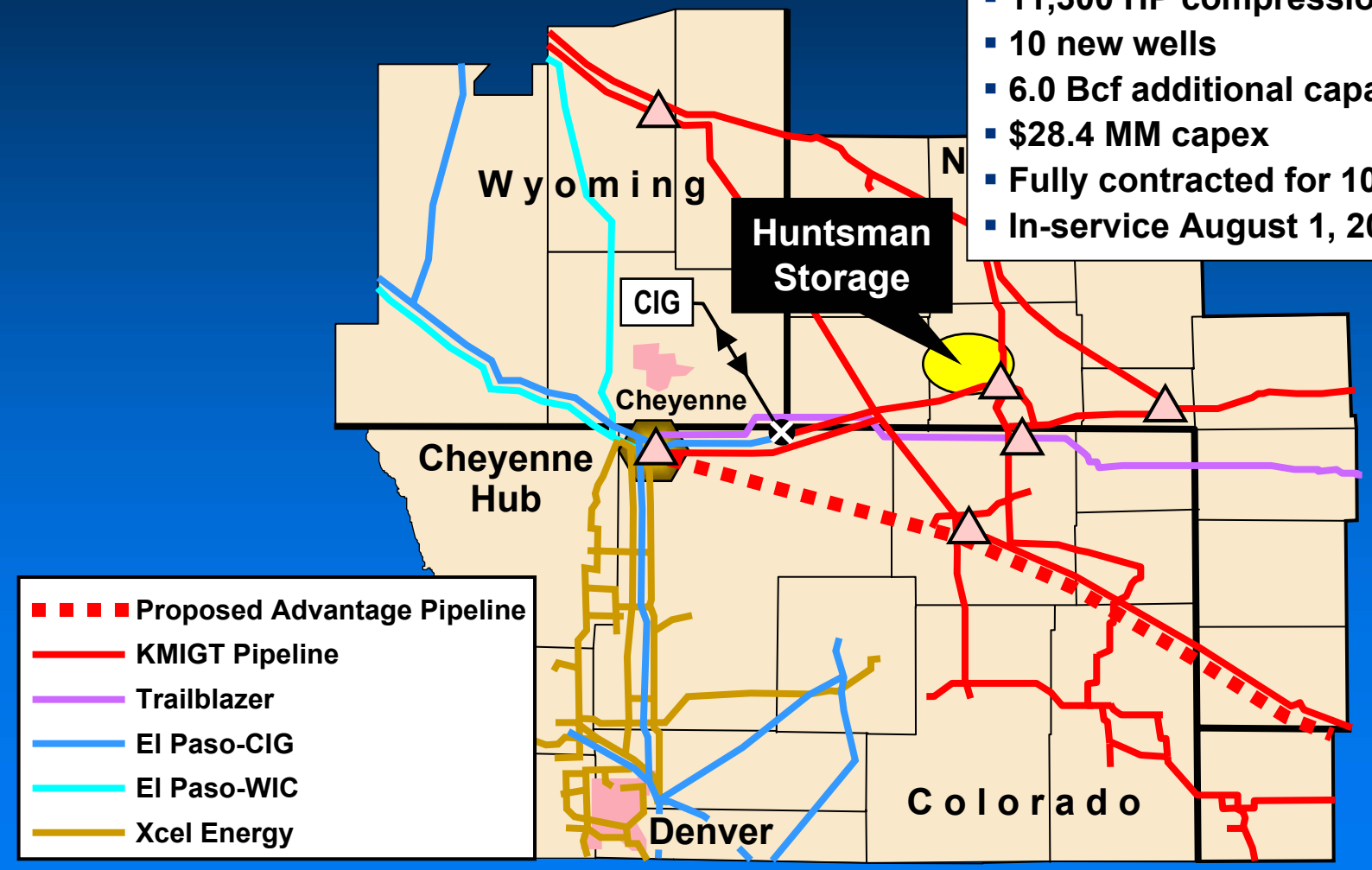
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KMIGT

- Stable earnings base
- Subject to limited competition
- Currently 98% of transport capacity sold
- Long-term contracts – weighted average approximately 6.1 years
- Extensive infrastructure in active Wind River and NE Colorado supply areas
- Ethanol plants providing market growth
- No rate case filing requirement
- Cost and revenue study completed in 2004

KMIGT
Cheyenne Market Center

- 11,300 HP compression
- 10 new wells
- 6.0 Bcf additional capacity
- $28.4 MM capex
- Fully contracted for 10 years
- In-service August 1, 2004



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The Future…

- **Modest base business growth on NGPL and Other Interstates**
  - Recontract existing pipeline and storage capacity
  - Capture modest margin growth on existing capacity
- **Growth opportunities from new capital projects focused on:**
  - Infrastructure to distribute increasing Rockies supply
  - Storage expansions
  - LNG Imports
  - Projects off the existing asset base
- **Reinvest in existing assets**
  - Operate a safe and reliable pipeline
  - Continue as smart low cost provider


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