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Reference: 84943/9

August 17, 2005

VIA COURIER

B.C. Utilities Commission
Box 250, 900 Howe Street
Sixth Floor
Vancouver, BC V6Z 2N3

Attention: Bill Grant, Executive Director

Dear Mr. Grant:

Re: Application by Kinder Morgan, Inc. for Approval for the Acquisition of Indirect Control of Certain Public Utilities (Pursuant to Section 54 of the Utilities Commission Act)

We are legal counsel to Kinder Morgan, Inc.

We are pleased to enclose 20 copies of KMI's application to the Commission requesting approval for the acquisition of the common shares of Terasen Inc. and the indirect control of certain Terasen Inc. subsidiaries that are public utilities regulated by the Commission as set out in the attached application.

This application also includes 6 schedules. 20 copies of Schedules 1, 3, 4 and 6 are enclosed. We also enclose 10 copies of Schedule 2, the Kinder Morgan 2004 Annual Report, at this time and will provide another 10 copies within the next day or so. Schedule 5 is currently being finalized and will be forwarded to you tomorrow.

Subject to delivery tomorrow of the outstanding Schedules noted above, we trust this application is complete. Please do not hesitate to contact the undersigned if you have any questions or concerns you wish to review with us further.

Yours truly,

for Paul Cassidy

PRC/cbm
Enclosures
Cc: Steve Kean
50488147.1

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Reference: 84943/9

August 18, 2005

VIA COURIER

B.C. Utilities Commission
Box 250, 900 Howe Street
Sixth Floor
Vancouver, BC V6Z 2N3

Attention: Bill Grant, Executive Director

Dear Mr. Grant:

Re: Application by Kinder Morgan, Inc. for Approval for the Acquisition of Indirect Control of Certain Public Utilities (Pursuant to Section 54 of the Utilities Commission Act)

Further to our letter to you of August 17, I am pleased to enclose the following in connection with the Kinder Morgan application filed with you yesterday:

- 20 copies of the Schedule 5, the Summary of Stakeholder Consultation up to August 16, 2005.

10 additional copies of the 2004 Annual Report will follow shortly. Please do not hesitate to contact the undersigned if you have any questions.

Yours truly,

for Paul Cassidy

PRC/cbm
Enclosures
Cc: Steve Kean

50488368.1

BRITISH COLUMBIA UTILITIES COMMISSION

APPLICATION

BY

KINDER MORGAN, INC.

August 17, 2005

TABLE OF CONTENTS

IN THE MATTER OF the Utilities Commission Act,
R.S.B.C. 1996, c.473, as amended;

- and-

IN THE MATTER OF an Application by Kinder Morgan, Inc.
pursuant to Subsection 54(7) of the Utilities Commission Act
for approval for the acquisition of indirect control
of certain public utilities

To: British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

APPLICATION

Kinder Morgan, Inc. ("Kinder Morgan" or "KMI") and 0731297 B.C. Ltd. ("Subco") (collectively the "Kinder Morgan Companies") hereby apply to the British Columbia Utilities Commission (the "Commission" or the "BCUC") pursuant to Section 54 of the *Utilities Commission Act* (the "Act" or the "UCA") for:

> Approval of the acquisition by the Kinder Morgan Companies of the common shares of Terasen Inc. ("Terasen"). The acquisition of the shares of Terasen will cause Kinder Morgan to have indirect control of Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. ("TGVI"), Terasen Gas (Squamish) Inc. ("TGS "), Terasen Gas (Whistler) Inc. ("TGW"), and Terasen Multi-Utilities Services Inc. ("TMUS"). Each of TGI, TGVI, TGS, TGW and TMUS are public utilities regulated by the Commission.

I. INTRODUCTION

1. The Kinder Morgan Companies submit that neither the Terasen Utilities (as defined in paragraph 7 below) nor the users of the services of those utilities will be detrimentally affected and the public interest will be preserved by the completion of the Transaction.

2. The Transaction is the acquisition by the Kinder Morgan Companies of all the outstanding common shares of Terasen and only an indirect acquisition of the Terasen Utilities. As set out in detail in Part IX below, the Transaction will have no material impact on the Terasen Utilities, their operations or the services provided by them. Specifically, Kinder Morgan submits that:

   (a) The financing capabilities of the Terasen Utilities will not be reduced or impaired;

   (b) There will be no violation of existing covenants;

   (c) The conduct of the Terasen Utilities business, including the level of service, either now or in the future, will be maintained or enhanced;

(d) The Transaction will be completed in compliance with all applicable statutory requirements; and

(e) The structural integrity of the Terasen Utilities' assets will be maintained.

3. In addition, the Transaction will not change the authority of the Commission to continue to regulate the operations of the Terasen Utilities. As such, the public interest will not be detrimentally affected by the Transaction.

4. For all of the above reasons, the Kinder Morgan Companies submit that the Commission should approve the acquisition by the Kinder Morgan Companies of the common shares of Terasen.

5. An integral part of this application is the process for public consultation, including response by KMI to information requests and regional workshops. A detailed description of this process and timetable is set out in Part VII.

II. BACKGROUND

6. Kinder Morgan, Subco, and Terasen have entered into an agreement dated August 1, 2005 (the "Combination Agreement") under which Subco, a direct wholly-owned subsidiary of Kinder Morgan, will acquire all of the outstanding common shares of Terasen (the "Transaction"). The Transaction is to be completed by way of a plan of arrangement (the "Plan of Arrangement") pursuant to Section 288 of the *Business Corporations Act* (British Columbia) (the "BCBCA").

7. Terasen owns or controls all of the outstanding shares of TGI, TGVI, TGW and TMUS. Each of TGI, TGVI, TGW and TMUS are wholly-owned subsidiaries of Terasen. TGI owns all of the outstanding shares of TGS; and TGS is an indirect wholly-owned subsidiary of Terasen. TGI, TGVI, TGS, TGW and TMUS (the "Terasen Utilities") are all public utilities as defined in the Act and all are regulated by the Commission.

8. The effect of the Transaction is that upon its completion the Kinder Morgan Companies will have indirect control of the Terasen Utilities.

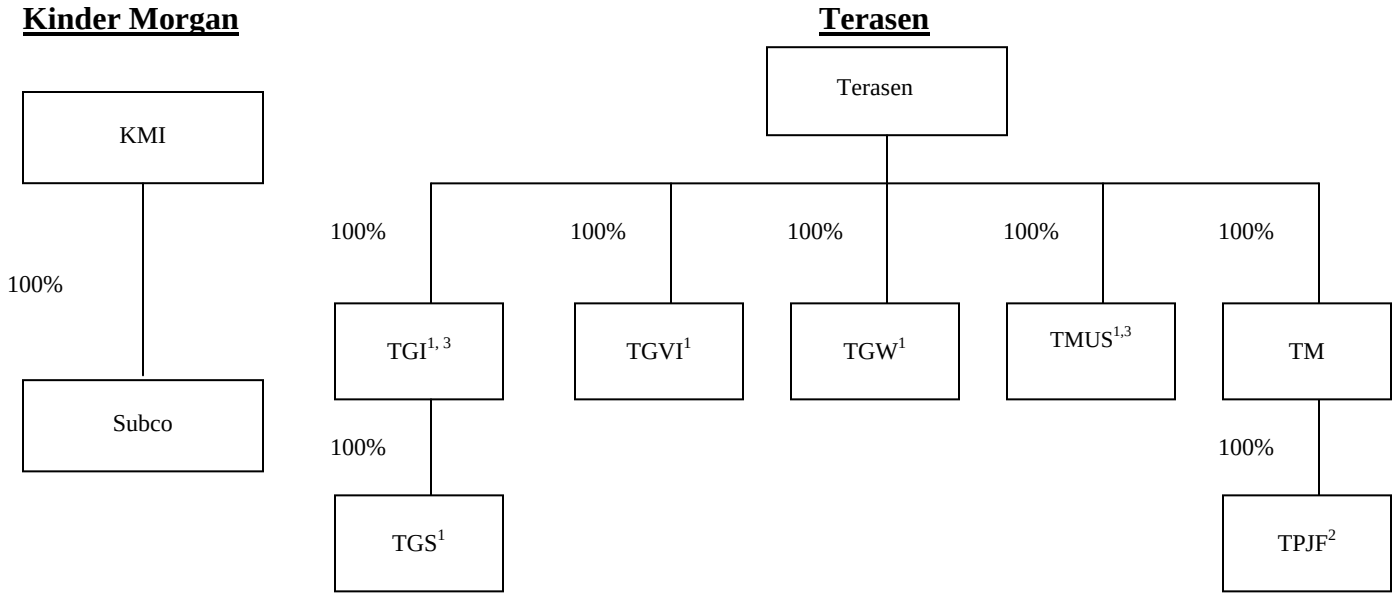
9. Terasen owns all of the outstanding shares of Terasen Pipelines (Trans Mountain) Inc. ("TM"), which owns all of the outstanding shares of Terasen Pipelines (Jet Fuel) Inc. ("TPJF"). TPJF is a "pipeline" and a "company pipeline" as those terms are defined in the *Pipeline Act*, R.S.B.C. 1996, c. 364. Pursuant to the provisions of Part 7 of the *Pipeline Act* the tariffs of TPJF must be filed with the BCUC and TPJF may not charge a toll unless it is specified in a tariff filed with the BCUC. While the tolls of TPJF are regulated by the BCUC, TPJF is not a "public utility" as that term is defined in the UCA and the provisions of section 54 of the UCA are not applicable to TPJF.

III. SUMMARY OF THE TRANSACTION

10. Completion of the Transaction will result in Terasen becoming an indirect wholly-owned subsidiary of Kinder Morgan. The Transaction is to be implemented by way of the Plan

of Arrangement, which must be approved by the holders of at least 75% of the votes cast by holders of Terasen common shares at a special meeting held to consider the Plan of Arrangement and by the Supreme Court of British Columbia. In addition, completion of the Transaction is subject to the receipt of applicable governmental and regulatory approvals.

11. The following chart sets out the current corporate organization chart of the relevant entities for each of Kinder Morgan and Terasen (together with its subsidiaries regulated by the Commission) before giving effect to the Transaction.



(1) TGI, TGVI, TGW, TMUS and TGS are all public utilities.
(2) TPJF is not a public utility, but its tolls are regulated by the BCUC.
(3) Each of TGI and TMUS are indirect wholly-owned subsidiaries of Terasen.
(4) All share references in this table are to common shares.

12. Pursuant to the Plan of Arrangement, on its effective date, all of the Terasen common shares, other than those held by Kinder Morgan and its affiliates and by dissenting shareholders, will be exchanged for:

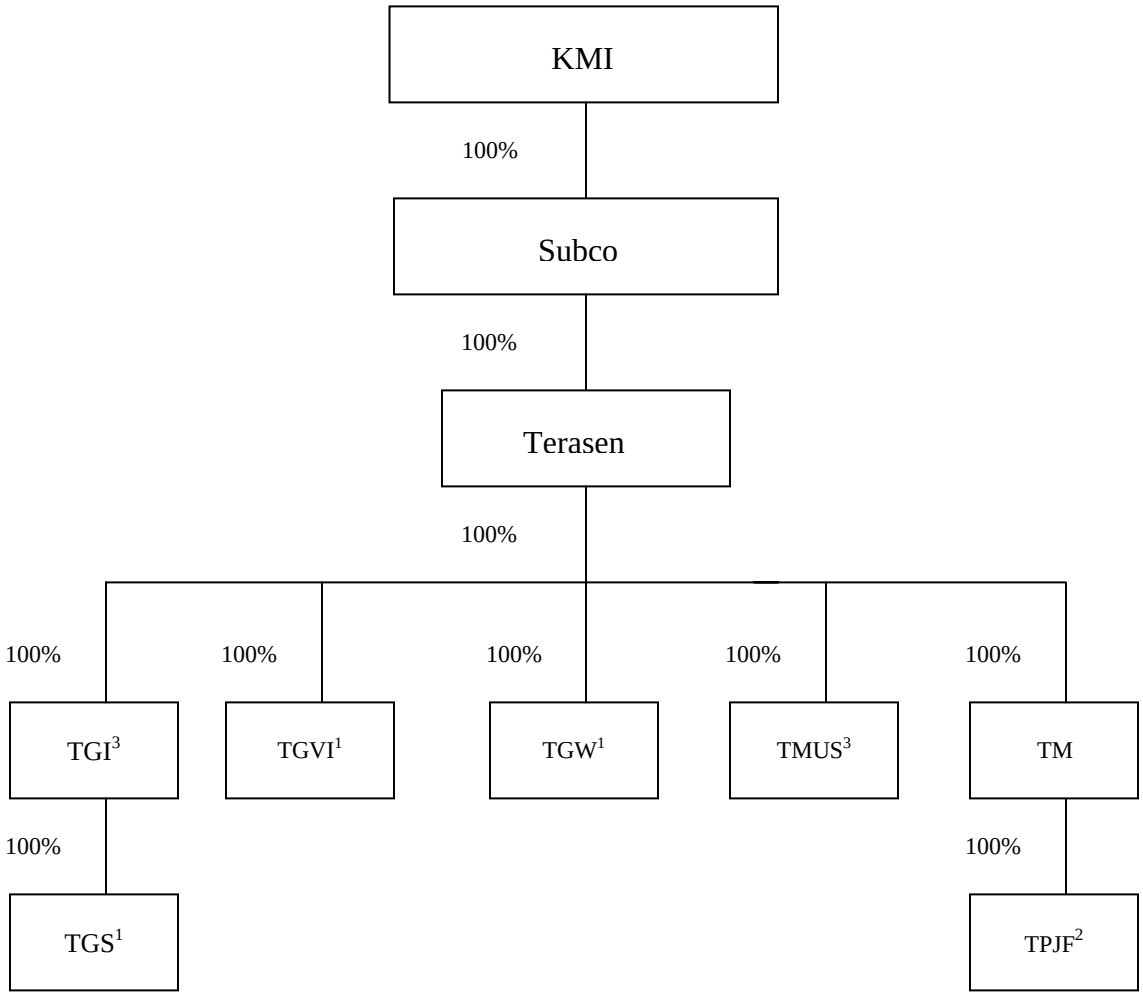
(a) Cdn $35.75 in cash,

(b) 0.3331 of a KMI common share for each Terasen common share; or

(c) Cdn $23.25 in cash plus 0.1165 of a KMI common share for each Terasen common share.

All elections will be subject to proration in the event that total cash elections exceed approximately 65% of the total consideration to be paid or total stock elections exceed approximately 35%.

The following chart sets out the corporate organization of Kinder Morgan and Terasen after giving effect to the Transaction.



(1) TGI, TGVI, TGW, TMUS and TGS are all public utilities.
(2) TPJF is not a public utility, but its tolls are regulated by the BCUC.
(3) Each of TGI and TMUS are indirect wholly-owned subsidiaries of Terasen.
(4) All share references in this table are to common shares.

IV. TERMS OF THE TRANSACTION

13. The terms of the Transaction are set out in the Combination Agreement, a copy of which is attached as Schedule 1 to this Application. The principal terms of the Transaction are as follows:

(a) Price: Under the Transaction, Terasen shareholders will exchange their Terasen common shares for Cdn $35.75 in cash, or 0.3331 of a KMI common share for each Terasen common share, or combined cash and share consideration as described above.

(b) Structure: The Plan of Arrangement provides that each Terasen common shareholder (other than dissenting shareholders and Kinder Morgan and its affiliates) will transfer its Terasen common shares to Subco and will, at its election, receive (i) Cdn $35.75 in cash, (ii) 0.3331 of a KMI common share for each Terasen common share; or (iii) Cdn $23.25 in cash plus 0.1165 of a KMI common share for each Terasen common share. All elections will be subject to proration in the event that total cash elections exceed approximately 65% of the total consideration to be paid or total stock elections exceed approximately 35%.

Upon completion of the Transaction, all of the outstanding common shares of Terasen, other than Terasen common shares held by Kinder Morgan and its affiliates and certain inter-corporate holdings, will be held by Subco, resulting in Terasen, and each of the Terasen Utilities, being an indirect wholly-owned subsidiary of Kinder Morgan.

(c) Closing Conditions: Completion of the Transaction is subject to certain conditions, including:

(i) approval of the Plan of Arrangement by not less than 75% of the votes cast by the Terasen shareholders (other than Trans Mountain Holdings Ltd., an affiliate of Terasen) at a special meeting to be held for the purpose of considering the Plan of Arrangement;

(ii) approval of the Plan of Arrangement by the Supreme Court of British Columbia;

(iii) the receipt of all necessary governmental and regulatory approvals and consents, including those required in Canada under the *Competition Act* (Canada), the *Investment Canada Act*, the *Utilities Commission Act* (British Columbia) and the *Water Utility Act* (British Columbia), as well as exemption orders from provincial and territorial securities regulators with respect to the resale of Kinder Morgan common shares by recipients under the Plan of Arrangement; and

(iv) various governmental and regulatory approvals and consents required by Kinder Morgan and Terasen in the United States of America to give effect to the Transaction.

(d) Effect of the Transaction: Immediately upon the Plan of Arrangement becoming effective, all of the Terasen common shares other than Terasen common shares held by Kinder Morgan and its affiliates and certain inter-corporate holdings, will be transferred to Subco, resulting in Terasen becoming an indirect wholly-owned subsidiary of Kinder Morgan. As a consequence, Kinder Morgan will, at the time the Transaction is completed, acquire indirect control in each of TGI, TGVI, TGS, TGW and TMUS.

V. KINDER MORGAN, INC.

14. KMI is a U.S. energy storage and transportation company, operating, either for itself or on behalf of Kinder Morgan Energy Partners, L.P. ("KMP"), over 30,000 miles of natural gas and petroleum products pipelines. KMI's businesses are conducted through the following business segments:

- *Natural Gas Pipeline Company of America and certain affiliates.* A major U.S. interstate natural gas pipeline system (Illinois, Iowa, Wisconsin, Indiana, Missouri, Arkansas, Nebraska and Texas) with approximately 9,900 miles of pipelines, consisting primarily of two major interconnected natural gas transmission pipelines terminating in the Chicago, Illinois metropolitan area, and associated storage facilities;

- *Retail Natural Gas Distribution.* The regulated sale and distribution of natural gas to approximately 243,000 residential, commercial and industrial customers in Colorado, Nebraska and Wyoming (as well as a small distribution system in Hermosillo, Mexico); and

- *Power Generation.* The operation and, in previous periods, development and construction of natural gas-fired electric generation facilities in Michigan and Colorado.

15. In addition, KMI owns the general partner of, and has a significant limited partner interest in, KMP, a publicly traded pipeline limited partnership in the U.S. KMP's common units are listed on the New York Stock Exchange under the ticker symbol "KMP". KMP owns and/or operates a diverse group of assets used in the transportation, storage and processing of energy products, grouped into the following segments:

- *Products Pipelines.* Delivers gasoline, diesel fuel, jet fuel and natural gas liquids to various markets through over 10,000 miles of products pipelines and 60 associated terminals serving customers across the United States;

- *Natural Gas Pipelines.* Transports, stores and sells natural gas over approximately 14,000 miles of natural gas transmission pipelines and gathering lines, plus natural gas gathering and storage facilities;

- *CO_2.* Produces, transports through pipelines and markets carbon dioxide, commonly called CO_2, to oil fields that use CO_2 to increase production of oil, owns interests in and/or operates six oil fields in West Texas, and owns and operates a crude oil pipeline system in West Texas; and

- *Terminals.* Composed of owned or operated liquid and bulk terminal facilities and rail transloading and materials handling facilities located throughout the United States.

16. KMI also owns, directly or indirectly, all of the voting stock of Kinder Morgan Management, LLC ("KMR"). KMR's assets consist of a small amount of working capital and its limited partner interest in KMP.

17. With the exception of an interest in the Cochin Pipeline System ("CPS"), KMI and KMP do not own or control any assets or businesses in Canada. In particular, KMP owns a 49.8% undivided joint venture co-ownership interest in the CPS. The CPS is operated in Canada under the name Cochin Pipe Lines, Ltd. and in the U.S. under the name Dome Pipeline Corporation. The remaining 50.2% interest in CPS is indirectly owned by BP Canada, which in turn is ultimately controlled by BP p.l.c. By the terms of the joint venture, BP Canada is the operator of CPS.

18. For the fiscal year ended December 31, 2004, Kinder Morgan reported the following consolidated financial results:

	(US $ million)
Total Assets	$10,117
Operating Revenues	$1,165
Operating Income	$398
Net Income	$522[1]

As at July 22, 2005 Kinder Morgan had approximately 122.5 million Common Shares outstanding (excludes shares held in treasury). The common shares of Kinder Morgan are listed for trading on the New York Stock Exchange under the symbol "KMI". KMI's executive offices are located in Houston, Texas.

19. Further information respecting Kinder Morgan is contained in the Kinder Morgan documents set out in the Schedules listed below:

Schedule	Document
2.	Kinder Morgan, Inc. 2004 Annual Report
3.	Kinder Morgan, Inc. Annual Report Form 10K for the fiscal year ended December 31, 2004
4.	Kinder Morgan, Inc. Annual Report Form 10-Q for the quarter ended June 30, 2005

For further information, including copies of relevant securities filings, please see KMI's website at www.kindermorgan.com.

[1] Net Income is greater than Operating Income because KMI's interest in KMP is reflected as an equity investment on KMI's income statement below the operation income line.

VI. TERASEN AND THE TERASEN UTILITIES

20. Terasen is a provider of energy transportation and utility infrastructure management services. Terasen has two base businesses of natural gas distribution and petroleum transportation, and is also involved in water and utility services. The principal business segments of Terasen are:

    (a) Gas Distribution: The natural gas distribution subsidiaries of Terasen distribute natural gas throughout most of those parts of B.C. that have natural gas service. Propane is also distributed in Revelstoke and Whistler, B.C.

    (b) Petroleum Transportation: Terasen is engaged in the petroleum transportation business through its subsidiary Terasen Pipelines (Trans Mountain) Inc. (or "TM") and the subsidiaries and affiliates of TM. TM operates four pipeline systems. The Trans Mountain system transports crude oil and refined petroleum products from Edmonton to Burnaby and transports crude oil to several refineries in Washington State. The Corridor system is a dual pipeline system that transports diluted bitumen and diluent between the Muskeg River mine near Fort McMurray and the upgrader of Shell Oil north of Edmonton. Terasen also owns a one third interest in the Express Pipeline System and the Platte Pipeline system which transport crude oil from Hardisty, Alberta to the Rocky Mountain region of the United States and on to Wood River, Illinois. Terasen Pipelines also operates the jet fuel pipeline to the Vancouver International Airport that is owned by TPJF.

    (c) Water and Utility Services: Terasen's water and utility services operations include Terasen Waterworks (Supply) Inc., Terasen Water Inc., Terasen Utility Services Inc., Terasen Multi-Utility Services Inc. (or "TMUS"), Thornmark Utilities Corporation and Thornmark Waste Management Corporation in Alberta, Terasen's 50% interest in Fairbanks Sewer and Water Inc. in Alaska, and Terasen's 30% interest in CustomerWorks LP. Terasen Waterworks (Supply) Inc. is a wholesale distributor of pipes, fittings, valves, hydrants and other water and wastewater infrastructure products in Western Canada. Terasen Water Inc. designs and builds water and wastewater treatment systems for municipal and industrial applications. Terasen Utility Services Inc. provides outsourced utility services including measurement services and water treatment and wastewater treatment system services. TMUS owns and operates the Panorama water utility that is regulated by the Comptroller of Water Rights pursuant to the British Columbia *Water Utility Act*. CustomerWorks LP provides billing and customer care services to utilities, municipalities and retail energy companies. CustomerWorks provides services to TGI and will be providing services to TGVI.

21. For the fiscal year ended December 31, 2004, Terasen reported the following consolidated financial results:

	(Cdn $ million)
Total Assets	$4,971
Revenues	$1,957
Operating Income	$377
Net Earnings	$156

On December 31, 2004 Terasen had approximately 105.2 million common shares outstanding (excluding approximately 9.2 million shares that are outstanding and held by Trans Mountain Holdings Ltd.). Terasen's Common Shares are listed for trading on the Toronto Stock Exchange.

22. Terasen directly controls TGI, TGVI, TGW, and TMUS and indirectly controls TGS, all of which companies are public utilities regulated by the Commission. TMUS operations include activities which are subject to BCUC regulation as well as non-regulated activities. The regulated activities are for the sale and distribution of natural gas, propane, and electricity. Its non BCUC regulated activities are associated with property management, waste water and water treatment.

Terasen Gas Inc.

23. TGI is the largest natural gas distributor in British Columbia. TGI owns and operates natural gas pipelines and natural gas distribution facilities in the province which includes approximately 20,800 kilometres of transmission pipelines and distribution mains.

24. As of December 31, 2004 TGI served approximately 790,000 residential, commercial and industrial customers in more than 100 communities in the Lower Mainland, Inland, Columbia and Fort Nelson service areas within British Columbia. This includes Revelstoke where TGI operates a propane distribution system serving approximately 1,500 customers. TGI's rates and terms of service are regulated by the BCUC.

25. TGI has approximately 1,100 employees, with approximately 600 being located at TGI's operating centre in Surrey and the others being located in centres throughout the TGI service area.

26. TGI's financial results for the year ended December 31, 2004 are in the table below, which are also shown as a percentage of the financial results of Terasen for the same year:

	(Cdn $000)	As a Percentage of Terasen
Total Assets	$3,204,394	64%
Revenues	1,324,299	68%
Operating Income[2]	231,453	61%
Net Earnings	72,169	46%

Terasen Gas (Vancouver Island) Inc.

27. TGVI owns and operates an integrated natural gas pipeline and distribution system that provides service to approximately 85,000 residential, commercial and industrial customers on the Sunshine Coast and Vancouver Island.

28. Service is provided through 615 km of high pressure transmission pipeline, including three compressor stations, and approximately 3,250 km of distribution mains. TGVI's largest customers are the Vancouver Island Gas Joint Venture representing seven large pulp and paper mills and British Columbia Hydro and Power Authority serving the Island Cogeneration Project near Campbell River.

29. TGVI's transmission and distribution systems were originally constructed and operated with financial support provided by the provincial and federal governments. In 1995, the financial support arrangements were restructured. TGVI, the Government of British Columbia and Terasen are parties to the Vancouver Island Natural Gas Pipeline Agreement ("VINGPA"). Under the VINGPA, Terasen has agreed to cover up to $120 million of revenue deficiencies incurred by TGVI. The rates of TGVI were set by formula until December 31, 2002 and since then have been set by the Commission. The rates set by the Commission have enabled the balance of the accumulated revenue deficiencies of TGVI to decrease. As at December 31, 2004, the principal amount of the revenue accumulated deficiencies of TGVI was approximately $61 million. The Transaction has no effect on the VINGPA and it will continue to apply to Terasen and TGVI on the same basis as it has prior to the Transaction.

30. TGVI's financial results for the year ended December 31, 2004 are in the table below, which are also shown as a percentage of the financial results of Terasen for the same year:

[2] Income before Interest Expense and Taxes.

	(Cdn $000)	As a Percentage of Terasen
Total Assets	549,572	11%
Operating Revenues	187,425	10%
Operating Income	61,089	16%
Net Income	15,234	10%

Terasen Gas (Squamish) Inc.

31. TGS owns and operates the natural gas distribution system in Squamish. TGS services approximately 2,900 residential, commercial and industrial customers.

32. The rates of TGS are set by formula pursuant to the Squamish Rate Stabilization Agreement between the Province and TGS (the "Squamish RSA"). Natural gas is transported to TGS on the high pressure pipeline of TGVI pursuant to a Transportation Service Agreement ("TSA") between TGVI and TGS. The tolls paid by TGS for transportation service on the TGVI pipeline are calculated under a formula set out in that TSA.

33. TGS' financial results for the year ended December 31, 2004 are in the table below, which are also shown as a percentage of the financial results of Terasen for the same year:

	(Cdn $000)	As a Percentage of Terasen
Total Assets	8,568	0.2%
Operating Revenues	3,651	0.2%
Operating Income	570	0.2%
Net Income	395	0.3%

Terasen Gas (Whistler) Inc.

34. TGW owns and operates a propane gas distribution system in the Resort Municipality of Whistler. The propane distribution system includes two propane storage and vaporisation plants and approximately 78 kilometres of distribution piping. TGW serve approximately 2300 residential and commercial customers in the Whistler area. TGW's rates and terms of service are regulated by the BCUC.

35. The following table sets out certain financial information for TGW for the fiscal year ended December 31, 2004, and shows that information as a percentage of the financial results of Terasen for the same fiscal year:

	(Cdn $000)	As a Percentage of Terasen
Total Assets	21,151	0.4%
Operating Revenues	10,282	0.5%
Operating Income	1,440	0.4%
Net Income	550	0.4%

Terasen Multi-Utility Services Inc.

36. TMUS provides propane, natural gas, water and electricity utility delivery and wastewater services to various communities within British Columbia. As of December 31, 2004 TMUS owned and operated systems in three resort communities (Sun Rivers, Sonoma Pines and Panorama Mountain Village) within British Columbia, providing service to approximately 640 customers. The rates and terms of service for propane, natural gas and electricity are regulated by the BCUC.

37. The following table sets out certain financial information for TMUS for the fiscal year ended December 31, 2004, and shows that information as a percentage of the financial results of Terasen for the same fiscal year:

	(Cdn $000)	As a Percentage of Terasen
Total Assets	4,021	0.1%
Operating Revenues	2,045	0.1%
Operating Income	(230)	(0.1)%
Net Income	(150)	(0.1)%

The Service Agreements

38. Various services are provided to the Terasen Utilities by Terasen or its affiliates pursuant to the agreements described below (the “Service Agreements”), which have been approved by the BCUC. The services provided pursuant to those agreements and the principal terms of each of those agreements are:

    (a) Corporate Services Contract between Terasen Inc. and Terasen Gas Inc.: Under this agreement (the "TI-TGI CSC") Terasen provides the following corporate, administrative and management services to TGI:

        (i) Office of the CEO, CFO, & Corporate Secretary,

        (ii) Treasury and Cash Management,

(iii) Investor Relations,

(iv) External Reporting and Consolidation,

(v) Corporate Financial Analysis and Capital Management,

(vi) Internal Audit,

(vii) Risk Management and Insurance Services,

(viii) Strategic Planning and Development

(ix) Legal Department,

(x) Government Relations and Public Affairs,

(xi) HR Compensation and Planning

The initial term of the TI-TGI CSC became effective January 1, 2004 and continues until December 31, 2006. The fees payable by TGI to Terasen for the services provided under the TI-TGI CSC were $8.57 million for 2004 and may be amended annually to reflect any material change in the cost of providing the service or in the business of the operations of TGI and to reflect annual inflationary adjustments.

Terasen also provides corporate services under separate arrangements to TGVI and TGS, as noted below. The cost for provision of these services in 2004 was $454,000 and $9,000 respectively.

(b) Shared Services Agreement between Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.: Under this agreement (the "TGI-TGVI SSA"), TGI provides the following corporate, administrative and management services to TGI:

(i) Office of the President,

(ii) Finance and Regulatory Affairs,

(iii) Human Resources,

(iv) Operations Governance and Support,

(v) Gas Supply and Transmission,

(vi) Business and Information Technology Services,

(vii) Accounts Payable,

(viii) Distribution,

(ix) Marketing.

The initial term of the TGI-TGVI SSA became effective January 1, 2004 and continued until December 31, 2004. The contract is automatically extended for further one year terms with either party having the ability to terminate this Agreement by providing 30 days notice and with the mutual consent of the other party. The fees payable by TGVI to TGI for the services provided under the TGI-TGVI SSA were $2.77 million for 2004. The cost for the provision of shared services is based upon an allocation of total annual costs for each shared service provided.

In addition to the TGI-TGVI SSA, there are several other separate individual service agreements whereby TGI provides to TGVI the delivery of several services including: Gas Control, Core Market Administration, Measurement and Instrumentation.

(c) Specified Committed Services between Terasen Gas Inc. and Terasen Gas (Squamish) Inc. –TGI provides specific committed services to TGS in the following areas: Accounts Payable, Business and IT Services, Distribution Operations, Finance and Performance Measurement, Gas Supply and Transmission, Operations Engineering, and Regulatory services. In 2004, the cost for provision of these services was $190,765.

(d) Shared Services Allocation between Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. – In accordance with the TG Whistler 2004/5 Revenue Requirement and as per the allocation method approved by Order G-41-95, TGVI provides shared services to TGW in the following areas: General, Plant and Customer Accounting and Billing, Regulatory Affairs, Business Planning, Integration Resource Planning, Gas Supply, Human Resources, Environment, Administrative, Executive, Marketing, Information and Technology Services, Engineering, Construction, Measurement, Operations Support and Emergency Call Centre services. In 2004, the cost for provision of these services was $220,500.

(e) Client Services Agreement between Terasen Gas Inc. and CustomerWorks LP: Under this agreement (the "Client Services Agreement"), CustomerWorks LP ("CustomerWorks") provides the following customer care services to TGI:

(i) Customer Contact Services,

(ii) Billing Support Services,

(iii) Meter Reading Services,

(iv) Credit and Collection Services, and

(v) Industrial and Off System Support Services.

The current term of the Client Services Agreement became effective January 1, 2002 and continues until December 31, 2006. The contract is automatically extended for further one year terms. On December 31, 2005, TGI has the option to request quotations from third parties for the provision of Client Services. CustomerWorks has the option to match the price and qualitative metrics of the most favourable quotation. Should CustomerWorks choose to match an alternative quotation, the Client Services Agreement shall be renewed for an additional term. Should CustomerWorks choose to not match the agreement, the contract is considered terminated.

The fees payable by TGI to CustomerWorks for the services provided under the Client Services Agreement were $42.99 million for 2004 (net of penalty recoveries). The cost for the provision of customer care services is based on a fee for service of $54.54 per year per customer billed on behalf of TGI.

On July 29, 2005, the Commission in its Letter C-15-05 approved an application by TGVI to convert customer care services on the TGVI and TGW systems to CustomerWorks under the Client Services Agreement. The migration of services from existing providers and systems to CustomerWorks is expected to be completed by March 2006.

VII. STAKEHOLDER CONSULTATION AND APPROVAL PROCESS

39. Terasen and Kinder Morgan have and will continue to provide information to stakeholders regarding details and impacts of the Transaction and will advise stakeholders of the opportunity to provide comments and raise questions in respect of the Transaction.

40. Consultation activities include:

    (a) Direct contact with key stakeholders immediately following announcement of the Transaction to advise those stakeholders of the key aspects and impacts of the Transaction.

    (b) Advisories to all customers with information regarding the Transaction and advice as to how to access the information in regard to the Transaction via the Terasen Gas website and the Kinder Morgan Inc. website.

    (c) Posting information, including responses to questions on issues in respect of the Transaction, on the Terasen Gas and Kinder Morgan Inc. websites for access by customers and stakeholders.

41. Attached as Schedule 5 is a summary of the results of stakeholder consultations held beginning at the date of the announcement of the Transaction up to and including August 16, 2005.

42. Terasen and Kinder Morgan will provide the BCUC with ongoing updates on the consultation process and feedback received from customers and stakeholders. It is

anticipated that the customers and stakeholder consultation process will be complete by early September 2005.

43. After discussion with BCUC staff and counsel, the proposed process for approval by the BCUC will potentially occur in two steps, as follows:

(a) The first step consists of submission of information requests ("IRs"), responses by KMI to these IRs and public consultation. As part of this process, the BCUC staff will submit IRs to KMI. KMI will provide the BCUC with responses to the IRs and will conduct workshops for the public in regional centres throughout British Columbia. As set out above, Terasen and KMI will also provide the BCUC with updates on its stakeholder consultation process. During this first stage, third parties may apply to intervene ("Intervenors") and provide comments to the BCUC.

(b) At the conclusion of this first step the BCUC will decide whether it has sufficient information to make its decision or whether there needs to be a further process.

(c) If the BCUC determines it has sufficient information to make its decision on this application, it will issue a decision stating it requires no further information, and will proceed to make its final decision on whether to approve the Transaction.

(d) If the BCUC determines further information is required, KMI proposes that the BCUC set forth the second step, consisting of further IRs from Intervenors, followed by responses from KMI and written arguments from both the Intervenors and KMI.

(e) If the second step is required by the BCUC, once it is complete, KMI proposes that the BCUC proceed to make its final decision on whether to approve the Transaction prior to the Terasen shareholder vote.

44. The schedule discussed with the BCUC setting out the process for both steps outlined above is as follows:

Date	**Event**
Week of August 15, 2005	KMI files application
Week of August 22, 2005	Publication in major newspapers
August 26, 2005	BCUC staff submit IRs to KMI
Week of August 29, 2005	KMI conducts workshops in regional centres
September 1, 2005	KMI submits written responses to BCUC staff IRs
September 6, 2005	Intervenors apply to intervene and submit comments to BCUC

September 8, 2005	BCUC decision/order on whether sufficient information to decide or decision/order setting out further process
September 12, 2005	Intervenors submit written IRs to KMI
September 19, 2005	KMI written responses to Intervenors' IRs
September 26, 2005	Intervenors submit written comments/argument to BCUC
October 3, 2005	KMI submits written reply comments/arguments to BCUC
October 17, 2005	BCUC decision on application

VIII. THE UTILITIES COMMISSION ACT

45. As indicated above, TGI, TGVI, TGS, TGW and TMUS are public utilities regulated by the Commission. Section 54 of the Act provides, in part, as follows:

> 54(7) A person must not acquire or acquire control of such numbers of any class of shares of a public utility as
>
> (a) in themselves, or
>
> (b) together with shares owned or controlled by the person and the person's associates,
>
> cause the person to have a reviewable interest in a public utility unless the person has obtained the Commission's approval.

46. Section 54(4) of the Act provides that a person has a reviewable interest in a public utility if the person owns or controls, or if the person and the person's associates own or control, in the aggregate 20% of the voting shares outstanding of any class of shares of the utility. Section 54(9) of the UCA provides that the Commission may give its approval under Section 54 subject to such conditions and requirements it considers necessary and desirable in the public interest, and that the Commission must not give its approval under Section 54:

> "… unless it [the Commission] considers that the public utility and the users of the services of the public utility will not be detrimentally affected."

47. In prior Decisions the Commission has interpreted the requirements of Section 54(9) as charging the Commission with the responsibility of ensuring that, in a utility context, the actions of the companies regulated by it are consistent with the public interest, and that, from the perspective of present utility regulation, the proposed acquisition is not

detrimental to the public interest. The Commission has further defined the requirements of Section 54 of the UCA as follows:

> "The Commission interprets the provisions of Section 61 [now Section 54] of the Act as requiring that the proposed acquisition not detract from [the utility's] ability to provide ongoing service of the quality that its customers have the right to expect and at rates which are fair to those customers and to the utility itself. The Commission concludes that it is the intent of these sections, regardless of ownership, to preserve the authority of the Commission to regulate [the utility] effectively and in the public interest." [3]

As the Commission makes clear, the focus of its review of any acquisition of, or acquisition of control of, a public utility is on the effect of the acquisition upon the public utility, the customers of that utility and the regulation of the public utility by the Commission in the public interest.

48. In prior Decisions the Commission has applied criteria to assist in determining whether the public utility and the users of the services of the public utility will be detrimentally affected by a proposed acquisition. The criteria are that:

(a) the utility's current and future ability to raise equity and debt financing not be reduced or impaired;

(b) there be no violation of existing covenants that will be detrimental to the customers;

(c) the conduct of the utility's business, including the level of service, either now or in the future, will be maintained or enhanced;

(d) the application is in compliance with appropriate enactments and/or regulations;

(e) the structural integrity of the assets be maintained in such a manner as to not impair utility service; and

(f) the public interest be preserved. [4]

These criteria address the impact of an acquisition upon the utility and its customers, the services provided by the utility and the ongoing regulation of the utility by the Commission.

49. The acquisition of Terasen by Kinder Morgan will require approval by the federal government under the *Competition Act* and the *Investment Canada Act*. With respect to the foreign origin of a proposed purchaser of a public utility, the Commission has ruled in its prior Decisions that, while the foreign origin of a proposed purchaser of a reviewable

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[3] Decision, UtiliCorp United Inc., June 30, 1987, page 7.

[4] Reasons for Decision, Fortis Pacific Holdings Inc., April 30, 2004, page 6.

interest in a domestic public utility is clearly the exclusive concern of the federal government, section 54(9) of the UCA indicates that any detrimental effects arising from whatever source, including the foreign ownership of the proposed purchaser, and which are reasonably attributable to such ownership, are proper matters for review and decision by the Commission. Consequently, what is relevant under section 54 of the UCA is the adverse functional or operational impact, if any, of the Transaction upon the Terasen Utilities and their respective customers, the services provided by those public utilities and the regulation of those public utilities by the Commission under the Act. Only if foreign ownership by the Kinder Morgan Companies would have such an adverse functional or operational impact on the Terasen Utilities, is the issue of foreign ownership relevant to the exercise of the Commission's jurisdiction under section 54 of the UCA. KMI is a broadly held public company listed on the New York Stock Exchange and based in Houston, Texas. Notwithstanding the fact that KMI operates from the United States, as noted in Part IX below, the completion of the Transaction will not have an adverse functional or operational impact on the Terasen Utilities.

IX. REASONS FOR APPROVING THE TRANSACTION

50. Upon the completion of the Transaction, the Kinder Morgan Companies will have acquired the outstanding common shares of Terasen and will thereby have indirect control of the Terasen Utilities. Based on the criteria applied by the Commission in its earlier Decisions under section 54 of the UCA, the Kinder Morgan Companies submit that neither the Terasen Utilities nor the users of the services of those utilities will be detrimentally affected and that the public interest will be preserved by the completion of the Transaction.

51. In determining whether the Transaction should be approved, as it relates to the Terasen Utilities, it is appropriate for the Commission to have regard to the following considerations. The Transaction is the acquisition by the Kinder Morgan Companies of all the outstanding common shares of Terasen and only an indirect acquisition of the Terasen Utilities. TGI, TGVI, TGW and TMUS will continue to be owned by Terasen, and TGS will continue to be owned by TGI; it will only be the shareholders of the parent corporation, Terasen, that change as a result of the Transaction. The Transaction will have no material impact on the Terasen Utilities, their operations or the services provided by them. In addition, the Transaction will not change the authority of the Commission to continue to regulate the operations of the Terasen Utilities. As such, the public interest will not be detrimentally affected by the Transaction.

The Utilities' Financing Capabilities Will Not be Reduced or Impaired

52. The Transaction will not reduce or impair the ability of any of the Terasen Utilities to raise debt and equity capital. The Terasen Utilities will not, as a result of the Transaction, maintain for rate making purposes less common and preferred equity than that determined by the Commission.

53. There are no covenants, agreements or legislative restrictions on the Kinder Morgan Companies that would reduce or impair the ability of the Terasen Utilities to access capital markets.

54. KMI will continue, as Terasen Inc. has, to ensure that the Terasen Utilities will be adequately funded with debt and equity capital in accordance with applicable BCUC regulations. The BCUC will continue to have the ability to regulate allowed return on equity and equity thickness for rate making purposes in the best interests of customers, investors and other stakeholders. Hence, the Terasen Utilities' ability to raise financing will not be reduced or impaired by approval of the Transaction, and the Transaction will not have a detrimental effect on the Terasen Utilities or the users of their services.

No Violation of Existing Covenants

55. The proposed Transaction is one under which the Kinder Morgan Companies will acquire control of Terasen and, as a result, indirect control of the Terasen Utilities. Since the ownership of the Terasen Utilities by Terasen will not be changed by the completion of the Transaction, the Transaction will not affect any existing covenants given by the Terasen Utilities, whether financial, commercial or otherwise. KMI will ensure that the Terasen Utilities are in a position to meet their capital investment obligations.

The Utilities' Business Will be Maintained or Enhanced

56. After the Transaction is completed, Terasen will continue to directly or indirectly own 100% of the common shares of the Terasen Utilities. The Transaction will not impact the ownership of the Terasen Utilities, and will not affect the assets or liabilities of the Terasen Utilities.

57. The location of the headquarters of the Terasen Gas regulated utilities in greater Vancouver and the headquarters of the Terasen Pipelines business in Calgary, Alberta will not change as a result of this Transaction.

58. KMI will provide, or will cause its subsidiaries and affiliates, including Terasen, to continue to provide, services to the Terasen Utilities in accordance with the terms and conditions of each of the Service Agreements (discussed in Part VI above) for the duration of the term of each of those agreements. As a result, there will be no detrimental impact on service level to the Terasen Utilities as specified in the current Service Agreements. Any significant modifications to those Service Agreements, or new agreements, would require approval by the Commission.

59. Customer care service arrangements will not change as a result of the Transaction, and the Terasen Utilities will continue to have local engineering, repair and operations employees.

60. Further, the Terasen Utilities currently have an asset integrity and maintenance program which is compliant with, and subject to, the laws and regulations of British Columbia. This Transaction will not effect any change in this program. Changes to that program and policies will be made, as they will be made without this Transaction, only if justified

from a safety, reliability, and efficiency standpoint, and only if in compliance with existing statutes and regulations.

61. With the continuation of the existing ownership of the Terasen Utilities and with the continuation of the Service Agreements, the completion of the Transaction will have no adverse impact upon the Terasen Utilities and their ongoing utility operations. Consequently, the Transaction will have no adverse impact on the type or level of service provided by the Terasen Utilities to their customers.

62. The completion of the Transaction will not affect the Commission's ongoing regulation of the Terasen Utilities in the public interest. The Commission will continue to regulate the operations of the Terasen Utilities, including the rates and other terms and conditions of service of those utilities, as well as the construction of new facilities by each of the utilities. More particularly, the Commission will continue to have jurisdiction to regulate the following types of business transactions to the extent they may involve any of the Terasen Utilities:

    (a) the disposition of any utility property other than in the ordinary course of the business of the utility (UCA, Section 52);

    (b) the issue by any of the utilities of any debt and equity securities, other than debt maturing within one year of issue, and any material change in the terms and conditions of any such outstanding debt and equity securities issued by any of the utilities (UCA, Section 50);

    (c) any consolidation, merger or amalgamation of any of the utilities with any other person (UCA, Section 53); and

    (d) the subsequent acquisition by any person of a reviewable interest in any of the public utilities (UCA, Section 54).

    In summary, there is nothing in the Transaction that adversely affects the exercise by the Commission of its ongoing regulatory jurisdiction over each of the Terasen Utilities.

Compliance with Statutory Requirements

63. The proposed Transaction will not be completed unless and until all required governmental and regulatory authorizations have been obtained. Consequently, at the time of its completion, the Transaction will have been completed in compliance with applicable Provincial and Federal legislation and regulations, including the requirements of the UCA. Moreover, there is nothing in the Transaction that detracts from the jurisdiction of the Commission to regulate each of the Terasen Utilities and the services they provide to customers.

The Structural Integrity of the Terasen Utility Assets Will Be Maintained

64. As indicated above, the completion of the Transaction does not involve any change in the ownership, control or operation of the assets of the Terasen Utilities and accordingly the

structural integrity of the assets of each of the Terasen Utilities will be preserved. Following the completion of the Transaction, the Commission will continue to have regulatory control over each of the Terasen Utilities and their assets and operations. The Commission will also continue to have jurisdiction over the tolls and tariff of TPJF. Just as before the Transaction, no disposition of the assets of any of the Terasen Utilities, other than a disposition in the ordinary course of business, can be made without the approval of the Commission required under section 52 of the Act.

65. In addition,

- TGI, TGVI, TGW, TGS and TMUS have an obligation to provide safe, reliable and secure service to its customers under the jurisdiction of the Commission.
- Operations remain subject to the continuing oversight of the BC Safety Authority, BC Oil and Gas Commission, BC Workers Compensation Board.

66. Completion of the Transaction will result in Terasen being acquired by a large, well capitalized company which has both the expertise and resources to expand and develop the energy business being carried on by Terasen and the Terasen Utilities.

Conclusion

67. In all of the circumstances of this Application, it is clear that, following completion of the Transaction:

(a) there will be unaffected continuity in the direct ownership, business and operations of the Terasen Utilities;

(b) the structural integrity of the assets of the Terasen Utilities will be maintained;

(c) there will be unaffected continuity in the services provided to the Terasen Utilities pursuant to the Service Agreements;

(d) there will be unaffected continuity in the utility services provided by the Terasen Utilities to their customers;

(e) there will be unaffected continuity in the regulation of the Terasen Utilities and their services by the Commission under the UCA;

(f) there will be no adverse impact on the ability of the Terasen Utilities to access capital markets;

(g) there will be no breach of existing covenants given by or in respect of the Terasen Utilities;

(h) there will be compliance with applicable Provincial and Federal statutes and regulations; and

(i) the public interest will be preserved.

68. Completion of the Transaction will not detrimentally affect the Terasen Utilities or the users of the services of those utilities.

The Kinder Morgan Companies submit that the Commission should approve the acquisition by the Kinder Morgan Companies of the common shares of Terasen.

For the convenience of the Commission, a draft form of the Order approving the acquisition is attached as Schedule 6.

ALL OF WHICH is respectfully submitted.

DATED AT Vancouver, B.C., this 17th day of August, 2005.

BLAKE, CASSELS & GRAYDON
as agent for:
KINDER MORGAN, INC.,
on behalf of itself and 0731297 B.C. Ltd.

for **Paul Cassidy**

All notices and communications in connection with this Application should be directed to:

Kinder Morgan, Inc.
c/o Paul Cassidy
Blake, Cassels & Graydon LLP
Suite 2600, Three Bentall Centre
595 Burrard Street, PO Box 49314
Vancouver, BC V7X 1L3

Telephone: (604) 631-3390
Fax: (604) 631-3309
E-mail: paul.cassidy@blakes.com

Schedule 1

EXECUTION COPY

COMBINATION AGREEMENT

AMONG

KINDER MORGAN, INC.,

0731297 B.C. LTD.,

AND

TERASEN INC.

AS OF
AUGUST 1, 2005

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

COMBINATION AGREEMENT

THIS COMBINATION AGREEMENT dated as of August 1, 2005, is entered into by and among Kinder Morgan, Inc., a Kansas corporation ("**Kinder**"), 0731297 B.C. Ltd., a corporation existing under the Laws of the Province of British Columbia and a wholly-owned subsidiary of Kinder ("**Subco**"), and Terasen Inc., a corporation existing under the laws of British Columbia ("**Terasen**"). Kinder and Subco are collectively referred to herein as the "Kinder Parties".

R E C I T A L S

A. The board of directors of Terasen has determined that the business combination to be effected by means of the Plan of Arrangement is advisable and in the best interest of Terasen and has approved the transactions contemplated by this Agreement and determined to recommend approval of the Plan of Arrangement and other transactions contemplated hereby to the Terasen Securityholders.

B. The board of directors of Kinder has determined that the business combination to be effected by means of the Plan of Arrangement is advisable and in the best interest of Kinder and has approved the transactions contemplated by this Agreement.

C. In furtherance of such business combination, the board of directors of Terasen has agreed to submit the Plan of Arrangement and other transactions contemplated hereby to the Terasen Securityholders and the Supreme Court of British Columbia for approval.

NOW THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Agreement, unless the context otherwise requires, the following terms shall have the following meanings respectively:

"**1933 Act**" means the United States *Securities Act of 1933*, as amended;

"**1935 Act**" means the United States *Public Utility Holding Company Act of 1935*, as amended;

"**Acquisition Proposal**" means any of the following (other than the transactions contemplated by this Agreement or the Arrangement): (a) any merger, amalgamation, arrangement, share exchange, take-over bid, tender offer, recapitalization, consolidation or other business combination directly or indirectly involving Terasen or any of its Material Subsidiaries, (b) any acquisition of assets representing 15% or more of the book value (on a consolidated basis) of the assets of Terasen and its subsidiaries, taken as a

whole (or any lease, long-term supply agreement, exchange, mortgage, pledge or other arrangement having a similar economic effect) in a single transaction or a series of related transactions, (c) any acquisition of beneficial ownership (as defined under Section 13(d) of the *Exchange Act*) of 15% (except for purposes of Section 7.4(c) of this Agreement in which case such percentage will be 20%) or more of the Terasen Common Shares in a single transaction or a series of related transactions, (d) any acquisition by Terasen of any assets or capital stock of another person (other than acquisitions of capital stock or assets of any other person that are not, individually or in the aggregate, material to Terasen and its subsidiaries, taken as a whole), or (e) any bona fide proposal to, or public announcement of an intention to, do any of the foregoing;

"**Affected Employees**" has the meaning ascribed thereto in Section 5.7;

"**affiliate**" has the meaning ascribed thereto in the BCSA, unless otherwise expressly stated herein;

"**Affiliate's Letter**" means a letter, to be substantially in the form and content of Schedule A annexed hereto;

"**Agreement**" means this Agreement, including the Schedules hereto;

"**applicable privacy laws**" means any and all applicable Laws relating to privacy and the collection, use and disclosure of Personal Information in all applicable jurisdictions, including but not limited to the *Personal Information Protection and Electronic Documents Act* (Canada) and/or any comparable provincial law (including the *Personal Information Protection Act* (British Columbia));

"**Appropriate Regulatory Approvals**" means those sanctions, rulings, consents, orders, exemptions, permits and other approvals (including the lapse, without objection, of a prescribed time under a statute or regulation that states that a transaction may be implemented if a prescribed time lapses following the giving of notice without an objection being made) of Governmental Entities, or self-regulatory organizations, as set out in Schedule B annexed hereto;

"**Arrangement**" means the arrangement under Section 288 of the BCBCA on the terms and subject to the conditions set out in the Plan of Arrangement, subject to any amendments or variations thereto made in accordance with Section 7.1 hereof or Article 6 of the Plan of Arrangement, or made at the direction of the Court in the Final Order;

"**Arrangement Resolution**" means the special resolution of the Terasen Securityholders, approving the Plan of Arrangement to be considered at the Terasen Meeting, substantially in the form and content of Schedule C annexed hereto;

"**BCBCA**" means the *Business Corporations Act* (British Columbia) as now in effect and as it may be amended from time to time prior to the Effective Date, and includes where

applicable the *Company Act* (British Columbia) prior to the enactment of the *Business Corporations Act* (British Columbia);

"**BCSA**" means the *Securities Act* (British Columbia) and the rules, regulations and policies made thereunder, as now in effect and as they may be amended from time to time prior to the Effective Date;

"**Business Day**" means any day on which commercial banks are generally open for business in Houston, Texas and Vancouver, British Columbia other than a Saturday, a Sunday or a day observed as a holiday in Houston, Texas under the Laws of the State of Texas or the federal Laws of the United States of America or in Vancouver, British Columbia under the Laws of the Province of British Columbia or the federal Laws of Canada;

"**Circular**" means the notice of the Terasen Meeting and accompanying management proxy circular, including all schedules and exhibits thereto, to be sent by Terasen to the Terasen Securityholders in connection with the Terasen Meeting;

"**Code**" has the meaning ascribed thereto in Section 3.12(f);

"**Competition Act**" means the *Competition Act* (Canada) as now in effect and as may be amended from time to time prior to the Effective Date;

"**Competition Act Approval**" means:

(a) the issuance of an advance ruling certificate by the Commissioner under Subsection 102(1) of the Competition Act to the effect that the Commissioner is satisfied that she would not have sufficient grounds upon which to apply to the Competition Tribunal for an order under section 92 of the Competition Act with respect to the transactions contemplated by this Agreement; or

(b) that the waiting period under section 123 of the Competition Act shall have expired or been earlier terminated or the obligation to provide a pre-merger notification in accordance with Part IX of the Competition Act has been waived in accordance with paragraph 113(c) of the Competition Act, and Kinder shall have been advised in writing by the Commissioner that she is of the view that there are not sufficient grounds to initiate proceedings under the merger provisions of the Competition Act in respect of the transactions contemplated by this Agreement;

"**Confidentiality Agreement**" means the confidentiality letter agreement dated July 20, 2005 between Kinder and Terasen;

"**constating documents**" means, with respect to any person, the certificate and articles of incorporation, by-laws, articles of organization, limited liability company agreement, partnership agreement, formation agreement, joint venture agreement, unanimous

shareholder agreement or declaration or other similar governing documents of such person;

"**Contaminant**" means any pollutants, explosives, dangerous goods and substances, underground or above ground storage tanks, deleterious substances, special waste, liquid waste, industrial waste, hauled liquid waste or waste of any other kind, toxic substances, hazardous wastes, hazardous materials, hazardous substances or contaminants or any other substance the storage, manufacture, disposal, handling, treatment, generation, use, transport or release into the environment of which is prohibited, controlled or regulated under any Environmental Law;

"**Court**" means the Supreme Court of British Columbia;

"**date of this Agreement**" means August 1, 2005;

"**Debt Agreement**" means any note, bond, mortgage, indenture, debenture, or other similar contract, agreement or instrument of Terasen or its subsidiaries relating to indebtedness for borrowed money that is described in the financial statements (including the notes thereto) in the Terasen SRA Reports;

"**Dissent Rights**" means the rights of dissent in respect of the Arrangement described in Section 4.1 of the Plan of Arrangement;

"**Dissenting Shares**" has the meaning ascribed thereto in the Plan of Arrangement;

"**Easements**" has the meaning ascribed thereto in Section 3.19(b);

"**Effective Date**" has the meaning ascribed thereto in the Plan of Arrangement;

"**Effective Time**" has the meaning ascribed thereto in the Plan of Arrangement;

"**Environmental Activity**" means any activity, event or circumstance in respect of a Contaminant, including, without limitation, its storage, use, holding, collection, purchase, accumulation, assessment, generation, manufacture, construction, processing, treatment, stabilization, disposition, handling or transportation, or its Release, escape, leaching, dispersal or migration into the natural environment, including the movement through or in the air, soil (land surface or subsurface strata), surface water or groundwater;

"**Environmental Law**" means any and all Laws in effect on the date of this Agreement relating to pollution or the environment or any Environmental Activity;

"**Environmental Permits**" means, collectively, all permits, licences, certificates, variances, remediation orders and authorizations of or any registration with, any Government Entity pursuant to any Environmental Law;

"**ERISA**" has the meaning ascribed thereto in Section 3.13(a);

"**Exchange Act**" means the United States *Securities Exchange Act of 1934*, as amended;

"**Express Pipeline**" means the 785 mile crude oil pipeline which runs from Hardisty, Alberta to Casper, Wyoming known as the Express Pipeline and all associated metering and storage facilities and pump stations;

"**Express System**" means, collectively, the Express Pipeline and the Platte Pipeline;

"**Final Order**" means the final order of the Court approving the Arrangement, as such order may be amended by the Court at any time prior to the Effective Date, or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended on appeal;

"**First Preferred Shares**" means the first preferred shares in the capital of Terasen;

"**Governmental Entity**" means any (a) multinational, federal, provincial, territorial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign, (b) subdivision, agent, commission, board, or authority of any of the foregoing, or (c) quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under, or for the account of, any of the foregoing;

"**holders**" means, when used with reference to the Terasen Common Shares, the holders of Terasen Common Shares shown from time to time in the register maintained by or on behalf of Terasen in respect of the Terasen Common Shares;

"**Intellectual Property Rights**" has the meaning ascribed thereto in Section 3.17(a);

"**Interim Order**" means the interim order of the Court, as the same may be amended, in respect of the Arrangement, as contemplated by Section 2.3 providing for, among other things, the calling and holding of the Terasen Meeting;

"**Kinder**" has the meaning ascribed thereto in the Preamble;

"**Kinder Common Shares**" means the shares of common stock in the capital of Kinder;

"**Kinder Disclosure Letter**" means that certain letter of disclosure dated as of the date of this Agreement and signed by an authorized officer of Kinder and delivered by Kinder to Terasen on or prior to the date of this Agreement;

"**Kinder Documents**" has the meaning ascribed thereto in Section 4.7(a);

"**Kinder Environmental Permits**" has the meaning ascribed thereto in Section 4.9(b);

"**Kinder LP**" means Kinder Morgan Energy Partners, L.P.;

"**Kinder Management**" means Kinder Morgan Management, LLC;

"**Kinder Parties**" has the meaning ascribed thereto in the Preamble;

"**Kinder Permits**" has the meaning ascribed thereto in Section 4.12(b);

"**Kinder Rights**" means the rights to purchase shares of Kinder's Class B Junior Participating Series Preferred Stock or in certain circumstances Kinder Common Shares, issued pursuant to the Kinder Rights Agreement;

"**Kinder Rights Agreement**" means the agreement dated August 21, 1995, as amended, by and between Kinder and First Chicago Trust Company of New York (as successors to The Bank of New York), as Rights Agent;

"**Kinder SEC Documents**" has the meaning ascribed thereto in Section 4.7(a);

"**Kinder Stock Plans**" means Kinder's existing benefit or stock purchase plans which provide for the issuance, grant or sale of Kinder Common Shares or options to purchase Kinder Common Shares;

"**knowledge**" means, with respect to either Kinder or Terasen, the knowledge of any officer of such party after reasonable inquiry; provided that reasonable inquiry shall not require the inquiry of any third party (other than the respective representatives, directors, officers, employees, agents and advisors of such party and its Material Subsidiaries) or Partially Owned Entity;

"**Laws**" means all statutes, regulations, statutory rules, policies, orders, and terms and conditions of any grant of approval, permission, authority or license of any court, Governmental Entity, statutory body or self-regulatory authority (including the TSX and the NYSE), and the term "applicable" with respect to such Law and in the context that refers to one or more persons, means that such Law applies to such person or persons or its or their business, undertaking, property or securities and emanates from a Governmental Entity, statutory body or regulatory authority having jurisdiction over the person or persons or its or their business, undertaking, property or securities;

"**Lien**" means any mortgage, hypothec, prior claim, lien, pledge, assignment for security, security interest, lease, option, right of third parties or other charge or encumbrance, including the lien or retained title of a conditional vendor, and any easement, servitude, right of way or other encumbrance on title to real or immovable property or personal or movable property;

"**Mailing Date**" means the date by which the Circular must be mailed in order to have the Terasen Meeting on or before October 31, 2005 in accordance with the constating documents of Terasen and applicable Laws;

"**Material Adverse Effect**," when used in connection with Kinder or Terasen, means any change, effect, circumstance, event or occurrence with respect to its condition (financial or otherwise), properties, assets, liabilities, obligations (whether absolute, accrued,

conditional or otherwise), businesses, operations or results of operations or those of its subsidiaries, that is, or would be reasonably expected to be, material and adverse to the current or future business, operations, regulatory status, financial condition or results of operations of Kinder or Terasen, as the case may be, and its subsidiaries taken as a whole; provided, however, that a Material Adverse Effect shall not include with respect to any party, any such change, effect, event or occurrence directly or indirectly arising out of or attributable to (i) any decrease in the market price of Kinder Common Shares in the case of Kinder or Terasen Common Shares in the case of Terasen (but in either case not any such change, effect, event or occurrence underlying such decrease to the extent such change, effect, event or occurrence would otherwise constitute a Material Adverse Effect on such party), or (ii) public announcement of the execution and delivery of this Agreement;

"**Material Subsidiary**" means a subsidiary (i) the assets of which exceed 5% of the total assets of the ultimate parent corporation on a consolidated basis as at the end of the last completed fiscal year of the ultimate parent corporation, or (ii) of which the ultimate parent corporation's direct or indirect equity interest in the income (before income taxes and extraordinary items) exceeds 5% of such income of the ultimate parent corporation on a consolidated basis during the last completed fiscal year of the ultimate parent corporation;

"**Meeting Date**" means the date on which the Terasen Meeting is held;

"**Misrepresentation**" has the meaning given to such term in the BCSA;

"**NYSE**" means the New York Stock Exchange;

"**OSC**" means the Ontario Securities Commission;

"**Partially Owned Entity**" means, with respect to a specified person, any corporation, partnership, joint venture, limited liability company, unlimited liability company, or other person or organization, incorporated or unincorporated, which is not a subsidiary of such specified person but in which such specified person, directly or indirectly, owns or controls 15% or more of the outstanding securities or other interests ordinarily entitled to vote in the election of the board of directors or other governing body thereof or 15% or more of the equity interest in such entity;

"**person**" includes any individual, firm, partnership, joint venture, venture capital fund, limited liability company, unlimited liability company, association, trust, trustee, executor, administrator, legal personal representative, estate, group, body corporate, corporation, unincorporated association or organization, Governmental Entity, syndicate or other entity, whether or not having legal status as well as any syndicate or group that would be deemed to be a person under section 13(d) of the Exchange Act;

"**Personal Information**" means information about an individual transferred to Kinder by Terasen as a condition of the Arrangement, but does not include an individual's name,

position name or title, business telephone number, business address, business email or business fax number;

"**Plan of Arrangement**" means the plan of arrangement substantially in the form and content of Schedule E annexed hereto and any amendments or variations thereto made in accordance with Section 7.1 hereof or Article 6 of the Plan of Arrangement or made at the direction of the Court in the Final Order;

"**Platte Pipeline**" means the crude oil pipeline which runs from points upstream of Casper, Wyoming to the Platte terminal at Casper, where it interconnects with the Express Pipeline, and the 932-mile mainline which runs from Casper to Wood River, Illinois and all associated metering and storage facilities and pump stations;

"**Pre-Effective Date Period**" shall mean the period from and including the date of this Agreement to and including the Effective Time on the Effective Date;

"**Rate Change**" has the meaning ascribed thereto in Section 5.1(a)(x);

"**Reciprocal Shares**" means the 9,184,188 Terasen Common Shares held by TMHL;

"**Release**" means discharge, spray, inject, inoculate, abandon, deposit, spill, leak, seep, migrate, pour, emit, empty, throw, dump, place or exhaust, and when used as a noun has a similar meaning;

"**Representatives**" has the meaning ascribed thereto in Section 5.3(a);

"**SEC**" means the United States Securities and Exchange Commission;

"**Second Preferred Shares**" means the second preferred shares in the capital of Terasen;

"**Specified Kinder Event**" means the occurrence of an event resulting in a Material Adverse Effect with respect to Kinder, a Misrepresentation hereunder by Kinder or a breach by Kinder of its obligations hereunder, if by reason thereof, Terasen would be entitled to rely on the failure of a condition set forth in Sections 6.3(a), 6.3(b) or 6.3(c) as a reason not to complete the Arrangement;

"**Subco**" has the meaning ascribed thereto in the Preamble;

"**subsidiary**" means with respect to a specified person, (a) any corporation, partnership, joint venture, association, limited liability company, unlimited liability company or other person or organization, incorporated or unincorporated, which is a subsidiary as defined in the BCSA of such specified person, (b) a partnership of which such specified person or another of its subsidiaries is a general partner or owns beneficially more than 50% of the ownership interests, or (c) a subsidiary (as defined in clause (a) or (b) hereof) or any person described in clause (a) or (b) hereof of any subsidiary (as so defined) thereof and for the purposes of this Agreement:

(i) with respect to the representations and warranties contained in Article 3 only, each other person in which Terasen holds a direct or indirect equity interest that directly or indirectly owns all or part of the Express System shall be deemed to be a subsidiary of Terasen; and

(ii) with respect to the representations and warranties contained in Article 4 only, Kinder Management and Kinder LP shall be deemed to be subsidiaries of Kinder;

"**Superior Proposal**" means any bona fide written proposal, other than the Arrangement, by a third party, directly or indirectly, to acquire all or substantially all of the assets of Terasen (on a consolidated basis) or more than 50% of the Terasen Common Shares, whether by way of merger, amalgamation, arrangement, share exchange, take-over bid, recapitalization, sale of assets or otherwise, and that the board of directors of Terasen determines in its good faith (based upon the written advice from its financial advisors and outside legal counsel) (a) is reasonably capable of being completed without undue delay, taking into account all legal, financial, regulatory and other aspects of such proposal and the party making such proposal, (b) is fully financed or is reasonably capable of being fully financed, and (c) would, if consummated in accordance with its terms, results in a transaction more favourable to Terasen's Securityholders from a financial point of view than the terms of the Arrangement and provides for consideration per Terasen Common Share that has a value that is greater than the consideration per Terasen Common Share provided under the terms of the Arrangement (including any adjustment to such terms proposed by Kinder as contemplated by Section 5.6(b));

"**Tax**" and "**Taxes**" means, with respect to any person, all income taxes (including any tax on or based upon net income, gross income, income as specially defined, earnings, profits or selected items of income, earnings or profits) and all capital taxes, gross receipts taxes, environmental taxes, sales taxes, use taxes, ad valorem taxes, value added taxes, transfer taxes, franchise taxes, license taxes, withholding taxes, payroll taxes, employment taxes, pension plan premiums for government administered pension plans; excise, severance, social security premiums, workers' compensation premiums, unemployment insurance or compensation premiums, stamp taxes, occupation taxes, premium taxes, property taxes, windfall profits taxes, alternative or add-on minimum taxes, goods and services tax, customs duties or other taxes, fees, imports, assessments or charges of any kind whatsoever, together with any interest and any penalties or additional amounts imposed by any taxing authority (domestic or foreign) on such entity, and any interest, penalties, additional taxes and additions to tax imposed with respect to the foregoing;

"**Tax Returns**" includes all returns, reports, declarations, designations, elections, notices, filings, forms, statements and other documents (whether in tangible, electronic or other form) and including any amendments, schedules, attachments, supplements, appendices and exhibits thereto, made, prepared, filed or required to be made, prepared or filed with any Governmental Entity in respect of Taxes;

"**Termination Date**" means March 31, 2006;

"**Termination Fee**" means a fee equal to $75 million;

"**TMHL**" means Trans Mountain Holdings Ltd.;

"**Terasen**" has the meaning ascribed thereto in the Preamble;

"**Terasen Common Shares**" means the issued and outstanding common shares in the capital of Terasen, including the associated rights under the Terasen Rights Plan;

"**Terasen Disclosure Letter**" means that certain letter of disclosure dated as of the date of this Agreement and signed by an authorized officer of Terasen and delivered by Terasen to Kinder on or prior to the date of this Agreement;

"**Terasen Dividend Reinvestment Plan**" means Terasen's Dividend Reinvestment and Share Purchase Plan existing on the date of this Agreement pursuant to which holders of Terasen Common Shares may elect to receive dividends in equivalent value of Terasen Common Shares in lieu of cash and may make purchases of Terasen Common Shares;

"**Terasen Documents**" has the meaning ascribed thereto in Section 3.8(a);

"**Terasen Employee Share Purchase Plan**" means the share purchase plan for Terasen employees existing on the date of this Agreement enabling certain employees of Terasen to purchase Terasen Common Shares through payroll deductions;

"**Terasen Meeting**" means the special meeting of Terasen Securityholders, including any adjournment, adjournments, postponement or postponements thereof, to be called and held in accordance with the Interim Order to consider the Terasen Resolutions;

"**Terasen MTIP**" means Terasen's Medium-Term Incentive Plan existing on the date of this Agreement;

"**Terasen Options**" means the Terasen Common Share purchase options granted under the Terasen Share Option Plan;

"**Terasen Permits**" has the meaning ascribed thereto in Section 3.15(b);

"**Terasen Pipeline Assets**" has the meaning ascribed thereto in Section 3.19(a);

"**Terasen Pipeline Savings Plan**" means the Savings Plan of Terasen Pipelines existing on the date of this Agreement;

"**Terasen Plans**" has the meaning ascribed thereto in Section 3.13(a);

"**Terasen Resolutions**" means collectively the Arrangement Resolution and the Terasen Rights Plan Waiver Resolution;

"**Terasen Rights Plan Amending Agreement**" means the agreement in the form of Schedule F hereto, or such other form as Kinder may approve, to be entered into following the approval of the Terasen Rights Plan Waiver Resolution;

"**Terasen Rights Plan**" means the shareholder rights plan of Terasen established pursuant to the Shareholders Rights Plan Agreement dated as of November 24, 2003 between Terasen and CIBC Mellon Trust Company, as rights agent;

"**Terasen Rights Plan Waiver Resolution**" means the ordinary resolution of the holders of Terasen Common Shares to be substantially in the form and content of Schedule D annexed hereto;

"**Terasen Securityholders**" means the holders of Terasen Common Shares;

"**Terasen Share Option Plan**" means Terasen's Share Option Plan existing on the date of this Agreement;

"**Terasen SRA Reports**" has the meaning ascribed thereto in Section 3.8(a);

"**Termination Date**" means March 31, 2006;

"**Termination Fee**" means a fee equal to $75 million;

"**TMHL**" means Trans Mountain Holdings Ltd.; and

"**TSX**" means the Toronto Stock Exchange.

1.2 Interpretation Not Affected by Headings, etc.

The division of this Agreement into articles, sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof. Unless otherwise indicated, all references to an "Article" or "Section" followed by a number or a letter refer to the specified Article or Section of this Agreement. The terms "this Agreement," "hereof," "herein" and "hereunder" and similar expressions refer to this Agreement (including the Schedules hereto) and not to any particular Article, Section or other portion hereof.

1.3 Rules of Construction

Unless otherwise specifically indicated or the context otherwise requires, (a) all references to "dollars" or "$" mean Canadian dollars, (b) words importing the singular shall include the plural and vice versa and words importing any gender shall include all genders, and (c) "include," "includes" and "including" shall be deemed to be followed by the words "without limitation."

1.4 Date For Any Action

In the event that any date on which any action is required to be taken hereunder by any of the parties hereto is not a Business Day, such action shall be required to be taken on the next succeeding day that is a Business Day.

1.5 Schedules

The following Schedules are annexed to this Agreement and are hereby incorporated by reference into this Agreement and form part hereof:

Schedule A — Form of Affiliate's Letter
Schedule B — Appropriate Regulatory Approvals
Schedule C — Form of Arrangement Resolution
Schedule D — Form of Terasen Rights Plan Waiver Resolution
Schedule E — Form of Plan of Arrangement
Schedule F — Form of Terasen Rights Plan Amending Agreement

ARTICLE 2
THE ARRANGEMENT

2.1 Implementation Steps by Terasen

Terasen covenants in favour of the Kinder Parties that Terasen shall:

(a) as soon as reasonably practicable, apply in a manner acceptable to the Kinder Parties, acting reasonably, under Section 291 of the BCBCA for an order approving the Arrangement and for the Interim Order, and thereafter proceed with and diligently seek the Interim Order;

(b) lawfully convene and hold the Terasen Meeting for the purpose of considering the Terasen Resolutions (and for no other purpose unless agreed to by Kinder) as soon as reasonably practicable, and in any event, on or before October 31, 2005, subject to adjournments or postponements which may be required pursuant to Section 5.6(a);

(c) subject to obtaining the approvals as are required by the Interim Order, as soon as practicable after the Terasen Meeting, proceed with and diligently pursue the application to the Court for the Final Order approving the Arrangement;

(d) subject to obtaining the Final Order and the satisfaction or waiver of the other conditions herein contained in favour of each party, as soon as reasonably practicable, take all steps and actions, including without limitation making all necessary filings with Governmental Entities to give effect to the Arrangement prior to the Termination Date;

(e) instruct counsel acting for it to bring the applications referred to in Sections 2.1(a) and (c) in co-operation with counsel to the Kinder Parties;

(f) permit the Kinder Parties and their counsel to review and comment upon drafts of all material to be filed by Terasen with the Court in connection with the Arrangement, including the Circular and any supplement or amendment contemplated by Section 2.7(c), and provide counsel to the Kinder Parties on a timely basis with copies of any notice of appearance and evidence served on Terasen or its counsel in respect of the application for the Interim Order and the Final Order or any appeal therefrom and of any notice (written or oral) received by Terasen indicating any intention to oppose the granting of the Interim Order or the Final Order or to appeal the Interim Order or the Final Order; and

(g) not file any material with the Court in connection with the Arrangement or serve any such material, and not agree to modify or amend materials so filed or served except as contemplated hereby or with the Kinder Parties' prior written consent, such consent not be unreasonably withheld or delayed.

2.2 <u>Implementation Steps by Kinder Parties</u>

Kinder covenants in favour of Terasen that Kinder shall:

(a) cooperate with, assist and consent to Terasen seeking the Interim Order and the Final Order;

(b) prior to the Effective Time, Kinder shall use reasonable best efforts to obtain all orders required from the applicable Canadian securities regulatory authorities to permit the issuance and first resale of the Kinder Common Shares issuable pursuant to the Arrangement, without qualification with, or approval of, or the filing of any prospectus or similar document, or the taking of any proceeding with, or the obtaining of any further order, ruling or consent from, any Canadian securities regulatory authority under any Canadian federal, provincial or territorial securities or other Laws or pursuant to the rules and regulations of any Governmental Entity administering such Laws, or the fulfillment of any other legal requirement in any such jurisdiction (other than, with respect to such first resales, any restrictions on transfer by reason of, among other things, a holder being a "control person" for purposes of Canadian federal, provincial or territorial securities Laws);

(c) prior to the Effective Time, use its reasonable best efforts to obtain all United States state securities or "blue sky" authorizations necessary to issue the Kinder Common Shares issuable pursuant to the Arrangement;

(d) prior to the Effective Time, use its reasonable best efforts to cause the Kinder Common Shares issuable pursuant to the Arrangement to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Effective Time.

2.3 Interim Order

The notice of motion for the application referred to in Section 2.1(a) shall request that the Interim Order provide, among other things:

(a) for the class of persons to whom notice is to be provided in respect of the Arrangement and the Terasen Meeting and for the manner in which such notice is to be provided;

(b) that the requisite approval for the Arrangement Resolution shall be 75% of the votes cast on the Arrangement Resolution by Terasen Securityholders (other than TMHL) present in person or by proxy at the Terasen Meeting (such that each Terasen Securityholder is entitled to one vote for each Terasen Common Share held);

(c) that, in all other respects, the terms, restrictions and conditions of the constating documents of Terasen, including quorum requirements and all other matters, shall apply in respect of the Terasen Meeting;

(d) for the grant of the Dissent Rights; and

(e) for the notice requirements with respect to the presentation of the application to the Court for the Final Order.

2.4 Plan of Arrangement

The parties to this Agreement will implement the Plan of Arrangement in accordance with the provisions of this Agreement including Schedule E of this Agreement.

From and after the Effective Time, the Plan of Arrangement will have all of the effects provided by applicable Laws, including the BCBCA. The closing of the transactions contemplated hereby will take place at the offices of Stikeman Elliott LLP at 6:00 a.m. (Vancouver time) on the Effective Date.

2.5 Terasen Circular

As promptly as reasonably practicable Terasen shall prepare the Circular together with any other documents required by the BCSA, the BCBCA or other applicable Laws in connection with the approval of the Terasen Resolutions by the Terasen Securityholders at the Terasen Meeting, and Terasen shall give Kinder timely opportunity to review and comment on all such documentation and all such documentation shall be reasonably satisfactory to Kinder before it is filed or distributed to Terasen Securityholders incorporating therein all reasonable comments made by the Kinder Parties and their counsel; provided that Kinder will provide Terasen with its comments and any proposed additions and deletions within five Business Days after receipt of a draft Circular from Terasen. If Kinder shall have advised Terasen in writing of matters required pursuant to Section 5.2(b)(ii) prior to the Terasen Meeting, Terasen shall disclose such matters in the Circular (including by amendment or supplement to the Circular if the Circular shall have

been previously filed or distributed) and such disclosure shall be reasonably satisfactory to Kinder before it is filed or distributed to Terasen Securityholders.

As promptly as practicable after obtaining the Interim Order, Terasen shall cause the Circular and other documentation required in connection with the Terasen Meeting to be sent to each Terasen Securityholder and filed as required by the Interim Order and applicable Laws, and Terasen will use its reasonable best efforts to cause the Circular to be sent to each Terasen Securityholder and filed as required by the Interim Order and applicable Laws on or before the Mailing Date.

2.6 Securities Compliance

Kinder and Terasen shall take all steps as may be required to cause the Kinder Common Shares to be issued pursuant to the Plan of Arrangement to be issued in a transaction exempt from registration under the 1933 Act pursuant to Section 3(a)(10) of the 1933 Act.

2.7 Preparation of Filings

(a) Kinder and Terasen shall cooperate in:

(i) the preparation of any application for the orders and the preparation of any required registration statements and any other documents reasonably deemed by Kinder or Terasen to be necessary to discharge their respective obligations under United States and Canadian federal, provincial, territorial or state securities Laws in connection with the Arrangement and the other transactions contemplated hereby;

(ii) the taking of all such action as may be required under any applicable United States and Canadian federal, provincial, territorial or state securities Laws (including "**blue sky laws**") in connection with the issuance of the Kinder Common Shares in connection with the Arrangement; provided, however, that with respect to the United States "blue sky" and Canadian provincial qualifications neither Kinder nor Terasen shall be required to register or qualify as a foreign corporation or to take any action that would subject it to service of process in any jurisdiction where such entity is not now so subject, except as to matters and transactions arising solely from the offer and sale of the Kinder Common Shares; and

(iii) the taking of all such action as may be required under the BCBCA in connection with the transactions contemplated by this Agreement and the Plan of Arrangement.

(b) Each of Kinder and Terasen shall promptly furnish to the other all information concerning it and its affiliates and securityholders as may be required for the effectuation of the actions described in Sections 2.5 and 2.6 and the foregoing

provisions of this Section 2.7, and each covenants that no information furnished by it (to its knowledge in the case of information concerning its shareholders and optionholders, as applicable) in connection with such actions or otherwise in connection with the consummation of the Arrangement and the other transactions contemplated by this Agreement will contain any Misrepresentation or any untrue statement of a material fact or omit to state a material fact required to be stated in any such document or necessary in order to make any information so furnished for use in any such document not misleading in the light of the circumstances in which it is furnished or in which it is to be used.

(c) Each of Kinder and Terasen shall promptly notify the other if at any time before or after the Effective Time it becomes aware that the Circular or any application for an order hereunder or a registration statement described in Section 2.2(b) contains any Misrepresentation or any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made, or that otherwise requires an amendment or supplement to the Circular or such application or registration statement. In any such event, Kinder and Terasen shall cooperate in the preparation of any required supplement or amendment to the Circular or such other document, as the case may be, and, if required by applicable Law or the Court, shall cause the same to be distributed to the Terasen Securityholders or filed with the applicable securities regulatory authorities.

(d) Terasen shall ensure that the Circular complies with all applicable Laws and, without limiting the generality of the foregoing, that the Circular does not contain any Misrepresentation or any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made (other than with respect to any information relating to and provided by the Kinder Parties). Without limiting the generality of the foregoing, Terasen shall ensure that the Circular complies with National Instrument 51-102 "Continuous Disclosure Requirements" and Form 51-102F5 thereunder adopted by the Canadian Securities Administrators and provides Terasen Securityholders with information in sufficient detail to permit them to form a reasoned judgment concerning the matters to be placed before them at the Terasen Meeting.

(e) Terasen shall (with the Kinder Parties and the Kinder Parties' counsel) diligently do all such acts and things as may be necessary to comply, in all material respects, with National Instrument 54-101 of the Canadian Securities Administrators in relation to the Terasen Meeting and, without limiting the generality of the foregoing, shall, in consultation with the Kinder Parties, use all reasonable efforts to benefit from the accelerated timing contemplated by such policy.

2.8 Solicitation of Proxies

Terasen agrees that Kinder may at any time, directly or through a soliciting dealer, actively solicit proxies in favour of the Terasen Resolutions.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF TERASEN

As an inducement to the Kinder Parties to enter into this Agreement, Terasen hereby represents and warrants to the Kinder Parties as follows in each case except as set forth in the Terasen Disclosure Letter (each of which exceptions shall specifically identify the relevant section hereof to which it relates):

3.1 Organization and Standing

(a) Each of Terasen and its subsidiaries has been duly organized or formed and is validly existing and, to the extent such concept is legally recognized, in good standing under the Laws of its jurisdiction of incorporation, organization or formation, as the case may be, with full corporate or legal power and authority to own, lease and operate its properties and assets and to conduct its businesses as currently owned and conducted except where, individually or in the aggregate, the failure of a subsidiary other than a Material Subsidiary to be so organized, formed or existing or to have such power or authority would not have a Material Adverse Effect on Terasen. Each of Terasen and its subsidiaries is duly qualified to do business in each jurisdiction in which the nature of the business conducted by it or the ownership or leasing of its properties and assets requires it to so qualify, except where, individually or in the aggregate, the failure to be so qualified would not have a Material Adverse Effect on Terasen. Section 3.1 of the Terasen Disclosure Letter sets forth a correct and complete list of each jurisdiction in which Terasen or any of its Material Subsidiaries is qualified or licensed to do business.

(b) Section 3.1 of the Terasen Disclosure Letter sets forth, as of the date of this Agreement, a true and complete list of each of Terasen's subsidiaries and Partially Owned Entities, together with (i) the nature of the legal organization of such person, (ii) the jurisdiction of organization or formation of such person, (iii) the name of each person related to Terasen that owns beneficially or of record any equity or similar interest in such person, and (iv) the percentage interest owned by Terasen or any of its subsidiaries in such person. Neither Terasen nor any of its subsidiaries is subject to any obligation or a series of related obligations in excess of $3 million to provide funds to or make any investment in (in the form of a loan, capital contribution or otherwise) any subsidiary, Partially Owned Entity or other person other than Terasen or a wholly owned subsidiary of Terasen. None of Terasen or any of its affiliates or associates (as such terms are used in Section 17.12, 100 of the Kansas General Corporation Code and Kinder's certificate of

incorporation) "beneficially owns" (as such term is defined in Rule 13d-3 under the Exchange Act) any equity securities of Kinder.

(c) Terasen has heretofore made available to Kinder complete and correct copies of its constating documents as well as the constating documents of each of its Material Subsidiaries, in each case as in effect on the date of this Agreement.

(d) Except for its interest in its subsidiaries and Partially Owned Entities, Terasen does not as of the date of this Agreement own, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any person.

3.2 Capitalization

(a) The authorized capital of Terasen consists of (i) 100,000,000 First Preferred Shares, (ii) 100,000,000 Second Preferred Shares, and (iii) 750,000,000 Terasen Common Shares and as of the date of this Agreement, 114,728,436 Terasen Common Shares are issued and outstanding and no First Preferred Shares and 2 Second Preferred Shares (held by Terasen Gas Inc.) are issued and outstanding. Of the issued and outstanding Terasen Common Shares, 9,184,188 Terasen Common Shares are held by TMHL and 4 Terasen Common Shares are held by Terasen Gas Inc., and no other issued and outstanding Terasen Common Shares are held in Terasen's treasury or by any other subsidiary of Terasen. As of June 30, 2005, there were outstanding Terasen Options permitting the holders thereof to purchase 3,084,090 Terasen Common Shares in the aggregate. As of June 30, 2005 there were 4,810,482 Terasen Common Shares, in the aggregate, reserved for issuance under the Terasen Share Option Plan and 805,930 Terasen Common Shares, in the aggregate, reserved for issuance under the Terasen Share Purchase Plan. As of June 30, 2005 there were 4,125,152 Terasen Common Shares reserved for issuance under the Terasen Dividend Reinvestment Plan. From June 30, 2005 to the date of this Agreement no Terasen Options have been granted.

(b) All of the Terasen Common Shares have been duly authorized and are validly issued and fully paid and non-assessable, were not issued in violation of pre-emptive or similar rights or any other agreement or understanding binding upon Terasen and were issued in compliance with the BCBCA, all applicable securities Laws and the constating documents of Terasen. All of the outstanding shares and other ownership interests of the subsidiaries and the Partially Owned Entities of Terasen, which are held, directly or indirectly, by Terasen have been duly authorized and are validly issued, fully paid and non-assessable, were not issued in violation of pre-emptive or similar rights and all such shares and other ownership interests are owned directly or indirectly by Terasen, free and clear of all Liens, except for restrictions on transfers contained in the constating documents of such entities.

(c) Except as described in Section 3.2(a) above, as of the date of this Agreement, there are no outstanding options, warrants, subscriptions, puts, calls or other rights, agreements, arrangements or commitments (pre-emptive, contingent or otherwise) obligating Terasen or any of its subsidiaries to offer, issue, sell, redeem, repurchase, otherwise acquire or transfer, pledge or encumber any capital stock of Terasen, any of its subsidiaries or Partially Owned Entities, nor are there outstanding any securities or obligations of any kind of Terasen or any of its subsidiaries which are convertible into or exercisable or exchangeable for any capital stock of Terasen, any of its subsidiaries or any other person and neither Terasen nor any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities has any obligation of any kind to issue any additional securities or to pay for or repurchase any securities. There are not outstanding as of the date of this Agreement any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or any other attribute of Terasen or any of its subsidiaries. As of the date of this Agreement there are no outstanding bonds, debentures or other evidences of indebtedness of Terasen or any of its subsidiaries having the right to vote (or that are exchangeable or convertible for or exercisable into securities having the right to vote) with the holders of the Terasen Common Shares on any matter. As of the date of this Agreement, there are no stockholder agreements, proxies, voting trusts, rights to require registration under securities Laws or other arrangements or commitments to which Terasen or any of its subsidiaries is a party or bound with respect to the voting, disposition or registration of any outstanding securities of Terasen, any of its subsidiaries or any of its Partially Owned Entities.

(d) Since December 31, 2004, except for issuances of Terasen Common Shares pursuant to Terasen Options granted prior to the date of this Agreement or pursuant to the Terasen Dividend Reinvestment Plan, there have been no Terasen capital stock, voting securities or securities convertible or exchangeable therefor issued or purchased for cancellation.

3.3 <u>Authority and No Conflicts</u>

(a) Terasen has all requisite corporate power and authority to execute and deliver this Agreement and the other documents related to the transactions contemplated hereunder and to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby, subject to the approval of Terasen's Securityholders and the Court as provided in this Agreement with respect to the Plan of Arrangement. The execution and delivery of this Agreement and the other documents related to the transactions contemplated hereunder by Terasen and the consummation by Terasen of the transactions contemplated by this Agreement have been duly and validly authorized by all necessary corporate action and no other corporate proceedings on the part of Terasen are necessary to authorize this Agreement and the other documents related to the transactions

contemplated hereunder or to consummate the transactions contemplated hereby or thereby other than, with respect to the Terasen Rights Plan Waiver Resolution, approval of the holders of Terasen Common Shares (other than TMHL in respect of the Reciprocal Shares) and with respect to the completion of the Arrangement, the approval of the Terasen Securityholders and the Court and the filing of such corporate documents under the BCBCA as are provided for in this Agreement.

(b) Each of this Agreement and the other documents related to the transactions contemplated hereunder has been or will be duly and validly executed and delivered by Terasen and constitutes or will constitute its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as the same may be limited by bankruptcy, insolvency and other applicable Laws affecting creditors' rights generally, and by general principles of equity.

(c) The board of directors of Terasen at a meeting duly called and held has determined by the unanimous approval of all directors voting (A) that this Agreement and the transactions contemplated hereby and the Terasen Resolutions, are fair to the Terasen Securityholders and are in the best interests of Terasen, (B) to recommend that the Terasen Securityholders vote in favour of the Terasen Resolutions, and (C) to extend, effective from the time this Agreement is executed, the "Separation Time" (as defined in the Terasen Rights Plan) as it relates to this Agreement and the transactions contemplated hereby, including the Arrangement, to a time which is the earlier of the Effective Time and the date upon which this Agreement is terminated in accordance with the terms of this Agreement.

(d) Neither the execution and delivery of this Agreement and all other documents related to the transactions contemplated hereunder by Terasen nor the performance by it of its obligations hereunder and thereunder and the completion of the transactions contemplated hereby, will:

(i) conflict with, or violate any provision of, the constating documents of Terasen or any of its subsidiaries or Partially Owned Entities;

(ii) subject to the consents, approvals, orders, authorizations, registrations, declarations or filings referred to in Section 3.4 being made or obtained, violate or breach any Laws applicable to Terasen, any of its Material Subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities;

(iii) subject to the consents, approvals, orders, authorizations, registrations, declarations or filings referred to in Section 3.4 being made or obtained, violate or conflict with or result in the breach of, or constitute a default (or an event that with the giving of notice, the passage of time, or both would constitute a default) under, or entitle any party (with the giving of notice, the passage of time or both) to terminate, accelerate, modify or call any

obligations or rights under any credit agreement, note, bond, mortgage, indenture, deed of trust, contract, agreement, lease, license, franchise, permit, concession, easement or other instrument to which Terasen or any of its Material Subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities is a party or by which Terasen or any of its Material Subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities or its or their property is bound or subject; or

(iv) result in the imposition of any encumbrance, charge or Lien upon or require the sale or give any person the right to acquire any of Terasen's assets or the assets of any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities, or restrict, hinder, impair or limit the ability of Terasen, or any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities to carry on their respective businesses as and where they are now being carried on or as contemplated to be carried on as disclosed by Terasen to Kinder;

except in the case of clauses (ii) through (iv) for any of the foregoing that would not, individually or in the aggregate, have a Material Adverse Effect on Terasen or materially impair the ability of Terasen to perform its obligations hereunder or prevent or materially delay the consummation of any of the transactions contemplated hereby.

3.4 Consents; Approvals

No consent, approval, license, permit, order or authorization of, or registration, declaration or filing with, or permit from, any third party or Governmental Entity is required to be obtained or made by or with respect to Terasen, any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities in connection with the execution, performance and delivery of this Agreement or any other documents related to the transactions contemplated hereunder by Terasen, the performance of its obligations hereunder or the consummation by Terasen of the transactions contemplated hereby other than (a) any approvals required by the Interim Order, (b) the Final Order, (c) the approval of the Arrangement by the Terasen Securityholders, (d) such registrations and other actions required under federal, state, provincial, and territorial securities Laws as are contemplated by this Agreement, (e) any filings under the BCBCA and securities Laws, (f) the Appropriate Regulatory Approvals required to be obtained by Terasen in order for it to consummate the transactions contemplated hereby, and (g) any other consents, approvals, orders, authorizations, registrations, declarations or filings which, if not obtained or made, would not, individually or in the aggregate, have a Material Adverse Effect on Terasen or prevent or materially delay the consummation of any of the transactions contemplated hereby or materially impair Terasen's ability to perform its obligations hereunder.

3.5 No Defaults

None of Terasen or any of its Material Subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities or any other party thereto, is in default under or violation of, and

there has been no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default or violation of, or permit the termination of, any term, condition or provision of (a) their respective constating documents, (b) any credit agreement, note, bond, mortgage, indenture, contract, agreement, lease, license, franchise, permit, concession, easement or other instrument to which Terasen or any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities, is a party or by which Terasen, any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities, or any of its or their property is bound or subject, except, in the case of clause (b), defaults, violations and terminations which, individually or in the aggregate, would not have a Material Adverse Effect on Terasen.

3.6 Absence of Certain Changes or Events

Except as disclosed in the Terasen SRA Reports filed prior to the date of this Agreement, since December 31, 2004, Terasen, its subsidiaries and, to the knowledge of Terasen, its Partially Owned Entities, have conducted their respective businesses only in the ordinary course in a manner consistent with past practice and there has been no Material Adverse Effect with respect to Terasen or any event, occurrence or development which would be reasonably expected to have a Material Adverse Effect on Terasen or which materially and adversely affects the ability of Terasen to consummate the transactions contemplated hereby or to restrict, hinder, impair or limit the ability of Terasen, or any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities to carry on their respective businesses as and where they are now being carried on or as contemplated to be carried on as disclosed by Terasen to Kinder.

3.7 Employment Matters

(a) Except as set forth in the Terasen Disclosure Letter, neither Terasen nor any of its subsidiaries is (i) a party to any written policy, agreement, obligation, understanding or undertaking providing for severance or termination payments to, or any employment agreement with, any former or current director, officer or employee other than any agreement which applies to only one individual and which does not provide for payment to such individual in excess of $100,000 in any one calendar year or (ii) any oral policy, agreement, obligation, understanding or undertaking providing an entitlement to any former director, officer or employee to severance or termination payments, except such payments as may be required under common law.

(b) Neither Terasen nor any of its subsidiaries is a party to any consulting contract, written or oral, providing for compensation of any individual in excess of $250,000 per calendar year.

(c) Neither Terasen nor any of its subsidiaries has agreed to recognize any union or other collective bargaining representative, nor has any union or other collective bargaining representative been certified as the exclusive bargaining representative of any of Terasen's or any of its subsidiaries' employees. No labor union or representative of the employees of Terasen or any of its subsidiaries claims to be seeking to represent employees of Terasen or any of its subsidiaries other than

those that are parties to executed collective bargaining agreements identified in Section 3.7 of the Terasen Disclosure Letter. To the knowledge of Terasen, no union organizational campaign or representation petitions are currently pending with respect to any of the employees of Terasen or any of its subsidiaries or Partially Owned Entities. Neither Terasen nor any of its subsidiaries is a party to, or bound by, any collective bargaining agreement or any other labor contract applicable to any employees of Terasen or its subsidiaries. All collective bargaining agreements to which Terasen is a party have been duly ratified and there are no written or oral agreements which modify the terms of any such collective bargaining agreement. No collective bargaining agreements or other labor contracts relating to employees of Terasen or its subsidiaries are being negotiated. To the knowledge of Terasen, neither Terasen nor any of its subsidiaries have breached any of their obligations under any collective bargaining agreements. There is no labor strike or labor dispute, slowdown, lockout or stoppage actually pending or to the knowledge of Terasen threatened against or affecting Terasen or its subsidiaries, and Terasen and its subsidiaries have not experienced any labor strikes or labor disputes, slowdowns, lockouts or stoppages since December 31, 2002 that had a Material Adverse Effect on Terasen. To the knowledge of Terasen, no union or collective bargaining representative has applied to have Terasen or any of its subsidiaries declared a related or successor employer pursuant to applicable labor Laws.

(d) All employees and former employees of Terasen and its subsidiaries have been, or will have been on or before the Effective Date, paid or amounts in respect thereof shall have been accrued for wages, salaries, commissions, bonuses, vacation pay, severance and termination pay, sick pay, and other compensation for all services performed by them or that was accrued by them up to the Effective Date, in accordance with the obligations of Terasen and its subsidiaries under any employment or labor practices and policies or any collective bargaining agreement or individual agreement to which Terasen or its subsidiaries is a party, or by which Terasen or its subsidiaries may be bound, except for, in the case of severance and termination pay, statutory and common law requirements for payment in lieu of reasonable notice of termination.

(e) There are no current, pending or, to the knowledge of Terasen, threatened proceedings before any board, tribunal, arbitrator or Governmental Entities or claims with respect to employment and labor Laws, including, but not limited to, employment and labor standards, unfair labor practices, employment discrimination, occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labor relations, other than such proceedings and claims which, individually or in the aggregate, would not have a Material Adverse Effect on Terasen. Terasen and its subsidiaries are not subject to any settlement agreement, conciliation agreement, letter of commitment, deficiency letter or consent decree with any present or former employee or applicant for employment, labor union or other employee representative, or any

Government Entity or arbitrator relating to claims of unfair labor practices, employment discrimination, or other claims with respect to employment and labor practices and policies that would have a Material Adverse Effect on Terasen, and no Government Entity or arbitrator has issued a judgment, order, decree, injunction, decision, award or finding with respect to the employment and labor practices or policies of Terasen or its subsidiaries which currently has or would be reasonably expected to have a Material Adverse Effect on Terasen. There are no outstanding assessments, penalties, fines, Liens, charges, surcharges, or other amounts due and owing pursuant to any workplace safety and insurance legislation by Terasen or any of its subsidiaries and they have not been reassessed in any material respect under such legislation during the past three years and, to the knowledge of Terasen, no audit is currently being performed pursuant to any applicable workplace safety and insurance legislation. There are no claims or, to the knowledge of Terasen, potential claims which may materially and adversely affect accident cost experience.

3.8 <u>Reports; Financial Statements</u>

(a) Since January 1, 2002, Terasen and its subsidiaries have timely filed all forms, reports, schedules, statements and other documents required to be filed with (i) Canadian securities regulatory authorities (collectively, the "**Terasen SRA Reports**"), (ii) any other applicable federal, state, provincial or territorial securities authority, and (iii) any other Governmental Entity, except with respect to clause (iii) of this Section 3.8(a) where the failure to file any such forms, reports, schedules, statements or other documents would not have a Material Adverse Effect on Terasen (all such forms, reports, schedules, statements and other documents are collectively referred to as the "**Terasen Documents**"). The Terasen Documents at the time filed (x) did not contain any Misrepresentation, (y) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements contained therein not misleading in light of the circumstances under which they were made and (z) complied in all material respects with the requirements of applicable Laws. Terasen has not filed any confidential material change report with any Canadian securities authority or regulator or any stock exchange that at the date of this Agreement remains confidential.

(b) The consolidated financial statements (including, in each case, any related notes thereto) contained in any Terasen SRA Reports (i) have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis during the periods involved (subject, in the case of unaudited financial statements, to the absence of notes), (ii) complied in all material respects with the requirements of applicable securities Laws, (iii) are in accordance with the books and records of Terasen; (iv) contain and reflect all necessary adjustments for fair presentation of the results of operations and the financial condition of the business of Terasen for the periods covered thereby, (v) contain

and reflect adequate provision or allowance for all reasonably anticipated liabilities, expenses and losses of Terasen, and (vi) fairly present, in all material respects, the consolidated financial position, results of operations and cash flows of Terasen and its subsidiaries as of the respective dates thereof and for the respective periods covered thereby, subject, in the case of unaudited financial statements, to normal, recurring audit adjustments none of which will be material, individually or in the aggregate.

(c) From January 1, 2002 to the date of this Agreement, there has been no change by Terasen or its subsidiaries in their accounting policies, methods, practices or principles that are material to Terasen's consolidated financial statements, except as described in the notes thereto with respect to periods ending prior to the date of this Agreement.

3.9 Contracts

Section 3.9 of the Terasen Disclosure Letter lists as of the date of this Agreement all written or oral contracts, agreements, guarantees, leases and executory commitments (other than Terasen Plans) to which Terasen or any of its subsidiaries is a party and which fall within any of the following categories: (a) contracts not entered into in the ordinary course of Terasen's and its subsidiaries' business other than those that are not material to the business of Terasen and its subsidiaries; (b) contracts containing covenants purporting to limit the freedom of Terasen or any of its subsidiaries to compete in any line of business in any geographic area; (c) contracts which after the Effective Time would have the effect of limiting the freedom of Kinder or its subsidiaries (other than Terasen and its subsidiaries) to compete in any line of business in any geographic area or to hire any individual or group of individuals; (d) purchase contracts which restrict or limit the purchasing relationships of Terasen or its subsidiaries in any material manner; (e) contracts relating to any outstanding commitment for capital expenditures in excess of $5 million other than capital expenditures included in the 2005 capital expenditures budget that was previously approved by the board of directors of Terasen and which was previously provided to Kinder; (f) contracts with any labor organization or union; (g) except as reflected in the Terasen financial statements included in the Terasen SRA Reports for the period ended June 30, 2005, indentures, mortgages, Liens, promissory notes, loan agreements, guarantees or other arrangements relating to the borrowing of money by Terasen or its subsidiaries in excess of $3 million; (h) contracts providing for "earn-outs", "savings guarantees", "performance guarantees", or other contingent payments by Terasen or any of its subsidiaries involving more than $5 million per year or $20 million over the term of the contract; (i) confidentiality or standstill agreements with any person (the effectiveness of which extends beyond the date that is six months following the date of this Agreement) that restrict Terasen or any of its subsidiaries in the use of any information or the taking of any actions by Terasen or its subsidiaries entered into in connection with the consideration by Terasen or any of its subsidiaries of any acquisition of equity interests or assets; (j) contracts containing provisions triggered by a change of control of Terasen or other similar provisions; (k) contracts in favour of directors or officers that provide rights to indemnification; and (l) contracts that are material to Terasen and its subsidiaries taken as a whole other than those that are covered by (a) through (k) of this Section 3.9 or filed in the

Terasen SRA Reports filed prior to the date of this Agreement. All such contracts and all other contracts that are individually material to the business or operations of Terasen and its subsidiaries are valid and binding obligations of Terasen or such subsidiaries that are parties thereto and, to the knowledge of Terasen, the valid and binding obligation of each other party thereto except such contracts which if not so valid and binding would not, individually or in the aggregate, have a Material Adverse Effect on Terasen.

3.10 Litigation

There are no claims, actions, proceedings or investigations pending against Terasen or any of its subsidiaries or, to the knowledge of Terasen, its Partially Owned Entities or, to the knowledge of Terasen, threatened against Terasen or any of its subsidiaries or Partially Owned Entities before any Governmental Entity (and Terasen, its subsidiaries and, to the knowledge of Terasen, its Partially Owned Entities, have no knowledge of any facts that are likely to give rise to any such claim, action, proceeding or investigation) that, individually or in the aggregate, would be reasonably expected to have a Material Adverse Effect on Terasen, or prevent or materially delay consummation of the transactions contemplated by this Agreement. Neither Terasen nor any of its subsidiaries, nor their respective assets and properties, is subject to any outstanding judgment, order, writ, injunction or decree that has had or would be reasonably expected to have a Material Adverse Effect on Terasen or that would prevent or materially delay consummation of the transactions contemplated by this Agreement.

3.11 Environmental

Except as disclosed in the Terasen SRA Reports:

(a) Terasen, each of its subsidiaries and to the knowledge of Terasen, each of its Partially Owned Entities is in substantial compliance with all applicable Environmental Laws;

(b) in connection with Environmental Activities, there is no notice of infraction, action, suit or proceeding or, to the knowledge of Terasen, pending or threatened against, or in any other manner relating adversely to, Terasen, any of its subsidiaries or to the knowledge of Terasen, any of its Partially Owned Entities, or their respective properties in any court or before any arbitrator of any kind or before or by any Governmental Entity, which, if adversely determined, would, individually or in the aggregate, have a Material Adverse Effect on Terasen;

(c) all material Environmental Permits which are necessary under any applicable Environmental Law for the ownership and operation by Terasen and its subsidiaries of the real property, assets and other facilities owned or used by Terasen and its subsidiaries and all of the properties related thereto have been duly obtained, made or taken and are in full force and effect, are not subject to further Environmental Permits or appeal, or any pending or, to the knowledge of Terasen, threatened legal or administrative proceedings, and there are to the

knowledge of Terasen, no proposals to amend, revoke or replace such material Environmental Permits;

(d) Terasen has not and is not, and to the knowledge of Terasen, no past or present lessee, owner, occupant, or licensee or other Person other than Terasen or a subsidiary of Terasen has or is, engaged in any Environmental Activity at, upon, under, over, within or with respect to the real property owned or used by Terasen any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities in violation of any applicable Environmental Law which would lead to the imposition of liability on, or a remediation order against, Terasen, a subsidiary of Terasen or any of its Partially Owned Entities and which would have a Material Adverse Effect on Terasen;

(e) no activities or operations of Terasen or a subsidiary of Terasen are or have been subject to any judicial, administrative or other proceedings alleging a violation of any applicable Environmental Law which, if adversely determined, would have a Material Adverse Effect on Terasen;

(f) to the knowledge of Terasen, no activities or operations of Terasen or a subsidiary of Terasen in respect of real property owned or used by Terasen or a subsidiary of Terasen are the subject of investigation or written notice from any Governmental Entity requiring material remedial action to respond to a Release of any Contaminant;

(g) to the knowledge of Terasen, neither Terasen nor a subsidiary of Terasen has been or is involved in any operations or Environmental Activity in violation of any applicable Environmental Law which activities would lead to the imposition of liability on, or a remediation order against, Terasen, a subsidiary of Terasen or a Partially Owned Entity which would have a Material Adverse Effect on Terasen;

(h) neither Terasen nor a subsidiary of Terasen has filed any written notice or report of a Release of a Contaminant with any Governmental Entity in respect of the real property owned or used by Terasen or any part thereof, the consequence of which Release would have a Material Adverse Effect on Terasen; and

(i) to the knowledge of Terasen, no order, instruction or direction of any Governmental Entity has been issued which required Terasen, a subsidiary of Terasen or a Partially Owned Entity to carry out any material environmental remediation of the real property owned or used by Terasen under any applicable Environmental Law.

3.12 <u>Tax Matters</u>

(a) Terasen and each of its subsidiaries have timely filed, or caused to be filed, all Tax Returns required to be filed by them with the appropriate Governmental Entity (all of which Tax Returns were correct and complete in all material

respects), have timely paid, or caused to be paid to the appropriate Governmental Entity, Taxes shown to be due and payable thereon, and have satisfied in full in all respects all withholding, instalment, deposit and remittance requirements imposed on or with respect to Taxes of Terasen and each of its subsidiaries.

(b) To the knowledge of Terasen, each of its Partially Owned Entities have timely filed, or caused to be filed, all Tax Returns required to be filed by them with the appropriate Governmental Entity (all of which Tax Returns were correct and complete in all material respects), have timely paid, or caused to be paid to the appropriate Governmental Entity, Taxes shown to be due and payable thereon, and have satisfied in full in all respects all withholding, instalment, deposit and remittance requirements imposed on or with respect to Taxes of Terasen in respect of that Partially Owned Entity.

(c) Terasen's most recently published financial statements contain an adequate provision in accordance with Canadian generally accepted accounting principles for all Taxes payable in respect of each period covered by such financial statements and all prior periods to the extent such Taxes have not been paid, whether or not due and whether or not shown as being due on any Tax Returns. Terasen and each of its subsidiaries have made adequate provision in accordance with Canadian generally accepted accounting principles in their books and records for any amount of Taxes accruing in respect of any accounting period of Terasen or any of its subsidiaries ending subsequent to the period covered by the most recent published consolidated financial statements of Terasen.

(d) Neither Terasen nor any of its subsidiaries has received any written notification that any issue involving an amount of Taxes of Terasen or any of its subsidiaries has been raised by (and is currently pending with) a Governmental Entity, in connection with any Tax Return filed or required to be filed, and no waivers of statutes of limitations or objections to any assessments or reassessments involving an amount of Taxes of Terasen or any of its subsidiaries have been given, filed or requested with respect to Terasen or any subsidiary of Terasen.

(e) Terasen and each of its subsidiaries have received assessments from the appropriate Governmental Entity for all Taxes shown on the Tax Returns in respect of all periods ending prior to December 31, 2004. Neither Terasen nor any of its subsidiaries has received any notice from any Governmental Entity to the effect that any Tax Return is being examined, and Terasen has no knowledge of any Tax audit or issue for any period ending prior to December 31, 2004. There are no proposals to assess or reassess additional Taxes, nor are there any assessments or reassessments of additional Taxes, of Terasen or any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities, for any period ending prior to December 31, 2004.

(f) There are no Tax Liens on any assets of Terasen or any of its subsidiaries except for Taxes not yet due and payable. Neither Terasen nor any of its subsidiaries has

received a refund of any Taxes to which it was not entitled. Neither Terasen nor any of its subsidiaries (i) has made an election to be treated as a "consenting corporation" under Section 341(f) of the United States Internal Revenue Code of 1986, as amended (the "**Code**") or (ii) is a party to any Tax sharing or other similar agreement or arrangement or any Tax indemnification agreement of any nature with any other person (other than in agreements with Terasen or any of its subsidiaries) pursuant to which Terasen or any of its subsidiaries has or could have any material liabilities in respect of Taxes. Terasen has not made an election under Section 897(i) of the Code to be treated as a domestic corporation for purposes of Sections 897, 1445 and 6039C of the Code.

3.13 <u>Pension and Employee Benefits</u>

(a) Section 3.13 of the Terasen Disclosure Letter sets forth a list of all employee benefit, health, welfare, supplemental unemployment benefit, bonus, incentive, pension, profit sharing, deferred compensation, stock compensation, stock option, stock purchase, retirement, hospitalization insurance, medical, dental, legal, disability and similar plans or arrangements or practices, whether written or oral, which are sponsored, maintained or contributed to by Terasen or any of its subsidiaries (collectively referred to as the "**Terasen Plans**"). The Terasen Disclosure Letter states which of the Terasen Plans are subject to the provisions of the *United States Employee Retirement Income Security Act* of 1974, as amended ("**ERISA**"). For purposes of representations and warranties in this Section 3.13 relating to the Code or ERISA, a subsidiary of Terasen shall be deemed to also include each corporation, trade, business, or entity that would be considered to be a single employer or under common control with Terasen pursuant to Section 414 of the Code or Section 4001 of ERISA.

(b) No step has been taken, no event has occurred and no condition or circumstance exists that has resulted in or could be reasonably expected to result in any Terasen Plan being ordered or required to be terminated or wound up in whole or in part or having its registration under applicable Laws refused or revoked, or being placed under the administration of any trustee or receiver or regulatory authority or being required to pay any material amount of Taxes, fees, penalties or levies under applicable Laws. There are no actions, suits, claims (other than routine claims for payment of benefits in the ordinary course), trials, demands, investigations, arbitrations or other proceedings which are pending or, to Terasen's knowledge, threatened in respect of any of the Terasen Plans or their assets which individually or in the aggregate would have a Material Adverse Effect on Terasen and there exists no state of facts which after notice or lapse of time or both could reasonably be expected to give rise to any such action, suit, claim, trial, demand, investigation, arbitration or other proceedings.

(c) Terasen has provided to Kinder true, correct and complete copies of all of the Terasen Plans as amended (or, in the case of any unwritten Terasen Plan, a description thereof) together with all related actuarial reports, and Terasen has

made available to Kinder all other related documentation including, without limitation, funding agreements, trust agreements, funding and financial information returns and statements with respect to each Terasen Plan, and current plan summaries, booklets and personnel manuals. Terasen has provided to Kinder a true and complete copy of (i) the most recent annual report on Form 5500 filed with the United States Internal Revenue Service with respect to each Terasen Plan in respect of which such a report was required, and (ii) the most recent annual information return filed with the Canada Revenue Agency with respect to each Terasen Plan in respect of which such a return was required.

(d) All of the Terasen Plans are and have been established, registered, qualified, invested and administered, in all material respects, in accordance with all applicable Laws, and in accordance with their terms and the terms of agreements between Terasen or a subsidiary of Terasen, as the case may be, and their respective employees. No fact or circumstance exists that could adversely affect the existing tax status of a Terasen Plan.

(e) All obligations of Terasen or a subsidiary of Terasen regarding the Terasen Plans have been satisfied in all material respects. All contributions or premiums required to be made by Terasen or a subsidiary of Terasen, as the case may be, under the terms of each Terasen Plan or by applicable Laws have been made in a timely fashion in accordance with applicable Laws and the terms of the Terasen Plans.

(f) Each Terasen Plan that is subject to insurance or funding requirements is fully insured or fully funded (both on a going-concern and solvency basis) in accordance with the assumptions disclosed in the most recent applicable actuarial report and in good standing with such regulatory authorities as may be applicable and, as of the date of this Agreement, no notice of underfunding, noncompliance, failure to be in good standing or otherwise has been received by Terasen or its subsidiaries from any such regulatory authority.

(g) There have been no improper withdrawals, applications or transfers of assets from any Terasen Plan or the trusts or other funding media relating thereto that remain outstanding and unremedied, and neither Terasen, nor any subsidiary of Terasen, nor, to the knowledge of Terasen, any of their respective agents has been in breach of any fiduciary obligation with respect to the administration of the Terasen Plans or the trusts or other funding media relating thereto.

(h) Terasen or its subsidiaries may amend or terminate, in whole or in part, each Terasen Plan and take contribution holidays under and pay administration expenses from each Terasen Plan, subject only to approvals required by Law and, with respect to amendment or termination, the collective agreements disclosed in Section 3.7 of the Terasen Disclosure Letter.

(i) No commitments to improve or otherwise amend any Terasen Plan have been made except as required by applicable Laws.

(j) No insurance policy or any other contract or agreement affecting any Terasen Plan requires or permits a retroactive increase in premiums or payments due thereunder.

(k) All Terasen Plans intended to be tax-qualified in the United States have been the subject of determination letters from the United States Internal Revenue Service to the effect that such Terasen Plans and their related trusts are qualified and exempt from United States Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination letter has been revoked nor, to the knowledge of Terasen, has revocation been threatened, nor has any such Terasen Plan been amended since the date of its most recent determination letter or application therefor in any respect that would adversely affect its qualification or materially increase its costs and nothing has occurred since the date of such letter that could adversely affect the qualified status of such plan. As to any such Terasen Plan, there has been no termination or partial termination of such Terasen Plan within the meaning of Section 411(d)(3) of the Code.

(l) No amount or benefit that could be received (whether in cash or property, the vesting of property or the acceleration of the exerciseability of stock options) as a result of or in connection with the transactions contemplated by this Agreement or the Arrangement (whether or not some other subsequent action or event would be required to cause the receipt of such amount or benefit to occur) by any employee, officer or director of Terasen or any of its affiliates who is a "disqualified individual" (as such term is defined in proposed United States Treasury Regulation Section 1.280G-1) under any employment, severance or termination agreement, other compensation arrangement or Terasen Plan currently in effect will fail to be deductible for United States federal income tax purposes by virtue of Section 280G of the Code.

(m) None of the Terasen Plans is a "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA or any other applicable Law, nor has Terasen or any subsidiary of Terasen been obligated to contribute to any such multiemployer plan at any time within the past six years. With respect to any such multiemployer plan, (i) neither Terasen nor a subsidiary of Terasen has incurred any withdrawal liability under Title IV of ERISA or would be subject to such liability if, as of the Effective Date, Terasen or a subsidiary were to engage in a complete or partial withdrawal from any such multiemployer plan, and (ii) no such multiemployer plan is in reorganization or insolvent (as defined in Section 4241 and 4245 of ERISA).

(n) No employment, severance or termination agreement, other compensation arrangement or Terasen Plan provides for payment of a benefit, the increase of a

benefit amount, the acceleration of contributions or funding, the payment of a contingent benefit or the acceleration of the payment or vesting of a benefit by reason of the execution of this Agreement or the consummation of the transactions contemplated by this Agreement or the Arrangement (whether or not some other subsequent action or event would be required to cause such payment, increase, acceleration, or vesting to be triggered).

(o) As to any Terasen Plan that is subject to Title IV of ERISA, no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the Code has been incurred, no reportable event within the meaning of Section 4043 of ERISA has occurred, no notice of intent to terminate the plan has been given under Section 4041 of ERISA, no proceeding has been instituted under Section 4042 of ERISA to terminate the plan, and (other than premiums under Section 4007 of ERISA) no liability to the United States Pension Benefit Guaranty Corporation has been incurred.

(p) As to any Terasen Plan which is subject to ERISA or the Code, no act, omission or transaction has occurred which would result in imposition on Terasen or any subsidiary of Terasen of (i) breach of fiduciary duty liability damages under Section 409 of ERISA, (ii) a civil penalty assessed pursuant to subsections (c), (i) or (l) of Section 502 of ERISA, or (iii) a tax imposed pursuant to Chapter 43 of Subtitle D of the Code which individually or in the aggregate will exceed $20,000.

(q) Each trust funding a Terasen Plan, which trust is intended to be exempt from United States federal income taxation pursuant to Section 501(c)(9) of the Code, satisfies the requirements of such section and has received a favourable determination letter from the United States Internal Revenue Service regarding such exempt status and has not, since receipt of the most recent favourable determination letter, been amended or operated in a way which would adversely affect such exempt status.

(r) All liabilities of Terasen and its subsidiaries (whether accrued, absolute, contingent or otherwise) related to the Terasen Plans have been fully and accurately accrued and disclosed, and reported in accordance with Canadian generally accepted accounting principles in the consolidated financial statements (including, in each case, any related notes thereto) contained in any Terasen SRA Reports. No changes have occurred or are expected to occur to any Terasen Plan that would materially affect the most recent actuarial report prepared in respect of the applicable Terasen Plan.

(s) As to any Terasen Plan which is a "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA or any other applicable Law, all representations of this Section 3.13 are made to Terasen's knowledge.

3.14 Affiliates

Section 3.14 of the Terasen Disclosure Letter identifies each person who, to the knowledge of Terasen, may be deemed an affiliate of Terasen within the meaning of Rule 145 promulgated by the SEC pursuant to the 1933 Act, including all directors and executive officers of Terasen. Terasen shall update such list through the Effective Date.

3.15 Compliance with Laws; Permits

(a) Terasen, its subsidiaries and, to the knowledge of Terasen, its Partially Owned Entities are in compliance, and at all times since January 1, 2002 have complied, with all applicable Laws other than non-compliance which would not, individually or in the aggregate, have a Material Adverse Effect on Terasen. No investigation or review by any Governmental Entity with respect to Terasen, any of its subsidiaries, or the knowledge of Terasen, its Partially Owned Entities, is pending or, to the knowledge of Terasen, is threatened, nor has any Governmental Entity indicated in writing an intention to conduct the same, other than those the outcome of which would not have a Material Adverse Effect on Terasen.

(b) Terasen and its subsidiaries and, to the knowledge of Terasen, its Partially Owned Entities are in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exemptions, consents, certificates, approvals and orders necessary to own, lease and operate their properties and to lawfully carry on their respective businesses as they are now being conducted (collectively, the "**Terasen Permits**"), except where the failure to be in possession of such Terasen Permits would not, individually or in the aggregate, have a Material Adverse Effect on Terasen, and there is no action, proceeding or investigation pending or, to the knowledge of Terasen, threatened regarding any of the Terasen Permits which would have a Material Adverse Effect on Terasen. None of Terasen, any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities is in conflict with, or in default or violation of any of the Terasen Permits, except for any such conflicts, defaults or violations which would not, individually or in the aggregate, have a Material Adverse Effect on Terasen.

(c) None of Terasen, any of its subsidiaries or, to the knowledge of Terasen, any directors, officers, agents or employees of Terasen or any of its subsidiaries has (i) used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, or (ii) made any unlawful payment to any government officials or employees or to political parties or campaigns or violated any provision of the *United States Foreign Corrupt Practices Act* of 1977, as amended in each case which could reasonably be expected to have a Material Adverse Effect on Terasen.

3.16 Restrictions on Business Activities

There is no agreement, judgment, injunction, order or decree binding upon Terasen or any of its subsidiaries that has or could be reasonably expected to have the effect of prohibiting, restricting or materially impairing any business practice of Terasen or any of its subsidiaries, any acquisition of property by Terasen or any of its subsidiaries or the conduct of business by Terasen or any of its subsidiaries as currently conducted, other than such agreements, judgments, injunctions, orders or decrees which would not, individually or in the aggregate, have a Material Adverse Effect on Terasen.

3.17 Intellectual Property

(a) Terasen and its subsidiaries, directly or indirectly, own, license or otherwise have legally enforceable rights to use, or can acquire on reasonable terms and without material expense, all patents, patent rights, trademarks, trade names, service marks, copyrights and any applications therefore, technology, know-how, computer software and applications and tangible or intangible proprietary information or materials, that are material to and used in the business of Terasen and its subsidiaries as presently conducted (the "**Intellectual Property Rights**").

(b) In the case of Intellectual Property Rights owned by Terasen or one of its subsidiaries, either Terasen or one of its subsidiaries owns such Intellectual Property Rights free and clear of any material Liens, charges or encumbrances. Terasen or one of its subsidiaries has an adequate right to the use of the Intellectual Property Rights or the material covered thereby in connection with the services or products in respect of which such Intellectual Property Rights are being used. Terasen has not received any written notice or claim, nor has it received any other information, stating that the manufacture, sale, licensing, or use of any of the services or products of Terasen or any of its subsidiaries as now manufactured, sold, licensed or used or proposed for manufacture, sale, licensing or use by Terasen or any of its subsidiaries in the ordinary course of Terasen's business as presently conducted infringes on any copyright, patent, trade mark, service mark or trade secret of a third party where such infringement would have a Material Adverse Effect on Terasen. Terasen has not received any written notice or claim, nor has it received any other information, stating that the use by Terasen or any of its subsidiaries of any trademarks, service marks, trade names, trade secrets, copyrights, patents, technology or know-how and applications used in the business of Terasen and any of its subsidiaries as presently conducted infringes on any other person's trademarks, service marks, trade names, trade secrets, copyrights, patents, technology or know-how and applications where such infringement would have a Material Adverse Effect on Terasen. Terasen has not received any written notice or claim, nor has it received any other information, challenging the ownership by Terasen or any of its subsidiaries or the validity of any of the Intellectual Property Rights. All registered patents, trademarks, service marks and copyright held by Terasen and its subsidiaries are subsisting, except to the extent any failure to be subsisting would not have a Material Adverse Effect

on Terasen. To the knowledge of Terasen, there is no material unauthorized use, infringement or misappropriation of any of the Intellectual Property Rights by any third party, including any employee or former employee of Terasen or any of its subsidiaries No Intellectual Property Right is subject to any known outstanding decree, order, judgment, or stipulation restricting in any manner the licensing thereof by Terasen or any of its subsidiaries, except to the extent any such restriction would not have a Material Adverse Effect on Terasen.

3.18 Insurance

Each of Terasen and its subsidiaries is, and has been continuously since January 1, 2002, insured by reputable and financially responsible insurers in amounts and against risks and losses as are customary for companies conducting their respective businesses. Terasen's and its subsidiaries' insurance policies are in all material respects in full force and effect in accordance with their terms, no notice of cancellation or termination has been received, and there is no existing default or event which, with the giving of notice or lapse of time or both would constitute a default thereunder. Terasen has not received notice of any fact, condition or circumstance which might reasonably form the basis of any claim against Terasen, any of its subsidiaries or Partially Owned Entities which is not fully covered by insurance (subject to standard deductibles) maintained by it and which could have a Material Adverse Effect on Terasen.

3.19 Property

(a) Terasen, each of its subsidiaries and, to the knowledge of Terasen, each of its Partially Owned Entities, as the case may be, has legal and beneficial, good and marketable title to all of its properties and assets (real and personal, immovable and movable, tangible and intangible, including leasehold interests) sufficient to carry on their respective business as currently conducted including all the properties and assets reflected in the balance sheets forming part of the financial statements contained in the Terasen SRA Documents, except as indicated in the notes thereto, together with all additions thereto and less all dispositions thereof in the ordinary course of its business and, with respect to pipelines, equipment and other tangible personal property used in connection with Terasen's pipeline operations (collectively, "**Terasen Pipeline Assets**"), title to or interest in the applicable Terasen Pipeline Assets sufficient to enable Terasen, its subsidiaries and, to the knowledge of Terasen, its Partially Owned Entities to conduct their businesses with respect thereto without material interference as they are currently being conducted), in each case free and clear of all Liens, except for Liens the existence of which would not have a Material Adverse Effect on Terasen.

(b) The businesses of Terasen and each of its subsidiaries have been and are being operated in a manner which does not violate (in any manner which would, or which would be reasonably expected to, have a Material Adverse Effect on Terasen) the terms of any easements, rights of way, permits, servitudes, licenses, leasehold estates and similar rights relating to real property (collectively,

"**Easements**") used by Terasen and each of its subsidiaries in such businesses. All Easements are valid and enforceable, except as the enforceability thereof may be affected by bankruptcy, insolvency or other Laws of general applicability affecting the rights of creditors generally or principles of equity, and grant the rights purported to be granted thereby and all rights necessary thereunder for the current operation of such businesses where the failure of any such Easement to be valid and enforceable or to grant the rights purported to be granted thereby or necessary thereunder would have a Material Adverse Effect on Terasen. There are no special gaps in the Easements which would impair the conduct of such businesses in a manner that would, or that would be reasonably expected to, have a Material Adverse Effect on Terasen, and no part of the Terasen Pipeline Assets is located on property which is not owned in fee simple by Terasen or a subsidiary of Terasen or subject to an Easement in favour of Terasen or a subsidiary of Terasen, where the failure of such Terasen Pipeline Assets to be so located would have a Material Adverse Effect on Terasen.

3.20 Regulatory Proceedings

None of Terasen, any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities, all or part of whose rates or services are regulated by a Governmental Entity, is a party to any proceeding before a Governmental Entity which is reasonably likely to result in orders having a material detriment (including a decrease in rates or rates of return) on the future operations or business of Terasen or any Material Subsidiary of Terasen nor has written notice of any such proceeding been received by Terasen, any of its subsidiaries or, to the knowledge of Terasen, any of its Partially Owned Entities.

3.21 Regulation as a Utility

(a) Terasen and all of its "subsidiary companies" and "affiliates", as such terms are defined in the 1935 Act, either are not subject to or are exempt from all provisions of the 1935 Act other than Section 9(a)(2) of the 1935 Act.

(b) None of Terasen or any of its "subsidiary companies" or "affiliates" is subject to regulation as a "holding company" or a "subsidiary company" or "affiliate" of a "holding company", as such terms are defined in the 1935 Act.

3.22 Opinion of Financial Advisors

The board of directors of Terasen has received the opinion of RBC Dominion Securities Inc., Terasen's financial advisors, to the effect that, as of the date of this Agreement, the consideration under the Arrangement is fair from a financial point of view to the holders of Terasen Common Shares and that opinion has not been withdrawn, reserved or modified in any material respect.

3.23 Brokerage and Finders' Fees

Neither Terasen nor any subsidiary of Terasen or any shareholder, director, officer or employee thereof, has incurred or will incur on behalf of Terasen, any brokerage, finders' or similar fee in connection with the transactions contemplated hereby. Copies of all written agreements relating to Terasen's obligations to RBC Dominion Securities Inc. have previously been provided to Kinder.

3.24 Terasen Rights Plan

None of the execution or the delivery of this Agreement or the taking of any action contemplated by this Agreement results, or will result, in Kinder becoming an Acquiring Person (as defined in the Terasen Rights Plan), provided that, prior to the consummation of the Arrangement, the Terasen Rights Plan Waiver Resolution is approved by the affirmative vote of a majority of the votes cast by holders of Terasen Common Shares and the Terasen Rights Plan Amending Agreement is executed and delivered by the parties thereto.

3.25 Material Customers

No single customer or group of customers of Terasen or any of its subsidiaries has, since December 31, 2004, terminated or communicated to Terasen or any of its subsidiaries its intention or threat to terminate or alter its relationship with Terasen or its subsidiaries, the loss or alteration of which has had or would reasonably be expected to have a Material Adverse Effect on Terasen.

3.26 Books and Records

The books, records and accounts of Terasen and its subsidiaries, in all material respects, (i) have been maintained in accordance with good business practices and on a basis consistent with prior years, (ii) are stated in reasonable detail and accurately and fairly reflect the transactions and dispositions of the assets of Terasen and its subsidiaries, and (iii) accurately and fairly reflect the basis for Terasen's financial statements contained in the Terasen SRA Reports. Terasen has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization, and (ii) transactions are recorded as necessary (A) to permit preparation of financial statements in conformity with Canadian generally accepted accounting principles, and (B) to maintain accountability for assets.

3.27 Management Controls

Terasen (i) has designed disclosure controls and procedures to ensure that material information relating to Terasen and its subsidiaries is made known to the management of Terasen by others within those entities, and (ii) has disclosed, based on its most recent report prior to the date hereof, to Terasen's auditors and the audit committee of Terasen any fraud, whether or not material, that involves management or other employees who have a significant role in Terasen's

internal controls. Terasen has made available to Kinder a summary of any such disclosure made by management to Terasen's auditors and audit committee since January 1, 2005.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE KINDER PARTIES

The Kinder Parties represent and warrant to Terasen as follows in each case except as set forth in the Kinder Disclosure Letter (each of which exceptions shall specifically identify the relevant section hereof to which it relates):

4.1 Organization and Standing

(a) Each of Kinder and its subsidiaries has been duly organized or formed and is validly existing and, to the extent such concept is legally recognized, in good standing under the Laws of its jurisdiction of incorporation, organization or formation, as the case may be, with full corporate or legal power and authority to own, lease and operate its properties and assets and to conduct its businesses as currently owned and conducted except where, individually or in the aggregate, the failure of a subsidiary other than a Material Subsidiary to be so organized, formed or existing or to have such power or authority would not have a Material Adverse Effect on Kinder. Each of Kinder and its Material Subsidiaries is duly qualified to do business in each jurisdiction in which the nature of the business conducted by it or the ownership or leasing of its properties and assets requires it to so qualify, except where, individually or in the aggregate, the failure to be so qualified would not have a Material Adverse Effect on Kinder.

(b) Kinder has heretofore made available to Terasen complete and correct copies of its constating documents as well as the constating documents of each of its Material Subsidiaries, in each case as in effect on the date of this Agreement.

4.2 Capitalization

(a) The authorized capital stock of Kinder consists of (i) 300,000,000 Kinder Common Shares, (ii) 200,000 shares of Class A preferred stock, and (iii) 2,000,000 shares of Class B preferred stock of which 150,000 have been designated Class B Participating Preferred Stock, and as of July 29, 2005, 122,501,571 Kinder Common Shares (excluding shares held in treasury) and no shares of preferred stock are issued and outstanding. As of July 31, 2005, 13,208,901 Kinder Common Shares are held in Kinder's treasury and no Kinder Common Shares are held by any subsidiary of Kinder. As of July 26, 2005 there were 3,576,798 Kinder Common Shares reserved, in the aggregate, for issuance under the Kinder Stock Plans (excluding the Kinder Savings Plan, which is a defined contribution 401(k) plan). As of July 1, 2005, there were 1,477,294 Kinder Common Shares reserved for issuance under the Kinder Savings Plan. As of July 26, 2005, there were outstanding options permitting the holders thereof to purchase 2,555,992 Kinder Common Shares in the aggregate. All references in

this Agreement to Kinder Common Shares shall be deemed to include the corresponding Kinder Rights, until the expiration of the Kinder Rights Agreement, which is expected to occur on September 15, 2005.

(b) All of the Kinder Common Shares have been duly authorized and are validly issued and fully paid and non-assessable, were not issued in violation of pre-emptive or similar rights or any other agreement or understanding binding upon Kinder and were issued in compliance with all applicable securities Laws and the constating documents of Kinder. All of the outstanding shares and other ownership interests of the subsidiaries and the Partially Owned Entities of Kinder which are held, directly or indirectly, by Kinder have been duly authorized and are validly issued, fully paid and non-assessable, were not issued in violation of pre-emptive or similar rights and all such shares and other ownership interests are owned directly or indirectly by Kinder, free and clear of all Liens, except for restrictions on transfers contained in the constating documents of such entities. Section 4.2(b) of the Kinder Disclosure Letter sets forth the capitalization, as of June 30, 2005, of each of Kinder LP and Kinder Management and also indicates the equity interests of each such person held by Kinder or a subsidiary of Kinder, identifying each such holder.

(c) Except as described in Section 4.2(a) above, as of the date of this Agreement, there are no outstanding options, warrants, subscriptions, puts, calls or other rights, agreements, arrangements or commitments (pre-emptive, contingent or otherwise) obligating Kinder or any of its subsidiaries to offer, issue, sell, redeem, repurchase, otherwise acquire or transfer, pledge or encumber any capital stock of Kinder, any of its subsidiaries or Partially Owned Entities, nor are there outstanding any securities or obligations of Kinder or any of its subsidiaries that are convertible into or exercisable or exchangeable for any capital stock of Kinder, any of its subsidiaries or any other person and neither Kinder nor any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities has any obligation of any kind to issue any additional securities or to pay for or repurchase any securities. There are not outstanding as of the date of this Agreement any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or any other attribute of Kinder or any of its subsidiaries. As of the date of this Agreement there are no outstanding bonds, debentures or other evidences of indebtedness of Kinder or any of its subsidiaries having the right to vote (or that are exchangeable or convertible for or exercisable into securities having the right to vote) with the holders of the Kinder Common Shares on any matter. As of the date of this Agreement there are no stockholder agreements, proxies, voting trusts, rights to require registration under securities Laws or other arrangements or commitments to which Kinder or any of its subsidiaries is a party or bound with respect to the voting, disposition or registration of any outstanding securities of Kinder, any of its subsidiaries or any of its Partially Owned Entities.

4.3 Authority and No Conflicts

(a) Each of the Kinder Parties has all requisite corporate power and authority to execute and deliver this Agreement and the other documents related to the transactions contemplated hereunder and to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the other documents related to the transactions contemplated hereunder by the Kinder Parties and the consummation by the Kinder Parties of the transactions contemplated by this Agreement have been duly and validly authorized by all necessary corporate action and no other corporate proceedings on the part of the Kinder Parties are necessary to authorize this Agreement and the other documents related to the transactions contemplated hereunder or to consummate the transactions contemplated hereby or thereby. No approval by the holders of Kinder Common Shares of the transactions contemplated hereby is necessary to authorize the execution, delivery or performance of this Agreement or any of the other documents related to the transactions contemplated hereunder or the consummation of the transactions contemplated hereby and no such approval will be sought by Kinder.

(b) Each of this Agreement and the other documents related to the transactions contemplated hereunder has been and will be duly executed and delivered by the Kinder Parties and constitutes and will constitute a legal, valid and binding obligation of each of the Kinder Parties, enforceable against each of them in accordance with its terms, except as the same may be limited by bankruptcy, insolvency and other applicable Laws affecting creditors' rights generally, and by general principles of equity.

(c) The board of directors of Kinder at a meeting duly called and held has unanimously determined that this Agreement and the transactions contemplated hereby are in the best interests of Kinder and the holders of Kinder Common Shares.

(d) Neither the execution and delivery of this Agreement and all other documents related to the transactions contemplated hereunder by the Kinder Parties nor the performance by each of them of their obligations hereunder and thereunder and the completion of the transactions contemplated hereby, will:

(i) conflict with, or violate any provision of, the constating documents of Kinder or any of its Material Subsidiaries or Partially Owned Entities;

(ii) subject to the consents, approvals, orders, authorizations, registrations, declarations or filings referred to in Section 4.4 being made or obtained, violate or breach any Laws applicable to Kinder, any of its Material Subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities;

(iii) subject to the consents, approvals, orders, authorizations, registrations, declarations or filings referred to in Section 4.4 being made or obtained, violate or conflict with or result in the breach of, or constitute a default (or an event that with the giving of notice, the passage of time, or both would constitute a default) under, or entitle any party (with the giving of notice, the passage of time or both) to terminate, accelerate, modify or call any obligations or rights under any credit agreement, note, bond, mortgage, indenture, deed of trust, contract, agreement, lease, license, franchise, permit, concession, easement or other instrument to which Kinder, any of its Material Subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities is a party or by which Kinder or any of its Material Subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities or its or their property is bound or subject; or

(iv) result in the imposition of any encumbrance, charge or Lien upon or require the sale or give any person the right to acquire any of Kinder's assets or the assets of any of its Material Subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities or restrict, hinder, impair or limit the ability of Kinder, or any of its Material Subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities to carry on their respective businesses as and where they are now being carried on or as contemplated to be carried on as disclosed by Kinder to Terasen;

except in the case of clauses (ii) through (iv) for any of the foregoing that would not, individually or in the aggregate, have a Material Adverse Effect on Kinder or materially impair the ability of Kinder to perform its obligations hereunder or prevent or materially delay the consummation of any of the transactions contemplated hereby.

4.4 <u>Consents; Approvals</u>

No consent, approval, order or authorization of, or registration, declaration or filing with, any third party or Governmental Entity is required by or with respect to Kinder, any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities in connection with the execution, performance and delivery of this Agreement or any other documents related to the transactions contemplated hereunder by the Kinder Parties, the performance of their obligations hereunder or the consummation by the Kinder Parties of the transactions contemplated hereby other than (a) any approvals required by the Interim Order, (b) the Final Order, (c) such registrations and other actions required under federal, state, provincial and territorial securities Laws as are contemplated by this Agreement, (d) the Appropriate Regulatory Approvals required to be obtained by Kinder in order for it to consummate the transactions contemplated hereby, (e) the consents or approvals set forth in Section 4.4 of the Kinder Disclosure Letter, and (f) any other consents, approvals, orders, authorizations, registrations, declarations or filings which, if not obtained or made, would not, individually or in the aggregate, have a Material Adverse Effect on Kinder or prevent or materially delay the

consummation of any of the transactions contemplated hereby or materially impair the ability of the Kinder Parties to perform their obligations hereunder.

4.5 No Defaults

None of Kinder, any of its Material Subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities or other party thereto, is in default under or violation of, and there has been no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default or violation of, any term, condition or provision of, or permit the termination of (a) their respective constating documents, (b) any credit agreement, note, bond, mortgage, indenture, contract, agreement, lease, license, franchise, permit, concession, easement or other instrument to which Kinder or any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities is a party or by which Kinder, any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities or any of its or their property is bound or subject, except, in the case of clause (b), defaults and violations which, individually or in the aggregate, would not have a Material Adverse Effect on Kinder.

4.6 Absence of Certain Changes or Events

Except as disclosed in the Kinder SEC Documents filed prior to the date of this Agreement, since December 31, 2004, Kinder, its subsidiaries and, to the knowledge of Kinder, its Partially Owned Entities have conducted their respective businesses only in the ordinary course in a manner consistent with past practice and there has been no Material Adverse Effect with respect to Kinder or any event, occurrence or development which would be reasonably expected to have a Material Adverse Effect on Kinder or which materially and adversely affects the ability of Kinder to consummate the transactions contemplated hereby or to restrict, hinder, impair or limit the ability of Kinder, or any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities to carry on their respective businesses as and where they are now being carried on or as contemplated to be carried on as disclosed by Kinder to Terasen.

4.7 Reports; Financial Statements

(a) Since January 1, 2002 Kinder and its subsidiaries (each a "**Kinder Person**") have timely filed all forms, reports, schedules, statements and other (including exhibits and all other information incorporated therein) documents required to be filed with (i) the SEC under the Exchange Act or the 1933 Act (the "**Kinder SEC Documents**"), (ii) any applicable state securities authority and (iii) any other Governmental Entity, except with respect to clause (iii) of this Section 4.7(a) where the failure to file any such forms, reports, schedules, statements or other documents would not have a Material Adverse Effect on Kinder (all such forms, reports, schedules, statements and other documents are collectively referred to as the "**Kinder Documents**"). The Kinder SEC Documents, at the time filed (x) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements contained therein not misleading in light of the circumstances under which they were made and (y) complied in all material respects with the requirements of

applicable Laws (including the 1933 Act, the Exchange Act and the rules and regulations thereunder).

(b) The consolidated financial statements (including in each case, any related notes thereto) contained in any Kinder SEC Documents (i) have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved (subject, in the case of unaudited financial statements, to the absence of notes), (ii) complied in all material respects with the requirements of applicable securities Laws, (iii) are in accordance with the books and records of the Kinder Person filing such Kinder SEC Document, (iv) fairly present the consolidated results of operations and the consolidated financial condition of the business of the Kinder Person filing such Kinder SEC Document for the periods covered thereby, (v) contain and reflect adequate provision or allowance for all reasonably anticipated liabilities, expenses and losses of the Kinder Person filing such Kinder SEC Document, and (vi) fairly present, in all material respects, the consolidated financial position, results of operations and cash flows of the Kinder Person filing such Kinder SEC Document and its subsidiaries as of the respective dates thereof and for the respective periods covered thereby, subject, in the case of unaudited financial statements, to normal, recurring audit adjustments none of which will be material, individually or in the aggregate, in amount or effect.

(c) From January 1, 2002 to the date of this Agreement, there has been no change in any Kinder Person's accounting policies, methods, practices or principles that are material to such financial statements, except as described in the notes thereto with respect to periods ending prior to the date of this Agreement.

(d) The principal executive officer of each Kinder Person filing Kinder SEC Documents and its principal financial officer have disclosed, based on their most recent evaluation of internal control over financial reporting, to such Kinder Person's auditors and the audit committee of such Kinder Person (i) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect such Kinder Person's ability to record, process, summarize and report financial data and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting. Each such Kinder Person has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-15 under the Exchange Act); such disclosure controls and procedures are designed to ensure that material information relating to such Kinder Person, including its consolidated subsidiaries, is made known to such Kinder Person's principal executive officer and its principal financial officer by others within those entities, particularly during the periods in which the periodic reports required under the Exchange Act are being prepared; and, to the knowledge of Kinder, such disclosure controls and procedures are effective in all material respects to provide

reasonable assurance that information required to be disclosed in the reports such Kinder Person files under the Exchange Act is accumulated and communicated to such Kinder Person's management, including its principal executive officer and its principal financial officer, to allow timely decisions regarding required disclosure.

4.8 Litigation

Except for those matters disclosed in the Kinder SEC Documents, there are no claims, actions, proceedings or investigations pending against Kinder or any of its subsidiaries or, to the knowledge of Kinder, its Partially Owned Entities or, to the knowledge of Kinder, threatened against Kinder or any of its subsidiaries or Partially Owned Entities before any Governmental Entity (and Kinder and its subsidiaries have no knowledge of any facts that are likely to give rise to any such claim, action, proceeding or investigation) that, individually or in the aggregate, would be reasonably expected to have a Material Adverse Effect on Kinder, or prevent or materially delay consummation of the transactions contemplated by this Agreement. Except as set forth in the Kinder SEC Documents, neither Kinder nor any of its subsidiaries, nor their respective assets and properties, is subject to any outstanding judgment, order, writ, injunction or decree that has had or would be reasonably expected to have a Material Adverse Effect on Kinder or that would prevent or materially delay consummation of the transactions contemplated by this Agreement. Kinder has not received notice of any fact, condition or circumstance which might reasonably form the basis of any claim against Kinder, any of its subsidiaries or Partially Owned Entities which is not fully covered by insurance (subject to standard deductibles) maintained by it and which could have a Material Adverse Effect on Kinder.

4.9 Environmental

Except as disclosed in the Kinder SEC Documents:

(a) Kinder, each of its subsidiaries and to the knowledge of Kinder, each of its Partially Owned Entities is in substantial compliance with all applicable Environmental Laws;

(b) in connection with Environmental Activities, there is no notice of infraction, action, suit or proceeding or, to the knowledge of Kinder, pending or threatened against, or in any other manner relating adversely to, Kinder, any of its subsidiaries or to the knowledge of Kinder, any of its Partially Owned Entities, or their respective properties in any court or before any arbitrator of any kind or before or by any Governmental Entity, which, if adversely determined, would, individually or in the aggregate, have a Material Adverse Effect on Kinder;

(c) all material Environmental Permits which are necessary under any applicable Environmental Law for the ownership and operation by Kinder and its subsidiaries of the real property, assets and other facilities owned or used by Kinder and its subsidiaries and all of the properties related thereto have been duly obtained, made or taken and are in full force and effect, are not subject to further Environmental Permits or appeal, or any pending or, to the knowledge of Kinder,

threatened legal or administrative proceedings, and there are to the knowledge of Kinder, no proposals to amend, revoke or replace such material Environmental Permits;

(d) Kinder has not and is not, and to the knowledge of Kinder, no past or present lessee, owner, occupant, or licensee or other Person other than Kinder or a subsidiary of Kinder has or is, engaged in any Environmental Activity at, upon, under, over, within or with respect to the. real property owned or used by Kinder, any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities in violation of any applicable Environmental Law which would lead to the imposition of liability on, or a remediation order against, Kinder, a subsidiary of Kinder or any of its Partially Owned Entities and which would have a Material Adverse Effect on Kinder;

(e) no activities or operations of Kinder or a subsidiary of Kinder are or have been subject to any judicial, administrative or other proceedings alleging a violation of any applicable Environmental Law which, if adversely determined, would have a Material Adverse Effect on Kinder;

(f) to the knowledge of Kinder, no activities or operations of Kinder or a subsidiary of Kinder in respect of real property owned or used by Kinder or a subsidiary of Kinder are the subject of investigation or written notice from any Governmental Entity requiring material remedial action to respond to a Release of any Contaminant;

(g) to the knowledge of Kinder, neither Kinder nor a subsidiary of Kinder has been or is involved in any operations or Environmental Activity in violation of any applicable Environmental Law which activities would lead to the imposition of liability on, or a remediation order against, Kinder, a subsidiary of Kinder or a Partially Owned Entity which would have a Material Adverse Effect on Kinder;

(h) neither Kinder nor a subsidiary of Kinder has filed any written notice or report of a Release of a Contaminant with any Governmental Entity in respect of the real property owned or used by Kinder or any part thereof, the consequence of which Release would have a Material Adverse Effect on Kinder; and

(i) to the knowledge of Kinder, no order, instruction or direction of any Governmental Entity has been issued which required Kinder, a subsidiary of Kinder or a Partially Owned Entity to carry out any material environmental remediation of the real property owned or used by Kinder under any applicable Environmental Law.

4.10 <u>Tax Matters</u>

(a) Kinder and each of its subsidiaries have timely filed, or caused to be filed, all material Tax Returns required to be filed by them (all of which returns were

correct and complete in all material respects), have timely paid, or caused to be paid, Taxes shown to be due and payable thereon, and have satisfied in full in all respects all material Tax withholding, deposit and remittance requirements imposed on or with respect to any of Kinder and its subsidiaries, and Kinder's most recently published financial statements contain an adequate provision in accordance with United States generally accepted accounting principles for all material amounts of Taxes payable in respect of each period covered by such financial statements and all prior periods to the extent such Taxes have not been paid, whether or not due and whether or not shown as being due on any Tax Returns.

(b) Neither Kinder nor any subsidiary of Kinder has received any written notification that any issue involving an amount of Taxes material to Kinder on a consolidated basis has been raised (and is currently pending) by the United States Internal Revenue Service or any other taxing authority, including, without limitation, any sales tax authority, in connection with any of the Tax Returns filed or required to be filed, and no waivers of statutes of limitations or objections to any assessments or reassessments involving an amount of Taxes material to Kinder on a consolidated basis have been given, filed or requested with respect to Kinder or any subsidiary of Kinder. Neither Kinder nor any of its subsidiaries has received any notice from any taxing authority to the effect that any Tax Return is being examined, and Kinder has no knowledge of any Tax audit or issue that would reasonably be expected to have a Material Adverse Effect on Kinder. There are no proposed (but unassessed) additional Taxes applicable to Kinder or any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities, involving an amount of Taxes material to Kinder on a consolidated basis and none has been asserted against Kinder or any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities. There are no Tax Liens on any assets of Kinder or any of its subsidiaries except for Taxes not yet due and payable and those which would not be reasonably expected to result in a Material Adverse Effect on Kinder. Neither Kinder nor any of its subsidiaries has received a refund of any Taxes to which it was not entitled.

4.11 <u>Pension and Employee Benefits</u>

(a) In respect of all employee benefit, health, welfare, supplemental unemployment benefit, bonus, incentive, pension, profit sharing, deferred compensation, stock compensation, stock option, stock purchase, retirement, hospitalization insurance, medical, dental, legal, disability and similar plans or arrangements or practices, whether written or oral, which are sponsored, maintained or contributed to by Kinder or any of its subsidiaries (collectively referred to as the "**Kinder Plans**"), no step has been taken, no event has occurred and no condition or circumstance exists that has resulted in or could be reasonably expected to result in any Kinder Plan being ordered or required to be terminated or wound up in whole or in part or having its registration under applicable Laws refused or revoked, or being placed

under the administration of any trustee or receiver or regulatory authority or being required to pay any material amount of Taxes, fees, penalties or levies under applicable Laws. There are no actions, suits, claims (other than routine claims for payment of benefits in the ordinary course), trials, demands, investigations, arbitrations or other proceedings which are pending or, to Kinder's knowledge, threatened in respect of any of the Kinder Plans or their assets which individually or in the aggregate would have a Material Adverse Effect on Kinder.

(b) All obligations of Kinder or a subsidiary of Kinder regarding the Kinder Plans have been satisfied in all material respects. All contributions or premiums required to be made by Kinder or a subsidiary of Kinder, as the case may be, under the terms of each Kinder Plan or by applicable Laws have been made in a timely fashion in accordance with applicable Laws and the terms of the Kinder Plans.

(c) Each Kinder Plan that is subject to insurance or funding requirements is fully insured or fully funded (both on a going-concern and solvency basis) and in good standing with such regulatory authorities as may be applicable and, as of the date of this Agreement, no notice of underfunding, noncompliance, failure to be in good standing or otherwise has been received by Kinder or its subsidiaries from any such regulatory authority.

(d) There have been no improper withdrawals, applications or transfers of assets from any Kinder Plan or the trusts or other funding media relating thereto that remain outstanding and unremedied, and neither Kinder, nor any subsidiary of Kinder, nor, to the knowledge of Kinder, any of their respective agents has been in breach of any fiduciary obligation with respect to the administration of the Kinder Plans or the trusts or other funding media relating thereto.

(e) As to any Kinder Plan that is subject to Title IV of ERISA, no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the Code has been incurred, no reportable event within the meaning of Section 4043 of ERISA has occurred, no notice of intent to terminate the plan has been given under Section 4041 of ERISA, no proceeding has been instituted under Section 4042 of ERISA to terminate the plan, and (other than premiums under Section 4007 of ERISA) no liability to the United States Pension Benefit Guaranty Corporation has been incurred.

(f) As to any Kinder Plan which is subject to ERISA or the Code, no act, omission or transaction has occurred which would result in imposition on Kinder or any subsidiary of Kinder of (i) breach of fiduciary duty liability damages under Section 409 of ERISA, (ii) a material civil penalty assessed pursuant to subsections (c), (i) or (l) of Section 502 of ERISA, or (iii) a material tax imposed pursuant to Chapter 43 of Subtitle D of the Code.

(g) As to any Kinder Plan which is a "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA or any other applicable Law, all representations of this Section 4.11 are made to Kinder's knowledge.

4.12 Compliance with Laws; Permits

(a) Kinder, its subsidiaries and, to the knowledge of Kinder, its Partially Owned Entities are in compliance, and at all times since January 1, 2002 have complied, with all applicable Laws other than non-compliance which would not, individually or in the aggregate, have a Material Adverse Effect on Kinder. No investigation or review by any Governmental Entity with respect to Kinder, any of its subsidiaries or, to the knowledge of Kinder, its Partially Owned Entities is pending or, to the knowledge of Kinder, is threatened, nor has any Governmental Entity indicated in writing an intention to conduct the same, other than those the outcome of which would not have a Material Adverse Effect on Kinder.

(b) Kinder and its subsidiaries and, to the knowledge of Kinder, its Partially Owned Entities are in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exemptions, consents, certificates, approvals and orders necessary to own, lease and operate their properties and to lawfully carry on their respective businesses as they are now being conducted (collectively, the "**Kinder Permits**"), except where the failure to be in possession of such Kinder Permits would not, individually or in the aggregate, have a Material Adverse Effect on Kinder, and there is no action, proceeding or investigation pending or, to the knowledge of Kinder, threatened regarding any of the Kinder Permits which would have a Material Adverse Effect on Kinder. None of Kinder, any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities is in conflict with, or in default or violation of any of the Kinder Permits, except for any such conflicts, defaults or violations which, individually or in the aggregate, would not have a Material Adverse Effect on Kinder.

(c) None of Kinder, any of its subsidiaries or, to the knowledge of Kinder, any directors, officers, agents or employees of Kinder or any of its subsidiaries has (i) used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, or (ii) made any unlawful payment to any government officials or employees or to political parties or campaigns or violated any provision of the *United States Foreign Corrupt Practices Act* of 1977, as amended in each case which could reasonably be expected to have a material and adverse effect on Kinder.

4.13 Regulatory Proceedings

Except for those matters disclosed in the Kinder SEC Documents, none of Kinder, any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities, all or part of whose rates or services are regulated by a Governmental Entity, is a party to any proceeding before a Governmental Entity which is reasonably likely to result in orders having a material

detriment (including a decrease in rates or rates of return) on the future operations or business of Kinder or any Material Subsidiary of Kinder nor has written notice of any such proceeding been received by Kinder, any of its subsidiaries or, to the knowledge of Kinder, any of its Partially Owned Entities.

4.14 Brokerage and Finders' Fees

Neither Kinder nor any of its shareholders, directors, officers or employees has incurred or will incur on behalf of Kinder, any brokerage, finders' or similar fee in connection with the transactions contemplated hereby, except that Kinder has employed UBS Warburg Inc. as its financial advisor pursuant to a written agreement.

4.15 Material Customers

No single customer or group of customers of Kinder or any of its subsidiaries has, since December 31, 2004, terminated or communicated to Terasen or any of its subsidiaries its intention or threat to terminate its relationship with Kinder or its subsidiaries, the loss of which has had or would reasonably be expected to have a Material Adverse Effect on Kinder.

4.16 Books and Records

The books, records and accounts of Kinder and its subsidiaries, in all material respects, (i) have been maintained in accordance with good business practices and on a basis consistent with prior years, (ii) are stated in reasonable detail and accurately and fairly reflect the transactions and dispositions of the assets of Kinder and its subsidiaries and (iii) accurately and fairly reflect the basis for Kinder's financial statements contained in the Kinder SEC Documents. Kinder has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization and (ii) transactions are recorded as necessary (A) to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles and (B) to maintain accountability for assets.

ARTICLE 5
COVENANTS AND AGREEMENTS

5.1 Covenants of Terasen

(a) Terasen agrees as follows from the date of this Agreement until the earlier of the Effective Time and the date on which this Agreement is terminated in accordance with Article 7, in each case except (x) with the consent of Kinder to any deviation therefrom, which shall not be unreasonably withheld (y) with respect to any matters which are disclosed in Section 5.1 of the Terasen Disclosure Letter (each of which exceptions shall specifically identify the relevant subsection hereof to which it relates), other than those matters which are identified as "Disclosure Only – Kinder approval required" or (z) as expressly contemplated by this Agreement or the Plan of Arrangement:

(i) Each of Terasen and its subsidiaries shall (A) carry on its businesses in the usual and ordinary course consistent with past practices, (B) use commercially reasonable best efforts to preserve intact its present business organizations and material rights and franchises, to keep available the services of its current officers and employees, and to preserve its relationships with customers, suppliers and others having business dealings with it, and (C) maintain and keep its material properties and assets in as good repair and condition as at the date of this Agreement, subject to ordinary wear and tear, all to the end that its goodwill and ongoing businesses shall not be impaired in any material respect at the Effective Time.

(ii) Terasen shall not, and it shall not permit any of its subsidiaries to: (A) declare, set aside or pay any dividends on, make other distributions or return capital in respect of any of its capital stock or any other equity interests, in cash, stock property or otherwise, except for (1) regular quarterly cash dividends on Terasen Common Shares not to exceed $0.225 per share (but subject to increase in the quarterly dividend payable in the first quarter of 2006 in respect to the fourth quarter of 2005 and subsequent quarterly dividends, but only to the extent proportionate with increases in Terasen's earnings, and consistent with past practice), with record and payment dates consistent with past practice, and (2) dividends, distributions or return of capital payable by a subsidiary of Terasen to Terasen or a wholly-owned subsidiary of Terasen; (B) split, combine, subdivide or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock; (C) issue, sell, pledge, reserve, set aside, dispose of, grant or encumber, repurchase, redeem or otherwise acquire any shares of its capital stock or any securities or obligations convertible into, exercisable or exchangeable for, or any rights, warrants, calls, subscriptions or options to acquire, shares of its capital stock (including any phantom interest or other right linked to the price of the Terasen Common Shares), or authorize any of the foregoing, except (1) pursuant to the terms of the Terasen Dividend Reinvestment Plan, as in effect on the date of this Agreement, (2) as required by the terms of any securities outstanding on the date of this Agreement, or (3) pursuant to Terasen Options granted prior to the date of this Agreement; or (D) enter into or announce any agreement or arrangement with respect to the sale, voting, registration or repurchase of any shares of its capital stock or any security convertible into or exchangeable for such shares.

(iii) After the date of this Agreement, Terasen shall coordinate with Kinder regarding the declaration, record dates and payment dates for dividend distributions in respect of Terasen Common Shares so that holders of Terasen Common Shares receive dividends, in respect of any quarterly

dividend period, only on one, but not both, of Terasen Common Shares or Kinder Common Shares received in the Arrangement.

(iv) Terasen shall not, nor shall Terasen permit any of its subsidiaries to authorize, make or commit to make any capital expenditures (including capital lease obligations) in excess of $5 million individually or in the aggregate (provided that Terasen shall promptly provide to Kinder notice and details with respect to any individual capital expenditure in excess of $1 million) other than capital expenditures to repair or replace facilities destroyed or damaged due to casualty or accident (whether or not covered by insurance), except for capital expenditures (A) included in the 2005 capital expenditures budget that was previously approved by the board of directors of Terasen (including any that are not expended until 2006) which was previously provided to Kinder, or (B) that are required under applicable Law.

(v) Terasen shall not, nor shall it permit any of its subsidiaries to, reorganize, recapitalize, consolidate, dissolve, liquidate, amalgamate or merge with any other person, nor acquire or agree to acquire, by amalgamating, merging or consolidating with, by purchasing an equity interest in or a portion of the assets of, or by any other manner, any business or person or otherwise acquire or agree to acquire any assets of any other person as to which the total consideration is in excess of $6 million individually (or in respect of a series of related transactions) or $30 million in the aggregate (other than purchases of assets from suppliers or vendors in the ordinary course of business consistent with past practice). Terasen may not acquire any electric utility assets or any retail gas assets or properties unless Terasen consults with Kinder prior thereto and such acquisition will not, in the opinion of Kinder, violate Section 5.1(a)(xv).

(vi) Except with respect to the sale of assets of Terasen or any subsidiary of Terasen as to which the aggregate market value is not in excess of $6 million individually (or in respect of a series of related transactions) or $30 million in the aggregate and except for the sale of gas, other energy products, water and water products in the ordinary course of business consistent with past practice, Terasen shall not, nor shall it permit any of its subsidiaries to sell, pledge, encumber, lease (whether such lease is an operating or capital lease) or otherwise dispose of any assets (other than relating to transactions between two or more wholly-owned Terasen subsidiaries or between a wholly-owned subsidiary and Terasen).

(vii) Terasen shall not, nor shall it permit any of its subsidiaries to, (A) incur any indebtedness for borrowed money or purchase money indebtedness or assume, guarantee, endorse or enter into a "keepwell" or similar arrangement with respect to, any indebtedness, other than (1) indebtedness between Terasen or any of its subsidiaries and another of its subsidiaries,

(2) additional indebtedness incurred in the ordinary course of business consistent with past practice in an amount not to exceed $30 million in the aggregate and (3) additional borrowings under credit lines existing as of the date of this Agreement incurred in the ordinary course of business consistent with past practice, (B) enter into interest rate swaps with a notional amount in excess of $30 million in the aggregate, (C) enter into any material operating lease or create any Liens on the property of Terasen or any of its subsidiaries in connection with any indebtedness, or (D) refinance any debt other than as described in Section 5.1(a)(vii) of the Terasen Disclosure Letter on terms acceptable to Kinder, acting reasonably;

(viii) Except as required by applicable Law or any agreement to which Terasen or any of its subsidiaries is a party on the date of this Agreement, Terasen shall not, nor shall it permit any of its subsidiaries to:

(A) increase the amount of (or accelerate the payment or vesting of) any benefit or amount payable under, any employee benefit plan or any other contract, agreement, commitment, arrangement, plan or policy providing for compensation or benefits to any former, present or future director, officer or employee of Terasen or any of its subsidiaries;

(B) increase (or enter into any commitment or arrangement to increase) the compensation or benefits, or otherwise to extend, expand or enhance the engagement, employment or any related rights, of any former, present or future director, officer, employee or consultant of Terasen or any of its subsidiaries, except for normal increases for persons who are not directors or officers made in the ordinary course of business consistent as to timing and otherwise with past practice over the last two completed fiscal years of Terasen, provided that the overall compensation budget, on an average, per employee basis, shall not increase by more than the percentage set out in Section 5.1(a)(viii)(B) of the Terasen Disclosure Letter on an annual basis;

(C) whether through its board of directors or otherwise, accelerate the vesting of any unvested Terasen Options or accelerate the release of, or the expiry date of any hold period relating to, any Terasen Common Shares held in the Terasen Employee Share Purchase Plan or the Terasen MTIP, or otherwise amend, vary or modify such plans or the Terasen Share Option Plan; or

(D) adopt, establish, enter into or implement any employee benefit plan, policy, severance or termination agreement providing for any form of benefits or other compensation to any former, present or

future director, officer or employee of Terasen or any of its subsidiaries or amend any employee benefit plan, policy, severance or termination agreement.

(ix) Terasen shall not, nor shall it permit any of its subsidiaries to, amend or propose to amend its constating documents.

(x) Subject to applicable Law, including the Competition Act and the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, Terasen shall not implement any changes in its or any of its regulated subsidiaries' rates or charges (other than passthrough or tracking rate charges under existing tariffs or rate schedules), standards of service or accounting or execute any agreement with respect thereto that is otherwise permitted under this Agreement (a "**Rate Change**") that could be reasonably expected to materially decrease the revenues of the business unit implementing such change or the asset subject to such change. Terasen shall, and shall cause its subsidiaries to, deliver to Kinder a copy of each filing or agreement relating to a Rate Change as soon as reasonably practicable provided that any such application relating to a Rate Change with respect to Terasen's pipeline business segment or any annual rate application with respect to Terasen's gas business segment shall be provided to Kinder at least 5 days prior to the filing or execution thereof in respect of initial filings or agreements or any settlement in respect of any annual rate application and five days, or if not practical, as soon as reasonably practicable in the circumstances, prior to the filing or execution thereof in the event of subsequent filings or agreements or any settlement in respect of any annual rate application, and shall be subject to Kinder's approval, not to be unreasonably withheld or delayed. Terasen shall, and shall cause its subsidiaries to, make all such filings only in the ordinary course of business consistent with past practice.

(xi) The 2006 capital and operating budget to be adopted by Terasen shall be subject to the review and approval of Kinder, such approval not to be unreasonably withheld or delayed. Upon such 2006 capital and operating budget being so approved and adopted, Terasen shall not authorize or take any action or capital expenditure inconsistent therewith except such actions as are authorized in connection with the 2005 capital budget and operations as specified in this Section 5.1.

(xii) Terasen shall not, nor shall it permit any of its subsidiaries to, pay, discharge, satisfy, compromise or settle any claims, obligations or liabilities prior to the same being due which, individually or in the aggregate, are in excess of $10 million.

(xiii) Except in the ordinary course of business or as required by applicable Laws, Terasen shall not, nor shall it permit any of its subsidiaries to, (i)

enter into, terminate or waive any provision of, exercise any option or relinquish any contractual rights under, or modify in any material respect any contract, agreement, guarantee, lease commitment or arrangement of the nature required to be disclosed by Section 3.9 or any contract which involves payments or receipts by Terasen or any of its subsidiaries of more than $10 million over the term of such contract or agreement or (ii) waive, transfer, grant or release any claims or potential claims of material value or (iii) waive any benefits of, or agree to modify in any respect, or terminate, release or fail to enforce, or consent to any material matter with respect to which consent is required, under, any confidentiality, standstill or similar agreement to which Terasen or any of its subsidiaries is a party or which Terasen or any of its subsidiaries is a beneficiary.

(xiv) Terasen shall not, nor shall it permit any of its subsidiaries to, make any changes to the existing accounting practices, methods and principles relating to Terasen or any subsidiary of Terasen except as required by Law or by Canadian generally accepted accounting principles as advised by Terasen's or such subsidiary's regular independent accountants, as the case may be.

(xv) Terasen shall not, nor shall it permit any of its subsidiaries to, engage in any activities which would cause a change in its status, or that of its subsidiaries, under the 1935 Act, or which would impair the ability of any Terasen subsidiary which is a "gas utility company" under the 1935 Act to claim status as a "foreign utility company" under Section 33 of the 1935 Act.

(xvi) Terasen shall not, nor shall it permit any of its subsidiaries to, (i) make, change or rescind any material tax election, (ii) take any action, or omit to take any action, in either case inconsistent with past practice, relating to the filing of any Tax Return or the payment of any Tax (except as otherwise required by Law), (iii) settle any material Tax claim or assessment, (iv) surrender any right or claim to a Tax refund, or (v) amend any of its transfer pricing policies.

(xvii) Terasen shall not take any action to exempt from, waive or make not subject to (including redemption of outstanding rights) (A) the Terasen Rights Plan or (B) any takeover Law or other Law that purports to limit or restrict business combinations or the ability to acquire or vote shares, any person (other than Kinder and its subsidiaries) or any action taken thereby, including any Take-over Bid (as defined in the Terasen Rights Plan), which person or action would have otherwise been subject to the restrictive provisions thereof and not exempt therefrom. Terasen shall not nor shall it permit any subsidiary to, (a) enter into any confidentiality or standstill agreement except as permitted by Section 5.5(a), (b) amend, release any third party from its obligations or grant any consent under any

confidentiality or standstill provision or fail to fully enforce any such provision.

(xviii) Terasen shall not, nor shall it permit any of its subsidiaries to, take or fail to take any action which would cause any of Terasen's representations or warranties hereunder to be untrue in any respect or would be reasonably expected to prevent or materially impede, interfere with or delay the Arrangement or which would cause the conditions set forth in Section 6.2(b) not to be satisfied.

(xix) Terasen shall not, nor shall it permit any of its subsidiaries to, license or commit to license or otherwise acquire or transfer any Intellectual Property Rights, other than in the ordinary course.

(xx) Terasen shall not, nor shall it permit any of it subsidiaries to, amend, modify or terminate any insurance policy in effect on the date of this Agreement, except for the scheduled renewal Terasen's, or any of the subsidiaries', as applicable, current directors' and officers' liability insurance policy for a period of not more than one year, on the terms (including price) currently in effect under such policy, or the most similar terms then available, as permitted by the terms of such policy and except for scheduled renewals of any other insurance policy in effect on the hereof in the ordinary course of business consistent with past practice.

(xxi) Terasen shall not, nor shall it permit any of its subsidiaries to, (i) cancel any material indebtedness, or (ii) waive, transfer, grant or release any claims or potential claims of material value.

(xxii) Terasen shall not, nor shall it permit any of its subsidiaries to, enter into any new recognition agreement, collective agreement, works council agreement or similar agreement with any trade union or representative body other than with the prior approval of Kinder, acting reasonably.

(xxiii) Terasen shall not, nor shall it permit any of its subsidiaries to, announce an intention, enter into any formal or informal agreement or otherwise make a commitment to do any of the foregoing.

(b) Terasen shall promptly advise Kinder in writing:

(i) of any event, condition or circumstance that might be reasonably expected to cause any representation or warranty of Terasen contained in this Agreement to be untrue or inaccurate on the Effective Date (or, in the case of any representation or warranty made as of a specified date, as of such specified date);

(ii) of any Material Adverse Effect on Terasen or any event, occurrence or development which would be reasonably expected to have a Material Adverse Effect on Terasen; and

(iii) of any material breach by Terasen of any covenant, obligation or agreement contained in this Agreement.

(c) Terasen shall use its reasonable best efforts to, and shall use its reasonable best efforts to cause its subsidiaries to, perform all obligations required to be performed by Terasen or any of its subsidiaries under this Agreement, cooperate with Kinder in connection therewith, and do all such other acts and things as may be necessary or desirable in order to consummate and make effective, as soon as reasonably practicable, the transactions contemplated in this Agreement and, without limiting the generality of the foregoing, Terasen shall:

(i) upon approval of the Terasen Rights Plan Waiver Resolution, forthwith execute and deliver the Terasen Rights Plan Amending Agreement and cause such agreement to be and remain in full force and effect, unamended;

(ii) subject to Sections 5.5 and 5.6 solicit from the Terasen Securityholders proxies in favour of approval of the Terasen Resolutions (in a commercially reasonable manner) and use reasonable best efforts to obtain the approval by Terasen Securityholders of the Terasen Resolutions and will, at Kinder's request, retain the services of an investment banker or proxy solicitation firm to solicit proxies in favour of the Terasen Resolutions and shall fully cooperate with Kinder in connection therewith including providing to Kinder such information as Kinder may request and doing such other things as Kinder may reasonably request in connection therewith;

(iii) subject to the last sentence of Section 5.6(a), not adjourn, postpone or cancel (or propose adjournment, postponement or cancellation of) the Terasen Meeting without Kinder's prior written consent except as required by Law or, in the case of adjournment, as may be required by Terasen Securityholders as expressed by majority resolution;

(iv) use reasonable best efforts to satisfy or cause to be satisfied as soon as reasonably practicable all the conditions precedent that are set forth in Article 6 hereof;

(v) apply for on or before August 31, 2005 and use reasonable best efforts to obtain as promptly as practicable all Appropriate Regulatory Approvals required to be obtained by Terasen or any of its subsidiaries in order for Terasen to consummate the transactions contemplated hereby and, in doing so, to keep Kinder reasonably informed as to the status of the

proceedings and any material discussions or correspondence related to obtaining such Appropriate Regulatory Approvals, including, but not limited to, providing Kinder the opportunity to be present for all communications with any Governmental Entity and providing Kinder with copies of all related applications and notifications, in draft and final form, in order for Kinder to provide its reasonable comments and all such applications and notifications shall be subject to the prior approval of Kinder, acting reasonably;

(vi) apply for and use reasonable best efforts to obtain the Interim Order and the Final Order, which Final Order shall be applied for on the basis that it shall be effective only upon Terasen notifying the Court that the Appropriate Regulatory Approvals have been obtained;

(vii) carry out the terms of the Interim Order and the Final Order applicable to it and use reasonable best efforts to comply promptly with all requirements which applicable Laws may impose on Terasen or its subsidiaries with respect to the transactions contemplated hereby and by the Arrangement;

(viii) diligently defend all lawsuits or other legal, regulatory or other proceedings to which it is a party challenging or affecting this Agreement or the consummation of the transactions contemplated hereby;

(ix) use reasonable best efforts to have lifted or rescinded any injunction or restraining order or other order which may adversely affect the ability of the parties to consummate the transactions contemplated hereby;

(x) effect all necessary registrations, filings and submissions of information required by Governmental Entities from Terasen or any of its subsidiaries in connection with the transactions contemplated hereby;

(xi) consult with Kinder prior to making publicly available its financial results for any period after the date of this Agreement and prior to filing any Terasen SRA Reports;

(xii) use reasonable best efforts to obtain all waivers, consents and approvals from other parties to loan agreements, leases or other contracts required to be obtained by Terasen or a subsidiary of Terasen to consummate the transactions contemplated hereby which the failure to obtain would materially and adversely affect the ability of Terasen or its subsidiaries to consummate the transactions contemplated hereby; and

(xiii) use reasonable best efforts to ensure that Terasen's affiliates listed in Section 3.14 of the Terasen Disclosure Letter execute and deliver to Kinder, on or prior to the date that is 30 days after the date of this

Agreement or the date on which such affiliate is so listed, an Affiliate's Letter.

(d) The board of directors of Terasen shall recommend to the Terasen Securityholders the approval of the Terasen Resolutions; provided that the board of directors of Terasen may withdraw, modify or change its recommendation prior to the approval of the Terasen Resolutions by the Terasen Securityholders if such withdrawal, modification or change is permitted by, and made in accordance with, the provisions of Section 5.5(d) of this Agreement.

(e) Terasen shall not waive the application of Section 3.1 of the Terasen Rights Plan to an Acquisition Proposal unless the Acquisition Proposal is a Superior Proposal and Terasen has complied with Section 5.5 and Section 5.6, provided that, in such case, the waiver cannot be effective until after the Terasen Meeting and further provided that such waiver cannot be effective if the Arrangement Resolution shall have been approved by the requisite majority of the Terasen Securityholders at the Terasen Meeting.

(f) Until the earlier of the Effective Time and the date upon which this Agreement is terminated in accordance with Article 7, Terasen shall not dispose of any of its shares of TMHL and shall cause TMHL to:

(i) not issue any additional securities to any person other than Terasen;

(ii) not dispose of any of the Reciprocal Shares; and

(iii) cooperate with and assist Terasen and Kinder in such other ways to the extent practicable to implement the Arrangement on the terms set forth herein and in the Plan of Arrangement.

5.2 <u>Covenants of Kinder</u>

(a) Kinder agrees that, until the earlier of the Effective Time and the date on which this Agreement is terminated in accordance with Article 7, in each case except (x) with the consent of Terasen to any deviation therefrom, which shall not be unreasonably withheld (y) with respect to any matters which are disclosed in Section 5.2 of the Kinder Disclosure Letter (each of which exceptions shall specifically identify the relevant subsection hereof to which it relates) or (z) as expressly contemplated by this Agreement or the Plan of Arrangement Kinder shall not:

(i) declare, set aside or pay any dividends on, make other distributions or return capital in respect of any of its capital stock or any other equity interests, in cash, stock, property or otherwise, except for regular quarterly cash dividends on Kinder Common Shares not to exceed US$0.75 per share (except that such dividend may be increased commencing with the

regular quarterly cash dividend payable in February 2006 with respect to the fourth quarter of 2005) with record and payment dates consistent with past practice (except to the extent necessary to ensure holders of Terasen Common Shares receive dividends, in respect of any quarterly dividend period, only one, but not both, of Terasen Common Shares or Kinder Common Shares received in the Arrangement, as contemplated in Section 5.1(a)(iii) of this Agreement), dividends or distributions or return of capital payable by a subsidiary of Kinder to Kinder or a wholly-owned subsidiary of Kinder;

(ii) split, combine, subdivide or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock;

(iii) nor shall it permit any of its subsidiaries to, reorganize, recapitalize, consolidate, dissolve, liquidate, amalgamate or merge with any other person where such action would have a material adverse impact on the ability of the Kinder Parties to consummate the transactions contemplated hereby;

(iv) adopt or propose to adopt any amendments to its constating documents which would have a material adverse impact on the consummation of the transactions contemplated hereby; and

(v) nor shall it permit any of its subsidiaries, except as required by law, to terminate or waive any provision of, exercise any option or relinquish any contractual rights under, or modify in any material respect any contract, agreement, equity interest or arrangement in a manner that could reasonably be expected to materially decrease its consolidated earnings after taking into account any benefit relating to such action.

(b) Kinder shall promptly advise Terasen in writing:

(i) of any event, condition or circumstance that might be reasonably expected to cause any representation or warranty of the Kinder Parties contained in this Agreement to be untrue or inaccurate on the Effective Date (or, in the case of any representation or warranty made as of a specified date, as of such specified date);

(ii) of any Material Adverse Effect on Kinder or any event, occurrence or development which would be reasonably expected to have a Material Adverse Effect on Kinder; and

(iii) of any material breach by any of the Kinder Parties of any of their covenants, obligations or agreements contained in this Agreement.

(c) Kinder shall use its reasonable best efforts to, and shall use its reasonable best efforts to cause its subsidiaries (other than Kinder LP, Kinder Management and their respective consolidated subsidiaries) to, perform all obligations required to be performed by it or any such subsidiaries under this Agreement, cooperate with Terasen in connection therewith, and do all such other acts and things as may be necessary or desirable in order to consummate and make effective, as soon as reasonably practicable, the transactions contemplated by this Agreement and, without limiting the generality of the foregoing:

(i) use reasonable best efforts to satisfy or cause to be satisfied as soon as reasonably practicable all conditions precedent that are set forth in Article 6 hereof;

(ii) apply for on or before August 31, 2005 and use reasonable best efforts to obtain as promptly as practicable all Appropriate Regulatory Approvals required to be obtained by Kinder or any of its subsidiaries in order for the Kinder Parties to consummate the transactions contemplated hereby, and, in doing so, to keep Terasen reasonably informed as to the status of the proceedings and any material discussions or correspondence related to obtaining such Appropriate Regulatory Approvals, including, but not limited to, providing Terasen the opportunity to be present for all communications with any Government Entity and providing Terasen with copies of all related applications and notifications, in draft form and final, in order for Terasen to provide its reasonable comments;

(iii) carry out the terms of the Interim Order and Final Order applicable to it and use reasonable best efforts to comply promptly with all requirements which applicable Laws may impose on the Kinder Parties with respect to the transactions contemplated hereby and by the Arrangement;

(iv) diligently defend all lawsuits or other legal, regulatory or other proceedings to which it is a party challenging or affecting this Agreement or the consummation of the transactions contemplated hereby;

(v) use reasonable best efforts to have lifted or rescinded any injunction or restraining order or other order relating to the Kinder Parties which may adversely affect the ability of the parties to consummate the transactions contemplated hereby;

(vi) effect all necessary registrations, filings and submissions of information required by Governmental Entities from the Kinder Parties or their subsidiaries in connection with the transactions contemplated hereby;

(vii) reserve or have available a sufficient number of Kinder Common Shares for issuance upon completion of the Arrangement and use reasonable best efforts to cause such Kinder Common Shares to be approved for listing on

the NYSE, subject to official notice of issuance, prior to the Effective Time;

(viii) use reasonable best efforts to obtain all waivers, consents and approvals from other parties to loan agreements, leases or other contracts required to be obtained by Kinder or any subsidiary of Kinder to consummate the transactions contemplated hereby which the failure to obtain would materially and adversely affect the ability of the Kinder Parties to consummate the transactions contemplated hereby.

(d) Kinder agrees, for the benefit of each person who has executed and delivered an Affiliate's Letter, that it shall cause the current public information requirements set forth in paragraph (c) of Rule 144 under the 1933 Act to be satisfied for so long as any such requirement must be satisfied in order for any person who executed and delivered an Affiliate's Letter to resell in accordance with paragraph (d) of Rule 145 under the 1933 Act any Kinder Common Shares received by such person pursuant to the Plan of Arrangement.

5.3 <u>Access to Information</u>

(a) Subject to Section 5.3(b) and applicable Laws, upon reasonable notice to the senior officer or business unit head of Terasen, Terasen shall (and shall cause each of its subsidiaries and their respective representatives, officers, directors, employees and agents to) afford the officers, employees, and other authorized representatives and advisors (including financial advisors, counsel & accountants) (collectively the "**Representatives**") of Kinder access, during normal business hours from the date of this Agreement and until the earlier of the Effective Time and the date on which this Agreement is terminated in accordance with Article 7, to its respective properties, books, contracts and records, as well as to its management personnel; provided that such access shall be provided on a basis that minimizes the disruption to the operations of Terasen. During such period, Terasen shall (and shall cause each of its subsidiaries to) furnish promptly to Kinder all information concerning Terasen's business, properties and personnel as Kinder may reasonably request. Subject to Section 5.3(b) and applicable Laws, Kinder shall afford the Representatives of Terasen access during normal business hours from the date of this Agreement and until the earlier of the Effective Date or the termination of this Agreement, to such of Kinder's management personnel as Terasen may request, acting reasonably. To the extent that any Terasen information or documentation is competitively sensitive in relation to Kinder, such information will be disclosed only to external advisors of Kinder, except as may be agreed by Terasen.

(b) The Kinder Parties and Terasen acknowledge that certain information received pursuant to Section 5.3(a) will be non-public or proprietary in nature and as such will be deemed to be "Confidential Information" for purposes of the Confidentiality Agreement. The Kinder Parties and Terasen further acknowledge

their obligation to maintain the confidentiality of such Confidential Information in accordance with the Confidentiality Agreement. If any material is withheld by Terasen or any of its subsidiaries because of the confidential nature of such material, or otherwise, Terasen or such subsidiary shall inform Kinder as to the general nature of what is being withheld.

5.4 Indemnification

(a) Kinder agrees that all rights to indemnification for acts or omissions occurring prior to the Effective Time existing as of the date of this Agreement in favour of the directors or officers of Terasen as provided in its constating documents or in written contracts in effect on the date of this Agreement, shall survive the Arrangement and shall continue in full force and effect until the earlier of the expiration of the applicable statute of limitations with respect to any claims against directors or officers of Terasen arising out of such acts or omissions and the sixth anniversary of the Effective Date, and Kinder hereby assumes, effective upon consummation of the Arrangement, all such liability with respect to any matters arising prior to the Effective Time.

(b) Kinder shall use its reasonable efforts to (a) procure prior to the Effective Time prepaid non-cancellable run-off directors' and officers' liability insurance providing coverage (on terms comparable to those contained in Terasen's current insurance policies) for six years from the Effective Time with respect to claims arising from or related to facts or events that occurred at or prior to the Effective Time in the same manner as such claims would have been covered if they arose prior to the Effective Time, or (b) cause to be maintained in effect, for not less than six years from the Effective Time, policies of directors' and officers' liability insurance that provide substantially the same coverage and contain substantially similar terms and conditions for acts and omissions prior to the Effective Time as is provided under or contained in the policies of the directors' and officers' liability insurance maintained by Terasen as of the date of this Agreement provided that in the case of (a), the cost shall not be more than 500% of the last annual premium paid prior to the date of this Agreement and, in the case of (b), so long as the annual premium therefor would not be in excess of 200% of the last annual premium paid prior to the date of this Agreement.

5.5 Covenants Regarding Non-Solicitation

(a) Terasen shall, and shall direct and cause its Representatives and its subsidiaries and their Representatives immediately cease and cause to be terminated any solicitation, encouragement, activity, discussion or negotiation with any parties that may be ongoing with respect to an Acquisition Proposal whether or not initiated by Terasen and in connection therewith, Terasen shall request (and exercise all rights it has to require) the return of information regarding Terasen and its subsidiaries previously provided to such parties and shall request (and

exercise all rights it has to require) the destruction of all materials including or incorporating any confidential information regarding Terasen and its subsidiaries.

(b) Subject to Section 5.6, Terasen agrees that it shall not, and shall not authorize or permit any of its subsidiaries or any of its or its subsidiaries' Representatives, directly or indirectly, to (i) solicit, initiate, encourage or facilitate, including by way of furnishing information or entering into any form of agreement, arrangement or understanding, any inquiries or the making of any proposals regarding an Acquisition Proposal, (ii) participate in any discussions or negotiations regarding any Acquisition Proposal, (iii) withdraw, modify, qualify or change in a manner adverse to Kinder Parties, or publicly propose to withdraw, modify, qualify or change in a manner adverse to the Kinder Parties the approval, recommendation or declaration of advisability of the board of directors of Terasen of the transactions contemplated hereby (it being understood that failing to affirm the approval or recommendation of the board of directors of Terasen of the transactions contemplated hereby after an Acquisition Proposal has been publicly announced shall be considered an adverse modification), (iv) approve or recommend any Acquisition Proposal or (v) enter into any agreement, arrangement or understanding related to any Acquisition Proposal or requiring Terasen to abandon, terminate or fail to consummate the Arrangement or providing for the payment of any break, termination or other fees or expenses to any person in the event that Terasen or any of its subsidiaries completes the transactions contemplated hereby or any other transaction with Kinder or any of its affiliates agreed to prior to any termination of this Agreement. Notwithstanding the preceding sentence and any other provisions of this Agreement, the board of directors of Terasen may, prior to the approval of the Arrangement by the Terasen Securityholders, consider, participate in any discussions or negotiations with, or provide information in accordance with the last sentence of this paragraph to, any person who has delivered a bona fide written Acquisition Proposal which was not solicited or encouraged after the date of this Agreement and did not otherwise result from a breach of this Section 5.5 and that the board of directors of Terasen determines in good faith, after consultation with its financial advisors and outside legal counsel, is a Superior Proposal; provided, however, that prior to taking any such action, (x) the board of directors of Terasen must receive written advice of outside counsel that it is necessary for the board of directors of Terasen to take such action in order to discharge properly its fiduciary duties, and (y) Terasen must obtain a confidentiality agreement from the person making such Acquisition Proposal that is substantively the same as the Confidentiality Agreement, and on terms no more favourable to such person than the Confidentiality Agreement including a standstill provision at least as stringent as contained in the Confidentiality Agreement; provided further that Terasen shall not commence or participate in discussions or negotiations with, or provide information to any person who has delivered an unsolicited bona fide written Acquisition Proposal until 48 hours after Terasen shall have advised Kinder of its determination that such Acquisition

Proposal would, if completed, constitute a Superior Proposal and of its intention to take such actions. Terasen shall not consider, negotiate, accept, approve or recommend an Acquisition Proposal or provide information to any person proposing an Acquisition Proposal, in each case after the date of the approval of the Arrangement by the Terasen Securityholders. If Terasen receives a request for material non-public information from a person who has made an unsolicited bona fide written Acquisition Proposal and Terasen is permitted, as contemplated under the second sentence of this Section 5.5(b), to negotiate the terms of such Acquisition Proposal, then, and only in such case, the board of directors of Terasen may, subject to the execution by such person of the confidentiality agreement as described in (y) above, provide such person with access to information regarding Terasen; provided that Terasen sends a copy of any such confidentiality agreement to Kinder promptly upon its execution and Kinder is provided with a list of, and copies of, the information provided to such person and is immediately provided with access to similar information to which such person was provided.

(c) From and after the date of this Agreement, Terasen shall promptly (and in any event within 24 hours) notify Kinder, at first orally and then in writing, of any inquiries, proposals or offers relating to or constituting an Acquisition Proposal, or any request for non-public information relating to Terasen or any of its subsidiaries. Such notice shall include a description of the terms and conditions of any proposal, inquiry or offer, the identity of the person making such proposal, inquiry or offer and provide such other details of the proposal, inquiry or offer as Kinder may reasonably request. Terasen shall keep Kinder fully informed on a prompt basis of the status, including any change to the material terms, of any such inquiry, proposal or offer.

(d) Nothing contained in Section 5.1(d) or 5.5(b) shall prohibit the board of directors of Terasen from withdrawing, modifying, qualifying or changing its recommendation to the Terasen Securityholders in respect of the transactions contemplated hereby prior to the approval of the Arrangement by the Terasen Securityholders, if the board of directors of Terasen determines, in good faith (after receiving written advice of outside counsel) that such withdrawal, modification, qualification or change is necessary for the board of directors of Terasen to act in a manner consistent with its fiduciary duties or applicable Laws; provided that (i) not less than 48 hours before the board of directors of Terasen considers any proposal in respect of any such withdrawal, modification, qualification or change, Terasen shall give Kinder written notice of such proposal and promptly advise Kinder of the proposed consideration of such proposal, including a summary of the reasons for the proposal withdrawal, modification, qualification or change, a copy of the written opinion of outside counsel and all other materials to be presented to the board of directors of Terasen in respect of its consideration of such proposal, and (ii) the foregoing shall not relieve Terasen from its obligation to proceed to call and hold the Terasen Meeting and to hold

the vote on the Terasen Resolutions, except in circumstances where this Agreement is terminated in accordance with the terms hereof.

(e) Terasen shall ensure that its officers, directors and employees and its subsidiaries and their officers, directors and employees and any financial advisors or other advisors or representatives retained by it are aware of the provisions of this Section 5.5, and it shall be responsible for any breach of this Section 5.5 by such officers, directors, employees, financial advisors or other advisors or representatives.

5.6 Right to Accept a Superior Proposal

(a) If Terasen has complied with Section 5.5 with respect thereto, Terasen may accept, approve, recommend or enter into any agreement, understanding or arrangement in respect of a Superior Proposal prior to the approval of the Arrangement by the Terasen Securityholders and terminate this Agreement if, and only if (with the exception of a confidentiality agreement the execution of which shall not be subject to the conditions of this Section 5.6), (i) Terasen has provided Kinder with a copy of the Superior Proposal document, (ii) four Business Days shall have elapsed from the later of (x) the date Kinder received written notice (a "**Section 5.6 Notice**") advising Kinder that Terasen's board of directors has resolved, subject only to compliance with this Section 5.6, to accept, approve, recommend or enter into an agreement in respect of such Superior Proposal, specifying the terms and conditions of such Superior Proposal and identifying the person making such Superior Proposal, and (y) the date Kinder received a copy of such Superior Proposal, (iii) Terasen's board of directors has determined in good faith (based upon the written opinion of its outside legal counsel) that it is necessary for the board of directors of Terasen to take such action in order to discharge properly its fiduciary duties and thereby withdrawing or modifying its approval or recommendation of this Agreement and approving or recommending such Superior Proposal, (iv) such Superior Proposal does not provide for the payment of any break, termination or other fees or expenses to the other party in the event that Terasen or any of its subsidiaries completes the transactions contemplated by this Agreement or any similar other transaction with Kinder or any of its affiliates agreed to prior to any termination of this Agreement, (v) taking into account any revised proposal made by Kinder since receipt of the Section 5.6 Notice, such Superior Proposal remains a Superior Proposal and the Terasen board of directors has again made the determinations referred to in this Section 5.6(a) and (v) Terasen has previously or concurrently will have paid to Kinder the Termination Fee, if any, payable under Section 7.4. In the event that Terasen provides Kinder with a Section 5.6 Notice on a date that is less than four Business Days prior to the Terasen Meeting, Terasen shall adjourn the Terasen Meeting (without notice on the Arrangement or any related matters) to a date that is not less than five Business Days and not more than 10 Business Days after the date of the Section 5.6 Notice.

(b) During the four Business Day period referred to in Section 5.6(a)(ii), Terasen agrees that Kinder shall have the right, but not the obligation, to offer to amend the terms of this Agreement. The board of directors of Terasen will review any proposal by Kinder to amend the terms of this Agreement in good faith in order to determine, in its discretion in the exercise of its fiduciary duties, whether Kinder's amended proposal upon acceptance by Terasen would result in such Superior Proposal ceasing to be a Superior Proposal. If the board of directors of Terasen so determines, it will enter into an amended agreement with Kinder reflecting Kinder's amended proposal. If the board of directors of Terasen continues to believe, in good faith and after consultation with financial advisors and outside counsel, that such Superior Proposal remains a Superior Proposal and therefore rejects Kinder's amended proposal, Terasen may, on termination of this Agreement in accordance with Section 7.2(c)(iv) and payment of the termination fee as required pursuant to Section 7.4(b), accept, approve, recommend or enter into an agreement, understanding or arrangement in respect of such Superior Proposal.

(c) Terasen also acknowledges and agrees that each successive material modification of any Acquisition Proposal shall constitute a new Acquisition Proposal for purposes of Section 5.5 and the requirement under clause (ii) of Section 5.6(a) to initiate an additional five Business Day notice period.

5.7 <u>Employee Benefits and Related Matters</u>

(a) Kinder agrees, and after the Effective Time will cause Terasen or any of its subsidiaries, as the case may be, to maintain the Terasen Plans in force as at the Effective Time unamended (other that any amendment which may be required to comply with Law) for the benefit of the Canadian Affected Employees for no less than 12 calendar months following the Effective Time. For purposes of this Section 5.7, "Affected Employees" means individuals who are actively employed by Terasen or any of its subsidiaries as of the Effective Time, who are not subject to a collective bargaining agreement or any other employment agreement and who remain employed with Terasen or any subsidiary of Terasen immediately following the Effective Time.

(b) For benefit plans maintained by Kinder for which service and vesting are a factor, Kinder agrees to recognize each Affected Employee's credited service under a Terasen Plan for such purposes. Terasen agrees not to modify any credited service or grant any additional credited service to any Affected Employee. For greater certainty, it is the intent of both Terasen and Kinder that a duplication of benefits cannot occur as a result of this Section 5.7.

(c) Nothing herein shall be construed as (i) requiring Kinder to continue the employment of any Affected Employees following the Effective Time, (ii) limiting Kinder's ability to amend, modify or terminate any individual employee benefit plan or arrangement of Terasen, Kinder or any of their respective

subsidiaries, or (iii) requiring Kinder to maintain any particular level of employee benefits for any individual employee following the Effective Time except as expressly provided in this Section 5.7 with respect to Canadian Affected Employees only.

5.8 Pre-Acquisition Reorganizations

Terasen will agree to effect such reorganization of its business, operations and assets or such other transactions (each, "**Pre-acquisition Reorganization**") as the Kinder Parties may reasonably request prior to the Effective Date, and the Plan of Arrangement, if required, shall be modified accordingly. Provided, however, that Terasen need not effect Pre-acquisition Reorganization which in the opinion of Terasen, acting reasonably, (i) would require Terasen to obtain the approval of the Terasen Securityholders in respect of such Pre-Acquisition Reorganization other than at the Terasen Meeting, (ii) would prejudice the Terasen Securityholders, (iii) would impede or materially delay the consummation of the transactions contemplated hereby or (iv) cannot either be (A) completed immediately prior to or contemporaneously with the Effective Time, or (B) reversed or unwound without adversely affecting Terasen and its subsidiaries.

5.9 Proxies Received and Dissent Notices

Terasen shall advise the Kinder Parties:

(a) as reasonably requested, and on a daily basis on each of the last seven business days prior to the Terasen Meeting, as to the aggregate tally of the proxies and votes received in respect of the Terasen Meeting; and

(b) of any written notice of dissent, withdrawal of such notice, and any other instruments received by Terasen pursuant to the Dissent Rights.

5.10 Closing Matters

Each of the Kinder Parties and Terasen shall deliver, at the Effective Time, such customary certificates, resolutions and other closing documents as may be required by the other parties hereto, acting reasonably.

5.11 Privacy Matters

(a) The Kinder Parties and Terasen acknowledge and agree that certain information provided by Terasen to the Kinder Parties in connection with the transactions contemplated hereunder constitutes Personal Information (the "**Disclosed Personal Information**") which is necessary for the purposes of determining if the Kinder Parties shall proceed with the Arrangement, that the disclosure of the Disclosed Personal Information relates solely to the carrying on of the business, or the completion of the Arrangement and that, as contemplated by the terms of the Confidentiality Agreement, such Disclosed Personal Information:

(i) may not be used for any purpose other than those related to the performance of this Agreement;

(ii) must be kept strictly confidential and the Kinder Parties shall ensure that access to such Personal Information shall be restricted to those Representatives of Kinder who have a bona fide need access to such information and shall instruct those Representatives to protect the confidentiality of such information in a manner consistent with Kinder's obligations hereunder; and

(iii) upon the expiry or termination of this Agreement, or otherwise upon the request of Terasen, Kinder shall forthwith cease all use of the Disclosed Personal Information acquired by Kinder in connection with this Agreement and will return to Terasen or, at Terasen's request, destroy in a secure manner the Disclosed Personal Information (and any copies).

(b) In addition to the foregoing obligations contained in the Confidentiality Agreement:

(i) Kinder agrees to employ appropriate technology and procedures to prevent accidental loss or corruption of such Personal Information, unauthorized input or access to the Disclosed Personal Information, or unauthorized or unlawful collection, storage, disclosure, recording, copying, alteration, removal, deletion, use or other processing of the Disclosed Personal Information;

(ii) each of Terasen and Kinder agrees to promptly notify the other of all inquiries, complaints, requests for access, and claims of which the Party is made aware in connection with the Disclosed Personal Information. The Parties shall fully co-operate with one another, with the persons to whom the Disclosed Personal Information relates, and any Governmental Entity charged with enforcement of applicable privacy laws, in responding to such inquiries, complaints, requests for access, and claims; and

(iii) if the Arrangement is completed Terasen may disclose additional Personal Information of its employees, customers, directors and officers to Kinder and its Representatives on condition that:

(A) Kinder and its Representatives must only use or disclose such Personal Information for the same purposes for which it was collected, used or disclosed by Terasen, and

(B) the employees, customers, directors, officers and shareholders whose Personal Information is disclosed are notified that:

(I) the Arrangement has taken place, and

(II) the personal information about them has been disclosed to Kinder and its Representatives.

(c) Without limiting the foregoing, each of Terasen and the Kinder Parties acknowledge and agree that their respective disclosure letters and all information contained in them is confidential and may not be disclosed to any other person unless (a) such disclosure is required under applicable Law, unless such Law permits it to refrain from disclosing such information for confidentiality or other reasons or (b) such disclosure is required in order to enforce its rights under this Agreement.

ARTICLE 6
CONDITIONS

6.1 Mutual Conditions

The respective obligations of the parties hereto to consummate the Arrangement shall be subject to the satisfaction of the following conditions on or before the Effective Date:

(a) the Arrangement shall have been approved by the Terasen Securityholders at the Terasen Meeting in the manner required by applicable Laws (including any conditions imposed by the Interim Order);

(b) the Interim Order and the Final Order shall each have been obtained in form and on terms satisfactory to each of Kinder and Terasen, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such parties, acting reasonably, on appeal or otherwise;

(c) Kinder shall have received all United States state securities or "blue sky" authorizations necessary to issue the Kinder Common Shares to be issued pursuant to the Arrangement;

(d) no provision of any applicable Laws and no judgment, injunction, order or decree shall be in effect which restrains or enjoins or otherwise prohibits the consummation of the Arrangement or the transactions contemplated by this Agreement;

(e) the Kinder Common Shares issuable at the Effective Time pursuant to the Arrangement shall be issued in a transaction exempt from registration under the 1933 Act pursuant to Section 3(a)(10) of the 1933 Act and such shares shall have been approved for listing on the NYSE, subject to official notice of issuance;

(f) the Appropriate Regulatory Approvals shall have been obtained and be in full force and effect and shall not be subject to any stop-order or proceeding seeking a stop-order or revocation; and

(g) all other consents, waivers, permits, orders and approvals of any Governmental Entity, and the expiry of any waiting periods, in connection with, or required to permit, the consummation of the Arrangement, the failure to obtain which or the non-expiry of which would constitute a criminal offense, or would, individually or in the aggregate, have a Material Adverse Effect on Kinder or Terasen after the Effective Time, shall have been obtained or received.

6.2 Additional Conditions to the Obligations of the Kinder Parties

The obligations of the Kinder Parties to consummate the Arrangement shall be subject to the satisfaction of the following conditions (each of which is for the exclusive benefit of the Kinder Parties and may be waived by Kinder on behalf of the Kinder Parties) on or before the Effective Date:

(a) Terasen shall have performed or complied with, in all material respects, each of its obligations, covenants and agreements hereunder to be performed and complied with by it on or before the Effective Time;

(b) each of the representations and warranties of Terasen under this Agreement (which for purposes of this clause (b) shall be read as though none of them contained any Material Adverse Effect or other materiality qualification), shall be true and correct in all respects on the date of this Agreement and as of the Effective Date as if made on and as of such date (except for such representations and warranties made as of a specified date, which shall be true and correct as of such specified date) except where the failure of such representations and warranties in the aggregate to be true and correct in all respects would not be reasonably expected to have a Material Adverse Effect on Terasen;

(c) since the date of this Agreement, there shall have been no Material Adverse Effect with respect to Terasen or any event, occurrence or development which would be reasonably expected to have a Material Adverse Effect on Terasen or which would materially and adversely affect the ability of Terasen to consummate the transactions contemplated hereby;

(d) Kinder shall have received a certificate of Terasen addressed to the Kinder Parties and dated the Effective Date, signed on behalf of Terasen by the Chief Executive Officer and the President of Terasen, confirming that the conditions in Sections 6.2(a), (b) and (c) have been satisfied;

(e) there shall not be any action taken, any Law enacted, entered, enforced or deemed applicable by any Governmental Entity or pending or threatened any suit, action or proceeding by any Governmental Entity in connection with the grant of any Appropriate Regulatory Approval or otherwise (i) seeking to prohibit or restrict the acquisition by Kinder or any of its subsidiaries of any Terasen Common Shares, (ii) challenging or seeking to restrain or prohibit the consummation of the Plan of Arrangement or seeking to obtain from Terasen or Kinder any damages

that are material in relation to Terasen and its subsidiaries taken as a whole, (iii) seeking to prohibit or materially limit the ownership or operation by Kinder or any of its subsidiaries of any material portion of the business or assets of Kinder, Terasen or any of their respective subsidiaries or to compel Kinder or any of its subsidiaries to dispose of or hold separate any material portion of the business or assets of Kinder or Terasen or any of their respective subsidiaries, as a result of the Plan of Arrangement, (iv) seeking to impose limitations on the ability of Kinder or any of its subsidiaries to acquire or hold, or exercise full rights of ownership of, any Terasen Common Shares, including the right to vote the Terasen Common Shares purchased by it on all matters properly presented to the shareholders of Terasen, (v) seeking to prohibit Kinder or any of its subsidiaries from effectively controlling in any material respect the business or operations of Terasen and its subsidiaries or (vi) imposing any condition or restriction that in the judgment of Kinder, acting reasonably, would be materially burdensome to the future operations or business of any business unit of Kinder or Terasen after the Effective Time;

(f) the board of directors of Terasen shall have adopted all necessary resolutions, and all other necessary corporate action shall have been taken by Terasen and its subsidiaries to permit the consummation of the Arrangement;

(g) the holders of Terasen Common Shares shall have approved the Terasen Rights Plan Waiver Resolution and the Terasen Rights Plan Amending Agreement shall have been executed and delivered and be in full force and effect, unamended;

(h) Kinder shall have received a customary "Comfort Letter" from KPMG LLP, dated the Effective Date, in form and substance reasonably satisfactory to Kinder, in connection with the procedures undertaken by them with respect to the financial statements of Terasen and its subsidiaries to be contained in or incorporated by reference into any filing by Kinder with the SEC;

(i) holders of not more than 10% of the Terasen Common Shares voting at the Terasen Meeting (other than Reciprocal Shares) shall have exercised their Dissent Rights (and not withdrawn such exercise) in respect of the Arrangement; and

(j) the consents and approvals set forth in Section 3.4 of the Terasen Disclosure Letter shall have been obtained or received.

6.3 Additional Conditions to the Obligations of Terasen

The obligations of Terasen to consummate the Arrangement shall be subject to satisfaction of the following conditions (each of which is for the exclusive benefit of Terasen and may be waived by Terasen) on or before the Effective Date:

(a) the Kinder Parties shall have performed or complied with, in all material respects, each of their obligations, covenants and agreements hereunder to be performed and complied with by them on or before the Effective Time;

(b) each of the representations and warranties of the Kinder Parties under this Agreement (which for purposes of this clause (b) shall be read as though none of them contained any Material Adverse Effect or other materiality qualification), shall be true and correct in all respects on the date of this Agreement and as of the Effective Date as if made on and as of such date (except for such representations and warranties made as of a specified date, which shall be true and correct as of such specified date) except where the failure of such representations and warranties in the aggregate to be true and correct in all respects would not be reasonably expected to have a Material Adverse Effect on Kinder;

(c) since the date of this Agreement, there shall have been no Material Adverse Effect with respect to Kinder or any event, occurrence or development which would be reasonably expected to have a Material Adverse Effect on Kinder or which would materially and adversely affect the ability of Kinder to consummate the transactions contemplated hereby except those which were disclosed in the Circular as amended or supplemented and no specified Kinder Event shall have occurred and be continuing;

(d) Terasen shall have received a certificate of Kinder addressed to Terasen and dated the Effective Date, signed on behalf of Kinder by the Chief Executive Officer and the President of Kinder, confirming that the conditions in Sections 6.3(a), (b) and (c) have been satisfied; and

(e) the boards of directors of each of Kinder and Subco shall have adopted all necessary resolutions, and all other necessary corporate action shall have been taken by each of Kinder and Subco and their respective subsidiaries, to permit the consummation of the Arrangement.

6.4 Satisfaction of Conditions

The conditions precedent set out in Sections 6.1, 6.2 and 6.3 shall be conclusively deemed to have been satisfied, waived or released at the Effective Time.

ARTICLE 7
AMENDMENT AND TERMINATION

7.1 Amendment

This Agreement may, at any time and from time to time before or after the holding of the Terasen Meeting but not later than the Effective Time, be amended by mutual written agreement of the parties hereto and any such amendment may, without limitation:

(a) change the time for performance of any of the obligations or acts of the parties, including an extension of the Termination Date;

(b) waive any inaccuracies or modify any representation or warranty contained herein or in any document delivered pursuant hereto;

(c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the parties; and

(d) waive compliance with or modify any conditions precedent herein contained.

7.2 <u>Termination</u>

(a) If any condition contained in Sections 6.1 or 6.2 is not satisfied at or before the Termination Date to the satisfaction of Kinder, then Kinder may, by notice to Terasen terminate this Agreement and the obligations of the parties hereunder (except as otherwise herein provided) but without detracting from the rights of Kinder arising from any breach by Terasen but for which the condition would have been satisfied.

(b) If any condition contained in Sections 6.1 or 6.3 is not satisfied at or before the Termination Date to the satisfaction of Terasen, then Terasen may by notice to Kinder terminate this Agreement and the obligations of the parties hereunder (except as otherwise herein provided) but without detracting from the rights of Terasen arising from any breach by Kinder but for which the condition would have been satisfied.

(c) This Agreement may:

(i) be terminated by the mutual agreement of Terasen and Kinder (without any action on the part of the Terasen Securityholders);

(ii) be terminated by either Terasen or Kinder, if there shall be passed any Law that makes consummation of the transactions contemplated by this Agreement illegal or otherwise prohibited;

(iii) be terminated by Kinder if (A) the board of directors of Terasen shall have failed to recommend, or withdrawn, modified, qualified or changed in a manner adverse to Kinder, its approval or recommendation of the Arrangement or the Terasen Resolutions (including as contemplated by Section 5.5(d)) or in any manner which could reasonably be expected to reduce the likelihood of the Terasen Resolutions being approved at the Terasen Meeting or (B) the board of directors of Terasen shall have approved or recommended an Acquisition Proposal;

(iv) be terminated by Terasen in order to enter into a definitive written agreement with respect to a Superior Proposal, subject to compliance with

Section 5.6 and the payment of any fee required to be paid pursuant to Section 7.4;

(v) be terminated by Terasen or Kinder if the approval of the Terasen Securityholders shall not have been obtained by reason of the failure to obtain the required vote on the Terasen Resolutions at the Terasen Meeting;

(vi) be terminated by Kinder if Terasen shall have failed to hold the Terasen Meeting on or before October 31, 2005 unless such failure results from: (A) an adjournment of the Terasen Meeting for not less than four Business Days due to its obligation to adjourn the Terasen Meeting in the circumstances described in Section 5.6; or (B) for reasons beyond the control of Terasen so long as Terasen is in compliance with the terms and conditions of this Agreement and it has been and continues to be using all reasonable best efforts to hold the Terasen Meeting as soon as practicable after October 31, 2005; or

(vii) be terminated by Kinder if there is a intentional, wilful or deliberate breach of the covenants in Section 5.5 or 5.6 by Terasen, any of its subsidiaries or any of their respective directors, officers, employees, agents, consultants or any other representative,

in each case, prior to the Termination Date.

(d) If the Effective Time does not occur on or prior to end of business on the Termination Date, then this Agreement shall terminate.

7.3 <u>Effect of Termination</u>

If this Agreement is terminated in accordance with the provisions of Section 7.2, no party shall have any further liability to perform its obligations hereunder except for the provisions of this Section 7.3 and Section 5.3(b), Section 7.4 and Section 8.9; provided that neither the termination of this Agreement nor anything contained in this Section 7.3 shall relieve any party from any liability for any breach by it of this Agreement, including from any inaccuracy in its representations and warranties and any non-performance by it of its covenants and agreements made herein. If it shall be judicially determined that termination of this Agreement was caused by an intentional breach of this Agreement, then, in addition to any other remedies at law or equity for breach of this Agreement, the party so found to have intentionally breached this Agreement shall indemnify and hold harmless the other parties for their out-of-pocket costs, including fees and expenses of their counsel, accountants, financial advisors and other experts and advisors, incidental to the negotiation, preparation and execution of this Agreement and related documentation.

7.4 Termination Fee

If:

(a) Kinder shall terminate this Agreement as a result of any action or inaction of the board of directors of Terasen pursuant to Section 7.2(c)(iii), unless at the time of such failure to recommend, withdrawal or adverse modification, qualification or change, or recommendation of an Acquisition Proposal, a Specified Kinder Event has occurred and is continuing;

(b) Terasen shall terminate this Agreement in order to enter into a Superior Proposal pursuant to Section 7.2(c)(iv), unless at the time of such termination, a Specified Kinder Event has occurred and is continuing;

(c) either Terasen or Kinder shall terminate this Agreement pursuant to Section 7.2(c)(v) in circumstances where the Terasen Resolutions have not received the required shareholder approval at the Terasen Meeting and: (A) a bona fide Acquisition Proposal has been publicly announced or made by any Person other than Kinder prior to the Terasen Meeting and not withdrawn more than three Business Days prior to the Terasen Meeting, and (B) Terasen enters into an agreement with respect to an Acquisition Proposal, or an Acquisition Proposal is consummated, after the date of this Agreement and prior to the expiration of 12 months following termination of this Agreement, unless at the time of the Terasen Meeting a Specified Kinder Event has occurred; or

(d) Kinder shall terminate this Agreement pursuant to Section 7.2(c)(vi) or (vii),

then in any such case Terasen shall pay to Kinder the Termination Fee in immediately available funds to an account designated by Kinder. Such payment shall be due (A) in the case of a termination specified in clauses (a) or (d) above, within five Business Days after written notice of termination by Kinder or (B) in case of a termination specified in clause (b) above, on or prior to the termination of this Agreement or (C) in the case of a termination specified in clause (c) above, at or prior to the earlier of the entering into of the agreement and the consummation of the transaction referred to therein. Terasen shall not be obligated to make more than one payment pursuant to this Section 7.4.

7.5 Effect of Termination Fee Payment

For greater certainty, the parties hereto agree that if Terasen pays the Termination Fee to Kinder pursuant to the provisions of Section 7.4, Kinder shall have no other remedy for any breach of this Agreement by Terasen, unless Terasen makes a claim against Kinder for breach of a provision of this Agreement, in which circumstances the liability of Terasen to Kinder for damages for claims in respect of breaches of this Agreement shall be subject to a maximum limit equal to the liability of Kinder to Terasen for damages for claims in respect of breaches of this Agreement plus the Termination Fee.

ARTICLE 8
GENERAL

8.1 Investigation

Any investigation by a party hereto and its advisors shall not mitigate, diminish or affect the representations and warranties of any other party to this Agreement.

8.2 Notices

All notices and other communications hereunder shall be in writing and shall be deemed given when delivered personally, telecopied (which is confirmed) or dispatched (postage prepaid) to a nationally recognized overnight courier service with overnight delivery instructions, in each case addressed to the particular party at:

(a) If to Terasen, at:

1111 West Georgia Street
Suite 2400
Vancouver, British Columbia
Canada V6E 4M4
Attention: Stephen M.G. Richards, Senior Vice President, General Counsel and Corporate Secretary
Facsimile No.: (604) 443-6655

with a copy to:

Stikeman Elliott LLP
1700 – 666 Burrard Street
Vancouver, British Columbia
Canada V6C 2X8
Attention: Jonathan Drance
Telecopier No.: (604) 681-1825

(b) If to a Kinder Party, at:

500 Dallas Street
Suite 1000
Houston, Texas
United States 7002
Attention: Joseph Listengart, Vice President, General Counsel and Secretary
Telecopier No.: (713) 369-9410

with a copy to:

Blake, Cassels & Graydon LLP
3500 Bankers Hall West
855 2nd Street S.W.
Calgary, Alberta
Canada T2P 4J8
Attention: Brock W. Gibson
Telecopier No.: (403) 260-9700

or at such other address of which any party may, from time to time, advise the other parties by notice in writing given in accordance with the foregoing.

8.3 Assignment

No party hereto may assign this Agreement or any of its rights, interests or obligations under this Agreement or the Arrangement (whether by operation of law or otherwise) except that Subco may assign in its sole discretion, any or all of its rights, interests and obligations hereunder to any wholly-owned subsidiary of Kinder incorporated in Canada.

8.4 Binding Effect

Subject to Section 8.3, this Agreement and the Arrangement shall be binding upon, enure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns.

8.5 Third-Party Beneficiaries

Except for the agreement set forth in Sections 5.4 or 5.2(d), nothing in this Agreement, express or implied, shall be construed to create any third-party beneficiaries.

8.6 Waiver and Modification

Terasen and the Kinder Parties may waive or consent to the modification of, in whole or in part, any inaccuracy of any representation or warranty made to them hereunder or in any document to be delivered pursuant hereto and may waive or consent to the modification of any of the covenants or agreements herein contained for their respective benefit or waive or consent to the modification of any of the obligations of the other parties hereto. Any waiver or consent to the modification of any of the provisions of this Agreement, to be effective, must be in writing executed by the party granting such waiver or consent.

8.7 No Personal Liability

(a) No director or officer of any Kinder Party or any of their respective subsidiaries shall have any personal liability whatsoever to Terasen under this Agreement, or any other document delivered in connection with the Arrangement on behalf of a Kinder Party.

(b) No director or officer of Terasen or any of its subsidiaries shall have any personal liability whatsoever to any Kinder Party under this Agreement, or any other document delivered in connection with the Arrangement on behalf of Terasen.

8.8 Further Assurances

Each party hereto shall, from time to time, and at all times hereafter, at the request of the other parties hereto, but without further consideration, do all such further acts and execute and deliver all such further documents and instruments as shall be reasonably required in order to fully perform and carry out the terms and intent hereof.

8.9 Expenses

Subject to Section 7.3, the parties agree that all expenses of the parties relating to this Agreement and the transactions contemplated hereby, including legal fees, accounting fees, financial advisory fees, regulatory filing fees, all disbursements of advisors, and printing and mailing costs, shall be paid by the party incurring such expenses.

8.10 Public Announcements

The initial press release concerning the Arrangement shall be a joint press release and thereafter Kinder and Terasen agree to consult with each other prior to issuing any news releases or public statements with respect to this Agreement or the Arrangement, and to use their respective reasonable best efforts not to issue any news releases or public statements inconsistent with the results of such consultations. Subject to applicable Laws, each party shall use its reasonable best efforts to enable the other parties to review and comment on all such news releases prior to the release thereof. The parties agree to issue jointly a news release with respect to this Arrangement as soon as practicable following the execution of this Agreement. Kinder and Terasen also agree to consult with each other in preparing and making any filings and communications in connection with any Appropriate Regulatory Approvals.

8.11 Governing Laws; Consent to Jurisdiction

This Agreement shall be governed by and construed in accordance with the Laws of the Province of British Columbia and the Laws of Canada applicable therein and shall be treated in all respects as a British Columbia contract. Each party hereby irrevocably attorns to the jurisdiction of the courts of the Province of British Columbia in respect of all matters arising under or in relation to this Agreement.

8.12 Remedies

The parties acknowledge and agree that an award of money damages would be inadequate for any breach of this Agreement by any party or its representatives and any such breach would cause the non-breaching party irreparable harm. Accordingly, the parties hereto agree that, in the event of any breach or threatened breach of this Agreement by one of the parties, the parties will also be entitled, without the requirement of posting a bond or other

security, to equitable relief, including injunctive relief and specific performance, provided such party is not in material default hereunder. Such remedies will not be the exclusive remedies for any breach of this Agreement but will be in addition to all other remedies available at law or equity to each of the parties.

8.13 Time of Essence

Time shall be of the essence in this Agreement.

8.14 Entire Agreement

This Agreement including the disclosure letters, the agreements and other documents referred to herein constitute the entire agreement among the parties hereto and supersede all other prior agreements, understandings, negotiations and discussions, whether oral or written, among the parties hereto with respect to the matters hereof and thereof.

8.15 Severability

If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

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8.16 Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF the parties hereto have executed this Agreement on August 1, 2005 effective as of the date first written above.

KINDER MORGAN, INC.

By: _____
Name: Joseph Listengart
Title: Vice President, General Counsel and Secretary

0731297 B.C. LTD.

By: _____
Name: Joseph Listengart
Title: Vice President and Secretary

TERASEN INC.

By: _____
Name: Mark L. Cullen
Title: Chairman of the Board

By: _____
Name: John M. Reid
Title: President and Chief Executive Officer

SCHEDULE A

FORM OF AFFILIATE'S LETTER

_____, 2005

Kinder Morgan, Inc.

[_____]
[_____]
[_____]

Ladies and Gentlemen:

I have been advised that as of the date of this letter, I may be deemed to be an "affiliate" of Terasen Inc., a corporation existing under the laws of British Columbia ("Terasen"), within the meaning of Rule 145 (Rule "145") promulgated by the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"), although nothing in this letter shall be deemed to be an admission by me that I am in fact an affiliate of Terasen.

Pursuant to the terms of the Combination Agreement, dated as of August 1, 2005 (the "Combination Agreement"), by and among Terasen, Kinder Morgan, Inc., a Kansas corporation ("Kinder"), and 0731297 B.C. Ltd., a company existing under the laws of the Province of British Columbia and a wholly-owned subsidiary of Kinder ("Subco"), all outstanding common shares of Terasen will be transferred to Subco in exchange for consideration comprised of shares of common stock of Kinder, par value $5.00 per share (the "Kinder Shares"), and/or cash (the "Arrangement"). Capitalized terms used but not defined herein shall have the same meanings given to them in the Combination Agreement unless otherwise defined herein.

I understand that as a result of the Arrangement, I will receive either Kinder Shares, cash or a combination of Kinder Shares and cash in exchange for each common share of Terasen, $___ per share (the "Terasen Shares"), [and options to purchase Terasen Shares] owned by me as of the Effective Time, as more specifically set forth in the Combination Agreement.

I represent, warrant, covenant and agree with and to Kinder with regard to any Kinder Shares that I receive as a result of the Arrangement as follows:

1. I will not make any sale, transfer or other disposition of the Kinder Shares in violation of the Securities Act or the rules and regulations promulgated thereunder.

2. I consent to the endorsement of the Kinder Shares issued to me pursuant to the Arrangement, as applicable, with a restrictive legend that will read substantially as follows:

"The shares represented by this certificate were issued in a transaction to which Rule 145 promulgated under the Securities Act of 1933, as amended (the "Act"), applies and may be sold or otherwise transferred only in compliance with the limitations of such Rule 145, or upon receipt by Kinder, Inc. of an opinion of counsel reasonably satisfactory to it that some other exemption from registration under the Act is available, or pursuant to a registration statement under the Act."

3. I understand that stop transfer instructions will be given to Kinder's transfer agent with respect to Kinder Shares issued to me as a result of the Arrangement and that Kinder's transfer agent shall not be required to register any attempted transfer of the Kinder Shares, unless the transfer has been effected in compliance with the terms of this letter agreement.

4. It is understood and agreed that this letter agreement shall terminate and be of no further force and effect and the restrictive legend set forth above shall be removed by delivery of substitute certificates without such legend, and the related stop transfer restrictions shall be lifted forthwith, if (i) any such Kinder Shares shall have been registered under the Securities Act for sale, transfer or other disposition by me or on my behalf and are sold, transferred or otherwise disposed of, or (ii) any such Kinder Shares are sold in accordance with the provisions of paragraphs (c), (e), (f) and (g) of Rule 144 promulgated under the Securities Act, or (iii) I am not at the time an affiliate of Kinder and have been the beneficial owner of the Kinder Shares for at least one year (or such other period as may be prescribed thereunder) and Kinder has filed with the Commission all of the reports it is required to file under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), during the preceding twelve months, or (iv) I am not and have not been for at least three months an affiliate of Kinder and have been the beneficial owner of the Kinder Shares for at least two years (or such other period as may be prescribed by the Securities Act, and the rules and regulations promulgated thereunder), or (v) Kinder shall have received an opinion of counsel acceptable to it to the effect that the stock transfer restrictions and the legend are not required.

5. I have carefully read this letter agreement and have discussed its requirements and other applicable limitations upon my ability to offer to sell, transfer or otherwise dispose of shares of the Kinder Shares, to the extent I felt necessary, with my counsel.

6. I understand that Kinder is under no obligation to register the sale, transfer or other disposition of the Kinder Shares by me or on my behalf under the Securities Act or to take any other action necessary in order to make compliance with an exemption from such registration available.

7. This letter agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same document. Delivery of an executed counterpart of this letter agreement by facsimile shall be effective to the fullest extent permitted by applicable law.

8. This letter agreement shall be enforceable by, and shall inure to the benefit of and be binding upon, the parties and their respective successors and assigns. As used in this

Agreement, the term "successors and assigns" means, where the context permits, heirs, executors, administrators, trustees and successor trustees, and personal and other representatives.

9. This letter agreement shall not be modified or amended, or any right waived or any obligations excused, except by a written agreement signed by both parties.

10. Notwithstanding any other provision contained in this letter agreement, this letter agreement and all obligations under this letter agreement shall terminate upon the termination of the Combination Agreement in accordance with its terms.

11. I further understand and agree that the provisions of Rule 145 may apply to all Kinder Shares that my spouse, any relative of mine, or any relative of any spouse, any one of whom shares the same house with me, receives as a result of the Arrangement.

Sincerely,

By: _____

Name: _____

Accepted this _____ day of _____, 2005:

KINDER MORGAN, INC.

By: _____
Name: _____
Title: _____

SCHEDULE B

APPROPRIATE REGULATORY APPROVALS

Canada

- Competition Act Approval
- determination by the Minister responsible for Investment Canada under the *Investment Canada Act* that the Arrangement is of "net benefit to Canada" for purposes of such Act on terms and conditions satisfactory to Kinder
- approval of the acquisition of control of public utilities by the British Columbia Utilities Commission
- approval of the acquisition of control of water utilities by the comptroller of Water Rights of British Columbia
- exemption orders from the provincial or territorial securities regulators from the registration and prospectus requirements with respect to the resale of Kinder Common Shares by recipients thereof under the Arrangement

United States

- expiration or earlier termination of the waiting period under the *Hart-Scott-Rodino Antitrust Improvements Act* of 1976, as amended
- approval of the transfer of a controlling interest in Fairbanks Sewer and Water Inc. and its subsidiaries by the Regulatory Commission of Alaska
- approval of the Public Utilities Commission for the State of Colorado and the Wyoming Public Service Commission of Kinder's performance of its obligations under this Agreement to the extent required by Law, including the issuance of its securities
- pursuant to the Public Utility Holding Company Act of 2005 provisions of the United States Energy Policy Act of 2005 (sections 1261 to 1277), the 1935 Act will be repealed six months from the enactment of such Act (the "1935 Act Repeal Effectiveness Date"); in the event that (i) the Effective Date is to occur on or prior to the 1935 Act Repeal Effectiveness Date or, (ii) for any other reason, the 1935 Act shall remain in effect on the Effective Date, Kinder shall, on the Effective Date, prepare and file in good faith an application/declaration on Form U-1 for an exemption under section 3(b) of the 1935 Act with respect to each of Terasen's subsidiaries which is a "gas utility company" under the 1935 Act (with the effect that Kinder and such of its subsidiaries as would become direct or indirect holding companies in respect of such gas utility companies would be

entitled to rely on the exemption provided by Rules 10 and 11(b)(1) of the 1935 Act).

SCHEDULE C

FORM OF ARRANGEMENT RESOLUTION

RESOLUTION OF THE HOLDERS OF COMMON SHARES OF TERASEN INC. (the "Company")

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The arrangement (as may be modified or amended, the "**Arrangement**") under Section 288 of the *Business Corporations Act* (British Columbia) involving the Company and its shareholders, all as more particularly described and set forth in the plan of arrangement (as may be modified or amended, the "**Plan of Arrangement**") attached as Appendix ● to the Management Information Circular of the Company dated ●, 2005 (the "**Information Circular**"), is hereby authorized, approved and agreed.

2. The Combination Agreement dated August 1, 2005 among Kinder Morgan, Inc., 0731297 B.C. Ltd. and the Company, as may be amended from time to time (the "**Combination Agreement**"), the actions of the directors of the Company in approving the Arrangement and the Combination Agreement and the actions of the directors and officers of the Company in executing and delivering the Combination Agreement and causing the performance by the Company of its obligations thereunder be, and they are hereby confirmed, ratified, authorized and approved.

3. Notwithstanding that this resolution has been passed (and the Arrangement approved and agreed) by the shareholders of the Company or that the Arrangement has been approved by the Supreme Court of British Columbia (the "**Court**"), the directors of the Company be, and they are hereby, authorized and empowered without further approval of the shareholders of the Company (i) to amend the Combination Agreement or the Plan of Arrangement to the extent permitted by the Combination Agreement, and (ii) not to proceed with the Arrangement at any time prior to the Effective Time (as defined in the Combination Agreement).

4. Any one director or officer of the Company be, and is hereby, authorized, empowered and instructed, acting for, in the name and on behalf of the Company, to execute or cause to be executed, under the seal of the Company or otherwise, and to deliver or to cause to be delivered, all such other documents and to do or to cause to be done all such other acts and things as in such person's opinion may be necessary or desirable in order to carry out the intent of the foregoing paragraphs of these resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document or the doing of such act or thing.

SCHEDULE D

FORM OF TERASEN RIGHTS PLAN WAIVER RESOLUTION

RESOLUTION OF THE HOLDERS OF COMMON SHARES OF TERASEN INC. (the "Company")

BE IT RESOLVED THAT:

1. The amendment of the Shareholder Rights Plan Agreement, dated as of November 24, 2003 (the "**Rights Plan**") between the Company and CIBC Mellon Trust Company as rights agent (the "**Rights Agent**"), which amendment supplements the definition of "Acquiring Person" to exclude from such definition any of the Kinder Parties (as defined in the Combination Agreement dated August 1, 2005 (the "**Combination Agreement**"), among Kinder Morgan, Inc., 0731297 B.C. Ltd. and the Company who becomes the Beneficial Owner (as defined in the Rights Plan) of 20% or more of the Voting Shares (as defined in the Rights Plan) pursuant to the Combination Agreement and any transactions contemplated by the Combination Agreement, including the plan of arrangement, is hereby consented to pursuant to Section 5.4(b) of the Rights Plan.

2. Any one director or officer of the Company be, and is hereby, authorized, empowered and instructed, acting for, in the name and on behalf of the Company, to execute or cause to be executed, under the seal of the Company or otherwise, and to deliver or to cause to be delivered, all such other documents and to do or to cause to be done all such other acts and things as in such person's opinion may be necessary or desirable in order to carry out the intent of the foregoing paragraph of these resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document or the doing of such act or thing.

SCHEDULE E

FORM OF PLAN OF ARRANGEMENT

PLAN OF ARRANGEMENT UNDER SECTION 288 OF THE *BUSINESS CORPORATIONS ACT* (BRITISH COLUMBIA)

ARTICLE 1
INTERPRETATION

1.1 In this Plan of Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following terms shall have the respective meanings set out below and grammatical variations of those terms shall have corresponding meanings:

(a) "**Affiliate**" has the meaning ascribed thereto in the BCSA;

(b) "**Aggregate Cash Elected**" means the aggregate amount of cash that would be payable to Holders based upon elections made by Holders pursuant to paragraph 3.1(a)(ii) and deemed to be made by Holders pursuant to paragraph 3(b) (before giving effect to the proration provisions of paragraph 3.1(d));

(c) "**Aggregate Shares Elected**" means the aggregate number of Kinder Common Shares that would be issuable to Holders based upon elections made by Holders pursuant to paragraph 3.1(a)(i) and deemed to be made by Holders pursuant to paragraph 3(b) (before giving effect to the proration provisions of paragraph 3.1(d));

(d) "**Arrangement**" means an arrangement under the provisions of Section 288 of the BCBCA, on the terms and conditions set forth in this Plan of Arrangement and any amendment, variation or supplement thereto made (i) in accordance with Section 7.1 of the Combination Agreement, (ii) in accordance with Section 6.1 hereof, or (iii) at the direction of the Court in the Final Order;

(e) "**Arrangement Resolution**" means the special resolution of the Terasen Shareholders approving the Arrangement in accordance with section 289 of the BCBCA;

(f) "**BCBCA**" means the *Business Corporations Act* (British Columbia) S.B.C. 2002, c.57 including all regulations made thereunder, as amended;

(g) "**BCSA**" means the *Securities Act* (British Columbia) and the rules, regulations and policies made thereunder, as now in effect and as they may be amended from time to time prior to the Effective Date;

(h) "**Business Day**" means a day which is not a Saturday, Sunday or a day when commercial banks are not open for business in Houston, Texas or Vancouver, British Columbia;

(i) "**Circular**" means the notice of the Terasen Meeting and accompanying management proxy circular including all schedules and exhibits thereto, to be sent by Terasen to the Terasen Shareholders in connection with the Terasen Meeting;

(j) "**Combination Agreement**" means the agreement made as of August 1, 2005 among Terasen, Kinder and Subco to which this Plan of Arrangement is attached as Schedule E, as the same may be supplemented or amended from time to time;

(k) "**Court**" means the Supreme Court of British Columbia;

(l) "**Depositary**" means such institution as Kinder may determine prior to the mailing of the Letter of Transmittal and Election Form by notice in writing to Terasen;

(m) "**Dissent Rights**" means the Dissent Rights in respect of the Arrangement described in Section 4.1;

(n) "**Dissenting Shares**" means the Terasen Common Shares held by Dissenting Shareholders;

(o) "**Dissenting Shareholders**" means holders of Terasen Common Shares who have duly and validly exercised their Dissent Rights pursuant to Article 4 and the Interim Order;

(p) "**Effective Date**" means the date upon which all of the conditions to the completion of the Arrangement as set out in Sections 6.1, 6.2 and 6.3 of the Combination Agreement have been satisfied or waived in accordance with Combination Agreement and all documents agreed to be delivered thereunder have been delivered to the satisfaction of the recipient, acting reasonably, or such other date as the parties to the Combination Agreement may agree;

(q) "**Effective Time**" means 6:00 a.m. (Vancouver time) on the Effective Date;

(r) "**Election Date**" has the meaning ascribed thereto in Section 3.2;

(s) "**Election Deadline**" means 4:30 p.m. (local time at the place of deposit with the Depositary of the Letter of Transmittal and Election Form) on the Election Date;

(t) "**Final Order**" means the final order of the Court approving the Arrangement as such order may be amended by the Court at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended on appeal;

(u) "**Holder**" means a registered holder of Terasen Common Shares or any person who surrenders to the Depositary certificates representing such Terasen Common Shares duly endorsed for transfer to such person in accordance with the Letter of Transmittal and Election Form;

(v) "**Initial Election Date**" has the meaning ascribed thereto in Section 3.2;

(w) "**Kinder**" means Kinder Morgan, Inc., a corporation incorporated under the laws of the State of Kansas;

(x) "**Kinder Common Shares**" means the shares of common stock in the capital of Kinder as constituted on the date of the Combination Agreement;

(y) "**Liens**" means any mortgage, hypothec, prior claim, lien, pledge, assignment for security, security interest, right of third parties or other charge or encumbrance whatsoever;

(z) "**Interim Order**" means an order of the Court providing for, among other things, the calling and holding of the Terasen Meeting, as such order may be amended, supplemented or varied by the Court;

(aa) "**ITA**" means the *Income Tax Act* (Canada);

(bb) "**Letter of Transmittal and Election Form**" means the letter of transmittal and election form to be delivered by Terasen to the Terasen Shareholders, together with notice of the Election Deadline, for purposes of making the election contemplated in paragraph 3.1(a) and providing for the delivery of the Terasen Common Shares to the Depositary;

(cc) "**Maximum Cash**" means (A) the product obtained by multiplying (i) the number of Terasen Common Shares issued and outstanding at the Effective Time (other than Terasen Common Shares held by Kinder and its Affiliates and the Reciprocal Shares) by (ii) Cdn $23.25, less (B) the product obtained by multiplying the number of Dissenting Shares by $35.75;

(dd) "**Maximum Shares**" means the product obtained by multiplying (i) the number of Terasen Common Shares issued and outstanding at the Effective Time (other than Terasen Common Shares held by Kinder and its Affiliates and the Reciprocal Shares) by (ii) 0.1165 of a Kinder Share;

(ee) "**Mixed Consideration**" shall have the meaning ascribed thereto in paragraph 3.1(b);

(ff) "**Notice of Dissent**" means a notice of dissent duly and validly given by a Holder exercising Dissent Rights as contemplated in the Interim Order and as described in Article 4;

(gg) "**NYSE**" means the New York Stock Exchange, Inc.;

(hh) "**Plan of Arrangement**", "**hereof**", "**herein**", "**hereunder**" and similar expressions means this plan of arrangement, including any appendices hereto, and any amendments, variations or supplements hereto made from time to time in

accordance with the terms hereof, the Combination Agreement or made at the direction of the Court in the Final Order;

(ii) "**Reciprocal Shares**" means the 9,184,188 Terasen Common Shares held by Trans Mountain Holdings Ltd.;

(jj) "**Subco**" means 0731297 B.C. Ltd., a corporation existing under the laws of the Province of British Columbia and a wholly owned subsidiary of Kinder;

(kk) "**Terasen**" means Terasen Inc., a corporation incorporated under the laws of the Province of British Columbia;

(ll) "**Terasen Common Shares**" means the common shares in the capital of Terasen;

(mm) "**Terasen Options**" means outstanding options to acquire Terasen Common Shares issued under the Share Option Plan of Terasen;

(nn) "**Terasen Optionholder**" means a holder of Terasen Options;

(oo) "**Terasen Option Price**" means with respect to each Terasen Option, the exercise price of such option as specified in the option agreement between Terasen and the Terasen Optionholder relating thereto;

(pp) "**Terasen Meeting**" means the meeting of the Terasen Shareholders held for the purpose of considering and approving, among other things, the Arrangement and the transactions contemplated by the Combination Agreement by way of the Arrangement Resolution;

(qq) "**Terasen Shareholder**" means a Holder of Terasen Common Shares; and

(rr) "**Weighted Average Trading Price of Kinder Common Shares**" means the amount determined by dividing the aggregate sale price of all Kinder Common Shares sold on the NYSE during the period of 20 consecutive trading days ending on the day that is two Business Days prior to the Effective Date by the total number of Kinder Common Shares sold on the NYSE during such period (as reported by Bloomberg) expressed to the fourth decimal point.

1.2 Interpretation Not Affected by Headings, etc.

The division of this Plan of Arrangement into Articles, Sections paragraphs and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof. Unless otherwise indicated, all references to an "Article", "Section" or "paragraph" followed by a number and/or a letter refer to the specified Article, Section or paragraph of this Plan of Arrangement.

1.3 Number and Gender

In this Plan of Arrangement, unless the context otherwise requires, words used herein importing the singular include the plural and vice versa. Words importing gender include all genders.

1.4 Date of Any Action

In the event that any date on which any action is required to be taken hereunder by any of the parties hereto is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.5 Time

Time shall be of the essence in every matter or action contemplated hereunder. All times expressed herein or in the Letter of Transmittal and Election Form are local time (Vancouver, British Columbia) unless otherwise stipulated herein or therein.

1.6 Currency

Unless otherwise stated, all references in this Plan of Arrangement to sums of money are expressed in lawful money of Canada.

ARTICLE 2
EFFECT OF THE ARRANGEMENT

2.1 At the Effective Time, the Arrangement shall be binding upon Terasen, the Terasen Shareholders, the Terasen Optionholders, Kinder and Subco.

ARTICLE 3
ARRANGEMENT

3.1 The Arrangement

At the Effective Time, without any further act or formality, each of the events set out below shall occur and be deemed to occur in the following sequence:

(a) all Terasen Common Shares (other than Terasen Common Shares held by Kinder and its Affiliates, the Reciprocal Shares and the Dissenting Shares) shall be transferred to Subco (free and clear of any Liens), and each Holder thereof shall be entitled to receive, in exchange therefore and subject to paragraph 3.1 (d) and Section 5.5 hereof, consideration comprised of, in accordance with the election or deemed election of such Holder:

(i) 0.3331 of a Kinder Common Share for each Terasen Common Share held;

(ii) $35.75 cash for each Terasen Common Share held; or

(iii) the Mixed Consideration;

(b) any Holder of Terasen Common Shares who has not duly and validly completed and delivered the Letter of Transmittal and Election Form by the Election Deadline shall be deemed to have elected to receive, in respect of 65% of the Terasen Common Shares held by such Holder, $35.75 cash for each such Terasen Common Share, and, in respect of 35% of the Terasen Common Shares held by such Holder, 0.3331 of a Kinder Common Share for each such Terasen Common Share (the "**Mixed Consideration**"), with the effect that, subject to pro-ration, such Holders will receive $23.25 in cash and 0.1165 Kinder Common Shares for each Terasen Common Share.

(c) with respect to each Terasen Common Share (other than Terasen Common Shares held by Kinder and its Affiliates, the Reciprocal Shares and the Dissenting Shares):

(i) the Holder of each such Terasen Common Share shall cease to be the Holder of such share and such Holder's name shall be removed from the register of Terasen Common Shares with respect to such Terasen Common Shares as of the Effective Date; and

(ii) Subco shall, and shall be deemed to be, the transferee of such share (free and clear of any Liens) and shall be entered in the register of Terasen Common Shares as the Holder thereof as at the Effective Time;

(d) in the event:

(i) the Aggregate Cash Elected exceeds the Maximum Cash, the number of Terasen Common Shares to be acquired by Subco for cash from each Holder shall be pro-rated such that the aggregate cash consideration to be paid by Subco for all Terasen Common Shares (other than Dissenting Shares) under this Plan of Arrangement shall not exceed the Maximum Cash and each Holder shall be deemed to have elected to receive 0.3331 of a Kinder Common Share in respect of any Terasen Common Share not acquired from such Holder by Subco for cash as a result of such proration; or

(ii) the Aggregate Shares Elected exceeds the Maximum Shares, the number of Terasen Common Shares to be acquired by Subco for Kinder Common Shares from each Holder shall be pro-rated such that the aggregate number of Kinder Common Shares to be issued for all Terasen Common Shares under this Plan of Arrangement shall not exceed the Maximum Shares and each Holder shall be deemed to have elected to receive $35.75 in respect of any Terasen Common Share not acquired

from such Holder by Subco for Kinder Common Shares as a result of such proration;

such that the aggregate amount of cash to be paid by Subco for all Terasen Common Shares hereunder (other than Dissenting Shares) shall not exceed the Maximum Cash and the aggregate number of Kinder Common Shares to be issued hereunder shall not exceed the Maximum Shares.

(e) at the Effective Time, and without further act or formality, all Terasen Options shall be transferred to Subco (and terminated immediately thereafter) and each Terasen Optionholder shall be entitled to receive in exchange for each Terasen Option held an amount equal to the greater of:

(i) $0.01; or

(ii) an amount equal to the amount, if any, by which $35.75 exceeds the Terasen Option Price of such Terasen Option.

The entitlement of any Terasen Optionholder shall be paid as to 65% by paying to such Option Holder such amount in cash and as to the remaining 35% by issuing to such Option Holder, subject to Section 5.5, Kinder Common Shares based on a deemed value of $107.3355 per Kinder Share. Immediately following transfer of all Terasen Options to Subco, all option agreements relating to such Terasen Options shall be terminated, and the Terasen Optionholders shall thereafter only be entitled to receive the consideration to which they are entitled pursuant to this Section 3.1(e), at the time and in the manner specified in Section 5.4.

3.2 Election

(a) The initial election date (the "**Initial Election Date**") shall be December 20, 2005, unless otherwise agreed in writing by Kinder and Terasen. If, after the Letter of Transmittal and Election Form has been mailed, Kinder and Terasen determine that the Effective Date is not reasonably likely to occur by the tenth Business Day after the Initial Election Date, then the date by which Letters of Transmittal and Election Forms must be received shall be extended to a date which the parties expect to be not more than 10 Business Days before the Effective Date. In the event that the date by which Letters of Transmittal and Election Forms must be received is extended, Terasen shall provide at least 5 days notice of the new Election Date (and shall provide such notice prior to the Initial Election Date if practicable) to holders of Terasen Common Shares by means of publication, at least once, in The Globe and Mail; national edition, or any other English language daily newspaper of general circulation in Canada and in a French language daily newspaper of general distribution in the Province of Quebec. Any duly completed Letter of Transmittal and Election Form deposited by the Election Deadline on the Initial Election Date shall not be required to be re-deposited if the date by which Letters of Transmittal and Election Forms must

be received is extended pursuant hereto. The Initial Election Date, as extended and published pursuant to the terms hereof, shall be the "Election Date."

(b) The Letter of Transmittal and Election Form shall be sent not less than 21 days prior to the Initial Election Date to each holder of record of Terasen Common Shares.

(c) Each Person who, at or prior to the Election Deadline, is a holder of record of Terasen Common Shares will be entitled, with respect to all or a portion of their shares, to make an election at or prior to the Election Deadline to receive (i) cash, or (ii) Kinder Common Shares, in exchange for such holder's Terasen Common Shares on the basis set forth herein and in the Letter of Transmittal and Election Form.

3.3 Methods of Election

The election contemplated by paragraph 3.1(a) shall be made as follows:

(a) each Holder shall make such election by depositing with the Depositary by the Election Deadline an irrevocable Letter of Transmittal and Election Form duly signed and completed in accordance with the provisions thereof, indicating such Holder's election, together with the certificates representing such Holder's Terasen Common Shares;

(b) any Letter of Transmittal and Election Form once so deposited with the Depositary shall be irrevocable and may not be withdrawn by the Holder;

(c) any Holder who does not deposit with the Depositary a duly completed Letter of Transmittal and Election Form together with the certificates representing such Holder's Terasen Common Shares prior to the Election Deadline or otherwise fails to fully comply with the requirements of paragraph 3.3(a), (including any Holder who attempts to exercise but does not validly exercise Dissent Rights) shall be deemed to have elected to receive the Mixed Consideration for such Holder's Terasen Common Shares;

(d) any deposit of a Letter of Transmittal and Election Form and accompanying certificates may be made at any of the addresses of the Depositary specified in the Letter of Transmittal and Election Form; and

(e) a Holder who holds Terasen Common Shares as a nominee, custodian, depository, trustee or in any other representative capacity for beneficial owners of Terasen Common Shares may submit multiple Letters of Transmittal and Election Forms.

ARTICLE 4
DISSENT RIGHTS

4.1 Dissent Rights

A Holder may exercise dissent rights ("**Dissent Rights**") conferred by the Interim Order in connection with the Arrangement in the manner set out in Section 238 of the BCBCA, as modified by the Interim Order, provided the Notice of Dissent is received by Terasen by no later than 4:00 p.m. (Vancouver time) on the date which is two Business Days prior to the date of the Terasen Meeting. Without limiting the generality of the foregoing, Holders who duly exercise such Dissent Rights and who are ultimately determined to be entitled to be paid fair value for their Terasen Common Shares shall be deemed to have transferred such Terasen Common Shares, as of the Effective Time, without any further act or formality to Subco in consideration of a payment of cash by Subco equal to such fair value. In no case shall Terasen or Kinder be required to recognize such Holders as Terasen Shareholders at and after the Effective Time, and the names of such Holders shall be removed from Terasen's register of members as of the Effective Time.

4.2 Rights of Dissenting Shareholders

In the event a Holder gives a Notice of Dissent but is not entitled, for any reason, to be paid the fair value of the Terasen Common Shares in respect of which the Notice of Dissent was given as contemplated in Section 242 of the BCBCA and the Interim Order, such Holder shall be deemed to have participated in the Arrangement on the same basis as a non-dissenting Terasen Shareholder and to have elected the Mixed Consideration in respect of all Terasen Common Shares held by such Holder, as described in paragraph 3.3(b).

ARTICLE 5
KINDER CERTIFICATES

5.1 Effect of Arrangement

After the Effective Time, certificates formerly representing Terasen Common Shares shall represent only the right to receive any cash payment and certificates representing Kinder Common Shares which the former Holder of such Terasen Common Shares is entitled to receive pursuant to Article 3 of this Plan of Arrangement, subject to compliance with the requirements set forth in this Article 5.

5.2 Right of Holder to Receive Kinder Common Shares and Cash

(a) At or prior to the Effective Time, Kinder shall deposit with the Depositary, for the benefit of the Terasen Shareholders, cash in an amount equal to the Maximum Cash and certificate representing the Maximum Shares.

(b) Subject to Section 5.3, Kinder and Subco shall cause the Depositary, as soon as practicable following the later of the Effective Date and the date of deposit with

the Depositary of a duly completed Letter of Transmittal and Election Form and the certificates representing the Terasen Common Shares or other documentation as provided in the Letter of Transmittal and Election Form, to:

(i) forward or cause to be forwarded by first class mail (postage prepaid) to the Holder at the address specified in the Letter of Transmittal and Election Form; or

(ii) if requested by the Holder in the Letter of Transmittal and Election Form, make available at the Depositary for pick-up by the Holder; or

(iii) if the Letter of Transmittal and Election Form neither specifies an address nor contains a request as described in (ii), forward or cause to be forwarded by first class mail (postage prepaid) to the Holder at the address of such holder as shown on the share register maintained by Terasen as at the Effective Time,

a cheque representing the cash payment, if any, payable to such Terasen Shareholder and/or certificates representing the number of Kinder Common Shares, if any, issuable to such Terasen Shareholder as determined in accordance with the provisions hereof.

(c) No Holder shall be entitled to receive any consideration with respect to the Terasen Common Shares other than the cash payment, if any, and certificates representing the Kinder Common Shares, if any, which they are entitled to receive in accordance with Article 3 of this Plan of Arrangement and, for greater certainty, no Holder will be entitled to receive any interest, dividends, premium or other payment in connection therewith.

(d) Until such time as a former Holder of Terasen Common Shares complies with the provisions of paragraph 5.2(a), all certificates, if any, to Kinder Common Shares to which such Holder is entitled (and all dividends paid or distributions made in respect thereof) and the cash payment, if any, to which such Holder is entitled shall, subject to Section 5.3, in each case be delivered or paid to the Depositary to be held in trust for such Holder for delivery to the Holder, without interest and net of all applicable withholding and other taxes, if any, upon delivery of the Letter of Transmittal and Election Form and the certificates representing the Terasen Common Shares in accordance with paragraph 5.2(a).

(e) Terasen, Kinder, Subco and the Depositary shall be entitled to deduct and withhold from any consideration otherwise payable to any holder of Terasen Common Shares or Terasen Options such amounts as Terasen, Kinder or the Depositary are required to deduct and withhold with respect to such payment under the ITA, the United States *Internal Revenue Code of 1986* or any applicable provision of federal, provincial, state, local or foreign tax law, in each case, as amended. To the extent that amounts are so withheld, such withheld amounts shall

be treated for all purposes hereof as having been paid to the holder of the Terasen Common Shares or Terasen Options in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority.

5.3 Surrender of Rights

Any certificate formerly representing Terasen Common Shares not duly surrendered on or prior to the sixth anniversary of the Effective Date shall cease to represent a claim or interest of any kind or nature, including a claim for dividends or other distributions under paragraph 5.2(c), against Kinder or Terasen by a former Holder. On such date, all Kinder Common Shares and cash to which the former Holder of such certificates was entitled shall be deemed to have been surrendered to Kinder.

5.4 Right of Optionholder to Receive Kinder Common Shares and Cash

Optionholders shall be entitled to receive any cash and Kinder Common Shares to which they are entitled under paragraph 3.1(e) by executing and delivering to the Depository such documentation as Kinder may reasonably require acknowledging the transfer to Subco and subsequent termination of the Terasen Options held by such Optionholder in exchange for the consideration described in Section 3.1(e) hereof.

5.5 Fractional Shares

No fractional shares shall be issued by Kinder. In lieu of a fractional Kinder Share, a Holder who would otherwise receive a fraction of a Kinder Share shall receive a cash payment from Kinder equal to the product of such fractional interest and the Weighted Average Trading Price of Kinder Common Shares.

ARTICLE 6
AMENDMENT

6.1 Amendment of Plan of Arrangement

(a) Terasen and Kinder reserve the right to amend, modify and/or supplement this Plan of Arrangement at any time and from time to time, provided that any amendment, modification or supplement must be contained in a written document which is filed with the Court and, if made following the Terasen Meeting, approved by the Court and communicated to Holders in the manner required by the Court (if so required).

(b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by Terasen or Kinder at any time prior to or at the Terasen Meeting with or without any other prior notice or communication and, if so proposed and accepted by the persons voting at the Terasen Meeting, shall become part of this Plan of Arrangement for all purposes.

(c) Any amendment, modification or supplement to this Plan of Arrangement which is approved or directed by the Court following the Terasen Meeting shall be effective only if it is consented to by Terasen and Kinder (acting reasonably).

(d) This Plan of Arrangement may be withdrawn prior to the Effective Time in accordance with the terms of the Combination Agreement.

(e) Notwithstanding the foregoing provisions of this Section 6.1, no amendment, modification or supplement to this Plan of Arrangement may be made prior to the Effective Time except in accordance with the terms of the Combination Agreement.

ARTICLE 7
FURTHER ASSURANCES

7.1 Notwithstanding that the transactions and events set out herein shall occur and be deemed to occur in the order set out in this Plan of Arrangement without any further act or formality, each of the parties to the Combination Agreement shall make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by any of them in order to document or evidence any of the transactions or events set out herein.

SCHEDULE F

FORM OF TERASEN RIGHTS PLAN AMENDING AGREEMENT

AMENDMENT dated as of ●, 2005 (the "**Amendment**"), to the shareholder rights plan agreement dated as of November 24, 2003 (the "**Rights Agreement**") between Terasen Inc. (the "**Company**") and CIBC Mellon Trust Company as rights agent (the "**Rights Agent**"). All capitalized terms not otherwise defined herein have the meaning ascribed to such terms in the Rights Agreement.

WHEREAS the Company entered into a Combination Agreement dated August 1, 2005 among Kinder Mogan, Inc. ("**Kinder**"), 0731297 B.C. Ltd. ("**Subco**") and the Company (as may be amended from time to time, the "**Combination Agreement**"), which Combination Agreement provides for, among other things, the acquisition of all the issued and outstanding common shares (the "**Common Shares**") of the Corporation by Subco, which is a wholly owned subsidiary of Kinder, pursuant to a plan of arrangement under Section 288 of the *Business Corporations Act* (British Columbia);

WHEREAS, the Company has represented and warranted that the transactions contemplated by the Combination Agreement will not result in any Kinder Party (as defined in the Combination Agreement) in becoming an Acquiring Person, provided that shareholders of the Company approve this Amendment;

WHEREAS pursuant to Section 5.4(b) of the Rights Agreement, the Company may supplement or amend any provision of the Rights Agreement in accordance with the provisions of Section 5.4(b) thereof; and

WHEREAS the holders of the Voting Shares (other than any holder who does not qualify as an Independent Shareholder) approved the Amendment at a special meeting of the Corporation dated the date hereof in accordance with Section 5.4(b) of the Rights Agreement;

NOW THEREFORE in consideration of the premises and the mutual agreements set forth herein:

Section 1. Amendment to Section 1.1(a) of the Rights Plan. The definition of "Acquiring Person" in Section 1.1(a) of the Rights Plan is hereby amended as follows:

a. subsection (vi) is created as follows:

> "(vi) Kinder Morgan, Inc. or 0731297 B.C. Ltd., if such Person becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares of the Company pursuant to the combination agreement dated August 1, 2005 among Kinder Morgan, Inc., 0731297 B.C. Ltd. and the Company, as such combination agreement may be amended from time to time, and any transactions contemplated thereby, including the plan of arrangement contemplated thereby;"

b. subsection (iv) is hereby amended by deleting the word "or" from the end of the subsection; and

c. subsection (v) is hereby amended by adding the word "or" at the end of the subsection.

Section 2. Full Force and Effect. Except as expressly amended and supplemented hereby, the Rights Agreement shall continue in full force and effect in accordance with the provisions thereof on the date hereof.

Section 3. Governing Law. This Amendment shall be deemed to be a contract made under the laws of the Province of British Columbia and for all purposes shall be governed by and construed in accordance with the laws of British Columbia applicable to contracts to be made and performed entirely within such Province.

Section 4. Severability. If any term or provision hereof or the application thereof to any circumstance is, in any jurisdiction and to any extent, invalid or unenforceable, such term or provision shall be ineffective as to such jurisdiction to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining terms and provisions hereof or the application of such term or provision to circumstances other than those as to which it is held invalid or unenforceable.

[next page is signature page]

IN WITNESS WHEREOF, the Company has caused this Amendment to be duly executed as of the day and year first above written.

TERASEN INC.

By: _____
Name:
Title:

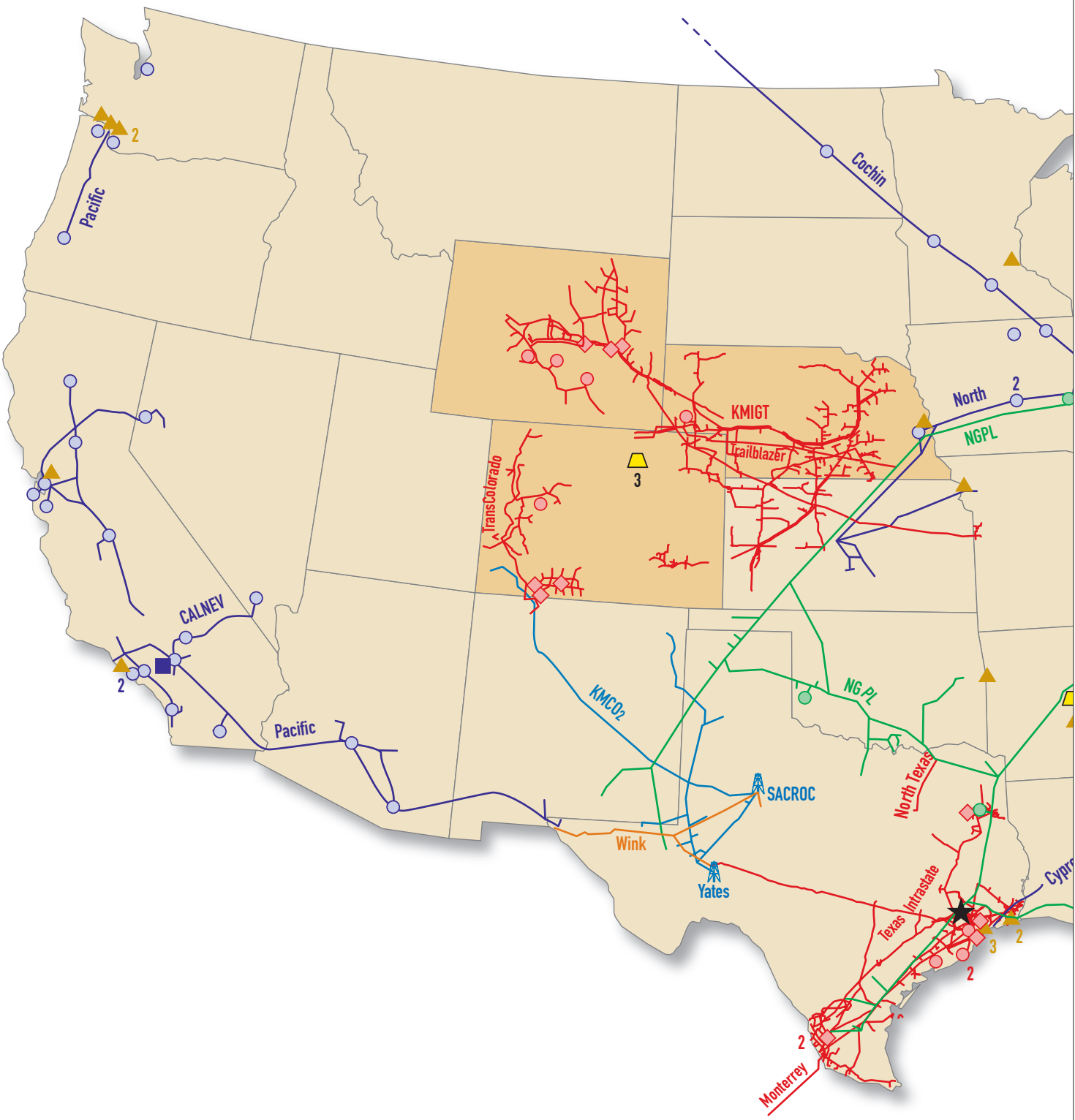
CIBC MELLON TRUST COMPANY

By: _____
Name:
Title:

Schedule 2

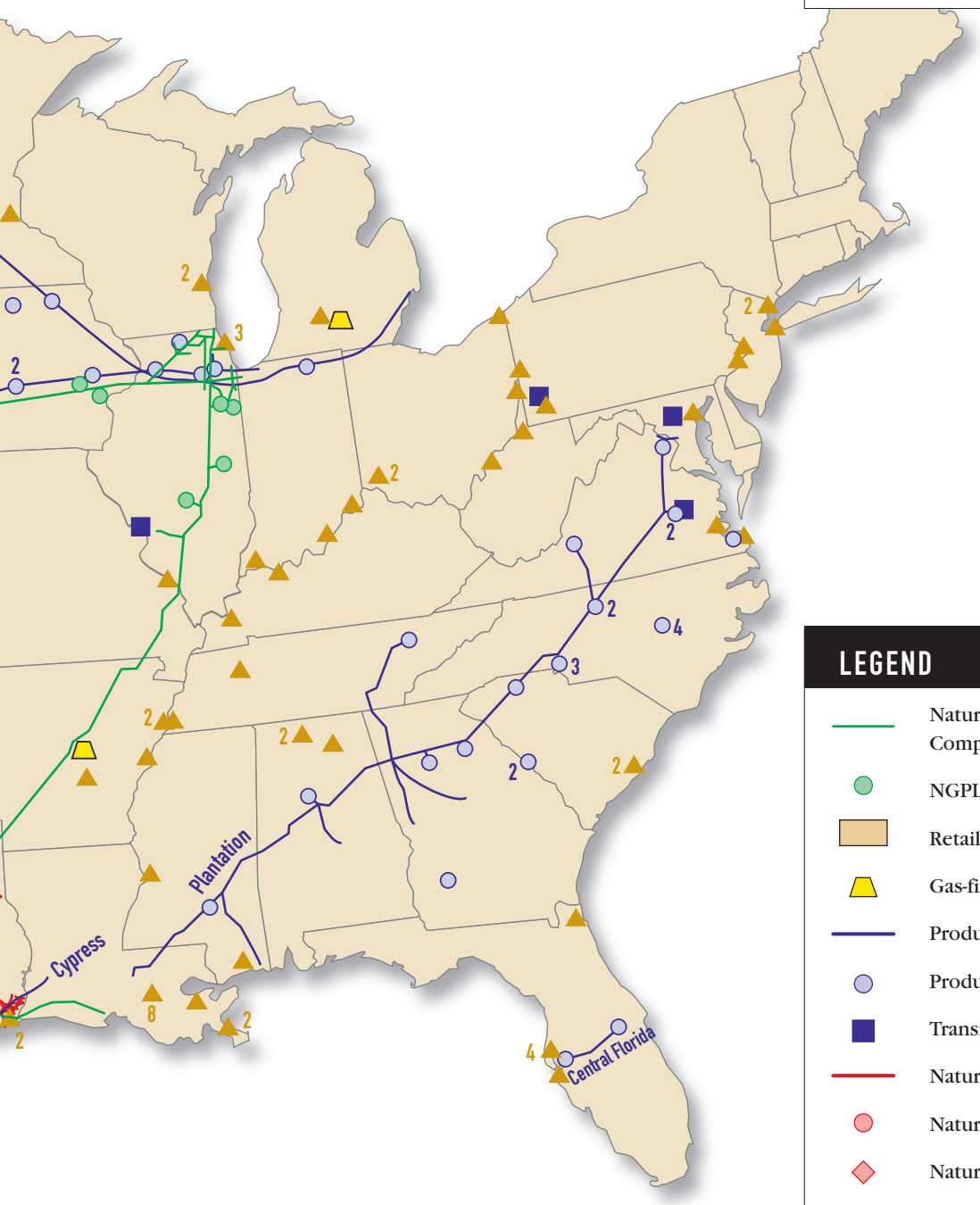
KINDER MORGAN
INC.

2004 ANNUAL REPORT



Kinder Morgan, Inc. (NYSE: KMI) is one of the largest midstream energy companies in the United States, operating more than 35,000 miles of pipelines and approximately 135 terminals. We transport and store natural gas and refined petroleum products, handle coal and other materials, and transport, market and inject carbon dioxide to enhance crude oil recovery from mature oil fields. We own the general partner of Kinder Morgan Energy Partners, L.P. (NYSE: KMP), one of the largest master limited partnerships in America. We operate the assets of KMP through the delegate of the general partner, Kinder Morgan Management, LLC (NYSE: KMR). Combined, our companies have an enterprise value of approximately $27 billion.

KINDER MORGAN INC.



LEGEND

- Natural Gas Pipeline Company of America – NGPL (KMI)
- NGPL Natural Gas Storage Facilities (KMI)
- Retail Natural Gas Distribution (KMI)
- Gas-fired Power Plants (KMI)
- Products Pipelines (KMP)
- Products Pipelines Terminals (KMP)
- Transmix Facilities (KMP)
- Natural Gas Pipelines (KMI/KMP)
- Natural Gas Storage Facilities (KMI/KMP)
- Natural Gas Processing/Treating Plants (KMP)
- CO_2 Pipelines (KMP)
- CO_2 Oil Fields (KMP)
- Crude Oil Pipelines (KMP)
- Terminals (KMP)
- (2, 3, 8) Indicates number of facilities in area
- Kinder Morgan Headquarters Houston, Texas
- (KMI) Kinder Morgan, Inc. assets
- (KMP) Kinder Morgan Energy Partners assets

COMPANIES RUN BY SHAREHOLDERS FOR SHAREHOLDERS

KINDER MORGAN, INC. (KMI)

In 2004, KMI reported diluted earnings per share before special items of $3.81 (up 14 percent over 2003) and cash flow of approximately $612 million (up 10 percent over 2003). We also raised the annual dividend to $2.80 per share in January of 2005 (up 24 percent from the previous year).

General Partner of KMP – Owns the general partner interest and a 17 percent limited partnership interest in KMP.

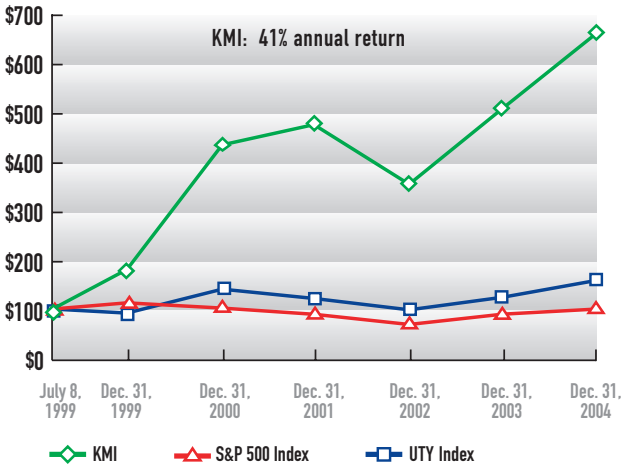
Natural Gas Pipeline Company of America (NGPL) – Transports up to 5.8 billion cubic feet (Bcf)/day of natural gas through approximately 9,800 miles of pipelines. Also has 600 Bcf of total natural gas storage capacity, 239 Bcf of working gas capacity and up to 4 Bcf/day of peak deliverability from its storage facilities.

Retail Natural Gas Distribution – Provides natural gas distribution and related services to more than 240,000 residential, commercial, agricultural and industrial customers in Colorado, Nebraska and Wyoming.

Power – Owns an interest in five natural gas-fired power plants.

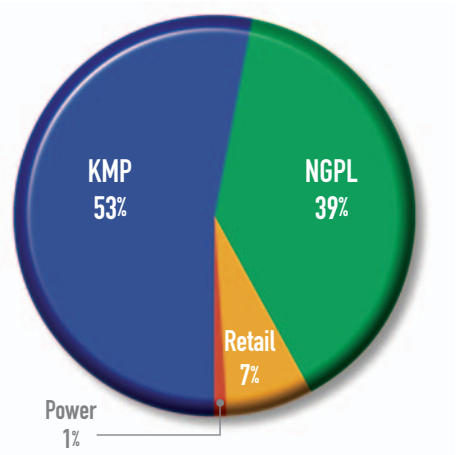
TOTAL SHAREHOLDER RETURNS

(Since KN Energy merger was announced,with dividends reinvested)



Source: Bloomberg

KMI 2005
BUDGETED SEGMENT EARNINGS
(including earnings attributable to KMI's investment in KMP)



KINDER MORGAN ENERGY PARTNERS, L.P. (KMP)

In 2004, KMP increased its distribution to unitholders each quarter, declared cash distributions of $2.87 per unit (up 9 percent compared to 2003) and invested approximately $1.25 billion in capital expansion projects and acquisitions.

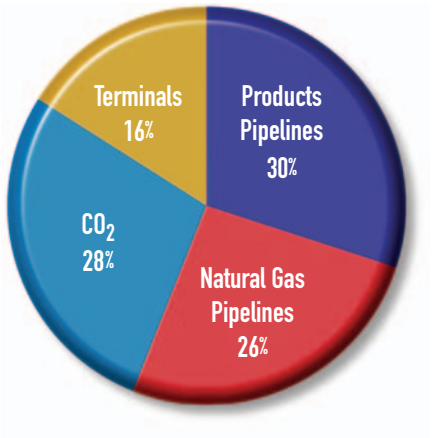
Products Pipelines – Largest independent owner/operator in the U.S., transporting over 2 million barrels/day of gasoline, jet fuel, diesel and natural gas liquids through 10,000 miles of pipelines. Approximately 60 terminals have a storage capacity of about 29 million barrels for refined petroleum products. Also has five transmix facilities.

Natural Gas Pipelines – Major transporter of natural gas in Texas, Rocky Mountain and Midwest areas. Approximately 14,000-mile pipeline network has transportation capacity of about 8.4 Bcf/day and working gas storage capacity of about 21 Bcf. Also owns/operates gathering, treating and processing facilities.

CO_2 – Largest transporter and marketer of carbon dioxide for enhanced oil recovery projects in the U.S. Transports over 1 Bcf/day of CO_2 through more than 1,100 miles of pipelines. Second largest oil producer in Texas with significant interests in two oil fields and a crude oil pipeline in the Permian Basin.

Terminals – Largest independent owner/operator in the U.S. Approximately 75 terminals in this segment handle more than 67 million tons annually of coal and other dry-bulk materials, and have a liquids storage capacity of over 36 million barrels for petroleum products and chemicals. Also has about 55 transload facilities.

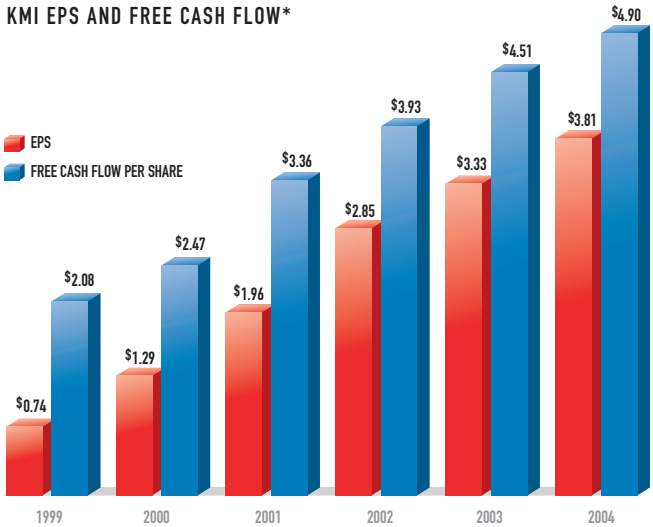
KMP 2005
BUDGETED DISTRIBUTABLE CASH FLOW



DEAR FELLOW SHAREHOLDERS

I believe management should explain to shareholders on a regular basis its strategy, how that strategy is being implemented and the company's outlook for the future. Why is this information important? Shareholders should know the strategy of the company they own because without a solid, well-conceived strategy, a company is like a ship without a rudder – unlikely ever to reach its chosen destination. But no matter how good the strategy, the real test is how well the company is implementing it. Put another way, without successful implementation a grand strategy soon becomes worthless posturing. And without understanding where management expects the company to head over the coming months and years, shareholders may have difficulty assessing the relevance of prior performance to that expected in the future.

At Kinder Morgan, our strategy is unchanged from prior years and very simple: (1) we own and operate quality midstream energy assets – primarily pipelines and terminals that handle natural gas, gasoline, jet fuel, diesel, carbon dioxide (CO_2), coal and other materials – that produce consistent, fee-based cash flow and earnings; (2) we run these assets in the most efficient, cost-effective way possible, with a commitment to public safety and protection of the environment; (3) we grow the top-line revenues of our facilities through internal volume growth, small rate increases and expansions of our assets, and we convert fairly modest top-line growth into relatively strong bottom-line growth because we have low variable costs that we aggressively control; and, (4) whenever appropriate, we own our assets in our affiliated master limited partnership, Kinder Morgan Energy Partners, L.P. (NYSE: KMP), which is the most tax-advantaged method of owning these types of assets.



*Reflects diluted EPS from continuing operations adjusted for asset sales and excluding special items and loss from early extinguishment of debt. Cash flow is earnings before DD&A, less cash taxes and sustaining capital expenditures.

If, as the old saying goes, the road to hell is paved with good intentions, the path to the corporate graveyard is often littered with great strategies and catchy slogans. This is why implementation really matters. So how do we execute our strategy?

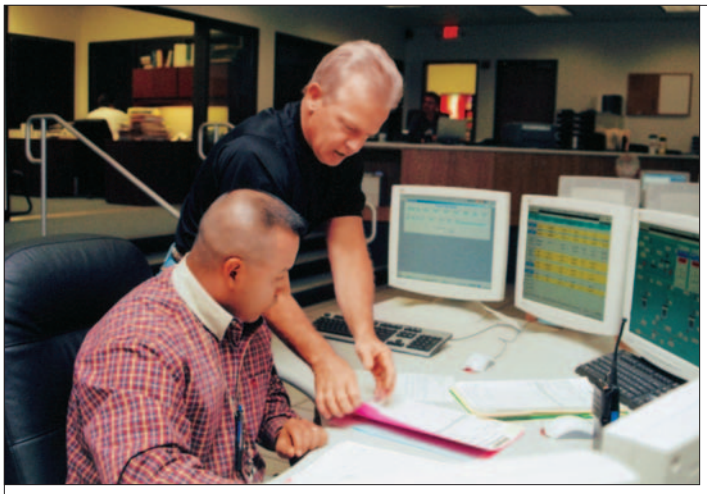
We try extraordinarily hard to be a low-cost asset operator. We do this by capping the base salaries of senior management and by eliminating corporate perks and other unnecessary overhead. For example, we have no corporate aircraft, no sports tickets, no club memberships and no supplemental retirement or benefit plans for our senior executives. Our philosophy is to spend our money on the things that really matter, like maintaining and expanding our assets.

We allocate our capital in a very disciplined manner – in my judgment this may be the most important single task for any CEO and one that is often mishandled. We set consistent return hurdles and require a high degree of confidence that they will be met before we spend money on expansions of existing assets or on acquisitions. Our expected returns are based on consistent, real world assumptions – around here "synergy," particularly the undefined variety, is a dirty word. After the money is spent, we stress accountability by incorporating the expected returns into our published budget. We then review with our board of directors each year for three years the performance of the asset built or acquired and contrast that performance with what we expected when we made the investment. This process seems to eliminate unrealistic stretching to acquire assets – what a surprise!

We try to avoid businesses with direct commodity risk whenever possible and when we do encounter such risk, as in the oil production associated with our CO_2 business, we hedge that risk over long time periods to reduce volatility.

We stress transparency both internally and externally. That's why we publish our annual budget every January, then compare our actual quarterly results to that budget on our analyst conference calls and at quarterly employee meetings that we webcast to our 6,000-plus employees.

At Kinder Morgan, cash is king. We work hard to manage our accounts receivable, collect the cash and return as much of it as possible to our shareholders (more on that sacred subject later in this letter). We align our incentives throughout our organization. Our bonus targets are tied to our published budget; thus our employees know



Control centers/employees monitor pipelines and liquids terminals 24-7.

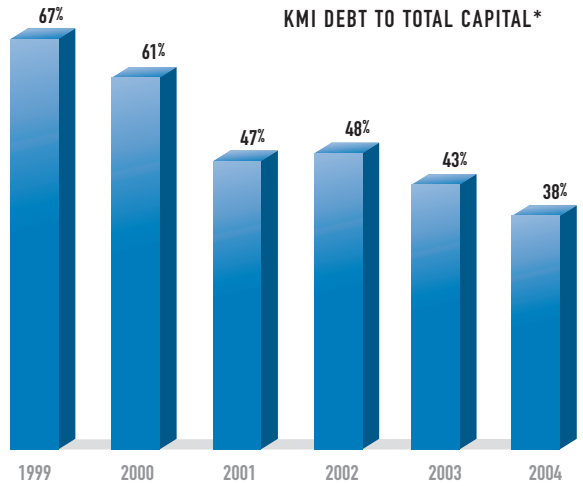
that concrete corporate-wide objectives need to be accomplished before our board of directors is under any obligation to fund bonuses. In a broader sense, I think we have very good alignment of management's interests with those of shareholders. All of our senior executives have significant equity ownership, most of it in restricted stock that only vests after an extended period. I own about 20 percent of KMI and receive only $1 a year in salary, with no bonuses, stock option grants or restricted stock. This makes my interests totally pari passu with the rest of our shareholder community. All of this alignment should make you a little more comfortable that the interests of the shareholders are being looked after in an appropriate manner.

We also have a talented, experienced management team. Our business unit presidents have an average of 23 years of industry experience and they have the primary responsibility for managing their operations. At the corporate level, we concentrate on capital allocation, accountability, common culture and providing the access to capital so that we can continue to grow our businesses.

The most objective (but by no means perfect) way of judging whether our strategy and its implementation have been successful is to look at our results. At Kinder Morgan, Inc. (NYSE: KMI), in 2004 we achieved diluted earnings per share from continuing operations before special items of $3.81, up 14 percent from 2003 and well ahead of our published budget target of $3.71. We also produced record cash flow of about $612 million, compared to $558 million in 2003 and a 2004 budget target of $578 million. We define cash flow as earnings before depreciation, depletion and amortization (DD&A), less cash taxes and sustaining capital expenditures, so that $612 million was generally available to pay dividends to our shareholders, reduce debt, buy back shares or make expansion capital expenditures. Remember, we do almost all of our expansions and acquisitions at KMP, so we were able to pay off over $200 million of debt at KMI, buy back about $60 million in shares and raise our dividend from an annual rate of $2.25 at the beginning of 2004 to $2.80 at the beginning of 2005.

By almost any financial measure, 2004 was an outstanding year at KMI. But to me a better measure of a company and its management team is to look at performance over the long term. It's been eight years since our management took over the general partner of KMP and over five and one-half years since we merged that general partner with KN Energy to create KMI. In those respective periods, we've grown the earnings of KMI at a compound annual rate of 39 percent, the distributable cash flow at KMP by 66 percent annually and the distributions per unit at KMP by 21 percent annually through 2004. As you would expect, our return to shareholders has also been robust, resulting in an annual return at KMI of 41 percent (including 28 percent in 2004) and at KMP of 35 percent (including a disappointing -4 percent in 2004). These are superior long-term returns, but of course are no guarantee of future market performance. As I said last year, I believe absolute financial and operational performance should always outweigh market results, particularly in the short term.

This brings us to our outlook for the future. Let's start with the budget for 2005, which we've already disclosed and posted on our web site. It calls for earnings per share of $4.22 at KMI, an increase of 11 percent over 2004. We can probably do a little better than that if we make our usual amount of acquisitions at KMP because the budget does not include earnings from any acquisitions not closed in 2004. Of equal importance, we expect to again generate cash flow in excess of $600 million, so we should be able to continue to increase our dividend in a meaningful way and still repurchase a significant number of shares and maintain a very strong balance sheet (38 percent total debt-to-capital ratio at year-end 2004). We are firmly committed to returning excess cash to our investors. Since the beginning of 2000, we have paid about $500 million in dividends to our KMI shareholders (and expect to pay at least $340 million more in 2005), and we have repurchased over $550 million in KMI shares (and expect to buy back in excess of $200 million in 2005). Over that same time



*As of year end

period, we paid down about $1.12 billion in debt. We can do all of this because our cash flow is very strong and we have little need to reinvest heavily at KMI, since the bulk of our expansions and acquisitions are done at KMP where we expect to spend over $600 million on internal expansion projects in 2005.

Beyond these quantitative predictors of growth in 2005, I believe there are a number of growth drivers affecting our business segments at KMI and KMP that should lead to good opportunities for future success, assuming rational, diligent performance by this management team.

- In our natural gas pipeline segments, which include NGPL at KMI and numerous transportation and storage assets at KMP, we see nationwide demand growth for natural gas in the 1.5 percent per year range over the foreseeable future, which should lead to the need for significant additional infrastructure across America. We think liquefied natural gas (LNG) will play an increasing role in the nation's natural gas supply and that most of it will come ashore in Texas and Louisiana where we have a tremendous pipeline and storage asset position. We should be able to make economical expansions and extensions off of that position, as having existing assets is a real advantage. While this opportunity is several years away, its long-term impact could be very significant. In the short term, we should benefit from our extensive storage assets, our pipeline capacity originating in the Rockies (a rapidly growing natural gas production area) and increased demand for the Mid-Continent pipeline capacity on our NGPL system.
- In KMP's products pipelines, we expect to see gasoline demand continue to track demographic growth. This is an advantage to our system because we serve eight of the 10 fastest-growing metropolitan areas in America. We are adding transportation capacity into Arizona through our $210 million East Line expansion, and we are building additional storage tanks in Los Angeles.
- Our CO_2 operations at KMP should continue to benefit from increased oil production from our CO_2 floods in the SACROC and Yates fields in the Permian Basin of West Texas over the next several years. Longer term, we believe we can continue to acquire additional assets in this segment, employing our specialized expertise to great advantage.
- In KMP's terminals segment, we anticipate further imports of refined products, more "boutique fuels" and general growth in the demand for the commodities we handle (liquid and bulk), all of which should drive the need for more storage capacity around the country. We should benefit from our unparalleled national footprint, both in internal expansion opportunities and acquisitions.

More than $600 million will be invested in 2005 to expand assets.

So what's not to like about this story? At KMI and KMP we operate about 35,000 miles of pipeline and about 135 terminals throughout America. Operating this many assets in so many geographic areas leads to both regulatory and operational risks as part of the ordinary course of business.

On the regulatory front, we face possible challenges to our rate structure, including the long-running rate case on KMP's Pacific system. From an operational viewpoint, even though our target is to operate without spills or serious mishaps, given the extent of our assets that is probably a stretch goal. Our 2005 budget calls for over $225 million in sustaining capital spending at KMI and KMP, and we will spend another $160 million in additional maintenance, which is classified as operations and maintenance expense. We are benchmarking our safety efforts against both industry and internal targets with a goal for all of our business segments to be better than the industry average (most already are) and to continuously improve over prior years. The threat of terrorism is always on the horizon and environmental scrutiny by both government and consumer groups continues to increase. We believe all these risks are manageable, but they are nonetheless still risks.

Let me close by promising that this management team will: (1) not rest on its laurels (hubris is another despised word at Kinder Morgan); (2) not waste your money; (3) operate the company's assets efficiently; and, (4) do its damnedest to take advantage of the growth opportunities I've outlined.

Thanks to all of our superb employees and to our shareholders for your continuing support. We continue to believe the best is yet to come!

Richard D. Kinder
Chairman, Chief Executive Officer and President

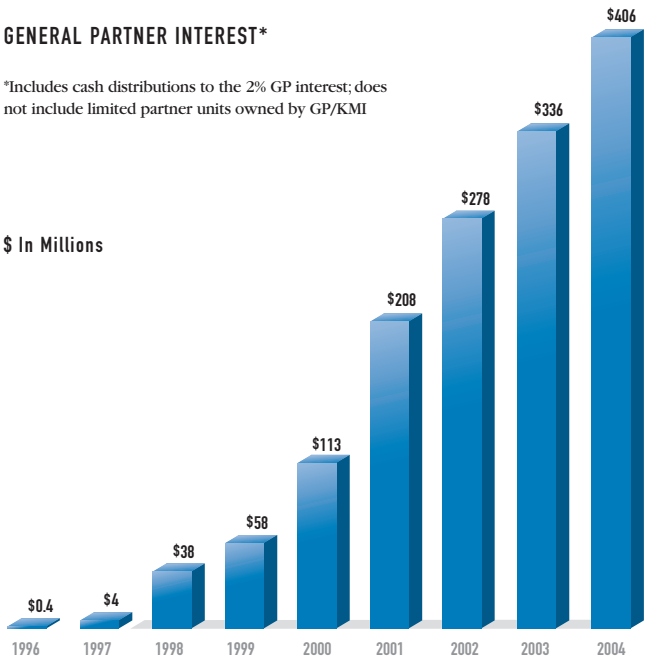
BUSINESS OVERVIEW

GENERAL PARTNER OF KMP

In 2004, our general and limited partner interests in KMP contributed almost $477 million of pre-tax earnings to KMI, and we received approximately $502 million in total distributions from our investment in KMP. This represents an approximate 20 percent increase over 2003. KMP's assets generated more than $1 billion in distributable cash flow in 2004, and all four of its business segments reported increased earnings before depreciation, depletion and amortization (DD&A).

KMP's **Products Pipelines** segment delivered an 8 percent increase in 2004 earnings before DD&A to $475.5 million, compared to $441.6 million for 2003. Growth in this segment was driven by contributions from acquired refined petroleum products storage terminals in the Southeast and robust earnings from the Cochin pipeline system and our West Coast terminals. Revenues increased 10 percent (positively impacted by fees from ethanol blending at our West Coast terminals), and total refined products volumes were up 2 percent (negatively impacted by the mandated shift in California from MTBE to ethanol, as ethanol cannot be transported through our products pipelines) compared to 2003.

Highlights in 2004 included: acquiring 16 more terminals in the Southeast to increase our storage capacity in that region to 8 million barrels; placing a new $95 million, 20-inch diameter replacement pipeline into service between Concord and Sacramento, Calif., to help meet long-term demand for gasoline, jet fuel and diesel; and, boosting our ownership stake to approximately 50 percent in Cochin, which is operated by BP, and transports various fuels to the mid-western United States and eastern Canada.



CO_2 segment is KMP's fastest growing business.

In 2005, we plan to continue the expansion of our East Line to increase transportation capacity for refined petroleum products from Texas to Arizona. In addition, a $40 million expansion at our Carson petroleum products storage and transfer terminal in Southern California will add 10 new tanks and 800,000 barrels of additional storage capacity in 2005-2006.

KMP's **Natural Gas Pipelines** segment produced 2004 earnings before DD&A of $410.7 million, up 10 percent from $373.4 million in 2003. Growth in this segment was spearheaded by the Texas Intrastate Pipeline Group. By successfully combining the Kinder Morgan Texas and former Tejas intrastate pipelines into one system, we have established a very strong asset position in the largest and most competitive natural gas market in the country (Texas ranks first in both production and consumption of natural gas). This segment also benefited from two months of earnings from the acquisition of TransColorado Gas Transmission Company, which extends from northwestern Colorado to northwestern New Mexico. We have entered into long-term, fixed-price contracts for most of TransColorado's transportation capacity through 2007.

Additional highlights included gaining entry into the rapidly growing Austin, Texas, market by investing $30 million to purchase a crude oil pipeline and convert it to natural gas. In 2005, we plan to spend about $130 million in natural gas expansion projects to increase transportation and storage capacity in the Texas markets and to increase transportation capacity on TransColorado. Additionally, we believe our intrastate pipelines are ideally positioned to capitalize on the increasing imports of LNG, and we are actively pursuing these opportunities.

The **CO_2** segment is KMP's fastest-growing business and delivered 2004 earnings before DD&A of $353.5 million, up 74 percent from $203.6 million in 2003. This superb growth was attributable to increased oil production, strong CO_2 delivery volumes, increased ownership in the Yates Field to 50 percent and contributions from the purchase of a crude oil pipeline.

Natural Gas Pipeline Company of America (NGPL) is celebrating its 75th anniversary in 2005. Its predecessor companies incorporated in 1930 to build one of the first long-distance, high-pressure natural gas pipelines in the United States. Our principal asset at KMI, NGPL today is the largest transporter of natural gas into the high-demand Chicago market and produces approximately 40 percent of KMI's total budgeted segment earnings.

We operate and own significant interests in two world-class reservoirs in the Permian Basin – the SACROC Unit and the Yates Field – and we have become the second largest oil producer in Texas. We invested approximately $300 million in 2004 to expand our operations at SACROC, where average oil production increased almost 41 percent for the year. In December 2004, average oil production was more than 33,000 barrels of oil per day (BOPD) at SACROC and about 22,500 BOPD at Yates. In 2005, we plan to spend about an additional $240 million to further ramp up oil production at SACROC and to expand our CO_2 injection operations at Yates.

This segment is one of the only areas where KMP is exposed to commodity price risk, but that risk is mitigated by a long-term hedging strategy intended to generate more stable realized prices. Although our oil production is significant, keep in mind that this segment does much more than produce oil. We are the leading transporter and marketer of CO_2 in the country, and our premier source and transportation assets enable us to provide a broad range of services to customers, including technical expertise.

KMP's **Terminals** segment reported a 9 percent increase in 2004 earnings before DD&A to $263.2 million, compared to $240.8 million in 2003. Growth was led by record throughput at the liquids terminals on the Houston Ship Channel, higher coal and synfuel volumes at bulk terminals in the Southeast and the fourth quarter acquisition of 21 terminals and two transload facilities along the Mississippi River. Throughput increased by 19 percent at our bulk terminals compared to the previous year (including acquisitions) and by 8 percent at our liquids terminals. Approximately 24 percent of the nation's gasoline imports move through our liquids terminals, and about 17 percent of the nation's coal exports are handled at our facilities.

In 2005, we plan to invest more than $50 million in expansion projects to construct additional tanks to increase storage capacity for petroleum products on the Houston Ship Channel and in New York Harbor, and to expand our dock and handling capabilities at our Tampaplex facility in Florida.

(KMP's 2004 segment earnings exclude adjustments in environmental reserves between the segments, which had a negative net impact of $300,000.)

We expect KMI's interests in KMP will generate about 53 percent of KMI's overall budgeted segment income in 2005, and we project KMP's distributable cash flow will increase to about $1.18 billion. Keep in mind that as KMP's distributions grow, KMI's general partner share of those distributions grows as well, up to 50 percent of incremental distributions.

NGPL

NGPL reported 2004 segment earnings of $392.8 million, almost a 6 percent increase from $372 million in 2003. Results exceeded our budget target and were driven by an increase in margins on transportation and storage revenues. We were successful once again in recontracting firm transportation and storage capacity with longstanding customers and entering into agreements with new customers. As of March 2005, firm, long-haul transportation capacity was approximately 92 percent contracted for the remainder of the year and storage was fully contracted until April 2006. Throughput volumes were up about 3 percent in 2004 compared to 2003. The level of throughput has only a modest impact on earnings, however, because the vast majority of transportation and storage revenues come from contractually secured demand charges that customers pay regardless of the amount of natural gas they ship through the pipeline.

Approximately $385 million will be spent in 2005 to maintain assets.

NGPL is one of the premier pipelines in the country and offers customers excellent reliability and unmatched flexibility when it comes to the receipt and delivery of natural gas. We are well connected in the marketplace with interconnects to major local distribution companies in the Midwest, dozens of natural gas-fired power plants and many pipelines. We also boast 239 Bcf of working gas storage capacity and have access to multiple major supply basins.

We continue to invest in infrastructure and grow NGPL through expansions. In 2004, we completed construction of a 10.7 Bcf storage service expansion at North Lansing in east Texas and integrated the acquired 38-mile Black Marlin Pipeline in Oklahoma into our system. Looking ahead, we plan to invest approximately $70 million in 2005 and 2006 to expand our storage facilities in Iowa and Oklahoma, and our mainline cross-haul service in Texas and Oklahoma. We also have proposed another significant expansion at North Lansing for 2007, and we are aggressively pursuing LNG opportunities that would likely come online in 2009 or later.

RETAIL

Retail reported 2004 segment earnings of $69.3 million, up 6 percent from $65.5 million in 2003. Growth was primarily attributable to increasing our customer base in Colorado where we added about 3,000 meters. On the Western Slope of Colorado, we placed a new $20 million natural gas pipeline into service between Montrose and Ouray, which will bring natural gas service to hundreds of customers for the first time. We also completed the first phase of an expansion project in the Roaring Fork Valley to help meet increasing demand for natural gas in the growing Aspen and Snowmass areas. In total, we have approximately 77,000 customers in Colorado.

Other highlights included installation of automated meter reading equipment. This will dramatically increase our efficiency by enabling us to read up to 12,000 meters a day and redirecting our employees' time to focus more on service calls and other customer needs. Additionally, meter reading costs will be reduced significantly and customer satisfaction will be improved. The approximately $14 million project is expected to be completed by year-end 2005. Moving forward, we expect modest growth to continue, primarily in Colorado where approximately 3,600 additional meters are expected to be connected in 2005. This represents a 5 percent growth rate for our Colorado service territory.

Approximately 70 percent of our customers are located in Wyoming and Nebraska where they are eligible to participate in our nationally recognized Choice Gas program. Choice Gas allows customers to choose their natural gas supplier and a pricing option, such as rates that lock in for a 12-month period. Price-stable options have been identified as the single most important issue for gas utility customers nationwide.

POWER

Power generated 2004 segment earnings of $15.3 million, ahead of its published annual budget target, but down from $22.1 million in 2003. The decline was expected and attributable to the discontinuation of power plant development activities. We continue to own an interest in five natural gas-fired power plants, four of which have long-term contracts. In 2005, we expect this segment to produce only about 1 percent of the total of KMI's budgeted segment earnings. (The results noted in this segment do not include pre-tax charges in the fourth quarter to record the impairment of certain power assets – see Power in the Results of Operations section of the attached Form 10-K for details.)

TRANSCOLORADO

TransColorado was sold to KMP effective Nov. 1, 2004. Segment earnings were $20.3 million for the year, down in comparison to 2003 due to the sale. KMI will continue to participate in TransColorado's future performance through our ownership of the general partner of KMP.

Automated meter reading will improve customer satisfaction.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2004**
or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____to_____

Commission File Number 1-06446

Kinder Morgan, Inc.

(Exact name of registrant as specified in its charter)

Kansas	**48-0290000**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Dallas Street, Suite 1000, Houston, Texas 77002
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code (713) 369-9000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, par value $5 per share	New York Stock Exchange
Preferred share purchase rights	New York Stock Exchange
Purchase Obligation of Kinder Morgan Management, LLC shares	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

Preferred stock, Class A $5 cumulative series
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2):
Yes ☒ No ☐

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $5,754,974,482 at June 30, 2004.

The number of shares outstanding of the registrant's common stock, $5 par value, as of February 3, 2005 was 123,402,601 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates by reference specific portions of the Registrant's Proxy Statement relating to its 2005 Annual Meeting of Stockholders.

KINDER MORGAN, INC. AND SUBSIDIARIES
CONTENTS

Note: Individual financial statements of the parent company are omitted pursuant to the provisions of Accounting Series Release No. 302.

PART I

Items 1. and 2. ***Business and Properties.***

In this report, unless the context requires otherwise, references to "we," "us," "our," or the "Company" are intended to mean Kinder Morgan, Inc. (a Kansas corporation, incorporated on May 18, 1927, formerly known as K N Energy, Inc.) and its consolidated subsidiaries. All volumes of natural gas are stated at a pressure base of 14.73 pounds per square inch absolute and at 60 degrees Fahrenheit and, in most instances, are rounded to the nearest major multiple. In this report, the term "MMcf" means million cubic feet, the term "Bcf" means billion cubic feet and the terms "dekatherms" and "MMBtus" mean million British Thermal Units ("Btus"). Natural gas liquids consist of ethane, propane, butane, iso-butane and natural gasoline. The following discussion should be read in conjunction with the accompanying Consolidated Financial Statements and related Notes.

(A) General Development of Business

We are one of the largest energy transportation and storage companies in the United States, operating, either for ourselves or on behalf of Kinder Morgan Energy Partners, L.P. ("Kinder Morgan Energy Partners"), over 35,000 miles of natural gas and petroleum products pipelines and approximately 135 terminals. We own and operate Natural Gas Pipeline Company of America, sometimes referred to as NGPL in this report, a major interstate natural gas pipeline system with approximately 9,800 miles of pipelines and associated storage facilities. We own and operate a retail natural gas distribution business serving approximately 243,000 customers in Colorado, Nebraska and Wyoming. We have constructed, currently operate and own interests in certain natural gas-fired electric generation facilities. These businesses are discussed in detail in the next section of this report. Our common stock is traded on the New York Stock Exchange under the symbol "KMI." Our executive offices are located at 500 Dallas Street, Suite 1000, Houston Texas 77002 and our telephone number is (713) 369-9000.

On October 7, 1999, we completed the acquisition of Kinder Morgan (Delaware), Inc., a Delaware corporation and the sole stockholder of the general partner of Kinder Morgan Energy Partners. To effect that acquisition, we issued approximately 41.5 million shares of our common stock in exchange for all of the outstanding shares of Kinder Morgan (Delaware). Upon closing of the transaction, Richard D. Kinder, Chairman and Chief Executive Officer of Kinder Morgan (Delaware), was named our Chairman and Chief Executive Officer, and we were renamed Kinder Morgan, Inc. As a result of that acquisition and certain subsequent transactions, we own the general partner of, and have a significant limited partner interest in, Kinder Morgan Energy Partners, one of the largest publicly traded pipeline limited partnerships in the United States in terms of market capitalization, and the owner and operator of the largest independent refined petroleum products pipeline system in the United States in terms of volumes delivered. Kinder Morgan Energy Partners owns and/or operates a diverse group of assets used in the transportation, storage and processing of energy products, including refined petroleum products pipeline systems with more than 10,000 miles of products pipeline and 60 associated terminals. Kinder Morgan Energy Partners owns approximately 14,000 miles of natural gas transportation pipelines, plus natural gas gathering and storage facilities. Kinder Morgan Energy Partners also owns or operates approximately 75 liquid and bulk terminal facilities and more than 55 rail transloading and materials handling facilities located throughout the United States, handling nearly 68 million tons of coal, petroleum coke and other dry-bulk materials annually and having a liquids storage capacity of approximately 37 million barrels for refined petroleum products, chemicals and other liquid products. In addition, Kinder Morgan Energy Partners owns Kinder Morgan CO_2 Company, L.P., which transports, markets and produces carbon dioxide for use in enhanced oil recovery operations and owns interests in and/or operates six oil fields in West Texas, all of which are using or have used carbon dioxide injection operations. Kinder Morgan CO_2 Company, L.P. also owns and operates the Wink Pipeline, a crude oil

pipeline in West Texas. Additional information concerning our investment in Kinder Morgan Energy Partners and its various businesses are contained in Note 2 of the accompanying Notes to Consolidated Financial Statements and in Kinder Morgan Energy Partners' 2004 Annual Report on Form 10-K.

In May 2001, Kinder Morgan Management, LLC, ("Kinder Morgan Management") one of our indirect subsidiaries, issued and sold its limited liability shares in an underwritten initial public offering. The net proceeds from the offering were used by Kinder Morgan Management to buy i-units from Kinder Morgan Energy Partners for $991.9 million. Upon purchase of the i-units, Kinder Morgan Management became a limited partner in Kinder Morgan Energy Partners and was delegated by Kinder Morgan Energy Partners' general partner, the responsibility to manage and control the business and affairs of Kinder Morgan Energy Partners. The i-units are a class of Kinder Morgan Energy Partners' limited partner interests that have been, and will be, issued only to Kinder Morgan Management. We have certain rights and obligations with respect to these securities.

In the initial public offering, we purchased 10% of the Kinder Morgan Management shares, with the balance purchased by the public. The equity interest in Kinder Morgan Management (which is consolidated in our financial statements) owned by the public is reflected as minority interest on our balance sheet. The earnings recorded by Kinder Morgan Management that are attributed to its shares held by the public are reported as "minority interest" in our Consolidated Statements of Operations. Subsequent to the initial public offering by Kinder Morgan Management of its shares, our ownership interest in Kinder Morgan Management has changed because (i) we recognize our share of Kinder Morgan Management's earnings, (ii) we record the receipt of distributions attributable to the Kinder Morgan Management shares that we own, (iii) Kinder Morgan Management has made additional sales of its shares (both through public offerings and otherwise) and (iv) pursuant to an option feature that was previously available to Kinder Morgan Management shareholders but no longer exists, we exchanged certain of the Kinder Morgan Energy Partners' common units held by us for Kinder Morgan Management shares held by the public. At December 31, 2004, we owned 15.1 million Kinder Morgan Management shares representing 27.9% of Kinder Morgan Management's total outstanding shares. Additional information concerning the business of, and our investment in and obligations to, Kinder Morgan Management is contained in Note 3 of the accompanying Notes to Consolidated Financial Statements and in Kinder Morgan Management's 2004 Annual Report on Form 10-K.

Business Strategy

Our business strategy is to: (i) focus on fee-based energy transportation and storage assets that are core to the energy infrastructure of growing markets within North America, (ii) increase utilization of our existing assets while controlling costs, but without compromising on safety, (iii) leverage economies of scale from incremental acquisitions and expansions of properties that fit within our strategy and are accretive to earnings and cash flow, (iv) maximize the benefits of our financial structure to create and return value to our stockholders as discussed following and (v) continue to align employee and shareholder incentives.

We intend to maintain a capital structure that provides flexibility and stability, while returning value to our shareholders through dividends and share repurchases. During 2004, we utilized cash generated from operations (including cash received from distributions attributable to our investment in Kinder Morgan Energy Partners) and cash received from the contribution of our TransColorado pipeline to Kinder Morgan Energy Partners to pay common stock dividends, reduce our outstanding debt, finance our capital expenditures program and repurchase our common shares. In recent periods, we have increased our common stock dividends in response to changes in income tax laws that have made dividends a more efficient way to return cash to our shareholders. At December 31, 2004, our total debt

to total capital had been reduced to approximately 37.5% from over 70% in late 1999, with approximately 51% of our debt subject to floating interest rates.

We expect to benefit from accretive acquisitions (primarily by Kinder Morgan Energy Partners) and business expansions. Kinder Morgan Energy Partners has a multi-year history of making accretive acquisitions, which benefit us through our limited and general partner interests. This acquisition strategy is expected to continue, with the availability of potential acquisition candidates being driven by consolidation in the energy industry, as well as the continuing realignment of asset portfolios by major energy companies, although we can provide no assurance that such acquisitions will occur in the future. In addition, we expect to expand, within strict guidelines as to risk, rate of return and timing of cash flows, NGPL's pipeline system and acquire natural gas retail distribution properties that fit well with our current profile.

It is our intention to carry out the above business strategy, modified as necessary to reflect changing economic conditions and other circumstances. However, as discussed under "Risk Factors" elsewhere in this report, there are factors that could affect our ability to carry out our strategy or affect its level of success even if carried out.

Developments During 2004

- **Expansion and Contribution of TransColorado**
  In September 2003, we announced our intention to expand TransColorado following the signing of a 10-year, firm natural gas transportation contract with an undisclosed shipper. The expansion provides an additional 125,000 dekatherms per day of firm transportation capacity on TransColorado and was completed and placed in service in August 2004. In November 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners for total consideration of $275 million (approximately $210 million in cash and 1.4 million Kinder Morgan Energy Partners common units).

- **Dividends**
  We increased our annual rate of cash dividends per share by $0.65 in the first quarter of 2004, and by $0.55 in the first quarter of 2005, reaching an annual rate of $2.80. These increases were principally in response to recently enacted federal tax legislation and increased cash flow available to fund capital expenditures, debt reduction, dividends and share repurchases.

- **Share Repurchase Program**
  We expanded the size of our common stock repurchase program by $50 million and $200 million in April and November 2004, respectively, to a total of $750 million. From the inception of the program in August 2001 through December 31, 2004, we have repurchased approximately $561.2 million of common stock, including $108.6 million in 2004.

- **NGPL Expansion and Acquisition**
  We announced our intention to invest approximately $56 million in two new projects that have been filed with the FERC for approval to: (i) increase storage capacity by 10 Bcf at the Sayre Field in Beckham County, Oklahoma and (ii) expand mainline cross-haul service by 51,000 dekatherms per day in Oklahoma and Texas. Both projects are fully subscribed under long-term contracts and are expected to be in service in the spring of 2006. In addition, we acquired the 38-mile, 30-inch Black Marlin Pipeline from Northern Natural Gas on September 1, 2004, providing an additional 38,000 dekatherms per day of capacity to the Amarillo to Gulf Coast line. This capacity was also fully subscribed under long-term contracts through an open season.

- **Re-Contracting Transportation and Storage Capacity**
  During 2004, NGPL successfully re-contracted firm transportation and storage capacity to the end that, as of the end of 2004, firm long-haul transportation capacity was sold out through March 2005 and almost 90% was contracted for the remainder of the year. Storage is fully contracted until April 2006.

- **North Lansing Storage Expansion**
  In the second quarter of 2004, NGPL completed construction of a 10.7 Bcf storage service expansion at its existing North Lansing storage field in east Texas, all of which is subscribed under long-term contracts.

- **Retail Expansion**
  During the second quarter of 2004, Retail completed and placed into service a 58-mile natural gas pipeline from Montrose to Ouray, Colorado. We expect to add about 3,000 Western Slope customers via this pipeline over the next five years.

- **New Credit Facility**
  In August, 2004, we established a new five-year senior unsecured revolving credit facility with a capacity of $800 million. This five-year facility, which is the same size as the aggregate of the one-year and three-year facilities it replaced, contains essentially the same credit covenants as the prior facilities.

(B) Financial Information about Segments

Note 19 of the accompanying Notes to Consolidated Financial Statements contains financial information about our business segments.

(C) Narrative Description of Business

Overview

We are an energy and related services provider. Our principal business segments are: (1) NGPL and certain affiliates, a major interstate natural gas pipeline and storage system, (2) Kinder Morgan Retail, a business that conducts the regulated sale of natural gas to residential, commercial and industrial customers, and the sale of natural gas to certain utility customers under our Choice Gas Program (a program that allows utility customers to choose their natural gas provider) and (3) Power, a business that operates (and, in previous periods, constructed) natural gas-fired electric generation facilities. In November 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners for total consideration of $275 million, consisting of approximately $210 million in cash and 1.4 million Kinder Morgan Energy Partners common units. TransColorado's segment earnings of $20.3 million in 2004 prior to its contribution represented approximately 2% of our total segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners, and approximately 2% of our income from continuing operations before interest and income taxes.

Natural gas transportation, storage and retail sales accounted for approximately 92%, 95% and 93% of our consolidated revenues in 2004, 2003 and 2002, respectively. During 2004, 2003 and 2002, we did not have revenues from any single customer that exceeded 10% of our consolidated operating revenues. The operations of Kinder Morgan Energy Partners, a significant limited partnership equity-method investee in which we also hold the general partner interest, include (i) liquids and refined petroleum products pipelines, (ii) transportation and storage of natural gas, (iii) carbon dioxide transportation and production of carbon dioxide and oil and (iv) bulk and liquids terminals. Our equity in the earnings of Kinder Morgan Energy Partners (before reduction for the minority interest in Kinder Morgan

Management) constituted approximately 61%, 60% and 65% of our income from continuing operations before interest and income taxes in 2004, 2003 and 2002, respectively. The following table gives our segment earnings, our earnings attributable to our investment in Kinder Morgan Energy Partners and the percent of the combined total each represents, for each of the last two years. In 1999, we discontinued our wholesale natural gas marketing, non-energy retail marketing services and natural gas gathering and processing businesses. Notes 5 and 19 of the accompanying Notes to Consolidated Financial Statements contain additional information on asset sales and our business segments. As discussed following, certain of our operations are regulated by various federal and state entities.

	Year Ended December 31,			
	2004		2003	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Investment in Kinder Morgan Energy Partners:				
Equity in Earnings, Net of Kinder Morgan Management, LLC Pre-tax Minority Interest	$476,996	48.94%	$398,325	45.21%
Segment Earnings:				
NGPL	392,806	40.31%	372,017	42.23%
TransColorado	20,255	2.08%	23,112	2.62%
Kinder Morgan Retail	69,264	7.11%	65,482	7.43%
Power	15,255	1.56%	22,076	2.51%
Total	$974,576	100.00%	$881,012	100.00%

Natural Gas Pipeline Company of America

During 2004, NGPL's segment earnings of $392.8 million represented approximately 40% of total segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners, and approximately 43% of our income from continuing operations before interest and income taxes. Through NGPL, we own and operate approximately 9,800 miles of interstate natural gas pipelines, storage fields, field system lines and related facilities, consisting primarily of two major interconnected natural gas transmission pipelines terminating in the Chicago, Illinois metropolitan area. The system is powered by 57 compressor stations in mainline and storage service having an aggregate of approximately 0.9 million horsepower. NGPL's system has approximately 700 points of interconnection with 34 interstate pipelines, 20 intrastate pipelines, a number of gathering systems, and approximately 60 local distribution companies and other end users, thereby providing significant flexibility in the receipt and delivery of natural gas. NGPL's Amarillo Line originates in the West Texas and New Mexico producing areas and is comprised of approximately 4,400 miles of mainline and various small-diameter pipelines. Its other major pipeline, the Gulf Coast Line, originates in the Gulf Coast areas of Texas and Louisiana and consists of approximately 4,200 miles of mainline and various small-diameter pipelines. These two main pipelines are connected at points in Texas and Oklahoma by NGPL's approximately 800-mile Amarillo/Gulf Coast pipeline. In addition, NGPL owns a 50% equity interest in and operates Horizon Pipeline Company, L.L.C., a joint venture with Nicor-Horizon, a subsidiary of Nicor, Inc. This joint venture owns a natural gas pipeline in northern Illinois with a capacity of 380 MMcf per day.

NGPL provides transportation and storage services to third-party natural gas distribution utilities, marketers, producers, industrial end users and other shippers. Pursuant to transportation agreements and Federal Energy Regulatory Commission tariff provisions, NGPL offers its customers firm and interruptible transportation, storage and no-notice services, and interruptible park and loan services. Under NGPL's tariffs, firm transportation customers pay reservation charges each month plus a commodity charge based on actual volumes transported, including a fuel charge collected in kind. Interruptible transportation customers pay a commodity charge based upon actual volumes transported. Reservation and commodity charges are both based upon geographical location and time of year. Under firm no-notice service, customers pay a reservation charge for the right to have up to a specified volume

of natural gas delivered but, unlike with firm transportation service, are able to meet their peaking requirements without making specific nominations. NGPL has the authority to negotiate rates with customers if it has first offered service to those customers under its reservation and commodity charge rate structure. NGPL's revenues have historically been somewhat higher in the first and fourth quarters of the calendar year, reflecting higher system utilization during the colder months. During the winter months, NGPL collects higher transportation commodity revenue, higher interruptible transportation revenue, winter-only capacity revenue and higher rates on certain contracts.

NGPL's principal delivery market area encompasses the states of Illinois, Indiana and Iowa and secondary markets in portions of Wisconsin, Nebraska, Kansas, Missouri and Arkansas. NGPL is the largest transporter of natural gas to the Chicago market, and we believe that its transportation rates are very competitive in the region. In 2004, NGPL delivered an average of 1.73 trillion Btus per day of natural gas to this market. Given its strategic location at the center of the North American natural gas pipeline grid, we believe that Chicago is likely to continue to be a major natural gas trading hub for growing markets in the Midwest and Northeast.

Substantially all of NGPL's pipeline capacity is committed under firm transportation contracts ranging from one to five years. Approximately 68% of the total transportation volumes committed under NGPL's long-term firm transportation contracts as of January 27, 2005 had remaining terms of less than three years. NGPL continues to actively pursue the renegotiation, extension and/or replacement of expiring contracts, and was very successful in doing so during 2004 as discussed under "Developments During 2004" elsewhere in this report. Nicor Gas Company, Peoples Gas Light and Coke Company, and Northern Indiana Public Service Company (NIPSCO) are NGPL's three largest customers in terms of operating revenues from tariff services. During 2004, approximately 54% of NGPL's operating revenues from tariff services were attributable to its eight largest customers. Contracts representing approximately 6% of NGPL's total long-haul, contracted firm transport capacity as of January 24, 2005 are scheduled to expire during 2005.

NGPL is one of the nation's largest natural gas storage operators with approximately 600 Bcf of total natural gas storage capacity, 239 Bcf of working gas capacity and up to 4.0 Bcf per day of peak deliverability from its storage facilities, which are located in major supply areas and near the markets it serves. NGPL owns and operates eight underground storage fields in four states. These storage assets complement its pipeline facilities and allow it to optimize pipeline deliveries and meet peak delivery requirements in its principal markets. NGPL provides firm and interruptible gas storage service pursuant to storage agreements and tariffs. Firm storage customers pay a monthly demand charge irrespective of actual volumes stored. Interruptible storage customers pay a monthly charge based upon actual volumes of gas stored.

In the second quarter of 2004, NGPL completed construction of 10.7 Bcf of storage service expansion at its existing North Lansing storage facility in east Texas, all of which incremental storage capacity is fully subscribed under long-term contracts. Also in 2004, NGPL announced its intention to invest approximately $56 million in two new projects that have been filed with the FERC for approval to: (i) increase storage capacity by 10 Bcf at the Sayre Field in Beckham County, Oklahoma and (ii) expand mainline cross-haul service by 51,000 dekatherms per day in Oklahoma and Texas. Both projects are fully subscribed under long-term contracts and are expected to be in service in the spring of 2006. In addition, we acquired the 38-mile, 30-inch Black Marlin Pipeline from Northern Natural Gas on September 1, 2004, providing an additional 38,000 dekatherms per day of capacity to the Amarillo to Gulf Coast line. This capacity was also fully subscribed under long-term contracts through an open season.

Competition: NGPL competes with other transporters of natural gas in virtually all of the markets it

serves and, in particular, in the Chicago area, which is the northern terminus of NGPL's two major pipeline segments and its largest market. These competitors include both interstate and intrastate natural gas pipelines and, historically, most of the competition has been from such pipelines with supplies originating in the United States. In recent years, NGPL has also faced competition from additional pipelines carrying Canadian-produced natural gas into the Chicago market. The most recent example is the Alliance Pipeline, which began service during the 2000-2001 heating season. The additional pipeline capacity into the Chicago market has increased competition for transportation into the area while, at the same time, new pipelines, such as Vector Pipeline, have been constructed for the specific purpose of transporting gas from the Chicago area to other markets, generally further north and further east. The overall impact of the increased pipeline capacity into the Chicago area, combined with additional take-away capacity and the increased demand in the area, has created a situation that remains dynamic with respect to the ultimate impact on individual transporters such as NGPL.

NGPL also faces competition with respect to the natural gas storage services it provides. NGPL has storage facilities in both market and supply areas, allowing it to offer varied storage services to customers. It faces competition from independent storage providers as well as storage services offered by other natural gas pipelines and local natural gas distribution companies.

The competition faced by NGPL with respect to its natural gas transportation and storage services is generally price-based, although there is also a significant component related to the variety, flexibility and the reliability of services offered by others. NGPL's extensive pipeline system, with access to diverse supply basins and significant storage assets in both the supply and market areas, makes it a strong competitor in many situations, but most customers still have alternative sources to meet their requirements. In addition, due to the price-based nature of much of the competition faced by NGPL, its proven track record as a low-cost provider is an important factor in its success in acquiring and retaining customers. Additional competition for storage services could result from the utilization of currently underutilized storage facilities or from conversion of existing storage facilities from one use to another. In addition, existing competitive storage facilities could, in some instances, be expanded.

Kinder Morgan Retail

During 2004, Kinder Morgan Retail's segment earnings of $69.3 million represented 7% of total segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners and approximately 8% of our income from continuing operations before interest and income taxes. As of December 31, 2004, through Kinder Morgan Retail, our retail natural gas distribution business served approximately 243,000 customers in Colorado, Nebraska and Wyoming through approximately 11,300 miles of distribution and transmission pipelines, underground storage fields, field system lines and related facilities. Kinder Morgan Retail's intrastate pipelines, distribution facilities and retail natural gas sales in Colorado, Nebraska and Wyoming are subject to the regulatory authority of each state's utility commission. In addition, Kinder Morgan Retail owns and operates a small natural gas distribution system in Hermosillo, Mexico.

Kinder Morgan Retail's operations in Nebraska, Wyoming and eastern Colorado serve areas that are primarily rural and agricultural where natural gas is used primarily for space heating, crop irrigation, grain drying and processing of agricultural products. In much of Nebraska, the winter heating load is balanced by irrigation requirements in the summer and grain drying requirements in the fall. Kinder Morgan Retail's operations in western Colorado serve the fast-growing resort and associated service areas, and rural communities. These areas are characterized primarily by natural gas use for space heating, with historical annual growth rates of 3-5%. Kinder Morgan Retail's operations include the sale of natural gas under its Choice Gas programs and the sale of non-jurisdictional products and services, natural gas-related equipment, and installation and repair services.

To support Kinder Morgan Retail's business, underground storage facilities are used to provide natural gas deliverability for load balancing and peak system demand. Storage services for Kinder Morgan Retail's natural gas distribution services are provided by (i) three facilities in Wyoming owned by Kinder Morgan, Inc., (ii) one facility in Colorado owned by a wholly owned subsidiary of Kinder Morgan, Inc. and (iii) one facility located in Nebraska and owned by Kinder Morgan Energy Partners. The peak natural gas storage withdrawal capacity available for Kinder Morgan Retail's business is approximately 102 MMcf per day.

Kinder Morgan Retail's natural gas distribution business relies on the intrastate pipelines it operates, Kinder Morgan Interstate Gas Transmission LLC, a subsidiary of Kinder Morgan Energy Partners, and third-party pipelines for transportation and storage services it requires to serve its markets. The natural gas supply requirements of Kinder Morgan Retail's natural gas distribution business are met through purchases from third-party suppliers.

Through our wholly owned subsidiary Rocky Mountain Natural Gas Company in Colorado, Kinder Morgan Retail provides transportation services to natural gas producers, shippers and industrial customers. Kinder Morgan Retail provides storage services in Wyoming to its customers from its three storage fields, Oil Springs, Bunker Hill and Kirk Ranch, which have 29.7 Bcf of combined total storage capacity, 11.7 Bcf of working gas capacity, and up to 37 MMcf per day of peak withdrawal capacity. Rocky Mountain Natural Gas Company operates the Wolf Creek storage facility, which has 10.1 Bcf of total storage capacity, 2.7 Bcf of working gas capacity and provides 18 MMcf per day of withdrawal capacity for peak day use.

Competition: The Kinder Morgan Retail natural gas distribution business segment operates in areas with varying service area rules, including state utility commission exclusively certificated service areas, non-exclusive municipal franchises and competitive areas. Limited competitive natural gas distribution pipelines exist within these service areas. The primary competition for Kinder Morgan Retail's products is from alternative fuels such as electric power and propane for heating use, and electric power, propane and diesel fuel for agriculture use. Kinder Morgan Retail provides natural gas utility services based upon cost-of-service regulation in most of its service areas.

Kinder Morgan Retail currently provides unbundled natural gas services in Nebraska and Wyoming under its Choice Gas programs. Under these Choice Gas programs, competing natural gas providers currently sell natural gas to approximately 68% of Kinder Morgan Retail's total customers. In unbundled areas, Kinder Morgan Retail competes as one of four or five natural gas marketers to provide the customer with natural gas commodity offerings. Kinder Morgan Retail currently provides the natural gas commodity for 49% of the end-use customers in these unbundled areas.

Power

Power's 2004 earnings, before non-cash charges to reduce the carrying value of certain of its assets, represented less than 2% of either the total of our segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners, or our income from continuing operations before interest and income taxes. We currently have ownership interests in two natural gas-fired electric generation facilities in Colorado, one natural gas-fired electric generation facility in Michigan and one natural gas-fired electric generation facility in Arkansas. We also have a net profits interest in a third natural gas-fired electric generation facility in Colorado. One of the Colorado facilities is operated as an independent power producer, with both a long-term power sales agreement and gas supply contract. The other Colorado facility and the Michigan and Arkansas facilities are operated under tolling agreements. Under the tolling agreements, purchasers of the electrical output take the risks in the marketplace associated with the cost of fuel and the value of the electric power generated. Kinder Morgan Power's

customers include power marketers and utilities. Excluding certain non-recurring revenues (described under the "Power" subheading in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*) approximately 71% of Power's 2004 operating revenues represented tolling revenues of the Michigan facility, 21% was derived from the Colorado facility operated as an independent power producer under a long-term contract with XCEL Energy's Public Service Company of Colorado unit, and the remaining 8% primarily resulted from fees for operating the other Colorado facility. In recent periods, we have recorded impairment charges associated with our power business activities; see Note 6 of the accompanying Notes to Consolidated Financial Statements.

Kinder Morgan Power previously designed, developed and constructed power projects. In 2002, following an assessment of the electric industry's business environment and noting a marked deterioration in the financial condition of certain power generating and marketing participants, we decided to discontinue our power development activities.

In February 2001, Kinder Morgan Power announced an agreement under which Williams Energy Marketing and Trading agreed to supply natural gas to and market capacity for 16 years for a 550-megawatt natural gas-fired Orion technology electric power plant in Jackson, Michigan. Effective July 1, 2002, construction of this facility was completed and commercial operations commenced. Concurrently with commencement of commercial operations, (i) Kinder Morgan Power made a preferred investment in Triton Power Company LLC (now valued at approximately $119 million); and, (ii) Triton Power Company LLC, through its wholly owned subsidiary, Triton Power Michigan LLC, entered into a 40-year lease of the Jackson power facility from the plant owner, AlphaGen Power, LLC. Williams Energy Marketing and Trading supplies all natural gas to and purchases all power from the power plant under a 16-year tolling agreement with Triton Power Michigan LLC.

In May 2000, Kinder Morgan Power and Mirant Corporation (formerly Southern Energy Inc.) announced plans to build a 550 megawatt natural gas-fired electric power plant in Wrightsville, Arkansas, utilizing Kinder Morgan Power's Orion technology. Construction of this facility was completed on July 1, 2002 and commercial operations commenced. Mirant Corporation operates and maintains the Wrightsville facility and manages the natural gas supply and electricity sales for the project company that owns the power plant. Kinder Morgan Power made an investment in the project company, comprised primarily of preferred stock. This facility has not been dispatched significantly since July 1, 2002. In October 2003, the project company was included in Mirant Corporation's bankruptcy filing. In the fourth quarter of 2003, we wrote off our remaining investment in the Wrightsville power facility, as further discussed in Note 6 of the accompanying Notes to Consolidated Financial Statements.

In 1998, Kinder Morgan Power acquired interests in the Thermo Companies, which provided us with our first electric generation assets as well as knowledge and expertise with General Electric Company jet engines (LMs) configured in a combined cycle mode. Through the Thermo Companies, Kinder Morgan Power acquired the interests in three Colorado natural gas-fired electric generating facilities discussed above, which have a combined 380 megawatts of electric generation capacity. Kinder Morgan Power used the LM knowledge to develop its proprietary "Orion" technology. Pursuant to a right we obtained in conjunction with the 1998 acquisition of the Thermo Companies, in December 2003, we made an additional investment in the Thermo Companies in the form of approximately 1.8 million Kinder Morgan Management shares that we owned. We delivered these shares to an entity controlled by the former Thermo owners. For further information regarding this incremental investment, see "Power" within "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Competition: With respect to the electric generating facilities acquired from the Thermo entities, Kinder Morgan Power does not directly face competition with respect to the sale of the power generated, as it is

sold to or generated for the local electric utility under long-term contracts. With respect to Power's investment in the Jackson, Michigan facility, the principal impact of competition is the level of dispatch of the plant and the related (but minor) effect on profitability.

Regulation

Interstate Transportation and Storage Services

Under the Natural Gas Act and, to a lesser extent, the Natural Gas Policy Act of 1978, the Federal Energy Regulatory Commission regulates both the performance of interstate transportation and storage services by interstate natural gas pipeline companies, and the rates charged for such services. Terms and conditions of such services are subject to tariffs approved by the FERC. As used in this report, "FERC" refers to the Federal Energy Regulatory Commission.

With the adoption of FERC Order No. 636, the FERC required interstate natural gas pipelines that perform open access transportation under blanket certificates to "unbundle" or separate their traditional merchant sales services from their transportation and storage services and to provide comparable transportation and storage services with respect to all natural gas supplies, whether such natural gas is purchased from the pipeline or from other merchants such as marketers or producers. Each interstate natural gas pipeline must now separately state the applicable rates for each unbundled service.

In Order Nos. 637 and 637-A, the FERC directed all interstate pipelines to make tariff changes as necessary to comply with new regulatory requirements regarding scheduling procedures, capacity segmentation, imbalance management services and penalty credits. The Order 637 tariff provisions for NGPL became effective on December 1, 2003. No issues remain outstanding as to NGPL's Order 637 compliance program.

We are also subject to the requirements of FERC Order No. 2004, et seq., which set out revised Standards of Conduct that apply uniformly to interstate gas transmission pipelines and public utilities, governing their relationships with energy affiliates. These new Standards of Conduct were designed to be more restrictive than the previous regulations that did not cover an interstate natural gas pipeline's relationship with energy affiliates that are not marketers. In addition, unlike the prior regulations, these requirements apply even if the energy affiliate is not a customer of its affiliated interstate pipeline. The rule is designed to prevent interstate natural gas pipelines from giving undue preference, including preference in the access to information, to any of their energy affiliates and to ensure that natural gas transportation is provided on a nondiscriminatory basis. The Kinder Morgan interstate pipelines have implemented compliance with the Standards of Conduct as of September 22, 2004.

The Pipeline Safety Improvement Act of 2002 was signed into law on December 17, 2002, providing guidelines in the areas of testing, education, training and communication. The Act requires pipeline companies to perform integrity tests on natural gas transmission pipelines that exist in high population density areas that are designated as High Consequence Areas. Pipeline companies are required to perform the integrity tests within ten years of the date of enactment and must perform subsequent integrity tests on a seven year cycle. At least 50% of the highest risk segments must be tested within five years of the enactment date. The risk ratings are based on numerous factors, including the population density in the geographic regions served by a particular pipeline, as well as the age and condition of the pipeline and its protective coating. Testing consists of hydrostatic testing, internal electronic testing, or direct assessment of the piping. In addition to the pipeline integrity tests, pipeline companies must implement a qualification program to make certain that employees are properly trained, and the United States Department of Transportation has approved our qualification program. We believe that we are in substantial compliance with this law's requirements and have integrated appropriate aspects of this

pipeline safety law into our Operator Qualification Program, which is already in place and functioning. NGPL estimates that the average annual incremental expenditure associated with the Pipeline Safety Improvement Act of 2002 is approximately $8 million to $10 million.

Intrastate Transportation and Sales

We operate an intrastate pipeline in Colorado, Rocky Mountain Natural Gas Company, which is regulated by the Public Utilities Commission for the State of Colorado as a public utility with respect to its natural gas transportation and sales services within the state. Rocky Mountain Natural Gas Company also performs certain natural gas transportation services in interstate commerce pursuant to FERC authorization. The Public Utilities Commission for the State of Colorado regulates the rates, terms, and conditions of natural gas sales and transportation services performed by public utilities in the state of Colorado. During 2002, our intrastate pipeline in Wyoming, Northern Gas Company, was merged into Kinder Morgan, Inc. and is now operated as part of our retail distribution business in Wyoming pursuant to approvals received from the Wyoming Public Service Commission.

The operations of our intrastate pipeline business are also affected by FERC rules and regulations issued pursuant to the Natural Gas Act and the Natural Gas Policy Act. Of particular importance are regulations that result in an increased ability to provide interstate transportation services without the necessity of obtaining prior FERC authorization for each transaction. A key element of the program is nondiscriminatory access, under which a regulated pipeline must agree, under certain conditions, to transport natural gas for any party requesting such service.

Retail Natural Gas Distribution Services

Our intrastate pipelines and local natural gas distribution businesses in Colorado, Nebraska and Wyoming are under the regulatory authority of each respective state's utility commission. In certain of the incorporated communities in which we provide retail natural gas services, we operate under franchises granted by the applicable municipal authorities. These franchises vary in duration. In unincorporated areas, our natural gas utility services are not subject to municipal franchise. We have been issued various certificates of public convenience and necessity by the regulatory commissions in Colorado, Nebraska and Wyoming authorizing us to provide natural gas utility services within certain incorporated and unincorporated areas of those states.

We are a leader in providing for customer choice in purchasing gas supply directly from suppliers under our Choice Gas programs in Wyoming and Nebraska. We introduced the Choice Gas program in 1996, under an order issued by the Wyoming Public Service Commission. The program is available to all 71,000 end-use customers we serve in the state. In 1997, we announced a similar plan to give residential and small commercial customers in Nebraska a choice of natural gas suppliers. This program, the Nebraska Choice Gas program, became effective June 1, 1998 and is now available to all 96,000 customers we serve in Nebraska. The programs have succeeded in providing a choice of suppliers, competitive prices, and new products, services and pricing options to our customers, while maintaining reliability and security of supply. Kinder Morgan Retail continues to provide all services other than the natural gas commodity in these programs, and competes with other suppliers in offering natural gas supplies to retail customers.

Environmental Regulation

Our operations and properties are subject to extensive and evolving federal, state and local laws and regulations governing the release or discharge of regulated materials into the environment, or otherwise relating to environmental protection or human health and safety. We have an environmental compliance

program, and we believe that our operations are in substantial compliance with applicable environmental laws and regulations. This program focuses on compliance with state and federal laws and regulations relating to the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and solid waste issues and other related and applicable environmental laws and regulations. Numerous governmental departments issue rules and regulations to implement and enforce such laws, for which compliance is often costly and onerous. Failure to comply with applicable environmental laws may result in substantial administrative, civil, and criminal penalties or injunctions that would restrict operations or require future compliance, damage awards against us, or other mandatory or consensual measures or liabilities. These laws and regulations can also impose liability for remedial costs on the owner or operator of properties or the generators of materials, regardless of fault. Moreover, a trend in environmental law is toward stricter standards, stricter enforcement, and more restrictions on operations. This trend and other developments in environmental law may result in significant cost and liabilities for us.

We had an environmental reserve of approximately $12.9 million at December 31, 2004, to address remediation issues associated with approximately 40 projects. These projects include several ground water and soil hydrocarbon remediation efforts under the jurisdiction and direction of various state agencies. Many of these remediation efforts are the result of historical releases from currently non-operating sites. Additionally, we are addressing impacts at several locations from the historical use of mercury and polychlorinated biphenyls. We believe that costs for environmental remediation and separately ongoing compliance with applicable environmental regulations will not have a material adverse effect on our cash flows, financial position or results of operations, or materially diminish our ability to operate our businesses. However, there can be no assurances that future events, such as changes in existing laws, the promulgation of new laws, the discovery of circumstances or conditions currently unforeseen by us, or that the development of new facts or conditions will not cause us to incur significant unanticipated costs and liabilities.

Risk Factors

Like all businesses, we face various obstacles, including rising legal fees, environmental issues and escalating employee health and benefit costs. Regulatory challenges to our regulated service rates and possible policy changes made by governmental regulatory entities could negatively affect our future financial performance.

Further, we are well aware of the general uncertainty associated with the current world economic and political environments in which we exist and we recognize that we are not immune to the fact that our financial performance is impacted by overall marketplace spending and demand. We are continuing to assess the effect that terrorism would have on our businesses and in response, we have increased security at certain of our assets. Recent federal legislation provides an insurance framework that should cause current insurers to continue to provide sabotage and terrorism coverage under standard property insurance policies. Nonetheless, there is no assurance that adequate sabotage and terrorism insurance will be available at reasonable rates throughout 2005. Currently, we do not believe that the increased cost associated with these measures will have a material effect on our operating results.

Some of our specifically identified risk factors include the following:

1. **We are highly dependent upon the earnings and distributions of Kinder Morgan Energy Partners.** For 2004, approximately 49% of our total segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners was attributable to our general and limited partner interests in Kinder Morgan Energy Partners. A significant decline in Kinder Morgan Energy

Partners' earnings and/or cash distributions would have a corresponding negative impact on us. For more information on these earnings and cash distributions, please see Kinder Morgan Energy Partners' 2004 Annual Report on Form 10-K.

2. **Competition could ultimately lead to lower levels of profits and adversely impact our ability to recontract for expiring transportation capacity at favorable rates.** For 2004, NGPL's segment earnings of $392.8 million represented approximately 40% of total segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners, and approximately 43% of our income from continuing operations before interest and income taxes. NGPL is an interstate natural gas pipeline that is a major supplier to the Chicago, Illinois area. In recent periods, interstate pipeline competitors of NGPL have constructed or expanded pipeline capacity into the Chicago area, although additional take-away capacity has also been constructed. To the extent that an excess of supply into this market area is created and persists, NGPL's ability to recontract for expiring transportation capacity at favorable rates could be impaired. Contracts representing approximately 6% of NGPL's total long-haul, contracted firm transport capacity as of January 24, 2005 are scheduled to expire during 2005.

3. **Our large amount of floating rate debt makes us vulnerable to increases in interest rates.** At December 31, 2004, we had $1.5 billion of debt subject to floating interest rates, all of which was long-term fixed-rate debt converted to floating rates through the use of interest rate swaps. Should interest rates increase significantly, our earnings would be adversely affected. See Note 14 of the accompanying Notes to Consolidated Financial Statements for additional information.

4. **The rates (which include reservation, commodity, surcharges, fuel and gas lost and unaccounted for) we charge shippers on our pipeline systems are subject to regulatory approval and oversight.** While there are currently no material proceedings challenging the rates on any of our natural gas pipeline systems, regulators and shippers on these pipelines do have rights to challenge the rates we charge under certain circumstances prescribed by applicable regulations. We can provide no assurance that we will not face challenges to the rates we receive on our pipeline systems in the future.

5. **Sustained periods of weather inconsistent with normal in areas served by our natural gas transportation and distribution operations can create volatility in our earnings.** Weather-related factors such as temperature and rainfall at certain times of the year affect our earnings in our natural gas transportation and retail natural gas distribution businesses. Sustained periods of temperatures and rainfall that differ from normal can create volatility in our earnings.

6. **Proposed rulemaking by the FERC or other regulatory agencies having jurisdiction could adversely impact our income and operations.** Generally speaking, new laws or regulations or different interpretations of existing laws or regulations applicable to our assets could have a negative impact on our business, financial condition and results of operations.

7. **Environmental regulation and liabilities could result in increased operating and capital costs.** Our business operations are subject to federal, state and local laws and regulations relating to environmental protection, pollution and human health and safety. For example, if an accidental leak or spill occurs at or from our pipelines, or at or from our storage or other facilities, we may have to pay a significant amount to clean up the leak or spill, pay for government penalties, address natural resource damages, compensate for human exposure, install costly pollution control equipment, or a combination of these and other measures. The resulting costs and liabilities could negatively affect our level of earnings and cash flow. In addition, emission controls required under federal and state environmental laws could require significant capital expenditures at our facilities. The impact of environmental standards or future environmental measures could increase our costs significantly.

Since the costs of environmental regulation are already significant, additional or stricter regulation or enforcement could negatively affect our business.

We own or operate numerous properties that have been used for many years in connection with pipeline activities. While we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been released at or from our properties or at or from other properties where such wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose management and disposal of hydrocarbons or other wastes was not under our control. These properties and the wastes disposed thereon may be subject to laws such as the Comprehensive Environmental Response, Compensation, and Liability Act, also known as CERCLA or the Superfund law, which impose joint and several liability without regard to fault or the legality of the original conduct. Under such laws and implementing regulations, we could be required to remove or remediate previously disposed wastes or property contamination, including groundwater contamination caused by prior owners or operators. Imposition of such liability schemes could have a material adverse impact on our operations and financial position.

8. **The distressed financial condition of some of our customers could have an adverse impact on us in the event these customers are unable to pay us for the services we provide.** Some of our customers are experiencing severe financial problems, and other customers may experience severe financial problems in the future. The bankruptcy of one or more of them, or some other similar proceeding or liquidity constraint might make it unlikely that we would be able to collect all or a significant portion of amounts owed by the distressed entity or entities. In addition, such events might force such customers to reduce or curtail their future use of our products and services, which could have a material adverse effect on our results of operations and financial condition.

9. **Increased regulatory requirements relating to the integrity of our pipelines will require us to spend additional money to comply with these requirements.** Through our regulated pipeline subsidiaries, we are subject to extensive laws and regulations related to pipeline integrity. For example, recent federal legislation signed into law in December 2002 includes new guidelines for the U.S. Department of Transportation and pipeline companies in the areas of testing, education, training and communication. Compliance with existing and recently executed regulations requires significant expenditures. Additional laws and regulations that may be enacted in the future could significantly increase the amount of these expenditures.

Other

Amounts we spent during 2004, 2003, and 2002 on research and development activities were not material. We employed 6,072 people at December 31, 2004, including employees of our indirect subsidiary KMGP Services Company, Inc., who are dedicated to the operations of Kinder Morgan Energy Partners.

KMGP Services Company, Inc., a subsidiary of Kinder Morgan G.P., Inc., provides employees and Kinder Morgan Services LLC, a subsidiary of Kinder Morgan Management, provides centralized payroll and employee benefits services to Kinder Morgan Management, Kinder Morgan Energy Partners and Kinder Morgan Energy Partners' operating partnerships and subsidiaries (collectively, "the Group"). Employees of KMGP Services Company, Inc. are assigned to work for one or more members of the Group. The direct costs of compensation, benefits expenses, employer taxes and other employer expenses for these employees are allocated and charged by Kinder Morgan Services LLC to the appropriate members of the Group, and the members of the Group reimburse their allocated shares of these direct costs. No profit or margin is charged by Kinder Morgan Services LLC to the members of the Group. Our human resources department provides the administrative support necessary to implement

these payroll and benefits services, and the related administrative costs are allocated to members of the Group in accordance with existing expense allocation procedures. The effect of these arrangements is that each member of the Group bears the direct compensation and employee benefits costs of its assigned or partially assigned employees, as the case may be, while also bearing its allocable share of administrative costs. Pursuant to the limited partnership agreement, Kinder Morgan Energy Partners provides reimbursement for its share of these administrative costs and such reimbursements are accounted for as described above. Kinder Morgan Energy Partners reimburses Kinder Morgan Management with respect to the costs incurred or allocated to Kinder Morgan Management in accordance with Kinder Morgan Energy Partners' limited partnership agreement, the Delegation of Control Agreement among Kinder Morgan G.P., Inc., Kinder Morgan Management, Kinder Morgan Energy Partners and others, and Kinder Morgan Management's limited liability company agreement.

Our named executive officers and other employees that provide management or services to both us and the Group are employed by us. Additionally, other of our employees assist Kinder Morgan Energy Partners in the operation of its Natural Gas Pipeline assets. These employees' expenses are allocated without a profit component between us and the appropriate members of the Group.

We are of the opinion that, with only insignificant exceptions, we have satisfactory title to the properties owned and used in our businesses, subject to the liens for current taxes, liens incidental to minor encumbrances, and easements and restrictions which do not materially detract from the value of such property or the interests therein or the use of the properties in our businesses. We generally do not own the land on which our pipelines are constructed. Instead, we obtain the right to construct and operate the pipelines on other people's land for a period of time.

(D) Financial Information about Geographic Areas

All but an insignificant amount of our assets and operations are located in the continental United States of America.

(E) Available Information

We make available free of charge on or through our internet website, at http://www.kindermorgan.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Also, we make available free of charge within the "Investors" section of our internet website, at www.kindermorgan.com, and in print to any shareholder who requests, the governance guidelines, the charters of the audit committee, compensation committee and nominating and governance committee, and our code of business conduct and ethics (which applies to senior financial officers and the chief executive officer, among others). Requests for copies may be directed to Investor Relations, Kinder Morgan, Inc., 500 Dallas Street, Suite 1000, Houston, Texas 77002, or telephone (713) 369-9490. We intend to disclose any amendments to our code of business conduct and ethics, and any waiver from a provision of that code granted to our Chief Executive Officer, Chief Financial Officer or Vice President and Controller, on our internet website within five business days following such amendment or waiver. The information contained on or connected to our internet website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the Securities and Exchange Commission.

Item 3. ***Legal Proceedings.***

The reader is directed to Note 9(B) of the accompanying Notes to Consolidated Financial Statements, which is incorporated herein by reference.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

None.

Executive Officers of the Registrant

(A) Identification and Business Experience of Executive Officers

Set forth below is certain information concerning our executive officers. All of our officers serve at the discretion of the board of directors.

Name	Age	Position
Richard D. Kinder.....	60	Director, Chairman, Chief Executive Officer and President
C. Park Shaper	36	Executive Vice President and Chief Financial Officer
David D. Kinder.....	30	Vice President, Corporate Development
Joseph Listengart	36	Vice President, General Counsel and Secretary
Deborah A. Macdonald.....	53	Vice President (President, Natural Gas Pipelines)
James E. Street.....	48	Vice President, Human Resources and Administration
Daniel E. Watson	46	Vice President (President, Retail)

Richard D. Kinder is Director, Chairman, Chief Executive Officer and President of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Kinder was elected President of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. in July 2004. Mr. Kinder has served as Director, Chairman and Chief Executive Officer of Kinder Morgan Management, LLC since its formation in February 2001. He was elected Director, Chairman and Chief Executive Officer of Kinder Morgan, Inc. in October 1999. He was elected Director, Chairman and Chief Executive Officer of Kinder Morgan G.P., Inc. in February 1997. Mr. Kinder is the uncle of David Kinder, Vice President, Corporate Development of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc.

C. Park Shaper is Director, Executive Vice President and Chief Financial Officer of Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. and Executive Vice President and Chief Financial Officer of Kinder Morgan, Inc. Mr. Shaper was elected Executive Vice President of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. in July 2004, and was elected Director of Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. in January 2003. He was elected Vice President, Treasurer and Chief Financial Officer of Kinder Morgan Management, LLC upon its formation in February 2001, and served as Treasurer of Kinder Morgan Management, LLC from February 2001 to January 2004. He has served as Treasurer of Kinder Morgan, Inc. from April2000 to January 2004 and Vice President and Chief Financial Officer of Kinder Morgan, Inc. since January 2000. Mr. Shaper was elected Vice President, Treasurer and Chief Financial Officer of Kinder Morgan G.P., Inc. in January 2000, and served as Treasurer of Kinder Morgan G.P., Inc. from January

2000 to January 2004. He received a Masters of Business Administration degree from the J.L. Kellogg Graduate School of Management at Northwestern University. Mr. Shaper also has a Bachelor of Science degree in Industrial Engineering and a Bachelor of Arts degree in Quantitative Economics from Stanford University.

David D. Kinder is Vice President, Corporate Development of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Kinder was elected Vice President, Corporate Development of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. in October 2002. He served as manager of corporate development for Kinder Morgan, Inc. and Kinder Morgan G.P., Inc. from January 2000 to October 2002. Mr. Kinder graduated cum laude with a Bachelors degree in Finance from Texas Christian University in 1996. Mr. Kinder is the nephew of Richard D. Kinder.

Joseph Listengart is Vice President, General Counsel and Secretary of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Listengart was elected Vice President, General Counsel and Secretary of Kinder Morgan Management, LLC upon its formation in February 2001. He was elected Vice President and General Counsel of Kinder Morgan G.P., Inc. and Vice President, General Counsel and Secretary of Kinder Morgan, Inc. in October 1999. Mr. Listengart was elected Kinder Morgan G.P., Inc.'s Secretary in November 1998 and has been an employee of Kinder Morgan G.P., Inc. since March 1998. Mr. Listengart received his Masters in Business Administration from Boston University in January 1995, his Juris Doctor, magna cum laude, from Boston University in May 1994, and his Bachelor of Arts degree in Economics from Stanford University in June 1990.

Deborah A. Macdonald is Vice President (President, Natural Gas Pipelines) of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. She was elected Vice President (President, Natural Gas Pipelines) of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. in June 2002. Ms. Macdonald served as President of NGPL from October 1999 to March 2003. Ms. Macdonald received her Juris Doctor, summa cum laude, from Creighton University in May 1980 and received a Bachelors degree, magna cum laude, from Creighton University in December 1972.

James E. Street is Vice President, Human Resources and Administration of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Street was elected Vice President, Human Resources and Administration of Kinder Morgan Management, LLC upon its formation in February 2001. He was elected Vice President, Human Resources and Administration of Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. in August 1999. Mr. Street received a Masters of Business Administration degree from the University of Nebraska at Omaha and a Bachelor of Science degree from the University of Nebraska at Kearney.

Daniel E. Watson is Vice President (President, Retail) for Kinder Morgan, Inc. Mr. Watson was elected Vice President (President, Retail) in October 1999. Mr. Watson also holds the title of President of Rocky Mountain Natural Gas Company, a Kinder Morgan, Inc. subsidiary. He has served as President, Rocky Mountain Natural Gas Company since October 1999. Mr. Watson received a Bachelor of Science degree in Geological Engineering in December, 1979, and a Bachelor of Science degree in Mining Engineering in May 1980, from the South Dakota School of Mines and Technology.

(B) Involvement in Certain Legal Proceedings

None.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Our common stock is listed for trading on the New York Stock Exchange under the symbol "KMI." Dividends paid and the high and low sale prices per share, as reported on the New York Stock Exchange, of our common stock by quarter for the last two years are provided below. In January 2005, we increased our quarterly common dividend to $0.70 per share.

	Market Price Per Share			
	2004		2003	
	Low	High	Low	High
Quarter Ended:				
March 31	$58.37	$64.62	$42.25	$46.85
June 30	$56.85	$64.25	$44.00	$56.97
September 30	$58.06	$62.99	$51.45	$54.97
December 31	$62.04	$73.82	$51.72	$59.27

	Dividends Paid Per Share	
	2004	2003
Quarter Ended:		
March 31	$0.5625	$0.1500
June 30	$0.5625	$0.1500
September 30	$0.5625	$0.4000
December 31	$0.5625	$0.4000

Stockholders as of February 3, 2005 ..... 89,000 (approximately)

There were no sales of unregistered equity securities during the period covered by this report.

Information required by this item is contained under the caption "Equity Compensation Plan Information" in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference.

Our Purchases of Our Common Stock

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2004	-	$ -	-	$ 42,223,515
November 1 to November 30, 2004	207,600	$ 68.88	207,600	$227,919,248
December 1 to December 31, 2004	557,200	$ 70.27	557,200	$188,754,232
Total	764,800	$ 69.89	764,800	$188,754,232

[1] All purchases were made pursuant to our publicly announced repurchase plan.

[2] On August 14, 2001, we announced a plan to repurchase $300 million of our outstanding common stock, which program was increased to $400 million, $450 million, $500 million, $550 million and $750 million in February 2002, July 2002, November 2003, April 2004 and November 2004, respectively.

Item 6. *Selected Financial Data.*

Five-Year Review
Kinder Morgan, Inc. and Subsidiaries[1]

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands except per share amounts)				
Operating Revenues	$1,164,933	$1,097,897	$1,015,255	$1,054,907	$2,678,956
Gas Purchases and Other Costs of Sales	349,564	354,261	311,224	339,301	1,925,971
Other Operating Expenses[2]	417,441	387,543	467,364	331,287	357,842
Operating Income	397,928	356,093	236,667	384,319	395,143
Other Income and (Expenses)	357,293	270,211	206,063	308	(87,977)
Income from Continuing Operations Before Income Taxes	755,221	626,304	442,730	384,627	307,166
Income Taxes	226,717	244,600	135,019	159,557	123,017
Income from Continuing Operations	528,504	381,704	307,711	225,070	184,149
Loss from Discontinued Operations, Net of Tax	(6,424)	-	(4,986)	-	(31,734)
Net Income	$ 522,080	$ 381,704	$ 302,725	$ 225,070	$ 152,415
Basic Earnings (Loss) Per Common Share:					
Continuing Operations	$ 4.27	$ 3.11	$ 2.52	$ 1.95	$ 1.62
Discontinued Operations	(0.05)	-	(0.04)	-	(0.28)
Total Basic Earnings Per Common Share	$ 4.22	$ 3.11	$ 2.48	$ 1.95	$ 1.34
Number of Shares Used in Computing Basic Earnings (Loss) Per Common Share	123,778	122,605	122,184	115,243	114,063
Diluted Earnings (Loss) Per Common Share:					
Continuing Operations	$ 4.23	$ 3.08	$ 2.49	$ 1.86	$ 1.61
Discontinued Operations	(0.05)	-	(0.04)	-	(0.28)
Total Diluted Earnings Per Common Share	$ 4.18	$ 3.08	$ 2.45	$ 1.86	$ 1.33
Number of Shares Used in Computing Diluted Earnings (Loss) Per Common Share	124,938	123,824	123,402	121,326	115,030
Dividends Per Common Share	$ 2.25	$ 1.10	$ 0.30	$ 0.20	$ 0.20
Capital Expenditures[3]	$ 164,242	$ 160,804	$ 174,953	$ 124,171	$ 85,654

[1] Includes significant impacts from dispositions of assets. See Notes 1 (Q) and 5 of the accompanying Notes to Consolidated Financial Statements for information regarding dispositions during 2004, 2003 and 2002.

[2] Includes charges of $33.5 million, $44.5 million and $134.5 million in 2004, 2003 and 2002, respectively, to reduce the carrying value of certain power assets; see Note 6 of the accompanying Notes to Consolidated Financial Statements.

[3] Capital Expenditures shown are for continuing operations only.

	As of December 31,									
	2004		2003		2002		2001		2000	
	(In thousands except per share amounts)									
Total Assets	$10,116,901		$10,036,711		$10,102,750		$9,513,121		$8,396,678	
Capitalization:										
Common Equity[1]	$ 2,919,496	45%	$ 2,691,800	39%	$ 2,399,716	37%	$2,250,129	39%	$1,777,624	39%
Deferrable Interest Debentures[2]	283,600	4%	283,600	4%	-	-	-	-	-	-
Preferred Capital Trust Securities[2]	-	-	-	-	275,000	4%	275,000	5%	275,000	6%
Minority Interests	1,105,436	17%	1,010,140	15%	967,802	15%	817,513	14%	4,910	-
Outstanding Notes and Debentures[3]	2,257,950	34%	2,837,487	42%	2,852,181	44%	2,409,798	42%	2,478,983	55%
Total Capitalization	$ 6,566,482	100%	$ 6,823,027	100%	$ 6,494,699	100%	$5,752,440	100%	$4,536,517	100%
Book Value Per Common Share	$ 23.19		$ 21.62		$ 19.35		$ 18.24		$ 15.53	

1 Excluding Accumulated Other Comprehensive Income/Loss.
2 As a result of our adoption of FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities*, the subsidiary trusts associated with these securities are no longer consolidated, effective December 31, 2003.
3 Excluding the value of interest rate swaps. See Note 14 of the accompanying Notes to Consolidated Financial Statements.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, referred to in the following discussion as "SFAS 142." SFAS 142, which superceded Accounting Principles Board Opinion No. 17, *Intangible Assets*, addresses financial accounting and reporting for (i) intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition and (ii) goodwill and other intangible assets subsequent to their acquisition. SFAS 142 is required to be applied starting with fiscal years beginning after December 15, 2001. We adopted SFAS 142 effective January 1, 2002.

Had the provisions of SFAS 142 been in effect during the periods prior to January 1, 2002 presented above, goodwill amortization would have been eliminated, increasing net income and associated per share amounts as follows:

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands, except per share amounts)				
Reported Net Income	$522,080	$381,704	$302,725	$225,070	$152,415
Add Back: Goodwill Amortization, Net of Related Tax Benefit	-	-	-	16,198	17,368
Adjusted Net Income	$522,080	$381,704	$302,725	$241,268	$169,783
Reported Earnings per Diluted Share	$ 4.18	$ 3.08	$ 2.45	$ 1.86	$ 1.33
Earnings per Diluted Share, as Adjusted	$ 4.18	$ 3.08	$ 2.45	$ 1.99	$ 1.48

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

General

In this report, unless the context requires otherwise, references to "we," "us," "our," or the "Company" are intended to mean Kinder Morgan, Inc. and its consolidated subsidiaries. The following discussion should be read in conjunction with the accompanying Consolidated Financial Statements and related Notes. Specifically, as discussed in Notes 4, 5 and 7 of the accompanying Notes to Consolidated Financial Statements, we have engaged in acquisitions (including the October 1999 acquisition of Kinder Morgan (Delaware), Inc., the indirect owner of the general partner interest in Kinder Morgan Energy Partners, L.P., a publicly traded master limited partnership, referred to in this report as Kinder Morgan Energy Partners), and divestitures (including the discontinuance of certain lines of business and the transfer of certain assets to Kinder Morgan Energy Partners) that may affect comparisons of financial position and results of operations between periods.

We are a provider of energy and related services through our direct ownership and operation of energy-related assets, and through our ownership interests in and operation of Kinder Morgan Energy Partners. Our energy-related assets owned and operated directly (which, during 2005, are budgeted to contribute approximately 47% of the total of our segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners) include natural gas pipelines, natural gas storage facilities, retail natural gas distribution facilities and a relatively small investment in natural gas-fired power generation facilities. Our investment in Kinder Morgan Energy Partners, (which, during 2005, is budgeted to contribute approximately 53% of the total of our segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners) includes ownership of the general partner interest, as well as ownership of limited partner units and shares of Kinder Morgan Management, LLC, referred to in this report as Kinder Morgan Management.

As described under "Business Strategy" elsewhere in this report, our strategy and focus continues to be on ownership of fee-based energy-related assets which are core to the energy infrastructure of the country and serve growing markets. These assets tend to have relatively stable cash flows while presenting us with opportunities to expand our facilities to serve additional customers and nearby markets. We evaluate the performance of our investment in these assets using, among other measures, segment earnings. In addition, please see "Developments During 2004" under Items 1 and 2 "Business and Properties" elsewhere in this report.

The variability of our operating results is attributable to a number of factors including (i) variability within national and local markets for energy and related services, including the effects of competition, (ii) the impact of regulatory proceedings, (iii) the effect of weather on customer energy and related services usage, as well as our operation and construction activities, (iv) increases or decreases in interest rates, (v) the degree of our success in controlling costs and identifying and carrying out profitable expansion projects and (vi) changes in taxation policy or regulated rates. Certain of these factors are beyond our direct control, but we operate a structured risk management program to mitigate certain of the risks associated with changes in the price of natural gas, interest rates and weather (relative to historical norms). The remaining risks are primarily mitigated through our strategic and operational planning and monitoring processes. See "Risk Factors" elsewhere in this report.

Effective November 1, 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners (see Note 5 of the accompanying Notes to Consolidated Financial Statements). Our remaining businesses (apart from our investment in Kinder Morgan Energy Partners) constitute three business segments. Our largest business segment and our primary source of operating income is

NGPL, which owns and operates a major interstate natural gas pipeline system that runs from natural gas producing areas in West Texas and the Gulf of Mexico to its principal market area of Chicago, Illinois. In accordance with our strategy to increase operational focus on core assets, we have worked toward renewing existing agreements and entering into new agreements to fully utilize the transportation and storage capacity of NGPL's system. As a result, NGPL sold virtually all of its capacity through the 2004-2005 winter season. NGPL continues to pursue opportunities to expand its system and has announced transmission and storage service expansions in northeast Texas and southern Oklahoma expected to cost approximately $56 million.

Our other business segments consist of (i) our retail distribution of natural gas to approximately 243,000 customers in Colorado, Wyoming and Nebraska and (ii) our investment in, in some cases, operation of, and in previous periods construction of electric power generation facilities. Our retail natural gas distribution operations are located, in part, in areas where significant population and economic growth is occurring and we expect to participate in that growth through increased natural gas demand. Our power segment owns interests in and, in some cases, operates power generation facilities, and continues to hold preferred investments in two gas-fired power plants constructed by us and placed into operation in 2002. During the fourth quarter of 2002, we announced that we were discontinuing our power development activities and we revalued certain of our power assets. We also revalued certain of our power assets during the fourth quarters of 2004 and 2003. See "Power" following and Note 6 of the accompanying Notes to Consolidated Financial Statements.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America and contained within this report. Certain amounts included in or affecting our financial statements and related disclosure must be estimated, requiring us to make certain assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared. The reported amounts of our assets and liabilities, revenues and expenses and associated disclosures with respect to contingent assets and obligations are necessarily affected by these estimates. We evaluate these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates.

In preparing our financial statements and related disclosures, we must use estimates in determining the economic useful lives of our assets, the effective income tax rate to apply to our pre-tax income, obligations under our employee benefit plans, provisions for uncollectible accounts receivable, unbilled revenues for our natural gas distribution deliveries for which meters have not yet been read, exposures under contractual indemnifications and various other recorded or disclosed amounts. Certain of these accounting estimates are of more significance in our financial statement preparation process than others.

In our retail natural gas distribution business, because we read customer meters on a cycle basis, we are required to estimate the amount of revenue earned as of the end of each period for which service has been rendered but meters have not yet been read. We have historical information available for these meters and, together with weather-related data that is indicative of natural gas demand, we are able to make reasonable estimates. In our natural gas pipeline businesses, we are similarly required to make estimates for services rendered but for which actual metered volumes are not available at reporting dates. As with our retail natural gas distribution business, we have historical data available to assist us in the estimation process, but the variations in volume are greater, introducing a larger possibility of error. We believe that our estimates, which are replaced with actual metered volumes in the next accounting month, provide acceptable approximations of the actual revenue earned during any period, especially

given that the majority of our revenues in the pipeline business are derived from demand charges, which do not vary with the actual amount of gas transported.

With respect to the amount of income or expense we recognize in association with our pension and retiree medical plans, we must make a number of assumptions with respect to both future financial conditions (for example, medical costs, returns on fund assets and market interest rates) as well as future actions by plan participants (for example, when they will retire and how long they will live after retirement). Most of these assumptions have relatively minor impacts on the overall accounting recognition given to these plans, but two assumptions in particular, the discount rate and the assumed long-term rate of return on fund assets, can have significant effects on the amount of expense recorded and liability recognized. The selection of these assumptions is discussed in Note 15 of the accompanying Notes to Consolidated Financial Statements. While we believe our choices for these assumptions are appropriate in the circumstances, other assumptions could also be reasonably applied and, therefore, we note that, at our current level of pension and retiree medical funding, a change of 1% in the long-term return assumption would increase (decrease) our annual retiree medical expense by approximately $576,000 ($576,000) and would increase (decrease) our annual pension expense by $1.8 million ($1.8 million) in comparison to that recorded in 2004. Similarly, a 1% change in the discount rate would increase (decrease) our accumulated postretirement benefit obligation by $8.9 million ($8.0 million) and would increase (decrease) our accumulated pension obligation by $26.8 million ($23.5 million) compared to those balances as of December 31, 2004.

With respect to our environmental exposure, we utilize both internal staff and external experts to assist us in identifying environmental issues and in estimating the costs and timing of remediation efforts. These estimates are affected by the choice of remediation methods as well as the expected timing and length of the effort. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs. These revisions are reflected in our income in the period in which they are reasonably determinable.

We are subject to litigation as the result of our business operations and transactions. We utilize both internal and external counsel in evaluating our potential exposure to adverse outcomes from judgments or settlements. To the extent that actual outcomes differ from our estimates, or additional facts and circumstances cause us to revise our estimates, our earnings will be affected.

We record a valuation allowance to reduce our deferred tax assets to an amount that is more likely than not to be realized. While we have considered future taxable income and prudent and feasible tax planning strategies in determining the amount of our valuation allowance, any change in the amount that we expect to ultimately realize will be included in income in the period in which such a determination is reached. In addition, we do business in a number of states with differing laws concerning how income subject to each state's tax structure is measured and at what effective rate such income is taxed. Therefore, we must make estimates of how our income will be apportioned among the various states in order to arrive at an overall effective tax rate. Changes in our effective rate, including any effect on previously recorded deferred taxes, are recorded in the period in which the need for such change is identified.

As discussed under "Risk Management" in Item 7A of this report, we enter into derivative contracts (natural gas futures, swaps and options) solely for the purpose of mitigating risks that accompany our normal business activities, including fluctuations in interest rates and the price of natural gas and associated transportation. We account for these derivative transactions as hedges in accordance with authoritative accounting guidelines, marking the derivatives to market at each reporting date, with the unrealized gains and losses either recognized as part of comprehensive income or, in the case of interest rate swaps, as a valuation adjustment to the underlying debt. Any inefficiency in the performance of the

hedge is recognized in income currently and, ultimately, the financial results of the hedge are recognized concurrently with the financial results of the underlying hedged item. All but an insignificant amount of our natural gas related derivatives are for terms of 18 months or less, allowing us to utilize widely available, published forward pricing curves in determining all of our appropriate market values. Our interest rate swaps are similar in nature to many other such financial instruments and are valued for us by commercial banks with expertise in such valuations.

Consolidated Financial Results

	Year Ended December 31,		
	2004	2003	2002
	(In thousands except per share amounts)		
Operating Revenues	$1,164,933	$1,097,897	$1,015,255
Gas Purchases and Other Costs of Sales	(349,564)	(354,261)	(311,224)
General and Administrative Expenses	(77,841)	(71,741)	(73,496)
Other Operating Expenses[1]	(339,600)	(315,802)	(393,868)
Operating Income	397,928	356,093	236,667
Other Income and (Expenses)	357,293	270,211	206,063
Income Taxes	(226,717)	(244,600)	(135,019)
Income from Continuing Operations	528,504	381,704	307,711
Loss on Disposal of Discontinued Operations, Net of Tax	(6,424)	-	(4,986)
Net Income	$ 522,080	$ 381,704	$ 302,725
Diluted Earnings (Loss) Per Common Share:			
Income from Continuing Operations	$ 4.23	$ 3.08	$ 2.49
Loss on Disposal of Discontinued Operations	(0.05)	-	(0.04)
Total Diluted Earnings Per Common Share	$ 4.18	$ 3.08	$ 2.45
Number of Shares Used in Computing Diluted Earnings (Loss) Per Common Share	124,938	123,824	123,402

[1] Includes charges of $33.5 million, $44.5 million and $134.5 million in 2004, 2003 and 2002, respectively, to reduce the carrying value of certain power assets as discussed under “Power” following.

Our income from continuing operations increased from $381.7 million in 2003 to $528.5 million in 2004, an increase of $146.8 million (38%). Income from continuing operations for 2004 included (i) an increase of $65 million representing a reduction in income tax expense due principally to the impact of a reduction in the estimated effective income tax rate on the deferred tax liability balance, (ii) a pre-tax net decrease of $15.0 million attributable to the impairment of certain assets in our power business, partially offset by the recognition of deferred power development revenues and the impact of the resolution of certain litigation contingencies, (iii) a $3.9 million pre-tax charge due to the early extinguishment of debt and (iv) miscellaneous other pre-tax charges totaling $1.6 million. These items increased 2004 income from continuing operations by $52.7 million or $0.42 per diluted share. Our income from continuing operations for 2003 included (i) a pre-tax charge of $47.4 million attributable to the impairment of certain assets in our power business, (ii) a pre-tax loss of $4.3 million resulting from the sale of our interest in Igasamex USA Ltd. and (iii) a $2.9 million increase in earnings resulting from the settlement of a note receivable in an amount in excess of its carrying value. These items reduced 2003 income from continuing operations by $30.2 million or $0.25 per diluted share.

In addition to the items discussed above, the increase in income from continuing operations from 2003 to 2004 reflected increased operating income due to (i) increased earnings from our NGPL and Kinder Morgan Retail business segments and (ii) the consolidation of the results of operations of our Triton Power affiliates in 2004, which added $6.6 million to our consolidated operating income (although this

increase was entirely offset by minority interest). These favorable operating income impacts were partially offset by (i) decreased earnings from our TransColorado business segment that was contributed during 2004, (ii) decreased earnings from our Power business segment and (iii) increased 2004 general and administrative expenses due principally to increased legal, accounting and employee benefits expenses. Operating revenues increased by $67.0 million (6%) from 2003 to 2004 reflecting, in addition to the incremental power development revenues discussed above, (i) increased revenues in our Kinder Morgan Retail business segment and (ii) increased revenues in our Power segment due to the inclusion of our Triton Power affiliates in 2004 consolidated operating results. These increased operating revenues were partially offset by decreased operating revenues from our NGPL and TransColorado business segments. Please refer to the individual business segment discussions included elsewhere herein for additional information regarding business segment results. Refer to the headings "Other Income and (Expenses)," "Income Taxes – Continuing Operations" and "Discontinued Operations" included elsewhere herein for additional information regarding these items.

"Other Income and (Expenses)" increased from $270.2 million in 2003 to $357.3 million in 2004, an increase of $87.1 million (32%). This increase reflected increased equity in earnings of Kinder Morgan Energy Partners in 2004, due principally to the improved performance from the assets held by Kinder Morgan Energy Partners, and decreased 2004 interest expense resulting principally from our lower debt balances. These positive impacts were partially offset by the inclusion of the minority interests in Triton Power, as discussed above, and by an increase of $9.0 million in minority interest expense attributable to the minority interests in Kinder Morgan Management See "Other Income and (Expenses)" following for additional information.

Our income from continuing operations increased from $307.7 million in 2002 to $381.7 million in 2003, an increase of $74.0 million (24%). Our income from continuing operations for 2002 included (i) a pre-tax charge of $134.5 million attributable to the impairment of certain assets in our Power business, (ii) an earnings increase of $42 million representing a reduction in income tax expense due principally to the impact of a reduction in the estimated effective income tax rate on the deferred tax liability balance, and (iii) other miscellaneous items totaling a net pre-tax earnings reduction of $1.4 million. These items reduced 2002 income from continuing operations by $41.9 million or $0.35 per diluted share.

In addition to the items discussed above, the increase in income from continuing operations from 2002 to 2003 reflected increased operating income from (i) increased 2003 segment earnings from our NGPL, TransColorado and Kinder Morgan Retail business segments and (ii) decreased 2003 general and administrative expenses. These positive impacts were partially offset by decreased 2003 segment earnings from our Power business segment. Operating revenues for 2003, in comparison to 2002, increased by $82.6 million (8%). The increase in operating revenues was attributable to increased revenues in our NGPL and TransColorado business segments, partially offset by decreased revenues in our Power and Kinder Morgan Retail business segments. Additional information concerning the revenues and earnings of our business segments are discussed following.

"Other Income and (Expenses)" increased from $206.1 million in 2002 to $270.2 million in 2003, an increase of $64.1 million (31%). This increase reflected (i) increased equity in earnings of Kinder Morgan Energy Partners in 2003 due principally to the improved performance from the assets held by Kinder Morgan Energy Partners and (ii) decreased 2003 interest expense resulting principally from our lower debt balances. These positive impacts were partially offset by (i) an increase of $8.1 million in minority interest expense attributable to the minority interests in Kinder Morgan Management and (ii) a $17.4 million decrease in net gains from asset sales in 2003 (see Note 1(Q) of the accompanying Notes to Consolidated Financial Statements).

Total diluted earnings per share increased from $3.08 in 2003 to $4.18 in 2004, an increase of $1.10 (36%). This increase reflected, in addition to the financial and operating impacts discussed preceding, an increase of 1.1 million (0.9%) in average shares outstanding. The increase in average shares outstanding resulted from (i) newly-issued shares due to (1) the employee stock purchase plan, (2) the issuance of restricted stock and (3) exercises of stock options by employees and (ii) the increased dilutive effect of stock options resulting from the increase in the market price of our shares (see Notes 1(E) and 16 of the accompanying Notes to Consolidated Financial Statements). These increases in average shares outstanding were partially offset by our share repurchases (see Note 12(D) of the accompanying Notes to Consolidated Financial Statements). Diluted earnings per common share from continuing operations increased from $3.08 in 2003 to $4.23 in 2004, an increase of $1.15 (37%).

Total diluted earnings per share increased from $2.45 in 2002 to $3.08 in 2003, an increase of $0.63 (26%) reflecting, in addition to the financial and operating impacts discussed preceding, an increase of 0.4 million (0.3%) in average shares outstanding. Average shares outstanding increased in 2003 for principally the same reasons given for the increase in average shares outstanding in 2004. Diluted earnings per share from continuing operations increased from $2.49 in 2002 to $3.08 in 2003, an increase of $0.59 (24%).

Results of Operations

We manage our various businesses by, among other things, allocating capital and monitoring operating performance. This management process includes dividing the company into business segments so that performance can be effectively monitored and reported for a limited number of discrete businesses.

TransColorado Gas Transmission Company was a 50/50 joint venture with Questar Corp. until we became sole owner by purchasing Questar Corp.'s interest effective October 1, 2002. Results of operations for this segment include our 50% share of TransColorado's earnings recognized under the equity method of accounting prior to October 2002 and consolidated results at the 100% level thereafter until, effective November 1, 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners (see Note 5 of the accompanying Notes to Consolidated Financial Statements). Effective with the contribution, the results of operations of TransColorado Gas Transmission Company are no longer included in our consolidated results of operations or our TransColorado business segment results.

In addition to our three remaining business segments, we derive a substantial portion of earnings from our investment in Kinder Morgan Energy Partners, which is discussed under "Earnings from our Investment in Kinder Morgan Energy Partners" following.

Business Segment	Business Conducted	Referred to As:
Natural Gas Pipeline Company of America and certain affiliates	The ownership and operation of a major interstate natural gas pipeline and storage system	Natural Gas Pipeline Company of America, or NGPL
TransColorado Gas Transmission Company	Prior to its disposition on November 1, 2004, the ownership and operation of an interstate natural gas pipeline system in Colorado and New Mexico	TransColorado

Retail Natural Gas Distribution	The regulated sale and transportation of natural gas to residential, commercial and industrial customers (including a small distribution system in Hermosillo, Mexico) and the sales of natural gas to certain utility customers under the Choice Gas program	Kinder Morgan Retail
Power Generation.....	The operation and, in previous periods, development and construction of natural gas-fired electric generation facilities	Power

In the fourth quarter of 2002, as further discussed under "Power" following, we decided to discontinue the development portion of our power generation business and decreased the carrying value of certain of our power assets. Additional reductions in the carrying value of certain power assets have been made subsequently.

The accounting policies we apply in the generation of business segment earnings are generally the same as those described in Note 1 of the accompanying Notes to Consolidated Financial Statements, except that (i) certain items below the "Operating Income" line are either not allocated to business segments or are not considered by management in its evaluation of business segment performance and (ii) equity in earnings of equity method investees, other than Kinder Morgan Energy Partners and certain insignificant international investees, are included. These equity method earnings are included in "Other Income and (Expenses)" in our Consolidated Statements of Operations. In addition, (i) certain items included in operating income (such as general and administrative expenses) are not allocated to individual business segments and (ii) gains and losses from incidental sales of assets are included in segment earnings. We account for intersegment sales at market prices, while we account for asset transfers at either market value or, in some instances, book value.

Following are operating results by individual business segment (before intersegment eliminations), including explanations of significant variances between the periods presented. As necessary for comparative purposes, we have reclassified prior period results and balances to conform to the current presentation.

Natural Gas Pipeline Company of America

	Year Ended December 31,		
	2004	**2003**	**2002**
	(In thousands except systems throughput)		
Operating Revenues.....	$ 778,877	$ 784,732	$ 699,998
Gas Purchases and Other Costs of Sales.....	$ 188,757	$ 226,599	$ 160,849
Segment Earnings.....	$ 392,806	$ 372,017	$ 359,911
Systems Throughput (Trillion Btus).....	1,539.6	1,498.6	1,480.5

NGPL's segment earnings increased from $372.0 million in 2003 to $392.8 million in 2004, an increase of $20.8 million (6%). Segment earnings for 2004 were positively impacted, relative to 2003, by (i) increased transportation and storage service revenues in 2004 resulting, in part, from successful re-contracting of transportation capacity and the recent expansion of our storage system, (ii) increased

margins from operational gas sales largely due to higher market prices, (iii) $4.0 million in contractual customer penalty charges in 2004 that were billed prior to December 1, 2003, the effective date for NGPL's Order 637 provisions, but had been reserved pending the final outcome of its Order 637 filings (see Note 8 of the accompanying Notes to Consolidated Financial Statements) and (iv) $2.3 million in pre-tax gains in 2004 from the sale of certain assets, principally land parcels in Illinois. These favorable impacts were partially offset by (i) the fact that 2003 results included increased margin associated with the favorable conclusion of a regulatory matter, (ii) increased operations and maintenance expenses in 2004 resulting principally from increased hydrostatic testing and electric compression costs and (iii) increased depreciation expense due, in part, to system expansions. NGPL's segment results for 2003 do not include a reduction of $4.1 million in interest expense attributable to the final settlement of a regulatory matter, which amount is included in "Interest Expense, Net" as discussed elsewhere herein. The decrease in overall operating revenues in 2004, relative to 2003, was largely the result of decreased operational gas sales volumes and 2003 revenue recorded in conjunction with the conclusion of a regulatory matter. NGPL's operational sales are primarily made possible by its collection of fuel in-kind pursuant to its transportation tariffs. These negative impacts on revenue were partially offset by the increase in transportation and storage service revenues and contractual customer penalty charges, as discussed above.

NGPL's segment earnings increased from $359.9 million in 2002 to $372.0 million in 2003, an increase of $12.1 million (3%). Segment earnings for 2003 were positively impacted, relative to 2002, by (i) increased margin from transportation and storage services, including operational natural gas sales, primarily resulting from expansion and extension projects coming on line during and after the end of the second quarter of 2002 as discussed below and (ii) increased margin associated with a regulatory matter that was concluded in 2003. These positive impacts were partially offset by increased depreciation expense related to the expansion and extension projects and increased property taxes. As discussed above, NGPL's segment results for 2003 do not include a reduction of $4.1 million in interest expense attributable to the final settlement of a regulatory matter. The increase in overall operating revenues, which was largely offset by a corresponding increase in cost of sales, was due to increased revenues from 2003 operational natural gas sales and increased transportation and storage revenues, largely due to expansions and extensions of pipeline and storage facilities.

In the second quarter of 2004, NGPL completed construction of 10.7 Bcf of storage service expansion at its existing North Lansing storage facility in east Texas, all of which is fully subscribed under long-term contracts. Effective September 1, 2004, NGPL acquired the Black Marlin Pipeline, a 38-mile, 30-inch pipeline that runs from Bryan County, Oklahoma to Lamar County, Texas. The Black Marlin Pipeline ties into NGPL's Amarillo/Gulf Coast line and increased this line's capacity by 38,000 dekatherms per day ("Dth/day"). This incremental capacity was fully subscribed in an open season under long-term contracts.

NGPL has announced two projects, with a combined cost of approximately $56 million, to expand services and flexibility on its systems. These projects are the Amarillo/Gulf Coast and Oklahoma Extension capacity expansion and the Sayre storage expansion. The Amarillo/Gulf Coast and Oklahoma Extension capacity expansion, pending FERC approval, will add 51,000 Dth/day of cross-haul capacity on the Amarillo/Gulf Coast line and 20,000 Dth/day of capacity on the Oklahoma Extension (a.k.a. Segment One). NGPL filed for FERC approval on December 6, 2004 and expects service to begin during the spring of 2006. All of this incremental capacity has been subscribed under long-term contracts. The additional capacity will be added by installing additional horsepower at two compressor stations and modifying existing equipment at two other compressor stations. As part of a separate open season, NGPL received shipper commitments for a 10 Bcf expansion of its Sayre Storage system in Beckham County, Oklahoma, pending FERC approval. NGPL filed for FERC approval on October 18, 2004 and expects service to begin during the spring of 2006. This incremental capacity is

fully subscribed under long-term contracts. The additional capacity will be added by drilling additional wells, installing additional compression and dehydration equipment and expanding the gathering system.

Horizon Pipeline Company, which provides natural gas transportation capacity to the growing northern Illinois market, began service in the second quarter of 2002. Horizon Pipeline Company is a 50/50 joint venture with Nicor Inc. Our equity in the earnings of Horizon Pipeline Company was $1.6 million, $1.5 million and $1.3 million in 2004, 2003 and 2002, respectively. NGPL's lateral extension into the eastern portion of the St. Louis metropolitan area began service in the third quarter of 2002.

Substantially all of NGPL's pipeline capacity is committed under firm transportation contracts ranging from one to five years. Under these contracts, over 90% of the revenues are derived from a demand charge and, therefore, are collected regardless of the volume of gas actually transported. The principal impact of the actual level of gas transported is on fuel recoveries, which are received in-kind as volumes move on the system. Approximately 68% of the total transportation volumes committed under NGPL's long-term firm transportation contracts in effect on January 27, 2005 had remaining terms of less than three years. Contracts representing approximately 6% of NGPL's total long-haul, contracted firm transport capacity as of January 24, 2005 are scheduled to expire during 2005. NGPL continues to actively pursue the renegotiation, extension and/or replacement of expiring contracts. Nicor Gas and Peoples Energy, two local gas distribution companies in the Chicago, Illinois area, are NGPL's two largest customers.

For 2005, we currently expect that NGPL will experience 5% growth in segment earnings in comparison to 2004. This increase in earnings is expected to be derived primarily from an increase in storage and firm transport revenues resulting from successful re-contracting at marginally higher rates, a 4.4 Bcf storage expansion being placed in service in the spring of 2005, a full year of revenue from the Black Marlin pipeline acquisition and increased margins from operational gas sales including incremental sales of cushion gas. However, as discussed following, there are factors beyond our control that can affect our results, including developments in the regulatory arena and as yet unforeseen competitive developments. Accordingly, our actual future results may differ significantly from our projections.

Our principal exposure to market variability is related to the variation in natural gas prices and basis differentials, which can affect gross margins in our NGPL segment. "Basis differential" is a term that refers to the difference in natural gas prices between two locations or two points in time. These price differences can be affected by, among other things, natural gas supply and demand, available transportation capacity, storage inventories and deliverability, prices of alternative fuels and weather conditions. In recent periods, additional competitive pressures have been generated in Midwest natural gas markets due to the introduction and planned introduction of pipeline capacity to bring additional supplies of natural gas into the Chicago market area, although incremental pipeline capacity to take gas out of the area has also been constructed. We have attempted to reduce our exposure to this form of market variability by pursuing long-term, fixed-rate type contract agreements to utilize the capacity on NGPL's system. In addition, as discussed under "Risk Management" in Item 7A of this report and in Note 14 of the accompanying Notes to Consolidated Financial Statements, we utilize a comprehensive risk management program to mitigate our exposure to changes in the market price of natural gas and associated transportation.

The majority of NGPL's system is subject to rate regulation under the jurisdiction of the Federal Energy Regulatory Commission. Currently, there are no material proceedings challenging the rates (which include reservation, commodity, surcharges, fuel and gas lost and unaccounted for) on any of our pipeline systems. Nonetheless, shippers on our pipelines do have rights, under certain circumstances

prescribed by applicable regulations, to challenge the rates we charge. There can be no assurance that we will not face future challenges to the rates we receive for services on our pipeline systems.

TransColorado

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Operating Revenues	$ 28,795	$ 32,197	$ 7,818
Gas Purchases and Other Costs of Sales	$ 777	$ 608	$ -
Segment Earnings	$ 20,255	$ 23,112	$ 12,648

Effective November 1, 2004 we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners (see Note 5 of the accompanying Notes to Consolidated Financial Statements). TransColorado was a 50/50 joint venture with Questar Corp. until we bought Questar's interest effective October 1, 2002, thus becoming the sole owner. As a result, TransColorado's results shown above reflect our 50% equity interest in its earnings prior to October 1, 2002, 100% of its results on a consolidated basis from October 1, 2002 through October 31, 2004 and nothing thereafter, however, we will continue to participate in the results of operations of TransColorado through our equity investment in Kinder Morgan Energy Partners. We recognized a $0.6 million pre-tax loss from the contribution of TransColorado, which is included in segment earnings, as reported above. TransColorado's segment earnings decreased from $23.1 million in 2003 to $20.3 million in 2004, principally due to the fact that 2004 results include only the ten months through October 2004 and also include the $0.6 million pre-tax loss from the contribution of TransColorado. TransColorado's segment earnings increased from $12.6 million in 2002 to $23.1 million in 2003. Results for 2003, relative to 2002, reflected, in addition to a full year at the increased level of ownership, the favorable impact of wide basis differentials on certain transportation contracts.

Kinder Morgan Retail

	Year Ended December 31,		
	2004	2003	2002
	(In thousands except systems throughput)		
Operating Revenues	$ 287,197	$ 249,119	$ 259,748
Gas Purchases and Other Costs of Sales	$ 155,320	$ 122,204	$ 133,857
Segment Earnings	$ 69,264	$ 65,482	$ 64,056
Systems Throughput (Trillion Btus)	46.4	48.0	42.4

Kinder Morgan Retail's segment earnings increased by $3.8 million (6%) from 2003 to 2004. This increase was due principally to (i) increased space heating demand in the first and fourth quarters of 2004, (ii) increased grain drying demand in the fourth quarter of 2004 and (iii) continued customer growth in Colorado. These positive impacts were partially offset by reduced irrigation demand in the second and third quarters of 2004 and increased operations and maintenance and depreciation expenses in 2004 due, in part, to system expansion. The increase in operating revenues in 2004, relative to 2003, which was largely offset by an increase in gas purchases and other costs of sales, was principally due to (i) higher natural gas prices in 2004 (which, in general, are passed through as a component of the overall sales rate), (ii) the fact that a higher percentage of our Wyoming customers chose us as their natural gas supplier in 2004, either through regulated rates that pass-through the cost of gas to the customer, or

through our Choice Gas program (which allows competing commodity natural gas providers to sell natural gas to customers connected to our natural gas distribution system), which increased our revenues from natural gas sales (accompanied by a corresponding increase in gas purchase costs), (iii) increased revenues from non-regulated merchandise sales and (iv) continued customer growth in Colorado. These positive impacts to 2004 revenues were partially offset by reduced irrigation demand in the second and third quarters of 2004. Our weather hedging program continued to contribute to stability in Kinder Morgan Retail's earnings pattern by reducing the impact of weather-related demand fluctuations. See Note 14 of the accompanying Notes to Consolidated Financial Statements for additional information regarding our hedging strategy. During the second quarter of 2004, Kinder Morgan Retail completed and placed into service its $20 million, 58-mile natural gas transmission pipeline from Montrose to Ouray, Colorado. We expect to add about 3,000 Western Slope customers via this pipeline over the next five years.

Kinder Morgan Retail's segment earnings increased from $64.1 million in 2002 to $65.5 million in 2003, an increase of $1.4 million (2.2%). Segment earnings were positively impacted in 2003, relative to 2002, by (i) increased margins resulting from a full year of our Choice Gas program in certain of our service territories, (ii) continued customer growth in existing service territories, particularly Colorado, and (iii) reduced operations and maintenance expenses. These positive impacts were partially offset by (i) reduced demand during the 2003 irrigation season, (ii) increased 2003 depreciation expense resulting from asset additions and (iii) the inclusion in 2002 results of a $1.6 million property tax refund from an affiliated shipper. The decrease in operating revenues in 2003, relative to 2002, principally resulted from a full year of our Choice Gas program in certain of our service territories, which decreased our revenues from natural gas sales (accompanied by a corresponding decrease in gas purchase costs), although we continued to receive the same margin for transporting the gas. The increase in throughput volumes in 2003 was the result of increased demand for natural gas used in space heating as a result of colder weather and continued customer growth, partially offset by lower irrigation season demand.

For 2005, we currently expect that Kinder Morgan Retail will experience approximately 2% growth in segment earnings. With a stable base of earnings due to regulated business, supplemented by a weather hedging program, increased earnings are expected to derive largely from the addition of new customers in existing service territories, especially certain high-growth areas in Colorado. However, as discussed following, there are factors beyond our control that can affect our results, including developments in the regulatory arena, currently unforeseen competitive developments and weather-related impacts outside our hedging program. For these and other reasons, our actual future results may differ significantly from our projections.

A significant portion of Kinder Morgan Retail's business is subject to rate regulation by each respective state's utility commission in Colorado, Wyoming and Nebraska. There are currently no material proceedings to change the base rates on any of our intrastate pipeline or distribution systems. Nonetheless, there can be no assurance that we will not face future challenges to the rates we receive for these services. Kinder Morgan Retail is also subject to market variability in natural gas prices and basis differentials. Please refer to the discussion of basis differentials under the heading "Natural Gas Pipeline Company of America" in this Item.

Power

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Operating Revenues	$ 70,064	$ 31,849	$ 47,784
Gas Purchases and Other Costs of Sales	$ 4,710	$ 4,850	$ 3,943
Segment Earnings[1]	$ 15,255	$ 22,076	$ 36,673

[1] Does not include (i) pre-tax charges of $33.5 million, $44.5 million and $134.5 million in 2004, 2003 and 2002, respectively, to record the impairment of certain assets, (ii) incremental earnings of $18.5 million in 2004 reflecting (1) the recognition of previously deferred revenues associated with construction of the Jackson, Michigan power generation facility, (2) gains from the sale of surplus power generation equipment and (3) the settlement of certain litigation. Results for 2003 exclude a pre-tax loss of $2.9 million resulting from the sale of natural gas reserves by an equity-method investee. These items are discussed below.

Due to the adoption of a recently issued accounting standard, the results of operations of our Triton Power affiliates are included in our consolidated operating results and in the results of our Power segment beginning in 2004. Although the results of Triton have an impact on the total operating revenues and expenses of the Power business segment, after taking into account the associated minority interests, the consolidation of Triton had no effect on Power's segment earnings.

Power's segment earnings, as reported above, decreased by $6.8 million (31%) from 2003 to 2004. Segment earnings for 2004 were negatively impacted, relative to 2003, primarily because 2003 results included $6.8 million in development fees for the Jackson, Michigan power plant. Certain surplus power generation equipment was sold during 2004 and 2003 (see Note 5 of the accompanying Notes to Consolidated Financial Statements). We recorded $3.9 million of pre-tax gains from these sales in 2004, which are excluded from segment earnings as reported above. In addition, we recorded revenues of $13.3 million and $1.3 million in 2004 resulting from development fees associated with the Jackson, Michigan power plant and the favorable settlement of litigation matters, respectively, which are excluded from the tabular presentation of segment earnings as reported above.

Segment revenues and segment earnings, as reported above, decreased by $15.9 million and $14.6 million, respectively, from 2003 to 2002. These decreases were expected, and principally resulted from reduced development fees due to the 2002 completed construction of the Jackson, Michigan and Wrightsville, Arkansas power plants, as well as our decision to exit the power development business. This decision is discussed below, as well as the reductions we have recorded in the carrying value of certain of our power investments.

In February 2001, Kinder Morgan Power announced an agreement under which Williams Energy Marketing and Trading agreed to supply natural gas to and market capacity for 16 years for a 550-megawatt natural gas-fired Orion technology electric power plant in Jackson, Michigan. Effective July 1, 2002, construction of this facility was completed and commercial operations commenced. Concurrently with commencement of commercial operations, (i) Kinder Morgan Power made a preferred investment in Triton Power Company LLC (now valued at approximately $119 million); and (ii) Triton Power Company LLC, through its wholly owned subsidiary, Triton Power Michigan LLC, entered into a 40-year lease of the Jackson power facility from the plant owner, AlphaGen Power, LLC. Williams Energy Marketing and Trading supplies all natural gas to and purchases all power from the power plant under a 16-year tolling agreement with Triton Power Michigan LLC. Our preferred equity interest has no management or voting rights, but does retain certain protective rights, and is entitled to a

cumulative return, compounded monthly, of 9.0% per annum. No income was recorded in 2004 and no income is expected in 2005 from this preferred investment due to the fact that the dividend on this preferred is not currently being paid, and uncertainty concerning the date at which such distributions will be received.

In May 2000, Kinder Morgan Power and Mirant Corporation (formerly Southern Energy Inc.) announced plans to build a 550 megawatt natural gas-fired electric power plant in Wrightsville, Arkansas, utilizing Kinder Morgan Power's Orion technology. Construction of this facility was completed on July 1, 2002 and commercial operations commenced. Mirant Corporation operates and maintains the Wrightsville facility and manages the natural gas supply and electricity sales for the project company that owns the power plant. Kinder Morgan Power made an investment in the project company, comprised primarily of preferred stock. This facility has not been dispatched significantly since July 1, 2002 and, while the dispatch decision is made by Mirant and not by us, we believe that dispatch has not occurred largely due to unfavorable economic circumstances surrounding the market for the power that would be generated. During the third quarter of 2003, we announced that Mirant had placed the Wrightsville, Arkansas plant in bankruptcy in October, and we would assess the long-term prospects for this facility during the fourth quarter. In December 2003, we completed our analysis and determined that it was no longer appropriate to assign any carrying value to our investment in this facility and recorded a $44.5 million pre-tax charge, effectively writing off our remaining investment in the Wrightsville power facility. This charge is excluded from the tabular presentation of segment earnings as reported above.

During 2002, we noted that a number of factors had negatively affected Power's business environment and certain of its current operations. These factors, which are currently expected to continue in the near to intermediate term, include (i) volatile and generally declining prices for wholesale electric power in certain markets, (ii) cancellation and/or postponement of the construction of a number of new power generation facilities, (iii) difficulty in obtaining air permits with acceptable operating conditions and constraints and (iv) a marked deterioration in the financial condition of a number of participants in the power generating and marketing business, including participants in the power plants in Jackson, Michigan and Wrightsville, Arkansas. During the fourth quarter of 2002, after completing an analysis of these and other factors to determine their impact on the market value of these assets and the prospects for this business in the future, we (i) determined that we would no longer pursue power development activities and (ii) recorded a $134.5 million pre-tax charge to reduce the carrying value of our investments in (1) sites for future power plant development, (2) power plants and (3) turbines and associated equipment. This charge is excluded from the tabular presentation of segment earnings as reported above.

Since 1998, we have had an investment in a 76 megawatt gas-fired power generation facility located in Greeley, Colorado. We became concerned with the value of this investment as a result of several recent circumstances including the expiration of a gas purchase contract, the amendment of the associated power purchase agreement and uncertainties surrounding the management of this facility, which has changed ownership twice in the last one and one-half years. These ownership changes made it difficult for us to obtain information necessary to forecast the future of this asset. During the fourth quarter of 2004, we concluded that we had sufficient information to determine that our investment had been impaired and, accordingly, reduced our carrying value by $26.1 million. This charge is excluded from the tabular presentation of segment earnings as reported above.

During 2003 and 2004, we sold six of our surplus turbines and certain associated equipment, including certain equipment to Kinder Morgan Energy Partners (see Note 5 of the accompanying Notes to Consolidated Financial Statements). Recognizing the effects of changes in technology and the limited improvement of the general economies of the electric generation industry, we determined that the

carrying values of our remaining turbines and associated equipment should be reduced. In the fourth quarter of 2004, we reduced the carrying value of these assets by $7.4 million. This charge is excluded from segment earnings as reported above. We are continuing our efforts to sell the remaining inventory of surplus turbines and associated equipment, which had a carrying value of $23.5 million at December 31, 2004.

Pursuant to a right we obtained in conjunction with the 1998 acquisition of the Thermo Companies, in December 2003, we made an additional investment in our Colorado power businesses in the form of approximately 1.8 million Kinder Morgan Management shares that we owned. We delivered these shares to an entity controlled by the former Thermo owners, which entity is required to retain the shares until they vest (400,000 shares will vest each January 1 of 2004, 2005 and 2006, with the remainder vesting on January 1, 2007). We will continue to receive distributions made by Kinder Morgan Management attributable to the unvested shares. We recorded our increased investment based on the third-party-determined $56.1 million fair value of the shares as of the contribution date, with a corresponding liability representing our obligation to deliver vested shares in the future. The effect of this incremental investment will be to increase our ownership interest in the Thermo entities beginning in 2010.

We expect that 2005 segment earnings from Power will decline by an insignificant amount. Actual future results may differ significantly from our projections.

Earnings from Our Investment in Kinder Morgan Energy Partners

The impact on our pre-tax earnings from our investment in Kinder Morgan Energy Partners was as follows:

	Year Ended December 31,		
	2004	**2003**	**2002**
		(In thousands)	
General Partner Interest, Including Minority Interest in the Operating Limited Partnerships	$403,535	$333,675	$277,024
Limited Partner Units (Kinder Morgan Energy Partners)	41,061	36,516	42,920
Limited Partner i-units (Kinder Morgan Management)	113,482	94,776	72,191
	558,078	464,967	392,135
Pre-tax Minority Interest in Kinder Morgan Management	(81,082)	(66,642)	(53,631)
Pre-tax Earnings from Investment in Kinder Morgan Energy Partners	$476,996	$398,325	$338,504

For 2005, pre-tax earnings attributable to our investment in Kinder Morgan Energy Partners are expected to increase by approximately 18% due to, among other factors, improved performance from existing assets. However, there are factors beyond the control of Kinder Morgan Energy Partners that may affect its results, including developments in the regulatory arena and as yet unforeseen competitive developments or acquisitions. Additional information on Kinder Morgan Energy Partners is contained in its Annual Report on Form 10-K for the year ended December 31, 2004.

Other Income and (Expenses)

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Interest Expense, Net	$ (133,219)	$ (139,588)	$ (161,935)
Interest Expense – Deferrable Interest Debentures[1]	(21,912)	-	-
Interest Expense – Capital Trust Securities[1]	-	(10,956)	-
Equity in Earnings of Kinder Morgan Energy Partners	558,078	464,967	392,135
Equity in Earnings of Power Segment[2]	8,537	8,839	7,674
Equity in Earnings of Horizon Pipeline	1,615	1,501	1,316
Equity in Earnings of TransColorado	-	-	3,980
Other Equity in Losses[3]	-	(2,889)	(179)
Minority Interests[1]	(56,420)	(52,493)	(55,720)
Net Gains (Losses) from Sales of Assets	1,952	(4,423)	13,030
Other, Net	2,556	5,253	8,111
Loss on Early Extinguishment of Debt	(3,894)	-	(2,349)
	$ 357,293	$ 270,211	$ 206,063

[1] The expense associated with our capital trust securities was included in "Minority Interests" prior to the third quarter of 2003 ($10.9 million for the year ended December 31, 2003). Due to our adoption of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, the expense associated with these securities was included in "Interest Expense – Capital Trust Securities" beginning with the third quarter of 2003. Due to our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, the subsidiary trusts associated with our capital trust securities are no longer consolidated, effective December 31, 2003. The associated expense is included in "Interest Expense – Deferrable Interest Debentures" for the year ended December 31, 2004.

[2] Excludes a loss of $2.9 million in 2003 resulting from the sale of natural gas reserves by an equity-method investee.

[3] Includes a loss of $2.9 million in 2003 resulting from the sale of natural gas reserves by an equity-method investee.

"Other Income and (Expenses)" increased from income of $270.2 million in 2003 to income of $357.3 million in 2004, an increase of $87.1 million. This increase was principally due to (i) increased equity in the earnings of Kinder Morgan Energy Partners due, in part, to acquisitions made and strong performance from the assets held by Kinder Morgan Energy Partners, (ii) decreased interest expense, reflecting reduced debt outstanding offset by a slight increase in interest rates and (iii) a $6.4 million increase in gains from sales of assets (see Note 5 of the accompanying Notes to Consolidated Financial Statements). These positive impacts were partially offset by a $3.9 million loss on early extinguishment of debt (see Note 12 of the accompanying Notes to Consolidated Financial Statements) and a $14.9 million increase in minority interest expense.

"Other Income and (Expenses)" increased from income of $206.1 million in 2002 to income of $270.2 million in 2003, an increase of $64.1 million. This increase was principally due to (i) increased equity in the earnings of Kinder Morgan Energy Partners due, in part, to the strong performance from the assets held by Kinder Morgan Energy Partners and (ii) decreased interest expense, reflecting reduced interest rates and reduced debt outstanding. These positive impacts were partially offset by (i) a $17.5 million decrease in 2003 gains from sales of assets and (ii) a $4.0 million decrease in equity in earnings of TransColorado, which was 100% owned by us during 2003 and was contributed during 2004 as discussed under "TransColorado."

Income Taxes – Continuing Operations

The income tax provision decreased from $244.6 million in 2003 to $226.7 million in 2004, a decrease of $17.9 million (7.3%). The net decrease of $17.9 million results from (i) a reduction of $70.3 million due to the impact of a lower effective tax rate on previously recorded net deferred tax liabilities, (ii) an increase of $44.2 million attributable to $128.9 million additional income from continuing operations,

(iii) an increase of $2.5 million attributable to Kinder Morgan Management minority interest and (iv) an increase of $5.7 million attributable to other items. The reduction in the effective tax rate from 2003 to 2004 was principally due to a decrease in the component of the overall estimated effective tax rate attributable to state income taxes resulting from, among other factors, changes in apportionment of consolidated taxable income among the various states.

The income tax provision increased from $135.0 million in 2002 to $244.6 million in 2003, an increase of $109.6 million (81.2%) due mainly to an increase of $183.6 million in income from continuing operations before income taxes. In addition, the income tax provision for 2002 was lower due to the combined impacts of (i) a decrease of approximately $21.0 million due to the impact of the lower effective tax rate on previously recorded deferred tax liabilities, (ii) a decrease of approximately $17.7 million due to the resolution of certain issues with respect to prior year tax returns at amounts less than those previously accrued and (iii) a decrease of approximately $3.6 million due to the impact of a dividends received deduction. The reduction in the effective tax rate from 2002 to 2003 resulted principally from a change in the estimated effective tax rate for state income taxes as discussed above. See Note 11 of the accompanying Notes to Consolidated Financial Statements for additional information on income taxes.

Income Taxes - Realization of Deferred Tax Assets

At December 31, 2004, we had a capital loss carryforward of approximately $56.1 million. A capital loss carryforward can be utilized to reduce capital gain during the five years succeeding the year in which a capital loss is incurred. The amounts and the years in which our capital loss carryforward expires are $52.5 million during 2005, $1.6 million during 2006 and $2.0 million during 2008.

Management has concluded that it is more likely than not that this deferred tax asset will be realized through the sale of assets which will generate sufficient capital gain to fully utilize the capital loss carryforward during the periods specified above. Management has identified our limited partner interests in Kinder Morgan Energy Partners, L.P. and our common stock ownership in Kinder Morgan Management as specific assets that could be sold to generate capital gain. Management intends to sell between 2.4 million and 2.8 million of our approximate 15.1 million Kinder Morgan Management shares to achieve utilization of the capital loss carryforward.

No valuation allowance has been provided with respect to this deferred tax asset.

Discontinued Operations

During 1999, we adopted and implemented plans to discontinue the following lines of business: (i) gathering and processing of natural gas, including short-haul intrastate pipelines and providing field services to natural gas producers, (ii) wholesale marketing of natural gas and natural gas liquids, (iii) international operations and (iv) the direct marketing of non-energy products and services. During 2000, we completed the disposition of these businesses, with the exception of international operations (principally consisting of a natural gas distribution system in Hermosillo, Mexico) which, in the fourth quarter of 2000, we decided to retain. During the fourth quarters of 2004 and 2002, we recorded incremental losses of approximately $6.4 million and $5.0 million (net of tax benefits of $3.8 million and $3.1 million), respectively, to increase previously recorded liabilities to reflect updated estimates and reflect the impact of settled litigation. We had a remaining liability of approximately $9.0 million at December 31, 2004 associated with these discontinued operations, representing legal obligations and an indemnification obligation associated with our sale of assets to ONEOK, Inc. We do not expect significant additional financial impacts associated with these matters. Note 7 of the accompanying Notes

to Consolidated Financial Statements contains certain additional financial information with respect to these discontinued operations.

Liquidity and Capital Resources

Primary Cash Requirements

Our primary cash requirements, in addition to normal operating, general and administrative expenses, are for debt service, capital expenditures, common stock repurchases and quarterly cash dividends to our common shareholders. Our capital expenditures other than sustaining capital expenditures, our common stock repurchases and our quarterly cash dividends to our common shareholders are discretionary. Our capital expenditures for 2005 are currently expected to be approximately $138.9 million. We expect to fund these expenditures with existing cash and cash flows from operating activities. In addition to utilizing cash generated from operations, we could meet these cash requirements through borrowings under our credit facilities, issuing short-term commercial paper, long-term notes or additional shares of common stock.

Invested Capital

The following table illustrates the sources of our invested capital. Our ratio of total debt to total capital has declined significantly in recent periods. This decline has resulted from a number of factors, including our increased cash flows from operations as discussed under “Cash Flows” following. In recent periods, we have significantly increased our dividends per share and have announced our intention to consider further increases on an annual basis, and we maintain an ongoing program to repurchase outstanding shares of our common stock. For these reasons, among others, any declines in our ratio of total debt to total capital in the future may be smaller.

In addition to the direct sources of debt and equity financing shown in the following table, we obtain financing indirectly through our ownership interests in unconsolidated entities as shown under "Significant Financing Transactions" following. Our largest such unconsolidated investment is in Kinder Morgan Energy Partners. See "Investment in Kinder Morgan Energy Partners" following. In addition to our results of operations, these balances are affected by our financing activities as discussed following.

	December 31,		
	2004	**2003**	**2002**
		(Dollars in thousands)	
Long-term Debt:			
Outstanding Notes and Debentures	$ 2,257,950	$ 2,837,487	$ 2,852,181
Deferrable Interest Debentures Issued to Subsidiary Trusts[1]	283,600	283,600	-
Value of Interest Rate Swaps[2]	88,243	88,242	139,589
	2,629,793	3,209,329	2,991,770
Minority Interests	1,105,436	1,010,140	967,802
Common Equity, Excluding Accumulated Other Comprehensive Loss	2,919,496	2,691,800	2,399,716
Capital Trust Securities[1]	-	-	275,000
	6,654,725	6,911,269	6,634,288
Less Value of Interest Rate Swaps	(88,243)	(88,242)	(139,589)
Capitalization	6,566,482	6,823,027	6,494,699
Short-term Debt, Less Cash and Cash Equivalents[3]	328,480	121,824	465,614
Invested Capital	$ 6,894,962	$ 6,944,851	$ 6,960,313
Capitalization:			
Outstanding Notes and Debentures	34.4%	41.6%	43.9%
Minority Interests	16.8%	14.8%	14.9%
Common Equity	44.5%	39.4%	37.0%
Capital Trust Securities	-	-	4.2%
Deferrable Interest Debentures Issued to Subsidiary Trusts	4.3%	4.2%	-
Invested Capital:			
Total Debt[4]	37.5%	42.6%	47.7%
Common Equity, Excluding Accumulated Other Comprehensive Loss and Including Capital Trust Securities, Deferrable Interest Debentures Issued to Subsidiary Trusts and Minority Interests	62.5%	57.4%	52.3%

[1] As a result of our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, effective December 31, 2003, the subsidiary trusts associated with these securities are no longer consolidated.
[2] See "Significant Financing Transactions" following.
[3] Cash and cash equivalents netted against short-term debt were $176,520, $11,076 and $35,653 for December 31, 2004, 2003 and 2002, respectively.
[4] Outstanding notes and debentures plus short-term debt, less cash and cash equivalents.

We employ a centralized cash management program that essentially concentrates the cash assets of our subsidiaries in joint accounts for the purpose of providing financial flexibility and lowering the cost of borrowing. Our centralized cash management program provides that funds in excess of the daily needs of our subsidiaries be concentrated, consolidated, or otherwise made available for use by other entities within our consolidated group. We place no restrictions on the ability to move cash between entities, payment of intercompany balances or the ability to upstream dividends to parent companies.

In addition, NGPL is subject to FERC-enacted reporting requirements for oil and natural gas pipeline companies that participate in cash management programs. FERC-regulated entities subject to these rules must, among other things, place their cash management agreements in writing, maintain current copies

of the documents authorizing and supporting their cash management agreements, and file documentation establishing the cash management program with the FERC.

Short-term Liquidity

Our principal sources of short-term liquidity are our revolving bank facilities, our commercial paper program (which is supported by our revolving bank facilities) and cash provided by operations. As of December 31, 2004, we had available an $800 million five-year credit facility dated August 18, 2004. This credit facility replaced a $445 million 364-day credit facility dated October 14, 2003 and a $355 million three-year revolving credit agreement dated October 15, 2002, and can be used for general corporate purposes, including as backup for our commercial paper program. At December 31, 2004 and February 3, 2005, we had no commercial paper issued and outstanding. After inclusion of applicable outstanding letters of credit that reduce our borrowing capacity under the credit facility, the remaining available borrowing capacity under the bank facility was $767.8 million and $762.0 million at December 31, 2004 and February 3, 2005, respectively. This bank facility includes financial covenants and events of default that are common in such arrangements. These credit facility terms are discussed in Note 12 of the accompanying Notes to Consolidated Financial Statements.

Our current maturities of long-term debt of $505 million at December 31, 2004 consisted of (i) $5 million of current maturities of our 6.50% Series Debentures due September 1, 2013 (which are payable September 1, 2005) and (ii) $500 million of 6.65% Series Senior Notes due March 1, 2005. We paid the $500 million due on our 6.65% Senior Notes on March 1, 2005 with a combination of cash on hand and borrowings under our commercial paper program. Apart from our current maturities of long-term debt, our current assets exceeded our current liabilities by approximately $135.4 million at December 31, 2004. Given our expected cash flows from operations and our unused debt capacity as discussed preceding, including our five-year revolving credit facility, and based on our projected cash needs in the near term, we do not expect any liquidity issues to arise. Our next significant debt maturity, apart from our 6.65% Senior Notes in 2005 mentioned above, is our $300 million of 6.80% Senior Notes in 2008.

Significant Financing Transactions

On October 21, 2004, we retired our $75 million 8.75% Debentures due October 15, 2024 at 104.0% of the face amount. We recorded a loss of $2.4 million (net of associated tax benefit of $1.5 million) in connection with this early extinguishment of debt, which is included under the caption “Other, Net” in the accompanying Consolidated Statement of Operations for 2004.

On March 3, 2003, our $500 million of 6.45% Senior Notes matured, and we paid the holders of the notes, utilizing a combination of cash on hand and incremental short-term borrowing.

On November 1, 2002, we retired the full $35 million of our 8.35% Series Sinking Fund Debentures due September 15, 2022 at 104.175% of the face amount. We recorded a loss of $1.0 million (net of associated tax benefit of $0.7 million) in connection with this early extinguishment of debt. This loss, and the loss recorded in conjunction with the early extinguishment of debt associated with the retirement of our 7.85% Series Debentures described below, are included under the caption “Other, Net” in the accompanying Consolidated Statement of Operations for 2002.

On October 10, 2002, we retired our $200 million of Floating Rate Notes due October 10, 2002, utilizing a combination of cash and incremental short-term debt. Effective September 1, 2002, we retired our $24 million of 7.85% Series Debentures due September 1, 2022 at par. We recorded a loss of

$420,000 (net of associated tax benefit of $275,000) in conjunction with this early extinguishment of debt, consisting of the unamortized debt expense associated with these debentures.

On August 27, 2002, we issued $750 million of our 6.50% Senior Notes due September 1, 2012, in an offering made pursuant to Rule 144A of the regulations of the Securities and Exchange Commission, with registration rights. The proceeds were used to retire our short-term notes payable then outstanding, with the balance invested in short-term commercial paper and money market funds. On November 18, 2002, we completed an exchange offer to exchange these notes for our 6.50% Senior Notes due September 1, 2012, which have been registered under the Securities Act of 1933. These new notes have the same form and terms and evidence the same debt as the original notes, and were offered for exchange to satisfy our obligation to exchange the original notes for registered notes. In December 2002, we re-opened this issue and sold an additional $250 million of 6.50% Senior Notes, which we also exchanged for registered securities pursuant to our currently effective registration statement on Form S-4, in an exchange offer that was completed on March 21, 2003.

On August 14, 2001, we announced a program to repurchase $300 million of our outstanding common stock, which program was increased to $400 million, $450 million, $500 million, $550 million and $750 million in February 2002, July 2002, November 2003, April 2004 and November 2004, respectively. As of December 31, 2004, we had repurchased a total of approximately $561.2 million (10,728,700 shares) of our outstanding common stock under the program, of which $108.6 million (1,695,900 shares), $38.0 million (724,600 shares) and $144.3 million (3,013,400 shares) were repurchased in the years ended December 31, 2004, 2003 and 2002, respectively. In January 2003, our board of directors approved a plan to purchase shares of Kinder Morgan Management on the open market. During 2003 we purchased $0.9 million (29,000 shares) of Kinder Morgan Management stock.

As further described under “Risk Management” in Item 7A of this report, we had outstanding fixed-to-floating interest rate swap agreements with a notional principal amount of $1.5 billion at December 31, 2004. These agreements, entered into in August 2001, September 2002 and November 2003, effectively convert the interest expense associated with our 7.25% Debentures due in 2028 and our 6.50% Senior Notes due in 2012 from fixed to floating rates based on the three-month London Interbank Offered Rate (“LIBOR”) plus a credit spread. These swaps are accounted for as fair value hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.*

On March 3, 2003, we terminated the interest rate swap agreements associated with our 6.65% Senior Notes due in 2005 and received $28.1 million. We are amortizing this amount (as a reduction to interest expense) over the remaining period the 6.65% Senior Notes are outstanding. The unamortized balance of $2.3 million at December 31, 2004 is included in the caption “Value of Interest Rate Swaps” under the heading “Long-term Debt” in the accompanying Consolidated Balance Sheet.

On January 31, 2005, we received $17.5 million for the sale of 413,516 Kinder Morgan Management shares that we owned. In conjunction with this sale, we recorded a gain of $2.8 million (net of associated taxes of $1.7 million).

On November 10, 2004, Kinder Morgan Management closed the issuance and sale of 1,300,000 listed shares in a privately negotiated transaction with a single purchaser. None of the shares in the offering were purchased by us. Kinder Morgan Management used the net proceeds of approximately $52.6 million from the offering to buy additional i-units from Kinder Morgan Energy Partners. Additional information concerning the business of, and our obligations to, Kinder Morgan Management is contained in Kinder Morgan Management’s 2004 Annual Report on Form 10-K.

On March 25, 2004, Kinder Morgan Management closed the issuance and sale of 360,664 listed shares in a privately negotiated transaction with a single purchaser. None of the shares in the offering were purchased by us. Kinder Morgan Management used the net proceeds of approximately $14.9 million from the offering to buy additional i-units from Kinder Morgan Energy Partners.

By approval of Kinder Morgan Management shareholders other than us, effective at the close of business on July 23, 2002, we no longer have an obligation, upon presentation by the holder thereof, to exchange publicly held Kinder Morgan Management shares for either Kinder Morgan Energy Partners common units that we own or, at our election, cash.

On August 6, 2002, Kinder Morgan Management closed the issuance and sale of 12,478,900 limited liability shares in an underwritten public offering. The net proceeds of approximately $328.6 million from the offering were used by Kinder Morgan Management to buy i-units from Kinder Morgan Energy Partners. We did not purchase any of the offered shares. In addition, during 2003 and 2002, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made contributions totaling $1.8 million and $3.4 million, respectively. The earnings recorded by Kinder Morgan Management that are attributable to its shares held by the public are reported as "Minority Interests" in our Consolidated Statements of Operations.

We have invested in entities that are not consolidated in our financial statements. Additional information regarding the nature and business purpose of these investments is included in Notes 2 and 5 of the accompanying Notes to Consolidated Financial Statements. Our obligations with respect to these investments are summarized following.

Off-Balance Sheet Arrangements

	At December 31, 2004					
Entity	**Investment Amount**	**Investment Percent**	**Entity Assets**[1]	**Entity Debt**	**Incremental Investment Obligation**	**Our Debt Responsibility**
	(Millions of Dollars)					
Ft. Lupton Power Plant..	$ 141.3[2]	49.5%	$ 140.9	$ 97.3[3]	-	$ -
Horizon Pipeline Company.....	18.2	50.0%	87.7	49.5[3]	-	-
Kinder Morgan Energy Partners.....	3,198.5	18.5%	10,552.9	4,852.6[5]	-[4]	733.5[5]

[1] At recorded value, in each case consisting principally of property, plant and equipment.

[2] Does not include any portion of the goodwill recognized in conjunction with the 1998 acquisition of the Thermo Companies.

[3] Debtors have recourse only to the assets of the entity, not to the owners.

[4] When Kinder Morgan Energy Partners issues additional equity, we are required to contribute an amount to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships. See "Investment in Kinder Morgan Energy Partners" following.

[5] We would only be obligated if Kinder Morgan Energy Partners and/or its assets cannot satisfy its obligations. In addition, Kinder Morgan G.P., Inc., our subsidiary that is the general partner of Kinder Morgan Energy Partners, is obligated to support the operations and debt service payments of Kinder Morgan Energy Partners. This obligation, however, does not arise until the assets of Kinder Morgan Energy Partners have been fully utilized in meeting its own obligations and, in any event, does not extend beyond the assets of Kinder Morgan G.P., Inc.

Aggregate Contractual Obligations

	Total	Amount of Commitment Expiration Per Period			
		Less than 1 year	2-3 years	4-5 years	After 5 years
			(In millions)		
Contractual Obligations:					
Long-term Debt, Including Current Maturities:					
Principal Payments	$3,046.6	$ 505.0	$ 10.0	$ 310.0	$2,221.6
Interest Payments[1]	3,461.9	193.6	353.1	321.2	2,594.0
Operating Leases[2]	550.5	30.5	57.6	46.5	415.9
Gas Purchase Contracts[3]	19.1	7.0	12.1	-	-
Discontinued Operations Indemnification[4]	4.6	-	4.6	-	-
Pension and Postretirement Benefit Plans[5]					
Total Contractual Cash Obligations	$7,082.7	$ 736.1	$ 437.4	$ 677.7	$5,231.5
Other Commercial Commitments:					
Standby Letters of Credit[6]	$ 32.2	$ 32.2	$ -	$ -	$ -
Capital Expenditures[7]	$ 2.2	$ 2.2	$ -	$ -	$ -

[1] Interest payments have not been adjusted for any amounts receivable related to our interest rate swaps outstanding. See Item 7A *Quantitative and Qualitative Disclosures About Market Risk.*

[2] Approximately $519.2 million, $20.3 million, $40.8 million, $41.1 million and $417.0 million in each respective column is attributable to the lease obligation associated with the Jackson, Michigan power generation facility. The project company that is the lessee of this facility is consolidated as of December 31, 2003, as a result of the adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities.*

[3] We are obligated to purchase natural gas at above-market prices from certain wells in Montana through the life of the field, production from which is currently expected to become uneconomic in 2007. We have recorded a liability for our probable losses under these contracts; see Note 1(N) of the accompanying Notes to Consolidated Financial Statements.

[4] In conjunction with a disposal of certain discontinued operations in 1999, we agreed to indemnify the purchasing party from losses associated with the sale of certain natural gas volumes from a processing facility. This obligation of $4.6 million as of December 31, 2004 will be settled as these volumes are sold and the indemnification payments are made.

[5] We currently do not expect to make significant contributions to these plans in the next few years, although we could elect or be required to make such contributions depending on, among other factors, the return generated by plan assets and changes in actuarial assumptions.

[6] The $32.2 million in letters of credit outstanding at December 31, 2004 consisted of the following: (i) four letters of credit, totaling $13.0 million, required under provisions of our property and casualty, worker's compensation and general liability insurance policies, (ii) a $10.7 million letter of credit supporting the subordination of operating fees payable to us for operation of the Jackson, Michigan power generation facility to payments due under the operating lease of the facilities, (iii) a $6.6 million letter of credit associated with the outstanding debt of Thermo Cogeneration Partnership, L.P., the entity responsible for the operation of our Colorado power generation assets and (iv) a $1.9 million letter of credit supporting Thermo Cogeneration Partnership, L.P.'s performance under its contract with Public Service Company of Colorado, the principal customer of our Colorado power generation assets.

[7] The 2005 capital expenditure budget totals approximately $138.9 million. Approximately $2.2 million of this amount had been committed for the purchase of plant and equipment at December 31, 2004.

We expect to have sufficient liquidity to satisfy our near-term obligations through the combination of free cash flow and our credit facilities.

Contingent Liabilities:	Contingency	Amount of Contingent Liability at December 31, 2004
Guarantor of the Bushton Gas Processing Plant Lease[1]	Default by ONEOK, Inc.	Total $189.1 million; Averages $23 million per year through 2012
Jackson, Michigan Power Plant Incremental Investment	Operational Performance	$3 to 8 million per year for 14 years
Jackson, Michigan Power Plant Incremental Investment	Cash Flow Performance	Up to a total of $25 million beginning in the 17th year following commercial operations

[1] In conjunction with our sale of the Bushton gas processing facility to ONEOK, Inc., at December 31, 1999, ONEOK became primarily liable under the associated operating lease and we became secondarily liable. Should ONEOK, Inc. fail to make payments as required under the lease, we would be required to make such payments, with recourse only to ONEOK.

Investment in Kinder Morgan Energy Partners

At December 31, 2004, we owned, directly, and indirectly in the form of i-units corresponding to the number of shares of Kinder Morgan Management, approximately 34.8 million limited partner units of Kinder Morgan Energy Partners. These units, which consist of 14.4 million common units, 5.3 million Class B units and 15.1 million i-units, represent approximately 16.8% of the total limited partner interests of Kinder Morgan Energy Partners. In addition, we are the sole stockholder of the general partner of Kinder Morgan Energy Partners, which holds an effective 2% interest in Kinder Morgan Energy Partners and its operating partnerships. Together, our limited partner and general partner interests represented approximately 18.5% of Kinder Morgan Energy Partners' total equity interests at December 31, 2004. We receive quarterly distributions on the i-units owned by Kinder Morgan Management in additional i-units, and distributions on our other units in cash.

In addition to distributions received on our limited partner interests and our Kinder Morgan Management shares as discussed above, we also receive an incentive distribution from Kinder Morgan Energy Partners as a result of our ownership of the general partner interest in Kinder Morgan Energy Partners. This incentive distribution is calculated in increments based on the amount by which quarterly distributions to unit holders exceed specified target levels as set forth in Kinder Morgan Energy Partners' partnership agreement, reaching a maximum of 50% of distributions allocated to the general partner for quarterly distributions above $0.23375 per limited partner unit. Including both our general and limited partner interests in Kinder Morgan Energy Partners, at the 2004 distribution level, we received approximately 51% of all quarterly distributions made by Kinder Morgan Energy Partners, of which approximately 41% is attributable to our general partner interest and 10% is attributable to our limited partner interest. The actual level of distributions we will receive in the future will vary with the level of distributable cash determined in accordance with Kinder Morgan Energy Partners' partnership agreement.

We reflect our investment in Kinder Morgan Energy Partners under the equity method of accounting and, accordingly, report our share of Kinder Morgan Energy Partners' earnings as "Equity in Earnings" in our Consolidated Statement of Operations in the period in which such earnings are reported by Kinder Morgan Energy Partners.

Cash Flows

The following discussion of cash flows should be read in conjunction with the accompanying Consolidated Statements of Cash Flows and related supplemental disclosures. All highly liquid

investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Net Cash Flows from Operating Activities

"Net Cash Flows Provided by Operating Activities" increased from $601.5 million in 2003 to $644.4 million in 2004, an increase of $42.9 million (7.1%). This positive variance is principally due to (i) a $66.3 million increase in cash distributions received in 2004 attributable to our interest in Kinder Morgan Energy Partners (see the discussion following), (ii) a $19.3 million reduction in cash paid for interest during 2004, (iii) a $7.0 million decrease in cash paid for income taxes during 2004 and (iv) an increase of $22.5 million in 2004 cash attributable to the change in the balance of deferred purchased gas costs. Cash flows attributable to deferred purchased gas costs vary with the relationship between the amount actually paid for natural gas and the amount currently included in regulated rates. This difference is recovered or refunded through subsequent rate adjustments. These positive impacts were partially offset by, (i) a decrease of $52.3 million in cash inflows for gas in underground storage during 2004 and (ii) the fact that 2003 included $28.1 million of cash proceeds received from termination of an interest rate swap (see "Significant Financing Transactions" for further information regarding this transaction). Significant period-to-period variations in cash used or generated from gas in storage transactions are due to changes in injection and withdrawal volumes as well as fluctuations in natural gas prices.

"Net Cash Flows Provided by Operating Activities" increased from $430.8 million in 2002 to $601.5 million in 2003, an increase of $170.7 million (39.6%). This positive variance is principally due to (i) a $58.7 million increase in cash distributions received in 2003 attributable to our interests in Kinder Morgan Energy Partners, (ii) $28.1 million of cash proceeds received in 2003 from termination of an interest rate swap, (iii) an increase of $44.8 million in cash inflows from gas in underground storage during 2003, (iv) a $13.6 million decrease in cash outflows during 2003 for pension contributions in excess of expense and (v) the fact that cash flows in 2002 included $22.1 million of cash outflows for a litigation settlement. These positive impacts were partially offset by an increase of $12.8 million in 2003 cash outflows for deferred purchased gas costs.

In general, distributions from Kinder Morgan Energy Partners are declared in the month following the end of the quarter to which they apply and are paid in the month following the month of declaration to the general partner and unit holders of record as of the end of the month of declaration. Therefore, the accompanying Statements of Consolidated Cash Flows for 2004, 2003 and 2002 reflect the receipt of $435.3 million, $369.0 million and $310.3 million, respectively, of cash distributions from Kinder Morgan Energy Partners for (i) the fourth quarter of 2003 and the first nine months of 2004, (ii) the fourth quarter of 2002 and the first nine months of 2003 and (iii) the fourth quarter of 2001 and the first nine months of 2002, respectively. The cash distributions attributable to our interest for the three months and twelve months ended December 31, 2004 total $124.4 million and $458.3 million, respectively. The cash distributions attributable to our interest for the three months and twelve months ended December 31, 2003 total $101.4 million and $383.5 million, respectively. The cash distributions attributable to our interest for the three months and twelve months ended December 31, 2002 total $86.9 million and $326.9 million, respectively. The increases in distributions during 2004 and 2003 reflect, among other factors, acquisitions made by Kinder Morgan Energy Partners and improvements in its results of operations. Summarized financial information for Kinder Morgan Energy Partners is contained in Note 2 of the accompanying Notes to Consolidated Financial Statements.

Net Cash Flows from Investing Activities

"Net Cash Flows Used in Investing Activities" decreased from $171.7 million in 2003 to $7.3 million in 2004, a decrease of $164.4 million (95.7%). This decreased use of cash is principally due to (i) $210.8 million of proceeds received from Kinder Morgan Energy Partners in 2004 for the contribution of TransColorado, (ii) $33.5 million of additional proceeds received for sales of surplus natural gas-fired turbines and boilers in 2004 and (iii) the fact that 2003 included $11.3 million of expenditures for other investments, partially offset by (i) an additional $72.3 million investment in Kinder Morgan Energy Partners during 2004, which primarily consisted of Kinder Morgan Management's purchase of additional i-units from Kinder Morgan Energy Partners with the proceeds of an issuance of its shares as discussed under "Net Cash Flows from Financing Activities" following, (ii) the fact that 2003 included an additional $6.4 million of net proceeds from sales of other assets, (iii) additional capital expenditures of $3.4 million during 2004 and (iv) an increase of $6.5 million in 2004 investments in margin deposits associated with hedging activities utilizing energy derivative instruments.

"Net Cash Flows Used in Investing Activities" decreased from $823.1 million in 2002 to $171.7 million in 2003, a decrease of $651.4 million (79.1%). This decreased use of cash is principally due to the fact that 2002 included (i) a $331.9 million investment in i-units of Kinder Morgan Energy Partners, (ii) a $183.6 million cash outflow for investments in power plant facilities, (iii) payment of $95.6 million (net of cash acquired) for the acquisition of the remaining 50% interest in the TransColorado interstate pipeline system, (iv) $38.4 million in capital expenditures for the NGPL pipeline extension to East St. Louis, Illinois, (v) $25 million for acquisition of the Sayre natural gas storage facility and (vi) a $16.5 million investment in Horizon Pipeline Company.

Net Cash Flows from Financing Activities

"Net Cash Flows Used in Financing Activities" increased from $454.4 million in 2003 to $471.7 million in 2004, an increase of $17.3 million (3.8%). This increase is principally due to (i) a $127.9 million reduction in short-term debt in 2004 as compared to incremental short-term borrowings of $127.9 million in 2003, (ii) $78 million of cash used in 2004 for the early retirement of our $75 million 8.75% Debentures due October 15, 2024 (see Note 12 of the accompanying Notes to Consolidated Financial Statements), (iii) a $143.4 million increase in cash paid for common stock dividends in 2004, principally due to the increased dividends declared per share (see discussion following in this section), (iv) a $70.6 million decreased source of cash from short-term advances to unconsolidated affiliates during 2004 and (v) a $64.7 million increase in cash paid during 2004 to repurchase our common shares. Partially offsetting these factors were (i) the fact that 2003 included $500 million of cash used to retire our 6.45% Senior Notes, (ii) $67.5 million of proceeds, net of issuance costs, from the issuance of Kinder Morgan Management shares in 2004 and (iii) an increase of $20.7 million received in 2004 for issuance of our common stock, principally as a result of the exercise of employee stock options.

"Net Cash Flows (Used in) Provided by Financing Activities" decreased from a source of $411.8 million in 2002 to a use of $454.4 million in 2003, an increased net cash use of $866.2 million. This increased net use of cash was principally due to (i) $500 million of cash used in 2003 to retire our 6.45% Senior Notes, (ii) an increase of $98.6 million paid in 2003 for common stock dividends, principally due to the increased dividends declared per share and (iii) the fact that 2002 included proceeds, net of issuance costs, of $328.6 million from the issuance of Kinder Morgan Management shares and $995.6 million of net proceeds from the issuance of our 6.50% Senior Notes due September 1, 2012. Partially offsetting these factors were (i) a $551.7 million increase during 2003 in cash flows related to short-term borrowing, (ii) the fact that 2002 included cash used for repayment of $200 million of Floating Rate Notes and $60.5 million for the early retirement of our 7.85% Debentures due September 1, 2022 and our 8.35% Sinking Fund Debentures due September 15, 2022 (see Note 12 of the accompanying Notes

to Consolidated Financial Statements), (iii) a $111.1 million decreased use of cash during 2003 to repurchase our common shares and (iv) a $108.9 million increased source of cash from net repayment of short-term advances to unconsolidated affiliates during 2003.

Total cash payments for dividends were $278.7 million, $135.3 million and $36.7 million in 2004, 2003 and 2002, respectively. The increases in these amounts are principally due to increases in the dividends declared per common share and, to a minor extent, to increased shares outstanding. In January 2005, we increased our quarterly common dividend to $0.70 per share ($2.80 annualized). On February 14, 2005, we paid a dividend at the increased rate of $0.70 per share to shareholders of record as of January 31, 2005.

As discussed under "Business Strategy" elsewhere in this report, our intention is to maintain a capital structure that provides stability and flexibility, while returning value to our shareholders through dividends and share repurchases. In recent periods, we have increased our common stock dividends in response to changes in income tax laws that have made dividends a more efficient way to return cash to our shareholders. Our Board of Directors generally considers our dividend policy in conjunction with its January meeting and has recently shown a pattern of increasing dividends, although the Board determines dividend policy on an annual basis. The Board considers a number of factors in reaching its decision with respect to dividend policy including our historical and projected cash flows, our expected allocation of funds to share repurchases and, as discussed above, changes in laws that may affect the taxation of dividends to our shareholders. We currently expect that our cash flows will be adequate to maintain at least our current level of dividends for 2005, although changes in our economic circumstances, in the economic circumstances of our industry or of the economy in general could cause the Board to reconsider our dividend policy at any time.

Litigation and Environmental

Our anticipated environmental capital costs and expenses for 2005, including expected costs for remediation efforts, are approximately $4.2 million, compared to approximately $4.4 million of such costs and expenses incurred in 2004. We had an environmental reserve of approximately $12.9 million at December 31, 2004, to address remediation issues associated with approximately 40 projects. This reserve has not been discounted or reduced for expected insurance recoveries. Our reserve estimates range in value from approximately $12.9 million to $16.1 million, and the lower end of the range has been accrued as no amount within the range is considered more likely than any other. In addition, we have recorded a receivable of $1.2 million for expected cost recoveries that have been deemed probable. Our reserve is primarily established to address and clean up soil and ground water impacts from former releases to the environment at facilities we have acquired. Reserves for each project are generally established by reviewing existing documents, conducting interviews and performing site inspections to determine the overall size and impact to the environment. Reviews are made on a quarterly basis to determine the status of the cleanup and the costs associated with the effort and to identify if the reserve allocation is appropriately valued. In assessing environmental risks in conjunction with proposed acquisitions, we review records relating to environmental issues, conduct site inspections, interview employees, and, if appropriate, collect soil and groundwater samples. After consideration of reserves established, we believe that costs for environmental remediation and ongoing compliance with environmental regulations will not have a material adverse effect on our cash flows, financial position or results of operations or diminish our ability to operate our businesses. However, there can be no assurances that future events, such as changes in existing laws, the promulgation of new laws, or the development or discovery of new or existing facts or conditions will not cause us to incur significant unanticipated costs.

Refer to Notes 9(A) and 9(B) of the accompanying Notes to Consolidated Financial Statements for additional information on our pending environmental and litigation matters, respectively. We believe we have established adequate environmental and legal reserves such that the resolution of pending environmental matters and litigation will not have a material adverse impact on our business, cash flows, financial position or results of operations. However, changing circumstances could cause these matters to have a material adverse impact.

Regulation

The Pipeline Safety Improvement Act of 2002 was signed into law on December 17, 2002, providing guidelines in the areas of testing, education, training and communication. The Act requires pipeline companies to perform integrity tests on natural gas transmission pipelines that exist in high population density areas that are designated as High Consequence Areas. Pipeline companies are required to perform the integrity tests within ten years of the date of enactment and must perform subsequent integrity tests on a seven year cycle. At least 50% of the highest risk segments must be tested within five years of the enactment date. The risk ratings are based on numerous factors, including the population density in the geographic regions served by a particular pipeline, as well as the age and condition of the pipeline and its protective coating. Testing consists of hydrostatic testing, internal electronic testing, or direct assessment of the piping. In addition to the pipeline integrity tests, pipeline companies must implement a qualification program to make certain that employees are properly trained. The United States Department of Transportation has approved our qualification program. We believe that we are in substantial compliance with this law's requirements and have integrated appropriate aspects of this pipeline safety law into our Operator Qualification Program, which is already in place and functioning. NGPL estimates that the average annual incremental expenditure associated with the Pipeline Safety Improvement Act of 2002 is approximately $8 million to $10 million.

See Note 8 of the accompanying Notes to Consolidated Financial Statements and "Business and Properties – Regulation" in Items 1 and 2 for additional information regarding regulatory matters.

Recent Accounting Pronouncements

Refer to Note 20 of the accompanying Notes to Consolidated Financial Statements for information regarding recent accounting pronouncements.

Information Regarding Forward-looking Statements

This filing includes forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as "anticipate," "believe," "intend," "plan," "projection," "forecast," "strategy," "position," "continue," "estimate," "expect," "may," or the negative of those terms or other variations of them or comparable terminology. In particular, statements, express or implied, concerning future actions, conditions or events, future operating results or the ability to generate sales, income or cash flow or to pay dividends are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future actions, conditions or events and future results of operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. Specific factors that could cause actual results to differ from those in the forward-looking statements include:

- price trends and overall demand for natural gas liquids, refined petroleum products, oil, carbon dioxide, natural gas, electricity, coal and other bulk materials and chemicals in the United States;

- economic activity, weather, alternative energy sources, conservation and technological advances that may affect price trends and demand;
- changes in our tariff rates or those of Kinder Morgan Energy Partners implemented by the FERC or another regulatory agency or, with respect to Kinder Morgan Energy Partners, the California Public Utilities Commission;
- Kinder Morgan Energy Partners' ability and our ability to acquire new businesses and assets and integrate those operations into existing operations, as well as the ability to expand our respective facilities;
- difficulties or delays experienced by railroads, barges, trucks, ships or pipelines in delivering products to or from Kinder Morgan Energy Partners' terminals or pipelines or our pipelines;
- Kinder Morgan Energy Partners' ability and our ability to successfully identify and close acquisitions and make cost-saving changes in operations;
- shut-downs or cutbacks at major refineries, petrochemical or chemical plants, ports, utilities, military bases or other businesses that use Kinder Morgan Energy Partners' or our services or provide services or products to Kinder Morgan Energy Partners or us;
- changes in laws or regulations, third-party relations and approvals, decisions of courts, regulators and governmental bodies that may adversely affect our business or our ability to compete;
- our ability to offer and sell equity securities and debt securities or obtain debt financing in sufficient amounts to implement that portion of our business plan that contemplates growth through acquisitions of operating businesses and assets and expansions of our facilities;
- our indebtedness could make us vulnerable to general adverse economic and industry conditions, limit our ability to borrow additional funds and/or place us at competitive disadvantages compared to our competitors that have less debt or have other adverse consequences;
- interruptions of electric power supply to our facilities due to natural disasters, power shortages, strikes, riots, terrorism, war or other causes;
- our ability to obtain insurance coverage without a significant level of self-retention of risk;
- acts of nature, sabotage, terrorism or other acts causing damage greater than our insurance coverage limits;
- capital markets conditions;
- the political and economic stability of the oil producing nations of the world;
- national, international, regional and local economic, competitive and regulatory conditions and developments;
- our ability to achieve cost savings and revenue growth;
- inflation;
- interest rates;
- the pace of deregulation of retail natural gas and electricity;
- foreign exchange fluctuations;

- the timing and extent of changes in commodity prices for oil, natural gas, electricity and certain agricultural products;
- the timing and success of business development efforts; and
- unfavorable results of litigation involving Kinder Morgan Energy Partners and the fruition of contingencies referred to in Kinder Morgan Energy Partners' Annual Report on Form 10-K for the year ended December 31, 2004. Our future results also could be adversely impacted by unfavorable results of litigation and the fruition of contingencies referred to in Note 9 "Environmental and Legal Matters" to the Consolidated Financial Statements included elsewhere in this report.

You should not put undue reliance on any forward-looking statements. See Items 1 and 2 "Business and Properties – Risk Factors" for a more detailed description of these and other factors that may affect the forward-looking statements. When considering forward-looking statements, one should keep in mind the risk factors described in "Risk Factors" above. The risk factors could cause our actual results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to update the above list or to announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Risk Management

The following discussion should be read in conjunction with Note 14 of the accompanying Notes to Consolidated Financial Statements, which contains additional information on our risk management activities. Our derivative activities are accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* collectively, "Statement 133."

We enter into derivative contracts solely for the purpose of hedging exposures that accompany our normal business activities. In accordance with the provisions of Statement 133, we designated these instruments as hedges of various exposures as discussed following, and we test the effectiveness of changes in the value of these hedging instruments in offsetting the risk being hedged. Hedge ineffectiveness is recognized in income in the period in which it occurs. We enter into these transactions only with counterparties whose debt securities are rated investment grade by the major rating agencies. While we will continue to enter into derivative transactions only with investment grade counterparties and actively monitor their credit ratings, it is nevertheless possible that losses will result from counterparty credit risk in the future.

Our businesses require that we purchase, sell and consume natural gas. Specifically, we purchase, sell and/or consume natural gas (i) to serve our regulated natural gas distribution sales customers, (ii) to serve certain of our retail natural gas distribution customers in areas where regulatory restructuring has provided for competition in natural gas supply, for customers who have selected the Company as their supplier of choice under our Choice Gas program, (iii) as fuel in one of our Colorado power generation facilities, (iv) as fuel for compressors located on NGPL's pipeline system and (v) for operational sales of gas by NGPL. With respect to item (i), we have no commodity risk because the regulated retail gas distribution regulatory structure provides that actual gas cost is "passed-through" to our customers. With respect to item (iii), our exposure is minimal and primarily consists of basis rather than commodity risk.

With respect to item (iv), this fuel is supplied by in-kind fuel recoveries that are part of the transportation tariff. Items (ii) and (v) give rise to natural gas commodity price risk, which we have chosen to substantially mitigate through our risk management program, utilizing financial derivative products.

Under our Choice Gas program, customers in certain areas served by Kinder Morgan Retail are allowed to choose their natural gas supplier from a list of qualified suppliers, although the transportation of the natural gas to the homes and businesses continues to be provided by Kinder Morgan Retail in all cases. When those customers choose Kinder Morgan Retail as their Choice Gas supplier, we enter into agreements providing for sales of gas to these customers during a one-year period at fixed prices per unit, but variable volumes. We mitigate the risk associated with these anticipated sales of gas by purchasing natural gas futures contracts on the New York Mercantile Exchange ("NYMEX") and, as applicable, over-the-counter basis swaps to mitigate the risk associated with the difference in price changes between Henry Hub (NYMEX) basis and the expected physical delivery location. In addition, we mitigate a portion of the volumetric risk through the purchase of over-the-counter natural gas options. The time period covered by this risk management strategy does not extend beyond one year.

With respect to operational sales of natural gas made by NGPL, we are exposed to risk associated with changes in the price of natural gas during the periods in which these sales are made. We mitigate this risk by selling natural gas futures and, as discussed above, over-the-counter basis swaps, on the NYMEX in the periods in which we expect to make these sales. In general, we do not hedge this exposure for periods in excess of 18 months.

We use a Value-at-Risk model to measure the risk of price changes in the crude oil, natural gas and natural gas liquids markets. Value-at-Risk is a statistical measure of how much the marked-to-market value of a portfolio could change during a period of time, within a certain level of statistical confidence. We use a closed form model to evaluate risk on a daily basis. Our Value-at-Risk computations use a confidence level of 97.7% for the resultant price movement and a holding period of one day chosen for the calculation. The confidence level used means that there is a 97.7% probability that the mark-to-market losses for a single day will not exceed the Value-at-Risk amount presented. During 2004, Value-at-Risk reached a high of $11.7 million and a low of $5.4 million. Value-at-Risk at December 31, 2004, was $9.6 million and, based on quarter-end values, averaged $8.1 million for 2004.

Our calculated Value-at-Risk exposure represents an estimate of the reasonably possible net losses that would be recognized on our portfolio of derivatives assuming hypothetical movements in future market rates, and is not necessarily indicative of actual results that may occur. It does not represent the maximum possible loss or any expected loss that may occur, since actual future gains and losses will differ from those estimated. Actual gains and losses may differ from estimates due to actual fluctuations in market rates, operating exposures and the timing thereof, as well as changes in our portfolio of derivatives during the year. In addition, as discussed preceding, we enter into these derivatives solely for the purpose of mitigating the risks that accompany our normal business activities and, therefore, the change in the market value of our portfolio of derivatives is, with the exception of a minor amount of hedging inefficiency, offset by changes in the value of the underlying physical transactions.

During the three years ended December 31, 2004, all of our natural gas derivative activities were designated and qualified as cash flow hedges. We recognized a pre-tax loss of approximately $1,354,000 in 2004, a pre-tax gain of approximately $56,000 in 2003 and a pre-tax loss of approximately $46,000 in 2002 as a result of ineffectiveness of these hedges, which amounts are reported within the caption "Gas Purchases and Other Costs of Sales" in the accompanying Consolidated Statements of Operations. There was no component of these derivative instruments' gain or loss excluded from the assessment of hedge effectiveness.

As the hedged sales and purchases take place and we record them into earnings, we also reclassify the gains and losses included in accumulated other comprehensive income into earnings. We expect to reclassify into earnings, during 2005, substantially all of the balance of approximately $138,000 in accumulated other comprehensive income representing unrecognized net losses on derivative activities at December 31, 2004. During the three years ended December 31, 2004, we reclassified no gains or losses into earnings as a result of the discontinuance of cash flow hedges due to a determination that the forecasted transactions would no longer occur by the end of the originally specified time period.

We also provide certain administrative risk management services to Kinder Morgan Energy Partners, although Kinder Morgan Energy Partners retains the obligations and rights arising from all derivative transactions entered into on its behalf.

Our business activities expose us to credit risk with respect to collection of accounts receivable. In order to mitigate that risk, we routinely monitor the credit status of our existing and potential customers. When customers' credit ratings do not meet our requirements for the extension of unsupported credit, we obtain cash prepayments or letters of credit. Note 1(G) of the accompanying Notes to Consolidated Financial Statements provides information on the amount of prepayments we have received.

We have outstanding fixed-to-floating interest rate swap agreements with a notional principal amount of $1.5 billion at December 31, 2004. These agreements, entered into in August 2001, September 2002 and November 2003, effectively convert the interest expense associated with our 7.25% Debentures due in 2028 and our 6.50% Senior Notes due in 2012 from fixed rates to floating rates based on the three-month London Interbank Offered Rate ("LIBOR") plus a credit spread. These swaps have been designated as fair value hedges and we have accounted for them utilizing the "shortcut" method prescribed for qualifying fair value hedges under Statement 133. Accordingly, the carrying value of the swap is adjusted to its fair value as of the end of each reporting period, and an offsetting entry is made to adjust the carrying value of the debt securities whose fair value is being hedged. The fair value of these swaps of $85.9 million at December 31, 2004 is included in the caption "Deferred Charges and Other Assets" in the accompanying Consolidated Balance Sheet. We record interest expense equal to the floating rate payments, which is accrued monthly and paid semi-annually. Based on the long-term debt effectively converted to floating rate debt as a result of the swaps discussed above, the market risk related to a 1% change in interest rates would result in a $15.0 million annual impact on pre-tax income.

On March 3, 2003, we terminated the interest rate swap agreements associated with our 6.65% Senior Notes due in 2005 and received $28.1 million. We are amortizing this amount (reducing interest expense) over the remaining period the 6.65% Senior Notes are outstanding. The unamortized balance of $2.3 million at December 31, 2004 is included in the caption "Value of Interest Rate Swaps" under the heading "Long-term Debt" in the accompanying Consolidated Balance Sheet.

Item 8. ***Financial Statements and Supplementary Data.***

INDEX

Report of Independent Registered Public Accounting Firm

To the Board of Directors
and Stockholders of Kinder Morgan, Inc.

We have completed an integrated audit of Kinder Morgan, Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Kinder Morgan, Inc. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12(C) and Note 1(P) to the consolidated financial statements, the Company changed its method of accounting for its Capital Trust Securities effective December 31, 2003.

As discussed in Note 17(A) to the consolidated financial statements, the Company changed its method of accounting for its investment in Triton Power Company LLC effective December 31, 2003.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and

operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Houston, Texas
March 4, 2005

CONSOLIDATED STATEMENTS OF OPERATIONS
Kinder Morgan, Inc. and Subsidiaries

	Year Ended December 31,		
	2004	2003	2002
	(In thousands except per share amounts)		
Operating Revenues:			
Natural Gas Transportation and Storage	$ 731,289	$ 689,566	$ 628,172
Natural Gas Sales	336,550	351,349	312,764
Other	97,094	56,982	74,319
Total Operating Revenues	1,164,933	1,097,897	1,015,255
Operating Costs and Expenses:			
Gas Purchases and Other Costs of Sales	349,564	354,261	311,224
Operations and Maintenance	158,356	123,188	125,565
General and Administrative	77,841	71,741	73,496
Depreciation and Amortization	118,742	117,528	106,496
Taxes, Other Than Income Taxes	28,975	30,573	27,282
Impairment of Power Investments	33,527	44,513	134,525
Total Operating Costs and Expenses	767,005	741,804	778,588
Operating Income	397,928	356,093	236,667
Other Income and (Expenses):			
Equity in Earnings of Kinder Morgan Energy Partners	558,078	464,967	392,135
Equity in Earnings of Other Equity Investments	10,152	7,451	12,791
Interest Expense, Net	(133,219)	(139,588)	(161,935)
Interest Expense – Deferrable Interest Debentures	(21,912)	-	-
Interest Expense – Capital Trust Securities	-	(10,956)	-
Minority Interests	(56,420)	(52,493)	(55,720)
Other, Net	614	830	18,792
Total Other Income and (Expenses)	357,293	270,211	206,063
Income from Continuing Operations Before Income Taxes	755,221	626,304	442,730
Income Taxes	226,717	244,600	135,019
Income from Continuing Operations	528,504	381,704	307,711
Loss on Disposal of Discontinued Operations, Net of Tax	(6,424)	-	(4,986)
Net Income	$ 522,080	$ 381,704	$ 302,725
Basic Earnings (Loss) Per Common Share:			
Income from Continuing Operations	$ 4.27	$ 3.11	$ 2.52
Loss on Disposal of Discontinued Operations	(0.05)	-	(0.04)
Total Basic Earnings Per Common Share	$ 4.22	$ 3.11	$ 2.48
Number of Shares Used in Computing Basic Earnings (Loss) Per Common Share	123,778	122,605	122,184
Diluted Earnings (Loss) Per Common Share:			
Income from Continuing Operations	$ 4.23	$ 3.08	$ 2.49
Loss on Disposal of Discontinued Operations	(0.05)	-	(0.04)
Total Diluted Earnings Per Common Share	$ 4.18	$ 3.08	$ 2.45
Number of Shares Used in Computing Diluted Earnings (Loss) Per Common Share	124,938	123,824	123,402
Dividends Per Common Share	$ 2.25	$ 1.10	$ 0.30

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Kinder Morgan, Inc. and Subsidiaries

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Net Income	$ 522,080	$ 381,704	$ 302,725
Other Comprehensive Income (Loss), Net of Tax:			
Change in Fair Value of Derivatives Utilized for Hedging Purposes (Net of Tax Benefit of $4,647, $16,251 and $23,880, respectively)	(7,922)	(26,515)	(36,837)
Reclassification of Change in Fair Value of Derivatives to Net Income (Net of Tax of $9,010, $24,680 and $4,467, respectively)	14,971	40,267	6,031
Adjustment to Recognize Minimum Pension Liability (Net of Tax of $10,865 and Tax Benefit of $10,865, respectively)	-	17,727	(17,727)
Equity in Other Comprehensive Loss of Equity Method Investees (Net of Tax Benefit of $41,604, $15,897 and $5,996, respectively)	(71,950)	(25,935)	(9,784)
Minority Interest in Other Comprehensive Loss of Equity Method Investees	35,842	13,492	3,730
Total Other Comprehensive Income (Loss)	(29,059)	19,036	(54,587)
Comprehensive Income	$ 493,021	$ 400,740	$ 248,138

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS
Kinder Morgan, Inc. and Subsidiaries

	December 31, 2004	December 31, 2003
	(In thousands)	
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$ 176,520	$ 11,076
Restricted Deposits	38,049	17,158
Accounts Receivable, Net:		
Trade	82,544	75,903
Related Parties	5,859	1,584
Note Receivable	4,594	-
Inventories	41,781	22,096
Gas Imbalances	5,625	33,320
Other	114,286	115,183
	469,258	276,320
Investments:		
Kinder Morgan Energy Partners	2,305,212	2,106,312
Goodwill	918,076	972,380
Other	176,143	208,860
	3,399,431	3,287,552
Property, Plant and Equipment, Net	5,851,965	6,083,937
Deferred Charges and Other Assets	396,247	388,902
Total Assets	$10,116,901	$10,036,711
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current Liabilities:		
Current Maturities of Long-term Debt	$ 505,000	$ 5,000
Notes Payable	-	127,900
Accounts Payable:		
Trade	58,119	61,385
Related Parties	180	10,632
Accrued Interest	67,206	68,596
Accrued Taxes	32,547	35,795
Gas Imbalances	18,254	38,494
Other	157,503	128,559
	838,809	476,361
Other Liabilities and Deferred Credits:		
Deferred Income Taxes	2,530,065	2,477,329
Other	148,044	197,435
	2,678,109	2,674,764
Long-term Debt:		
Outstanding Notes and Debentures	2,257,950	2,837,487
Deferrable Interest Debentures Issued to Subsidiary Trusts	283,600	283,600
Value of Interest Rate Swaps	88,243	88,242
	2,629,793	3,209,329
Minority Interests in Equity of Subsidiaries	1,105,436	1,010,140
Commitments and Contingent Liabilities (Notes 9 and 17)		
Stockholders' Equity:		
Preferred Stock (Note 13)	-	-
Common Stock-		
Authorized – 150,000,000 Shares, Par Value $5 Per Share; Outstanding – 134,198,905 and 132,229,622 Shares, Respectively, Before Deducting 10,666,801 and 8,912,660 Shares Held in Treasury	670,995	661,148
Additional Paid-in Capital	1,863,145	1,780,761
Retained Earnings	975,912	732,492
Treasury Stock	(558,844)	(446,095)
Deferred Compensation	(31,712)	(36,506)
Accumulated Other Comprehensive Loss	(54,742)	(25,683)
Total Stockholders' Equity	2,864,754	2,666,117
Total Liabilities and Stockholders' Equity	$10,116,901	$10,036,711

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Kinder Morgan, Inc. and Subsidiaries

	Year Ended December 31,					
	2004		2003		2002	
	Shares	Amount	Shares	Amount	Shares	Amount
			(Dollars in thousands)			
Common Stock:						
Beginning Balance	132,229,622	$ 661,148	129,861,650	$ 649,308	129,092,689	$ 645,463
Employee Benefit Plans	1,969,283	9,847	2,367,972	11,840	768,961	3,845
Ending Balance	134,198,905	670,995	132,229,622	661,148	129,861,650	649,308
Additional Paid-in Capital:						
Beginning Balance		1,780,761		1,681,042		1,652,846
Revaluation of Kinder Morgan Energy Partners (KMP) Investment (Note 5)		(462)		(4,070)		(29,350)
Gain on KMP Units Exchanged for Kinder Morgan Management (KMR) Shares (Note 3)		-		-		35,720
Employee Benefit Plans		63,459		71,531		22,025
Tax Benefits from Employee Benefit Plans		19,376		29,974		-
Other		11		2,284		(199)
Ending Balance		1,863,145		1,780,761		1,681,042
Retained Earnings:						
Beginning Balance		732,492		486,062		219,995
Net Income		522,080		381,704		302,725
Cash Dividends, Common Stock		(278,660)		(135,274)		(36,658)
Ending Balance		975,912		732,492		486,062
Treasury Stock at Cost:						
Beginning Balance	(8,912,660)	(446,095)	(8,168,241)	(406,630)	(5,165,911)	(263,967)
Treasury Stock Acquired	(1,695,900)	(108,578)	(724,600)	(37,988)	(3,013,400)	(144,269)
Treasury Stock Issued	-	-	-	-	17,827	889
Employee Benefit Plans	(58,241)	(4,171)	(19,819)	(1,477)	(6,757)	717
Ending Balance	(10,666,801)	(558,844)	(8,912,660)	(446,095)	(8,168,241)	(406,630)
Deferred Compensation Plans:						
Beginning Balance		(36,506)		(10,066)		(4,208)
Current Year Activity [Note 1(S)]		4,794		(26,440)		(5,858)
Ending Balance		(31,712)		(36,506)		(10,066)
Accumulated Other Comprehensive Income (Loss) (Net of Tax):						
Beginning Balance		(25,683)		(44,719)		9,868
Unrealized Gain (Loss) on Derivatives Utilized for Hedging Purposes		7,049		13,752		(30,806)
Adjustment to Recognize Minimum Pension Liability		-		17,727		(17,727)
Equity in Other Comprehensive Loss of Equity Method Investees		(71,950)		(25,935)		(9,784)
Minority Interest in Other Comprehensive Loss of Equity Method Investees		35,842		13,492		3,730
Ending Balance		(54,742)		(25,683)		(44,719)
Total Stockholders' Equity	123,532,104	$ 2,864,754	123,316,962	$ 2,666,117	121,693,409	$ 2,354,997

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Kinder Morgan, Inc. and Subsidiaries

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash Flows from Operating Activities:			
Net Income	$ 522,080	$ 381,704	$ 302,725
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:			
Loss on Disposal of Discontinued Operations, Net of Tax	6,424	-	4,986
Loss from Impairment of Power Investments	33,527	44,513	134,525
Loss on Early Extinguishment of Debt	3,894	-	2,349
Depreciation and Amortization	118,742	117,528	106,496
Deferred Income Taxes	40,737	29,330	55,748
Equity in Earnings of Kinder Morgan Energy Partners	(558,078)	(464,967)	(392,135)
Distributions from Kinder Morgan Energy Partners	435,309	369,022	310,290
Equity in Earnings of Other Equity Investments	(10,152)	(7,451)	(12,791)
Minority Interests in Income of Consolidated Subsidiaries	56,420	41,537	33,808
Deferred Purchased Gas Costs	1,899	(20,636)	(7,792)
Net (Gains) Losses on Sales of Assets	(5,899)	4,423	(2,566)
Gain from Settlement of Orcom Note	-	(2,917)	-
Litigation Settlement and Escrow Deposit	-	-	(22,050)
Pension Contribution in Excess of Expense	(4,638)	(5,101)	(18,700)
Changes in Gas in Underground Storage	(2,188)	50,075	5,291
Changes in Working Capital Items [Note 1(R)]	35,190	59,213	(52,752)
Proceeds from Termination of Interest Rate Swap	-	28,147	-
Other, Net	(23,759)	(21,171)	(11,685)
Net Cash Flows Provided by Continuing Operations	649,508	603,249	435,747
Net Cash Flows Used in Discontinued Operations	(5,079)	(1,743)	(4,930)
Net Cash Flows Provided by Operating Activities	644,429	601,506	430,817
Cash Flows from Investing Activities:			
Capital Expenditures	(164,242)	(160,804)	(174,953)
Proceeds from Contribution of TransColorado to Kinder Morgan Energy Partners	210,824	-	-
Acquisition of TransColorado	-	-	(95,560)
Other Acquisitions	-	-	(35,838)
Investment in Kinder Morgan Energy Partners (Note 2)	(74,035)	(1,784)	(331,912)
Net (Investments in) Proceeds from Margin Deposits	(20,891)	(14,375)	12,227
Other Investments	-	(11,329)	(200,958)
Exchange of Kinder Morgan Management Shares	-	-	(69)
Proceeds from Settlement of Orcom Note	-	2,727	-
Proceeds from Sales of Turbines and Boilers	42,096	8,547	-
Net (Cost of Removal) Proceeds from Sales of Assets	(1,054)	5,306	3,949
Net Cash Flows Used in Investing Activities	(7,302)	(171,712)	(823,114)
Cash Flows from Financing Activities:			
Short-term Debt, Net	(127,900)	127,900	(423,785)
Long-term Debt Issued	-	-	1,000,000
Long-term Debt Retired	(80,000)	(511,083)	(265,292)
Issuance of Shares by Kinder Morgan Management	67,603	-	343,170
Other Common Stock Issued	68,394	47,686	15,558
Premiums Paid on Early Extinguishment of Debt	(3,000)	-	(1,461)
Short-term Advances (to) from Unconsolidated Affiliates	(14,727)	55,864	(53,003)
Purchase of Kinder Morgan Management Shares	-	(928)	-
Treasury Stock Issued	-	-	1,701
Treasury Stock Acquired	(102,675)	(37,988)	(149,062)
Cash Dividends, Common Stock	(278,660)	(135,274)	(36,658)
Minority Interests, Net	(643)	(548)	(384)
Debt Issuance Costs	-	-	(4,357)
Securities Issuance Costs	(75)	-	(14,611)
Net Cash Flows Provided by (Used in) Financing Activities	(471,683)	(454,371)	411,816
Net Increase (Decrease) in Cash and Cash Equivalents	165,444	(24,577)	19,519
Cash and Cash Equivalents at Beginning of Year	11,076	35,653	16,134
Cash and Cash Equivalents at End of Year	$ 176,520	$ 11,076	$ 35,653

The accompanying notes are an integral part of these statements.

1. Nature of Operations and Summary of Significant Accounting Policies

(A) Nature of Operations

We are an energy transportation, storage and related services provider and have operations in the Rocky Mountain and mid-continent regions, with principal operations in Arkansas, Colorado, Illinois, Iowa, Kansas, Louisiana, Missouri, Nebraska, New Mexico, Oklahoma, Texas and Wyoming. Our business activities include: (i) storing, transporting and selling natural gas, (ii) providing retail natural gas distribution services, and (iii) operating and, in previous periods, constructing electric generation facilities. We have both regulated and nonregulated operations. Our common stock is traded on the New York Stock Exchange under the ticker symbol "KMI." During 1999, we acquired Kinder Morgan Delaware as discussed in the following paragraph. As a result, we own, through Kinder Morgan Delaware, the general partner interest in Kinder Morgan Energy Partners, L.P., a publicly traded pipeline limited partnership, referred to in these Notes as Kinder Morgan Energy Partners. We also own a significant limited partner interest in Kinder Morgan Energy Partners and receive a substantial portion of our earnings from returns on our investment in this entity.

In October 1999, K N Energy, Inc. (as we were then named), a Kansas corporation, acquired Kinder Morgan, Inc. (Delaware), a Delaware corporation, referred to in these Notes as Kinder Morgan Delaware. We then changed our name to Kinder Morgan, Inc. Unless the context requires otherwise, references to "we," "us," "our," or the "Company" are intended to mean Kinder Morgan, Inc. (a Kansas corporation and formerly known as K N Energy, Inc.) and its consolidated subsidiaries. During 1999, we adopted and implemented plans to discontinue our businesses involved in (i) wholesale marketing of natural gas and natural gas liquids, (ii) gathering and processing of natural gas, including field services and short-haul intrastate pipelines, (iii) direct marketing of non-energy products and services and (iv) international operations. During the fourth quarter of 2000, we determined that, due to the start-up nature of our international natural gas distribution operations and the unwillingness of buyers to pay for the value created to date, it was not in the best interests of the Company to dispose of these operations and, accordingly, we decided to retain them. Additional information concerning discontinued operations is contained in Note 7.

(B) Basis of Presentation

Our consolidated financial statements include the accounts of Kinder Morgan, Inc. and its majority-owned subsidiaries. Investments in jointly owned operations in which we have the ability to exercise significant influence over their operating and financial policies are accounted for under the equity method, as is our investment in Kinder Morgan Energy Partners, which accounting is further described in Note 1(T). All material intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the current presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

(C) Accounting for Regulatory Activities

Our regulated utility operations are accounted for in accordance with the provisions of Statement of

Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*, which prescribes the circumstances in which the application of generally accepted accounting principles is affected by the economic effects of regulation. Regulatory assets and liabilities represent probable future revenues or expenses associated with certain charges and credits that will be recovered from or refunded to customers through the ratemaking process. The following regulatory assets and liabilities are reflected in the accompanying Consolidated Balance Sheets:

	December 31,	
	2004	**2003**
	(In thousands)	
Regulatory Assets:		
Employee Benefit Costs	$ 1,605	$ 1,791
Debt Refinancing Costs	689	876
Deferred Income Taxes	13,866	14,843
Purchased Gas Costs	43,062	49,386
Plant Acquisition Adjustments	454	454
Rate Regulation and Application Costs	2,427	2,876
Total Regulatory Assets	62,103	70,226
Regulatory Liabilities:		
Employee Benefit Costs	-	3,009
Deferred Income Taxes	17,773	20,797
Purchased Gas Costs	2,503	6,926
Rate Regulation and Application Costs	58	-
Total Regulatory Liabilities	20,334	30,732
Net Regulatory Assets	$ 41,769	$ 39,494

The December 31, 2004 purchased gas costs balance of $43.1 million shown above as a regulatory asset includes $27.1 million in litigated gas costs. See Note 8 for additional information regarding this matter. As of December 31, 2004, $60.0 million of our regulatory assets and $20.3 million of our regulatory liabilities were being recovered from or refunded to customers through rates over periods ranging from 1 to 21 years.

(D) Revenue Recognition Policies

We recognize revenues as services are rendered or goods are delivered and, if applicable, title has passed. Our rate-regulated retail natural gas distribution business bills customers on a monthly cycle billing basis. Revenues are recorded on an accrual basis, including an estimate at the end of each accounting period for gas delivered and, if applicable, for which title has passed but bills have not yet been rendered. With respect to our power generating facility construction activities in 2002 and prior periods, we utilized the percentage of completion method whereby revenues and associated expenses are recognized over the construction period based on work performed in relation to the total expected for the entire project.

We provide various types of natural gas storage and transportation services to customers, principally through NGPL's and, prior to November 2004, TransColorado's pipeline systems. The natural gas remains the property of these customers at all times. In many cases (generally described as "firm service"), the customer pays a two-part rate that includes (i) a fixed fee reserving the right to transport or store natural gas in our facilities and (ii) a per-unit rate for volumes actually transported or injected into/withdrawn from storage. The fixed-fee component of the overall rate is recognized as revenue ratably over the contract period. The per-unit charge is recognized as revenue when the volumes are delivered to the customers' agreed upon delivery point, or when the volumes are injected into/withdrawn from our storage facilities. In other cases (generally described as "interruptible service"), there is no

fixed fee associated with the services because the customer accepts the possibility that service may be interrupted at our discretion in order to serve customers who have purchased firm service. In the case of interruptible service, revenue is recognized in the same manner utilized for the per-unit rate for volumes actually transported under firm service agreements.

(E) Earnings Per Share

Basic earnings per common share is computed based on the weighted-average number of common shares outstanding during each period. Diluted earnings per common share is computed based on the weighted-average number of common shares outstanding during each period, increased by the assumed exercise or conversion of securities convertible into common stock, for which the effect of conversion or exercise using the treasury stock method would be dilutive.

	2004	2003	2002
		(In thousands)	
Weighted Average Common Shares Outstanding	123,778	122,605	122,184
Dilutive Common Stock Options	1,160	1,219	1,218
Shares Used to Compute Diluted Earnings Per Common Share	124,938	123,824	123,402

Weighted-average stock options outstanding totaling 1.7 million for 2003 and 2.5 million for 2002 were excluded from the diluted earnings per common share calculation because the effect of including them would have been antidilutive. No options were excluded from the diluted earnings per share calculation in 2004 because none of the options would have been antidilutive. Note 16 contains more information regarding stock options.

(F) Restricted Deposits

Restricted Deposits consist of restricted funds on deposit with brokers in support of our risk management activities; see Note 14.

(G) Accounts Receivable

The caption “Accounts Receivable, Net” in the accompanying Consolidated Balance Sheets is presented net of allowances for doubtful accounts. Our policy for determining an appropriate allowance for doubtful accounts varies according to the type of business being conducted and the customers being served. An allowance for doubtful accounts is charged to expense monthly, generally using a percentage of revenue or receivables, based on a historical analysis of uncollected amounts, adjusted as necessary for changed circumstances and customer-specific information. When specific receivables are determined to be uncollectible, the reserve and receivable are relieved. In support of credit extended to certain customers, we had received prepayments of $3.8 million and $8.1 million at December 31, 2004 and 2003, respectively, included with other current liabilities in the accompanying Consolidated Balance Sheets. The following table shows the balance in the allowance for doubtful accounts and activity for the years ended December 31, 2004, 2003 and 2002.

Allowance for Doubtful Accounts

	Year Ended December 31,		
	2004	2003	2002
		(In millions)	
Beginning Balance	$ 5.2	$ 4.9	$ 3.4
Additions: Charged to Cost and Expenses	1.4	1.9	5.2
Deductions: Write-off of Uncollectible Accounts	(3.5)	(1.6)	(3.7)
Ending Balance	$ 3.1	$ 5.2	$ 4.9

(H) Inventories

	December 31, 2004	December 31, 2003
	(In thousands)	
Gas in Underground Storage (Current)	$ 28,342	$ 8,306
Materials and Supplies	13,439	13,790
	$ 41,781	$ 22,096

Inventories are accounted for using the following methods, with the percent of the total dollars at December 31, 2004 shown in parentheses: average cost (98.24%) and first-in, first-out (1.76%). All non-utility inventories held for resale are valued at the lower of cost or market. We also maintain gas in our underground storage facilities on behalf of certain third parties. We receive a fee from our storage service customers but do not reflect the value of their gas stored in our facilities in the accompanying Consolidated Balance Sheets.

(I) Current Assets: Other

	December 31, 2004	December 31, 2003
	(In thousands)	
Assets Held for Sale - Turbines and Boilers[1]	$ 23,500	$ 73,453
Current Deferred Tax Asset	30,198	-
Interest Receivable – Interest Rate Swaps	15,494	17,693
Derivatives	19,294	7,447
Prepaid Expenses	11,643	14,223
Income Tax Overpayments	6,681	-
Other	7,476	2,367
	$ 114,286	$ 115,183

[1] See Notes 5 and 6.

(J) Goodwill

	Kinder Morgan Energy Partners	Power Segment	Total
		(In thousands)	
Balance as of December 31, 2002	$ 969,230	$ 21,648	$ 990,878
Change in ownership percentage of Kinder Morgan Energy Partners related to Kinder Morgan Energy Partners common unit issuances	(21,682)	-	(21,682)
Other	-	3,184	3,184
Balance as of December 31, 2003	947,548	24,832	972,380
Change in ownership percentage of Kinder Morgan Energy Partners related to Kinder Morgan Energy Partners common unit issuances	(54,304)	-	(54,304)
Balance as of December 31, 2004	$ 893,244	$ 24,832	$ 918,076

(K) Other Investments

	December 31, 2004	December 31, 2003
	(In thousands)	
Power Investments:		
Thermo Companies[1]	$ 148,593	$ 177,269
Horizon Pipeline Company	18,244	19,317
Subsidiary Trusts Holding Solely Debentures of Kinder Morgan[2]	8,600	8,600
Other	706	3,674
	$ 176,143	$ 208,860

[1] Our investment in the Thermo Companies was reduced as a result of an impairment recorded in 2004, see Note 6.

[2] As a result of our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, effective December 31, 2003, the subsidiary trusts associated with these securities are no longer consolidated.

Investments consist primarily of equity method investments in unconsolidated subsidiaries and joint ventures, and include ownership interests in net profits. We own 49.5% interests in Thermo Cogeneration Partnership, L.P. and Greenhouse Holdings, LLC, which are accounted for under the equity method. Our investment in Horizon Pipeline Company, in which we own a 50% interest, is also accounted for under the equity method.

(L) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost, which for constructed plant includes indirect costs such as payroll taxes, other employee benefits, administrative and general costs. Expenditures that increase capacities, improve efficiencies or extend useful lives are capitalized. Routine maintenance, repairs and renewal costs are expensed as incurred. The cost of normal retirements of depreciable utility property, plant and equipment, plus the cost of removal less salvage, is recorded in accumulated depreciation with no effect on current period earnings. Gains or losses are recognized upon retirement of non-utility property, plant and equipment, and utility property, plant and equipment constituting an operating unit or system, when sold or abandoned.

As discussed under (H) preceding, we maintain gas in underground storage as part of our inventory. This component of our inventory represents the portion of gas stored in an underground storage facility generally known as “working gas,” and represents an estimate of the portion of gas in these facilities available for routine injection and withdrawal to meet demand. In addition to this working gas, underground gas storage reservoirs contain injected gas which is not routinely cycled but, instead, serves the function of maintaining the necessary pressure to allow efficient operation of the facility. This gas, generally known as “cushion gas,” is divided into the categories of “recoverable cushion gas” and “unrecoverable cushion gas,” based on an engineering analysis of whether the gas can be economically removed from the storage facility at any point during its life. The portion of the cushion gas that is determined to be unrecoverable is considered to be a permanent part of the facility itself (thus, part of our Property, Plant & Equipment balance) and is depreciated over the facility’s estimated useful life. The portion of the cushion gas that is determined to be recoverable is also considered a component of the facility but is not depreciated because it is expected to ultimately be recovered and sold.

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we review the carrying values of our long-lived assets whenever events or changes in circumstances indicate that such carrying values may not be recoverable. In the fourth quarters of 2004, 2003 and 2002, we recorded impairments of certain assets associated with our power business; see Note 6.

(M) Asset Retirement Obligations

We adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, effective January 1, 2003. This statement changed the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The impact of the adoption of this statement on us is discussed below by segment. A reconciliation of the changes in our accumulated asset retirement obligations for the years ended December 31, 2004 and 2003 is as follows:

	Year Ended December 31,	
	2004	**2003**
	(In thousands)	
Balance at Beginning of Period	$ 2,151	$ -
Initial ARO Balance upon Adoption	-	3,132
Liabilities Incurred	1,053	-
Liabilities Settled	-	(1,075)
Accretion Expense	75	94
Revisions of Estimated Cash Flows	-	-
Balance at End of Period	$ 3,279	$ 2,151

In general, NGPL's system is composed of underground piping, compressor stations and associated facilities, natural gas storage facilities and certain other facilities and equipment. Except as discussed following, we have no plans to abandon any of these facilities, the majority of which have been providing utility service for many years, making it impossible to determine the timing of any potential retirement expenditures. Notwithstanding our current intentions, in general, if we were to cease utility operations in total or in any particular area, we would be permitted to abandon the underground piping in place, but would have to remove our surface facilities from land belonging to our customers or others. We would generally have no obligations for removal or remediation with respect to equipment and facilities, such as compressor stations, located on land we own.

NGPL has various condensate drip tanks located throughout the system, storage wells located within the storage fields, laterals no longer integral to the overall mainline transmission system, compressor stations which are no longer active, and other miscellaneous facilities, all of which have been officially abandoned. For these facilities, it is possible to reasonably estimate the timing of the payment of obligations associated with their retirement. The recognition of these obligations has resulted in a liability and associated asset of approximately $2.9 million as of December 31, 2004, representing the present value of those future obligations for which we are able to make reasonable estimations of the current fair value due to, as discussed above, our ability to estimate the timing of the incurrence of the expenditures. The remainder of NGPL's asset retirement obligations have not been recorded due to our inability, as discussed above, to reasonably estimate when they will be settled in cash. We will record liabilities for these obligations when we are able to reasonably estimate their fair value.

In general, our retail natural gas distribution system is composed of town border stations, regulator stations, underground piping and delivery meters. In addition, we have (i) certain other associated surface equipment, (ii) gas storage facilities in Colorado and Wyoming and (iii) one producing gas field in Colorado. Except as discussed following, we have no plans to abandon any of these facilities, the majority of which have been providing utility service for many years, making it impossible to determine the timing of any potential retirement expenditures. Notwithstanding our current intentions, if we were to cease utility operations in any particular area, we would be permitted to abandon the underground piping in place, but would have to remove our surface facilities at customer delivery points. We would

be under no obligation to remove town border stations, odorization or other miscellaneous facilities located on our property.

In our Kinder Morgan Retail storage field operations we would, upon abandonment, be required to plug and abandon the wells and to remove our surface wellhead equipment and compressors. We currently have two small sites in Wyoming that are no longer being used as active storage facilities and estimate that, in 2013, we will incur approximately $200,000 in costs to fulfill these retirement obligations. We have no plans to cease using any of our other storage facilities as they are expected to, for the foreseeable future, provide critical deliverability to our customers in severe cold weather situations. With respect to our small natural gas production field in Colorado, we will be required, upon cessation of commercial operations, to plug and abandon the natural gas wells, remove surface equipment and remediate the well sites. We have estimated that this process will start in 2007 and continue through 2013 for a total cost of $240,000, with approximately half the total being spent in the final two years. Additionally, the Colbran Processing Plant in Colorado is scheduled for removal in 2007, and we have accrued approximately $88,000 (at present value) for removal costs related to this facility. The recognition of these obligations has resulted in a liability and associated asset of approximately $0.4 million as of December 31, 2004, representing the present value of those future obligations for which we are able to make reasonable estimations of the current fair value due to, as discussed above, our ability to estimate the timing of the incurrence of the expenditures. The remainder of our asset retirement obligations have not been recorded due to our inability to reasonably estimate when they will be settled in cash. We will record liabilities for these obligations when we are able to reasonably estimate their fair value.

The facilities utilized in our power generation activities fall into two general categories: those that we own and those that we do not own. With respect to those facilities that we do not own but either operate or maintain a preferred interest in, principally the Jackson, Michigan and Wrightsville, Arkansas power plants, we have no obligation for any asset retirement obligation that may exist or arise. With respect to the Colorado power generation assets that we do own (located on land that we also own), we have no asset retirement obligation with respect to those facilities, and no direct responsibility for assets in which we own an interest accounted for under the equity method of accounting. Thus, our power generation activities do not give rise to any asset retirement obligations.

We have not presented prior period information on a pro forma basis to reflect the implementation of SFAS No. 143 because the impact in total and on each individual period is immaterial.

(N) Gas Imbalances and Gas Purchase Contracts

We value gas imbalances due to or due from interconnecting pipelines at the lower of cost or market. Gas imbalances represent the difference between customer nominations and actual gas receipts from and gas deliveries to our interconnecting pipelines under various operational balancing agreements. Natural gas imbalances are settled in cash or made up in-kind subject to the pipelines' various terms. We are obligated under certain gas purchase contracts, dating from 1973, to purchase natural gas at fixed and escalating prices from a certain field in Montana. This take obligation, which continues for the life of the field, is based on production from specific wells and, thus, varies from year to year. The total cost to purchase natural gas under these contracts is estimated to be $19.1 million. We have recorded a liability representing our estimate of probable losses resulting from the resale of these purchased quantities, which amount is evaluated and, if necessary, adjusted as new information becomes available. During 2002, this liability was increased by a pre-tax charge of approximately $12.7 million to reflect increases in both (i) estimated production volumes subject to this purchase obligation and (ii) the difference between the price to be paid under these contracts and the expected sales price. This liability was approximately $6.2 million at December 31, 2004 and is expected to result in a credit to earnings in an

amount approximating $3.1 million per year for the next two years as gas volumes are purchased and resold.

(O) Depreciation and Amortization

Depreciation on our long-lived assets is computed based on the straight-line method over their estimated useful lives. The range of estimated useful lives used in depreciating assets for each property type are as follows:

Property Type	Range of Estimated Useful Lives of Assets
	(In years)
Natural Gas Pipelines	24 to 68 (Transmission assets: average 56)
Retail Natural Gas Distribution	33
Power Generation	4 to 30
General and Other	3 to 56

(P) Interest Expense

"Interest Expense, Net" as presented in the accompanying Consolidated Statements of Operations is net of the debt component of the allowance for funds used during construction ("AFUDC — Interest") as shown following.

	Year Ended December 31,		
	2004	2003	2002
		(In millions)	
Interest Expense	$ 134.1	$ 140.2	$ 163.7
AFUDC — Interest	(0.9)	(0.6)	(1.8)
Interest Expense, Net	133.2	139.6	161.9
Interest Expense – Deferrable Interest Debentures	21.9	-	-
Interest Expense – Capital Trust Securities	-	10.9	-
Total Interest Expense	$ 155.1	$ 150.5	$ 161.9

The expense associated with our capital trust securities was included in "Minority Interests" prior to the third quarter of 2003 ($10.9 million for the year ended December 31, 2003). Due to our adoption of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, the expense associated with these securities was included in "Interest Expense – Capital Trust Securities" beginning with the third quarter of 2003. Due to our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, the subsidiary trusts associated with our capital trust securities are no longer consolidated, effective December 31, 2003. The associated expense is included in "Interest Expense – Deferrable Interest Debentures" for the year ended December 31, 2004.

(Q) Other, Net

"Other, Net" as presented in the accompanying Consolidated Statements of Operations includes $2.0 million, $(4.4) million and $13.0 million in 2004, 2003 and 2002, respectively, attributable to net gains/(losses) from sales of assets. These transactions are discussed in Note 5.

(R) Cash Flow Information

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. "Other, Net," presented as a component of "Net Cash Flows From Operating Activities" in the accompanying Consolidated Statements of Cash Flows includes, among other things, distributions from unconsolidated subsidiaries and joint ventures (other than Kinder Morgan Energy

Partners) and other non-cash charges and credits to income including amortization of deferred revenue and, in 2004 and 2003, amortization of the gain realized on the termination of interest rate swap agreements; see Note 14.

ADDITIONAL CASH FLOW INFORMATION

Changes in Working Capital Items
(Net of Effects of Acquisitions and Sales)
Increase (Decrease) in Cash and Cash Equivalents

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Accounts Receivable	$ (8,172)	$ 11,830	$ 45,111
Materials and Supplies Inventory	351	(136)	1,854
Other Current Assets	(8,139)	31,731	(55,444)
Accounts Payable	(242)	(10,147)	(62,449)
Other Current Liabilities	51,392	25,935	18,176
	$ 35,190	$ 59,213	$ (52,752)

Supplemental Disclosures of Cash Flow Information

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Cash Paid for:			
Interest (Net of Amount Capitalized)	$ 161,628	$ 169,931	$ 147,088
Distributions on Capital Trust Securities[1]	$ -	$ 10,956	$ 21,913
Income Taxes Paid (Net of Refunds)	$ 144,146	$ 151,104	$ 114,264

[1] Beginning with the third quarter of 2003, these distributions are included in interest expense.

Distributions received by our Kinder Morgan Management, LLC subsidiary from its investment in i-units of Kinder Morgan Energy Partners are in the form of additional i-units, while distributions made by Kinder Morgan Management, LLC to its shareholders are in the form of additional Kinder Morgan Management, LLC shares, see Note 3. A portion of the consideration received in the November 2004 contribution of TransColorado Gas Transmission Company was Kinder Morgan Energy Partners common units, see Note 5. As discussed in Note 1(S) following, during 2004, 2003 and 2002, we made non-cash grants of restricted shares of common stock. In addition, in 2003, we made an investment in our Colorado power businesses in the form of Kinder Morgan Management, LLC shares. See Note 5.

(S) Stock-Based Compensation

SFAS No. 123, *Accounting for Stock-Based Compensation*, encourages, but does not require, entities to adopt the fair value method of accounting for stock-based compensation plans. As allowed under SFAS No. 123, we continue to apply Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, compensation expense is not recognized for stock options unless the options are granted at an exercise price lower than the market price on the grant date. Had compensation cost for these plans been determined consistent with SFAS No. 123, net income and diluted earnings per share would have been reduced to the pro forma amounts shown in the table below. Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years. Additionally, the pro forma amounts include $1.0 million, $1.0 million and $1.1 million related to the purchase discount offered under the employee stock purchase plan for 2004, 2003 and 2002, respectively. Note 16 contains information regarding our common stock option and purchase plans. The

FASB recently issued SFAS No. 123R (revised 2004), *Share-Based Payment*, which will change our accounting for stock options and similar awards, see Note 20.

	Year Ended December 31,		
	2004	2003	2002
	(In thousands except per share amounts)		
Net Income As Reported	$ 522,080	$ 381,704	$ 302,725
Add: Stock-based employee compensation expense included in reported Net Income, net of related tax effects	3,174	2,107	868
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(15,772)	(16,468)	(15,365)
Pro Forma Net Income	$ 509,482	$ 367,343	$ 288,228
Basic Earnings Per Common Share:			
As Reported	$ 4.22	$ 3.11	$ 2.48
Pro Forma	$ 4.12	$ 3.00	$ 2.36
Diluted Earnings Per Common Share:			
As Reported	$ 4.18	$ 3.08	$ 2.45
Pro Forma	$ 4.08	$ 2.97	$ 2.33

The weighted-average fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,		
	2004	2003	2002
Risk-free Interest Rate (%)	3.93[1]	3.37-3.64[2]	4.01
Expected Weighted-average Life	5.7 years[1]	6.3 years[2]	6.0 years[3]
Volatility	0.39[1]	0.38-0.45[2]	0.39[3]
Expected Dividend Yield (%)	3.70[1]	1.33-2.97[2]	0.71

[1] For options granted under the 1992 Directors' Plan in January 2004, the expected weighted-average life was 4.4 years and the volatility assumption was 0.33. For options granted under the 1992 Directors' Plan in July 2004, the expected weighted-average life was 5.0 years and the volatility assumption was 0.32.

[2] The assumptions used for employee options granted in 2003 varied based on date of grant. For options granted under the 1992 Directors' Plan, the expected weighted-average life was 4.1 years and the volatility assumption was 0.45.

[3] For options granted under the 1992 Directors' Plan, the expected weighted-average life was 4.0 years and the volatility assumption was 0.45.

During 2004, 2003 and 2002, we made restricted common stock grants of 167,350, 575,000 and 162,250 shares, respectively. These grants are valued at $10.2 million, $34.0 million and $9.2 million, respectively, based on the closing market price of our common stock on either the date of grant or the measurement date, if different. Of the 167,350 restricted stock grants made in 2004, 73,550 shares vest during a three year period and 93,800 shares vest during a five year period. The 2003 restricted stock grants vest during a five year period and the 2002 grants vest over a four year period. Expense related to restricted grants is recognized on a straight-line basis over the respective vesting periods. During 2004, 2003 and 2002, we amortized $5.1 million, $3.4 million and $1.4 million, respectively, related to restricted stock grants. The unamortized value of restricted stock grants is shown in the equity section of our Consolidated Balance Sheets under the caption, "Deferred Compensation."

(T) Transactions with Related Parties

We account for our investment in Kinder Morgan Energy Partners (among other entities) under the equity method of accounting. In each accounting period, we record our share of these investees'

earnings. We adjust the amount of any recorded "equity method goodwill" when an equity method investee or a consolidated subsidiary issues additional equity (or reacquires equity shares) in any manner that alters our ownership percentage. Differences between the per unit sales proceeds (or acquisition cost) from these equity issuances (or reacquisitions) and our underlying book basis, as well as the pro rata portion of the equity method goodwill (including associated deferred taxes), are recorded directly to paid-in capital rather than being recognized as gains or losses. Several such transactions are described in Note 5. In conjunction with sales of assets to equity method investees, gains and losses are not recognized to the extent of the interest retained in the assets transferred.

KMGP Services Company, Inc., a subsidiary of Kinder Morgan G.P., Inc., provides employees and Kinder Morgan Services LLC, a subsidiary of Kinder Morgan Management, provides centralized payroll and employee benefits services to Kinder Morgan Management, Kinder Morgan Energy Partners and Kinder Morgan Energy Partners' operating partnerships and subsidiaries (collectively, the "Group"). Employees of KMGP Services Company, Inc. are assigned to work for one or more members of the Group. The direct costs of compensation, benefits expenses, employer taxes and other employer expenses for these employees are allocated and charged by Kinder Morgan Services LLC to the appropriate members of the Group, and the members of the Group reimburse their allocated shares of these direct costs. No profit or margin is charged by Kinder Morgan Services LLC to the members of the Group. Our human resources department provides the administrative support necessary to implement these payroll and benefits services, and the related administrative costs are allocated to members of the Group in accordance with existing expense allocation procedures. The effect of these arrangements is that each member of the Group bears the direct compensation and employee benefits costs of its assigned or partially assigned employees, as the case may be, while also bearing its allocable share of administrative costs. Pursuant to the limited partnership agreement, Kinder Morgan Energy Partners provides reimbursement for its share of these administrative costs and such reimbursements are accounted for as described above. Kinder Morgan Energy Partners reimburses Kinder Morgan Management with respect to the costs incurred or allocated to Kinder Morgan Management in accordance with Kinder Morgan Energy Partners' limited partnership agreement, the Delegation of Control Agreement among Kinder Morgan G.P., Inc., Kinder Morgan Management, Kinder Morgan Energy Partners and others, and Kinder Morgan Management's limited liability company agreement.

The "Accounts Receivable, Related Parties" and "Accounts Payable, Related Parties" balances shown in the accompanying Consolidated Balance Sheets primarily represent balances with Kinder Morgan Energy Partners for amounts arising from performing administrative functions for them, including cash management, hedging activities, centralized payroll and employee benefits services and expenses incurred in performing as general partner of Kinder Morgan Energy Partners. The net monthly balance payable or receivable from these activities is settled in cash in the following month.

From time to time in the ordinary course of business, we buy and sell pipeline and related services from Kinder Morgan Energy Partners and its subsidiaries. Such transactions are conducted in accordance with all applicable laws and regulations and on an arms' length basis consistent with our policies governing such transactions.

Related-party operating revenues, primarily from Horizon Pipeline Company and entities owned by Kinder Morgan Energy Partners, are included in the accompanying Consolidated Statements of Operations as follows:

	Year Ended December 31,		
	2004	2003	2002
		(In millions)	
Natural Gas Transportation and Storage	$ 4.5	$ 5.2	$ 2.0
Natural Gas Sales	5.5	5.4	-
Other Revenues	1.6	1.0	0.1
Total Related-party Operating Revenues	$11.6	$11.6	$ 2.1

The caption "Gas Purchases and Other Costs of Sales" in the accompanying Consolidated Statements of Operations includes related-party costs totaling $29.1 million, $36.8 million and $22.3 million for the years 2004, 2003 and 2002, respectively, primarily for natural gas transportation and storage services and natural gas provided by entities owned by Kinder Morgan Energy Partners. Certain transactions with related parties are included in Note 5.

(U) Accounting for Risk Management Activities

We utilize energy derivatives for the purpose of mitigating our risk resulting from fluctuations in the market price of natural gas and associated transportation. In addition, we utilize weather derivatives to reduce the variability in the earnings from our natural gas distribution activities. Our accounting policy for these activities is in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and related pronouncements. This policy is described in detail in Note 14.

(V) Income Taxes

Income tax expense is recorded based on an estimate of the effective tax rate in effect or to be in effect during the relevant periods. Deferred income tax assets and liabilities are recognized for temporary differences between the basis of assets and liabilities for financial reporting and tax purposes. Changes in tax legislation are included in the relevant computations in the period in which such changes are effective. Deferred tax assets are reduced by a valuation allowance for the amount of any tax benefit we do not expect to be realized. Note 11 contains information about our income taxes, including the components of our income tax provision and the composition of our deferred income tax assets and liabilities.

(W) Accounting for Legal Costs

In general, we expense legal costs as incurred. When we identify significant specific litigation that is expected to continue for a significant period of time and require substantial expenditures, we identify a range of probable costs expected to be required to litigate the matter to a conclusion or reach an acceptable settlement. If no amount within this range is a better estimate than any other amount, we record a liability equal to the low end of the range. Any such liability recorded is revised as better information becomes available.

(X) Accounting for Minority Interests

Due to our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, the assets and liabilities of our Triton Power affiliates are included in our consolidated balance sheet, effective December 31, 2003. In addition, Triton's operating results are included in our 2004 consolidated operating results. Although the results of Triton have an impact on our total operating

revenues and expenses, after taking into account the associated minority interests, the consolidation of Triton has no effect on our consolidated net income.

Also due to our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, the subsidiary trusts associated with our capital trust securities are no longer consolidated, effective December 31, 2003. See Note 1(P) for a discussion regarding the expense associated with the capital trust securities.

The caption "Minority Interests in Equity of Subsidiaries" in our Consolidated Balance Sheets is comprised of the following balances:

	December 31,	
	2004	2003
	(In millions)	
Kinder Morgan Management, LLC	$ 1,083.0	$ 990.3
Triton Power	18.8	15.8
Other	3.6	4.0
	$ 1,105.4	$ 1,010.1

2. Investment in Kinder Morgan Energy Partners, L.P.

We own the general partner of, and a significant limited partner interest in, Kinder Morgan Energy Partners. Kinder Morgan Energy Partners owns and/or operates a diverse group of assets used in the transportation, storage and processing of energy products, including refined petroleum products pipeline systems with more than 10,000 miles of products pipeline and 60 associated terminals. Kinder Morgan Energy Partners owns approximately 14,000 miles of natural gas transportation pipelines, plus natural gas gathering and storage facilities. Kinder Morgan Energy Partners also owns or operates approximately 75 liquid and bulk terminal facilities and approximately 55 rail transloading facilities located throughout the United States, handling nearly 68 million tons of coal, petroleum coke and other dry-bulk materials annually and having a liquids storage capacity of approximately 37 million barrels for refined petroleum products, chemicals and other liquid products. In addition, Kinder Morgan Energy Partners owns Kinder Morgan CO_2 Company, L.P., which transports, markets and produces carbon dioxide for use in enhanced oil recovery operations and owns interests in and/or operates six oil fields in West Texas, all of which are using or have used carbon dioxide injection operations. Kinder Morgan CO_2 Company, L.P. also owns and operates the Wink Pipeline, a crude oil pipeline in West Texas.

At December 31, 2004, we owned, directly, and indirectly in the form of i-units corresponding to the number of shares of Kinder Morgan Management, LLC, approximately 34.8 million limited partner units of Kinder Morgan Energy Partners. These units, which consist of 14.4 million common units, 5.3 million Class B units and 15.1 million i-units, represent approximately 16.8% of the total limited partner interests of Kinder Morgan Energy Partners. See Note 3 for additional information regarding Kinder Morgan Management, LLC and Kinder Morgan Energy Partners' i-units. In addition, we are the sole stockholder of the general partner of Kinder Morgan Energy Partners, which holds an effective 2% interest in Kinder Morgan Energy Partners and its operating partnerships. Together, our limited partner and general partner interests represented approximately 18.5% of Kinder Morgan Energy Partners' total equity interests at December 31, 2004. We receive quarterly distributions on the i-units owned by Kinder Morgan Management, LLC in additional i-units and distributions on our other units in cash.

In addition to distributions received on our limited partner interests and our Kinder Morgan Management, LLC shares as discussed above, we also receive an incentive distribution from Kinder Morgan Energy Partners as a result of our ownership of the general partner interest in Kinder Morgan Energy Partners. This incentive distribution is calculated in increments based on the amount by which

quarterly distributions to unit holders exceed specified target levels as set forth in Kinder Morgan Energy Partners' partnership agreement, reaching a maximum of 50% of distributions allocated to the general partner for quarterly distributions above $0.23375 per limited partner unit. Including both our general and limited partner interests in Kinder Morgan Energy Partners, at the 2004 distribution level, we received approximately 51% of all quarterly distributions by Kinder Morgan Energy Partners, of which approximately 41% is attributable to our general partner interest and 10% is attributable to our limited partner interest. The actual level of distributions we will receive in the future will vary with the level of distributable cash determined in accordance with Kinder Morgan Energy Partners' partnership agreement.

We reflect our investment in Kinder Morgan Energy Partners under the equity method of accounting and, accordingly, report our share of Kinder Morgan Energy Partners' earnings as "Equity in Earnings" in our Consolidated Statement of Operations in the period in which such earnings are reported by Kinder Morgan Energy Partners.

Following is summarized financial information for Kinder Morgan Energy Partners. Additional information regarding Kinder Morgan Energy Partners' results of operations and financial position are contained in its 2004 Annual Report on Form 10-K.

	Summarized Income Statement Information Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Operating Revenues	$ 7,932,861	$ 6,624,322	$ 4,237,057
Operating Expenses	6,958,865	5,817,633	3,512,759
Operating Income	$ 973,996	$ 806,689	$ 724,298
Income Before Cumulative Effect of a Change in Accounting Principle	$ 831,578	$ 693,872	$ 608,377
Net Income	$ 831,578	$ 697,337	$ 608,377

	Summarized Balance Sheet Information As of December 31,	
	2004	2003
	(In thousands)	
Current Assets	$ 853,171	$ 705,522
Noncurrent Assets	$ 9,699,771	$ 8,433,660
Current Liabilities	$ 1,180,855	$ 804,379
Noncurrent Liabilities	$ 5,429,921	$ 4,783,812
Minority Interest	$ 45,646	$ 40,064

3. Kinder Morgan Management, LLC

Kinder Morgan Management, LLC, referred to in this report as Kinder Morgan Management, is a publicly traded Delaware limited liability company that was formed on February 14, 2001. Kinder Morgan G.P., Inc., our indirect wholly owned subsidiary, owns all of Kinder Morgan Management's voting shares. Kinder Morgan Management's shares (other than the voting shares we hold) are traded on the New York Stock Exchange under the ticker symbol "KMR". Kinder Morgan Management, pursuant to a delegation of control agreement, has been delegated, to the fullest extent permitted under Delaware law, all of Kinder Morgan G.P., Inc.'s power and authority to manage and control the business and affairs of Kinder Morgan Energy Partners, L.P., subject to Kinder Morgan G.P., Inc.'s right to approve certain transactions.

On November 12, 2004, Kinder Morgan Management made a distribution of 0.017892 of its shares per outstanding share (929,105 total shares) to shareholders of record as of October 29, 2004, based on the $0.73 per common unit distribution declared by Kinder Morgan Energy Partners. On February 14, 2005, Kinder Morgan Management made a distribution of 0.017651 of its shares per outstanding share (955,936 total shares) to shareholders of record as of January 31, 2005, based on the $0.74 per common unit distribution declared by Kinder Morgan Energy Partners. These distributions are paid in the form of additional shares or fractions thereof calculated by dividing the Kinder Morgan Energy Partners' cash distribution per common unit by the average market price of a Kinder Morgan Management share determined for a ten-trading day period ending on the trading day immediately prior to the ex-dividend date for the shares. Kinder Morgan Management has paid share distributions totaling 3,500,512, 3,342,417 and 2,538,785 shares in the years ended December 31, 2004, 2003 and 2002, respectively.

On November 10, 2004, Kinder Morgan Management closed the issuance and sale of 1,300,000 of its listed shares in a limited registered offering. None of the shares from the offering were purchased by Kinder Morgan, Inc. Kinder Morgan Management used the net proceeds of approximately $52.6 million from the offering to buy additional i-units from Kinder Morgan Energy Partners.

On March 25, 2004, Kinder Morgan Management closed the issuance and sale of 360,664 of its listed shares in a limited registered offering. None of the shares from the offering were purchased by Kinder Morgan, Inc. Kinder Morgan Management used the net proceeds of approximately $14.9 million from the offering to buy additional i-units from Kinder Morgan Energy Partners.

By approval of Kinder Morgan Management shareholders other than us, effective at the close of business on July 23, 2002, we no longer have an obligation to, upon presentation by the holder thereof, exchange publicly held Kinder Morgan Management shares for either Kinder Morgan Energy Partners' common units that we own or, at our election, cash. In conjunction with the elimination of the exchange feature, on July 29, 2002, Kinder Morgan, Inc. issued to each Kinder Morgan Management shareholder (i) .09853 shares of Kinder Morgan, Inc. common stock for each 100 Kinder Morgan Management listed shares held of record by such shareholder at the close of business on July 23, 2002 and (ii) cash in lieu of fractional shares. Prior to the elimination of the exchange feature, 6,830,013 and 2,840,374 Kinder Morgan Energy Partners common units were exchanged in the years ended December 31, 2002 and 2001, respectively, for a total of 9,670,387 Kinder Morgan Management shares. These exchanges had the effect of increasing our (i) additional paid-in capital by $35.7 million and (ii) associated income taxes payable by $21.9 million and decreasing (i) investment in Kinder Morgan Energy Partners by $150.1 million and (ii) minority interests by $207.7 million.

At December 31, 2004, we owned 15.1 million Kinder Morgan Management shares representing 27.9% of Kinder Morgan Management's outstanding shares.

4. Business Combinations

TransColorado Gas Transmission Company, referred to in this report as TransColorado, was formed to construct and operate a 300-mile-long interstate natural gas pipeline system that extends from near Meeker, Colorado to its southern terminus at the Blanco Hub near Aztec, Colorado. TransColorado was placed in service in April 1999 and was operated as a 50/50 joint venture between Questar Corp. and us until we acquired Questar's interest effective October 1, 2002 for a total of approximately $107.6 million (including transaction costs of approximately $2.1 million), making us the sole owner. As a result of our acquisition of control of this entity, we began to include its transactions and balances in our consolidated financial statements in October 2002 and, in accordance with authoritative accounting guidelines, recorded the acquisition of the incremental 50% interest as a business combination, requiring that we allocate the purchase price to the assets acquired and liabilities assumed

based on their relative fair values. The historical carrying value of current assets and current liabilities were determined to be approximately equal to their fair values, and property plant and equipment was valued using a combination of net present value and earnings multiple methods. No goodwill was recorded, as the fair value of the net assets acquired exceeded the consideration paid. The purchase price was allocated as follows (in millions):

Cash	$ 6.0
Other Current Assets	1.6
Net Property, Plant and Equipment	123.1
Other Assets	0.1
Current Liabilities	(2.2)
Deferred Credits	(21.0)
Total Purchase Price	$ 107.6

Effective November 1, 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners (see Note 5).

5. Investments and Sales

On November 10, 2004, Kinder Morgan Energy Partners issued 5.5 million common units in a public offering at a price of $46.00 per common unit, less commissions and underwriting expenses. On December 8, 2004, Kinder Morgan Energy Partners issued an additional 575,000 common units upon the exercise by the underwriters of an over-allotment option. After commissions and underwriting expenses, Kinder Morgan Energy Partners received net proceeds of $268.3 million. We did not acquire any of these common units. Kinder Morgan Energy Partners also issued 1.3 million i-units in conjunction with a Kinder Morgan Management limited registered offering of its shares in November 2004. We did not acquire any of the Kinder Morgan Management shares in this offering. These transactions reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transactions) from approximately 18.5% to approximately 17.9%. In accordance with our policy, we treat transactions such as these as “capital” transactions and, accordingly, no gain or loss was recorded. Instead, the impact of the difference between the sales proceeds and our underlying book basis had the effect of increasing our investment in the net assets of Kinder Morgan Energy Partners by $28.6 million and reducing our (i) equity method goodwill in Kinder Morgan Energy Partners by $29.6 million, (ii) paid-in capital by $0.4 million and (iii) associated accumulated deferred income taxes by $0.6 million. In addition, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners’ operating partnerships, we made a contribution of approximately $3.9 million; see Note 1(T).

Effective November 1, 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners for total consideration of $275.0 million (approximately $210.8 million in cash and 1.4 million Kinder Morgan Energy Partners common units). In conjunction with this contribution, we recorded a pre-tax loss of $0.6 million.

Since 1998, we have had an investment in a 76 megawatt gas-fired power generation facility located in Greeley, Colorado. We recorded an impairment of this investment during 2004; See Note 6.

In July 2004, we sold our remaining surplus LM6000 gas-fired turbine for consideration of $8.3 million (net of marketing fees), which consideration consisted of $2.0 million in cash, a note receivable of $6.5 million and a payable for marketing fees of $0.2 million. The $4.6 million remaining balance of this note receivable is recorded in the caption “Note Receivable” in the accompanying Consolidated Balance Sheet as of December 31, 2004. In April 2004, we sold two surplus LM6000 gas-fired turbines for consideration of $16.5 million (net of marketing fees), which consideration consisted of $2.4 million in cash, a note receivable of $14.5 million and a payable for marketing fees of $0.4 million. During

September 2004, the remaining balance of this receivable was collected. In June 2004, we sold two surplus LM6000 turbines and two boilers to Kinder Morgan Production Company, L.P., a subsidiary of Kinder Morgan Energy Partners, for their estimated fair market value of $21.1 million, which we received in cash. This equipment was a portion of the equipment that became surplus as a result of our decision to exit the power development business. We recorded a pre-tax gain of $3.6 million in conjunction with these sales. Recognizing the effects of changes in technology and the limited improvement of the general economies of the electric generation industry, we determined that the carrying values of our remaining turbines and associated equipment should be reduced. In the fourth quarter of 2004, we reduced the carrying value of these assets by $7.4 million. The book value of the remaining surplus power generation equipment available for sale at December 31, 2004 was $23.5 million.

In March 2004, Kinder Morgan Energy Partners issued 360,664 i-units in conjunction with the Kinder Morgan Management limited registered offering of its shares. We did not acquire any of the Kinder Morgan Management shares in this offering. This issuance of i-units reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 18.54% to approximately 18.51% and had the associated effects of increasing our investment in the net assets of Kinder Morgan Energy Partners by $1.2 million and reducing our (i) equity method goodwill in Kinder Morgan Energy Partners by $1.5 million, (ii) paid-in capital by $0.2 million and (iii) associated accumulated deferred income taxes by $0.1 million. In addition, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $0.2 million; see Note 1(T).

In February 2004, Kinder Morgan Energy Partners issued 5.3 million common units in a public offering at a price of $46.80 per common unit, receiving total net proceeds (after underwriting discount) of $237.8 million. We did not acquire any of these common units. This transaction reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 19.0% to approximately 18.5% and had the associated effects of increasing our (i) investment in the net assets of Kinder Morgan Energy Partners by $23.2 million, (ii) associated accumulated deferred income taxes by $0.1 million and (iii) paid-in capital by $0.2 million and, in addition, reduced our equity method goodwill in Kinder Morgan Energy Partners by $23.1 million. In addition, in February 2004, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $2.4 million; see Note 1(T).

Pursuant to a right we obtained in conjunction with the 1998 acquisition of the Thermo Companies, in December 2003, we made an additional investment in our Colorado power businesses in the form of approximately 1.8 million Kinder Morgan Management shares that we owned. We recorded our increased investment based on the third-party-determined $56.1 million fair value of the shares as of the contribution date, with a corresponding liability representing our obligation to deliver vested shares in the future.

In December 2003, we received $8.5 million from the sale of one natural gas turbine. We ultimately recognized a pre-tax gain of $0.5 million on this transaction.

In May 2000, Kinder Morgan Power and Mirant Corporation (formerly Southern Energy Inc.) announced plans to build a 550 megawatt natural gas-fired electric power plant in Wrightsville, Arkansas, utilizing Kinder Morgan Power's Orion technology. Construction of this facility was completed and commercial operations commenced on July 1, 2002. Mirant Corporation operates and maintains the Wrightsville facility and manages the natural gas supply and electricity sales for the project company that owns the power plant. Kinder Morgan Power made an investment in the project company, comprised primarily of preferred stock. This facility has not been dispatched significantly

since July 1, 2002. In October 2003, the project company was included in Mirant Corporation's bankruptcy filing. In the fourth quarter of 2003, we wrote off our remaining investment in the Wrightsville power facility.

In June 2003, Kinder Morgan Energy Partners issued 4.6 million common units in a public offering at a price of $39.35 per common unit, receiving total net proceeds (after underwriting discount) of $173.3 million. We did not acquire any of these common units. This transaction reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 19.28% to approximately 18.86% and had the associated effects of increasing our investment in the net assets of Kinder Morgan Energy Partners by $14.9 million and reducing our (i) equity method goodwill in Kinder Morgan Energy Partners by $21.4 million, (ii) associated accumulated deferred income taxes by $2.5 million and (iii) paid-in capital by $4.0 million. In addition, in June 2003, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $1.8 million; see Note 1(T).

On June 30, 2003, we received $3.8 million from the sale of our interest in Igasamex USA Ltd. We recorded a pre-tax loss of $4.3 million in conjunction with the sale.

On March 6, 2000, we received a promissory note from Orcom Solutions, Inc. as partial consideration for the sale of our **en•**able joint venture, which note was carried at nominal value due to concerns as to recoverability. During 2003, we received $5.4 million in settlement of this note, of which $2.7 million was paid to PacifiCorp reflecting its 50% interest in **en•**able. In conjunction with this settlement, we recorded a pre-tax gain of $2.9 million.

In December 2000, we contributed certain assets to Kinder Morgan Energy Partners effective December 31, 2000. A final pre-tax adjustment of $10.4 million was made at December 31, 2002, the expiration of the indemnification obligations under an indemnification provision of the contribution agreement. This amount was adjusted for our continuing interest in the assets transferred.

In August 2002, Kinder Morgan Energy Partners issued i-units in conjunction with the Kinder Morgan Management secondary public offering of its shares to the public. We did not acquire any of the Kinder Morgan Management shares in the secondary offering. This issuance of i-units reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 20.4% to approximately 19.1% and had the associated effects of increasing our investment in the net assets of Kinder Morgan Energy Partners by $17.5 million and reducing our (i) equity method goodwill in Kinder Morgan Energy Partners by $64.9 million, (ii) paid-in capital by $29.4 million and (iii) associated accumulated deferred income taxes by $18.0 million. In addition, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $3.4 million; see Note 1(T).

In February 2001, Kinder Morgan Power announced an agreement under which Williams Energy Marketing and Trading agreed to supply natural gas to and market capacity for 16 years for a 550 megawatt natural gas-fired Orion technology electric power plant in Jackson, Michigan. Effective July 1, 2002, construction of this facility was completed and commercial operations commenced. Concurrently with commencement of commercial operations, (i) Kinder Morgan Power made a preferred investment in Triton Power Company LLC initially valued at approximately $105 million; and, (ii) Triton Power Company LLC, through its wholly owned subsidiary, Triton Power Michigan LLC, entered into a 40-year lease of the Jackson power facility from the plant owner, AlphaGen Power, LLC. Williams Energy Marketing and Trading supplies all natural gas to and purchases all power from the power plant under a 16-year tolling agreement with Triton Power Michigan LLC.

In May 2002, Horizon Pipeline Company, L.L.C. ("Horizon"), a joint venture between Nicor-Horizon, a subsidiary of Nicor Inc. (NYSE: GAS), and NGPL, completed and placed into service its new $82 million natural gas pipeline in northern Illinois. This pipeline is being operated as an interstate pipeline company under the authority of the Federal Energy Regulatory Commission ("FERC"). Horizon's natural gas pipeline consists of 28 miles of newly constructed 36-inch diameter pipe, the lease of capacity in 42 miles of existing pipeline from NGPL, and newly installed gas compression facilities. Horizon Pipeline can transport up to 380 million cubic feet of natural gas per day from near Joliet into McHenry County, connecting the emerging supply hub at Joliet with the northern part of the Nicor Gas distribution system and the existing NGPL pipeline system.

6. Impairment of Power Investments

During 2002, we noted and reported a number of negative factors affecting the market for electric power and the announced plans for future power plant development, as well as the declining financial condition of many participants in electric markets, including certain of our partners in our power development activities. In the fourth quarter of 2002, we completed our analysis of these developments and their likely impact on our business activities in this arena. As a result of that analysis, we elected to discontinue our participation in the power development business and reduced the carrying value of our investments in (i) sites for future power plant development and (ii) turbines and associated equipment, in each case to their estimated fair value less cost to sell. In addition, we reduced the carrying value of our preferred investment in the Wrightsville, Arkansas power generation facility to reflect an other than temporary decline in its value. In total, these charges reduced our pre-tax earnings by $134.5 million.

During the fourth quarter of 2003, we announced that, due principally to the fact that Mirant had placed the Wrightsville, Arkansas plant in bankruptcy during October, we would be assessing the long-term prospects for this facility during the fourth quarter and that a reduction in the plant's carrying value was possible. During the fourth quarter of 2003 we completed our analysis and determined that it was no longer appropriate to assign any carrying value to our investment in this facility and recorded a $44.5 million pre-tax charge.

Since 1998, we have had an investment in a 76 megawatt gas-fired power generation facility located in Greeley, Colorado. We became concerned with the value of this investment as a result of several recent circumstances including the expiration of a gas purchase contract, the amendment of the associated power purchase agreement and uncertainties surrounding the management of this facility, which has changed ownership twice in the last one and one-half years. These ownership changes made it difficult for us to obtain information necessary to forecast the future of this asset. During the fourth quarter of 2004, we concluded that we had sufficient information to determine that our investment had been impaired and, accordingly, reduced our carrying value by $26.1 million.

During 2003 and 2004, we sold six of our turbines and certain associated equipment (see Note 5). Recognizing the effects of technology and the limited improvement of the general economies of the electric generation industry, we determined that the carrying values of our remaining turbines and associated equipment should be reduced. In the fourth quarter of 2004, we reduced the asset values by $7.4 million. We are continuing our efforts to sell the remaining inventory of surplus turbines and associated equipment, which had a carrying value of $23.5 million at December 31, 2004.

7. Discontinued Operations

Prior to mid-1999, we had major business operations in the upstream (gathering and processing), midstream (natural gas pipelines) and downstream (wholesale and retail marketing) portions of the natural gas industry and, in addition, had (i) non-energy retail marketing operations in the form of a joint

venture called **en●**able and (ii) limited international operations. During 1999, we adopted and implemented plans to discontinue the following lines of business: (i) gathering and processing natural gas, including short-haul intrastate pipelines and providing field services to natural gas producers, (ii) wholesale marketing of natural gas and natural gas liquids, (iii) the direct marketing of non-energy products and services and (iv) international operations, which we subsequently decided to retain as discussed following.

In accordance with the provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* ("APB 30"), our consolidated financial statements were restated to present these businesses as discontinued operations for all periods presented. Accordingly, the revenues, costs and expenses, assets and liabilities and cash flows of these discontinued operations have been excluded from the respective captions in the accompanying Consolidated Statements of Operations and Consolidated Statements of Cash Flows, and have been reported in the various statements under the captions "Loss on Disposal of Discontinued Operations, Net of Tax" and "Net Cash Flows Used in Discontinued Operations" for all relevant periods. In addition, certain of these Notes have been restated for all relevant periods to reflect the discontinuance of these operations.

With the exception of our international natural gas distribution operations, which we decided to retain, we completed the divestiture of our discontinued operations by December 31, 2000. In the fourth quarters of 2004 and 2002, we recorded incremental losses of approximately $6.4 million and $5.0 million (net of tax benefits of $3.8 million and $3.1 million), respectively, to increase previously recorded liabilities to reflect updated estimates and reflect the impact of litigation settlements. We had a remaining liability of approximately $9.0 million at December 31, 2004 associated with these discontinued operations, representing legal obligations and an indemnification obligation associated with our sale of assets to ONEOK, Inc. ("ONEOK").

8. Regulatory Matters

On July 17, 2000, NGPL filed its compliance plan, including pro forma tariff sheets, pursuant to the Federal Energy Regulatory Commission's ("FERC") Order Nos. 637 and 637-A. The FERC directed all interstate pipelines to file pro forma tariff sheets to comply with new regulatory requirements in these Orders regarding scheduling procedures, capacity segmentation, imbalance management services and penalty credits, or in the alternative, to explain why no changes to existing tariff provisions are necessary. The Order 637 tariff provisions for NGPL became effective on December 1, 2003. The FERC issued an order on August 3, 2004 accepting NGPL's remaining compliance filing changes. No issues remain outstanding as to NGPL's Order 637 compliance program.

On November 25, 2003, the FERC issued Order No. 2004, adopting new Standards of Conduct to become effective February 9, 2004. Every interstate natural gas pipeline was required to file a compliance plan by that date and was required to be in full compliance with the Standards of Conduct by June 1, 2004. The primary change from existing regulation is to make such standards applicable to an interstate pipeline's interaction with many more affiliates (termed "Energy Affiliates"), including intrastate/Hinshaw pipelines (in general, a Hinshaw pipeline is a pipeline that receives gas at or within a state boundary, is regulated by an agency of that state, and all the gas it transports is consumed within that state), processors and gatherers and any company involved in gas or electric markets (such as electric generators and electric or gas marketers) even if they do not ship on the affiliated interstate pipeline. Local distribution companies ("LDCs") are excluded, however, if they do not make any off-system sales, that is, sales made at delivery points not located on the LDC's natural gas distribution system. The Standards of Conduct require, inter alia, separate staffing of interstate pipelines and their

Energy Affiliates (but certain support functions and senior management at the central corporate level may be shared) and strict limitations on communications from an interstate pipeline to an Energy Affiliate. NGPL and Kinder Morgan Interstate Gas Transmission LLC, a subsidiary of Kinder Morgan Energy Partners, filed for clarification and rehearing of Order 2004 on December 29, 2003, and numerous other rehearing requests have been submitted. In the request for rehearing, NGPL and Kinder Morgan Interstate Gas Transmission LLC asked that intrastate/Hinshaw pipeline affiliates not be included in the definition of Energy Affiliates. On February 9, 2004, the interstate pipelines owned by Kinder Morgan, Inc. and Kinder Morgan Energy Partners, L.P. filed their compliance plans under Order 2004. In addition, on February 19, 2004, the Kinder Morgan interstate pipelines filed a joint request asking that their interaction with intrastate/Hinshaw pipeline affiliates be exempted from the Standards of Conduct. Separation from these entities would be the most burdensome requirement of the new rules for the Kinder Morgan interstate pipelines.

On April 16, 2004, the FERC issued Order No. 2004-A. The FERC extended the effective date of the new Standards of Conduct from June 1, 2004, to September 1, 2004. Otherwise, the FERC largely denied rehearing of Order 2004, but provided further clarification or adjustment in several areas. The FERC continued the exemption for LDCs that do not make off-system sales, but clarified that the LDC exemption still applies if the LDC is also a Hinshaw pipeline. The FERC also clarified that an LDC can engage in certain sales and other Energy Affiliate activities to the limited extent necessary to support sales to customers located on its distribution system, and sales necessary to remain in balance under pipeline tariffs, without becoming an Energy Affiliate. The FERC declined to exempt producers from the definition of Energy Affiliate. The FERC also declined to exempt intrastate and Hinshaw pipelines, processors and gatherers from the definition of Energy Affiliate, but did clarify that such entities will not be Energy Affiliates if they do not participate in gas or electric commodity markets or interstate capacity markets (as capacity holder, agent or manager) or in financial transactions related to such markets. The FERC also clarified further the personnel and functions that can be shared by interstate pipelines and their Energy Affiliates, including senior officers and risk management personnel and the permissible role of holding or parent companies and service companies. The FERC also clarified that day-to-day operating information can be shared by interconnecting entities. Finally, the FERC clarified that an interstate pipeline and its Energy Affiliate can discuss potential new interconnects to serve the Energy Affiliate, but subject to posting and record-keeping requirements. The Kinder Morgan interstate pipelines sought rehearing to clarify the applicability of the LDC and Parent Company exemptions to them.

On July 21, 2004, the Kinder Morgan interstate pipelines filed additional joint requests asking for limited exemptions from certain requirements of FERC Order 2004 and asking for an extension of the deadline for full compliance with Order 2004 until 90 days after the FERC has completed action on the pipelines' various rehearing and exemption requests. The pipelines also requested that Rocky Mountain Natural Gas Company, one of Kinder Morgan, Inc.'s wholly owned subsidiaries, be classified as an exempt LDC for purposes of Order 2004. These exemptions requested relief from the independent functioning and information disclosure requirements of Order 2004. The exemption requests proposed to treat as Energy Affiliates within the meaning of Order 2004 two groups of employees, (i) individuals in the Choice Gas Commodity Group within Kinder Morgan, Inc.'s Retail operations and (ii) commodity sales and purchase personnel within the Texas Intrastate operations. Order 2004 regulations governing relationships between interstate pipelines and their Energy Affiliates would apply to relationships with these two groups. Under these proposals, certain critical operating functions could continue to be shared.

On August 2, 2004, the FERC issued Order No. 2004-B. In this order, the FERC extended the effective date of the new Standards of Conduct from September 1, 2004 to September 22, 2004. Also in this order, among other actions, the FERC denied the request for rehearing made by the Kinder Morgan interstate pipelines to clarify the applicability of the LDC and Parent Company exemptions to them.

On September 20, 2004, the FERC issued an order that conditionally granted the July 21, 2004 joint requests for limited exemptions from the requirements of the Standards of Conduct described above. In that order, the FERC directed the Kinder Morgan interstate pipelines to submit compliance plans regarding these filings within 30 days. These compliance plans were filed on October 19, 2004 and set out certain steps taken by the Kinder Morgan interstate pipelines to assure that employees in the Choice Gas Commodity Group within Kinder Morgan's Retail operations and the commodity sales and purchasing personnel of Kinder Morgan Energy Partners' Texas intrastate operations do not have access to restricted interstate pipeline information or receive preferential treatment as to interstate pipeline services. The FERC will not enforce compliance of the independent functioning requirement of the Standards of Conduct as to these employees until 30 days after it acts on these compliance filings. In all other respects, the Kinder Morgan interstate pipelines were required to comply with Order No. 2004 by September 22, 2004.

The Kinder Morgan interstate pipelines have implemented compliance with the Standards of Conduct as of September 22, 2004, subject to the exemptions described in the prior paragraph. Compliance includes, inter alia, the posting of compliance procedures and organizational information for each interstate pipeline on its internet website, the posting of discount and tariff discretion information and the implementation of independent functioning for Energy Affiliates not covered by the prior paragraph (electric and gas gathering, processing or production affiliates).

On December 21, 2004, the FERC issued Order 2004-C, an order granting rehearing on certain issues and also clarifying certain provisions in the previous orders. The primary impact on the Kinder Morgan interstate pipelines from Order 2004-C is the granting of rehearing and allowing LDCs to participate in hedging activity related to on-system sales and still qualify for exemption from Energy Affiliate.

On July 25, 2003, the FERC issued a Modification to Policy Statement stating that FERC-regulated natural gas pipelines will, on a prospective basis, no longer be permitted to use gas basis differentials to price negotiated rate transactions. Effectively, interstate pipelines will no longer be permitted to use commodity price indices to structure transactions. Negotiated rates based on commodity price indices in existing contracts will be permitted to remain in effect until the end of the contract period for which such rates were negotiated. Price indexed contracts currently constitute an insignificant portion of the contracts on the interstate pipelines owned by Kinder Morgan, Inc. and Kinder Morgan Energy Partners, L.P. Moreover, in subsequent orders in individual pipeline cases, the FERC has allowed negotiated rate transactions using pricing indices so long as revenue is capped by the applicable maximum rate(s). Rehearing on this aspect of the Modification to Policy Statement has been sought by several pipelines, but the FERC has not yet acted on rehearing.

On February 20, 2004, the D.C. Circuit Court of Appeals for the District of Columbia remanded back to the FERC a Williston Basin Interstate Pipeline proceeding in which the Court ruled that the FERC did not explain how the selective discounting policy adopted by the FERC in the Colorado Interstate Gas Co. and Granite State Gas Transmission cases would not compromise the pipelines' ability to target discounts at particular receipt/delivery points, subsystems or other defined geographic areas. On June 1, 2004, the FERC issued a Notice of Request for Comments in the Williston Basin Interstate Pipeline proceeding, on issues pertaining to discounting policy adopted in the Colorado Interstate Gas Co. and Granite State Gas Transmission cases. Comments were due on August 9, 2004. Numerous parties filed comments, including NGPL as part of the Kinder Morgan Interstate Pipeline filing. The FERC's decision in this case will affect the extent to which interstate pipelines such as NGPL and their customers can specify rates at secondary points, which are binding on both parties as part of the service contract.

In April 2004, we were advised that, as part of an audit of the FERC Form 2's, the FERC would be conducting a compliance audit of NGPL's Form 2's for the period January 1, 2000 through December 31, 2003. In February 2004, we were provided with a draft audit report recommending that NGPL (i) revise its procedures to ensure that fines and penalties are recorded in the proper accounts as required by the FERC's Uniform System of Accounts, (ii) make a correcting entry in the amount of $215,000 to properly record a penalty that was paid in 2000 and (iii) implement procedures to ensure that inactive projects are cleared from construction work in progress on a timely basis. In addition, the FERC audit team identified approximately $20.6 million of costs associated with pipeline assessment that were capitalized by NGPL in accordance with its capitalization policies during the audit period. The Chief Accountant of the FERC has issued a Notice of Proposed Accounting Release that is intended to provide industry guidance on accounting for pipeline assessment activities. The FERC draft audit report indicates that appropriate accounting for these costs will be further considered when this industry-wide proceeding is concluded and a final Accounting Release is approved by the FERC.

On November 5, 2004, the FERC issued a Notice of Proposed Accounting Release that would require FERC jurisdictional entities to recognize costs incurred in performing pipeline assessments that are a part of a pipeline integrity management program as maintenance expense in the period incurred. The proposed accounting ruling is in response to the FERC's finding of diverse practices within the pipeline industry in accounting for pipeline assessment activities. The proposed ruling would standardize these practices. Specifically, the proposed ruling clarifies the distinction between costs for a "one-time rehabilitation project to extend the useful life of the system," which could be capitalized, and costs for an "on-going inspection and testing or maintenance program," which would be accounted for as maintenance and charged to expense in the period incurred. Comments, along with responses to specific questions posed by the FERC concerning the Notice of Proposed Accounting Release, were due on January 19, 2005. Numerous parties filed comments, including NGPL as part of the Kinder Morgan Interstate Pipeline filing. The proposed effective date for the new rule is January 1, 2005.

On November 22, 2004, the FERC issued a Notice of Inquiry seeking comments on its policy of selective discounting. Specifically, the FERC is asking parties to submit comments and respond to inquiries regarding the FERC's practice of permitting pipelines to adjust their ratemaking throughput downward in rate cases to reflect discounts given by pipelines for competitive reasons – when the discount is given to meet competition from another gas pipeline. Comments are due by March 2, 2005.

On December 2, 2004, the FERC issued a Notice of Inquiry seeking comments on the implications of the July 20, 2004 opinion of the Court of Appeals for the District of Columbia Circuit in *BP West Coast Producers, LLC, v. FERC*. In reviewing a series of orders involving SFPP, L.P., the court held, among other things, that the FERC had not adequately justified its policy of providing an oil pipeline limited partnership with an income tax allowance equal to the proportion of its limited partnership interests owned by corporate partners. The Commission is seeking comments on whether the court's ruling applies only to the specific facts of the SFPP, L.P. proceeding, or also extends to other capital structures involving partnerships and other forms of ownership. Comments were due on January 21, 2005. Numerous parties filed comments.

On October 18, 2004, NGPL filed, in Docket No. CP05-7, a certificate application with the FERC for permission and approval to abandon certain storage field surface piping and for authority to construct and operate additional facilities at its Sayre Storage field located in Beckman County, Oklahoma. By this application, NGPL seeks to provide an additional 10 Bcf of nominated Storage Service ("NSS") on NGPL's Amarillo mainline system, increase Sayre's certificated peak day withdrawal from 400 MMcf per day to 600 MMcf per day, and increase Sayre's maximum working gas capacity to 57.1 Bcf at a cost of approximately $35.4 million.

On December 6, 2004, NGPL filed with the FERC, in Docket No. CP05-34, a certificate application for (1) authorization to construct and operate a new 1775 horsepower ("hp") compressor unit and a new 3,550 hp compressor unit at NGPL's Compressor Station 155 in Wise County, Texas, (2) authorization to construct and operate a new 5,551 hp compressor unit at NGPL's Compressor Station 801 in Carter County, Oklahoma and (3) permission and approval to abandon three 660 hp compressors and a 2000 hp compressor unit at Compressor Station 155. This project will provide 20,000 Dth per day of additional transportation capacity in Segment No. 1 and 51,000 Dth per day of additional transportation capacity in its Amarillo/Gulf Coast line at a cost of approximately $20.7 million.

As a part of the settlement of litigation styled, *Jack J. Grynberg, individually and as general partner for the Greater Green River Basin Drilling Program: 72-73 v. Rocky Mountain Natural Gas Company and K N Energy, Inc.*, Case No. 90-CV-3686, in early 2002, Mr. Grynberg received $16.8 million from us (including forgiveness of a $10.4 million obligation owing from Mr. Grynberg) and an additional $15.6 million was paid into escrow. Rocky Mountain Natural Gas Company agreed to seek to recover these amounts from its customers/rate payers in a proceeding before the Public Utilities Commission for the State of Colorado (the "CPUC"). Rocky Mountain Natural Gas Company and Kinder Morgan, Inc. made regulatory filings with the CPUC on September 30, 2002, proposing recovery of these amounts as part of their annual Gas Cost Adjustment filing process. We proposed to collect these litigated gas costs, including associated carrying charges, over a 15-year amortization period. On October 30, 2002, the CPUC decided, in open meeting, to allow us to place rates in effect and begin recovery of these costs effective November 1, 2002, subject to refund pending a final determination as to our ability to recover these costs in our rates. An uncontested Stipulation and Settlement Agreement was filed with the CPUC on June 20, 2003, providing for full rate recovery by Rocky Mountain Natural Gas Company and Kinder Morgan, Inc. of $30,173,472 of gas cost payments to Mr. Grynberg. It also provided for $14,451,528 of allowable interest recovery to Rocky Mountain Natural Gas Company and Kinder Morgan, Inc. The total settlement amount of $44,625,000 will be recovered through a special rate rider over a fifteen year period which commenced on November 1, 2002. Following a hearing on July 14, 2003, the presiding administrative law judge issued a recommended decision on September 15, 2003, approving the settlement without modification. That recommended decision became the decision of the Commission by operation of law and is now in effect. The time for appealing the CPUC's decision expired on November 6, 2003, and $13,281,250, plus interest, was released from escrow for disbursement to Mr. Grynberg, and $2,343,750, plus interest, was released from escrow for disbursement to us.

Currently, there are no material proceedings challenging the base rates (which include reservation, commodity, surcharges, fuel and gas lost and unaccounted for) on any of our pipeline systems. Nonetheless, shippers on our pipelines do have rights to challenge the rates we charge under certain circumstances prescribed by applicable statutes and regulations. There can be no assurance that we will not face challenges to the rates we receive for services on our pipeline systems in the future. In addition, since many of our assets are subject to regulation, we are subject to potential future changes in applicable rules and regulations that may have an adverse effect on our business, cash flows, financial position or results of operations.

9. Environmental and Legal Matters

(A) Environmental Matters

We had an estimated total exposure of $12.9 million to $16.1 million and had recorded an environmental reserve of approximately $12.9 million at December 31, 2004 to address remediation issues associated with approximately 40 projects, recorded without discounting and without regard to expected insurance recoveries. In addition, we had recorded a receivable of $1.2 million for expected cost recoveries that have been deemed probable. After consideration of reserves established, we believe that costs for

environmental remediation and ongoing compliance with environmental regulations will not have a material adverse effect on our cash flows, financial position or results of operations or diminish our ability to operate our businesses. However, there can be no assurances that future events, such as changes in existing laws, the promulgation of new laws, or the development of new facts or conditions will not cause us to incur significant costs.

(B) Litigation Matters

United States of America, ex rel., Jack J. Grynberg v. K N Energy, Civil Action No. 97-D-1233, filed in the U.S. District Court, District of Colorado. This action was filed on June 9, 1997 pursuant to the federal False Claims Act and involves allegations of mismeasurement of natural gas produced from federal and Indian lands. The complaint asks to recover all royalties the Government allegedly should have received had the volume and heating content of the natural gas been valued properly, along with treble damages and civil penalties as provided for in the False Claims Act. Mr. Grynberg, as relator, seeks his statutory share of any recovery, plus expenses and attorney fees and costs. The Department of Justice has decided not to intervene in support of the action. The complaint is part of a larger series of similar complaints filed by Mr. Grynberg against 77 natural gas pipelines (approximately 330 other defendants). An earlier single action making substantially similar allegations against the pipeline industry was dismissed by Judge Hogan of the U.S. District Court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, Mr. Grynberg filed individual complaints in various courts throughout the country. In 1999, these cases were consolidated by the Judicial Panel for Multidistrict Litigation, and transferred to the District of Wyoming. The MDL case is called *In Re Natural Gas Royalties Qui Tam Litigation*, Docket No. 1293. Motions to dismiss were filed and an oral argument on the motion to dismiss occurred on March 17, 2000. On July 20, 2000, the United States of America filed a motion to dismiss those claims by Grynberg that deal with the manner in which defendants valued gas produced from federal leases (referred to as valuation claims). Judge Downes denied the defendant's motion to dismiss on May 18, 2001. The United States' motion to dismiss most of the plaintiff's valuation claims has been granted by the Court. Mr. Grynberg appealed that dismissal to the 10th Circuit, which requested briefing regarding its jurisdiction over that appeal. Mr. Grynberg's appeal was dismissed for lack of appellate jurisdiction. Discovery to determine issues related to the Court's subject matter jurisdiction, arising out of the False Claims Act is complete. Briefing has been completed and oral arguments on jurisdiction have been set before the Special Master for March 17 and 18, 2005. On May 7, 2003, Grynberg sought leave to file a Third Amended Complaint, which adds allegations of undermeasurement related to CO_2 production. Defendants have filed briefs opposing leave to amend. Neither the Court nor the Special Master have ruled on Mr. Grynberg's motion to amend.

Lamb v. Kinder Morgan, Inc., et al., Civil Action No. 00-M-516, (formerly *Adams v. Kinder Morgan, Inc. et al.*) filed in the United States District Court for the District of Colorado. The case was originally filed on March 8, 2000 and is a purported class action. As of this date no class has been certified. Plaintiffs seek compensatory damages against all defendants jointly and severally, together with interest, attorney fees and expenses. The plaintiffs brought claims alleging securities fraud under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of all people who purchased the common stock of Kinder Morgan during the class period from October 30, 1997 to June 21, 1999. The class period occurred prior to the installation of our current management team in October 1999. The complaint centers on allegations of misleading statements concerning operations of the Bushton Processing Plant and certain contracts, as well as allegations of overstatement of income in violation of accounting principles generally accepted in the United States of America during the class period. On February 23, 2001, the federal district court dismissed several claims raised by the plaintiff, with prejudice, and dismissed the remaining claims, without prejudice. On April 27, 2001, the Adams plaintiffs filed their second amended complaint. On March 29, 2002, the federal district court dismissed the Adams plaintiffs' second amended complaint with prejudice. On May 2, 2002, the Adams plaintiffs

appealed the dismissal to the 10th Circuit Court of Appeals. In a published decision, on August 11, 2003, the 10th Circuit Court of Appeals reversed the district court's dismissal, but upheld the dismissal of Mr. Kinder, our Chairman and Chief Executive Officer, from this action. The mandate from the 10th Circuit Court of Appeals was issued on October 17, 2003. Briefing regarding class certification is complete and a decision is pending. Merits discovery commenced on June 7, 2004. The Court granted Mr. Adam's motion to withdraw as a lead plaintiff. As a result, the case is now styled as *Lamb v. Kinder Morgan, Inc. et al*. The parties reached a settlement in principle of this matter and have signed a Memorandum of Understanding. The settlement documents were submitted for approval by the Court on February 18, 2005. If the settlement is approved and implemented as submitted, it will not result in a material impact on our results of operations, financial position or cash flows.

Darrell Sargent d/b/a Double D Production v. Parker & Parsley Gas Processing Co., American Processing, L.P. and Cesell B. Cheatham, et al., Cause No. 878, filed in the 100th Judicial District Court, Carson County, Texas. The plaintiff filed a purported class action suit in 1999 and amended its petition in late 2002 to assert claims on behalf of over 1,000 producers who process gas through as many as ten gas processing plants formerly owned by American Processing, L.P. ("American Processing"), a former wholly owned subsidiary of Kinder Morgan, Inc. in Carson and Gray counties and other surrounding Texas counties. The plaintiff claims that American Processing (and subsequently, ONEOK, which purchased American Processing from us in 2000) improperly allocated liquids and gas proceeds to the producers. In particular, among other claims, the plaintiff challenges the methods and assumptions used at the plants to allocate liquids and gas proceeds among the producers and processors. The petition asserts claims for breach of contract and Natural Resources Code violations relating to the period from 1994 to the present. To date, the plaintiff has not made a specific monetary demand nor produced a specific calculation of alleged damages. The plaintiff alleged generally in the petition that damages are "not to exceed $200 million" plus attorneys fees, costs and interest. The defendants filed a counterclaim for overpayments made to producers.

Pioneer Natural Resources USA, Inc., formerly known as Parker & Parsley Gas Processing Company ("Parker & Parsley"), is a co-defendant. Parker & Parsley claimed indemnity from American Processing based on its sale of assets to American Processing on October 4, 1995. We accepted indemnity and defense subject to a reservation of rights pending resolution of the suit. The plaintiff also named ONEOK as a defendant. We and ONEOK are defending the case pursuant to an agreement whereby ONEOK is responsible for any damages that may be attributable to the period following ONEOK's acquisition of American Processing from us in 2000.

On or about January 21, 2003, Benson-McCown & Company ("Benson-McCown"), another producer who sold gas to American Processing and ONEOK, filed a "Plea in Intervention" in which it essentially duplicated the plaintiff's claims and also asserted the right to bring a class action and serve as one of the class representatives. Defendants denied Benson-McCown's claim and filed a counterclaim for overpayments made to Benson-McCown over the years.

On January 14, 2005, Defendants filed a motion to deny class certification. Subsequently, the plaintiffs agreed to dismiss and withdraw their class claims. An Agreed Order Dismissing all class claims, with prejudice, was entered by the Court on January 19, 2005. The case is proceeding on the plaintiffs' individual claims, with no class action being asserted.

Manna Petroleum Services, L.P. et al. v. American Processing, L.P. and Cesell B. Cheatham, et al., Cause No. 31,485, filed in the 223rd Judicial District Court of Gray County, Texas. Plaintiff filed suit in late 1999 and alleged that American Processing, L.P., a former wholly owned subsidiary of Kinder Morgan, Inc., and subsequently ONEOK, which purchased American Processing from us in 2000, misallocated proceeds from the sale of compression liquids at a gas processing plant in Pampa, Texas.

Following a bench trial held during the week of March 8-12, 2004, and a letter ruling from the Court, the parties settled the case, and an Agreed Order of Dismissal of all parties' claims, with prejudice, was entered by the Court on October 13, 2004. Kinder Morgan's allocated share of the settlement totaled $918,245.

Energas Company, a Division of Atmos Energy Company v. ONEOK Energy Marketing and Trading Company, L.P., et al., Cause No. 2001-516,386, filed in the 72nd District Court of Lubbock County, Texas. The plaintiff sued several ONEOK entities for alleged overcharges in connection with gas sales, transportation, and other services, and alleged misallocations and meter errors, in and around Lubbock, under three different gas contracts. While the petition is vague, it is broad enough to include claims for the period before and after March 1, 2000 when the assets in question were conveyed by us to ONEOK. We defended the case pursuant to an agreement whereby ONEOK was responsible for any damages that may have been attributable to the period following ONEOK's acquisition of the pertinent assets on March 1, 2000. On or about October 1, 2003, the plaintiff and ONEOK settled claims that related to the period after March 1, 2000. The plaintiff continued to assert and we continued to defend against claims that related to the period before March 1, 2000. In an amended petition filed in mid-2002, the plaintiff alleged damages in excess of $12 million. Defendants filed a counterclaim for offsetting damages and accounting corrections under the contracts with the plaintiff. In late 2004, we paid $3,850,000 to settle all claims and counterclaims. An Agreed Order of Dismissal was signed by the Court on January 5, 2005, dismissing all parties' claims and counterclaims with prejudice.

We believe that we have meritorious defenses to all lawsuits and legal proceedings in which we are defendants and will vigorously defend against them. Based on our evaluation of the above matters, and after consideration of reserves established, we believe that the resolution of such matters will not have a material adverse effect on our business, cash flows, financial position or results of operations.

In addition, we are a defendant in various lawsuits arising from the day-to-day operations of our businesses. Although no assurance can be given, we believe, based on our investigation and experience to date, that the ultimate resolution of such items will not have a material adverse impact on our business, cash flows, financial position or results of operations.

10. Property, Plant and Equipment

Investments in property, plant and equipment ("PP&E"), at cost, and accumulated depreciation and amortization ("Accumulated D&A") are as follows:

	December 31, 2004		
	Property, Plant and Equipment	**Accumulated D&A**	**Net**
		(In thousands)	
Natural Gas Pipelines	$ 5,880,944	$ 401,537	$ 5,479,407
Retail Natural Gas Distribution	376,364	143,574	232,790
Electric Power Generation	39,220	8,324	30,896
General and Other	188,174	79,302	108,872
PP&E Related to Continuing Operations	$ 6,484,702	$ 632,737	$ 5,851,965

	December 31, 2003		
	Property, Plant and Equipment	**Accumulated D&A**	**Net**
		(In thousands)	
Natural Gas Pipelines	$ 6,106,668	$ 384,680	$ 5,721,988
Retail Natural Gas Distribution	343,665	133,998	209,667
Electric Power Generation	39,220	6,861	32,359
General and Other	192,331	72,408	119,923
PP&E Related to Continuing Operations	$ 6,681,884	$ 597,947	$ 6,083,937

11. Income Taxes

Components of the income tax provision applicable to continuing operations for federal and state income taxes are as follows:

	Year Ended December 31,		
	2004	2003	2002
		(Dollars in thousands)	
Current Tax Provision:			
Federal	$ 170,345	$ 187,460	$ 61,108
State	15,635	27,810	17,270
	185,980	215,270	78,378
Deferred Tax Provision:			
Federal	89,351	30,287	85,026
State	(48,614)	(957)	(28,385)
	40,737	29,330	56,641
Total Tax Provision	$ 226,717	$ 244,600	$ 135,019
Effective Tax Rate	30.0%	39.1%	30.5%

The difference between the statutory federal income tax rate and our effective income tax rate is summarized as follows:

	Year Ended December 31,		
	2004	2003	2002
Federal Income Tax Rate	35.0%	35.0%	35.0%
Increase (Decrease) as a Result of:			
State Income Tax, Net of Federal Benefit	2.2%	2.8%	3.0%
Kinder Morgan Management Minority Interest	2.4%	2.5%	2.8%
Deferred Tax Rate Change	(9.3%)	-	(4.9%)
Prior Year Adjustments	-	-	(1.9%)
Resolution of Internal Revenue Service Audit	-	-	(2.0%)
Other	(0.3%)	(1.2%)	(1.5%)
Effective Tax Rate	30.0%	39.1%	30.5%

Income taxes included in the financial statements were composed of the following:

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Continuing Operations	$ 226,717	$ 244,600	$ 135,019
Discontinued Operations	(3,757)	-	(3,056)
Cumulative Effect of Transition Adjustment	-	-	-
Equity Items	(57,427)	(38,468)	(44,867)
Total	$ 165,533	$ 206,132	$ 87,096

Deferred tax assets and liabilities result from the following:

	December 31,	
	2004	2003
	(In thousands)	
Deferred Tax Assets:		
Postretirement Benefits	$ 13,932	$ 9,986
Gas Supply Realignment Deferred Receipts	2,210	5,428
Book Accruals	15,640	11,767
Derivatives	62,642	26,193
Capital Loss Carryforwards	20,804	26,893
Other	6,021	11,289
Total Deferred Tax Assets	121,249	91,556
Deferred Tax Liabilities:		
Property, Plant and Equipment	1,771,710	1,791,263
Investments	826,939	736,598
Prepaid Pension Costs	20,103	9,836
Rate Matters	2,364	3,229
Discontinued Operations	-	27,959
Total Deferred Tax Liabilities	2,621,116	2,568,885
Net Deferred Tax Liabilities	$2,499,867	$2,477,329
Current Deferred Tax Asset	$ 30,198	$ -
Non-current Deferred Tax Liability	2,530,065	2,477,329
Net Deferred Tax Liabilities	$2,499,867	$2,477,329

During 2004, the effective tax rate applied in calculating deferred tax was reduced by approximately 1.1% due to a decrease in the state effective tax rate. As a result, net deferred tax liabilities were decreased by approximately $70.3 million. The effective tax rate for 2002 was reduced by approximately 0.35 %, principally due to a decrease in the provision for state income taxes. As a result, net deferred tax liabilities were decreased by approximately $21.0 million. Also, during 2002, we resolved certain issues with the Internal Revenue Service at amounts less than those previously accrued.

At December 31, 2004, we had a capital loss carryforward of approximately $56.1 million. A capital loss carryforward can be utilized to reduce capital gain during the five years succeeding the year in which a capital loss is incurred. The amounts and the years in which our capital loss carryforward expires are $52.5 million during 2005, $1.6 million during 2006 and $2.0 million during 2008. No valuation allowance has been provided with respect to this deferred tax asset.

12. Financing

(A) Notes Payable

As of December 31, 2004, we had available an $800 million five-year credit facility dated August 18, 2004. This credit facility replaced a $445 million 364-day credit facility dated October 14, 2003 and a $355 million three-year revolving credit agreement dated October 15, 2002 and can be used for general corporate purposes, including as backup for our commercial paper program, and includes financial covenants and events of default that are common in such arrangements. This credit facility does not contain a material adverse change clause. However, the margin that we pay with respect to borrowings and the facility fee we pay on the total commitment varies based on our senior debt investment rating. Based on our credit rating at December 31, 2004, our annual facility fee is 12.5 basis points on the available/committed amount. The complete agreement underlying this credit facility has been filed as an exhibit to our quarterly report on Form 10-Q for the quarter ended September 30, 2004, and certain significant provisions are shown following:

This credit facility includes the following financial covenants:

- Consolidated indebtedness not to exceed 65% of total capitalization;
- Total indebtedness of all consolidated subsidiaries not to exceed 10% of consolidated indebtedness; and
- Consolidated indebtedness of each material subsidiary not to exceed 65% of subsidiary capitalization.

The following constitute events of default under the credit facility, subject to certain cure periods:

- Nonpayment of interest, principal or fees;
- Failure to make required payments under hedging agreements that exceed $100,000,000;
- Adverse judgments in excess of $75,000,000; and
- Voluntary or involuntary bankruptcy or liquidation.

At December 31, 2004 and 2003, no amounts were outstanding under the bank facilities.

Commercial paper issued by us and supported by the bank facilities are unsecured short-term notes with maturities not to exceed 270 days from the date of issue. During 2004, all commercial paper was redeemed within 38 days, with interest rates ranging from 1.07% to 2.16%. No commercial paper was outstanding at December 31, 2004. Commercial paper outstanding at December 31, 2003 was $127.9 million. Average short-term borrowings outstanding during 2004 and 2003 were $107.3 million and $190.4 million, respectively. During 2004 and 2003, the weighted-average interest rates on short-term borrowings outstanding were 1.36% and 1.30%, respectively.

(B) Long-term Debt

	December 31, 2004	December 31, 2003
	(In thousands)	
Debentures:		
6.50% Series, Due 2013	$ 45,000	$ 50,000
8.75% Series, Due 2024	-	75,000
7.35% Series, Due 2026	125,000	125,000
6.67% Series, Due 2027	150,000	150,000
7.25% Series, Due 2028	493,000	493,000
7.45% Series, Due 2098	150,000	150,000
Senior Notes:		
6.65% Series, Due 2005	500,000	500,000
6.80% Series, Due 2008	300,000	300,000
6.50% Series, Due 2012	1,000,000	1,000,000
Deferrable Interest Debentures Issued to Subsidiary Trusts[1]:		
8.56% Junior Subordinated Deferrable Interest Debentures Due 2027	103,100	103,100
7.63% Junior Subordinated Deferrable Interest Debentures Due 2028	180,500	180,500
Carrying Value Adjustment for Interest Rate Swaps[2]	85,897	71,823
Unamortized Gain on Termination of Interest Rate Swap	2,346	16,419
Unamortized Premium on Long-term Debt	3,359	3,798
Unamortized Debt Discount	(3,409)	(4,311)
Current Maturities of Long-term Debt	(505,000)	(5,000)
Total Long-term Debt	$2,629,793	$3,209,329

[1] As a result of our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, effective December 31, 2003, the subsidiary trusts associated with these securities are no longer consolidated.

[2] Adjustment of carrying value of long-term securities subject to outstanding interest rate swaps; see Note 14.

Maturities of long-term debt (in thousands) for the five years ending December 31, 2009 are $505,000, $5,000, $5,000, $305,000 and $5,000, respectively.

The 2013 Debentures and the 2005 Senior Notes are not redeemable prior to maturity. The 2028 and 2098 Debentures and the 2008 and 2012 Senior Notes are redeemable in whole or in part, at our option at any time, at redemption prices defined in the associated prospectus supplements. The 2026 and 2027 Debentures are redeemable in whole or in part, at our option after August 1, 2006, and November 1, 2004, respectively, at redemption prices defined in the associated prospectus supplements, which redemption prices generally do not make early redemption an economically favorable alternative. The Junior Subordinated Deferrable Interest Debentures are redeemable in whole or in part, (i) at our option after April 14, 2007 and (ii) at any time in certain limited circumstances upon the occurrence of certain events and at prices, all defined in the associated prospectus supplements. Upon redemption by us or at maturity of the Junior Subordinated Deferrable Interest Debentures, we must use the proceeds to make redemptions of the Capital Trust Securities on a pro rata basis.

On October 21, 2004, we retired our $75 million 8.75% Debentures due October 15, 2024 at a premium of 104.0% of the face amount. We recorded a loss of $2.4 million (net of associated tax benefit of $1.5 million) in connection with this early extinguishment of debt, which is included under the caption “Other, Net” in the accompanying Consolidated Statement of Operations for 2004.

On March 3, 2003, our $500 million of 6.45% Senior Notes matured, and we paid the holders of the notes, utilizing a combination of cash on hand and incremental short-term borrowing.

On November 1, 2002, we retired the full $35 million of our 8.35% Series Sinking Fund Debentures due September 15, 2022 at a premium of 104.175% of the face amount of the debentures. We recorded a loss

of $1.0 million (net of associated tax benefit of $0.7 million) in connection with this early extinguishment of debt. This loss, and the loss recorded in conjunction with the early extinguishment of debt associated with the retirement of our 7.85% Series Debentures described below, are included under the caption "Other, Net" in the accompanying Consolidated Statement of Operations for 2002.

On October 10, 2002, we retired our $200 million of Floating Rate Notes due October 10, 2002, utilizing a combination of cash and incremental short-term debt. Effective September 1, 2002, we retired our $24 million of 7.85% Series Debentures due September 1, 2022 at par. We recorded a loss of $420 thousand (net of associated tax benefit of $275 thousand) in conjunction with this early extinguishment of debt, consisting of the unamortized debt expense associated with these debentures.

On August 27, 2002, we issued $750 million of our 6.50% Senior Notes due September 1, 2012, in an offering made pursuant to Rule 144A of the regulations of the Securities and Exchange Commission, with registration rights. The proceeds were used to retire our short-term notes payable then outstanding, with the balance invested in short-term commercial paper and money market funds. On November 18, 2002, we completed an exchange offer to exchange these notes for our 6.50% Senior Notes due September 1, 2012, which have been registered under the Securities Act of 1933. These new notes have the same form and terms and evidence the same debt as the original notes, and were offered for exchange to satisfy our obligation to exchange the original notes for registered notes. In December 2002, we re-opened this issue and sold an additional $250 million of 6.50% Senior Notes, which we also exchanged for registered securities pursuant to our currently effective registration statement on Form S-4, in an exchange offer that was completed on March 21, 2003.

At December 31, 2004 and 2003, the carrying amount of our long-term debt was $3.1 billion and $3.2 billion, respectively. The estimated fair values of our long-term debt at December 31, 2004 and 2003 are shown in Note 18.

(C) Capital Trust Securities

Our business trusts, K N Capital Trust I and K N Capital Trust III, are obligated for $100 million of 8.56% Capital Trust Securities maturing on April 15, 2027 and $175 million of 7.63% Capital Trust Securities maturing on April 15, 2028, respectively. As a result of adopting FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, effective December 31, 2003, we (i) no longer include the transactions and balances of K N Capital Trust I and K N Capital Trust III in our consolidated financial statements and (ii) began including our Junior Subordinated Deferrable Interest Debentures issued to the Capital Trusts in a separate caption under the heading "Long-term Debt" in our Consolidated Balance Sheets. In addition, effective July 1, 2003 we (i) reclassified our trust preferred securities to the debt portion of our balance sheet and (ii) began classifying payments made by us in conjunction with the trust preferred securities as interest expense, rather than minority interest. For periods and dates prior to July 1, 2003, the Capital Securities are treated as a minority interest, shown in our Consolidated Balance Sheets under the caption "Kinder Morgan-Obligated Mandatorily Redeemable Preferred Capital Trust Securities of Subsidiary Trust Holding Solely Debentures of Kinder Morgan," and periodic payments made to the holders of these securities are classified under "Minority Interests" in our Consolidated Statements of Operations. See Note 18 for the fair value of these securities.

(D) Common Stock

On February 14, 2005, we paid a cash dividend on our common stock of $0.70 per share to stockholders of record as of January 31, 2005.

On August 14, 2001, we announced a plan to repurchase $300 million of our outstanding common stock, which program was increased to $400 million, $450 million, $500 million, $550 million and $750 million in February 2002, July 2002, November 2003, April 2004 and November 2004, respectively. As of December 31, 2004, we had repurchased a total of approximately $561.2 million (10,728,700 shares) of our outstanding common stock under the program, of which $108.6 million (1,695,900 shares), $38.0 million (724,600 shares) and $144.3 million (3,013,400 shares) were repurchased in the years ended December 31, 2004, 2003 and 2002, respectively.

(E) Kinder Morgan Management, LLC

On November 10, 2004, Kinder Morgan Management closed the issuance and sale of 1,300,000 listed shares in a privately negotiated transaction with a single purchaser. None of the shares in the offering were purchased by us. Kinder Morgan Management used the net proceeds of approximately $52.6 million from the offering to buy additional i-units from Kinder Morgan Energy Partners. Additional information concerning the business of, and our obligations to, Kinder Morgan Management is contained in Kinder Morgan Management's 2004 Annual Report on Form 10-K.

On March 25, 2004, Kinder Morgan Management closed the issuance and sale of 360,664 listed shares in a privately negotiated transaction with a single purchaser. None of the shares in the offering were purchased by us. Kinder Morgan Management used the net proceeds of approximately $14.9 million from the offering to buy additional i-units from Kinder Morgan Energy Partners.

In January 2003, our board of directors approved a plan to purchase shares of Kinder Morgan Management on the open market. During 2003 we purchased $0.9 million (29,000 shares) of Kinder Morgan Management stock.

On August 6, 2002, Kinder Morgan Management closed the issuance and sale of 12,478,900 limited liability shares in an underwritten public offering. The net proceeds of approximately $328.6 million from the offering were used by Kinder Morgan Management to buy additional i-units from Kinder Morgan Energy Partners. We did not purchase any of the offered shares.

13. Preferred Stock

We have authorized 200,000 shares of Class A and 2,000,000 shares of Class B preferred stock, all without par value. At December 31, 2004, 2003 and 2002, we did not have any outstanding shares of preferred stock.

14. Risk Management

We account for risk management activities according to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* collectively, "Statement 133." Statement 133 established accounting and reporting standards requiring that every derivative financial instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The accompanying Consolidated Balance Sheet as of December 31, 2004, includes, exclusive of amounts related to interest rate swaps as discussed below, balances of approximately $19.3 million, $258,000, $13.4 million and $166,000 in the captions "Current Assets: Other," "Deferred Charges and Other Assets," "Current Liabilities: Other," and "Other Liabilities and Deferred Credits: Other" respectively, related to these derivative financial instruments. Statement 133 requires that changes in the derivative's

fair value be recognized currently in earnings unless specific hedge accounting criteria are met. If the derivatives meet those criteria, Statement 133 allows a derivative's gains and losses to offset related results from the hedged item in the income statement, and requires that a company formally designate a derivative as a hedge and document and assess the effectiveness of derivatives associated with transactions that receive hedge accounting.

We enter into derivative contracts solely for the purpose of hedging exposures that accompany our normal business activities. In accordance with the provisions of Statement 133, we designated these instruments as hedges of various exposures as discussed following, and we test the effectiveness of changes in the value of these hedging instruments with the risk being hedged. Hedge ineffectiveness is recognized in income in the period in which it occurs. We enter into these transactions only with counterparties whose debt securities are rated investment grade by the major rating agencies. In general, the risk of default by these counterparties is low. While we enter into derivative transactions only with investment grade counterparties and actively monitor their credit ratings, it is nevertheless possible that losses will result from counterparty credit risk in the future.

Our businesses require that we purchase, sell and consume natural gas. Specifically, we purchase, sell and/or consume natural gas (i) to serve our regulated natural gas distribution sales customers, (ii) to serve certain of our retail natural gas distribution customers in areas where regulatory restructuring has provided for competition in natural gas supply, for customers who have selected the Company as their supplier of choice under our "Choice Gas" program, (iii) as fuel in one of our Colorado power generation facilities, (iv) as fuel for compressors located on NGPL's pipeline system and (v) for operational sales of gas by NGPL.

With respect to item (i), we have no commodity risk because the regulated retail gas distribution regulatory structure provides that actual gas cost is "passed-through" to our customers. With respect to item (iii), our exposure is minimal and primarily consists of basis rather than commodity risk. With respect to item (iv), this fuel is supplied by in-kind fuel recoveries that are part of the transportation tariff. Items (ii) and (v) give rise to natural gas commodity price risk which we have chosen to substantially mitigate through our risk management program. We provide this mitigation through the use of financial derivative products, and we do not utilize these derivatives for any purpose other than risk mitigation.

Under our Choice Gas program, customers in certain areas served by Kinder Morgan Retail are allowed to choose their natural gas supplier from a list of qualified suppliers, although the transportation of the natural gas to the homes and businesses continues to be provided by Kinder Morgan Retail in all cases. When those customers choose Kinder Morgan Retail as their Choice Gas supplier, we enter into agreements providing for sales of gas to these customers during a one-year period at fixed prices per unit, but variable volumes. We mitigate the risk associated with these anticipated sales of gas by purchasing natural gas futures contracts on the New York Mercantile Exchange ("NYMEX") and, as applicable, over-the-counter basis swaps to mitigate the risk associated with the difference in price changes between Henry Hub (NYMEX) basis and the expected physical delivery location. In addition, we mitigate a portion of the volumetric risk through the purchase of over-the-counter natural gas options. The time period covered by this risk management strategy does not extend beyond one year.

With respect to operational sales of natural gas made by NGPL, we are exposed to risk associated with changes in the price of natural gas during the periods in which these sales are made. We mitigate this risk by selling natural gas futures and, as discussed above, over-the-counter basis swaps, on the NYMEX in the periods in which we expect to make these sales. In general, we do not hedge this exposure for periods in excess of 18 months.

During the three years ended December 31, 2004, all of our natural gas derivative activities were designated and qualified as cash flow hedges. We recognized a pre-tax loss of approximately $1,354,000 in 2004, a pre-tax gain of approximately $56,000 in 2003 and a pre-tax loss of approximately $46,000 in 2002 as a result of ineffectiveness of these hedges, which amounts are reported within the caption "Gas Purchases and Other Costs of Sales" in the accompanying Consolidated Statements of Operations. There was no component of these derivative instruments' gain or loss excluded from the assessment of hedge effectiveness.

As the hedged sales and purchases take place and we record them into earnings, we also reclassify the gains and losses included in accumulated other comprehensive income into earnings. We expect to reclassify into earnings, during 2005, substantially all of the accumulated other comprehensive income balance of approximately $138,000 at December 31, 2004, representing unrecognized net losses on derivative activities. During the three years ended December 31, 2004, we reclassified no gains or losses into earnings as a result of the discontinuance of cash flow hedges due to a determination that the forecasted transactions would no longer occur by the end of the originally specified time period.

We also provide certain administrative risk management services to Kinder Morgan Energy Partners, although Kinder Morgan Energy Partners retains the obligations and rights arising from all derivative transactions entered into on its behalf.

Our outstanding fixed-to-floating interest rate swap agreements had a notional principal amount of $1.5 billion at December 31, 2004. These agreements, entered into in August 2001, September 2002 and November 2003, effectively convert the interest expense associated with our 7.25% Debentures due in 2028 and our 6.50% Senior Notes due in 2012 from fixed rates to floating rates based on the three-month London Interbank Offered Rate ("LIBOR") plus a credit spread. These swaps have been designated as fair value hedges and we have accounted for them utilizing the "shortcut" method prescribed for qualifying fair value hedges under Statement 133. Accordingly, the carrying value of the swap is adjusted to its fair value as of the end of each reporting period, and an offsetting entry is made to adjust the carrying value of the debt securities whose fair value is being hedged. The fair value of the swaps of $85.9 million at December 31, 2004 is included in the caption "Deferred Charges and Other Assets" in the accompanying Consolidated Balance Sheet. We record interest expense equal to the floating rate payments, which is accrued monthly and paid semi-annually. Based on the long-term debt effectively converted to floating rate debt as a result of the swaps discussed above, the market risk related to a 1% change in interest rates would result in a $15.0 million annual impact on pre-tax income.

On March 3, 2003, we terminated the interest rate swap agreements associated with our 6.65% Senior Notes due in 2005 and received $28.1 million in cash. We are amortizing this amount (reducing interest expense) over the remaining period the 6.65% Senior Notes are outstanding. The unamortized balance of $2.3 million at December 31, 2004 is included in the caption "Value of Interest Rate Swaps" under the heading "Long-term Debt" in the accompanying Consolidated Balance Sheet.

Following is selected information concerning our natural gas risk management activities as of December 31, 2004:

	Commodity Contracts	Over the Counter Swaps and Options Contracts	Total
		(Dollars in thousands)	
Deferred Net Gain (Loss)	$ 8,810	$ (8,989)	$ (179)
Contract Amounts — Gross	$ 120,275	$ 154,120	$ 274,395
Contract Amounts — Net	$ (49,631)	$(130,051)	$(179,682)
		(Number of contracts[1])	
Natural Gas			
Notional Volumetric Positions: Long	544	185	729
Notional Volumetric Positions: Short	(1,210)	(2,341)	(3,551)
Net Notional Totals to Occur in 2005	(666)	(2,167)	(2,833)
Net Notional Totals to Occur in 2006 and Beyond	-	11	11
Crude Oil			
Notional Volumetric Positions: Long	-	-	-
Notional Volumetric Positions: Short	-	(24)	(24)
Net Notional Totals to Occur in 2005	-	(24)	(24)
Net Notional Totals to Occur in 2006 and Beyond	-	-	-
Natural Gas Liquids			
Notional Volumetric Positions: Long	-	-	-
Notional Volumetric Positions: Short	-	(8)	(8)
Net Notional Totals to Occur in 2005	-	(8)	(8)
Net Notional Totals to Occur in 2006 and Beyond	-	-	-

[1] A term of reference describing a unit of commodity trading. One natural gas contract equals 10,000 MMBtus. One crude oil or natural gas liquids contract equals 1,000 barrels..

Our over-the-counter swaps and options are with a number of parties, each of which is an investment grade credit. At December 31, 2004, we were not owed money by any counterparties, and therefore have no credit exposure.

15. Employee Benefits

(A) Retirement Plans

We have defined benefit pension plans covering eligible full-time employees. These plans provide pension benefits that are based on the employees' compensation during the period of employment, age and years of service. These plans are tax-qualified subject to the minimum funding requirements of the *Employee Retirement Income Security Act of 1974*, as amended. Our funding policy is to contribute annually the recommended contribution using the actuarial cost method and assumptions used for determining annual funding requirements. Plan assets consist primarily of pooled fixed income, equity, bond and money market funds. Plan assets included our common stock valued at $26.2 million and $20.4 million as of December 31, 2004 and 2003, respectively. The measurement date for our retirement plans is December 31.

Net periodic pension cost includes the following components:

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Service Cost	$ 8,619	$ 8,133	$ 7,121
Interest Cost	11,566	11,118	10,484
Expected Return on Assets	(16,338)	(13,282)	(15,665)
Net Amortization and Deferral	227	1,625	21
Settlement Loss	-	-	76
Net Periodic Pension Benefit Cost	$ 4,074	$ 7,594	$ 2,037

The following table sets forth the reconciliation of the beginning and ending balances of the pension benefit obligation:

	2004	2003
	(In thousands)	
Benefit Obligation at Beginning of Year	$ 180,862	$ 162,181
Service Cost	8,619	8,133
Interest Cost	11,566	11,118
Actuarial Loss	13,865	8,416
Benefits Paid	(10,031)	(8,986)
Benefit Obligation at End of Year	$ 204,881	$ 180,862

The accumulated benefit obligation through December 31, 2004 and 2003 was $192.9 million and $170.9 million, respectively.

The following table sets forth the reconciliation of the beginning and ending balances of the fair value of the plans' assets, the plans' funded status and prepaid (accrued) pension cost:

	December 31,	
	2004	2003
	(In thousands)	
Fair Value of Plan Assets at Beginning of Year	$ 185,610	$ 147,591
Actual Return on Plan Assets During the Year	24,197	37,971
Contributions by Employer	6,834	9,034
Benefits Paid During the Year	(10,031)	(8,986)
Fair Value of Plan Assets at End of Year	206,610	185,610
Benefit Obligation at End of Year	(204,881)	(180,862)
Plan Assets in Excess of Projected Benefit Obligation	1,729	4,748
Unrecognized Net Loss	25,596	19,802
Prior Service Cost Not Yet Recognized in Net Periodic Pension Costs	1,840	2,017
Unrecognized Net Asset at Transition	(33)	(196)
Prepaid Pension Cost	$ 29,132	$ 26,371

For 2005, we expect to contribute approximately $25 million to the Plan.

Prepaid pension cost as of December 31, 2004 is recognized under the caption, "Current Assets: Other" in the accompanying Consolidated Balance Sheets.

The following net benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Expected Net Benefit Payments
	(In thousands)
2005	$10,370
2006	$10,933
2007	$11,921
2008	$12,368
2009	$13,897
2010-2014	$87,809

Effective January 1, 2001, we added a cash balance plan to our retirement plan. Certain collectively bargained employees and “grandfathered” employees will continue to accrue benefits through the defined pension benefit plan described above. All other employees will accrue benefits through a personal retirement account in the new cash balance plan. All employees converting to the cash balance plan were credited with the current fair value of any benefits they have previously accrued through the defined benefit plan. We make contributions on behalf of these employees equal to 3% of eligible compensation every pay period. In addition, we may make discretionary contributions to the plan based on our performance. Interest is credited to the personal retirement accounts at the 30-year U.S. Treasury bond rate in effect each year. Employees will be fully vested in the plan after five years, and they may take a lump sum distribution upon termination or retirement.

In addition to our retirement plan described above, we have the Kinder Morgan, Inc. Savings Plan (the "Plan"), a defined contribution plan. We make contributions to the Plan in an amount equal to 4% of compensation on behalf of each eligible employee. In July 2004, our Board of Directors Compensation Committee approved, contingent upon its approval at its July 2005 meeting, an additional 1% contribution to each eligible employee beginning with the first pay period after the July 2005 meeting. This additional 1% contribution is discretionary and will require annual approval by the Compensation Committee. All contributions are in the form of Company stock, which is immediately convertible into other available investment vehicles at the employee’s discretion. Our Board of Directors has authorized a total of 6.7 million shares to be issued through the Plan. In addition to the above contributions, we may make annual discretionary contributions based on our performance. These contributions are made in the year following the year for which the contribution amount is calculated. The total amount contributed for 2004, 2003 and 2002 was $12.2 million, $11.5 million and $11.4 million, respectively. For employees hired on or prior to December 31, 2004, all contributions, together with earnings thereon, are fully vested in the Plan. Employer contributions for employees hired on or after January 1, 2005 will vest on the second anniversary of the date of hire.

(B) Other Postretirement Employee Benefits

We have a defined benefit postretirement plan providing medical and life insurance benefits upon retirement for eligible employees and their eligible dependents. We fund a portion of the future expected postretirement benefit cost under the plan by making payments to Voluntary Employee Benefit Association trusts. Plan assets are invested in a mix of equity funds and fixed income instruments similar to the investments in our pension plans. The measurement date for our postretirement plan is December 31.

Net periodic postretirement benefit cost includes the following components:

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Service Cost	$ 373	$ 406	$ 419
Interest Cost	5,652	6,968	7,251
Expected Return on Assets	(5,178)	(5,450)	(6,721)
Net Amortization and Deferral	3,199	3,333	2,352
Net Periodic Postretirement Benefit Cost	$ 4,046	$ 5,257	$ 3,301

The following table sets forth the reconciliation of the beginning and ending balances of the accumulated postretirement benefit obligation:

	2004	2003
	(In thousands)	
Benefit Obligation at Beginning of Year	$ 106,939	$ 105,278
Service Cost	373	406
Interest Cost	5,652	6,968
Actuarial Loss	21,045	6,151
Benefits Paid	(13,906)	(15,510)
Retiree Contributions	3,796	3,646
Plan Amendments	(31,959)	-
Benefit Obligation at End of Year	$ 91,940	$ 106,939

The following table sets forth the reconciliation of the beginning and ending balances of the fair value of plan assets, the plan's funded status and the amounts included under the caption "Other" in the category "Other Liabilities and Deferred Credits" in our Consolidated Balance Sheets:

	December 31,	
	2004	2003
	(In thousands)	
Fair Value of Plan Assets at Beginning of Year	$ 62,693	$ 65,084
Actual Return on Plan Assets	9,888	6,382
Contributions by Employer	-	5,000
Retiree Contributions	3,728	3,637
Benefits Paid	(16,166)	(17,410)
Fair Value of Plan Assets at End of Year	60,143	62,693
Benefit Obligation at End of Year	(91,940)	(106,939)
Excess of Projected Benefit Obligation Over Plan Assets	(31,797)	(44,246)
Unrecognized Net Loss	68,084	54,283
Unrecognized Net Obligations at Transition	-	8,361
Unrecognized Prior Service Cost	(19,606)	2,329
Prepaid Expense	$ 16,681	$ 20,727

We expect to make contributions of approximately $8.5 million to the plan in 2005.

A one-percentage-point increase (decrease) in the assumed health care cost trend rate for each future year would have increased (decreased) the aggregate of the service and interest cost components of the 2004 net periodic postretirement benefit cost by approximately $5,418 ($5,019) and would have increased (decreased) the accumulated postretirement benefit obligation as of December 31, 2004 by approximately $86,726 ($80,676).

The following net benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Expected Net Benefit Payments
	(In thousands)
2005	$10,135
2006	$ 7,389
2007	$ 7,213
2008	$ 7,027
2009	$ 6,871
2010-2014	$32,469

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") was signed into law. In January 2004, the FASB issued Staff Position ("FSP") FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* to provide guidance on accounting and disclosure for the Act as it pertains to postretirement benefit plans, and in May 2004, the FASB issued FSP FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* which superseded FSP FAS 106-1 effective July 1, 2004, which provides specific authoritative guidance on the accounting for the federal subsidy included in the Act. In the third quarter of 2004, our board approved a resolution to amend our postretirement benefit plan to eliminate prescription drug benefits for Medicare eligible retirees effective January 1, 2006, which eliminates any potential effects on our periodic postretirement benefit costs due to the federal subsidy included in the Act.

(C) Actuarial Assumptions

The assumptions used to determine benefit obligations for the pension and postretirement benefit plans were:

	December 31,		
	2004	2003	2002
Discount Rate	6.0%	6.5%	7.0%
Expected Long-term Return on Assets	9.0%	9.0%	9.0%
Rate of Compensation Increase (Pension Plan Only)	3.5%	3.5%	3.5%

The assumptions used to determine net periodic benefit cost for the pension and postretirement benefits were:

	Year Ended December 31,		
	2004	2003	2002
Discount Rate	6.5%	7.0%	7.25%
Expected Long-term Return on Assets	9.0%	9.0%	9.5%
Rate of Compensation Increase (Pension Plan Only)	3.5%	3.5%	3.5%

The assumed healthcare cost trend rates for the postretirement plan were:

	December 31,		
	2004	2003	2002
Healthcare Cost Trend Rate Assumed for Next Year	3.0%	3.0%	3.0%
Rate to which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate)	3.0%	3.0%	3.0%
Year the Rate Reaches the Ultimate Trend Rate	2004	2003	2002

(D) Plan Investment Policies

The investment policies and strategies for the assets of our pension and retiree life and medical plans are established by the plans' Fiduciary Committee (the "Committee"). The stated philosophy of the Committee is to manage these assets in a manner consistent with the purpose for which the plans were established and the time frame over which the plans' obligations will be met. The objectives of the investment management program are to (1) ultimately achieve and maintain a fully funded status based on relevant actuarial assumptions, (2) have the ability to pay all plan obligations when due, (3) as a minimum, meet or exceed actuarial return assumptions and (4) earn the highest possible rate of return consistent with established risk tolerances. In seeking to meet these objectives, the Committee recognizes that prudent investing requires taking reasonable risks in order to raise the likelihood of achieving the targeted investment returns. In order to reduce portfolio risk and volatility, the Committee has adopted a strategy of using multiple asset classes. As of December 31, 2004, the following target asset allocation ranges were in effect (Minimum/Target/Maximum): Cash – 0%/0%/5%; Fixed Income – 20%/30%/40% and Equity – 60%/70%/80%. In order to achieve enhanced diversification, the equity category is further subdivided into sub-categories with respect to Kinder Morgan Stock, small cap vs. large cap, value vs. growth and international vs. domestic, each with its own target asset allocation (in the case of Kinder Morgan Stock, the allocation range was 5%/10%/15% at December 31, 2004).

In implementing its investment policies and strategies, the Committee has engaged a professional investment advisor to assist with its decision making process and has engaged professional money managers to manage plan assets. The Committee believes that such active investment management will achieve superior returns with comparable risk in comparison to passive management. Consistent with its goal of reasonable diversification, no manager of an equity portfolio for the plan is allowed to have more than 10% of the market value of the portfolio in a single security or weight a single economic sector more than twice the weighting of that sector in the appropriate market index. Finally, investment managers are not permitted to invest or engage in the following unless specific permission is given in writing (which permission has not been requested or granted by the Committee to-date): derivative instruments, except for the purpose of asset value protection (such as writing covered calls), direct ownership of letter stock, restricted stock, limited partnership units (unless the security is registered and listed on a domestic exchange), venture capital, short sales, margin purchases or borrowing money, stock loans and commodities. Certain other types of investments such as hedge funds and land purchases are not prohibited as a matter of policy but have not, as yet, been adopted as an asset class or received any allocation of fund assets.

(E) Return on Plan Assets

At December 31, 2004, our pension and retiree life and medical fund assets consisted of approximately 73.5% equity, 23.8% debt and 2.7% cash and cash equivalents. At December 31, 2003, the corresponding amounts were approximately 71.9% equity, 25.6% debt and 2.5% cash and cash equivalents. Historically over long periods of time, widely traded large-cap equity securities have provided a return of approximately 10%, while fixed income securities have provided a return of approximately 6%, indicating that a long-term expected return predicated on the asset allocation as of December 31, 2004 would be approximately 8.8% if the investments were made in the broad indexes. Since our pension funds are actively managed by professional managers who provide this service for a fee, we expect to earn a premium of 0.75% to 1.5% on the equity portion of our portfolio and 0.25% to 0.50% on the fixed income portion, over and above the fees we pay our money managers. Thus, on a weighted basis, we would expect to earn a premium of 0.62% to 1.24% due to active management. Our historical premium over a balanced index was 2.8%, 2.4% and 5.7% for the 1-year, 3-year and 5-year periods ended December 31, 2003, respectively. Therefore, using the low end of the range for the

expected active management premium, we arrive at an overall expected return of approximately 9.4%, which we have lowered slightly to 9% for purposes of making the required calculations.

16. Common Stock Option and Purchase Plans

We have the following stock option plans: The 1992 Non-Qualified Stock Option Plan for Non-Employee Directors, the 1994 Kinder Morgan, Inc. Long-term Incentive Plan (which also provides for the issuance of restricted stock) and the Kinder Morgan, Inc. Amended and Restated 1999 Stock Option Plan. We also have an employee stock purchase plan.

We account for these plans using the "intrinsic value" method contained in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Had we applied the "fair value" method contained in SFAS No. 123, *Accounting for Stock-Based Compensation*, our earnings would have been affected; see Note 1(S). In December 2004, the FASB issued SFAS No. 123R (revised 2004), *Share-Based Payment*. This statement, which we will adopt in the third quarter of 2005, will affect the way we account for these plans; see Note 20.

On October 8, 1999, our Board of Directors approved the creation of our 1999 stock option plan, a broadly based non-qualified stock option plan. Under the plan, options may be granted to individuals who are regular full-time employees, including officers and directors who are employees. Prior to 2004, options under the plan vested in 25% increments on the anniversary of the grant over a four-year period from the date of grant and had a 10-year life. On July 20, 2004, approximately 289,000 shares were granted under the plan that will vest 100% after three years and have a seven-year life. All options granted under the plan must be granted at not less than the fair market value of Kinder Morgan, Inc. common stock at the close of trading on the date of grant. On January 17, 2001, our Board of Directors approved an additional 5 million shares for future grants to participants in the 1999 Stock Option Plan, which brings the aggregate number of shares subject to the plan to 10.5 million. The Board also recommended, and our shareholders approved at our May 8, 2001 annual meeting, an additional 0.5 million shares for future grants to participants in the 1992 Directors' Plan, which brings the aggregate number of shares subject to that plan to 1.03 million. On July 16, 2003, approximately 706,000 shares were granted to employees under the Long-term Incentive Plan. These shares will vest 100% after three years and have a 7-year life.

Under all plans, except the Long-term Incentive Plan, options must be granted at not less than 100% of the market value of the stock at the date of grant. Under the Long-term Incentive Plan options may be granted at less than 100% of the market value of the stock at the date of grant although we do not expect to make any grants of options at less than 100% of the market value of the stock at the grant date. Compensation expense was recorded totaling $5.1 million, $3.4 million and $1.4 million for 2004, 2003 and 2002, respectively, relating to restricted stock grants awarded under the plans.

Plan Name	Shares Subject to the Plan	Option Shares Granted Through December 31, 2004	Vesting Period	Expiration Period
1992 Directors' Plan.....	1,025,000	702,875	0 – 6 Months	10 Years
Long-term Incentive Plan..	5,700,000	4,163,720	0 – 5 Years	5 – 10 Years
1999 Plan.....	10,500,000	7,897,016	3 – 4 Years	7 – 10 Years

A summary of the status of our stock option plans at December 31, 2004, 2003 and 2002, and changes during the years then ended is presented in the table and narrative below:

	2004		2003		2002	
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Outstanding at Beginning of Year	6,499,507	$ 35.45	7,480,915	$ 35.94	6,975,717	$ 33.12
Granted	354,525	$ 60.91	1,019,700	$ 50.42	1,231,525	$ 47.76
Exercised	(1,712,685)	$ 34.16	(1,653,991)	$ 26.25	(519,091)	$ 23.46
Forfeited	(114,911)	$ 49.11	(347,117)	$ 36.54	(207,236)	$ 38.64
Outstanding at End of Year	5,026,436	$ 44.18	6,499,507	$ 35.45	7,480,915	$ 35.94
Exercisable at End of Year	3,154,197	$ 39.47	3,918,118	$ 35.46	3,978,017	$ 31.93
Weighted-Average Fair Value of Options Granted		$ 16.87		$ 16.60		$ 19.36

The following table sets forth our common stock options outstanding at December 31, 2004, weighted-average exercise prices, weighted-average remaining contractual lives, common stock options exercisable and the exercisable weighted-average exercise price:

	Options Outstanding			Options Exercisable	
Price Range	Number Outstanding	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Life	Number Exercisable	Wtd. Avg. Exercise Price
$00.00 - $23.81	834,100	$ 23.73	4.66 years	834,100	$ 23.73
$24.04 - $43.10	1,324,434	$ 35.74	6.17 years	933,284	$ 33.69
$49.00 - $53.20	1,335,494	$ 51.13	6.17 years	996,061	$ 50.98
$53.60 - $60.18	1,164,633	$ 55.16	6.24 years	310,752	$ 56.55
$60.79 - $61.40	367,775	$ 60.92	7.10 years	80,000	$ 61.40
	5,026,436	$ 44.18	6.00 years	3,154,197	$ 39.47

Under the employee stock purchase plan, we may sell up to 2,400,000 shares of common stock to eligible employees. Employees purchase shares through voluntary payroll deductions. Through 2004, shares were purchased quarterly at a 15% discount from the closing price of the common stock on the last trading day of each calendar quarter. Beginning with the March 31, 2005 quarterly purchase, the discount will be 5%. Employees purchased 86,255 shares, 95,997 shares and 127,425 shares for plan years 2004, 2003 and 2002, respectively. Using the Black-Scholes model to assign value to the option inherent in the right to purchase stock under the provisions of the employee stock purchase plan, the weighted-average fair value per share of purchase rights granted in 2004, 2003 and 2002 was $11.28, $9.67 and $9.60, respectively.

17. Commitments and Contingent Liabilities

(A) Leases and Guarantee

Expenses incurred under operating leases were $24.3 million in 2004, $6.4 million in 2003 and $8.1 million in 2002. The principal reason for the increased expense in 2004 is the lease associated with the Jackson, Michigan power generation facility as discussed below. Future minimum commitments under major operating leases as of December 31, 2004 are as follows:

Year	Commitment (In thousands)
2005	$ 30,512
2006	29,166
2007	28,440
2008	25,903
2009	20,593
Thereafter	415,840
Total	$ 550,454

Included in the future minimum commitments shown in the preceding table is the lease obligation associated with the Jackson, Michigan power generation facility. The project company that is the lessee of this facility is consolidated as of December 31, 2003, as a result of the adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. The facility is subject to a long-term tolling agreement, and the lease obligation is without recourse to the project investors.

As a result of our December 1999 sale of assets to ONEOK, ONEOK became primarily obligated for the lease of the Bushton gas processing facility. We remain secondarily liable for the lease, which had a remaining minimum obligation of approximately $189.1 million at December 31, 2004, with payments that average approximately $23 million per year through 2012. In conjunction with our contributions of assets to Kinder Morgan Energy Partners at December 31, 1999, December 31, 2000 and November 1, 2004, we are a guarantor of approximately $733.5 million of Kinder Morgan Energy Partners' debt. We would be obligated to perform under this guarantee only if Kinder Morgan Energy Partners and/or its assets were unable to satisfy its obligations.

(B) Capital Expenditures Budget

Approximately $2.2 million of our consolidated capital expenditure budget for 2005 had been committed for the purchase of plant and equipment at December 31, 2004.

(C) Commitments for Incremental Investment

We could be obligated (i) based on operational performance of the equipment at our Jackson, Michigan power generation facility to invest up to an additional $3 to $8 million per year for the next 14 years and (ii) based on cash flows generated by the facility, to invest up to an additional $25 million beginning in 2018, in each case in the form of an incremental preferred interest.

(D) Standby Letters of Credit

Letters of credit totaling $32.2 million outstanding at December 31, 2004 consisted of the following: (i) four letters of credit, totaling $13.0 million, required under provisions of our property and casualty, worker's compensation and general liability insurance policies, (ii) a $10.7 million letter of credit supporting the subordination of operating fees payable to us for operation of the Jackson, Michigan power generation facility to payments due under the operating lease of the facilities, (iii) a $6.6 million letter of credit associated with the outstanding debt of Thermo Cogeneration Partnership, L.P., the entity responsible for the operation of our Colorado power generation assets and (iv) a $1.9 million letter of credit supporting Thermo Cogeneration Partnership, L.P.'s performance under its contract with Public Service Company of Colorado, the principal customer of our Colorado power generation assets.

(E) Other Obligations

Other obligations are discussed in Note 1(N) and Note 7.

18. Fair Value

The following fair values of Long-term Debt and Capital Securities were estimated based on an evaluation made by an independent securities analyst. Fair values of "Energy Financial Instruments, Net" reflect the estimated amounts that we would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses on open contracts. Market quotes are available for substantially all instruments we use.

	December 31,			
	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
Financial Liabilities:				
Long-term Debt	$ 3,132.5[1]	$ 3,420.6[1]	$ 3,198.4[1]	$ 3,495.4[1]
Energy Financial Instruments, Net	$ (0.2)	$ (0.2)	$ (9.8)	$ (9.8)
Outstanding Interest Rate Swaps	$ (85.9)	$ (85.9)	$ (71.8)	$ (71.8)

[1] Includes an adjustment exactly offsetting the fair value of the outstanding interest rate swaps. See Note 14.

19. Business Segment Information

In accordance with the manner in which we manage our businesses, including the allocation of capital and evaluation of business segment performance, we report our operations in the following segments: (1) Natural Gas Pipeline Company of America and certain affiliates, referred to as Natural Gas Pipeline Company of America or NGPL, a major interstate natural gas pipeline and storage system; (2) Prior to its sale as discussed following, TransColorado Gas Transmission Company, referred to as TransColorado, an interstate natural gas pipeline located in western Colorado and northwest New Mexico; (3) Kinder Morgan Retail, the regulated sale and transportation of natural gas to residential, commercial and industrial customers (including a small distribution system in Hermosillo, Mexico) and the sales of natural gas to certain utility customers under the Choice Gas Program and (4) Power, the operation and, in previous periods, construction of natural gas-fired electric generation facilities. Our investment in TransColorado Gas Transmission Company was contributed to Kinder Morgan Energy Partners effective November 1, 2004 (see Note 5). In previous periods, we owned and operated other lines of business that we discontinued during 1999.

The accounting policies we apply in the generation of business segment information are generally the same as those described in Note 1, except that (i) certain items below the "Operating Income" line are either not allocated to business segments or are not considered by management in its evaluation of business segment performance and (ii) equity in earnings of equity method investees, other than Kinder Morgan Energy Partners and certain insignificant international investees, are included in segment results. These equity method earnings are included in "Other Income and (Expenses)" in our Consolidated Statements of Operations. In addition, (i) certain items included in operating income (such as general and administrative expenses) are not allocated to individual business segments and (ii) gains and losses from incidental sales of assets are included in segment earnings. With adjustment for these items, we currently evaluate business segment performance primarily based on operating income in relation to the level of capital employed. We account for intersegment sales at market prices, while we account for asset transfers at either market value or, in some instances, book value. As necessary for

comparative purposes, we have reclassified prior period results and balances to conform to the current presentation.

NGPL's principal delivery market area encompasses the states of Illinois, Indiana, Iowa and portions of Wisconsin, Nebraska, Kansas, Missouri and Arkansas. NGPL is the largest transporter of natural gas to the Chicago, Illinois area, its largest market. During 2004, approximately 42% of NGPL's transportation represented deliveries to this market. NGPL's storage capacity is largely located near its transportation delivery markets, effectively serving the same customer base. NGPL has a number of individually significant customers, including local gas distribution companies in the greater Chicago area and major natural gas marketers and, during 2004, approximately 54% of its operating revenues from tariff services were attributable to its eight largest customers. Kinder Morgan Retail's markets are represented by residential, commercial and industrial customers located in Colorado, Nebraska and Wyoming. These markets represent varied types of customers in many industries, but a significant amount of Kinder Morgan Retail's load is represented by the use of natural gas for space heating, grain drying and irrigation. The latter two groups of customers are concentrated in the agricultural industry, and all markets are affected by the weather. Power's current principal market is represented by the local electric utilities in Colorado, which purchase the power output from its generation facilities. Due to the adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, the results of operations of our Triton Power affiliates are included in our consolidated operating results and in the results of our Power segment beginning with the first quarter of 2004. Although the results of Triton have an impact on the total operating revenues and expenses of the Power business segment, after taking into account the associated minority interests, the consolidation of Triton had no effect on Power's segment earnings. During 2004 and excluding certain non-recurring revenues, approximately 71% of Power's operating revenues were for operating the Jackson, Michigan Power facility, 21% were electric sales revenues from XCEL Energy's Public Service Company of Colorado under a long-term contract, and the remaining 8% were primarily for operating the Ft. Lupton, Colorado power facility.

Our business activities expose us to credit risk with respect to collection of accounts receivable. In order to mitigate that risk, we routinely monitor the credit status of our existing and potential customers. When customers' credit ratings do not meet our requirements for the extension of unsupported credit, we obtain cash prepayments or letters of credit. Note 1(G) provides information on the amount of prepayments we have received.

During 2004, 2003 and 2002, we did not have revenues from any single customer that exceeded 10% of our consolidated operating revenues.

Business Segment Information

	Year Ended December 31, 2004					December 31, 2004
	Segment Earnings	Revenues From External Customers	Intersegment Revenues	Depreciation And Amortization	Capital Expenditures	Segment Assets
			(In thousands)			
Natural Gas Pipeline Company of America	$ 392,806	$ 778,877	$ -	$ 94,462	$ 88,202	$ 5,546,509
TransColorado[1]	20,255	28,795	-	3,605	15,002	-
Kinder Morgan Retail	69,264	287,197	-	17,123	61,038	462,760
Power[2]	15,255	70,064	-	3,552	-	378,008
Segment Totals	497,580	$1,164,933	$ -	$ 118,742	$ 164,242	6,387,277
Earnings from Investment in Kinder Morgan Energy Partners	558,078			Investment In Kinder Morgan Energy Partners		2,305,212
General and Administrative Expenses	(77,841)			Goodwill		918,076
Other Income and (Expenses)	(222,596)			Other[3]		506,336
Income from Continuing Operations Before Income Taxes	$ 755,221			Consolidated		$10,116,901

	Year Ended December 31, 2003					December 31, 2003
	Segment Earnings	Revenues From External Customers	Intersegment Revenues	Depreciation And Amortization	Capital Expenditures	Segment Assets
			(In thousands)			
Natural Gas Pipeline Company of America	$ 372,017	$ 784,732	$ -	$ 92,193	$ 114,504	$ 5,551,595
TransColorado[1]	23,112	32,197	-	4,224	14,841	267,597
Kinder Morgan Retail	65,482	249,119	-	16,197	28,816	423,138
Power[2]	22,076	31,849	-	4,914	2,643	450,799
Segment Totals	482,687	$1,097,897	$ -	$ 117,528	$ 160,804	6,693,129
Earnings from Investment in Kinder Morgan Energy Partners	464,967			Investment In Kinder Morgan Energy Partners		2,106,312
General and Administrative Expenses	(71,741)			Goodwill		972,380
Other Income and (Expenses)	(249,609)			Other[3]		264,890
Income from Continuing Operations Before Income Taxes	$ 626,304			Consolidated		$10,036,711

	Year Ended December 31, 2002					December 31, 2002
	Segment Earnings	Revenues From External Customers	Intersegment Revenues	Depreciation And Amortization	Capital Expenditures	Segment Assets
			(In thousands)			
Natural Gas Pipeline Company of America	$ 359,911	$ 699,998	$ -	$ 87,305	$ 132,026	$ 5,629,355
TransColorado[1]	12,648	7,725	93	1,062	325	258,627
Kinder Morgan Retail	64,056	259,748	-	15,044	25,395	406,797
Power[2]	36,673	47,784	-	3,085	17,207	389,596
Segment Totals	473,288	$1,015,255	$ 93	$ 106,496	$ 174,953	6,684,375
Earnings from Investment in Kinder Morgan Energy Partners	392,135			Investment In Kinder Morgan Energy Partners		2,034,160
General and Administrative Expenses	(73,496)			Goodwill		990,878
Other Income and (Expenses)	(349,197)			Other[3]		393,337
Income from Continuing Operations Before Income Taxes	$ 442,730			Consolidated		$10,102,750

[1] Effective November 1, 2004 we contributed our investment in TransColorado Gas Transmission Company to Kinder Morgan Energy Partners (see Note 5). TransColorado was a 50/50 joint venture with Questar Corp. until we bought Questar's interest effective October 1, 2002, thus becoming the sole owner. As a result, TransColorado's results shown above reflect our 50% equity interest in its earnings prior to October 1, 2002 and 100% of its results on a consolidated basis from October 1, 2002 through October 31, 2004.

[2] Does not include (i) pre-tax charges of $33.5 million, $44.5 million and $134.5 million in 2004, 2003 and 2002, respectively, to record the impairment of certain assets, (ii) incremental earnings of $18.5 million in 2004 reflecting (1) the recognition of previously deferred revenues associated with construction of the Jackson, Michigan power generation facility, (2) gains from the sale of surplus power generation equipment and (3) the settlement of certain litigation. Results for 2003 exclude a pre-tax loss of $2.9 million resulting from the sale of natural gas reserves by an equity-method investee (see Notes 5 and 6).

[3] Includes, as applicable to each particular year, cash and cash equivalents, the market value of derivative instruments (including interest rate swaps), income tax receivables and miscellaneous corporate assets (such as information technology and telecommunications equipment) not allocated to individual segments.

Geographic Information

All but an insignificant amount of our assets and operations are located in the continental United States.

20. Recent Accounting Pronouncements

In January 2004, the FASB issued FSP FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the "Act"). This FSP permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to postpone accounting for the effects of the Act. Regardless of whether a company elects that deferral, the FSP requires certain disclosures pending further consideration of the underlying accounting issues. In May 2004, the FASB issued FSP FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* which superseded FSP FAS 106-1 effective July 1, 2004. FSP FAS 106-2 provides transitional guidance for accounting for the effects of the Act on the accumulated projected benefit obligation and periodic postretirement health care benefit expense. In the third quarter of 2004, our board approved a resolution to amend our postretirement benefit plan to eliminate prescription drug benefits for Medicare eligible retirees effective January 1, 2006, which eliminates any potential effects on our periodic postretirement benefit costs due to the federal subsidy included in the Act.

At its November 30, 2004 meeting, the FASB ratified the consensus reached by its Emerging Issues Task Force on Issue No. 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations." This consensus clarified (i) how an entity should evaluate whether the operations and cash flows of a disposed component have been or will be eliminated from the ongoing operations of the entity and (ii) the types of continuing involvement that constitute significant continuing involvement in the operations of the disposed component. This consensus is required to be applied to a component of an enterprise that is either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004. Operating results related to a component that is disposed of or classified as held for sale within an enterprise's fiscal year that includes the date that this consensus was ratified is permitted to be classified to reflect this consensus. This consensus, while not required to be applied to this transaction, provided further guidance confirming that our contribution of TransColorado Gas Transmission Company to Kinder Morgan Energy Partners as of November 1, 2004 (see Note 5) should not be given discontinued operations treatment.

In December 2004, the FASB issued SFAS No. 123R (revised 2004), *Share-Based Payment*. This Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, and requires companies to expense the value of employee stock options and similar awards. Significant provisions of SFAS No. 123R include the following:

- share-based payment awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised;

- when measuring fair value, companies can choose an option-pricing model that appropriately reflects their specific circumstances and the economics of their transactions;

- companies will recognize compensation cost for share-based payment awards as they vest, including the related tax effects. Upon settlement of share-based payment awards, the tax effects will be recognized in the income statement or additional paid-in capital; and

- public companies are allowed to select from three alternative transition methods – each having different reporting implications.

In October 2004, the FASB decided to delay by six months the effective date for public companies to implement SFAS No. 123R (revised 2004). The new Statement is now effective for public companies for interim and annual periods beginning after June 15, 2005. Public companies with calendar year-ends will be required to adopt SFAS No. 123R in the third quarter of 2005. We are currently reviewing the effects of this accounting Statement.

SELECTED QUARTERLY FINANCIAL DATA
KINDER MORGAN, INC. AND SUBSIDIARIES
Quarterly Operating Results for 2004

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In thousands except per share amounts) (Unaudited)			
Operating Revenues	$ 352,586	$ 236,867	$ 249,642	$ 325,838
Gas Purchases and Other Costs of Sales	133,471	52,210	55,821	108,062
Other Operating Expenses	96,344	95,971	97,886	127,240[1]
Operating Income	122,771	88,686	95,935	90,536
Other Income and (Expenses)	85,113	83,331	88,118	100,731
Income from Continuing Operations Before Income Taxes	207,884	172,017	184,053	191,267
Income Taxes	80,842	67,627	72,123	6,125
Income from Continuing Operations	127,042	104,390	111,930	185,142
Loss on Disposal of Discontinued Operations, Net of Tax	-	-	-	(6,424)
Net Income	$ 127,042	$ 104,390	$ 111,930	$ 178,718
Basic Earnings (Loss) Per Common Share:				
Income from Continuing Operations	$ 1.03	$ 0.84	$ 0.91	$ 1.49
Loss on Disposal of Discontinued Operations	-	-	-	(0.05)
Total Basic Earnings Per Common Share	$ 1.03	$ 0.84	$ 0.91	$ 1.44
Number of Shares Used in Computing Basic Earnings Per Common Share	123,715	123,882	123,673	123,844
Diluted Earnings (Loss) Per Common Share:				
Income from Continuing Operations	$ 1.02	$ 0.84	$ 0.90	$ 1.48
Loss on Disposal of Discontinued Operations	-	-	-	(0.05)
Total Diluted Earnings Per Common Share	$ 1.02	$ 0.84	$ 0.90	$ 1.43
Number of Shares Used in Computing Diluted Earnings Per Common Share	124,938	124,955	124,683	125,021

[1] Includes a charge of $33.5 million to record an impairment of certain of our Power assets; see Note 6.

SELECTED QUARTERLY FINANCIAL DATA
KINDER MORGAN, INC. AND SUBSIDIARIES
Quarterly Operating Results for 2003

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In thousands except per share amounts) (Unaudited)			
Operating Revenues	$ 318,868	$ 251,865	$ 246,983	$ 280,181
Gas Purchases and Other Costs of Sales	112,955	79,852	72,515	88,939
Other Operating Expenses	83,108	86,765	86,888	130,782[1]
Operating Income	122,805	85,248	87,580	60,460
Other Income and (Expenses)	59,079	68,787	69,323	73,022
Income Before Income Taxes	181,884	154,035	156,903	133,482
Income Taxes	70,814	59,841	61,273	52,672
Net Income	$ 111,070	$ 94,194	$ 95,630	$ 80,810
Basic Earnings Per Common Share	$ 0.91	$ 0.77	$ 0.78	$ 0.66
Number of Shares Used in Computing Basic Earnings Per Common Share	121,877	122,218	123,109	123,196
Diluted Earnings Per Common Share	$ 0.90	$ 0.76	$ 0.77	$ 0.65
Number of Shares Used in Computing Diluted Earnings Per Common Share	123,078	123,474	124,345	124,365

[1] Includes a charge of $44.5 million to record an impairment of certain of our Power assets; see Note 6.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2004, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon and as of the date of the evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective in all material respects to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control – Integrated Framework* issued by the COSO, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the fourth quarter of 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant.***

Certain information required by this item is contained in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference. For information regarding our current executive officers, see "Executive Officers of the Registrant" in Part I.

Item 11. ***Executive Compensation.***

Information required by this item is contained in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management.***

Information required by this item is contained in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions.***

Information required by this item is contained in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference. Also see the discussion under "Other" within Items 1 and 2 (c) of this report and Note 5 of the accompanying Notes to Consolidated Financial Statements.

Item 14. ***Principal Accounting Fees and Services.***

Information required by this item is contained in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a) (1) *Financial Statements*

Reference is made to the index of financial statements and supplementary data under Item 8 in Part II.

(2) *Financial Statement Schedules*

Schedule II - Valuation and Qualifying Accounts is omitted because the required information is shown in Note 1(G) of the accompanying Notes to Consolidated Financial Statements.

The financial statements, including the notes thereto, of Kinder Morgan Energy Partners, an equity method investee of the Registrant, are incorporated herein by reference from pages 101 through 181 of Kinder Morgan Energy Partners' Annual Report on Form 10-K for the year ended December 31, 2004.

(3) *Exhibits*

Any reference made to K N Energy, Inc. in the exhibit listing that follows is a reference to the former name of Kinder Morgan, Inc., a Kansas corporation and the registrant, and is made because the exhibit being listed and incorporated by reference was originally filed before October 7, 1999, the date of the change in the Registrant's name.

Exhibit Number	**Description**
2.1	Agreement and Plan of Merger, dated as of July 8, 1999, by and among K N Energy, Inc., Rockies Merger Corp., and Kinder Morgan, Inc., (Annex A-1 of K N Energy, Inc.'s Registration Statement on Form S-4 (File No. 333-85747))
2.2	First Amendment to Agreement and Plan of Merger, dated as of August 20, 1999, by and among K N Energy, Inc., Rockies Merger Corp., and Kinder Morgan, Inc., (Annex A-2 of K N Energy, Inc.'s Registration Statement on Form S-4 (File No. 333-85747))
2.3	Contribution Agreement, dated as of December 30, 1999, by and among Kinder Morgan, Inc., Natural Gas Pipeline Company of America, K N Gas Gathering, Inc., Kinder Morgan G.P., Inc. and Kinder Morgan Energy Partners, L.P. (Exhibit 99.1 to Kinder Morgan, Inc.'s Current Report on Form 8-K filed on January 14, 2000)
3.1	Restated Articles of Incorporation of Kinder Morgan, Inc. (Exhibit 3(a) to Kinder Morgan, Inc.'s Annual Report on Form 10-K/A, Amendment No. 1 filed on May 22, 2000)
3.2	Certificate of Amendment to the Restated Articles of Incorporation of Kinder Morgan, Inc. as filed on October 7, 1999, with the Secretary of State of Kansas (Exhibit 3.1 to Kinder Morgan, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999)
3.3	Certificate of Restatement of Articles of Incorporation of K N Energy, Inc. (Exhibit 4.19 to the Registration Statement on Form S-3 (File No. 333-55921) of K N Energy, Inc., filed on June 3, 1998)
3.4	By-Laws of Kinder Morgan, Inc., as amended to January 2004 (Exhibit 3.4 to Kinder Morgan, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003)
4.1	Indenture dated as of September 1, 1988, between K N Energy, Inc. and Continental Illinois National Bank and Trust Company of Chicago (Exhibit 4(a) to Kinder Morgan, Inc.'s Annual Report on Form 10-K/A, Amendment No. 1 filed on May 22, 2000)
4.2	First supplemental indenture dated as of January 15, 1992, between K N Energy, Inc. and Continental Illinois National Bank and Trust Company of Chicago (Exhibit 4.2 to the Registration Statement on Form S-3 (File No. 33-45091) of K N Energy, Inc. filed on January 17, 1992)

Exhibit Number	Description
4.3	Second supplemental indenture dated as of December 15, 1992, between K N Energy, Inc. and Continental Bank, National Association (Exhibit 4(c) to Kinder Morgan, Inc.'s Annual Report on Form 10-K/A, Amendment No. 1 filed on May 22, 2000)
4.4	Indenture dated as of November 20, 1993, between K N Energy, Inc. and Continental Bank, National Association (Exhibit 4.1 to the Registration Statement on Form S-3 (File No. 33-51115) of K N Energy, Inc. filed on November 19, 1993) Note — Copies of instruments relative to long-term debt in authorized amounts that do not exceed 10% of the consolidated total assets of Kinder Morgan, Inc. and its subsidiaries have not been furnished. Kinder Morgan, Inc. will furnish such instruments to the Commission upon request.
4.5	Registration Rights Agreement among Kinder Morgan Management, LLC, Kinder Morgan Energy Partners, L.P. and Kinder Morgan, Inc. dated May 18, 2001 (Exhibit 4.7 to Kinder Morgan, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002)
4.6	Rights Agreement between K N Energy, Inc. and the Bank of New York, as Rights Agent, dated as of August 21, 1995 (Exhibit 1 on Form 8-A dated August 21, 1995 (File No. 1-6446))
4.7	Amendment No. 1 to Rights Agreement between K N Energy, Inc. and the Bank of New York, as Rights Agent, dated as of September 8, 1998 (Exhibit 10(cc) to K N Energy, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-6446))
4.8	Amendment No. 2 to Rights Agreement of Kinder Morgan, Inc. dated July 8, 1999, between Kinder Morgan, Inc. and First Chicago Trust Company of New York, as successor-in-interest to the Bank of New York, as Rights Agent (Exhibit 4.1 to Kinder Morgan, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999)
4.9	Form of Amendment No. 3 to Rights Agreement of Kinder Morgan, Inc. dated September 1, 2001, between Kinder Morgan, Inc. and First Chicago Trust Company of New York, as Rights Agent (Exhibit 4(m) to Kinder Morgan, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001)
4.10	Form of Indenture dated as of August 27, 2002 between Kinder Morgan, Inc. and Wachovia Bank, National Association, as Trustee (filed as Exhibit 4.1 to Kinder Morgan, Inc.'s Registration Statement on Form S-4 (File No. 333-100338) filed on October 4, 2002)
4.11	Form of First Supplemental Indenture dated as of December 6, 2002 between Kinder Morgan, Inc. and Wachovia Bank, National Association, as Trustee (filed as Exhibit 4.2 to Kinder Morgan, Inc.'s Registration Statement on Form S-4 (File No. 333-102873) filed on January 31, 2003)

Exhibit Number	Description
4.12	Form of 6.50% Note (contained in the Indenture incorporated by reference to Exhibit 4.12 hereto)
4.13	Form of Registration Rights Agreement dated as of December 6, 2002 among Kinder Morgan, Inc., Wachovia Securities, Inc., and Barclays Capital Inc. (filed as Exhibit 4.4 to Kinder Morgan, Inc.'s Registration Statement on Form S-4 (File No. 333-102873) filed on January 31, 2003)
4.14	Form of certificate representing the common stock of Kinder Morgan, Inc. (filed as Exhibit 4.1 to Kinder Morgan, Inc.'s Registration Statement on Form S-3 (File No. 333-102963) filed on February 4, 2003)
4.15	Form of Senior Indenture between Kinder Morgan, Inc. and Wachovia Bank, National Association, as Trustee (filed as Exhibit 4.2 to Kinder Morgan, Inc.'s Registration Statement on Form S-3 (File No. 333-102963) filed on February 4, 2003)
4.16	Form of Senior Note of Kinder Morgan, Inc. (included in the Form of Senior Indenture incorporated by reference to Exhibit 4.16 hereto)
4.17	Form of Subordinated Indenture between Kinder Morgan, Inc. and Wachovia Bank, National Association, as Trustee (filed as Exhibit 4.4 to Kinder Morgan, Inc.'s Registration Statement on Form S-3 (File No. 333-102963) filed on February 4, 2003)
4.18	Form of Subordinated Note of Kinder Morgan, Inc. (included in the Form of Subordinated Indenture incorporated by reference to Exhibit 4.18 hereto)
10.1	1994 Amended and Restated Kinder Morgan, Inc. Long-term Incentive Plan (Appendix A to Kinder Morgan, Inc.'s 2000 Proxy Statement on Schedule 14A)
10.2	Kinder Morgan, Inc. Amended and Restated 1999 Stock Plan (Appendix B to Kinder Morgan, Inc.'s 2004 Proxy Statement on Schedule 14A)
10.3	Kinder Morgan, Inc. Amended and Restated 1992 Stock Option Plan for Nonemployee Directors (Appendix A to Kinder Morgan, Inc.'s 2001 Proxy Statement on Schedule 14A)
10.4	2000 Annual Incentive Plan of Kinder Morgan, Inc. (Appendix D to Kinder Morgan, Inc.'s 2000 Proxy Statement on Schedule 14A)
10.5	Kinder Morgan, Inc. Employees Stock Purchase Plan (Appendix E to Kinder Morgan, Inc.'s 2000 Proxy Statement on Schedule 14A)
10.6	Form of Nonqualified Stock Option Agreement (Exhibit 10(f) to Kinder Morgan, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000)
10.7	Form of Restricted Stock Agreement (Exhibit 10(g) to Kinder Morgan, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000)

Exhibit Number	Description
10.8	Directors and Executives Deferred Compensation Plan effective January 1, 1998 for executive officers and directors of K N Energy, Inc. (Exhibit 10(aa) to K N Energy, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-6446))
10.9	Employment Agreement dated October 7, 1999, between the Company and Richard D. Kinder (Exhibit 99.D of the Schedule 13D filed by Mr. Kinder on November 16, 1999)
10.10	Form of Purchase Provisions between Kinder Morgan Management, LLC and Kinder Morgan, Inc. (included as Annex B to the Second Amended and Restated Limited Liability Company Agreement of Kinder Morgan Management, LLC filed as Exhibit 4.2 to Kinder Morgan Management, LLC's Registration Statement on Form 8-A/A filed on July 24, 2002)
10.11	Resignation and Non-Compete Agreement, dated as of July 21, 2004, between KMGP Services, Inc. and Michael C. Morgan (Exhibit 10.12 to Kinder Morgan, Inc.'s Form 10-Q for the quarter ended June 30, 2004)
10.12	5-Year Credit Agreement dated as of August 18, 2004, among Kinder Morgan, Inc., the lenders party thereto and Wachovia Bank, National Association as Administrative Agent (Exhibit 10.1 to Kinder Morgan, Inc.'s Form 10-Q for the quarter ended September 30, 2004)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of PricewaterhouseCoopers LLP
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	The financial statements of Kinder Morgan Energy Partners, L.P. and subsidiaries (incorporated by reference to pages 101 through 181 on the Annual Report on Form 10-K of Kinder Morgan Energy Partners, L.P. for the year ended December 31, 2004)

* Filed herewith.

OFFICE OF THE CHAIRMAN

Richard D. Kinder
Chairman, Chief Executive Officer and President

C. Park Shaper
Executive Vice President and Chief Financial Officer

OPERATING OFFICERS

Jeffrey A. Armstrong
President, Terminals (KMP)

Thomas A. Bannigan
President, Products Pipelines (KMP)

R. Tim Bradley
President, CO_2 (KMP)

Deborah A. Macdonald
President, Natural Gas Pipelines

Paul R. Steinway
President, Power

Daniel E. Watson
President, Retail

CORPORATE OFFICERS

Kimberly J. Allen
Vice President, Investor Relations and Treasurer

Richard L. Bullock
Vice President and Chief Tax Officer

David D. Kinder
Vice President, Corporate Development

Joseph Listengart
Vice President, General Counsel and Secretary

Henry W. Neumann
Vice President and Chief Information Officer

James E. Street
Vice President, Human Resources

Debra M. Witges
Vice President and Controller

BOARD OF DIRECTORS

Edward H. Austin, Jr.
Director and Executive Vice President
Austin, Calvert & Flavin, Inc.
San Antonio, TX

Charles W. Battey
Consultant and Community Volunteer
Overland Park, KS

Stewart A. Bliss (1), (2)
Financial Consultant and Sr. Business Advisor
Denver, CO

Ted A. Gardner (3)
Private Investor, Director
Charlotte, NC

William J. Hybl
Chairman, Chief Executive Officer and Trustee
El Pomar Foundation
Colorado Springs, CO

Richard D. Kinder
Chairman, Chief Executive Officer and President
Kinder Morgan, Inc.
Houston, TX

Michael C. Morgan
President
Portcullis Partners, L.P.
Houston, TX

Edward Randall, III (4)
Private Investor
Houston, TX

Fayez S. Sarofim
Chairman and President
Fayez Sarofim & Co.
Houston, TX

H.A. True, III
Owner/Director
True Companies
Casper, WY

(1) Lead Director
(2) Chairman, Audit Committee
(3) Chairman, Compensation Committee
(4) Chairman, Nominating and Governance Committee

SHAREHOLDER INFORMATION

Headquarters:
500 Dallas Street, Suite 1000
Houston, TX 77002
(713) 369-9000

Exchange Listing:
New York Stock Exchange
Ticker Symbol: KMI

Transfer Agent, 1099s, Cash Dividends, Direct Stock Purchases (and DRIP):
EquiServe Trust Company, N.A.
PO Box 43069
Providence, RI 02940-3069
(800) 847-4351
www.equiserve.com

All other inquiries:
Investor Relations
(800) 324-2900 or (713) 369-9490
E-mail: kmi_ir@kindermorgan.com

New York Stock Exchange Compliance:
In 2004, we submitted our Section 303A.12(a) chief executive officer certification to the New York Stock Exchange. We have also filed with the Securities and Exchange Commission, as an exhibit to our most recently filed Annual Report on Form 10-K, the Sarbanes-Oxley Act Section 302 certifications.

Please visit our web site at
www.kindermorgan.com
for investor information

500 Dallas Street, Suite 1000
Houston, Texas 77002
(713) 369-9000

www.kindermorgan.com

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2004**
or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-06446

Kinder Morgan, Inc.

(Exact name of registrant as specified in its charter)

Kansas	**48-0290000**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Dallas Street, Suite 1000, Houston, Texas 77002
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code (713) 369-9000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, par value $5 per share	New York Stock Exchange
Preferred share purchase rights	New York Stock Exchange
Purchase Obligation of Kinder Morgan Management, LLC shares	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

Preferred stock, Class A $5 cumulative series
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2):
Yes ☒ No ☐

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $5,754,974,482 at June 30, 2004.

The number of shares outstanding of the registrant's common stock, $5 par value, as of February 3, 2005 was 123,402,601 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates by reference specific portions of the Registrant's Proxy Statement relating to its 2005 Annual Meeting of Stockholders.

KINDER MORGAN, INC. AND SUBSIDIARIES
CONTENTS

Note: Individual financial statements of the parent company are omitted pursuant to the provisions of Accounting Series Release No. 302.

PART I

Items 1. and 2. *Business and Properties.*

In this report, unless the context requires otherwise, references to "we," "us," "our," or the "Company" are intended to mean Kinder Morgan, Inc. (a Kansas corporation, incorporated on May 18, 1927, formerly known as K N Energy, Inc.) and its consolidated subsidiaries. All volumes of natural gas are stated at a pressure base of 14.73 pounds per square inch absolute and at 60 degrees Fahrenheit and, in most instances, are rounded to the nearest major multiple. In this report, the term "MMcf" means million cubic feet, the term "Bcf" means billion cubic feet and the terms "dekatherms" and "MMBtus" mean million British Thermal Units ("Btus"). Natural gas liquids consist of ethane, propane, butane, iso-butane and natural gasoline. The following discussion should be read in conjunction with the accompanying Consolidated Financial Statements and related Notes.

(A) General Development of Business

We are one of the largest energy transportation and storage companies in the United States, operating, either for ourselves or on behalf of Kinder Morgan Energy Partners, L.P. ("Kinder Morgan Energy Partners"), over 35,000 miles of natural gas and petroleum products pipelines and approximately 135 terminals. We own and operate Natural Gas Pipeline Company of America, sometimes referred to as NGPL in this report, a major interstate natural gas pipeline system with approximately 9,800 miles of pipelines and associated storage facilities. We own and operate a retail natural gas distribution business serving approximately 243,000 customers in Colorado, Nebraska and Wyoming. We have constructed, currently operate and own interests in certain natural gas-fired electric generation facilities. These businesses are discussed in detail in the next section of this report. Our common stock is traded on the New York Stock Exchange under the symbol "KMI." Our executive offices are located at 500 Dallas Street, Suite 1000, Houston Texas 77002 and our telephone number is (713) 369-9000.

On October 7, 1999, we completed the acquisition of Kinder Morgan (Delaware), Inc., a Delaware corporation and the sole stockholder of the general partner of Kinder Morgan Energy Partners. To effect that acquisition, we issued approximately 41.5 million shares of our common stock in exchange for all of the outstanding shares of Kinder Morgan (Delaware). Upon closing of the transaction, Richard D. Kinder, Chairman and Chief Executive Officer of Kinder Morgan (Delaware), was named our Chairman and Chief Executive Officer, and we were renamed Kinder Morgan, Inc. As a result of that acquisition and certain subsequent transactions, we own the general partner of, and have a significant limited partner interest in, Kinder Morgan Energy Partners, one of the largest publicly traded pipeline limited partnerships in the United States in terms of market capitalization, and the owner and operator of the largest independent refined petroleum products pipeline system in the United States in terms of volumes delivered. Kinder Morgan Energy Partners owns and/or operates a diverse group of assets used in the transportation, storage and processing of energy products, including refined petroleum products pipeline systems with more than 10,000 miles of products pipeline and 60 associated terminals. Kinder Morgan Energy Partners owns approximately 14,000 miles of natural gas transportation pipelines, plus natural gas gathering and storage facilities. Kinder Morgan Energy Partners also owns or operates approximately 75 liquid and bulk terminal facilities and more than 55 rail transloading and materials handling facilities located throughout the United States, handling nearly 68 million tons of coal, petroleum coke and other dry-bulk materials annually and having a liquids storage capacity of approximately 37 million barrels for refined petroleum products, chemicals and other liquid products. In addition, Kinder Morgan Energy Partners owns Kinder Morgan CO_2 Company, L.P., which transports, markets and produces carbon dioxide for use in enhanced oil recovery operations and owns interests in and/or operates six oil fields in West Texas, all of which are using or have used carbon dioxide injection operations. Kinder Morgan CO_2 Company, L.P. also owns and operates the Wink Pipeline, a crude oil

pipeline in West Texas. Additional information concerning our investment in Kinder Morgan Energy Partners and its various businesses are contained in Note 2 of the accompanying Notes to Consolidated Financial Statements and in Kinder Morgan Energy Partners' 2004 Annual Report on Form 10-K.

In May 2001, Kinder Morgan Management, LLC, ("Kinder Morgan Management") one of our indirect subsidiaries, issued and sold its limited liability shares in an underwritten initial public offering. The net proceeds from the offering were used by Kinder Morgan Management to buy i-units from Kinder Morgan Energy Partners for $991.9 million. Upon purchase of the i-units, Kinder Morgan Management became a limited partner in Kinder Morgan Energy Partners and was delegated by Kinder Morgan Energy Partners' general partner, the responsibility to manage and control the business and affairs of Kinder Morgan Energy Partners. The i-units are a class of Kinder Morgan Energy Partners' limited partner interests that have been, and will be, issued only to Kinder Morgan Management. We have certain rights and obligations with respect to these securities.

In the initial public offering, we purchased 10% of the Kinder Morgan Management shares, with the balance purchased by the public. The equity interest in Kinder Morgan Management (which is consolidated in our financial statements) owned by the public is reflected as minority interest on our balance sheet. The earnings recorded by Kinder Morgan Management that are attributed to its shares held by the public are reported as "minority interest" in our Consolidated Statements of Operations. Subsequent to the initial public offering by Kinder Morgan Management of its shares, our ownership interest in Kinder Morgan Management has changed because (i) we recognize our share of Kinder Morgan Management's earnings, (ii) we record the receipt of distributions attributable to the Kinder Morgan Management shares that we own, (iii) Kinder Morgan Management has made additional sales of its shares (both through public offerings and otherwise) and (iv) pursuant to an option feature that was previously available to Kinder Morgan Management shareholders but no longer exists, we exchanged certain of the Kinder Morgan Energy Partners' common units held by us for Kinder Morgan Management shares held by the public. At December 31, 2004, we owned 15.1 million Kinder Morgan Management shares representing 27.9% of Kinder Morgan Management's total outstanding shares. Additional information concerning the business of, and our investment in and obligations to, Kinder Morgan Management is contained in Note 3 of the accompanying Notes to Consolidated Financial Statements and in Kinder Morgan Management's 2004 Annual Report on Form 10-K.

Business Strategy

Our business strategy is to: (i) focus on fee-based energy transportation and storage assets that are core to the energy infrastructure of growing markets within North America, (ii) increase utilization of our existing assets while controlling costs, but without compromising on safety, (iii) leverage economies of scale from incremental acquisitions and expansions of properties that fit within our strategy and are accretive to earnings and cash flow, (iv) maximize the benefits of our financial structure to create and return value to our stockholders as discussed following and (v) continue to align employee and shareholder incentives.

We intend to maintain a capital structure that provides flexibility and stability, while returning value to our shareholders through dividends and share repurchases. During 2004, we utilized cash generated from operations (including cash received from distributions attributable to our investment in Kinder Morgan Energy Partners) and cash received from the contribution of our TransColorado pipeline to Kinder Morgan Energy Partners to pay common stock dividends, reduce our outstanding debt, finance our capital expenditures program and repurchase our common shares. In recent periods, we have increased our common stock dividends in response to changes in income tax laws that have made dividends a more efficient way to return cash to our shareholders. At December 31, 2004, our total debt to total capital had been reduced to approximately 37.5% from over 70% in late 1999, with

approximately 51% of our debt subject to floating interest rates.

We expect to benefit from accretive acquisitions (primarily by Kinder Morgan Energy Partners) and business expansions. Kinder Morgan Energy Partners has a multi-year history of making accretive acquisitions, which benefit us through our limited and general partner interests. This acquisition strategy is expected to continue, with the availability of potential acquisition candidates being driven by consolidation in the energy industry, as well as the continuing realignment of asset portfolios by major energy companies, although we can provide no assurance that such acquisitions will occur in the future. In addition, we expect to expand, within strict guidelines as to risk, rate of return and timing of cash flows, NGPL's pipeline system and acquire natural gas retail distribution properties that fit well with our current profile.

It is our intention to carry out the above business strategy, modified as necessary to reflect changing economic conditions and other circumstances. However, as discussed under "Risk Factors" elsewhere in this report, there are factors that could affect our ability to carry out our strategy or affect its level of success even if carried out.

Developments During 2004

- **Expansion and Contribution of TransColorado**
  In September 2003, we announced our intention to expand TransColorado following the signing of a 10-year, firm natural gas transportation contract with an undisclosed shipper. The expansion provides an additional 125,000 dekatherms per day of firm transportation capacity on TransColorado and was completed and placed in service in August 2004. In November 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners for total consideration of $275 million (approximately $210 million in cash and 1.4 million Kinder Morgan Energy Partners common units).

- **Dividends**
  We increased our annual rate of cash dividends per share by $0.65 in the first quarter of 2004, and by $0.55 in the first quarter of 2005, reaching an annual rate of $2.80. These increases were principally in response to recently enacted federal tax legislation and increased cash flow available to fund capital expenditures, debt reduction, dividends and share repurchases.

- **Share Repurchase Program**
  We expanded the size of our common stock repurchase program by $50 million and $200 million in April and November 2004, respectively, to a total of $750 million. From the inception of the program in August 2001 through December 31, 2004, we have repurchased approximately $561.2 million of common stock, including $108.6 million in 2004.

- **NGPL Expansion and Acquisition**
  We announced our intention to invest approximately $56 million in two new projects that have been filed with the FERC for approval to: (i) increase storage capacity by 10 Bcf at the Sayre Field in Beckham County, Oklahoma and (ii) expand mainline cross-haul service by 51,000 dekatherms per day in Oklahoma and Texas. Both projects are fully subscribed under long-term contracts and are expected to be in service in the spring of 2006. In addition, we acquired the 38-mile, 30-inch Black Marlin Pipeline from Northern Natural Gas on September 1, 2004, providing an additional 38,000 dekatherms per day of capacity to the Amarillo to Gulf Coast line. This capacity was also fully subscribed under long-term contracts through an open season.

- **Re-Contracting Transportation and Storage Capacity**
  During 2004, NGPL successfully re-contracted firm transportation and storage capacity to the end that, as of the end of 2004, firm long-haul transportation capacity was sold out through March 2005 and almost 90% was contracted for the remainder of the year. Storage is fully contracted until April 2006.

- **North Lansing Storage Expansion**
  In the second quarter of 2004, NGPL completed construction of a 10.7 Bcf storage service expansion at its existing North Lansing storage field in east Texas, all of which is subscribed under long-term contracts.

- **Retail Expansion**
  During the second quarter of 2004, Retail completed and placed into service a 58-mile natural gas pipeline from Montrose to Ouray, Colorado. We expect to add about 3,000 Western Slope customers via this pipeline over the next five years.

- **New Credit Facility**
  In August, 2004, we established a new five-year senior unsecured revolving credit facility with a capacity of $800 million. This five-year facility, which is the same size as the aggregate of the one-year and three-year facilities it replaced, contains essentially the same credit covenants as the prior facilities.

(B) Financial Information about Segments

Note 19 of the accompanying Notes to Consolidated Financial Statements contains financial information about our business segments.

(C) Narrative Description of Business

Overview

We are an energy and related services provider. Our principal business segments are: (1) NGPL and certain affiliates, a major interstate natural gas pipeline and storage system, (2) Kinder Morgan Retail, a business that conducts the regulated sale of natural gas to residential, commercial and industrial customers, and the sale of natural gas to certain utility customers under our Choice Gas Program (a program that allows utility customers to choose their natural gas provider) and (3) Power, a business that operates (and, in previous periods, constructed) natural gas-fired electric generation facilities. In November 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners for total consideration of $275 million, consisting of approximately $210 million in cash and 1.4 million Kinder Morgan Energy Partners common units. TransColorado's segment earnings of $20.3 million in 2004 prior to its contribution represented approximately 2% of our total segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners, and approximately 2% of our income from continuing operations before interest and income taxes.

Natural gas transportation, storage and retail sales accounted for approximately 92%, 95% and 93% of our consolidated revenues in 2004, 2003 and 2002, respectively. During 2004, 2003 and 2002, we did not have revenues from any single customer that exceeded 10% of our consolidated operating revenues. The operations of Kinder Morgan Energy Partners, a significant limited partnership equity-method investee in which we also hold the general partner interest, include (i) liquids and refined petroleum products pipelines, (ii) transportation and storage of natural gas, (iii) carbon dioxide transportation and production of carbon dioxide and oil and (iv) bulk and liquids terminals. Our equity in the earnings of Kinder Morgan Energy Partners (before reduction for the minority interest in Kinder Morgan

Management) constituted approximately 61%, 60% and 65% of our income from continuing operations before interest and income taxes in 2004, 2003 and 2002, respectively. The following table gives our segment earnings, our earnings attributable to our investment in Kinder Morgan Energy Partners and the percent of the combined total each represents, for each of the last two years. In 1999, we discontinued our wholesale natural gas marketing, non-energy retail marketing services and natural gas gathering and processing businesses. Notes 5 and 19 of the accompanying Notes to Consolidated Financial Statements contain additional information on asset sales and our business segments. As discussed following, certain of our operations are regulated by various federal and state entities.

	Year Ended December 31,			
	2004		2003	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Investment in Kinder Morgan Energy Partners:				
Equity in Earnings, Net of Kinder Morgan Management, LLC Pre-tax Minority Interest	$476,996	48.94%	$398,325	45.21%
Segment Earnings:				
NGPL	392,806	40.31%	372,017	42.23%
TransColorado	20,255	2.08%	23,112	2.62%
Kinder Morgan Retail	69,264	7.11%	65,482	7.43%
Power	15,255	1.56%	22,076	2.51%
Total	$974,576	100.00%	$881,012	100.00%

Natural Gas Pipeline Company of America

During 2004, NGPL's segment earnings of $392.8 million represented approximately 40% of total segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners, and approximately 43% of our income from continuing operations before interest and income taxes. Through NGPL, we own and operate approximately 9,800 miles of interstate natural gas pipelines, storage fields, field system lines and related facilities, consisting primarily of two major interconnected natural gas transmission pipelines terminating in the Chicago, Illinois metropolitan area. The system is powered by 57 compressor stations in mainline and storage service having an aggregate of approximately 0.9 million horsepower. NGPL's system has approximately 700 points of interconnection with 34 interstate pipelines, 20 intrastate pipelines, a number of gathering systems, and approximately 60 local distribution companies and other end users, thereby providing significant flexibility in the receipt and delivery of natural gas. NGPL's Amarillo Line originates in the West Texas and New Mexico producing areas and is comprised of approximately 4,400 miles of mainline and various small-diameter pipelines. Its other major pipeline, the Gulf Coast Line, originates in the Gulf Coast areas of Texas and Louisiana and consists of approximately 4,200 miles of mainline and various small-diameter pipelines. These two main pipelines are connected at points in Texas and Oklahoma by NGPL's approximately 800-mile Amarillo/Gulf Coast pipeline. In addition, NGPL owns a 50% equity interest in and operates Horizon Pipeline Company, L.L.C., a joint venture with Nicor-Horizon, a subsidiary of Nicor, Inc. This joint venture owns a natural gas pipeline in northern Illinois with a capacity of 380 MMcf per day.

NGPL provides transportation and storage services to third-party natural gas distribution utilities, marketers, producers, industrial end users and other shippers. Pursuant to transportation agreements and Federal Energy Regulatory Commission tariff provisions, NGPL offers its customers firm and interruptible transportation, storage and no-notice services, and interruptible park and loan services. Under NGPL's tariffs, firm transportation customers pay reservation charges each month plus a commodity charge based on actual volumes transported, including a fuel charge collected in kind. Interruptible transportation customers pay a commodity charge based upon actual volumes transported. Reservation and commodity charges are both based upon geographical location and time of year. Under firm no-notice service, customers pay a reservation charge for the right to have up to a specified volume

of natural gas delivered but, unlike with firm transportation service, are able to meet their peaking requirements without making specific nominations. NGPL has the authority to negotiate rates with customers if it has first offered service to those customers under its reservation and commodity charge rate structure. NGPL's revenues have historically been somewhat higher in the first and fourth quarters of the calendar year, reflecting higher system utilization during the colder months. During the winter months, NGPL collects higher transportation commodity revenue, higher interruptible transportation revenue, winter-only capacity revenue and higher rates on certain contracts.

NGPL's principal delivery market area encompasses the states of Illinois, Indiana and Iowa and secondary markets in portions of Wisconsin, Nebraska, Kansas, Missouri and Arkansas. NGPL is the largest transporter of natural gas to the Chicago market, and we believe that its transportation rates are very competitive in the region. In 2004, NGPL delivered an average of 1.73 trillion Btus per day of natural gas to this market. Given its strategic location at the center of the North American natural gas pipeline grid, we believe that Chicago is likely to continue to be a major natural gas trading hub for growing markets in the Midwest and Northeast.

Substantially all of NGPL's pipeline capacity is committed under firm transportation contracts ranging from one to five years. Approximately 68% of the total transportation volumes committed under NGPL's long-term firm transportation contracts as of January 27, 2005 had remaining terms of less than three years. NGPL continues to actively pursue the renegotiation, extension and/or replacement of expiring contracts, and was very successful in doing so during 2004 as discussed under "Developments During 2004" elsewhere in this report. Nicor Gas Company, Peoples Gas Light and Coke Company, and Northern Indiana Public Service Company (NIPSCO) are NGPL's three largest customers in terms of operating revenues from tariff services. During 2004, approximately 54% of NGPL's operating revenues from tariff services were attributable to its eight largest customers. Contracts representing approximately 6% of NGPL's total long-haul, contracted firm transport capacity as of January 24, 2005 are scheduled to expire during 2005.

NGPL is one of the nation's largest natural gas storage operators with approximately 600 Bcf of total natural gas storage capacity, 239 Bcf of working gas capacity and up to 4.0 Bcf per day of peak deliverability from its storage facilities, which are located in major supply areas and near the markets it serves. NGPL owns and operates eight underground storage fields in four states. These storage assets complement its pipeline facilities and allow it to optimize pipeline deliveries and meet peak delivery requirements in its principal markets. NGPL provides firm and interruptible gas storage service pursuant to storage agreements and tariffs. Firm storage customers pay a monthly demand charge irrespective of actual volumes stored. Interruptible storage customers pay a monthly charge based upon actual volumes of gas stored.

In the second quarter of 2004, NGPL completed construction of 10.7 Bcf of storage service expansion at its existing North Lansing storage facility in east Texas, all of which incremental storage capacity is fully subscribed under long-term contracts. Also in 2004, NGPL announced its intention to invest approximately $56 million in two new projects that have been filed with the FERC for approval to: (i) increase storage capacity by 10 Bcf at the Sayre Field in Beckham County, Oklahoma and (ii) expand mainline cross-haul service by 51,000 dekatherms per day in Oklahoma and Texas. Both projects are fully subscribed under long-term contracts and are expected to be in service in the spring of 2006. In addition, we acquired the 38-mile, 30-inch Black Marlin Pipeline from Northern Natural Gas on September 1, 2004, providing an additional 38,000 dekatherms per day of capacity to the Amarillo to Gulf Coast line. This capacity was also fully subscribed under long-term contracts through an open season.

Competition: NGPL competes with other transporters of natural gas in virtually all of the markets it

serves and, in particular, in the Chicago area, which is the northern terminus of NGPL's two major pipeline segments and its largest market. These competitors include both interstate and intrastate natural gas pipelines and, historically, most of the competition has been from such pipelines with supplies originating in the United States. In recent years, NGPL has also faced competition from additional pipelines carrying Canadian-produced natural gas into the Chicago market. The most recent example is the Alliance Pipeline, which began service during the 2000-2001 heating season. The additional pipeline capacity into the Chicago market has increased competition for transportation into the area while, at the same time, new pipelines, such as Vector Pipeline, have been constructed for the specific purpose of transporting gas from the Chicago area to other markets, generally further north and further east. The overall impact of the increased pipeline capacity into the Chicago area, combined with additional take-away capacity and the increased demand in the area, has created a situation that remains dynamic with respect to the ultimate impact on individual transporters such as NGPL.

NGPL also faces competition with respect to the natural gas storage services it provides. NGPL has storage facilities in both market and supply areas, allowing it to offer varied storage services to customers. It faces competition from independent storage providers as well as storage services offered by other natural gas pipelines and local natural gas distribution companies.

The competition faced by NGPL with respect to its natural gas transportation and storage services is generally price-based, although there is also a significant component related to the variety, flexibility and the reliability of services offered by others. NGPL's extensive pipeline system, with access to diverse supply basins and significant storage assets in both the supply and market areas, makes it a strong competitor in many situations, but most customers still have alternative sources to meet their requirements. In addition, due to the price-based nature of much of the competition faced by NGPL, its proven track record as a low-cost provider is an important factor in its success in acquiring and retaining customers. Additional competition for storage services could result from the utilization of currently underutilized storage facilities or from conversion of existing storage facilities from one use to another. In addition, existing competitive storage facilities could, in some instances, be expanded.

Kinder Morgan Retail

During 2004, Kinder Morgan Retail's segment earnings of $69.3 million represented 7% of total segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners and approximately 8% of our income from continuing operations before interest and income taxes. As of December 31, 2004, through Kinder Morgan Retail, our retail natural gas distribution business served approximately 243,000 customers in Colorado, Nebraska and Wyoming through approximately 11,300 miles of distribution and transmission pipelines, underground storage fields, field system lines and related facilities. Kinder Morgan Retail's intrastate pipelines, distribution facilities and retail natural gas sales in Colorado, Nebraska and Wyoming are subject to the regulatory authority of each state's utility commission. In addition, Kinder Morgan Retail owns and operates a small natural gas distribution system in Hermosillo, Mexico.

Kinder Morgan Retail's operations in Nebraska, Wyoming and eastern Colorado serve areas that are primarily rural and agricultural where natural gas is used primarily for space heating, crop irrigation, grain drying and processing of agricultural products. In much of Nebraska, the winter heating load is balanced by irrigation requirements in the summer and grain drying requirements in the fall. Kinder Morgan Retail's operations in western Colorado serve the fast-growing resort and associated service areas, and rural communities. These areas are characterized primarily by natural gas use for space heating, with historical annual growth rates of 3-5%. Kinder Morgan Retail's operations include the sale of natural gas under its Choice Gas programs and the sale of non-jurisdictional products and services, natural gas-related equipment, and installation and repair services.

To support Kinder Morgan Retail's business, underground storage facilities are used to provide natural gas deliverability for load balancing and peak system demand. Storage services for Kinder Morgan Retail's natural gas distribution services are provided by (i) three facilities in Wyoming owned by Kinder Morgan, Inc., (ii) one facility in Colorado owned by a wholly owned subsidiary of Kinder Morgan, Inc. and (iii) one facility located in Nebraska and owned by Kinder Morgan Energy Partners. The peak natural gas storage withdrawal capacity available for Kinder Morgan Retail's business is approximately 102 MMcf per day.

Kinder Morgan Retail's natural gas distribution business relies on the intrastate pipelines it operates, Kinder Morgan Interstate Gas Transmission LLC, a subsidiary of Kinder Morgan Energy Partners, and third-party pipelines for transportation and storage services it requires to serve its markets. The natural gas supply requirements of Kinder Morgan Retail's natural gas distribution business are met through purchases from third-party suppliers.

Through our wholly owned subsidiary Rocky Mountain Natural Gas Company in Colorado, Kinder Morgan Retail provides transportation services to natural gas producers, shippers and industrial customers. Kinder Morgan Retail provides storage services in Wyoming to its customers from its three storage fields, Oil Springs, Bunker Hill and Kirk Ranch, which have 29.7 Bcf of combined total storage capacity, 11.7 Bcf of working gas capacity, and up to 37 MMcf per day of peak withdrawal capacity. Rocky Mountain Natural Gas Company operates the Wolf Creek storage facility, which has 10.1 Bcf of total storage capacity, 2.7 Bcf of working gas capacity and provides 18 MMcf per day of withdrawal capacity for peak day use.

Competition: The Kinder Morgan Retail natural gas distribution business segment operates in areas with varying service area rules, including state utility commission exclusively certificated service areas, non-exclusive municipal franchises and competitive areas. Limited competitive natural gas distribution pipelines exist within these service areas. The primary competition for Kinder Morgan Retail's products is from alternative fuels such as electric power and propane for heating use, and electric power, propane and diesel fuel for agriculture use. Kinder Morgan Retail provides natural gas utility services based upon cost-of-service regulation in most of its service areas.

Kinder Morgan Retail currently provides unbundled natural gas services in Nebraska and Wyoming under its Choice Gas programs. Under these Choice Gas programs, competing natural gas providers currently sell natural gas to approximately 68% of Kinder Morgan Retail's total customers. In unbundled areas, Kinder Morgan Retail competes as one of four or five natural gas marketers to provide the customer with natural gas commodity offerings. Kinder Morgan Retail currently provides the natural gas commodity for 49% of the end-use customers in these unbundled areas.

Power

Power's 2004 earnings, before non-cash charges to reduce the carrying value of certain of its assets, represented less than 2% of either the total of our segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners, or our income from continuing operations before interest and income taxes. We currently have ownership interests in two natural gas-fired electric generation facilities in Colorado, one natural gas-fired electric generation facility in Michigan and one natural gas-fired electric generation facility in Arkansas. We also have a net profits interest in a third natural gas-fired electric generation facility in Colorado. One of the Colorado facilities is operated as an independent power producer, with both a long-term power sales agreement and gas supply contract. The other Colorado facility and the Michigan and Arkansas facilities are operated under tolling agreements. Under the tolling agreements, purchasers of the electrical output take the risks in the marketplace associated with the cost of fuel and the value of the electric power generated. Kinder Morgan Power's

customers include power marketers and utilities. Excluding certain non-recurring revenues (described under the "Power" subheading in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*) approximately 71% of Power's 2004 operating revenues represented tolling revenues of the Michigan facility, 21% was derived from the Colorado facility operated as an independent power producer under a long-term contract with XCEL Energy's Public Service Company of Colorado unit, and the remaining 8% primarily resulted from fees for operating the other Colorado facility. In recent periods, we have recorded impairment charges associated with our power business activities; see Note 6 of the accompanying Notes to Consolidated Financial Statements.

Kinder Morgan Power previously designed, developed and constructed power projects. In 2002, following an assessment of the electric industry's business environment and noting a marked deterioration in the financial condition of certain power generating and marketing participants, we decided to discontinue our power development activities.

In February 2001, Kinder Morgan Power announced an agreement under which Williams Energy Marketing and Trading agreed to supply natural gas to and market capacity for 16 years for a 550-megawatt natural gas-fired Orion technology electric power plant in Jackson, Michigan. Effective July 1, 2002, construction of this facility was completed and commercial operations commenced. Concurrently with commencement of commercial operations, (i) Kinder Morgan Power made a preferred investment in Triton Power Company LLC (now valued at approximately $119 million); and, (ii) Triton Power Company LLC, through its wholly owned subsidiary, Triton Power Michigan LLC, entered into a 40-year lease of the Jackson power facility from the plant owner, AlphaGen Power, LLC. Williams Energy Marketing and Trading supplies all natural gas to and purchases all power from the power plant under a 16-year tolling agreement with Triton Power Michigan LLC.

In May 2000, Kinder Morgan Power and Mirant Corporation (formerly Southern Energy Inc.) announced plans to build a 550 megawatt natural gas-fired electric power plant in Wrightsville, Arkansas, utilizing Kinder Morgan Power's Orion technology. Construction of this facility was completed on July 1, 2002 and commercial operations commenced. Mirant Corporation operates and maintains the Wrightsville facility and manages the natural gas supply and electricity sales for the project company that owns the power plant. Kinder Morgan Power made an investment in the project company, comprised primarily of preferred stock. This facility has not been dispatched significantly since July 1, 2002. In October 2003, the project company was included in Mirant Corporation's bankruptcy filing. In the fourth quarter of 2003, we wrote off our remaining investment in the Wrightsville power facility, as further discussed in Note 6 of the accompanying Notes to Consolidated Financial Statements.

In 1998, Kinder Morgan Power acquired interests in the Thermo Companies, which provided us with our first electric generation assets as well as knowledge and expertise with General Electric Company jet engines (LMs) configured in a combined cycle mode. Through the Thermo Companies, Kinder Morgan Power acquired the interests in three Colorado natural gas-fired electric generating facilities discussed above, which have a combined 380 megawatts of electric generation capacity. Kinder Morgan Power used the LM knowledge to develop its proprietary "Orion" technology. Pursuant to a right we obtained in conjunction with the 1998 acquisition of the Thermo Companies, in December 2003, we made an additional investment in the Thermo Companies in the form of approximately 1.8 million Kinder Morgan Management shares that we owned. We delivered these shares to an entity controlled by the former Thermo owners. For further information regarding this incremental investment, see "Power" within "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Competition: With respect to the electric generating facilities acquired from the Thermo entities, Kinder Morgan Power does not directly face competition with respect to the sale of the power generated, as it is

sold to or generated for the local electric utility under long-term contracts. With respect to Power's investment in the Jackson, Michigan facility, the principal impact of competition is the level of dispatch of the plant and the related (but minor) effect on profitability.

Regulation

Interstate Transportation and Storage Services

Under the Natural Gas Act and, to a lesser extent, the Natural Gas Policy Act of 1978, the Federal Energy Regulatory Commission regulates both the performance of interstate transportation and storage services by interstate natural gas pipeline companies, and the rates charged for such services. Terms and conditions of such services are subject to tariffs approved by the FERC. As used in this report, "FERC" refers to the Federal Energy Regulatory Commission.

With the adoption of FERC Order No. 636, the FERC required interstate natural gas pipelines that perform open access transportation under blanket certificates to "unbundle" or separate their traditional merchant sales services from their transportation and storage services and to provide comparable transportation and storage services with respect to all natural gas supplies, whether such natural gas is purchased from the pipeline or from other merchants such as marketers or producers. Each interstate natural gas pipeline must now separately state the applicable rates for each unbundled service.

In Order Nos. 637 and 637-A, the FERC directed all interstate pipelines to make tariff changes as necessary to comply with new regulatory requirements regarding scheduling procedures, capacity segmentation, imbalance management services and penalty credits. The Order 637 tariff provisions for NGPL became effective on December 1, 2003. No issues remain outstanding as to NGPL's Order 637 compliance program.

We are also subject to the requirements of FERC Order No. 2004, et seq., which set out revised Standards of Conduct that apply uniformly to interstate gas transmission pipelines and public utilities, governing their relationships with energy affiliates. These new Standards of Conduct were designed to be more restrictive than the previous regulations that did not cover an interstate natural gas pipeline's relationship with energy affiliates that are not marketers. In addition, unlike the prior regulations, these requirements apply even if the energy affiliate is not a customer of its affiliated interstate pipeline. The rule is designed to prevent interstate natural gas pipelines from giving undue preference, including preference in the access to information, to any of their energy affiliates and to ensure that natural gas transportation is provided on a nondiscriminatory basis. The Kinder Morgan interstate pipelines have implemented compliance with the Standards of Conduct as of September 22, 2004.

The Pipeline Safety Improvement Act of 2002 was signed into law on December 17, 2002, providing guidelines in the areas of testing, education, training and communication. The Act requires pipeline companies to perform integrity tests on natural gas transmission pipelines that exist in high population density areas that are designated as High Consequence Areas. Pipeline companies are required to perform the integrity tests within ten years of the date of enactment and must perform subsequent integrity tests on a seven year cycle. At least 50% of the highest risk segments must be tested within five years of the enactment date. The risk ratings are based on numerous factors, including the population density in the geographic regions served by a particular pipeline, as well as the age and condition of the pipeline and its protective coating. Testing consists of hydrostatic testing, internal electronic testing, or direct assessment of the piping. In addition to the pipeline integrity tests, pipeline companies must implement a qualification program to make certain that employees are properly trained, and the United States Department of Transportation has approved our qualification program. We believe that we are in substantial compliance with this law's requirements and have integrated appropriate aspects of this

pipeline safety law into our Operator Qualification Program, which is already in place and functioning. NGPL estimates that the average annual incremental expenditure associated with the Pipeline Safety Improvement Act of 2002 is approximately $8 million to $10 million.

Intrastate Transportation and Sales

We operate an intrastate pipeline in Colorado, Rocky Mountain Natural Gas Company, which is regulated by the Public Utilities Commission for the State of Colorado as a public utility with respect to its natural gas transportation and sales services within the state. Rocky Mountain Natural Gas Company also performs certain natural gas transportation services in interstate commerce pursuant to FERC authorization. The Public Utilities Commission for the State of Colorado regulates the rates, terms, and conditions of natural gas sales and transportation services performed by public utilities in the state of Colorado. During 2002, our intrastate pipeline in Wyoming, Northern Gas Company, was merged into Kinder Morgan, Inc. and is now operated as part of our retail distribution business in Wyoming pursuant to approvals received from the Wyoming Public Service Commission.

The operations of our intrastate pipeline business are also affected by FERC rules and regulations issued pursuant to the Natural Gas Act and the Natural Gas Policy Act. Of particular importance are regulations that result in an increased ability to provide interstate transportation services without the necessity of obtaining prior FERC authorization for each transaction. A key element of the program is nondiscriminatory access, under which a regulated pipeline must agree, under certain conditions, to transport natural gas for any party requesting such service.

Retail Natural Gas Distribution Services

Our intrastate pipelines and local natural gas distribution businesses in Colorado, Nebraska and Wyoming are under the regulatory authority of each respective state's utility commission. In certain of the incorporated communities in which we provide retail natural gas services, we operate under franchises granted by the applicable municipal authorities. These franchises vary in duration. In unincorporated areas, our natural gas utility services are not subject to municipal franchise. We have been issued various certificates of public convenience and necessity by the regulatory commissions in Colorado, Nebraska and Wyoming authorizing us to provide natural gas utility services within certain incorporated and unincorporated areas of those states.

We are a leader in providing for customer choice in purchasing gas supply directly from suppliers under our Choice Gas programs in Wyoming and Nebraska. We introduced the Choice Gas program in 1996, under an order issued by the Wyoming Public Service Commission. The program is available to all 71,000 end-use customers we serve in the state. In 1997, we announced a similar plan to give residential and small commercial customers in Nebraska a choice of natural gas suppliers. This program, the Nebraska Choice Gas program, became effective June 1, 1998 and is now available to all 96,000 customers we serve in Nebraska. The programs have succeeded in providing a choice of suppliers, competitive prices, and new products, services and pricing options to our customers, while maintaining reliability and security of supply. Kinder Morgan Retail continues to provide all services other than the natural gas commodity in these programs, and competes with other suppliers in offering natural gas supplies to retail customers.

Environmental Regulation

Our operations and properties are subject to extensive and evolving federal, state and local laws and regulations governing the release or discharge of regulated materials into the environment, or otherwise relating to environmental protection or human health and safety. We have an environmental compliance

program, and we believe that our operations are in substantial compliance with applicable environmental laws and regulations. This program focuses on compliance with state and federal laws and regulations relating to the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and solid waste issues and other related and applicable environmental laws and regulations. Numerous governmental departments issue rules and regulations to implement and enforce such laws, for which compliance is often costly and onerous. Failure to comply with applicable environmental laws may result in substantial administrative, civil, and criminal penalties or injunctions that would restrict operations or require future compliance, damage awards against us, or other mandatory or consensual measures or liabilities. These laws and regulations can also impose liability for remedial costs on the owner or operator of properties or the generators of materials, regardless of fault. Moreover, a trend in environmental law is toward stricter standards, stricter enforcement, and more restrictions on operations. This trend and other developments in environmental law may result in significant cost and liabilities for us.

We had an environmental reserve of approximately $12.9 million at December 31, 2004, to address remediation issues associated with approximately 40 projects. These projects include several ground water and soil hydrocarbon remediation efforts under the jurisdiction and direction of various state agencies. Many of these remediation efforts are the result of historical releases from currently non-operating sites. Additionally, we are addressing impacts at several locations from the historical use of mercury and polychlorinated biphenyls. We believe that costs for environmental remediation and separately ongoing compliance with applicable environmental regulations will not have a material adverse effect on our cash flows, financial position or results of operations, or materially diminish our ability to operate our businesses. However, there can be no assurances that future events, such as changes in existing laws, the promulgation of new laws, the discovery of circumstances or conditions currently unforeseen by us, or that the development of new facts or conditions will not cause us to incur significant unanticipated costs and liabilities.

Risk Factors

Like all businesses, we face various obstacles, including rising legal fees, environmental issues and escalating employee health and benefit costs. Regulatory challenges to our regulated service rates and possible policy changes made by governmental regulatory entities could negatively affect our future financial performance.

Further, we are well aware of the general uncertainty associated with the current world economic and political environments in which we exist and we recognize that we are not immune to the fact that our financial performance is impacted by overall marketplace spending and demand. We are continuing to assess the effect that terrorism would have on our businesses and in response, we have increased security at certain of our assets. Recent federal legislation provides an insurance framework that should cause current insurers to continue to provide sabotage and terrorism coverage under standard property insurance policies. Nonetheless, there is no assurance that adequate sabotage and terrorism insurance will be available at reasonable rates throughout 2005. Currently, we do not believe that the increased cost associated with these measures will have a material effect on our operating results.

Some of our specifically identified risk factors include the following:

1. **We are highly dependent upon the earnings and distributions of Kinder Morgan Energy Partners.** For 2004, approximately 49% of our total segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners was attributable to our general and limited partner interests in Kinder Morgan Energy Partners. A significant decline in Kinder Morgan Energy

Partners' earnings and/or cash distributions would have a corresponding negative impact on us. For more information on these earnings and cash distributions, please see Kinder Morgan Energy Partners' 2004 Annual Report on Form 10-K.

2. **Competition could ultimately lead to lower levels of profits and adversely impact our ability to recontract for expiring transportation capacity at favorable rates.** For 2004, NGPL's segment earnings of $392.8 million represented approximately 40% of total segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners, and approximately 43% of our income from continuing operations before interest and income taxes. NGPL is an interstate natural gas pipeline that is a major supplier to the Chicago, Illinois area. In recent periods, interstate pipeline competitors of NGPL have constructed or expanded pipeline capacity into the Chicago area, although additional take-away capacity has also been constructed. To the extent that an excess of supply into this market area is created and persists, NGPL's ability to recontract for expiring transportation capacity at favorable rates could be impaired. Contracts representing approximately 6% of NGPL's total long-haul, contracted firm transport capacity as of January 24, 2005 are scheduled to expire during 2005.

3. **Our large amount of floating rate debt makes us vulnerable to increases in interest rates.** At December 31, 2004, we had $1.5 billion of debt subject to floating interest rates, all of which was long-term fixed-rate debt converted to floating rates through the use of interest rate swaps. Should interest rates increase significantly, our earnings would be adversely affected. See Note 14 of the accompanying Notes to Consolidated Financial Statements for additional information.

4. **The rates (which include reservation, commodity, surcharges, fuel and gas lost and unaccounted for) we charge shippers on our pipeline systems are subject to regulatory approval and oversight.** While there are currently no material proceedings challenging the rates on any of our natural gas pipeline systems, regulators and shippers on these pipelines do have rights to challenge the rates we charge under certain circumstances prescribed by applicable regulations. We can provide no assurance that we will not face challenges to the rates we receive on our pipeline systems in the future.

5. **Sustained periods of weather inconsistent with normal in areas served by our natural gas transportation and distribution operations can create volatility in our earnings.** Weather-related factors such as temperature and rainfall at certain times of the year affect our earnings in our natural gas transportation and retail natural gas distribution businesses. Sustained periods of temperatures and rainfall that differ from normal can create volatility in our earnings.

6. **Proposed rulemaking by the FERC or other regulatory agencies having jurisdiction could adversely impact our income and operations.** Generally speaking, new laws or regulations or different interpretations of existing laws or regulations applicable to our assets could have a negative impact on our business, financial condition and results of operations.

7. **Environmental regulation and liabilities could result in increased operating and capital costs.** Our business operations are subject to federal, state and local laws and regulations relating to environmental protection, pollution and human health and safety. For example, if an accidental leak or spill occurs at or from our pipelines, or at or from our storage or other facilities, we may have to pay a significant amount to clean up the leak or spill, pay for government penalties, address natural resource damages, compensate for human exposure, install costly pollution control equipment, or a combination of these and other measures. The resulting costs and liabilities could negatively affect our level of earnings and cash flow. In addition, emission controls required under federal and state environmental laws could require significant capital expenditures at our facilities. The impact of environmental standards or future environmental measures could increase our costs significantly.

Since the costs of environmental regulation are already significant, additional or stricter regulation or enforcement could negatively affect our business.

We own or operate numerous properties that have been used for many years in connection with pipeline activities. While we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been released at or from our properties or at or from other properties where such wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose management and disposal of hydrocarbons or other wastes was not under our control. These properties and the wastes disposed thereon may be subject to laws such as the Comprehensive Environmental Response, Compensation, and Liability Act, also known as CERCLA or the Superfund law, which impose joint and several liability without regard to fault or the legality of the original conduct. Under such laws and implementing regulations, we could be required to remove or remediate previously disposed wastes or property contamination, including groundwater contamination caused by prior owners or operators. Imposition of such liability schemes could have a material adverse impact on our operations and financial position.

8. **The distressed financial condition of some of our customers could have an adverse impact on us in the event these customers are unable to pay us for the services we provide.** Some of our customers are experiencing severe financial problems, and other customers may experience severe financial problems in the future. The bankruptcy of one or more of them, or some other similar proceeding or liquidity constraint might make it unlikely that we would be able to collect all or a significant portion of amounts owed by the distressed entity or entities. In addition, such events might force such customers to reduce or curtail their future use of our products and services, which could have a material adverse effect on our results of operations and financial condition.

9. **Increased regulatory requirements relating to the integrity of our pipelines will require us to spend additional money to comply with these requirements.** Through our regulated pipeline subsidiaries, we are subject to extensive laws and regulations related to pipeline integrity. For example, recent federal legislation signed into law in December 2002 includes new guidelines for the U.S. Department of Transportation and pipeline companies in the areas of testing, education, training and communication. Compliance with existing and recently executed regulations requires significant expenditures. Additional laws and regulations that may be enacted in the future could significantly increase the amount of these expenditures.

Other

Amounts we spent during 2004, 2003, and 2002 on research and development activities were not material. We employed 6,072 people at December 31, 2004, including employees of our indirect subsidiary KMGP Services Company, Inc., who are dedicated to the operations of Kinder Morgan Energy Partners.

KMGP Services Company, Inc., a subsidiary of Kinder Morgan G.P., Inc., provides employees and Kinder Morgan Services LLC, a subsidiary of Kinder Morgan Management, provides centralized payroll and employee benefits services to Kinder Morgan Management, Kinder Morgan Energy Partners and Kinder Morgan Energy Partners' operating partnerships and subsidiaries (collectively, "the Group"). Employees of KMGP Services Company, Inc. are assigned to work for one or more members of the Group. The direct costs of compensation, benefits expenses, employer taxes and other employer expenses for these employees are allocated and charged by Kinder Morgan Services LLC to the appropriate members of the Group, and the members of the Group reimburse their allocated shares of these direct costs. No profit or margin is charged by Kinder Morgan Services LLC to the members of the Group. Our human resources department provides the administrative support necessary to implement

these payroll and benefits services, and the related administrative costs are allocated to members of the Group in accordance with existing expense allocation procedures. The effect of these arrangements is that each member of the Group bears the direct compensation and employee benefits costs of its assigned or partially assigned employees, as the case may be, while also bearing its allocable share of administrative costs. Pursuant to the limited partnership agreement, Kinder Morgan Energy Partners provides reimbursement for its share of these administrative costs and such reimbursements are accounted for as described above. Kinder Morgan Energy Partners reimburses Kinder Morgan Management with respect to the costs incurred or allocated to Kinder Morgan Management in accordance with Kinder Morgan Energy Partners' limited partnership agreement, the Delegation of Control Agreement among Kinder Morgan G.P., Inc., Kinder Morgan Management, Kinder Morgan Energy Partners and others, and Kinder Morgan Management's limited liability company agreement.

Our named executive officers and other employees that provide management or services to both us and the Group are employed by us. Additionally, other of our employees assist Kinder Morgan Energy Partners in the operation of its Natural Gas Pipeline assets. These employees' expenses are allocated without a profit component between us and the appropriate members of the Group.

We are of the opinion that, with only insignificant exceptions, we have satisfactory title to the properties owned and used in our businesses, subject to the liens for current taxes, liens incidental to minor encumbrances, and easements and restrictions which do not materially detract from the value of such property or the interests therein or the use of the properties in our businesses. We generally do not own the land on which our pipelines are constructed. Instead, we obtain the right to construct and operate the pipelines on other people's land for a period of time.

(D) Financial Information about Geographic Areas

All but an insignificant amount of our assets and operations are located in the continental United States of America.

(E) Available Information

We make available free of charge on or through our internet website, at http://www.kindermorgan.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Also, we make available free of charge within the "Investors" section of our internet website, at www.kindermorgan.com, and in print to any shareholder who requests, the governance guidelines, the charters of the audit committee, compensation committee and nominating and governance committee, and our code of business conduct and ethics (which applies to senior financial officers and the chief executive officer, among others). Requests for copies may be directed to Investor Relations, Kinder Morgan, Inc., 500 Dallas Street, Suite 1000, Houston, Texas 77002, or telephone (713) 369-9490. We intend to disclose any amendments to our code of business conduct and ethics, and any waiver from a provision of that code granted to our Chief Executive Officer, Chief Financial Officer or Vice President and Controller, on our internet website within five business days following such amendment or waiver. The information contained on or connected to our internet website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the Securities and Exchange Commission.

Item 3. ***Legal Proceedings.***

The reader is directed to Note 9(B) of the accompanying Notes to Consolidated Financial Statements, which is incorporated herein by reference.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

None.

Executive Officers of the Registrant

(A) Identification and Business Experience of Executive Officers

Set forth below is certain information concerning our executive officers. All of our officers serve at the discretion of the board of directors.

Name	Age	Position
Richard D. Kinder	60	Director, Chairman, Chief Executive Officer and President
C. Park Shaper	36	Executive Vice President and Chief Financial Officer
David D. Kinder	30	Vice President, Corporate Development
Joseph Listengart	36	Vice President, General Counsel and Secretary
Deborah A. Macdonald	53	Vice President (President, Natural Gas Pipelines)
James E. Street	48	Vice President, Human Resources and Administration
Daniel E. Watson	46	Vice President (President, Retail)

Richard D. Kinder is Director, Chairman, Chief Executive Officer and President of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Kinder was elected President of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. in July 2004. Mr. Kinder has served as Director, Chairman and Chief Executive Officer of Kinder Morgan Management, LLC since its formation in February 2001. He was elected Director, Chairman and Chief Executive Officer of Kinder Morgan, Inc. in October 1999. He was elected Director, Chairman and Chief Executive Officer of Kinder Morgan G.P., Inc. in February 1997. Mr. Kinder is the uncle of David Kinder, Vice President, Corporate Development of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc.

C. Park Shaper is Director, Executive Vice President and Chief Financial Officer of Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. and Executive Vice President and Chief Financial Officer of Kinder Morgan, Inc. Mr. Shaper was elected Executive Vice President of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. in July 2004, and was elected Director of Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. in January 2003. He was elected Vice President, Treasurer and Chief Financial Officer of Kinder Morgan Management, LLC upon its formation in February 2001, and served as Treasurer of Kinder Morgan Management, LLC from February 2001 to January 2004. He has served as Treasurer of Kinder Morgan, Inc. from April2000 to January 2004 and Vice President and Chief Financial Officer of Kinder Morgan, Inc. since January 2000. Mr. Shaper was elected Vice President, Treasurer and Chief Financial Officer of Kinder Morgan G.P., Inc. in January 2000, and served as Treasurer of Kinder Morgan G.P., Inc. from January

2000 to January 2004. He received a Masters of Business Administration degree from the J.L. Kellogg Graduate School of Management at Northwestern University. Mr. Shaper also has a Bachelor of Science degree in Industrial Engineering and a Bachelor of Arts degree in Quantitative Economics from Stanford University.

David D. Kinder is Vice President, Corporate Development of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Kinder was elected Vice President, Corporate Development of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. in October 2002. He served as manager of corporate development for Kinder Morgan, Inc. and Kinder Morgan G.P., Inc. from January 2000 to October 2002. Mr. Kinder graduated cum laude with a Bachelors degree in Finance from Texas Christian University in 1996. Mr. Kinder is the nephew of Richard D. Kinder.

Joseph Listengart is Vice President, General Counsel and Secretary of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Listengart was elected Vice President, General Counsel and Secretary of Kinder Morgan Management, LLC upon its formation in February 2001. He was elected Vice President and General Counsel of Kinder Morgan G.P., Inc. and Vice President, General Counsel and Secretary of Kinder Morgan, Inc. in October 1999. Mr. Listengart was elected Kinder Morgan G.P., Inc.'s Secretary in November 1998 and has been an employee of Kinder Morgan G.P., Inc. since March 1998. Mr. Listengart received his Masters in Business Administration from Boston University in January 1995, his Juris Doctor, magna cum laude, from Boston University in May 1994, and his Bachelor of Arts degree in Economics from Stanford University in June 1990.

Deborah A. Macdonald is Vice President (President, Natural Gas Pipelines) of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. She was elected Vice President (President, Natural Gas Pipelines) of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. in June 2002. Ms. Macdonald served as President of NGPL from October 1999 to March 2003. Ms. Macdonald received her Juris Doctor, summa cum laude, from Creighton University in May 1980 and received a Bachelors degree, magna cum laude, from Creighton University in December 1972.

James E. Street is Vice President, Human Resources and Administration of Kinder Morgan, Inc., Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Street was elected Vice President, Human Resources and Administration of Kinder Morgan Management, LLC upon its formation in February 2001. He was elected Vice President, Human Resources and Administration of Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. in August 1999. Mr. Street received a Masters of Business Administration degree from the University of Nebraska at Omaha and a Bachelor of Science degree from the University of Nebraska at Kearney.

Daniel E. Watson is Vice President (President, Retail) for Kinder Morgan, Inc. Mr. Watson was elected Vice President (President, Retail) in October 1999. Mr. Watson also holds the title of President of Rocky Mountain Natural Gas Company, a Kinder Morgan, Inc. subsidiary. He has served as President, Rocky Mountain Natural Gas Company since October 1999. Mr. Watson received a Bachelor of Science degree in Geological Engineering in December, 1979, and a Bachelor of Science degree in Mining Engineering in May 1980, from the South Dakota School of Mines and Technology.

(B) Involvement in Certain Legal Proceedings

None.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

Our common stock is listed for trading on the New York Stock Exchange under the symbol "KMI." Dividends paid and the high and low sale prices per share, as reported on the New York Stock Exchange, of our common stock by quarter for the last two years are provided below. In January 2005, we increased our quarterly common dividend to $0.70 per share.

	Market Price Per Share			
	2004		2003	
	Low	High	Low	High
Quarter Ended:				
March 31	$58.37	$64.62	$42.25	$46.85
June 30	$56.85	$64.25	$44.00	$56.97
September 30	$58.06	$62.99	$51.45	$54.97
December 31	$62.04	$73.82	$51.72	$59.27

	Dividends Paid Per Share	
	2004	2003
Quarter Ended:		
March 31	$0.5625	$0.1500
June 30	$0.5625	$0.1500
September 30	$0.5625	$0.4000
December 31	$0.5625	$0.4000

Stockholders as of February 3, 2005 ..... 89,000 (approximately)

There were no sales of unregistered equity securities during the period covered by this report.

Information required by this item is contained under the caption "Equity Compensation Plan Information" in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference.

Our Purchases of Our Common Stock

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2004	-	$ -	-	$ 42,223,515
November 1 to November 30, 2004	207,600	$ 68.88	207,600	$227,919,248
December 1 to December 31, 2004	557,200	$ 70.27	557,200	$188,754,232
Total	764,800	$ 69.89	764,800	$188,754,232

[1] All purchases were made pursuant to our publicly announced repurchase plan.

[2] On August 14, 2001, we announced a plan to repurchase $300 million of our outstanding common stock, which program was increased to $400 million, $450 million, $500 million, $550 million and $750 million in February 2002, July 2002, November 2003, April 2004 and November 2004, respectively.

Item 6. *Selected Financial Data.*

Five-Year Review
Kinder Morgan, Inc. and Subsidiaries[1]

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands except per share amounts)				
Operating Revenues	$1,164,933	$1,097,897	$1,015,255	$1,054,907	$2,678,956
Gas Purchases and Other Costs of Sales	349,564	354,261	311,224	339,301	1,925,971
Other Operating Expenses[2]	417,441	387,543	467,364	331,287	357,842
Operating Income	397,928	356,093	236,667	384,319	395,143
Other Income and (Expenses)	357,293	270,211	206,063	308	(87,977)
Income from Continuing Operations Before Income Taxes	755,221	626,304	442,730	384,627	307,166
Income Taxes	226,717	244,600	135,019	159,557	123,017
Income from Continuing Operations	528,504	381,704	307,711	225,070	184,149
Loss from Discontinued Operations, Net of Tax	(6,424)	-	(4,986)	-	(31,734)
Net Income	$ 522,080	$ 381,704	$ 302,725	$ 225,070	$ 152,415
Basic Earnings (Loss) Per Common Share:					
Continuing Operations	$ 4.27	$ 3.11	$ 2.52	$ 1.95	$ 1.62
Discontinued Operations	(0.05)	-	(0.04)	-	(0.28)
Total Basic Earnings Per Common Share	$ 4.22	$ 3.11	$ 2.48	$ 1.95	$ 1.34
Number of Shares Used in Computing Basic Earnings (Loss) Per Common Share	123,778	122,605	122,184	115,243	114,063
Diluted Earnings (Loss) Per Common Share:					
Continuing Operations	$ 4.23	$ 3.08	$ 2.49	$ 1.86	$ 1.61
Discontinued Operations	(0.05)	-	(0.04)	-	(0.28)
Total Diluted Earnings Per Common Share	$ 4.18	$ 3.08	$ 2.45	$ 1.86	$ 1.33
Number of Shares Used in Computing Diluted Earnings (Loss) Per Common Share	124,938	123,824	123,402	121,326	115,030
Dividends Per Common Share	$ 2.25	$ 1.10	$ 0.30	$ 0.20	$ 0.20
Capital Expenditures[3]	$ 164,242	$ 160,804	$ 174,953	$ 124,171	$ 85,654

[1] Includes significant impacts from dispositions of assets. See Notes 1 (Q) and 5 of the accompanying Notes to Consolidated Financial Statements for information regarding dispositions during 2004, 2003 and 2002.

[2] Includes charges of $33.5 million, $44.5 million and $134.5 million in 2004, 2003 and 2002, respectively, to reduce the carrying value of certain power assets; see Note 6 of the accompanying Notes to Consolidated Financial Statements.

[3] Capital Expenditures shown are for continuing operations only.

Five-Year Review (Continued)
Kinder Morgan, Inc. and Subsidiaries

	As of December 31,									
	2004		2003		2002		2001		2000	
	(In thousands except per share amounts)									
Total Assets	$10,116,901		$10,036,711		$10,102,750		$9,513,121		$8,396,678	
Capitalization:										
Common Equity[1]	$ 2,919,496	45%	$ 2,691,800	39%	$ 2,399,716	37%	$2,250,129	39%	$1,777,624	39%
Deferrable Interest Debentures[2]	283,600	4%	283,600	4%	-	-	-	-	-	-
Preferred Capital Trust Securities[2]	-	-	-	-	275,000	4%	275,000	5%	275,000	6%
Minority Interests	1,105,436	17%	1,010,140	15%	967,802	15%	817,513	14%	4,910	-
Outstanding Notes and Debentures[3]	2,257,950	34%	2,837,487	42%	2,852,181	44%	2,409,798	42%	2,478,983	55%
Total Capitalization	$ 6,566,482	100%	$ 6,823,027	100%	$ 6,494,699	100%	$5,752,440	100%	$4,536,517	100%
Book Value Per Common Share	$ 23.19		$ 21.62		$ 19.35		$ 18.24		$ 15.53	

1 Excluding Accumulated Other Comprehensive Income/Loss.
2 As a result of our adoption of FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities,* the subsidiary trusts associated with these securities are no longer consolidated, effective December 31, 2003.
3 Excluding the value of interest rate swaps. See Note 14 of the accompanying Notes to Consolidated Financial Statements.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* referred to in the following discussion as "SFAS 142." SFAS 142, which superceded Accounting Principles Board Opinion No. 17, *Intangible Assets,* addresses financial accounting and reporting for (i) intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition and (ii) goodwill and other intangible assets subsequent to their acquisition. SFAS 142 is required to be applied starting with fiscal years beginning after December 15, 2001. We adopted SFAS 142 effective January 1, 2002.

Had the provisions of SFAS 142 been in effect during the periods prior to January 1, 2002 presented above, goodwill amortization would have been eliminated, increasing net income and associated per share amounts as follows:

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands, except per share amounts)				
Reported Net Income	$522,080	$381,704	$302,725	$225,070	$152,415
Add Back: Goodwill Amortization, Net of Related Tax Benefit	-	-	-	16,198	17,368
Adjusted Net Income	$522,080	$381,704	$302,725	$241,268	$169,783
Reported Earnings per Diluted Share	$ 4.18	$ 3.08	$ 2.45	$ 1.86	$ 1.33
Earnings per Diluted Share, as Adjusted	$ 4.18	$ 3.08	$ 2.45	$ 1.99	$ 1.48

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

General

In this report, unless the context requires otherwise, references to "we," "us," "our," or the "Company" are intended to mean Kinder Morgan, Inc. and its consolidated subsidiaries. The following discussion should be read in conjunction with the accompanying Consolidated Financial Statements and related Notes. Specifically, as discussed in Notes 4, 5 and 7 of the accompanying Notes to Consolidated Financial Statements, we have engaged in acquisitions (including the October 1999 acquisition of Kinder Morgan (Delaware), Inc., the indirect owner of the general partner interest in Kinder Morgan Energy Partners, L.P., a publicly traded master limited partnership, referred to in this report as Kinder Morgan Energy Partners), and divestitures (including the discontinuance of certain lines of business and the transfer of certain assets to Kinder Morgan Energy Partners) that may affect comparisons of financial position and results of operations between periods.

We are a provider of energy and related services through our direct ownership and operation of energy-related assets, and through our ownership interests in and operation of Kinder Morgan Energy Partners. Our energy-related assets owned and operated directly (which, during 2005, are budgeted to contribute approximately 47% of the total of our segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners) include natural gas pipelines, natural gas storage facilities, retail natural gas distribution facilities and a relatively small investment in natural gas-fired power generation facilities. Our investment in Kinder Morgan Energy Partners, (which, during 2005, is budgeted to contribute approximately 53% of the total of our segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners) includes ownership of the general partner interest, as well as ownership of limited partner units and shares of Kinder Morgan Management, LLC, referred to in this report as Kinder Morgan Management.

As described under "Business Strategy" elsewhere in this report, our strategy and focus continues to be on ownership of fee-based energy-related assets which are core to the energy infrastructure of the country and serve growing markets. These assets tend to have relatively stable cash flows while presenting us with opportunities to expand our facilities to serve additional customers and nearby markets. We evaluate the performance of our investment in these assets using, among other measures, segment earnings. In addition, please see "Developments During 2004" under Items 1 and 2 "Business and Properties" elsewhere in this report.

The variability of our operating results is attributable to a number of factors including (i) variability within national and local markets for energy and related services, including the effects of competition, (ii) the impact of regulatory proceedings, (iii) the effect of weather on customer energy and related services usage, as well as our operation and construction activities, (iv) increases or decreases in interest rates, (v) the degree of our success in controlling costs and identifying and carrying out profitable expansion projects and (vi) changes in taxation policy or regulated rates. Certain of these factors are beyond our direct control, but we operate a structured risk management program to mitigate certain of the risks associated with changes in the price of natural gas, interest rates and weather (relative to historical norms). The remaining risks are primarily mitigated through our strategic and operational planning and monitoring processes. See "Risk Factors" elsewhere in this report.

Effective November 1, 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners (see Note 5 of the accompanying Notes to Consolidated Financial Statements). Our remaining businesses (apart from our investment in Kinder Morgan Energy Partners) constitute three business segments. Our largest business segment and our primary source of operating income is

NGPL, which owns and operates a major interstate natural gas pipeline system that runs from natural gas producing areas in West Texas and the Gulf of Mexico to its principal market area of Chicago, Illinois. In accordance with our strategy to increase operational focus on core assets, we have worked toward renewing existing agreements and entering into new agreements to fully utilize the transportation and storage capacity of NGPL's system. As a result, NGPL sold virtually all of its capacity through the 2004-2005 winter season. NGPL continues to pursue opportunities to expand its system and has announced transmission and storage service expansions in northeast Texas and southern Oklahoma expected to cost approximately $56 million.

Our other business segments consist of (i) our retail distribution of natural gas to approximately 243,000 customers in Colorado, Wyoming and Nebraska and (ii) our investment in, in some cases, operation of, and in previous periods construction of electric power generation facilities. Our retail natural gas distribution operations are located, in part, in areas where significant population and economic growth is occurring and we expect to participate in that growth through increased natural gas demand. Our power segment owns interests in and, in some cases, operates power generation facilities, and continues to hold preferred investments in two gas-fired power plants constructed by us and placed into operation in 2002. During the fourth quarter of 2002, we announced that we were discontinuing our power development activities and we revalued certain of our power assets. We also revalued certain of our power assets during the fourth quarters of 2004 and 2003. See "Power" following and Note 6 of the accompanying Notes to Consolidated Financial Statements.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America and contained within this report. Certain amounts included in or affecting our financial statements and related disclosure must be estimated, requiring us to make certain assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared. The reported amounts of our assets and liabilities, revenues and expenses and associated disclosures with respect to contingent assets and obligations are necessarily affected by these estimates. We evaluate these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates.

In preparing our financial statements and related disclosures, we must use estimates in determining the economic useful lives of our assets, the effective income tax rate to apply to our pre-tax income, obligations under our employee benefit plans, provisions for uncollectible accounts receivable, unbilled revenues for our natural gas distribution deliveries for which meters have not yet been read, exposures under contractual indemnifications and various other recorded or disclosed amounts. Certain of these accounting estimates are of more significance in our financial statement preparation process than others.

In our retail natural gas distribution business, because we read customer meters on a cycle basis, we are required to estimate the amount of revenue earned as of the end of each period for which service has been rendered but meters have not yet been read. We have historical information available for these meters and, together with weather-related data that is indicative of natural gas demand, we are able to make reasonable estimates. In our natural gas pipeline businesses, we are similarly required to make estimates for services rendered but for which actual metered volumes are not available at reporting dates. As with our retail natural gas distribution business, we have historical data available to assist us in the estimation process, but the variations in volume are greater, introducing a larger possibility of error. We believe that our estimates, which are replaced with actual metered volumes in the next accounting month, provide acceptable approximations of the actual revenue earned during any period, especially

given that the majority of our revenues in the pipeline business are derived from demand charges, which do not vary with the actual amount of gas transported.

With respect to the amount of income or expense we recognize in association with our pension and retiree medical plans, we must make a number of assumptions with respect to both future financial conditions (for example, medical costs, returns on fund assets and market interest rates) as well as future actions by plan participants (for example, when they will retire and how long they will live after retirement). Most of these assumptions have relatively minor impacts on the overall accounting recognition given to these plans, but two assumptions in particular, the discount rate and the assumed long-term rate of return on fund assets, can have significant effects on the amount of expense recorded and liability recognized. The selection of these assumptions is discussed in Note 15 of the accompanying Notes to Consolidated Financial Statements. While we believe our choices for these assumptions are appropriate in the circumstances, other assumptions could also be reasonably applied and, therefore, we note that, at our current level of pension and retiree medical funding, a change of 1% in the long-term return assumption would increase (decrease) our annual retiree medical expense by approximately $576,000 ($576,000) and would increase (decrease) our annual pension expense by $1.8 million ($1.8 million) in comparison to that recorded in 2004. Similarly, a 1% change in the discount rate would increase (decrease) our accumulated postretirement benefit obligation by $8.9 million ($8.0 million) and would increase (decrease) our accumulated pension obligation by $26.8 million ($23.5 million) compared to those balances as of December 31, 2004.

With respect to our environmental exposure, we utilize both internal staff and external experts to assist us in identifying environmental issues and in estimating the costs and timing of remediation efforts. These estimates are affected by the choice of remediation methods as well as the expected timing and length of the effort. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs. These revisions are reflected in our income in the period in which they are reasonably determinable.

We are subject to litigation as the result of our business operations and transactions. We utilize both internal and external counsel in evaluating our potential exposure to adverse outcomes from judgments or settlements. To the extent that actual outcomes differ from our estimates, or additional facts and circumstances cause us to revise our estimates, our earnings will be affected.

We record a valuation allowance to reduce our deferred tax assets to an amount that is more likely than not to be realized. While we have considered future taxable income and prudent and feasible tax planning strategies in determining the amount of our valuation allowance, any change in the amount that we expect to ultimately realize will be included in income in the period in which such a determination is reached. In addition, we do business in a number of states with differing laws concerning how income subject to each state's tax structure is measured and at what effective rate such income is taxed. Therefore, we must make estimates of how our income will be apportioned among the various states in order to arrive at an overall effective tax rate. Changes in our effective rate, including any effect on previously recorded deferred taxes, are recorded in the period in which the need for such change is identified.

As discussed under "Risk Management" in Item 7A of this report, we enter into derivative contracts (natural gas futures, swaps and options) solely for the purpose of mitigating risks that accompany our normal business activities, including fluctuations in interest rates and the price of natural gas and associated transportation. We account for these derivative transactions as hedges in accordance with authoritative accounting guidelines, marking the derivatives to market at each reporting date, with the unrealized gains and losses either recognized as part of comprehensive income or, in the case of interest rate swaps, as a valuation adjustment to the underlying debt. Any inefficiency in the performance of the

hedge is recognized in income currently and, ultimately, the financial results of the hedge are recognized concurrently with the financial results of the underlying hedged item. All but an insignificant amount of our natural gas related derivatives are for terms of 18 months or less, allowing us to utilize widely available, published forward pricing curves in determining all of our appropriate market values. Our interest rate swaps are similar in nature to many other such financial instruments and are valued for us by commercial banks with expertise in such valuations.

Consolidated Financial Results

	Year Ended December 31,		
	2004	2003	2002
	(In thousands except per share amounts)		
Operating Revenues	$1,164,933	$1,097,897	$1,015,255
Gas Purchases and Other Costs of Sales	(349,564)	(354,261)	(311,224)
General and Administrative Expenses	(77,841)	(71,741)	(73,496)
Other Operating Expenses[1]	(339,600)	(315,802)	(393,868)
Operating Income	397,928	356,093	236,667
Other Income and (Expenses)	357,293	270,211	206,063
Income Taxes	(226,717)	(244,600)	(135,019)
Income from Continuing Operations	528,504	381,704	307,711
Loss on Disposal of Discontinued Operations, Net of Tax	(6,424)	-	(4,986)
Net Income	$ 522,080	$ 381,704	$ 302,725
Diluted Earnings (Loss) Per Common Share:			
Income from Continuing Operations	$ 4.23	$ 3.08	$ 2.49
Loss on Disposal of Discontinued Operations	(0.05)	-	(0.04)
Total Diluted Earnings Per Common Share	$ 4.18	$ 3.08	$ 2.45
Number of Shares Used in Computing Diluted Earnings (Loss) Per Common Share	124,938	123,824	123,402

[1] Includes charges of $33.5 million, $44.5 million and $134.5 million in 2004, 2003 and 2002, respectively, to reduce the carrying value of certain power assets as discussed under "Power" following.

Our income from continuing operations increased from $381.7 million in 2003 to $528.5 million in 2004, an increase of $146.8 million (38%). Income from continuing operations for 2004 included (i) an increase of $65 million representing a reduction in income tax expense due principally to the impact of a reduction in the estimated effective income tax rate on the deferred tax liability balance, (ii) a pre-tax net decrease of $15.0 million attributable to the impairment of certain assets in our power business, partially offset by the recognition of deferred power development revenues and the impact of the resolution of certain litigation contingencies, (iii) a $3.9 million pre-tax charge due to the early extinguishment of debt and (iv) miscellaneous other pre-tax charges totaling $1.6 million. These items increased 2004 income from continuing operations by $52.7 million or $0.42 per diluted share. Our income from continuing operations for 2003 included (i) a pre-tax charge of $47.4 million attributable to the impairment of certain assets in our power business, (ii) a pre-tax loss of $4.3 million resulting from the sale of our interest in Igasamex USA Ltd. and (iii) a $2.9 million increase in earnings resulting from the settlement of a note receivable in an amount in excess of its carrying value. These items reduced 2003 income from continuing operations by $30.2 million or $0.25 per diluted share.

In addition to the items discussed above, the increase in income from continuing operations from 2003 to 2004 reflected increased operating income due to (i) increased earnings from our NGPL and Kinder Morgan Retail business segments and (ii) the consolidation of the results of operations of our Triton

Power affiliates in 2004, which added $6.6 million to our consolidated operating income (although this increase was entirely offset by minority interest). These favorable operating income impacts were partially offset by (i) decreased earnings from our TransColorado business segment that was contributed during 2004, (ii) decreased earnings from our Power business segment and (iii) increased 2004 general and administrative expenses due principally to increased legal, accounting and employee benefits expenses. Operating revenues increased by $67.0 million (6%) from 2003 to 2004 reflecting, in addition to the incremental power development revenues discussed above, (i) increased revenues in our Kinder Morgan Retail business segment and (ii) increased revenues in our Power segment due to the inclusion of our Triton Power affiliates in 2004 consolidated operating results. These increased operating revenues were partially offset by decreased operating revenues from our NGPL and TransColorado business segments. Please refer to the individual business segment discussions included elsewhere herein for additional information regarding business segment results. Refer to the headings "Other Income and (Expenses)," "Income Taxes – Continuing Operations" and "Discontinued Operations" included elsewhere herein for additional information regarding these items.

"Other Income and (Expenses)" increased from $270.2 million in 2003 to $357.3 million in 2004, an increase of $87.1 million (32%). This increase reflected increased equity in earnings of Kinder Morgan Energy Partners in 2004, due principally to the improved performance from the assets held by Kinder Morgan Energy Partners, and decreased 2004 interest expense resulting principally from our lower debt balances. These positive impacts were partially offset by the inclusion of the minority interests in Triton Power, as discussed above, and by an increase of $9.0 million in minority interest expense attributable to the minority interests in Kinder Morgan Management See "Other Income and (Expenses)" following for additional information.

Our income from continuing operations increased from $307.7 million in 2002 to $381.7 million in 2003, an increase of $74.0 million (24%). Our income from continuing operations for 2002 included (i) a pre-tax charge of $134.5 million attributable to the impairment of certain assets in our Power business, (ii) an earnings increase of $42 million representing a reduction in income tax expense due principally to the impact of a reduction in the estimated effective income tax rate on the deferred tax liability balance, and (iii) other miscellaneous items totaling a net pre-tax earnings reduction of $1.4 million. These items reduced 2002 income from continuing operations by $41.9 million or $0.35 per diluted share.

In addition to the items discussed above, the increase in income from continuing operations from 2002 to 2003 reflected increased operating income from (i) increased 2003 segment earnings from our NGPL, TransColorado and Kinder Morgan Retail business segments and (ii) decreased 2003 general and administrative expenses. These positive impacts were partially offset by decreased 2003 segment earnings from our Power business segment. Operating revenues for 2003, in comparison to 2002, increased by $82.6 million (8%). The increase in operating revenues was attributable to increased revenues in our NGPL and TransColorado business segments, partially offset by decreased revenues in our Power and Kinder Morgan Retail business segments. Additional information concerning the revenues and earnings of our business segments are discussed following.

"Other Income and (Expenses)" increased from $206.1 million in 2002 to $270.2 million in 2003, an increase of $64.1 million (31%). This increase reflected (i) increased equity in earnings of Kinder Morgan Energy Partners in 2003 due principally to the improved performance from the assets held by Kinder Morgan Energy Partners and (ii) decreased 2003 interest expense resulting principally from our lower debt balances. These positive impacts were partially offset by (i) an increase of $8.1 million in minority interest expense attributable to the minority interests in Kinder Morgan Management and (ii) a $17.4 million decrease in net gains from asset sales in 2003 (see Note 1(Q) of the accompanying Notes to Consolidated Financial Statements).

Total diluted earnings per share increased from $3.08 in 2003 to $4.18 in 2004, an increase of $1.10 (36%). This increase reflected, in addition to the financial and operating impacts discussed preceding, an increase of 1.1 million (0.9%) in average shares outstanding. The increase in average shares outstanding resulted from (i) newly-issued shares due to (1) the employee stock purchase plan, (2) the issuance of restricted stock and (3) exercises of stock options by employees and (ii) the increased dilutive effect of stock options resulting from the increase in the market price of our shares (see Notes 1(E) and 16 of the accompanying Notes to Consolidated Financial Statements). These increases in average shares outstanding were partially offset by our share repurchases (see Note 12(D) of the accompanying Notes to Consolidated Financial Statements). Diluted earnings per common share from continuing operations increased from $3.08 in 2003 to $4.23 in 2004, an increase of $1.15 (37%).

Total diluted earnings per share increased from $2.45 in 2002 to $3.08 in 2003, an increase of $0.63 (26%) reflecting, in addition to the financial and operating impacts discussed preceding, an increase of 0.4 million (0.3%) in average shares outstanding. Average shares outstanding increased in 2003 for principally the same reasons given for the increase in average shares outstanding in 2004. Diluted earnings per share from continuing operations increased from $2.49 in 2002 to $3.08 in 2003, an increase of $0.59 (24%).

Results of Operations

We manage our various businesses by, among other things, allocating capital and monitoring operating performance. This management process includes dividing the company into business segments so that performance can be effectively monitored and reported for a limited number of discrete businesses.

TransColorado Gas Transmission Company was a 50/50 joint venture with Questar Corp. until we became sole owner by purchasing Questar Corp.'s interest effective October 1, 2002. Results of operations for this segment include our 50% share of TransColorado's earnings recognized under the equity method of accounting prior to October 2002 and consolidated results at the 100% level thereafter until, effective November 1, 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners (see Note 5 of the accompanying Notes to Consolidated Financial Statements). Effective with the contribution, the results of operations of TransColorado Gas Transmission Company are no longer included in our consolidated results of operations or our TransColorado business segment results.

In addition to our three remaining business segments, we derive a substantial portion of earnings from our investment in Kinder Morgan Energy Partners, which is discussed under "Earnings from our Investment in Kinder Morgan Energy Partners" following.

Business Segment	Business Conducted	Referred to As:
Natural Gas Pipeline Company of America and certain affiliates	The ownership and operation of a major interstate natural gas pipeline and storage system	Natural Gas Pipeline Company of America, or NGPL
TransColorado Gas Transmission Company	Prior to its disposition on November 1, 2004, the ownership and operation of an interstate natural gas pipeline system in Colorado and New Mexico	TransColorado

Retail Natural Gas Distribution	The regulated sale and transportation of natural gas to residential, commercial and industrial customers (including a small distribution system in Hermosillo, Mexico) and the sales of natural gas to certain utility customers under the Choice Gas program	Kinder Morgan Retail
Power Generation.....	The operation and, in previous periods, development and construction of natural gas-fired electric generation facilities	Power

In the fourth quarter of 2002, as further discussed under "Power" following, we decided to discontinue the development portion of our power generation business and decreased the carrying value of certain of our power assets. Additional reductions in the carrying value of certain power assets have been made subsequently.

The accounting policies we apply in the generation of business segment earnings are generally the same as those described in Note 1 of the accompanying Notes to Consolidated Financial Statements, except that (i) certain items below the "Operating Income" line are either not allocated to business segments or are not considered by management in its evaluation of business segment performance and (ii) equity in earnings of equity method investees, other than Kinder Morgan Energy Partners and certain insignificant international investees, are included. These equity method earnings are included in "Other Income and (Expenses)" in our Consolidated Statements of Operations. In addition, (i) certain items included in operating income (such as general and administrative expenses) are not allocated to individual business segments and (ii) gains and losses from incidental sales of assets are included in segment earnings. We account for intersegment sales at market prices, while we account for asset transfers at either market value or, in some instances, book value.

Following are operating results by individual business segment (before intersegment eliminations), including explanations of significant variances between the periods presented. As necessary for comparative purposes, we have reclassified prior period results and balances to conform to the current presentation.

Natural Gas Pipeline Company of America

	Year Ended December 31,		
	2004	**2003**	**2002**
	(In thousands except systems throughput)		
Operating Revenues.....	$ 778,877	$ 784,732	$ 699,998
Gas Purchases and Other Costs of Sales.....	$ 188,757	$ 226,599	$ 160,849
Segment Earnings.....	$ 392,806	$ 372,017	$ 359,911
Systems Throughput (Trillion Btus).....	1,539.6	1,498.6	1,480.5

NGPL's segment earnings increased from $372.0 million in 2003 to $392.8 million in 2004, an increase of $20.8 million (6%). Segment earnings for 2004 were positively impacted, relative to 2003, by (i) increased transportation and storage service revenues in 2004 resulting, in part, from successful re-

contracting of transportation capacity and the recent expansion of our storage system, (ii) increased margins from operational gas sales largely due to higher market prices, (iii) $4.0 million in contractual customer penalty charges in 2004 that were billed prior to December 1, 2003, the effective date for NGPL's Order 637 provisions, but had been reserved pending the final outcome of its Order 637 filings (see Note 8 of the accompanying Notes to Consolidated Financial Statements) and (iv) $2.3 million in pre-tax gains in 2004 from the sale of certain assets, principally land parcels in Illinois. These favorable impacts were partially offset by (i) the fact that 2003 results included increased margin associated with the favorable conclusion of a regulatory matter, (ii) increased operations and maintenance expenses in 2004 resulting principally from increased hydrostatic testing and electric compression costs and (iii) increased depreciation expense due, in part, to system expansions. NGPL's segment results for 2003 do not include a reduction of $4.1 million in interest expense attributable to the final settlement of a regulatory matter, which amount is included in "Interest Expense, Net" as discussed elsewhere herein. The decrease in overall operating revenues in 2004, relative to 2003, was largely the result of decreased operational gas sales volumes and 2003 revenue recorded in conjunction with the conclusion of a regulatory matter. NGPL's operational sales are primarily made possible by its collection of fuel in-kind pursuant to its transportation tariffs. These negative impacts on revenue were partially offset by the increase in transportation and storage service revenues and contractual customer penalty charges, as discussed above.

NGPL's segment earnings increased from $359.9 million in 2002 to $372.0 million in 2003, an increase of $12.1 million (3%). Segment earnings for 2003 were positively impacted, relative to 2002, by (i) increased margin from transportation and storage services, including operational natural gas sales, primarily resulting from expansion and extension projects coming on line during and after the end of the second quarter of 2002 as discussed below and (ii) increased margin associated with a regulatory matter that was concluded in 2003. These positive impacts were partially offset by increased depreciation expense related to the expansion and extension projects and increased property taxes. As discussed above, NGPL's segment results for 2003 do not include a reduction of $4.1 million in interest expense attributable to the final settlement of a regulatory matter. The increase in overall operating revenues, which was largely offset by a corresponding increase in cost of sales, was due to increased revenues from 2003 operational natural gas sales and increased transportation and storage revenues, largely due to expansions and extensions of pipeline and storage facilities.

In the second quarter of 2004, NGPL completed construction of 10.7 Bcf of storage service expansion at its existing North Lansing storage facility in east Texas, all of which is fully subscribed under long-term contracts. Effective September 1, 2004, NGPL acquired the Black Marlin Pipeline, a 38-mile, 30-inch pipeline that runs from Bryan County, Oklahoma to Lamar County, Texas. The Black Marlin Pipeline ties into NGPL's Amarillo/Gulf Coast line and increased this line's capacity by 38,000 dekatherms per day ("Dth/day"). This incremental capacity was fully subscribed in an open season under long-term contracts.

NGPL has announced two projects, with a combined cost of approximately $56 million, to expand services and flexibility on its systems. These projects are the Amarillo/Gulf Coast and Oklahoma Extension capacity expansion and the Sayre storage expansion. The Amarillo/Gulf Coast and Oklahoma Extension capacity expansion, pending FERC approval, will add 51,000 Dth/day of cross-haul capacity on the Amarillo/Gulf Coast line and 20,000 Dth/day of capacity on the Oklahoma Extension (a.k.a. Segment One). NGPL filed for FERC approval on December 6, 2004 and expects service to begin during the spring of 2006. All of this incremental capacity has been subscribed under long-term contracts. The additional capacity will be added by installing additional horsepower at two compressor stations and modifying existing equipment at two other compressor stations. As part of a separate open season, NGPL received shipper commitments for a 10 Bcf expansion of its Sayre Storage system in Beckham County, Oklahoma, pending FERC approval. NGPL filed for FERC approval on October 18,

2004 and expects service to begin during the spring of 2006. This incremental capacity is fully subscribed under long-term contracts. The additional capacity will be added by drilling additional wells, installing additional compression and dehydration equipment and expanding the gathering system.

Horizon Pipeline Company, which provides natural gas transportation capacity to the growing northern Illinois market, began service in the second quarter of 2002. Horizon Pipeline Company is a 50/50 joint venture with Nicor Inc. Our equity in the earnings of Horizon Pipeline Company was $1.6 million, $1.5 million and $1.3 million in 2004, 2003 and 2002, respectively. NGPL's lateral extension into the eastern portion of the St. Louis metropolitan area began service in the third quarter of 2002.

Substantially all of NGPL's pipeline capacity is committed under firm transportation contracts ranging from one to five years. Under these contracts, over 90% of the revenues are derived from a demand charge and, therefore, are collected regardless of the volume of gas actually transported. The principal impact of the actual level of gas transported is on fuel recoveries, which are received in-kind as volumes move on the system. Approximately 68% of the total transportation volumes committed under NGPL's long-term firm transportation contracts in effect on January 27, 2005 had remaining terms of less than three years. Contracts representing approximately 6% of NGPL's total long-haul, contracted firm transport capacity as of January 24, 2005 are scheduled to expire during 2005. NGPL continues to actively pursue the renegotiation, extension and/or replacement of expiring contracts. Nicor Gas and Peoples Energy, two local gas distribution companies in the Chicago, Illinois area, are NGPL's two largest customers.

For 2005, we currently expect that NGPL will experience 5% growth in segment earnings in comparison to 2004. This increase in earnings is expected to be derived primarily from an increase in storage and firm transport revenues resulting from successful re-contracting at marginally higher rates, a 4.4 Bcf storage expansion being placed in service in the spring of 2005, a full year of revenue from the Black Marlin pipeline acquisition and increased margins from operational gas sales including incremental sales of cushion gas. However, as discussed following, there are factors beyond our control that can affect our results, including developments in the regulatory arena and as yet unforeseen competitive developments. Accordingly, our actual future results may differ significantly from our projections.

Our principal exposure to market variability is related to the variation in natural gas prices and basis differentials, which can affect gross margins in our NGPL segment. "Basis differential" is a term that refers to the difference in natural gas prices between two locations or two points in time. These price differences can be affected by, among other things, natural gas supply and demand, available transportation capacity, storage inventories and deliverability, prices of alternative fuels and weather conditions. In recent periods, additional competitive pressures have been generated in Midwest natural gas markets due to the introduction and planned introduction of pipeline capacity to bring additional supplies of natural gas into the Chicago market area, although incremental pipeline capacity to take gas out of the area has also been constructed. We have attempted to reduce our exposure to this form of market variability by pursuing long-term, fixed-rate type contract agreements to utilize the capacity on NGPL's system. In addition, as discussed under "Risk Management" in Item 7A of this report and in Note 14 of the accompanying Notes to Consolidated Financial Statements, we utilize a comprehensive risk management program to mitigate our exposure to changes in the market price of natural gas and associated transportation.

The majority of NGPL's system is subject to rate regulation under the jurisdiction of the Federal Energy Regulatory Commission. Currently, there are no material proceedings challenging the rates (which include reservation, commodity, surcharges, fuel and gas lost and unaccounted for) on any of our pipeline systems. Nonetheless, shippers on our pipelines do have rights, under certain circumstances prescribed by applicable regulations, to challenge the rates we charge. There can be no assurance that we

will not face future challenges to the rates we receive for services on our pipeline systems.

TransColorado

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Operating Revenues	$ 28,795	$ 32,197	$ 7,818
Gas Purchases and Other Costs of Sales	$ 777	$ 608	$ -
Segment Earnings	$ 20,255	$ 23,112	$ 12,648

Effective November 1, 2004 we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners (see Note 5 of the accompanying Notes to Consolidated Financial Statements). TransColorado was a 50/50 joint venture with Questar Corp. until we bought Questar's interest effective October 1, 2002, thus becoming the sole owner. As a result, TransColorado's results shown above reflect our 50% equity interest in its earnings prior to October 1, 2002, 100% of its results on a consolidated basis from October 1, 2002 through October 31, 2004 and nothing thereafter, however, we will continue to participate in the results of operations of TransColorado through our equity investment in Kinder Morgan Energy Partners. We recognized a $0.6 million pre-tax loss from the contribution of TransColorado, which is included in segment earnings, as reported above. TransColorado's segment earnings decreased from $23.1 million in 2003 to $20.3 million in 2004, principally due to the fact that 2004 results include only the ten months through October 2004 and also include the $0.6 million pre-tax loss from the contribution of TransColorado. TransColorado's segment earnings increased from $12.6 million in 2002 to $23.1 million in 2003. Results for 2003, relative to 2002, reflected, in addition to a full year at the increased level of ownership, the favorable impact of wide basis differentials on certain transportation contracts.

Kinder Morgan Retail

	Year Ended December 31,		
	2004	2003	2002
	(In thousands except systems throughput)		
Operating Revenues	$ 287,197	$ 249,119	$ 259,748
Gas Purchases and Other Costs of Sales	$ 155,320	$ 122,204	$ 133,857
Segment Earnings	$ 69,264	$ 65,482	$ 64,056
Systems Throughput (Trillion Btus)	46.4	48.0	42.4

Kinder Morgan Retail's segment earnings increased by $3.8 million (6%) from 2003 to 2004. This increase was due principally to (i) increased space heating demand in the first and fourth quarters of 2004, (ii) increased grain drying demand in the fourth quarter of 2004 and (iii) continued customer growth in Colorado. These positive impacts were partially offset by reduced irrigation demand in the second and third quarters of 2004 and increased operations and maintenance and depreciation expenses in 2004 due, in part, to system expansion. The increase in operating revenues in 2004, relative to 2003, which was largely offset by an increase in gas purchases and other costs of sales, was principally due to (i) higher natural gas prices in 2004 (which, in general, are passed through as a component of the overall sales rate), (ii) the fact that a higher percentage of our Wyoming customers chose us as their natural gas supplier in 2004, either through regulated rates that pass-through the cost of gas to the customer, or

through our Choice Gas program (which allows competing commodity natural gas providers to sell natural gas to customers connected to our natural gas distribution system), which increased our revenues from natural gas sales (accompanied by a corresponding increase in gas purchase costs), (iii) increased revenues from non-regulated merchandise sales and (iv) continued customer growth in Colorado. These positive impacts to 2004 revenues were partially offset by reduced irrigation demand in the second and third quarters of 2004. Our weather hedging program continued to contribute to stability in Kinder Morgan Retail's earnings pattern by reducing the impact of weather-related demand fluctuations. See Note 14 of the accompanying Notes to Consolidated Financial Statements for additional information regarding our hedging strategy. During the second quarter of 2004, Kinder Morgan Retail completed and placed into service its $20 million, 58-mile natural gas transmission pipeline from Montrose to Ouray, Colorado. We expect to add about 3,000 Western Slope customers via this pipeline over the next five years.

Kinder Morgan Retail's segment earnings increased from $64.1 million in 2002 to $65.5 million in 2003, an increase of $1.4 million (2.2%). Segment earnings were positively impacted in 2003, relative to 2002, by (i) increased margins resulting from a full year of our Choice Gas program in certain of our service territories, (ii) continued customer growth in existing service territories, particularly Colorado, and (iii) reduced operations and maintenance expenses. These positive impacts were partially offset by (i) reduced demand during the 2003 irrigation season, (ii) increased 2003 depreciation expense resulting from asset additions and (iii) the inclusion in 2002 results of a $1.6 million property tax refund from an affiliated shipper. The decrease in operating revenues in 2003, relative to 2002, principally resulted from a full year of our Choice Gas program in certain of our service territories, which decreased our revenues from natural gas sales (accompanied by a corresponding decrease in gas purchase costs), although we continued to receive the same margin for transporting the gas. The increase in throughput volumes in 2003 was the result of increased demand for natural gas used in space heating as a result of colder weather and continued customer growth, partially offset by lower irrigation season demand.

For 2005, we currently expect that Kinder Morgan Retail will experience approximately 2% growth in segment earnings. With a stable base of earnings due to regulated business, supplemented by a weather hedging program, increased earnings are expected to derive largely from the addition of new customers in existing service territories, especially certain high-growth areas in Colorado. However, as discussed following, there are factors beyond our control that can affect our results, including developments in the regulatory arena, currently unforeseen competitive developments and weather-related impacts outside our hedging program. For these and other reasons, our actual future results may differ significantly from our projections.

A significant portion of Kinder Morgan Retail's business is subject to rate regulation by each respective state's utility commission in Colorado, Wyoming and Nebraska. There are currently no material proceedings to change the base rates on any of our intrastate pipeline or distribution systems. Nonetheless, there can be no assurance that we will not face future challenges to the rates we receive for these services. Kinder Morgan Retail is also subject to market variability in natural gas prices and basis differentials. Please refer to the discussion of basis differentials under the heading "Natural Gas Pipeline Company of America" in this Item.

Power

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Operating Revenues	$ 70,064	$ 31,849	$ 47,784
Gas Purchases and Other Costs of Sales	$ 4,710	$ 4,850	$ 3,943
Segment Earnings[1]	$ 15,255	$ 22,076	$ 36,673

[1] Does not include (i) pre-tax charges of $33.5 million, $44.5 million and $134.5 million in 2004, 2003 and 2002, respectively, to record the impairment of certain assets, (ii) incremental earnings of $18.5 million in 2004 reflecting (1) the recognition of previously deferred revenues associated with construction of the Jackson, Michigan power generation facility, (2) gains from the sale of surplus power generation equipment and (3) the settlement of certain litigation. Results for 2003 exclude a pre-tax loss of $2.9 million resulting from the sale of natural gas reserves by an equity-method investee. These items are discussed below.

Due to the adoption of a recently issued accounting standard, the results of operations of our Triton Power affiliates are included in our consolidated operating results and in the results of our Power segment beginning in 2004. Although the results of Triton have an impact on the total operating revenues and expenses of the Power business segment, after taking into account the associated minority interests, the consolidation of Triton had no effect on Power's segment earnings.

Power's segment earnings, as reported above, decreased by $6.8 million (31%) from 2003 to 2004. Segment earnings for 2004 were negatively impacted, relative to 2003, primarily because 2003 results included $6.8 million in development fees for the Jackson, Michigan power plant. Certain surplus power generation equipment was sold during 2004 and 2003 (see Note 5 of the accompanying Notes to Consolidated Financial Statements). We recorded $3.9 million of pre-tax gains from these sales in 2004, which are excluded from segment earnings as reported above. In addition, we recorded revenues of $13.3 million and $1.3 million in 2004 resulting from development fees associated with the Jackson, Michigan power plant and the favorable settlement of litigation matters, respectively, which are excluded from the tabular presentation of segment earnings as reported above.

Segment revenues and segment earnings, as reported above, decreased by $15.9 million and $14.6 million, respectively, from 2003 to 2002. These decreases were expected, and principally resulted from reduced development fees due to the 2002 completed construction of the Jackson, Michigan and Wrightsville, Arkansas power plants, as well as our decision to exit the power development business. This decision is discussed below, as well as the reductions we have recorded in the carrying value of certain of our power investments.

In February 2001, Kinder Morgan Power announced an agreement under which Williams Energy Marketing and Trading agreed to supply natural gas to and market capacity for 16 years for a 550-megawatt natural gas-fired Orion technology electric power plant in Jackson, Michigan. Effective July 1, 2002, construction of this facility was completed and commercial operations commenced. Concurrently with commencement of commercial operations, (i) Kinder Morgan Power made a preferred investment in Triton Power Company LLC (now valued at approximately $119 million); and (ii) Triton Power Company LLC, through its wholly owned subsidiary, Triton Power Michigan LLC, entered into a 40-year lease of the Jackson power facility from the plant owner, AlphaGen Power, LLC. Williams Energy Marketing and Trading supplies all natural gas to and purchases all power from the power plant under a 16-year tolling agreement with Triton Power Michigan LLC. Our preferred equity interest has no management or voting rights, but does retain certain protective rights, and is entitled to a

cumulative return, compounded monthly, of 9.0% per annum. No income was recorded in 2004 and no income is expected in 2005 from this preferred investment due to the fact that the dividend on this preferred is not currently being paid, and uncertainty concerning the date at which such distributions will be received.

In May 2000, Kinder Morgan Power and Mirant Corporation (formerly Southern Energy Inc.) announced plans to build a 550 megawatt natural gas-fired electric power plant in Wrightsville, Arkansas, utilizing Kinder Morgan Power's Orion technology. Construction of this facility was completed on July 1, 2002 and commercial operations commenced. Mirant Corporation operates and maintains the Wrightsville facility and manages the natural gas supply and electricity sales for the project company that owns the power plant. Kinder Morgan Power made an investment in the project company, comprised primarily of preferred stock. This facility has not been dispatched significantly since July 1, 2002 and, while the dispatch decision is made by Mirant and not by us, we believe that dispatch has not occurred largely due to unfavorable economic circumstances surrounding the market for the power that would be generated. During the third quarter of 2003, we announced that Mirant had placed the Wrightsville, Arkansas plant in bankruptcy in October, and we would assess the long-term prospects for this facility during the fourth quarter. In December 2003, we completed our analysis and determined that it was no longer appropriate to assign any carrying value to our investment in this facility and recorded a $44.5 million pre-tax charge, effectively writing off our remaining investment in the Wrightsville power facility. This charge is excluded from the tabular presentation of segment earnings as reported above.

During 2002, we noted that a number of factors had negatively affected Power's business environment and certain of its current operations. These factors, which are currently expected to continue in the near to intermediate term, include (i) volatile and generally declining prices for wholesale electric power in certain markets, (ii) cancellation and/or postponement of the construction of a number of new power generation facilities, (iii) difficulty in obtaining air permits with acceptable operating conditions and constraints and (iv) a marked deterioration in the financial condition of a number of participants in the power generating and marketing business, including participants in the power plants in Jackson, Michigan and Wrightsville, Arkansas. During the fourth quarter of 2002, after completing an analysis of these and other factors to determine their impact on the market value of these assets and the prospects for this business in the future, we (i) determined that we would no longer pursue power development activities and (ii) recorded a $134.5 million pre-tax charge to reduce the carrying value of our investments in (1) sites for future power plant development, (2) power plants and (3) turbines and associated equipment. This charge is excluded from the tabular presentation of segment earnings as reported above.

Since 1998, we have had an investment in a 76 megawatt gas-fired power generation facility located in Greeley, Colorado. We became concerned with the value of this investment as a result of several recent circumstances including the expiration of a gas purchase contract, the amendment of the associated power purchase agreement and uncertainties surrounding the management of this facility, which has changed ownership twice in the last one and one-half years. These ownership changes made it difficult for us to obtain information necessary to forecast the future of this asset. During the fourth quarter of 2004, we concluded that we had sufficient information to determine that our investment had been impaired and, accordingly, reduced our carrying value by $26.1 million. This charge is excluded from the tabular presentation of segment earnings as reported above.

During 2003 and 2004, we sold six of our surplus turbines and certain associated equipment, including certain equipment to Kinder Morgan Energy Partners (see Note 5 of the accompanying Notes to Consolidated Financial Statements). Recognizing the effects of changes in technology and the limited improvement of the general economies of the electric generation industry, we determined that the

carrying values of our remaining turbines and associated equipment should be reduced. In the fourth quarter of 2004, we reduced the carrying value of these assets by $7.4 million. This charge is excluded from segment earnings as reported above. We are continuing our efforts to sell the remaining inventory of surplus turbines and associated equipment, which had a carrying value of $23.5 million at December 31, 2004.

Pursuant to a right we obtained in conjunction with the 1998 acquisition of the Thermo Companies, in December 2003, we made an additional investment in our Colorado power businesses in the form of approximately 1.8 million Kinder Morgan Management shares that we owned. We delivered these shares to an entity controlled by the former Thermo owners, which entity is required to retain the shares until they vest (400,000 shares will vest each January 1 of 2004, 2005 and 2006, with the remainder vesting on January 1, 2007). We will continue to receive distributions made by Kinder Morgan Management attributable to the unvested shares. We recorded our increased investment based on the third-party-determined $56.1 million fair value of the shares as of the contribution date, with a corresponding liability representing our obligation to deliver vested shares in the future. The effect of this incremental investment will be to increase our ownership interest in the Thermo entities beginning in 2010.

We expect that 2005 segment earnings from Power will decline by an insignificant amount. Actual future results may differ significantly from our projections.

Earnings from Our Investment in Kinder Morgan Energy Partners

The impact on our pre-tax earnings from our investment in Kinder Morgan Energy Partners was as follows:

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
General Partner Interest, Including Minority Interest in the Operating Limited Partnerships	$403,535	$333,675	$277,024
Limited Partner Units (Kinder Morgan Energy Partners)	41,061	36,516	42,920
Limited Partner i-units (Kinder Morgan Management)	113,482	94,776	72,191
	558,078	464,967	392,135
Pre-tax Minority Interest in Kinder Morgan Management	(81,082)	(66,642)	(53,631)
Pre-tax Earnings from Investment in Kinder Morgan Energy Partners	$476,996	$398,325	$338,504

For 2005, pre-tax earnings attributable to our investment in Kinder Morgan Energy Partners are expected to increase by approximately 18% due to, among other factors, improved performance from existing assets. However, there are factors beyond the control of Kinder Morgan Energy Partners that may affect its results, including developments in the regulatory arena and as yet unforeseen competitive developments or acquisitions. Additional information on Kinder Morgan Energy Partners is contained in its Annual Report on Form 10-K for the year ended December 31, 2004.

Other Income and (Expenses)

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Interest Expense, Net	$ (133,219)	$ (139,588)	$ (161,935)
Interest Expense – Deferrable Interest Debentures[1]	(21,912)	-	-
Interest Expense – Capital Trust Securities[1]	-	(10,956)	-
Equity in Earnings of Kinder Morgan Energy Partners	558,078	464,967	392,135
Equity in Earnings of Power Segment[2]	8,537	8,839	7,674
Equity in Earnings of Horizon Pipeline	1,615	1,501	1,316
Equity in Earnings of TransColorado	-	-	3,980
Other Equity in Losses[3]	-	(2,889)	(179)
Minority Interests[1]	(56,420)	(52,493)	(55,720)
Net Gains (Losses) from Sales of Assets	1,952	(4,423)	13,030
Other, Net	2,556	5,253	8,111
Loss on Early Extinguishment of Debt	(3,894)	-	(2,349)
	$ 357,293	$ 270,211	$ 206,063

[1] The expense associated with our capital trust securities was included in "Minority Interests" prior to the third quarter of 2003 ($10.9 million for the year ended December 31, 2003). Due to our adoption of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* the expense associated with these securities was included in "Interest Expense – Capital Trust Securities" beginning with the third quarter of 2003. Due to our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, the subsidiary trusts associated with our capital trust securities are no longer consolidated, effective December 31, 2003. The associated expense is included in "Interest Expense – Deferrable Interest Debentures" for the year ended December 31, 2004.

[2] Excludes a loss of $2.9 million in 2003 resulting from the sale of natural gas reserves by an equity-method investee.

[3] Includes a loss of $2.9 million in 2003 resulting from the sale of natural gas reserves by an equity-method investee.

"Other Income and (Expenses)" increased from income of $270.2 million in 2003 to income of $357.3 million in 2004, an increase of $87.1 million. This increase was principally due to (i) increased equity in the earnings of Kinder Morgan Energy Partners due, in part, to acquisitions made and strong performance from the assets held by Kinder Morgan Energy Partners, (ii) decreased interest expense, reflecting reduced debt outstanding offset by a slight increase in interest rates and (iii) a $6.4 million increase in gains from sales of assets (see Note 5 of the accompanying Notes to Consolidated Financial Statements). These positive impacts were partially offset by a $3.9 million loss on early extinguishment of debt (see Note 12 of the accompanying Notes to Consolidated Financial Statements) and a $14.9 million increase in minority interest expense.

"Other Income and (Expenses)" increased from income of $206.1 million in 2002 to income of $270.2 million in 2003, an increase of $64.1 million. This increase was principally due to (i) increased equity in the earnings of Kinder Morgan Energy Partners due, in part, to the strong performance from the assets held by Kinder Morgan Energy Partners and (ii) decreased interest expense, reflecting reduced interest rates and reduced debt outstanding. These positive impacts were partially offset by (i) a $17.5 million decrease in 2003 gains from sales of assets and (ii) a $4.0 million decrease in equity in earnings of TransColorado, which was 100% owned by us during 2003 and was contributed during 2004 as discussed under "TransColorado."

Income Taxes – Continuing Operations

The income tax provision decreased from $244.6 million in 2003 to $226.7 million in 2004, a decrease of $17.9 million (7.3%). The net decrease of $17.9 million results from (i) a reduction of $70.3 million due to the impact of a lower effective tax rate on previously recorded net deferred tax liabilities, (ii) an increase of $44.2 million attributable to $128.9 million additional income from continuing operations,

(iii) an increase of $2.5 million attributable to Kinder Morgan Management minority interest and (iv) an increase of $5.7 million attributable to other items. The reduction in the effective tax rate from 2003 to 2004 was principally due to a decrease in the component of the overall estimated effective tax rate attributable to state income taxes resulting from, among other factors, changes in apportionment of consolidated taxable income among the various states.

The income tax provision increased from $135.0 million in 2002 to $244.6 million in 2003, an increase of $109.6 million (81.2%) due mainly to an increase of $183.6 million in income from continuing operations before income taxes. In addition, the income tax provision for 2002 was lower due to the combined impacts of (i) a decrease of approximately $21.0 million due to the impact of the lower effective tax rate on previously recorded deferred tax liabilities, (ii) a decrease of approximately $17.7 million due to the resolution of certain issues with respect to prior year tax returns at amounts less than those previously accrued and (iii) a decrease of approximately $3.6 million due to the impact of a dividends received deduction. The reduction in the effective tax rate from 2002 to 2003 resulted principally from a change in the estimated effective tax rate for state income taxes as discussed above. See Note 11 of the accompanying Notes to Consolidated Financial Statements for additional information on income taxes.

Income Taxes - Realization of Deferred Tax Assets

At December 31, 2004, we had a capital loss carryforward of approximately $56.1 million. A capital loss carryforward can be utilized to reduce capital gain during the five years succeeding the year in which a capital loss is incurred. The amounts and the years in which our capital loss carryforward expires are $52.5 million during 2005, $1.6 million during 2006 and $2.0 million during 2008.

Management has concluded that it is more likely than not that this deferred tax asset will be realized through the sale of assets which will generate sufficient capital gain to fully utilize the capital loss carryforward during the periods specified above. Management has identified our limited partner interests in Kinder Morgan Energy Partners, L.P. and our common stock ownership in Kinder Morgan Management as specific assets that could be sold to generate capital gain. Management intends to sell between 2.4 million and 2.8 million of our approximate 15.1 million Kinder Morgan Management shares to achieve utilization of the capital loss carryforward.

No valuation allowance has been provided with respect to this deferred tax asset.

Discontinued Operations

During 1999, we adopted and implemented plans to discontinue the following lines of business: (i) gathering and processing of natural gas, including short-haul intrastate pipelines and providing field services to natural gas producers, (ii) wholesale marketing of natural gas and natural gas liquids, (iii) international operations and (iv) the direct marketing of non-energy products and services. During 2000, we completed the disposition of these businesses, with the exception of international operations (principally consisting of a natural gas distribution system in Hermosillo, Mexico) which, in the fourth quarter of 2000, we decided to retain. During the fourth quarters of 2004 and 2002, we recorded incremental losses of approximately $6.4 million and $5.0 million (net of tax benefits of $3.8 million and $3.1 million), respectively, to increase previously recorded liabilities to reflect updated estimates and reflect the impact of settled litigation. We had a remaining liability of approximately $9.0 million at December 31, 2004 associated with these discontinued operations, representing legal obligations and an indemnification obligation associated with our sale of assets to ONEOK, Inc. We do not expect significant additional financial impacts associated with these matters. Note 7 of the accompanying Notes

to Consolidated Financial Statements contains certain additional financial information with respect to these discontinued operations.

Liquidity and Capital Resources

Primary Cash Requirements

Our primary cash requirements, in addition to normal operating, general and administrative expenses, are for debt service, capital expenditures, common stock repurchases and quarterly cash dividends to our common shareholders. Our capital expenditures other than sustaining capital expenditures, our common stock repurchases and our quarterly cash dividends to our common shareholders are discretionary. Our capital expenditures for 2005 are currently expected to be approximately $138.9 million. We expect to fund these expenditures with existing cash and cash flows from operating activities. In addition to utilizing cash generated from operations, we could meet these cash requirements through borrowings under our credit facilities, issuing short-term commercial paper, long-term notes or additional shares of common stock.

Invested Capital

The following table illustrates the sources of our invested capital. Our ratio of total debt to total capital has declined significantly in recent periods. This decline has resulted from a number of factors, including our increased cash flows from operations as discussed under "Cash Flows" following. In recent periods, we have significantly increased our dividends per share and have announced our intention to consider further increases on an annual basis, and we maintain an ongoing program to repurchase outstanding shares of our common stock. For these reasons, among others, any declines in our ratio of total debt to total capital in the future may be smaller.

In addition to the direct sources of debt and equity financing shown in the following table, we obtain financing indirectly through our ownership interests in unconsolidated entities as shown under "Significant Financing Transactions" following. Our largest such unconsolidated investment is in Kinder Morgan Energy Partners. See "Investment in Kinder Morgan Energy Partners" following. In addition to our results of operations, these balances are affected by our financing activities as discussed following.

	December 31,		
	2004	2003	2002
		(Dollars in thousands)	
Long-term Debt:			
Outstanding Notes and Debentures	$ 2,257,950	$ 2,837,487	$ 2,852,181
Deferrable Interest Debentures Issued to Subsidiary Trusts[1]	283,600	283,600	-
Value of Interest Rate Swaps[2]	88,243	88,242	139,589
	2,629,793	3,209,329	2,991,770
Minority Interests	1,105,436	1,010,140	967,802
Common Equity, Excluding Accumulated Other Comprehensive Loss	2,919,496	2,691,800	2,399,716
Capital Trust Securities[1]	-	-	275,000
	6,654,725	6,911,269	6,634,288
Less Value of Interest Rate Swaps	(88,243)	(88,242)	(139,589)
Capitalization	6,566,482	6,823,027	6,494,699
Short-term Debt, Less Cash and Cash Equivalents[3]	328,480	121,824	465,614
Invested Capital	$ 6,894,962	$ 6,944,851	$ 6,960,313
Capitalization:			
Outstanding Notes and Debentures	34.4%	41.6%	43.9%
Minority Interests	16.8%	14.8%	14.9%
Common Equity	44.5%	39.4%	37.0%
Capital Trust Securities	-	-	4.2%
Deferrable Interest Debentures Issued to Subsidiary Trusts	4.3%	4.2%	-
Invested Capital:			
Total Debt[4]	37.5%	42.6%	47.7%
Common Equity, Excluding Accumulated Other Comprehensive Loss and Including Capital Trust Securities, Deferrable Interest Debentures Issued to Subsidiary Trusts and Minority Interests	62.5%	57.4%	52.3%

[1] As a result of our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, effective December 31, 2003, the subsidiary trusts associated with these securities are no longer consolidated.
[2] See "Significant Financing Transactions" following.
[3] Cash and cash equivalents netted against short-term debt were $176,520, $11,076 and $35,653 for December 31, 2004, 2003 and 2002, respectively.
[4] Outstanding notes and debentures plus short-term debt, less cash and cash equivalents.

We employ a centralized cash management program that essentially concentrates the cash assets of our subsidiaries in joint accounts for the purpose of providing financial flexibility and lowering the cost of borrowing. Our centralized cash management program provides that funds in excess of the daily needs of our subsidiaries be concentrated, consolidated, or otherwise made available for use by other entities within our consolidated group. We place no restrictions on the ability to move cash between entities, payment of intercompany balances or the ability to upstream dividends to parent companies.

In addition, NGPL is subject to FERC-enacted reporting requirements for oil and natural gas pipeline companies that participate in cash management programs. FERC-regulated entities subject to these rules

must, among other things, place their cash management agreements in writing, maintain current copies of the documents authorizing and supporting their cash management agreements, and file documentation establishing the cash management program with the FERC.

Short-term Liquidity

Our principal sources of short-term liquidity are our revolving bank facilities, our commercial paper program (which is supported by our revolving bank facilities) and cash provided by operations. As of December 31, 2004, we had available an $800 million five-year credit facility dated August 18, 2004. This credit facility replaced a $445 million 364-day credit facility dated October 14, 2003 and a $355 million three-year revolving credit agreement dated October 15, 2002, and can be used for general corporate purposes, including as backup for our commercial paper program. At December 31, 2004 and February 3, 2005, we had no commercial paper issued and outstanding. After inclusion of applicable outstanding letters of credit that reduce our borrowing capacity under the credit facility, the remaining available borrowing capacity under the bank facility was $767.8 million and $762.0 million at December 31, 2004 and February 3, 2005, respectively. This bank facility includes financial covenants and events of default that are common in such arrangements. These credit facility terms are discussed in Note 12 of the accompanying Notes to Consolidated Financial Statements.

Our current maturities of long-term debt of $505 million at December 31, 2004 consisted of (i) $5 million of current maturities of our 6.50% Series Debentures due September 1, 2013 (which are payable September 1, 2005) and (ii) $500 million of 6.65% Series Senior Notes due March 1, 2005. We paid the $500 million due on our 6.65% Senior Notes on March 1, 2005 with a combination of cash on hand and borrowings under our commercial paper program. Apart from our current maturities of long-term debt, our current assets exceeded our current liabilities by approximately $135.4 million at December 31, 2004. Given our expected cash flows from operations and our unused debt capacity as discussed preceding, including our five-year revolving credit facility, and based on our projected cash needs in the near term, we do not expect any liquidity issues to arise. Our next significant debt maturity, apart from our 6.65% Senior Notes in 2005 mentioned above, is our $300 million of 6.80% Senior Notes in 2008.

Significant Financing Transactions

On October 21, 2004, we retired our $75 million 8.75% Debentures due October 15, 2024 at 104.0% of the face amount. We recorded a loss of $2.4 million (net of associated tax benefit of $1.5 million) in connection with this early extinguishment of debt, which is included under the caption "Other, Net" in the accompanying Consolidated Statement of Operations for 2004.

On March 3, 2003, our $500 million of 6.45% Senior Notes matured, and we paid the holders of the notes, utilizing a combination of cash on hand and incremental short-term borrowing.

On November 1, 2002, we retired the full $35 million of our 8.35% Series Sinking Fund Debentures due September 15, 2022 at 104.175% of the face amount. We recorded a loss of $1.0 million (net of associated tax benefit of $0.7 million) in connection with this early extinguishment of debt. This loss, and the loss recorded in conjunction with the early extinguishment of debt associated with the retirement of our 7.85% Series Debentures described below, are included under the caption "Other, Net" in the accompanying Consolidated Statement of Operations for 2002.

On October 10, 2002, we retired our $200 million of Floating Rate Notes due October 10, 2002, utilizing a combination of cash and incremental short-term debt. Effective September 1, 2002, we retired our $24 million of 7.85% Series Debentures due September 1, 2022 at par. We recorded a loss of

$420,000 (net of associated tax benefit of $275,000) in conjunction with this early extinguishment of debt, consisting of the unamortized debt expense associated with these debentures.

On August 27, 2002, we issued $750 million of our 6.50% Senior Notes due September 1, 2012, in an offering made pursuant to Rule 144A of the regulations of the Securities and Exchange Commission, with registration rights. The proceeds were used to retire our short-term notes payable then outstanding, with the balance invested in short-term commercial paper and money market funds. On November 18, 2002, we completed an exchange offer to exchange these notes for our 6.50% Senior Notes due September 1, 2012, which have been registered under the Securities Act of 1933. These new notes have the same form and terms and evidence the same debt as the original notes, and were offered for exchange to satisfy our obligation to exchange the original notes for registered notes. In December 2002, we re-opened this issue and sold an additional $250 million of 6.50% Senior Notes, which we also exchanged for registered securities pursuant to our currently effective registration statement on Form S-4, in an exchange offer that was completed on March 21, 2003.

On August 14, 2001, we announced a program to repurchase $300 million of our outstanding common stock, which program was increased to $400 million, $450 million, $500 million, $550 million and $750 million in February 2002, July 2002, November 2003, April 2004 and November 2004, respectively. As of December 31, 2004, we had repurchased a total of approximately $561.2 million (10,728,700 shares) of our outstanding common stock under the program, of which $108.6 million (1,695,900 shares), $38.0 million (724,600 shares) and $144.3 million (3,013,400 shares) were repurchased in the years ended December 31, 2004, 2003 and 2002, respectively. In January 2003, our board of directors approved a plan to purchase shares of Kinder Morgan Management on the open market. During 2003 we purchased $0.9 million (29,000 shares) of Kinder Morgan Management stock.

As further described under "Risk Management" in Item 7A of this report, we had outstanding fixed-to-floating interest rate swap agreements with a notional principal amount of $1.5 billion at December 31, 2004. These agreements, entered into in August 2001, September 2002 and November 2003, effectively convert the interest expense associated with our 7.25% Debentures due in 2028 and our 6.50% Senior Notes due in 2012 from fixed to floating rates based on the three-month London Interbank Offered Rate ("LIBOR") plus a credit spread. These swaps are accounted for as fair value hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.*

On March 3, 2003, we terminated the interest rate swap agreements associated with our 6.65% Senior Notes due in 2005 and received $28.1 million. We are amortizing this amount (as a reduction to interest expense) over the remaining period the 6.65% Senior Notes are outstanding. The unamortized balance of $2.3 million at December 31, 2004 is included in the caption "Value of Interest Rate Swaps" under the heading "Long-term Debt" in the accompanying Consolidated Balance Sheet.

On January 31, 2005, we received $17.5 million for the sale of 413,516 Kinder Morgan Management shares that we owned. In conjunction with this sale, we recorded a gain of $2.8 million (net of associated taxes of $1.7 million).

On November 10, 2004, Kinder Morgan Management closed the issuance and sale of 1,300,000 listed shares in a privately negotiated transaction with a single purchaser. None of the shares in the offering were purchased by us. Kinder Morgan Management used the net proceeds of approximately $52.6 million from the offering to buy additional i-units from Kinder Morgan Energy Partners. Additional information concerning the business of, and our obligations to, Kinder Morgan Management is contained in Kinder Morgan Management's 2004 Annual Report on Form 10-K.

On March 25, 2004, Kinder Morgan Management closed the issuance and sale of 360,664 listed shares

in a privately negotiated transaction with a single purchaser. None of the shares in the offering were purchased by us. Kinder Morgan Management used the net proceeds of approximately $14.9 million from the offering to buy additional i-units from Kinder Morgan Energy Partners.

By approval of Kinder Morgan Management shareholders other than us, effective at the close of business on July 23, 2002, we no longer have an obligation, upon presentation by the holder thereof, to exchange publicly held Kinder Morgan Management shares for either Kinder Morgan Energy Partners common units that we own or, at our election, cash.

On August 6, 2002, Kinder Morgan Management closed the issuance and sale of 12,478,900 limited liability shares in an underwritten public offering. The net proceeds of approximately $328.6 million from the offering were used by Kinder Morgan Management to buy i-units from Kinder Morgan Energy Partners. We did not purchase any of the offered shares. In addition, during 2003 and 2002, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made contributions totaling $1.8 million and $3.4 million, respectively. The earnings recorded by Kinder Morgan Management that are attributable to its shares held by the public are reported as "Minority Interests" in our Consolidated Statements of Operations.

We have invested in entities that are not consolidated in our financial statements. Additional information regarding the nature and business purpose of these investments is included in Notes 2 and 5 of the accompanying Notes to Consolidated Financial Statements. Our obligations with respect to these investments are summarized following.

Off-Balance Sheet Arrangements

	At December 31, 2004					
Entity	Investment Amount	Investment Percent	Entity Assets[1]	Entity Debt	Incremental Investment Obligation	Our Debt Responsibility
			(Millions of Dollars)			
Ft. Lupton Power Plant..	$ 141.3[2]	49.5%	$ 140.9	$ 97.3[3]	-	$ -
Horizon Pipeline Company.....	18.2	50.0%	87.7	49.5[3]	-	-
Kinder Morgan Energy Partners.....	3,198.5	18.5%	10,552.9	4,852.6[5]	-[4]	733.5[5]

[1] At recorded value, in each case consisting principally of property, plant and equipment.

[2] Does not include any portion of the goodwill recognized in conjunction with the 1998 acquisition of the Thermo Companies.

[3] Debtors have recourse only to the assets of the entity, not to the owners.

[4] When Kinder Morgan Energy Partners issues additional equity, we are required to contribute an amount to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships. See "Investment in Kinder Morgan Energy Partners" following.

[5] We would only be obligated if Kinder Morgan Energy Partners and/or its assets cannot satisfy its obligations. In addition, Kinder Morgan G.P., Inc., our subsidiary that is the general partner of Kinder Morgan Energy Partners, is obligated to support the operations and debt service payments of Kinder Morgan Energy Partners. This obligation, however, does not arise until the assets of Kinder Morgan Energy Partners have been fully utilized in meeting its own obligations and, in any event, does not extend beyond the assets of Kinder Morgan G.P., Inc.

Aggregate Contractual Obligations

	Total	Amount of Commitment Expiration Per Period			
		Less than 1 year	2-3 years	4-5 years	After 5 years
			(In millions)		
Contractual Obligations:					
Long-term Debt, Including Current Maturities:					
Principal Payments	$3,046.6	$ 505.0	$ 10.0	$ 310.0	$2,221.6
Interest Payments[1]	3,461.9	193.6	353.1	321.2	2,594.0
Operating Leases[2]	550.5	30.5	57.6	46.5	415.9
Gas Purchase Contracts[3]	19.1	7.0	12.1	-	-
Discontinued Operations Indemnification[4]	4.6	-	4.6	-	-
Pension and Postretirement Benefit Plans[5]					
Total Contractual Cash Obligations	$7,082.7	$ 736.1	$ 437.4	$ 677.7	$5,231.5
Other Commercial Commitments:					
Standby Letters of Credit[6]	$ 32.2	$ 32.2	$ -	$ -	$ -
Capital Expenditures[7]	$ 2.2	$ 2.2	$ -	$ -	$ -

[1] Interest payments have not been adjusted for any amounts receivable related to our interest rate swaps outstanding. See Item 7A *Quantitative and Qualitative Disclosures About Market Risk.*

[2] Approximately $519.2 million, $20.3 million, $40.8 million, $41.1 million and $417.0 million in each respective column is attributable to the lease obligation associated with the Jackson, Michigan power generation facility. The project company that is the lessee of this facility is consolidated as of December 31, 2003, as a result of the adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities.*

[3] We are obligated to purchase natural gas at above-market prices from certain wells in Montana through the life of the field, production from which is currently expected to become uneconomic in 2007. We have recorded a liability for our probable losses under these contracts; see Note 1(N) of the accompanying Notes to Consolidated Financial Statements.

[4] In conjunction with a disposal of certain discontinued operations in 1999, we agreed to indemnify the purchasing party from losses associated with the sale of certain natural gas volumes from a processing facility. This obligation of $4.6 million as of December 31, 2004 will be settled as these volumes are sold and the indemnification payments are made.

[5] We currently do not expect to make significant contributions to these plans in the next few years, although we could elect or be required to make such contributions depending on, among other factors, the return generated by plan assets and changes in actuarial assumptions.

[6] The $32.2 million in letters of credit outstanding at December 31, 2004 consisted of the following: (i) four letters of credit, totaling $13.0 million, required under provisions of our property and casualty, worker's compensation and general liability insurance policies, (ii) a $10.7 million letter of credit supporting the subordination of operating fees payable to us for operation of the Jackson, Michigan power generation facility to payments due under the operating lease of the facilities, (iii) a $6.6 million letter of credit associated with the outstanding debt of Thermo Cogeneration Partnership, L.P., the entity responsible for the operation of our Colorado power generation assets and (iv) a $1.9 million letter of credit supporting Thermo Cogeneration Partnership, L.P.'s performance under its contract with Public Service Company of Colorado, the principal customer of our Colorado power generation assets.

[7] The 2005 capital expenditure budget totals approximately $138.9 million. Approximately $2.2 million of this amount had been committed for the purchase of plant and equipment at December 31, 2004.

We expect to have sufficient liquidity to satisfy our near-term obligations through the combination of free cash flow and our credit facilities.

Contingent Liabilities:	Contingency	Amount of Contingent Liability at December 31, 2004
Guarantor of the Bushton Gas Processing Plant Lease[1]	Default by ONEOK, Inc.	Total $189.1 million; Averages $23 million per year through 2012
Jackson, Michigan Power Plant Incremental Investment	Operational Performance	$3 to 8 million per year for 14 years
Jackson, Michigan Power Plant Incremental Investment	Cash Flow Performance	Up to a total of $25 million beginning in the 17th year following commercial operations

[1] In conjunction with our sale of the Bushton gas processing facility to ONEOK, Inc., at December 31, 1999, ONEOK became primarily liable under the associated operating lease and we became secondarily liable. Should ONEOK, Inc. fail to make payments as required under the lease, we would be required to make such payments, with recourse only to ONEOK.

Investment in Kinder Morgan Energy Partners

At December 31, 2004, we owned, directly, and indirectly in the form of i-units corresponding to the number of shares of Kinder Morgan Management, approximately 34.8 million limited partner units of Kinder Morgan Energy Partners. These units, which consist of 14.4 million common units, 5.3 million Class B units and 15.1 million i-units, represent approximately 16.8% of the total limited partner interests of Kinder Morgan Energy Partners. In addition, we are the sole stockholder of the general partner of Kinder Morgan Energy Partners, which holds an effective 2% interest in Kinder Morgan Energy Partners and its operating partnerships. Together, our limited partner and general partner interests represented approximately 18.5% of Kinder Morgan Energy Partners' total equity interests at December 31, 2004. We receive quarterly distributions on the i-units owned by Kinder Morgan Management in additional i-units, and distributions on our other units in cash.

In addition to distributions received on our limited partner interests and our Kinder Morgan Management shares as discussed above, we also receive an incentive distribution from Kinder Morgan Energy Partners as a result of our ownership of the general partner interest in Kinder Morgan Energy Partners. This incentive distribution is calculated in increments based on the amount by which quarterly distributions to unit holders exceed specified target levels as set forth in Kinder Morgan Energy Partners' partnership agreement, reaching a maximum of 50% of distributions allocated to the general partner for quarterly distributions above $0.23375 per limited partner unit. Including both our general and limited partner interests in Kinder Morgan Energy Partners, at the 2004 distribution level, we received approximately 51% of all quarterly distributions made by Kinder Morgan Energy Partners, of which approximately 41% is attributable to our general partner interest and 10% is attributable to our limited partner interest. The actual level of distributions we will receive in the future will vary with the level of distributable cash determined in accordance with Kinder Morgan Energy Partners' partnership agreement.

We reflect our investment in Kinder Morgan Energy Partners under the equity method of accounting and, accordingly, report our share of Kinder Morgan Energy Partners' earnings as "Equity in Earnings" in our Consolidated Statement of Operations in the period in which such earnings are reported by Kinder Morgan Energy Partners.

Cash Flows

The following discussion of cash flows should be read in conjunction with the accompanying Consolidated Statements of Cash Flows and related supplemental disclosures. All highly liquid investments purchased with an original maturity of three months or less are considered to be cash

equivalents.

Net Cash Flows from Operating Activities

"Net Cash Flows Provided by Operating Activities" increased from $601.5 million in 2003 to $644.4 million in 2004, an increase of $42.9 million (7.1%). This positive variance is principally due to (i) a $66.3 million increase in cash distributions received in 2004 attributable to our interest in Kinder Morgan Energy Partners (see the discussion following), (ii) a $19.3 million reduction in cash paid for interest during 2004, (iii) a $7.0 million decrease in cash paid for income taxes during 2004 and (iv) an increase of $22.5 million in 2004 cash attributable to the change in the balance of deferred purchased gas costs. Cash flows attributable to deferred purchased gas costs vary with the relationship between the amount actually paid for natural gas and the amount currently included in regulated rates. This difference is recovered or refunded through subsequent rate adjustments. These positive impacts were partially offset by, (i) a decrease of $52.3 million in cash inflows for gas in underground storage during 2004 and (ii) the fact that 2003 included $28.1 million of cash proceeds received from termination of an interest rate swap (see "Significant Financing Transactions" for further information regarding this transaction). Significant period-to-period variations in cash used or generated from gas in storage transactions are due to changes in injection and withdrawal volumes as well as fluctuations in natural gas prices.

"Net Cash Flows Provided by Operating Activities" increased from $430.8 million in 2002 to $601.5 million in 2003, an increase of $170.7 million (39.6%). This positive variance is principally due to (i) a $58.7 million increase in cash distributions received in 2003 attributable to our interests in Kinder Morgan Energy Partners, (ii) $28.1 million of cash proceeds received in 2003 from termination of an interest rate swap, (iii) an increase of $44.8 million in cash inflows from gas in underground storage during 2003, (iv) a $13.6 million decrease in cash outflows during 2003 for pension contributions in excess of expense and (v) the fact that cash flows in 2002 included $22.1 million of cash outflows for a litigation settlement. These positive impacts were partially offset by an increase of $12.8 million in 2003 cash outflows for deferred purchased gas costs.

In general, distributions from Kinder Morgan Energy Partners are declared in the month following the end of the quarter to which they apply and are paid in the month following the month of declaration to the general partner and unit holders of record as of the end of the month of declaration. Therefore, the accompanying Statements of Consolidated Cash Flows for 2004, 2003 and 2002 reflect the receipt of $435.3 million, $369.0 million and $310.3 million, respectively, of cash distributions from Kinder Morgan Energy Partners for (i) the fourth quarter of 2003 and the first nine months of 2004, (ii) the fourth quarter of 2002 and the first nine months of 2003 and (iii) the fourth quarter of 2001 and the first nine months of 2002, respectively. The cash distributions attributable to our interest for the three months and twelve months ended December 31, 2004 total $124.4 million and $458.3 million, respectively. The cash distributions attributable to our interest for the three months and twelve months ended December 31, 2003 total $101.4 million and $383.5 million, respectively. The cash distributions attributable to our interest for the three months and twelve months ended December 31, 2002 total $86.9 million and $326.9 million, respectively. The increases in distributions during 2004 and 2003 reflect, among other factors, acquisitions made by Kinder Morgan Energy Partners and improvements in its results of operations. Summarized financial information for Kinder Morgan Energy Partners is contained in Note 2 of the accompanying Notes to Consolidated Financial Statements.

Net Cash Flows from Investing Activities

"Net Cash Flows Used in Investing Activities" decreased from $171.7 million in 2003 to $7.3 million in 2004, a decrease of $164.4 million (95.7%). This decreased use of cash is principally due to (i) $210.8 million of proceeds received from Kinder Morgan Energy Partners in 2004 for the contribution of TransColorado, (ii) $33.5 million of additional proceeds received for sales of surplus natural gas-fired turbines and boilers in 2004 and (iii) the fact that 2003 included $11.3 million of expenditures for other investments, partially offset by (i) an additional $72.3 million investment in Kinder Morgan Energy Partners during 2004, which primarily consisted of Kinder Morgan Management's purchase of additional i-units from Kinder Morgan Energy Partners with the proceeds of an issuance of its shares as discussed under "Net Cash Flows from Financing Activities" following, (ii) the fact that 2003 included an additional $6.4 million of net proceeds from sales of other assets, (iii) additional capital expenditures of $3.4 million during 2004 and (iv) an increase of $6.5 million in 2004 investments in margin deposits associated with hedging activities utilizing energy derivative instruments.

"Net Cash Flows Used in Investing Activities" decreased from $823.1 million in 2002 to $171.7 million in 2003, a decrease of $651.4 million (79.1%). This decreased use of cash is principally due to the fact that 2002 included (i) a $331.9 million investment in i-units of Kinder Morgan Energy Partners, (ii) a $183.6 million cash outflow for investments in power plant facilities, (iii) payment of $95.6 million (net of cash acquired) for the acquisition of the remaining 50% interest in the TransColorado interstate pipeline system, (iv) $38.4 million in capital expenditures for the NGPL pipeline extension to East St. Louis, Illinois, (v) $25 million for acquisition of the Sayre natural gas storage facility and (vi) a $16.5 million investment in Horizon Pipeline Company.

Net Cash Flows from Financing Activities

"Net Cash Flows Used in Financing Activities" increased from $454.4 million in 2003 to $471.7 million in 2004, an increase of $17.3 million (3.8%). This increase is principally due to (i) a $127.9 million reduction in short-term debt in 2004 as compared to incremental short-term borrowings of $127.9 million in 2003, (ii) $78 million of cash used in 2004 for the early retirement of our $75 million 8.75% Debentures due October 15, 2024 (see Note 12 of the accompanying Notes to Consolidated Financial Statements), (iii) a $143.4 million increase in cash paid for common stock dividends in 2004, principally due to the increased dividends declared per share (see discussion following in this section), (iv) a $70.6 million decreased source of cash from short-term advances to unconsolidated affiliates during 2004 and (v) a $64.7 million increase in cash paid during 2004 to repurchase our common shares. Partially offsetting these factors were (i) the fact that 2003 included $500 million of cash used to retire our 6.45% Senior Notes, (ii) $67.5 million of proceeds, net of issuance costs, from the issuance of Kinder Morgan Management shares in 2004 and (iii) an increase of $20.7 million received in 2004 for issuance of our common stock, principally as a result of the exercise of employee stock options.

"Net Cash Flows (Used in) Provided by Financing Activities" decreased from a source of $411.8 million in 2002 to a use of $454.4 million in 2003, an increased net cash use of $866.2 million. This increased net use of cash was principally due to (i) $500 million of cash used in 2003 to retire our 6.45% Senior Notes, (ii) an increase of $98.6 million paid in 2003 for common stock dividends, principally due to the increased dividends declared per share and (iii) the fact that 2002 included proceeds, net of issuance costs, of $328.6 million from the issuance of Kinder Morgan Management shares and $995.6 million of net proceeds from the issuance of our 6.50% Senior Notes due September 1, 2012. Partially offsetting these factors were (i) a $551.7 million increase during 2003 in cash flows related to short-term borrowing, (ii) the fact that 2002 included cash used for repayment of $200 million of Floating Rate Notes and $60.5 million for the early retirement of our 7.85% Debentures due September 1, 2022 and our 8.35% Sinking Fund Debentures due September 15, 2022 (see Note 12 of the accompanying Notes

to Consolidated Financial Statements), (iii) a $111.1 million decreased use of cash during 2003 to repurchase our common shares and (iv) a $108.9 million increased source of cash from net repayment of short-term advances to unconsolidated affiliates during 2003.

Total cash payments for dividends were $278.7 million, $135.3 million and $36.7 million in 2004, 2003 and 2002, respectively. The increases in these amounts are principally due to increases in the dividends declared per common share and, to a minor extent, to increased shares outstanding. In January 2005, we increased our quarterly common dividend to $0.70 per share ($2.80 annualized). On February 14, 2005, we paid a dividend at the increased rate of $0.70 per share to shareholders of record as of January 31, 2005.

As discussed under "Business Strategy" elsewhere in this report, our intention is to maintain a capital structure that provides stability and flexibility, while returning value to our shareholders through dividends and share repurchases. In recent periods, we have increased our common stock dividends in response to changes in income tax laws that have made dividends a more efficient way to return cash to our shareholders. Our Board of Directors generally considers our dividend policy in conjunction with its January meeting and has recently shown a pattern of increasing dividends, although the Board determines dividend policy on an annual basis. The Board considers a number of factors in reaching its decision with respect to dividend policy including our historical and projected cash flows, our expected allocation of funds to share repurchases and, as discussed above, changes in laws that may affect the taxation of dividends to our shareholders. We currently expect that our cash flows will be adequate to maintain at least our current level of dividends for 2005, although changes in our economic circumstances, in the economic circumstances of our industry or of the economy in general could cause the Board to reconsider our dividend policy at any time.

Litigation and Environmental

Our anticipated environmental capital costs and expenses for 2005, including expected costs for remediation efforts, are approximately $4.2 million, compared to approximately $4.4 million of such costs and expenses incurred in 2004. We had an environmental reserve of approximately $12.9 million at December 31, 2004, to address remediation issues associated with approximately 40 projects. This reserve has not been discounted or reduced for expected insurance recoveries. Our reserve estimates range in value from approximately $12.9 million to $16.1 million, and the lower end of the range has been accrued as no amount within the range is considered more likely than any other. In addition, we have recorded a receivable of $1.2 million for expected cost recoveries that have been deemed probable. Our reserve is primarily established to address and clean up soil and ground water impacts from former releases to the environment at facilities we have acquired. Reserves for each project are generally established by reviewing existing documents, conducting interviews and performing site inspections to determine the overall size and impact to the environment. Reviews are made on a quarterly basis to determine the status of the cleanup and the costs associated with the effort and to identify if the reserve allocation is appropriately valued. In assessing environmental risks in conjunction with proposed acquisitions, we review records relating to environmental issues, conduct site inspections, interview employees, and, if appropriate, collect soil and groundwater samples. After consideration of reserves established, we believe that costs for environmental remediation and ongoing compliance with environmental regulations will not have a material adverse effect on our cash flows, financial position or results of operations or diminish our ability to operate our businesses. However, there can be no assurances that future events, such as changes in existing laws, the promulgation of new laws, or the development or discovery of new or existing facts or conditions will not cause us to incur significant unanticipated costs.

Refer to Notes 9(A) and 9(B) of the accompanying Notes to Consolidated Financial Statements for

additional information on our pending environmental and litigation matters, respectively. We believe we have established adequate environmental and legal reserves such that the resolution of pending environmental matters and litigation will not have a material adverse impact on our business, cash flows, financial position or results of operations. However, changing circumstances could cause these matters to have a material adverse impact.

Regulation

The Pipeline Safety Improvement Act of 2002 was signed into law on December 17, 2002, providing guidelines in the areas of testing, education, training and communication. The Act requires pipeline companies to perform integrity tests on natural gas transmission pipelines that exist in high population density areas that are designated as High Consequence Areas. Pipeline companies are required to perform the integrity tests within ten years of the date of enactment and must perform subsequent integrity tests on a seven year cycle. At least 50% of the highest risk segments must be tested within five years of the enactment date. The risk ratings are based on numerous factors, including the population density in the geographic regions served by a particular pipeline, as well as the age and condition of the pipeline and its protective coating. Testing consists of hydrostatic testing, internal electronic testing, or direct assessment of the piping. In addition to the pipeline integrity tests, pipeline companies must implement a qualification program to make certain that employees are properly trained. The United States Department of Transportation has approved our qualification program. We believe that we are in substantial compliance with this law's requirements and have integrated appropriate aspects of this pipeline safety law into our Operator Qualification Program, which is already in place and functioning. NGPL estimates that the average annual incremental expenditure associated with the Pipeline Safety Improvement Act of 2002 is approximately $8 million to $10 million.

See Note 8 of the accompanying Notes to Consolidated Financial Statements and "Business and Properties – Regulation" in Items 1 and 2 for additional information regarding regulatory matters.

Recent Accounting Pronouncements

Refer to Note 20 of the accompanying Notes to Consolidated Financial Statements for information regarding recent accounting pronouncements.

Information Regarding Forward-looking Statements

This filing includes forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as "anticipate," "believe," "intend," "plan," "projection," "forecast," "strategy," "position," "continue," "estimate," "expect," "may," or the negative of those terms or other variations of them or comparable terminology. In particular, statements, express or implied, concerning future actions, conditions or events, future operating results or the ability to generate sales, income or cash flow or to pay dividends are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future actions, conditions or events and future results of operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. Specific factors that could cause actual results to differ from those in the forward-looking statements include:

- price trends and overall demand for natural gas liquids, refined petroleum products, oil, carbon dioxide, natural gas, electricity, coal and other bulk materials and chemicals in the United States;

- economic activity, weather, alternative energy sources, conservation and technological advances that may affect price trends and demand;
- changes in our tariff rates or those of Kinder Morgan Energy Partners implemented by the FERC or another regulatory agency or, with respect to Kinder Morgan Energy Partners, the California Public Utilities Commission;
- Kinder Morgan Energy Partners' ability and our ability to acquire new businesses and assets and integrate those operations into existing operations, as well as the ability to expand our respective facilities;
- difficulties or delays experienced by railroads, barges, trucks, ships or pipelines in delivering products to or from Kinder Morgan Energy Partners' terminals or pipelines or our pipelines;
- Kinder Morgan Energy Partners' ability and our ability to successfully identify and close acquisitions and make cost-saving changes in operations;
- shut-downs or cutbacks at major refineries, petrochemical or chemical plants, ports, utilities, military bases or other businesses that use Kinder Morgan Energy Partners' or our services or provide services or products to Kinder Morgan Energy Partners or us;
- changes in laws or regulations, third-party relations and approvals, decisions of courts, regulators and governmental bodies that may adversely affect our business or our ability to compete;
- our ability to offer and sell equity securities and debt securities or obtain debt financing in sufficient amounts to implement that portion of our business plan that contemplates growth through acquisitions of operating businesses and assets and expansions of our facilities;
- our indebtedness could make us vulnerable to general adverse economic and industry conditions, limit our ability to borrow additional funds and/or place us at competitive disadvantages compared to our competitors that have less debt or have other adverse consequences;
- interruptions of electric power supply to our facilities due to natural disasters, power shortages, strikes, riots, terrorism, war or other causes;
- our ability to obtain insurance coverage without a significant level of self-retention of risk;
- acts of nature, sabotage, terrorism or other acts causing damage greater than our insurance coverage limits;
- capital markets conditions;
- the political and economic stability of the oil producing nations of the world;
- national, international, regional and local economic, competitive and regulatory conditions and developments;
- our ability to achieve cost savings and revenue growth;
- inflation;
- interest rates;
- the pace of deregulation of retail natural gas and electricity;
- foreign exchange fluctuations;

- the timing and extent of changes in commodity prices for oil, natural gas, electricity and certain agricultural products;
- the timing and success of business development efforts; and
- unfavorable results of litigation involving Kinder Morgan Energy Partners and the fruition of contingencies referred to in Kinder Morgan Energy Partners' Annual Report on Form 10-K for the year ended December 31, 2004. Our future results also could be adversely impacted by unfavorable results of litigation and the fruition of contingencies referred to in Note 9 "Environmental and Legal Matters" to the Consolidated Financial Statements included elsewhere in this report.

You should not put undue reliance on any forward-looking statements. See Items 1 and 2 "Business and Properties – Risk Factors" for a more detailed description of these and other factors that may affect the forward-looking statements. When considering forward-looking statements, one should keep in mind the risk factors described in "Risk Factors" above. The risk factors could cause our actual results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to update the above list or to announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Risk Management

The following discussion should be read in conjunction with Note 14 of the accompanying Notes to Consolidated Financial Statements, which contains additional information on our risk management activities. Our derivative activities are accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* collectively, "Statement 133."

We enter into derivative contracts solely for the purpose of hedging exposures that accompany our normal business activities. In accordance with the provisions of Statement 133, we designated these instruments as hedges of various exposures as discussed following, and we test the effectiveness of changes in the value of these hedging instruments in offsetting the risk being hedged. Hedge ineffectiveness is recognized in income in the period in which it occurs. We enter into these transactions only with counterparties whose debt securities are rated investment grade by the major rating agencies. While we will continue to enter into derivative transactions only with investment grade counterparties and actively monitor their credit ratings, it is nevertheless possible that losses will result from counterparty credit risk in the future.

Our businesses require that we purchase, sell and consume natural gas. Specifically, we purchase, sell and/or consume natural gas (i) to serve our regulated natural gas distribution sales customers, (ii) to serve certain of our retail natural gas distribution customers in areas where regulatory restructuring has provided for competition in natural gas supply, for customers who have selected the Company as their supplier of choice under our Choice Gas program, (iii) as fuel in one of our Colorado power generation facilities, (iv) as fuel for compressors located on NGPL's pipeline system and (v) for operational sales of gas by NGPL. With respect to item (i), we have no commodity risk because the regulated retail gas distribution regulatory structure provides that actual gas cost is "passed-through" to our customers. With respect to item (iii), our exposure is minimal and primarily consists of basis rather than commodity risk.

With respect to item (iv), this fuel is supplied by in-kind fuel recoveries that are part of the transportation tariff. Items (ii) and (v) give rise to natural gas commodity price risk, which we have chosen to substantially mitigate through our risk management program, utilizing financial derivative products.

Under our Choice Gas program, customers in certain areas served by Kinder Morgan Retail are allowed to choose their natural gas supplier from a list of qualified suppliers, although the transportation of the natural gas to the homes and businesses continues to be provided by Kinder Morgan Retail in all cases. When those customers choose Kinder Morgan Retail as their Choice Gas supplier, we enter into agreements providing for sales of gas to these customers during a one-year period at fixed prices per unit, but variable volumes. We mitigate the risk associated with these anticipated sales of gas by purchasing natural gas futures contracts on the New York Mercantile Exchange ("NYMEX") and, as applicable, over-the-counter basis swaps to mitigate the risk associated with the difference in price changes between Henry Hub (NYMEX) basis and the expected physical delivery location. In addition, we mitigate a portion of the volumetric risk through the purchase of over-the-counter natural gas options. The time period covered by this risk management strategy does not extend beyond one year.

With respect to operational sales of natural gas made by NGPL, we are exposed to risk associated with changes in the price of natural gas during the periods in which these sales are made. We mitigate this risk by selling natural gas futures and, as discussed above, over-the-counter basis swaps, on the NYMEX in the periods in which we expect to make these sales. In general, we do not hedge this exposure for periods in excess of 18 months.

We use a Value-at-Risk model to measure the risk of price changes in the crude oil, natural gas and natural gas liquids markets. Value-at-Risk is a statistical measure of how much the marked-to-market value of a portfolio could change during a period of time, within a certain level of statistical confidence. We use a closed form model to evaluate risk on a daily basis. Our Value-at-Risk computations use a confidence level of 97.7% for the resultant price movement and a holding period of one day chosen for the calculation. The confidence level used means that there is a 97.7% probability that the mark-to-market losses for a single day will not exceed the Value-at-Risk amount presented. During 2004, Value-at-Risk reached a high of $11.7 million and a low of $5.4 million. Value-at-Risk at December 31, 2004, was $9.6 million and, based on quarter-end values, averaged $8.1 million for 2004.

Our calculated Value-at-Risk exposure represents an estimate of the reasonably possible net losses that would be recognized on our portfolio of derivatives assuming hypothetical movements in future market rates, and is not necessarily indicative of actual results that may occur. It does not represent the maximum possible loss or any expected loss that may occur, since actual future gains and losses will differ from those estimated. Actual gains and losses may differ from estimates due to actual fluctuations in market rates, operating exposures and the timing thereof, as well as changes in our portfolio of derivatives during the year. In addition, as discussed preceding, we enter into these derivatives solely for the purpose of mitigating the risks that accompany our normal business activities and, therefore, the change in the market value of our portfolio of derivatives is, with the exception of a minor amount of hedging inefficiency, offset by changes in the value of the underlying physical transactions.

During the three years ended December 31, 2004, all of our natural gas derivative activities were designated and qualified as cash flow hedges. We recognized a pre-tax loss of approximately $1,354,000 in 2004, a pre-tax gain of approximately $56,000 in 2003 and a pre-tax loss of approximately $46,000 in 2002 as a result of ineffectiveness of these hedges, which amounts are reported within the caption "Gas Purchases and Other Costs of Sales" in the accompanying Consolidated Statements of Operations. There was no component of these derivative instruments' gain or loss excluded from the assessment of hedge effectiveness.

As the hedged sales and purchases take place and we record them into earnings, we also reclassify the gains and losses included in accumulated other comprehensive income into earnings. We expect to reclassify into earnings, during 2005, substantially all of the balance of approximately $138,000 in accumulated other comprehensive income representing unrecognized net losses on derivative activities at December 31, 2004. During the three years ended December 31, 2004, we reclassified no gains or losses into earnings as a result of the discontinuance of cash flow hedges due to a determination that the forecasted transactions would no longer occur by the end of the originally specified time period.

We also provide certain administrative risk management services to Kinder Morgan Energy Partners, although Kinder Morgan Energy Partners retains the obligations and rights arising from all derivative transactions entered into on its behalf.

Our business activities expose us to credit risk with respect to collection of accounts receivable. In order to mitigate that risk, we routinely monitor the credit status of our existing and potential customers. When customers' credit ratings do not meet our requirements for the extension of unsupported credit, we obtain cash prepayments or letters of credit. Note 1(G) of the accompanying Notes to Consolidated Financial Statements provides information on the amount of prepayments we have received.

We have outstanding fixed-to-floating interest rate swap agreements with a notional principal amount of $1.5 billion at December 31, 2004. These agreements, entered into in August 2001, September 2002 and November 2003, effectively convert the interest expense associated with our 7.25% Debentures due in 2028 and our 6.50% Senior Notes due in 2012 from fixed rates to floating rates based on the three-month London Interbank Offered Rate ("LIBOR") plus a credit spread. These swaps have been designated as fair value hedges and we have accounted for them utilizing the "shortcut" method prescribed for qualifying fair value hedges under Statement 133. Accordingly, the carrying value of the swap is adjusted to its fair value as of the end of each reporting period, and an offsetting entry is made to adjust the carrying value of the debt securities whose fair value is being hedged. The fair value of these swaps of $85.9 million at December 31, 2004 is included in the caption "Deferred Charges and Other Assets" in the accompanying Consolidated Balance Sheet. We record interest expense equal to the floating rate payments, which is accrued monthly and paid semi-annually. Based on the long-term debt effectively converted to floating rate debt as a result of the swaps discussed above, the market risk related to a 1% change in interest rates would result in a $15.0 million annual impact on pre-tax income.

On March 3, 2003, we terminated the interest rate swap agreements associated with our 6.65% Senior Notes due in 2005 and received $28.1 million. We are amortizing this amount (reducing interest expense) over the remaining period the 6.65% Senior Notes are outstanding. The unamortized balance of $2.3 million at December 31, 2004 is included in the caption "Value of Interest Rate Swaps" under the heading "Long-term Debt" in the accompanying Consolidated Balance Sheet.

Item 8. *Financial Statements and Supplementary Data.*

INDEX

Report of Independent Registered Public Accounting Firm

To the Board of Directors
and Stockholders of Kinder Morgan, Inc.

We have completed an integrated audit of Kinder Morgan, Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Kinder Morgan, Inc. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12(C) and Note 1(P) to the consolidated financial statements, the Company changed its method of accounting for its Capital Trust Securities effective December 31, 2003.

As discussed in Note 17(A) to the consolidated financial statements, the Company changed its method of accounting for its investment in Triton Power Company LLC effective December 31, 2003.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and

operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Houston, Texas
March 4, 2005

CONSOLIDATED STATEMENTS OF OPERATIONS
Kinder Morgan, Inc. and Subsidiaries

	Year Ended December 31,		
	2004	2003	2002
	(In thousands except per share amounts)		
Operating Revenues:			
Natural Gas Transportation and Storage	$ 731,289	$ 689,566	$ 628,172
Natural Gas Sales	336,550	351,349	312,764
Other	97,094	56,982	74,319
Total Operating Revenues	1,164,933	1,097,897	1,015,255
Operating Costs and Expenses:			
Gas Purchases and Other Costs of Sales	349,564	354,261	311,224
Operations and Maintenance	158,356	123,188	125,565
General and Administrative	77,841	71,741	73,496
Depreciation and Amortization	118,742	117,528	106,496
Taxes, Other Than Income Taxes	28,975	30,573	27,282
Impairment of Power Investments	33,527	44,513	134,525
Total Operating Costs and Expenses	767,005	741,804	778,588
Operating Income	397,928	356,093	236,667
Other Income and (Expenses):			
Equity in Earnings of Kinder Morgan Energy Partners	558,078	464,967	392,135
Equity in Earnings of Other Equity Investments	10,152	7,451	12,791
Interest Expense, Net	(133,219)	(139,588)	(161,935)
Interest Expense – Deferrable Interest Debentures	(21,912)	-	-
Interest Expense – Capital Trust Securities	-	(10,956)	-
Minority Interests	(56,420)	(52,493)	(55,720)
Other, Net	614	830	18,792
Total Other Income and (Expenses)	357,293	270,211	206,063
Income from Continuing Operations Before Income Taxes	755,221	626,304	442,730
Income Taxes	226,717	244,600	135,019
Income from Continuing Operations	528,504	381,704	307,711
Loss on Disposal of Discontinued Operations, Net of Tax	(6,424)	-	(4,986)
Net Income	$ 522,080	$ 381,704	$ 302,725
Basic Earnings (Loss) Per Common Share:			
Income from Continuing Operations	$ 4.27	$ 3.11	$ 2.52
Loss on Disposal of Discontinued Operations	(0.05)	-	(0.04)
Total Basic Earnings Per Common Share	$ 4.22	$ 3.11	$ 2.48
Number of Shares Used in Computing Basic Earnings (Loss) Per Common Share	123,778	122,605	122,184
Diluted Earnings (Loss) Per Common Share:			
Income from Continuing Operations	$ 4.23	$ 3.08	$ 2.49
Loss on Disposal of Discontinued Operations	(0.05)	-	(0.04)
Total Diluted Earnings Per Common Share	$ 4.18	$ 3.08	$ 2.45
Number of Shares Used in Computing Diluted Earnings (Loss) Per Common Share	124,938	123,824	123,402
Dividends Per Common Share	$ 2.25	$ 1.10	$ 0.30

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Kinder Morgan, Inc. and Subsidiaries

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Net Income	$ 522,080	$ 381,704	$ 302,725
Other Comprehensive Income (Loss), Net of Tax:			
Change in Fair Value of Derivatives Utilized for Hedging Purposes (Net of Tax Benefit of $4,647, $16,251 and $23,880, respectively)	(7,922)	(26,515)	(36,837)
Reclassification of Change in Fair Value of Derivatives to Net Income (Net of Tax of $9,010, $24,680 and $4,467, respectively)	14,971	40,267	6,031
Adjustment to Recognize Minimum Pension Liability (Net of Tax of $10,865 and Tax Benefit of $10,865, respectively)	-	17,727	(17,727)
Equity in Other Comprehensive Loss of Equity Method Investees (Net of Tax Benefit of $41,604, $15,897 and $5,996, respectively)	(71,950)	(25,935)	(9,784)
Minority Interest in Other Comprehensive Loss of Equity Method Investees	35,842	13,492	3,730
Total Other Comprehensive Income (Loss)	(29,059)	19,036	(54,587)
Comprehensive Income	$ 493,021	$ 400,740	$ 248,138

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS
Kinder Morgan, Inc. and Subsidiaries

	December 31, 2004	December 31, 2003
	(In thousands)	
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$ 176,520	$ 11,076
Restricted Deposits	38,049	17,158
Accounts Receivable, Net:		
Trade	82,544	75,903
Related Parties	5,859	1,584
Note Receivable	4,594	-
Inventories	41,781	22,096
Gas Imbalances	5,625	33,320
Other	114,286	115,183
	469,258	276,320
Investments:		
Kinder Morgan Energy Partners	2,305,212	2,106,312
Goodwill	918,076	972,380
Other	176,143	208,860
	3,399,431	3,287,552
Property, Plant and Equipment, Net	5,851,965	6,083,937
Deferred Charges and Other Assets	396,247	388,902
Total Assets	$10,116,901	$10,036,711
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current Liabilities:		
Current Maturities of Long-term Debt	$ 505,000	$ 5,000
Notes Payable	-	127,900
Accounts Payable:		
Trade	58,119	61,385
Related Parties	180	10,632
Accrued Interest	67,206	68,596
Accrued Taxes	32,547	35,795
Gas Imbalances	18,254	38,494
Other	157,503	128,559
	838,809	476,361
Other Liabilities and Deferred Credits:		
Deferred Income Taxes	2,530,065	2,477,329
Other	148,044	197,435
	2,678,109	2,674,764
Long-term Debt:		
Outstanding Notes and Debentures	2,257,950	2,837,487
Deferrable Interest Debentures Issued to Subsidiary Trusts	283,600	283,600
Value of Interest Rate Swaps	88,243	88,242
	2,629,793	3,209,329
Minority Interests in Equity of Subsidiaries	1,105,436	1,010,140
Commitments and Contingent Liabilities (Notes 9 and 17)		
Stockholders' Equity:		
Preferred Stock (Note 13)	-	-
Common Stock-		
Authorized – 150,000,000 Shares, Par Value $5 Per Share; Outstanding – 134,198,905 and 132,229,622 Shares, Respectively, Before Deducting 10,666,801 and 8,912,660 Shares Held in Treasury	670,995	661,148
Additional Paid-in Capital	1,863,145	1,780,761
Retained Earnings	975,912	732,492
Treasury Stock	(558,844)	(446,095)
Deferred Compensation	(31,712)	(36,506)
Accumulated Other Comprehensive Loss	(54,742)	(25,683)
Total Stockholders' Equity	2,864,754	2,666,117
Total Liabilities and Stockholders' Equity	$10,116,901	$10,036,711

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Kinder Morgan, Inc. and Subsidiaries

	Year Ended December 31,					
	2004		2003		2002	
	Shares	Amount	Shares	Amount	Shares	Amount
			(Dollars in thousands)			
Common Stock:						
Beginning Balance	132,229,622	$ 661,148	129,861,650	$ 649,308	129,092,689	$ 645,463
Employee Benefit Plans	1,969,283	9,847	2,367,972	11,840	768,961	3,845
Ending Balance	134,198,905	670,995	132,229,622	661,148	129,861,650	649,308
Additional Paid-in Capital:						
Beginning Balance		1,780,761		1,681,042		1,652,846
Revaluation of Kinder Morgan Energy Partners (KMP) Investment (Note 5)		(462)		(4,070)		(29,350)
Gain on KMP Units Exchanged for Kinder Morgan Management (KMR) Shares (Note 3)		-		-		35,720
Employee Benefit Plans		63,459		71,531		22,025
Tax Benefits from Employee Benefit Plans		19,376		29,974		-
Other		11		2,284		(199)
Ending Balance		1,863,145		1,780,761		1,681,042
Retained Earnings:						
Beginning Balance		732,492		486,062		219,995
Net Income		522,080		381,704		302,725
Cash Dividends, Common Stock		(278,660)		(135,274)		(36,658)
Ending Balance		975,912		732,492		486,062
Treasury Stock at Cost:						
Beginning Balance	(8,912,660)	(446,095)	(8,168,241)	(406,630)	(5,165,911)	(263,967)
Treasury Stock Acquired	(1,695,900)	(108,578)	(724,600)	(37,988)	(3,013,400)	(144,269)
Treasury Stock Issued	-	-	-	-	17,827	889
Employee Benefit Plans	(58,241)	(4,171)	(19,819)	(1,477)	(6,757)	717
Ending Balance	(10,666,801)	(558,844)	(8,912,660)	(446,095)	(8,168,241)	(406,630)
Deferred Compensation Plans:						
Beginning Balance		(36,506)		(10,066)		(4,208)
Current Year Activity [Note 1(S)]		4,794		(26,440)		(5,858)
Ending Balance		(31,712)		(36,506)		(10,066)
Accumulated Other Comprehensive Income (Loss) (Net of Tax):						
Beginning Balance		(25,683)		(44,719)		9,868
Unrealized Gain (Loss) on Derivatives Utilized for Hedging Purposes		7,049		13,752		(30,806)
Adjustment to Recognize Minimum Pension Liability		-		17,727		(17,727)
Equity in Other Comprehensive Loss of Equity Method Investees		(71,950)		(25,935)		(9,784)
Minority Interest in Other Comprehensive Loss of Equity Method Investees		35,842		13,492		3,730
Ending Balance		(54,742)		(25,683)		(44,719)
Total Stockholders' Equity	123,532,104	$ 2,864,754	123,316,962	$ 2,666,117	121,693,409	$ 2,354,997

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Kinder Morgan, Inc. and Subsidiaries

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash Flows from Operating Activities:			
Net Income	$ 522,080	$ 381,704	$ 302,725
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:			
Loss on Disposal of Discontinued Operations, Net of Tax	6,424	-	4,986
Loss from Impairment of Power Investments	33,527	44,513	134,525
Loss on Early Extinguishment of Debt	3,894	-	2,349
Depreciation and Amortization	118,742	117,528	106,496
Deferred Income Taxes	40,737	29,330	55,748
Equity in Earnings of Kinder Morgan Energy Partners	(558,078)	(464,967)	(392,135)
Distributions from Kinder Morgan Energy Partners	435,309	369,022	310,290
Equity in Earnings of Other Equity Investments	(10,152)	(7,451)	(12,791)
Minority Interests in Income of Consolidated Subsidiaries	56,420	41,537	33,808
Deferred Purchased Gas Costs	1,899	(20,636)	(7,792)
Net (Gains) Losses on Sales of Assets	(5,899)	4,423	(2,566)
Gain from Settlement of Orcom Note	-	(2,917)	-
Litigation Settlement and Escrow Deposit	-	-	(22,050)
Pension Contribution in Excess of Expense	(4,638)	(5,101)	(18,700)
Changes in Gas in Underground Storage	(2,188)	50,075	5,291
Changes in Working Capital Items [Note 1(R)]	35,190	59,213	(52,752)
Proceeds from Termination of Interest Rate Swap	-	28,147	-
Other, Net	(23,759)	(21,171)	(11,685)
Net Cash Flows Provided by Continuing Operations	649,508	603,249	435,747
Net Cash Flows Used in Discontinued Operations	(5,079)	(1,743)	(4,930)
Net Cash Flows Provided by Operating Activities	644,429	601,506	430,817
Cash Flows from Investing Activities:			
Capital Expenditures	(164,242)	(160,804)	(174,953)
Proceeds from Contribution of TransColorado to Kinder Morgan Energy Partners	210,824	-	-
Acquisition of TransColorado	-	-	(95,560)
Other Acquisitions	-	-	(35,838)
Investment in Kinder Morgan Energy Partners (Note 2)	(74,035)	(1,784)	(331,912)
Net (Investments in) Proceeds from Margin Deposits	(20,891)	(14,375)	12,227
Other Investments	-	(11,329)	(200,958)
Exchange of Kinder Morgan Management Shares	-	-	(69)
Proceeds from Settlement of Orcom Note	-	2,727	-
Proceeds from Sales of Turbines and Boilers	42,096	8,547	-
Net (Cost of Removal) Proceeds from Sales of Assets	(1,054)	5,306	3,949
Net Cash Flows Used in Investing Activities	(7,302)	(171,712)	(823,114)
Cash Flows from Financing Activities:			
Short-term Debt, Net	(127,900)	127,900	(423,785)
Long-term Debt Issued	-	-	1,000,000
Long-term Debt Retired	(80,000)	(511,083)	(265,292)
Issuance of Shares by Kinder Morgan Management	67,603	-	343,170
Other Common Stock Issued	68,394	47,686	15,558
Premiums Paid on Early Extinguishment of Debt	(3,000)	-	(1,461)
Short-term Advances (to) from Unconsolidated Affiliates	(14,727)	55,864	(53,003)
Purchase of Kinder Morgan Management Shares	-	(928)	-
Treasury Stock Issued	-	-	1,701
Treasury Stock Acquired	(102,675)	(37,988)	(149,062)
Cash Dividends, Common Stock	(278,660)	(135,274)	(36,658)
Minority Interests, Net	(643)	(548)	(384)
Debt Issuance Costs	-	-	(4,357)
Securities Issuance Costs	(75)	-	(14,611)
Net Cash Flows Provided by (Used in) Financing Activities	(471,683)	(454,371)	411,816
Net Increase (Decrease) in Cash and Cash Equivalents	165,444	(24,577)	19,519
Cash and Cash Equivalents at Beginning of Year	11,076	35,653	16,134
Cash and Cash Equivalents at End of Year	$ 176,520	$ 11,076	$ 35,653

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

(A) Nature of Operations

We are an energy transportation, storage and related services provider and have operations in the Rocky Mountain and mid-continent regions, with principal operations in Arkansas, Colorado, Illinois, Iowa, Kansas, Louisiana, Missouri, Nebraska, New Mexico, Oklahoma, Texas and Wyoming. Our business activities include: (i) storing, transporting and selling natural gas, (ii) providing retail natural gas distribution services, and (iii) operating and, in previous periods, constructing electric generation facilities. We have both regulated and nonregulated operations. Our common stock is traded on the New York Stock Exchange under the ticker symbol "KMI." During 1999, we acquired Kinder Morgan Delaware as discussed in the following paragraph. As a result, we own, through Kinder Morgan Delaware, the general partner interest in Kinder Morgan Energy Partners, L.P., a publicly traded pipeline limited partnership, referred to in these Notes as Kinder Morgan Energy Partners. We also own a significant limited partner interest in Kinder Morgan Energy Partners and receive a substantial portion of our earnings from returns on our investment in this entity.

In October 1999, K N Energy, Inc. (as we were then named), a Kansas corporation, acquired Kinder Morgan, Inc. (Delaware), a Delaware corporation, referred to in these Notes as Kinder Morgan Delaware. We then changed our name to Kinder Morgan, Inc. Unless the context requires otherwise, references to "we," "us," "our," or the "Company" are intended to mean Kinder Morgan, Inc. (a Kansas corporation and formerly known as K N Energy, Inc.) and its consolidated subsidiaries. During 1999, we adopted and implemented plans to discontinue our businesses involved in (i) wholesale marketing of natural gas and natural gas liquids, (ii) gathering and processing of natural gas, including field services and short-haul intrastate pipelines, (iii) direct marketing of non-energy products and services and (iv) international operations. During the fourth quarter of 2000, we determined that, due to the start-up nature of our international natural gas distribution operations and the unwillingness of buyers to pay for the value created to date, it was not in the best interests of the Company to dispose of these operations and, accordingly, we decided to retain them. Additional information concerning discontinued operations is contained in Note 7.

(B) Basis of Presentation

Our consolidated financial statements include the accounts of Kinder Morgan, Inc. and its majority-owned subsidiaries. Investments in jointly owned operations in which we have the ability to exercise significant influence over their operating and financial policies are accounted for under the equity method, as is our investment in Kinder Morgan Energy Partners, which accounting is further described in Note 1(T). All material intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the current presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

(C) Accounting for Regulatory Activities

Our regulated utility operations are accounted for in accordance with the provisions of Statement of

Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation,* which prescribes the circumstances in which the application of generally accepted accounting principles is affected by the economic effects of regulation. Regulatory assets and liabilities represent probable future revenues or expenses associated with certain charges and credits that will be recovered from or refunded to customers through the ratemaking process. The following regulatory assets and liabilities are reflected in the accompanying Consolidated Balance Sheets:

	December 31,	
	2004	2003
	(In thousands)	
Regulatory Assets:		
Employee Benefit Costs	$ 1,605	$ 1,791
Debt Refinancing Costs	689	876
Deferred Income Taxes	13,866	14,843
Purchased Gas Costs	43,062	49,386
Plant Acquisition Adjustments	454	454
Rate Regulation and Application Costs	2,427	2,876
Total Regulatory Assets	62,103	70,226
Regulatory Liabilities:		
Employee Benefit Costs	-	3,009
Deferred Income Taxes	17,773	20,797
Purchased Gas Costs	2,503	6,926
Rate Regulation and Application Costs	58	-
Total Regulatory Liabilities	20,334	30,732
Net Regulatory Assets	$ 41,769	$ 39,494

The December 31, 2004 purchased gas costs balance of $43.1 million shown above as a regulatory asset includes $27.1 million in litigated gas costs. See Note 8 for additional information regarding this matter. As of December 31, 2004, $60.0 million of our regulatory assets and $20.3 million of our regulatory liabilities were being recovered from or refunded to customers through rates over periods ranging from 1 to 21 years.

(D) Revenue Recognition Policies

We recognize revenues as services are rendered or goods are delivered and, if applicable, title has passed. Our rate-regulated retail natural gas distribution business bills customers on a monthly cycle billing basis. Revenues are recorded on an accrual basis, including an estimate at the end of each accounting period for gas delivered and, if applicable, for which title has passed but bills have not yet been rendered. With respect to our power generating facility construction activities in 2002 and prior periods, we utilized the percentage of completion method whereby revenues and associated expenses are recognized over the construction period based on work performed in relation to the total expected for the entire project.

We provide various types of natural gas storage and transportation services to customers, principally through NGPL's and, prior to November 2004, TransColorado's pipeline systems. The natural gas remains the property of these customers at all times. In many cases (generally described as "firm service"), the customer pays a two-part rate that includes (i) a fixed fee reserving the right to transport or store natural gas in our facilities and (ii) a per-unit rate for volumes actually transported or injected into/withdrawn from storage. The fixed-fee component of the overall rate is recognized as revenue ratably over the contract period. The per-unit charge is recognized as revenue when the volumes are delivered to the customers' agreed upon delivery point, or when the volumes are injected into/withdrawn from our storage facilities. In other cases (generally described as "interruptible service"), there is no

fixed fee associated with the services because the customer accepts the possibility that service may be interrupted at our discretion in order to serve customers who have purchased firm service. In the case of interruptible service, revenue is recognized in the same manner utilized for the per-unit rate for volumes actually transported under firm service agreements.

(E) Earnings Per Share

Basic earnings per common share is computed based on the weighted-average number of common shares outstanding during each period. Diluted earnings per common share is computed based on the weighted-average number of common shares outstanding during each period, increased by the assumed exercise or conversion of securities convertible into common stock, for which the effect of conversion or exercise using the treasury stock method would be dilutive.

	2004	2003	2002
		(In thousands)	
Weighted Average Common Shares Outstanding	123,778	122,605	122,184
Dilutive Common Stock Options	1,160	1,219	1,218
Shares Used to Compute Diluted Earnings Per Common Share	124,938	123,824	123,402

Weighted-average stock options outstanding totaling 1.7 million for 2003 and 2.5 million for 2002 were excluded from the diluted earnings per common share calculation because the effect of including them would have been antidilutive. No options were excluded from the diluted earnings per share calculation in 2004 because none of the options would have been antidilutive. Note 16 contains more information regarding stock options.

(F) Restricted Deposits

Restricted Deposits consist of restricted funds on deposit with brokers in support of our risk management activities; see Note 14.

(G) Accounts Receivable

The caption "Accounts Receivable, Net" in the accompanying Consolidated Balance Sheets is presented net of allowances for doubtful accounts. Our policy for determining an appropriate allowance for doubtful accounts varies according to the type of business being conducted and the customers being served. An allowance for doubtful accounts is charged to expense monthly, generally using a percentage of revenue or receivables, based on a historical analysis of uncollected amounts, adjusted as necessary for changed circumstances and customer-specific information. When specific receivables are determined to be uncollectible, the reserve and receivable are relieved. In support of credit extended to certain customers, we had received prepayments of $3.8 million and $8.1 million at December 31, 2004 and 2003, respectively, included with other current liabilities in the accompanying Consolidated Balance Sheets. The following table shows the balance in the allowance for doubtful accounts and activity for the years ended December 31, 2004, 2003 and 2002.

Allowance for Doubtful Accounts

	Year Ended December 31,		
	2004	2003	2002
		(In millions)	
Beginning Balance	$ 5.2	$ 4.9	$ 3.4
Additions: Charged to Cost and Expenses	1.4	1.9	5.2
Deductions: Write-off of Uncollectible Accounts	(3.5)	(1.6)	(3.7)
Ending Balance	$ 3.1	$ 5.2	$ 4.9

(H) Inventories

	December 31, 2004	December 31, 2003
	(In thousands)	
Gas in Underground Storage (Current)	$ 28,342	$ 8,306
Materials and Supplies	13,439	13,790
	$ 41,781	$ 22,096

Inventories are accounted for using the following methods, with the percent of the total dollars at December 31, 2004 shown in parentheses: average cost (98.24%) and first-in, first-out (1.76%). All non-utility inventories held for resale are valued at the lower of cost or market. We also maintain gas in our underground storage facilities on behalf of certain third parties. We receive a fee from our storage service customers but do not reflect the value of their gas stored in our facilities in the accompanying Consolidated Balance Sheets.

(I) Current Assets: Other

	December 31, 2004	December 31, 2003
	(In thousands)	
Assets Held for Sale - Turbines and Boilers[1]	$ 23,500	$ 73,453
Current Deferred Tax Asset	30,198	-
Interest Receivable – Interest Rate Swaps	15,494	17,693
Derivatives	19,294	7,447
Prepaid Expenses	11,643	14,223
Income Tax Overpayments	6,681	-
Other	7,476	2,367
	$ 114,286	$ 115,183

[1] See Notes 5 and 6.

(J) Goodwill

	Kinder Morgan Energy Partners	Power Segment	Total
		(In thousands)	
Balance as of December 31, 2002	$ 969,230	$ 21,648	$ 990,878
Change in ownership percentage of Kinder Morgan Energy Partners related to Kinder Morgan Energy Partners common unit issuances	(21,682)	-	(21,682)
Other	-	3,184	3,184
Balance as of December 31, 2003	947,548	24,832	972,380
Change in ownership percentage of Kinder Morgan Energy Partners related to Kinder Morgan Energy Partners common unit issuances	(54,304)	-	(54,304)
Balance as of December 31, 2004	$ 893,244	$ 24,832	$ 918,076

(K) Other Investments

	December 31, 2004	December 31, 2003
	(In thousands)	
Power Investments:		
Thermo Companies[1]	$ 148,593	$ 177,269
Horizon Pipeline Company	18,244	19,317
Subsidiary Trusts Holding Solely Debentures of Kinder Morgan[2]	8,600	8,600
Other	706	3,674
	$ 176,143	$ 208,860

[1] Our investment in the Thermo Companies was reduced as a result of an impairment recorded in 2004, see Note 6.
[2] As a result of our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, effective December 31, 2003, the subsidiary trusts associated with these securities are no longer consolidated.

Investments consist primarily of equity method investments in unconsolidated subsidiaries and joint ventures, and include ownership interests in net profits. We own 49.5% interests in Thermo Cogeneration Partnership, L.P. and Greenhouse Holdings, LLC, which are accounted for under the equity method. Our investment in Horizon Pipeline Company, in which we own a 50% interest, is also accounted for under the equity method.

(L) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost, which for constructed plant includes indirect costs such as payroll taxes, other employee benefits, administrative and general costs. Expenditures that increase capacities, improve efficiencies or extend useful lives are capitalized. Routine maintenance, repairs and renewal costs are expensed as incurred. The cost of normal retirements of depreciable utility property, plant and equipment, plus the cost of removal less salvage, is recorded in accumulated depreciation with no effect on current period earnings. Gains or losses are recognized upon retirement of non-utility property, plant and equipment, and utility property, plant and equipment constituting an operating unit or system, when sold or abandoned.

As discussed under (H) preceding, we maintain gas in underground storage as part of our inventory. This component of our inventory represents the portion of gas stored in an underground storage facility generally known as "working gas," and represents an estimate of the portion of gas in these facilities available for routine injection and withdrawal to meet demand. In addition to this working gas, underground gas storage reservoirs contain injected gas which is not routinely cycled but, instead, serves the function of maintaining the necessary pressure to allow efficient operation of the facility. This gas, generally known as "cushion gas," is divided into the categories of "recoverable cushion gas" and "unrecoverable cushion gas," based on an engineering analysis of whether the gas can be economically removed from the storage facility at any point during its life. The portion of the cushion gas that is determined to be unrecoverable is considered to be a permanent part of the facility itself (thus, part of our Property, Plant & Equipment balance) and is depreciated over the facility's estimated useful life. The portion of the cushion gas that is determined to be recoverable is also considered a component of the facility but is not depreciated because it is expected to ultimately be recovered and sold.

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* we review the carrying values of our long-lived assets whenever events or changes in circumstances indicate that such carrying values may not be recoverable. In the fourth quarters of 2004, 2003 and 2002, we recorded impairments of certain assets associated with our power business; see Note 6.

(M) Asset Retirement Obligations

We adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, effective January 1, 2003. This statement changed the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The impact of the adoption of this statement on us is discussed below by segment. A reconciliation of the changes in our accumulated asset retirement obligations for the years ended December 31, 2004 and 2003 is as follows:

	Year Ended December 31,	
	2004	2003
	(In thousands)	
Balance at Beginning of Period	$ 2,151	$ -
Initial ARO Balance upon Adoption	-	3,132
Liabilities Incurred	1,053	-
Liabilities Settled	-	(1,075)
Accretion Expense	75	94
Revisions of Estimated Cash Flows	-	-
Balance at End of Period	$ 3,279	$ 2,151

In general, NGPL's system is composed of underground piping, compressor stations and associated facilities, natural gas storage facilities and certain other facilities and equipment. Except as discussed following, we have no plans to abandon any of these facilities, the majority of which have been providing utility service for many years, making it impossible to determine the timing of any potential retirement expenditures. Notwithstanding our current intentions, in general, if we were to cease utility operations in total or in any particular area, we would be permitted to abandon the underground piping in place, but would have to remove our surface facilities from land belonging to our customers or others. We would generally have no obligations for removal or remediation with respect to equipment and facilities, such as compressor stations, located on land we own.

NGPL has various condensate drip tanks located throughout the system, storage wells located within the storage fields, laterals no longer integral to the overall mainline transmission system, compressor stations which are no longer active, and other miscellaneous facilities, all of which have been officially abandoned. For these facilities, it is possible to reasonably estimate the timing of the payment of obligations associated with their retirement. The recognition of these obligations has resulted in a liability and associated asset of approximately $2.9 million as of December 31, 2004, representing the present value of those future obligations for which we are able to make reasonable estimations of the current fair value due to, as discussed above, our ability to estimate the timing of the incurrence of the expenditures. The remainder of NGPL's asset retirement obligations have not been recorded due to our inability, as discussed above, to reasonably estimate when they will be settled in cash. We will record liabilities for these obligations when we are able to reasonably estimate their fair value.

In general, our retail natural gas distribution system is composed of town border stations, regulator stations, underground piping and delivery meters. In addition, we have (i) certain other associated surface equipment, (ii) gas storage facilities in Colorado and Wyoming and (iii) one producing gas field in Colorado. Except as discussed following, we have no plans to abandon any of these facilities, the majority of which have been providing utility service for many years, making it impossible to determine the timing of any potential retirement expenditures. Notwithstanding our current intentions, if we were to cease utility operations in any particular area, we would be permitted to abandon the underground piping in place, but would have to remove our surface facilities at customer delivery points. We would

be under no obligation to remove town border stations, odorization or other miscellaneous facilities located on our property.

In our Kinder Morgan Retail storage field operations we would, upon abandonment, be required to plug and abandon the wells and to remove our surface wellhead equipment and compressors. We currently have two small sites in Wyoming that are no longer being used as active storage facilities and estimate that, in 2013, we will incur approximately $200,000 in costs to fulfill these retirement obligations. We have no plans to cease using any of our other storage facilities as they are expected to, for the foreseeable future, provide critical deliverability to our customers in severe cold weather situations. With respect to our small natural gas production field in Colorado, we will be required, upon cessation of commercial operations, to plug and abandon the natural gas wells, remove surface equipment and remediate the well sites. We have estimated that this process will start in 2007 and continue through 2013 for a total cost of $240,000, with approximately half the total being spent in the final two years. Additionally, the Colbran Processing Plant in Colorado is scheduled for removal in 2007, and we have accrued approximately $88,000 (at present value) for removal costs related to this facility. The recognition of these obligations has resulted in a liability and associated asset of approximately $0.4 million as of December 31, 2004, representing the present value of those future obligations for which we are able to make reasonable estimations of the current fair value due to, as discussed above, our ability to estimate the timing of the incurrence of the expenditures. The remainder of our asset retirement obligations have not been recorded due to our inability to reasonably estimate when they will be settled in cash. We will record liabilities for these obligations when we are able to reasonably estimate their fair value.

The facilities utilized in our power generation activities fall into two general categories: those that we own and those that we do not own. With respect to those facilities that we do not own but either operate or maintain a preferred interest in, principally the Jackson, Michigan and Wrightsville, Arkansas power plants, we have no obligation for any asset retirement obligation that may exist or arise. With respect to the Colorado power generation assets that we do own (located on land that we also own), we have no asset retirement obligation with respect to those facilities, and no direct responsibility for assets in which we own an interest accounted for under the equity method of accounting. Thus, our power generation activities do not give rise to any asset retirement obligations.

We have not presented prior period information on a pro forma basis to reflect the implementation of SFAS No. 143 because the impact in total and on each individual period is immaterial.

(N) Gas Imbalances and Gas Purchase Contracts

We value gas imbalances due to or due from interconnecting pipelines at the lower of cost or market. Gas imbalances represent the difference between customer nominations and actual gas receipts from and gas deliveries to our interconnecting pipelines under various operational balancing agreements. Natural gas imbalances are settled in cash or made up in-kind subject to the pipelines' various terms. We are obligated under certain gas purchase contracts, dating from 1973, to purchase natural gas at fixed and escalating prices from a certain field in Montana. This take obligation, which continues for the life of the field, is based on production from specific wells and, thus, varies from year to year. The total cost to purchase natural gas under these contracts is estimated to be $19.1 million. We have recorded a liability representing our estimate of probable losses resulting from the resale of these purchased quantities, which amount is evaluated and, if necessary, adjusted as new information becomes available. During 2002, this liability was increased by a pre-tax charge of approximately $12.7 million to reflect increases in both (i) estimated production volumes subject to this purchase obligation and (ii) the difference between the price to be paid under these contracts and the expected sales price. This liability was approximately $6.2 million at December 31, 2004 and is expected to result in a credit to earnings in an

amount approximating $3.1 million per year for the next two years as gas volumes are purchased and resold.

(O) Depreciation and Amortization

Depreciation on our long-lived assets is computed based on the straight-line method over their estimated useful lives. The range of estimated useful lives used in depreciating assets for each property type are as follows:

Property Type	Range of Estimated Useful Lives of Assets (In years)
Natural Gas Pipelines	24 to 68 (Transmission assets: average 56)
Retail Natural Gas Distribution	33
Power Generation	4 to 30
General and Other	3 to 56

(P) Interest Expense

"Interest Expense, Net" as presented in the accompanying Consolidated Statements of Operations is net of the debt component of the allowance for funds used during construction ("AFUDC — Interest") as shown following.

	Year Ended December 31,		
	2004	2003	2002
		(In millions)	
Interest Expense	$ 134.1	$ 140.2	$ 163.7
AFUDC — Interest	(0.9)	(0.6)	(1.8)
Interest Expense, Net	133.2	139.6	161.9
Interest Expense – Deferrable Interest Debentures	21.9	-	-
Interest Expense – Capital Trust Securities	-	10.9	-
Total Interest Expense	$ 155.1	$ 150.5	$ 161.9

The expense associated with our capital trust securities was included in "Minority Interests" prior to the third quarter of 2003 ($10.9 million for the year ended December 31, 2003). Due to our adoption of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* the expense associated with these securities was included in "Interest Expense – Capital Trust Securities" beginning with the third quarter of 2003. Due to our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, the subsidiary trusts associated with our capital trust securities are no longer consolidated, effective December 31, 2003. The associated expense is included in "Interest Expense – Deferrable Interest Debentures" for the year ended December 31, 2004.

(Q) Other, Net

"Other, Net" as presented in the accompanying Consolidated Statements of Operations includes $2.0 million, $(4.4) million and $13.0 million in 2004, 2003 and 2002, respectively, attributable to net gains/(losses) from sales of assets. These transactions are discussed in Note 5.

(R) Cash Flow Information

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. "Other, Net," presented as a component of "Net Cash Flows From Operating Activities" in the accompanying Consolidated Statements of Cash Flows includes, among other things, distributions from unconsolidated subsidiaries and joint ventures (other than Kinder Morgan Energy

Partners) and other non-cash charges and credits to income including amortization of deferred revenue and, in 2004 and 2003, amortization of the gain realized on the termination of interest rate swap agreements; see Note 14.

ADDITIONAL CASH FLOW INFORMATION

Changes in Working Capital Items
(Net of Effects of Acquisitions and Sales)
Increase (Decrease) in Cash and Cash Equivalents

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Accounts Receivable	$ (8,172)	$ 11,830	$ 45,111
Materials and Supplies Inventory	351	(136)	1,854
Other Current Assets	(8,139)	31,731	(55,444)
Accounts Payable	(242)	(10,147)	(62,449)
Other Current Liabilities	51,392	25,935	18,176
	$ 35,190	$ 59,213	$ (52,752)

Supplemental Disclosures of Cash Flow Information

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Cash Paid for:			
Interest (Net of Amount Capitalized)	$ 161,628	$ 169,931	$ 147,088
Distributions on Capital Trust Securities[1]	$ -	$ 10,956	$ 21,913
Income Taxes Paid (Net of Refunds)	$ 144,146	$ 151,104	$ 114,264

[1] Beginning with the third quarter of 2003, these distributions are included in interest expense.

Distributions received by our Kinder Morgan Management, LLC subsidiary from its investment in i-units of Kinder Morgan Energy Partners are in the form of additional i-units, while distributions made by Kinder Morgan Management, LLC to its shareholders are in the form of additional Kinder Morgan Management, LLC shares, see Note 3. A portion of the consideration received in the November 2004 contribution of TransColorado Gas Transmission Company was Kinder Morgan Energy Partners common units, see Note 5. As discussed in Note 1(S) following, during 2004, 2003 and 2002, we made non-cash grants of restricted shares of common stock. In addition, in 2003, we made an investment in our Colorado power businesses in the form of Kinder Morgan Management, LLC shares. See Note 5.

(S) Stock-Based Compensation

SFAS No. 123, *Accounting for Stock-Based Compensation*, encourages, but does not require, entities to adopt the fair value method of accounting for stock-based compensation plans. As allowed under SFAS No. 123, we continue to apply Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, compensation expense is not recognized for stock options unless the options are granted at an exercise price lower than the market price on the grant date. Had compensation cost for these plans been determined consistent with SFAS No. 123, net income and diluted earnings per share would have been reduced to the pro forma amounts shown in the table below. Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years. Additionally, the pro forma amounts include $1.0 million, $1.0 million and $1.1 million related to the purchase discount offered under the employee stock purchase plan for 2004, 2003 and 2002, respectively. Note 16 contains information regarding our common stock option and purchase plans. The

FASB recently issued SFAS No. 123R (revised 2004), *Share-Based Payment*, which will change our accounting for stock options and similar awards, see Note 20.

	Year Ended December 31,		
	2004	2003	2002
	(In thousands except per share amounts)		
Net Income As Reported	$ 522,080	$ 381,704	$ 302,725
Add: Stock-based employee compensation expense included in reported Net Income, net of related tax effects	3,174	2,107	868
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(15,772)	(16,468)	(15,365)
Pro Forma Net Income	$ 509,482	$ 367,343	$ 288,228
Basic Earnings Per Common Share:			
As Reported	$ 4.22	$ 3.11	$ 2.48
Pro Forma	$ 4.12	$ 3.00	$ 2.36
Diluted Earnings Per Common Share:			
As Reported	$ 4.18	$ 3.08	$ 2.45
Pro Forma	$ 4.08	$ 2.97	$ 2.33

The weighted-average fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,		
	2004	2003	2002
Risk-free Interest Rate (%)	3.93[1]	3.37-3.64[2]	4.01
Expected Weighted-average Life	5.7 years[1]	6.3 years[2]	6.0 years[3]
Volatility	0.39[1]	0.38-0.45[2]	0.39[3]
Expected Dividend Yield (%)	3.70[1]	1.33-2.97[2]	0.71

[1] For options granted under the 1992 Directors' Plan in January 2004, the expected weighted-average life was 4.4 years and the volatility assumption was 0.33. For options granted under the 1992 Directors' Plan in July 2004, the expected weighted-average life was 5.0 years and the volatility assumption was 0.32.

[2] The assumptions used for employee options granted in 2003 varied based on date of grant. For options granted under the 1992 Directors' Plan, the expected weighted-average life was 4.1 years and the volatility assumption was 0.45.

[3] For options granted under the 1992 Directors' Plan, the expected weighted-average life was 4.0 years and the volatility assumption was 0.45.

During 2004, 2003 and 2002, we made restricted common stock grants of 167,350, 575,000 and 162,250 shares, respectively. These grants are valued at $10.2 million, $34.0 million and $9.2 million, respectively, based on the closing market price of our common stock on either the date of grant or the measurement date, if different. Of the 167,350 restricted stock grants made in 2004, 73,550 shares vest during a three year period and 93,800 shares vest during a five year period. The 2003 restricted stock grants vest during a five year period and the 2002 grants vest over a four year period. Expense related to restricted grants is recognized on a straight-line basis over the respective vesting periods. During 2004, 2003 and 2002, we amortized $5.1 million, $3.4 million and $1.4 million, respectively, related to restricted stock grants. The unamortized value of restricted stock grants is shown in the equity section of our Consolidated Balance Sheets under the caption, "Deferred Compensation."

(T) Transactions with Related Parties

We account for our investment in Kinder Morgan Energy Partners (among other entities) under the equity method of accounting. In each accounting period, we record our share of these investees'

earnings. We adjust the amount of any recorded "equity method goodwill" when an equity method investee or a consolidated subsidiary issues additional equity (or reacquires equity shares) in any manner that alters our ownership percentage. Differences between the per unit sales proceeds (or acquisition cost) from these equity issuances (or reacquisitions) and our underlying book basis, as well as the pro rata portion of the equity method goodwill (including associated deferred taxes), are recorded directly to paid-in capital rather than being recognized as gains or losses. Several such transactions are described in Note 5. In conjunction with sales of assets to equity method investees, gains and losses are not recognized to the extent of the interest retained in the assets transferred.

KMGP Services Company, Inc., a subsidiary of Kinder Morgan G.P., Inc., provides employees and Kinder Morgan Services LLC, a subsidiary of Kinder Morgan Management, provides centralized payroll and employee benefits services to Kinder Morgan Management, Kinder Morgan Energy Partners and Kinder Morgan Energy Partners' operating partnerships and subsidiaries (collectively, the "Group"). Employees of KMGP Services Company, Inc. are assigned to work for one or more members of the Group. The direct costs of compensation, benefits expenses, employer taxes and other employer expenses for these employees are allocated and charged by Kinder Morgan Services LLC to the appropriate members of the Group, and the members of the Group reimburse their allocated shares of these direct costs. No profit or margin is charged by Kinder Morgan Services LLC to the members of the Group. Our human resources department provides the administrative support necessary to implement these payroll and benefits services, and the related administrative costs are allocated to members of the Group in accordance with existing expense allocation procedures. The effect of these arrangements is that each member of the Group bears the direct compensation and employee benefits costs of its assigned or partially assigned employees, as the case may be, while also bearing its allocable share of administrative costs. Pursuant to the limited partnership agreement, Kinder Morgan Energy Partners provides reimbursement for its share of these administrative costs and such reimbursements are accounted for as described above. Kinder Morgan Energy Partners reimburses Kinder Morgan Management with respect to the costs incurred or allocated to Kinder Morgan Management in accordance with Kinder Morgan Energy Partners' limited partnership agreement, the Delegation of Control Agreement among Kinder Morgan G.P., Inc., Kinder Morgan Management, Kinder Morgan Energy Partners and others, and Kinder Morgan Management's limited liability company agreement.

The "Accounts Receivable, Related Parties" and "Accounts Payable, Related Parties" balances shown in the accompanying Consolidated Balance Sheets primarily represent balances with Kinder Morgan Energy Partners for amounts arising from performing administrative functions for them, including cash management, hedging activities, centralized payroll and employee benefits services and expenses incurred in performing as general partner of Kinder Morgan Energy Partners. The net monthly balance payable or receivable from these activities is settled in cash in the following month.

From time to time in the ordinary course of business, we buy and sell pipeline and related services from Kinder Morgan Energy Partners and its subsidiaries. Such transactions are conducted in accordance with all applicable laws and regulations and on an arms' length basis consistent with our policies governing such transactions.

Related-party operating revenues, primarily from Horizon Pipeline Company and entities owned by Kinder Morgan Energy Partners, are included in the accompanying Consolidated Statements of Operations as follows:

	Year Ended December 31,		
	2004	2003	2002
		(In millions)	
Natural Gas Transportation and Storage	$ 4.5	$ 5.2	$ 2.0
Natural Gas Sales	5.5	5.4	-
Other Revenues	1.6	1.0	0.1
Total Related-party Operating Revenues	$11.6	$11.6	$ 2.1

The caption "Gas Purchases and Other Costs of Sales" in the accompanying Consolidated Statements of Operations includes related-party costs totaling $29.1 million, $36.8 million and $22.3 million for the years 2004, 2003 and 2002, respectively, primarily for natural gas transportation and storage services and natural gas provided by entities owned by Kinder Morgan Energy Partners. Certain transactions with related parties are included in Note 5.

(U) Accounting for Risk Management Activities

We utilize energy derivatives for the purpose of mitigating our risk resulting from fluctuations in the market price of natural gas and associated transportation. In addition, we utilize weather derivatives to reduce the variability in the earnings from our natural gas distribution activities. Our accounting policy for these activities is in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and related pronouncements. This policy is described in detail in Note 14.

(V) Income Taxes

Income tax expense is recorded based on an estimate of the effective tax rate in effect or to be in effect during the relevant periods. Deferred income tax assets and liabilities are recognized for temporary differences between the basis of assets and liabilities for financial reporting and tax purposes. Changes in tax legislation are included in the relevant computations in the period in which such changes are effective. Deferred tax assets are reduced by a valuation allowance for the amount of any tax benefit we do not expect to be realized. Note 11 contains information about our income taxes, including the components of our income tax provision and the composition of our deferred income tax assets and liabilities.

(W) Accounting for Legal Costs

In general, we expense legal costs as incurred. When we identify significant specific litigation that is expected to continue for a significant period of time and require substantial expenditures, we identify a range of probable costs expected to be required to litigate the matter to a conclusion or reach an acceptable settlement. If no amount within this range is a better estimate than any other amount, we record a liability equal to the low end of the range. Any such liability recorded is revised as better information becomes available.

(X) Accounting for Minority Interests

Due to our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, the assets and liabilities of our Triton Power affiliates are included in our consolidated balance sheet, effective December 31, 2003. In addition, Triton's operating results are included in our 2004 consolidated operating results. Although the results of Triton have an impact on our total operating

revenues and expenses, after taking into account the associated minority interests, the consolidation of Triton has no effect on our consolidated net income.

Also due to our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, the subsidiary trusts associated with our capital trust securities are no longer consolidated, effective December 31, 2003. See Note 1(P) for a discussion regarding the expense associated with the capital trust securities.

The caption "Minority Interests in Equity of Subsidiaries" in our Consolidated Balance Sheets is comprised of the following balances:

	December 31,	
	2004	2003
	(In millions)	
Kinder Morgan Management, LLC	$ 1,083.0	$ 990.3
Triton Power	18.8	15.8
Other	3.6	4.0
	$ 1,105.4	$ 1,010.1

2. Investment in Kinder Morgan Energy Partners, L.P.

We own the general partner of, and a significant limited partner interest in, Kinder Morgan Energy Partners. Kinder Morgan Energy Partners owns and/or operates a diverse group of assets used in the transportation, storage and processing of energy products, including refined petroleum products pipeline systems with more than 10,000 miles of products pipeline and 60 associated terminals. Kinder Morgan Energy Partners owns approximately 14,000 miles of natural gas transportation pipelines, plus natural gas gathering and storage facilities. Kinder Morgan Energy Partners also owns or operates approximately 75 liquid and bulk terminal facilities and approximately 55 rail transloading facilities located throughout the United States, handling nearly 68 million tons of coal, petroleum coke and other dry-bulk materials annually and having a liquids storage capacity of approximately 37 million barrels for refined petroleum products, chemicals and other liquid products. In addition, Kinder Morgan Energy Partners owns Kinder Morgan CO_2 Company, L.P., which transports, markets and produces carbon dioxide for use in enhanced oil recovery operations and owns interests in and/or operates six oil fields in West Texas, all of which are using or have used carbon dioxide injection operations. Kinder Morgan CO_2 Company, L.P. also owns and operates the Wink Pipeline, a crude oil pipeline in West Texas.

At December 31, 2004, we owned, directly, and indirectly in the form of i-units corresponding to the number of shares of Kinder Morgan Management, LLC, approximately 34.8 million limited partner units of Kinder Morgan Energy Partners. These units, which consist of 14.4 million common units, 5.3 million Class B units and 15.1 million i-units, represent approximately 16.8% of the total limited partner interests of Kinder Morgan Energy Partners. See Note 3 for additional information regarding Kinder Morgan Management, LLC and Kinder Morgan Energy Partners' i-units. In addition, we are the sole stockholder of the general partner of Kinder Morgan Energy Partners, which holds an effective 2% interest in Kinder Morgan Energy Partners and its operating partnerships. Together, our limited partner and general partner interests represented approximately 18.5% of Kinder Morgan Energy Partners' total equity interests at December 31, 2004. We receive quarterly distributions on the i-units owned by Kinder Morgan Management, LLC in additional i-units and distributions on our other units in cash.

In addition to distributions received on our limited partner interests and our Kinder Morgan Management, LLC shares as discussed above, we also receive an incentive distribution from Kinder Morgan Energy Partners as a result of our ownership of the general partner interest in Kinder Morgan Energy Partners. This incentive distribution is calculated in increments based on the amount by which

quarterly distributions to unit holders exceed specified target levels as set forth in Kinder Morgan Energy Partners' partnership agreement, reaching a maximum of 50% of distributions allocated to the general partner for quarterly distributions above $0.23375 per limited partner unit. Including both our general and limited partner interests in Kinder Morgan Energy Partners, at the 2004 distribution level, we received approximately 51% of all quarterly distributions by Kinder Morgan Energy Partners, of which approximately 41% is attributable to our general partner interest and 10% is attributable to our limited partner interest. The actual level of distributions we will receive in the future will vary with the level of distributable cash determined in accordance with Kinder Morgan Energy Partners' partnership agreement.

We reflect our investment in Kinder Morgan Energy Partners under the equity method of accounting and, accordingly, report our share of Kinder Morgan Energy Partners' earnings as "Equity in Earnings" in our Consolidated Statement of Operations in the period in which such earnings are reported by Kinder Morgan Energy Partners.

Following is summarized financial information for Kinder Morgan Energy Partners. Additional information regarding Kinder Morgan Energy Partners' results of operations and financial position are contained in its 2004 Annual Report on Form 10-K.

	Summarized Income Statement Information Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Operating Revenues	$ 7,932,861	$ 6,624,322	$ 4,237,057
Operating Expenses	6,958,865	5,817,633	3,512,759
Operating Income	$ 973,996	$ 806,689	$ 724,298
Income Before Cumulative Effect of a Change in Accounting Principle	$ 831,578	$ 693,872	$ 608,377
Net Income	$ 831,578	$ 697,337	$ 608,377

	Summarized Balance Sheet Information As of December 31,	
	2004	2003
	(In thousands)	
Current Assets	$ 853,171	$ 705,522
Noncurrent Assets	$ 9,699,771	$ 8,433,660
Current Liabilities	$ 1,180,855	$ 804,379
Noncurrent Liabilities	$ 5,429,921	$ 4,783,812
Minority Interest	$ 45,646	$ 40,064

3. Kinder Morgan Management, LLC

Kinder Morgan Management, LLC, referred to in this report as Kinder Morgan Management, is a publicly traded Delaware limited liability company that was formed on February 14, 2001. Kinder Morgan G.P., Inc., our indirect wholly owned subsidiary, owns all of Kinder Morgan Management's voting shares. Kinder Morgan Management's shares (other than the voting shares we hold) are traded on the New York Stock Exchange under the ticker symbol "KMR". Kinder Morgan Management, pursuant to a delegation of control agreement, has been delegated, to the fullest extent permitted under Delaware law, all of Kinder Morgan G.P., Inc.'s power and authority to manage and control the business and affairs of Kinder Morgan Energy Partners, L.P., subject to Kinder Morgan G.P., Inc.'s right to approve certain transactions.

On November 12, 2004, Kinder Morgan Management made a distribution of 0.017892 of its shares per outstanding share (929,105 total shares) to shareholders of record as of October 29, 2004, based on the $0.73 per common unit distribution declared by Kinder Morgan Energy Partners. On February 14, 2005, Kinder Morgan Management made a distribution of 0.017651 of its shares per outstanding share (955,936 total shares) to shareholders of record as of January 31, 2005, based on the $0.74 per common unit distribution declared by Kinder Morgan Energy Partners. These distributions are paid in the form of additional shares or fractions thereof calculated by dividing the Kinder Morgan Energy Partners' cash distribution per common unit by the average market price of a Kinder Morgan Management share determined for a ten-trading day period ending on the trading day immediately prior to the ex-dividend date for the shares. Kinder Morgan Management has paid share distributions totaling 3,500,512, 3,342,417 and 2,538,785 shares in the years ended December 31, 2004, 2003 and 2002, respectively.

On November 10, 2004, Kinder Morgan Management closed the issuance and sale of 1,300,000 of its listed shares in a limited registered offering. None of the shares from the offering were purchased by Kinder Morgan, Inc. Kinder Morgan Management used the net proceeds of approximately $52.6 million from the offering to buy additional i-units from Kinder Morgan Energy Partners.

On March 25, 2004, Kinder Morgan Management closed the issuance and sale of 360,664 of its listed shares in a limited registered offering. None of the shares from the offering were purchased by Kinder Morgan, Inc. Kinder Morgan Management used the net proceeds of approximately $14.9 million from the offering to buy additional i-units from Kinder Morgan Energy Partners.

By approval of Kinder Morgan Management shareholders other than us, effective at the close of business on July 23, 2002, we no longer have an obligation to, upon presentation by the holder thereof, exchange publicly held Kinder Morgan Management shares for either Kinder Morgan Energy Partners' common units that we own or, at our election, cash. In conjunction with the elimination of the exchange feature, on July 29, 2002, Kinder Morgan, Inc. issued to each Kinder Morgan Management shareholder (i) .09853 shares of Kinder Morgan, Inc. common stock for each 100 Kinder Morgan Management listed shares held of record by such shareholder at the close of business on July 23, 2002 and (ii) cash in lieu of fractional shares. Prior to the elimination of the exchange feature, 6,830,013 and 2,840,374 Kinder Morgan Energy Partners common units were exchanged in the years ended December 31, 2002 and 2001, respectively, for a total of 9,670,387 Kinder Morgan Management shares. These exchanges had the effect of increasing our (i) additional paid-in capital by $35.7 million and (ii) associated income taxes payable by $21.9 million and decreasing (i) investment in Kinder Morgan Energy Partners by $150.1 million and (ii) minority interests by $207.7 million.

At December 31, 2004, we owned 15.1 million Kinder Morgan Management shares representing 27.9% of Kinder Morgan Management's outstanding shares.

4. Business Combinations

TransColorado Gas Transmission Company, referred to in this report as TransColorado, was formed to construct and operate a 300-mile-long interstate natural gas pipeline system that extends from near Meeker, Colorado to its southern terminus at the Blanco Hub near Aztec, Colorado. TransColorado was placed in service in April 1999 and was operated as a 50/50 joint venture between Questar Corp. and us until we acquired Questar's interest effective October 1, 2002 for a total of approximately $107.6 million (including transaction costs of approximately $2.1 million), making us the sole owner. As a result of our acquisition of control of this entity, we began to include its transactions and balances in our consolidated financial statements in October 2002 and, in accordance with authoritative accounting guidelines, recorded the acquisition of the incremental 50% interest as a business combination, requiring that we allocate the purchase price to the assets acquired and liabilities assumed based on their relative

fair values. The historical carrying value of current assets and current liabilities were determined to be approximately equal to their fair values, and property plant and equipment was valued using a combination of net present value and earnings multiple methods. No goodwill was recorded, as the fair value of the net assets acquired exceeded the consideration paid. The purchase price was allocated as follows (in millions):

Cash	$ 6.0
Other Current Assets	1.6
Net Property, Plant and Equipment	123.1
Other Assets	0.1
Current Liabilities	(2.2)
Deferred Credits	(21.0)
Total Purchase Price	$ 107.6

Effective November 1, 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners (see Note 5).

5. Investments and Sales

On November 10, 2004, Kinder Morgan Energy Partners issued 5.5 million common units in a public offering at a price of $46.00 per common unit, less commissions and underwriting expenses. On December 8, 2004, Kinder Morgan Energy Partners issued an additional 575,000 common units upon the exercise by the underwriters of an over-allotment option. After commissions and underwriting expenses, Kinder Morgan Energy Partners received net proceeds of $268.3 million. We did not acquire any of these common units. Kinder Morgan Energy Partners also issued 1.3 million i-units in conjunction with a Kinder Morgan Management limited registered offering of its shares in November 2004. We did not acquire any of the Kinder Morgan Management shares in this offering. These transactions reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transactions) from approximately 18.5% to approximately 17.9%. In accordance with our policy, we treat transactions such as these as "capital" transactions and, accordingly, no gain or loss was recorded. Instead, the impact of the difference between the sales proceeds and our underlying book basis had the effect of increasing our investment in the net assets of Kinder Morgan Energy Partners by $28.6 million and reducing our (i) equity method goodwill in Kinder Morgan Energy Partners by $29.6 million, (ii) paid-in capital by $0.4 million and (iii) associated accumulated deferred income taxes by $0.6 million. In addition, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $3.9 million; see Note 1(T).

Effective November 1, 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners for total consideration of $275.0 million (approximately $210.8 million in cash and 1.4 million Kinder Morgan Energy Partners common units). In conjunction with this contribution, we recorded a pre-tax loss of $0.6 million.

Since 1998, we have had an investment in a 76 megawatt gas-fired power generation facility located in Greeley, Colorado. We recorded an impairment of this investment during 2004; See Note 6.

In July 2004, we sold our remaining surplus LM6000 gas-fired turbine for consideration of $8.3 million (net of marketing fees), which consideration consisted of $2.0 million in cash, a note receivable of $6.5 million and a payable for marketing fees of $0.2 million. The $4.6 million remaining balance of this note receivable is recorded in the caption "Note Receivable" in the accompanying Consolidated Balance Sheet as of December 31, 2004. In April 2004, we sold two surplus LM6000 gas-fired turbines for consideration of $16.5 million (net of marketing fees), which consideration consisted of $2.4 million in cash, a note receivable of $14.5 million and a payable for marketing fees of $0.4 million. During

September 2004, the remaining balance of this receivable was collected. In June 2004, we sold two surplus LM6000 turbines and two boilers to Kinder Morgan Production Company, L.P., a subsidiary of Kinder Morgan Energy Partners, for their estimated fair market value of $21.1 million, which we received in cash. This equipment was a portion of the equipment that became surplus as a result of our decision to exit the power development business. We recorded a pre-tax gain of $3.6 million in conjunction with these sales. Recognizing the effects of changes in technology and the limited improvement of the general economies of the electric generation industry, we determined that the carrying values of our remaining turbines and associated equipment should be reduced. In the fourth quarter of 2004, we reduced the carrying value of these assets by $7.4 million. The book value of the remaining surplus power generation equipment available for sale at December 31, 2004 was $23.5 million.

In March 2004, Kinder Morgan Energy Partners issued 360,664 i-units in conjunction with the Kinder Morgan Management limited registered offering of its shares. We did not acquire any of the Kinder Morgan Management shares in this offering. This issuance of i-units reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 18.54% to approximately 18.51% and had the associated effects of increasing our investment in the net assets of Kinder Morgan Energy Partners by $1.2 million and reducing our (i) equity method goodwill in Kinder Morgan Energy Partners by $1.5 million, (ii) paid-in capital by $0.2 million and (iii) associated accumulated deferred income taxes by $0.1 million. In addition, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $0.2 million; see Note 1(T).

In February 2004, Kinder Morgan Energy Partners issued 5.3 million common units in a public offering at a price of $46.80 per common unit, receiving total net proceeds (after underwriting discount) of $237.8 million. We did not acquire any of these common units. This transaction reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 19.0% to approximately 18.5% and had the associated effects of increasing our (i) investment in the net assets of Kinder Morgan Energy Partners by $23.2 million, (ii) associated accumulated deferred income taxes by $0.1 million and (iii) paid-in capital by $0.2 million and, in addition, reduced our equity method goodwill in Kinder Morgan Energy Partners by $23.1 million. In addition, in February 2004, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $2.4 million; see Note 1(T).

Pursuant to a right we obtained in conjunction with the 1998 acquisition of the Thermo Companies, in December 2003, we made an additional investment in our Colorado power businesses in the form of approximately 1.8 million Kinder Morgan Management shares that we owned. We recorded our increased investment based on the third-party-determined $56.1 million fair value of the shares as of the contribution date, with a corresponding liability representing our obligation to deliver vested shares in the future.

In December 2003, we received $8.5 million from the sale of one natural gas turbine. We ultimately recognized a pre-tax gain of $0.5 million on this transaction.

In May 2000, Kinder Morgan Power and Mirant Corporation (formerly Southern Energy Inc.) announced plans to build a 550 megawatt natural gas-fired electric power plant in Wrightsville, Arkansas, utilizing Kinder Morgan Power's Orion technology. Construction of this facility was completed and commercial operations commenced on July 1, 2002. Mirant Corporation operates and maintains the Wrightsville facility and manages the natural gas supply and electricity sales for the project company that owns the power plant. Kinder Morgan Power made an investment in the project company, comprised primarily of preferred stock. This facility has not been dispatched significantly

since July 1, 2002. In October 2003, the project company was included in Mirant Corporation's bankruptcy filing. In the fourth quarter of 2003, we wrote off our remaining investment in the Wrightsville power facility.

In June 2003, Kinder Morgan Energy Partners issued 4.6 million common units in a public offering at a price of $39.35 per common unit, receiving total net proceeds (after underwriting discount) of $173.3 million. We did not acquire any of these common units. This transaction reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 19.28% to approximately 18.86% and had the associated effects of increasing our investment in the net assets of Kinder Morgan Energy Partners by $14.9 million and reducing our (i) equity method goodwill in Kinder Morgan Energy Partners by $21.4 million, (ii) associated accumulated deferred income taxes by $2.5 million and (iii) paid-in capital by $4.0 million. In addition, in June 2003, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $1.8 million; see Note 1(T).

On June 30, 2003, we received $3.8 million from the sale of our interest in Igasamex USA Ltd. We recorded a pre-tax loss of $4.3 million in conjunction with the sale.

On March 6, 2000, we received a promissory note from Orcom Solutions, Inc. as partial consideration for the sale of our en•able joint venture, which note was carried at nominal value due to concerns as to recoverability. During 2003, we received $5.4 million in settlement of this note, of which $2.7 million was paid to PacifiCorp reflecting its 50% interest in en•able. In conjunction with this settlement, we recorded a pre-tax gain of $2.9 million.

In December 2000, we contributed certain assets to Kinder Morgan Energy Partners effective December 31, 2000. A final pre-tax adjustment of $10.4 million was made at December 31, 2002, the expiration of the indemnification obligations under an indemnification provision of the contribution agreement. This amount was adjusted for our continuing interest in the assets transferred.

In August 2002, Kinder Morgan Energy Partners issued i-units in conjunction with the Kinder Morgan Management secondary public offering of its shares to the public. We did not acquire any of the Kinder Morgan Management shares in the secondary offering. This issuance of i-units reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 20.4% to approximately 19.1% and had the associated effects of increasing our investment in the net assets of Kinder Morgan Energy Partners by $17.5 million and reducing our (i) equity method goodwill in Kinder Morgan Energy Partners by $64.9 million, (ii) paid-in capital by $29.4 million and (iii) associated accumulated deferred income taxes by $18.0 million. In addition, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $3.4 million; see Note 1(T).

In February 2001, Kinder Morgan Power announced an agreement under which Williams Energy Marketing and Trading agreed to supply natural gas to and market capacity for 16 years for a 550 megawatt natural gas-fired Orion technology electric power plant in Jackson, Michigan. Effective July 1, 2002, construction of this facility was completed and commercial operations commenced. Concurrently with commencement of commercial operations, (i) Kinder Morgan Power made a preferred investment in Triton Power Company LLC initially valued at approximately $105 million; and, (ii) Triton Power Company LLC, through its wholly owned subsidiary, Triton Power Michigan LLC, entered into a 40-year lease of the Jackson power facility from the plant owner, AlphaGen Power, LLC. Williams Energy Marketing and Trading supplies all natural gas to and purchases all power from the power plant under a 16-year tolling agreement with Triton Power Michigan LLC.

In May 2002, Horizon Pipeline Company, L.L.C. ("Horizon"), a joint venture between Nicor-Horizon, a subsidiary of Nicor Inc. (NYSE: GAS), and NGPL, completed and placed into service its new $82 million natural gas pipeline in northern Illinois. This pipeline is being operated as an interstate pipeline company under the authority of the Federal Energy Regulatory Commission ("FERC"). Horizon's natural gas pipeline consists of 28 miles of newly constructed 36-inch diameter pipe, the lease of capacity in 42 miles of existing pipeline from NGPL, and newly installed gas compression facilities. Horizon Pipeline can transport up to 380 million cubic feet of natural gas per day from near Joliet into McHenry County, connecting the emerging supply hub at Joliet with the northern part of the Nicor Gas distribution system and the existing NGPL pipeline system.

6. Impairment of Power Investments

During 2002, we noted and reported a number of negative factors affecting the market for electric power and the announced plans for future power plant development, as well as the declining financial condition of many participants in electric markets, including certain of our partners in our power development activities. In the fourth quarter of 2002, we completed our analysis of these developments and their likely impact on our business activities in this arena. As a result of that analysis, we elected to discontinue our participation in the power development business and reduced the carrying value of our investments in (i) sites for future power plant development and (ii) turbines and associated equipment, in each case to their estimated fair value less cost to sell. In addition, we reduced the carrying value of our preferred investment in the Wrightsville, Arkansas power generation facility to reflect an other than temporary decline in its value. In total, these charges reduced our pre-tax earnings by $134.5 million.

During the fourth quarter of 2003, we announced that, due principally to the fact that Mirant had placed the Wrightsville, Arkansas plant in bankruptcy during October, we would be assessing the long-term prospects for this facility during the fourth quarter and that a reduction in the plant's carrying value was possible. During the fourth quarter of 2003 we completed our analysis and determined that it was no longer appropriate to assign any carrying value to our investment in this facility and recorded a $44.5 million pre-tax charge.

Since 1998, we have had an investment in a 76 megawatt gas-fired power generation facility located in Greeley, Colorado. We became concerned with the value of this investment as a result of several recent circumstances including the expiration of a gas purchase contract, the amendment of the associated power purchase agreement and uncertainties surrounding the management of this facility, which has changed ownership twice in the last one and one-half years. These ownership changes made it difficult for us to obtain information necessary to forecast the future of this asset. During the fourth quarter of 2004, we concluded that we had sufficient information to determine that our investment had been impaired and, accordingly, reduced our carrying value by $26.1 million.

During 2003 and 2004, we sold six of our turbines and certain associated equipment (see Note 5). Recognizing the effects of technology and the limited improvement of the general economies of the electric generation industry, we determined that the carrying values of our remaining turbines and associated equipment should be reduced. In the fourth quarter of 2004, we reduced the asset values by $7.4 million. We are continuing our efforts to sell the remaining inventory of surplus turbines and associated equipment, which had a carrying value of $23.5 million at December 31, 2004.

7. Discontinued Operations

Prior to mid-1999, we had major business operations in the upstream (gathering and processing), midstream (natural gas pipelines) and downstream (wholesale and retail marketing) portions of the natural gas industry and, in addition, had (i) non-energy retail marketing operations in the form of a joint

venture called **en●able** and (ii) limited international operations. During 1999, we adopted and implemented plans to discontinue the following lines of business: (i) gathering and processing natural gas, including short-haul intrastate pipelines and providing field services to natural gas producers, (ii) wholesale marketing of natural gas and natural gas liquids, (iii) the direct marketing of non-energy products and services and (iv) international operations, which we subsequently decided to retain as discussed following.

In accordance with the provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* ("APB 30"), our consolidated financial statements were restated to present these businesses as discontinued operations for all periods presented. Accordingly, the revenues, costs and expenses, assets and liabilities and cash flows of these discontinued operations have been excluded from the respective captions in the accompanying Consolidated Statements of Operations and Consolidated Statements of Cash Flows, and have been reported in the various statements under the captions "Loss on Disposal of Discontinued Operations, Net of Tax" and "Net Cash Flows Used in Discontinued Operations" for all relevant periods. In addition, certain of these Notes have been restated for all relevant periods to reflect the discontinuance of these operations.

With the exception of our international natural gas distribution operations, which we decided to retain, we completed the divestiture of our discontinued operations by December 31, 2000. In the fourth quarters of 2004 and 2002, we recorded incremental losses of approximately $6.4 million and $5.0 million (net of tax benefits of $3.8 million and $3.1 million), respectively, to increase previously recorded liabilities to reflect updated estimates and reflect the impact of litigation settlements. We had a remaining liability of approximately $9.0 million at December 31, 2004 associated with these discontinued operations, representing legal obligations and an indemnification obligation associated with our sale of assets to ONEOK, Inc. ("ONEOK").

8. Regulatory Matters

On July 17, 2000, NGPL filed its compliance plan, including pro forma tariff sheets, pursuant to the Federal Energy Regulatory Commission's ("FERC") Order Nos. 637 and 637-A. The FERC directed all interstate pipelines to file pro forma tariff sheets to comply with new regulatory requirements in these Orders regarding scheduling procedures, capacity segmentation, imbalance management services and penalty credits, or in the alternative, to explain why no changes to existing tariff provisions are necessary. The Order 637 tariff provisions for NGPL became effective on December 1, 2003. The FERC issued an order on August 3, 2004 accepting NGPL's remaining compliance filing changes. No issues remain outstanding as to NGPL's Order 637 compliance program.

On November 25, 2003, the FERC issued Order No. 2004, adopting new Standards of Conduct to become effective February 9, 2004. Every interstate natural gas pipeline was required to file a compliance plan by that date and was required to be in full compliance with the Standards of Conduct by June 1, 2004. The primary change from existing regulation is to make such standards applicable to an interstate pipeline's interaction with many more affiliates (termed "Energy Affiliates"), including intrastate/Hinshaw pipelines (in general, a Hinshaw pipeline is a pipeline that receives gas at or within a state boundary, is regulated by an agency of that state, and all the gas it transports is consumed within that state), processors and gatherers and any company involved in gas or electric markets (such as electric generators and electric or gas marketers) even if they do not ship on the affiliated interstate pipeline. Local distribution companies ("LDCs") are excluded, however, if they do not make any off-system sales, that is, sales made at delivery points not located on the LDC's natural gas distribution system. The Standards of Conduct require, inter alia, separate staffing of interstate pipelines and their

Energy Affiliates (but certain support functions and senior management at the central corporate level may be shared) and strict limitations on communications from an interstate pipeline to an Energy Affiliate. NGPL and Kinder Morgan Interstate Gas Transmission LLC, a subsidiary of Kinder Morgan Energy Partners, filed for clarification and rehearing of Order 2004 on December 29, 2003, and numerous other rehearing requests have been submitted. In the request for rehearing, NGPL and Kinder Morgan Interstate Gas Transmission LLC asked that intrastate/Hinshaw pipeline affiliates not be included in the definition of Energy Affiliates. On February 9, 2004, the interstate pipelines owned by Kinder Morgan, Inc. and Kinder Morgan Energy Partners, L.P. filed their compliance plans under Order 2004. In addition, on February 19, 2004, the Kinder Morgan interstate pipelines filed a joint request asking that their interaction with intrastate/Hinshaw pipeline affiliates be exempted from the Standards of Conduct. Separation from these entities would be the most burdensome requirement of the new rules for the Kinder Morgan interstate pipelines.

On April 16, 2004, the FERC issued Order No. 2004-A. The FERC extended the effective date of the new Standards of Conduct from June 1, 2004, to September 1, 2004. Otherwise, the FERC largely denied rehearing of Order 2004, but provided further clarification or adjustment in several areas. The FERC continued the exemption for LDCs that do not make off-system sales, but clarified that the LDC exemption still applies if the LDC is also a Hinshaw pipeline. The FERC also clarified that an LDC can engage in certain sales and other Energy Affiliate activities to the limited extent necessary to support sales to customers located on its distribution system, and sales necessary to remain in balance under pipeline tariffs, without becoming an Energy Affiliate. The FERC declined to exempt producers from the definition of Energy Affiliate. The FERC also declined to exempt intrastate and Hinshaw pipelines, processors and gatherers from the definition of Energy Affiliate, but did clarify that such entities will not be Energy Affiliates if they do not participate in gas or electric commodity markets or interstate capacity markets (as capacity holder, agent or manager) or in financial transactions related to such markets. The FERC also clarified further the personnel and functions that can be shared by interstate pipelines and their Energy Affiliates, including senior officers and risk management personnel and the permissible role of holding or parent companies and service companies. The FERC also clarified that day-to-day operating information can be shared by interconnecting entities. Finally, the FERC clarified that an interstate pipeline and its Energy Affiliate can discuss potential new interconnects to serve the Energy Affiliate, but subject to posting and record-keeping requirements. The Kinder Morgan interstate pipelines sought rehearing to clarify the applicability of the LDC and Parent Company exemptions to them.

On July 21, 2004, the Kinder Morgan interstate pipelines filed additional joint requests asking for limited exemptions from certain requirements of FERC Order 2004 and asking for an extension of the deadline for full compliance with Order 2004 until 90 days after the FERC has completed action on the pipelines' various rehearing and exemption requests. The pipelines also requested that Rocky Mountain Natural Gas Company, one of Kinder Morgan, Inc.'s wholly owned subsidiaries, be classified as an exempt LDC for purposes of Order 2004. These exemptions requested relief from the independent functioning and information disclosure requirements of Order 2004. The exemption requests proposed to treat as Energy Affiliates within the meaning of Order 2004 two groups of employees, (i) individuals in the Choice Gas Commodity Group within Kinder Morgan, Inc.'s Retail operations and (ii) commodity sales and purchase personnel within the Texas Intrastate operations. Order 2004 regulations governing relationships between interstate pipelines and their Energy Affiliates would apply to relationships with these two groups. Under these proposals, certain critical operating functions could continue to be shared.

On August 2, 2004, the FERC issued Order No. 2004-B. In this order, the FERC extended the effective date of the new Standards of Conduct from September 1, 2004 to September 22, 2004. Also in this order, among other actions, the FERC denied the request for rehearing made by the Kinder Morgan interstate pipelines to clarify the applicability of the LDC and Parent Company exemptions to them.

On September 20, 2004, the FERC issued an order that conditionally granted the July 21, 2004 joint requests for limited exemptions from the requirements of the Standards of Conduct described above. In that order, the FERC directed the Kinder Morgan interstate pipelines to submit compliance plans regarding these filings within 30 days. These compliance plans were filed on October 19, 2004 and set out certain steps taken by the Kinder Morgan interstate pipelines to assure that employees in the Choice Gas Commodity Group within Kinder Morgan's Retail operations and the commodity sales and purchasing personnel of Kinder Morgan Energy Partners' Texas intrastate operations do not have access to restricted interstate pipeline information or receive preferential treatment as to interstate pipeline services. The FERC will not enforce compliance of the independent functioning requirement of the Standards of Conduct as to these employees until 30 days after it acts on these compliance filings. In all other respects, the Kinder Morgan interstate pipelines were required to comply with Order No. 2004 by September 22, 2004.

The Kinder Morgan interstate pipelines have implemented compliance with the Standards of Conduct as of September 22, 2004, subject to the exemptions described in the prior paragraph. Compliance includes, inter alia, the posting of compliance procedures and organizational information for each interstate pipeline on its internet website, the posting of discount and tariff discretion information and the implementation of independent functioning for Energy Affiliates not covered by the prior paragraph (electric and gas gathering, processing or production affiliates).

On December 21, 2004, the FERC issued Order 2004-C, an order granting rehearing on certain issues and also clarifying certain provisions in the previous orders. The primary impact on the Kinder Morgan interstate pipelines from Order 2004-C is the granting of rehearing and allowing LDCs to participate in hedging activity related to on-system sales and still qualify for exemption from Energy Affiliate.

On July 25, 2003, the FERC issued a Modification to Policy Statement stating that FERC-regulated natural gas pipelines will, on a prospective basis, no longer be permitted to use gas basis differentials to price negotiated rate transactions. Effectively, interstate pipelines will no longer be permitted to use commodity price indices to structure transactions. Negotiated rates based on commodity price indices in existing contracts will be permitted to remain in effect until the end of the contract period for which such rates were negotiated. Price indexed contracts currently constitute an insignificant portion of the contracts on the interstate pipelines owned by Kinder Morgan, Inc. and Kinder Morgan Energy Partners, L.P. Moreover, in subsequent orders in individual pipeline cases, the FERC has allowed negotiated rate transactions using pricing indices so long as revenue is capped by the applicable maximum rate(s). Rehearing on this aspect of the Modification to Policy Statement has been sought by several pipelines, but the FERC has not yet acted on rehearing.

On February 20, 2004, the D.C. Circuit Court of Appeals for the District of Columbia remanded back to the FERC a Williston Basin Interstate Pipeline proceeding in which the Court ruled that the FERC did not explain how the selective discounting policy adopted by the FERC in the Colorado Interstate Gas Co. and Granite State Gas Transmission cases would not compromise the pipelines' ability to target discounts at particular receipt/delivery points, subsystems or other defined geographic areas. On June 1, 2004, the FERC issued a Notice of Request for Comments in the Williston Basin Interstate Pipeline proceeding, on issues pertaining to discounting policy adopted in the Colorado Interstate Gas Co. and Granite State Gas Transmission cases. Comments were due on August 9, 2004. Numerous parties filed comments, including NGPL as part of the Kinder Morgan Interstate Pipeline filing. The FERC's decision in this case will affect the extent to which interstate pipelines such as NGPL and their customers can specify rates at secondary points, which are binding on both parties as part of the service contract.

In April 2004, we were advised that, as part of an audit of the FERC Form 2's, the FERC would be conducting a compliance audit of NGPL's Form 2's for the period January 1, 2000 through December 31, 2003. In February 2004, we were provided with a draft audit report recommending that NGPL (i) revise its procedures to ensure that fines and penalties are recorded in the proper accounts as required by the FERC's Uniform System of Accounts, (ii) make a correcting entry in the amount of $215,000 to properly record a penalty that was paid in 2000 and (iii) implement procedures to ensure that inactive projects are cleared from construction work in progress on a timely basis. In addition, the FERC audit team identified approximately $20.6 million of costs associated with pipeline assessment that were capitalized by NGPL in accordance with its capitalization policies during the audit period. The Chief Accountant of the FERC has issued a Notice of Proposed Accounting Release that is intended to provide industry guidance on accounting for pipeline assessment activities. The FERC draft audit report indicates that appropriate accounting for these costs will be further considered when this industry-wide proceeding is concluded and a final Accounting Release is approved by the FERC.

On November 5, 2004, the FERC issued a Notice of Proposed Accounting Release that would require FERC jurisdictional entities to recognize costs incurred in performing pipeline assessments that are a part of a pipeline integrity management program as maintenance expense in the period incurred. The proposed accounting ruling is in response to the FERC's finding of diverse practices within the pipeline industry in accounting for pipeline assessment activities. The proposed ruling would standardize these practices. Specifically, the proposed ruling clarifies the distinction between costs for a "one-time rehabilitation project to extend the useful life of the system," which could be capitalized, and costs for an "on-going inspection and testing or maintenance program," which would be accounted for as maintenance and charged to expense in the period incurred. Comments, along with responses to specific questions posed by the FERC concerning the Notice of Proposed Accounting Release, were due on January 19, 2005. Numerous parties filed comments, including NGPL as part of the Kinder Morgan Interstate Pipeline filing. The proposed effective date for the new rule is January 1, 2005.

On November 22, 2004, the FERC issued a Notice of Inquiry seeking comments on its policy of selective discounting. Specifically, the FERC is asking parties to submit comments and respond to inquiries regarding the FERC's practice of permitting pipelines to adjust their ratemaking throughput downward in rate cases to reflect discounts given by pipelines for competitive reasons – when the discount is given to meet competition from another gas pipeline. Comments are due by March 2, 2005.

On December 2, 2004, the FERC issued a Notice of Inquiry seeking comments on the implications of the July 20, 2004 opinion of the Court of Appeals for the District of Columbia Circuit in *BP West Coast Producers, LLC, v. FERC*. In reviewing a series of orders involving SFPP, L.P., the court held, among other things, that the FERC had not adequately justified its policy of providing an oil pipeline limited partnership with an income tax allowance equal to the proportion of its limited partnership interests owned by corporate partners. The Commission is seeking comments on whether the court's ruling applies only to the specific facts of the SFPP, L.P. proceeding, or also extends to other capital structures involving partnerships and other forms of ownership. Comments were due on January 21, 2005. Numerous parties filed comments.

On October 18, 2004, NGPL filed, in Docket No. CP05-7, a certificate application with the FERC for permission and approval to abandon certain storage field surface piping and for authority to construct and operate additional facilities at its Sayre Storage field located in Beckman County, Oklahoma. By this application, NGPL seeks to provide an additional 10 Bcf of nominated Storage Service ("NSS") on NGPL's Amarillo mainline system, increase Sayre's certificated peak day withdrawal from 400 MMcf per day to 600 MMcf per day, and increase Sayre's maximum working gas capacity to 57.1 Bcf at a cost of approximately $35.4 million.

On December 6, 2004, NGPL filed with the FERC, in Docket No. CP05-34, a certificate application for (1) authorization to construct and operate a new 1775 horsepower ("hp") compressor unit and a new 3,550 hp compressor unit at NGPL's Compressor Station 155 in Wise County, Texas, (2) authorization to construct and operate a new 5,551 hp compressor unit at NGPL's Compressor Station 801 in Carter County, Oklahoma and (3) permission and approval to abandon three 660 hp compressors and a 2000 hp compressor unit at Compressor Station 155. This project will provide 20,000 Dth per day of additional transportation capacity in Segment No. 1 and 51,000 Dth per day of additional transportation capacity in its Amarillo/Gulf Coast line at a cost of approximately $20.7 million.

As a part of the settlement of litigation styled, *Jack J. Grynberg, individually and as general partner for the Greater Green River Basin Drilling Program: 72-73 v. Rocky Mountain Natural Gas Company and K N Energy, Inc.*, Case No. 90-CV-3686, in early 2002, Mr. Grynberg received $16.8 million from us (including forgiveness of a $10.4 million obligation owing from Mr. Grynberg) and an additional $15.6 million was paid into escrow. Rocky Mountain Natural Gas Company agreed to seek to recover these amounts from its customers/rate payers in a proceeding before the Public Utilities Commission for the State of Colorado (the "CPUC"). Rocky Mountain Natural Gas Company and Kinder Morgan, Inc. made regulatory filings with the CPUC on September 30, 2002, proposing recovery of these amounts as part of their annual Gas Cost Adjustment filing process. We proposed to collect these litigated gas costs, including associated carrying charges, over a 15-year amortization period. On October 30, 2002, the CPUC decided, in open meeting, to allow us to place rates in effect and begin recovery of these costs effective November 1, 2002, subject to refund pending a final determination as to our ability to recover these costs in our rates. An uncontested Stipulation and Settlement Agreement was filed with the CPUC on June 20, 2003, providing for full rate recovery by Rocky Mountain Natural Gas Company and Kinder Morgan, Inc. of $30,173,472 of gas cost payments to Mr. Grynberg. It also provided for $14,451,528 of allowable interest recovery to Rocky Mountain Natural Gas Company and Kinder Morgan, Inc. The total settlement amount of $44,625,000 will be recovered through a special rate rider over a fifteen year period which commenced on November 1, 2002. Following a hearing on July 14, 2003, the presiding administrative law judge issued a recommended decision on September 15, 2003, approving the settlement without modification. That recommended decision became the decision of the Commission by operation of law and is now in effect. The time for appealing the CPUC's decision expired on November 6, 2003, and $13,281,250, plus interest, was released from escrow for disbursement to Mr. Grynberg, and $2,343,750, plus interest, was released from escrow for disbursement to us.

Currently, there are no material proceedings challenging the base rates (which include reservation, commodity, surcharges, fuel and gas lost and unaccounted for) on any of our pipeline systems. Nonetheless, shippers on our pipelines do have rights to challenge the rates we charge under certain circumstances prescribed by applicable statutes and regulations. There can be no assurance that we will not face challenges to the rates we receive for services on our pipeline systems in the future. In addition, since many of our assets are subject to regulation, we are subject to potential future changes in applicable rules and regulations that may have an adverse effect on our business, cash flows, financial position or results of operations.

9. Environmental and Legal Matters

(A) Environmental Matters

We had an estimated total exposure of $12.9 million to $16.1 million and had recorded an environmental reserve of approximately $12.9 million at December 31, 2004 to address remediation issues associated with approximately 40 projects, recorded without discounting and without regard to expected insurance recoveries. In addition, we had recorded a receivable of $1.2 million for expected cost recoveries that have been deemed probable. After consideration of reserves established, we believe that costs for

environmental remediation and ongoing compliance with environmental regulations will not have a material adverse effect on our cash flows, financial position or results of operations or diminish our ability to operate our businesses. However, there can be no assurances that future events, such as changes in existing laws, the promulgation of new laws, or the development of new facts or conditions will not cause us to incur significant costs.

(B) Litigation Matters

United States of America, ex rel., Jack J. Grynberg v. K N Energy, Civil Action No. 97-D-1233, filed in the U.S. District Court, District of Colorado. This action was filed on June 9, 1997 pursuant to the federal False Claims Act and involves allegations of mismeasurement of natural gas produced from federal and Indian lands. The complaint asks to recover all royalties the Government allegedly should have received had the volume and heating content of the natural gas been valued properly, along with treble damages and civil penalties as provided for in the False Claims Act. Mr. Grynberg, as relator, seeks his statutory share of any recovery, plus expenses and attorney fees and costs. The Department of Justice has decided not to intervene in support of the action. The complaint is part of a larger series of similar complaints filed by Mr. Grynberg against 77 natural gas pipelines (approximately 330 other defendants). An earlier single action making substantially similar allegations against the pipeline industry was dismissed by Judge Hogan of the U.S. District Court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, Mr. Grynberg filed individual complaints in various courts throughout the country. In 1999, these cases were consolidated by the Judicial Panel for Multidistrict Litigation, and transferred to the District of Wyoming. The MDL case is called *In Re Natural Gas Royalties Qui Tam Litigation*, Docket No. 1293. Motions to dismiss were filed and an oral argument on the motion to dismiss occurred on March 17, 2000. On July 20, 2000, the United States of America filed a motion to dismiss those claims by Grynberg that deal with the manner in which defendants valued gas produced from federal leases (referred to as valuation claims). Judge Downes denied the defendant's motion to dismiss on May 18, 2001. The United States' motion to dismiss most of the plaintiff's valuation claims has been granted by the Court. Mr. Grynberg appealed that dismissal to the 10th Circuit, which requested briefing regarding its jurisdiction over that appeal. Mr. Grynberg's appeal was dismissed for lack of appellate jurisdiction. Discovery to determine issues related to the Court's subject matter jurisdiction, arising out of the False Claims Act is complete. Briefing has been completed and oral arguments on jurisdiction have been set before the Special Master for March 17 and 18, 2005. On May 7, 2003, Grynberg sought leave to file a Third Amended Complaint, which adds allegations of undermeasurement related to CO_2 production. Defendants have filed briefs opposing leave to amend. Neither the Court nor the Special Master have ruled on Mr. Grynberg's motion to amend.

Lamb v. Kinder Morgan, Inc., et al., Civil Action No. 00-M-516, (formerly *Adams v. Kinder Morgan, Inc. et al.*) filed in the United States District Court for the District of Colorado. The case was originally filed on March 8, 2000 and is a purported class action. As of this date no class has been certified. Plaintiffs seek compensatory damages against all defendants jointly and severally, together with interest, attorney fees and expenses. The plaintiffs brought claims alleging securities fraud under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of all people who purchased the common stock of Kinder Morgan during the class period from October 30, 1997 to June 21, 1999. The class period occurred prior to the installation of our current management team in October 1999. The complaint centers on allegations of misleading statements concerning operations of the Bushton Processing Plant and certain contracts, as well as allegations of overstatement of income in violation of accounting principles generally accepted in the United States of America during the class period. On February 23, 2001, the federal district court dismissed several claims raised by the plaintiff, with prejudice, and dismissed the remaining claims, without prejudice. On April 27, 2001, the Adams plaintiffs filed their second amended complaint. On March 29, 2002, the federal district court dismissed the Adams plaintiffs' second amended complaint with prejudice. On May 2, 2002, the Adams plaintiffs

appealed the dismissal to the 10th Circuit Court of Appeals. In a published decision, on August 11, 2003, the 10th Circuit Court of Appeals reversed the district court's dismissal, but upheld the dismissal of Mr. Kinder, our Chairman and Chief Executive Officer, from this action. The mandate from the 10th Circuit Court of Appeals was issued on October 17, 2003. Briefing regarding class certification is complete and a decision is pending. Merits discovery commenced on June 7, 2004. The Court granted Mr. Adam's motion to withdraw as a lead plaintiff. As a result, the case is now styled as *Lamb v. Kinder Morgan, Inc. et al.* The parties reached a settlement in principle of this matter and have signed a Memorandum of Understanding. The settlement documents were submitted for approval by the Court on February 18, 2005. If the settlement is approved and implemented as submitted, it will not result in a material impact on our results of operations, financial position or cash flows.

Darrell Sargent d/b/a Double D Production v. Parker & Parsley Gas Processing Co., American Processing, L.P. and Cesell B. Cheatham, et al., Cause No. 878, filed in the 100th Judicial District Court, Carson County, Texas. The plaintiff filed a purported class action suit in 1999 and amended its petition in late 2002 to assert claims on behalf of over 1,000 producers who process gas through as many as ten gas processing plants formerly owned by American Processing, L.P. ("American Processing"), a former wholly owned subsidiary of Kinder Morgan, Inc. in Carson and Gray counties and other surrounding Texas counties. The plaintiff claims that American Processing (and subsequently, ONEOK, which purchased American Processing from us in 2000) improperly allocated liquids and gas proceeds to the producers. In particular, among other claims, the plaintiff challenges the methods and assumptions used at the plants to allocate liquids and gas proceeds among the producers and processors. The petition asserts claims for breach of contract and Natural Resources Code violations relating to the period from 1994 to the present. To date, the plaintiff has not made a specific monetary demand nor produced a specific calculation of alleged damages. The plaintiff alleged generally in the petition that damages are "not to exceed $200 million" plus attorneys fees, costs and interest. The defendants filed a counterclaim for overpayments made to producers.

Pioneer Natural Resources USA, Inc., formerly known as Parker & Parsley Gas Processing Company ("Parker & Parsley"), is a co-defendant. Parker & Parsley claimed indemnity from American Processing based on its sale of assets to American Processing on October 4, 1995. We accepted indemnity and defense subject to a reservation of rights pending resolution of the suit. The plaintiff also named ONEOK as a defendant. We and ONEOK are defending the case pursuant to an agreement whereby ONEOK is responsible for any damages that may be attributable to the period following ONEOK's acquisition of American Processing from us in 2000.

On or about January 21, 2003, Benson-McCown & Company ("Benson-McCown"), another producer who sold gas to American Processing and ONEOK, filed a "Plea in Intervention" in which it essentially duplicated the plaintiff's claims and also asserted the right to bring a class action and serve as one of the class representatives. Defendants denied Benson-McCown's claim and filed a counterclaim for overpayments made to Benson-McCown over the years.

On January 14, 2005, Defendants filed a motion to deny class certification. Subsequently, the plaintiffs agreed to dismiss and withdraw their class claims. An Agreed Order Dismissing all class claims, with prejudice, was entered by the Court on January 19, 2005. The case is proceeding on the plaintiffs' individual claims, with no class action being asserted.

Manna Petroleum Services, L.P. et al. v. American Processing, L.P. and Cesell B. Cheatham, et al., Cause No. 31,485, filed in the 223rd Judicial District Court of Gray County, Texas. Plaintiff filed suit in late 1999 and alleged that American Processing, L.P., a former wholly owned subsidiary of Kinder Morgan, Inc., and subsequently ONEOK, which purchased American Processing from us in 2000, misallocated proceeds from the sale of compression liquids at a gas processing plant in Pampa, Texas.

Following a bench trial held during the week of March 8-12, 2004, and a letter ruling from the Court, the parties settled the case, and an Agreed Order of Dismissal of all parties' claims, with prejudice, was entered by the Court on October 13, 2004. Kinder Morgan's allocated share of the settlement totaled $918,245.

Energas Company, a Division of Atmos Energy Company v. ONEOK Energy Marketing and Trading Company, L.P., et al., Cause No. 2001-516,386, filed in the 72nd District Court of Lubbock County, Texas. The plaintiff sued several ONEOK entities for alleged overcharges in connection with gas sales, transportation, and other services, and alleged misallocations and meter errors, in and around Lubbock, under three different gas contracts. While the petition is vague, it is broad enough to include claims for the period before and after March 1, 2000 when the assets in question were conveyed by us to ONEOK. We defended the case pursuant to an agreement whereby ONEOK was responsible for any damages that may have been attributable to the period following ONEOK's acquisition of the pertinent assets on March 1, 2000. On or about October 1, 2003, the plaintiff and ONEOK settled claims that related to the period after March 1, 2000. The plaintiff continued to assert and we continued to defend against claims that related to the period before March 1, 2000. In an amended petition filed in mid-2002, the plaintiff alleged damages in excess of $12 million. Defendants filed a counterclaim for offsetting damages and accounting corrections under the contracts with the plaintiff. In late 2004, we paid $3,850,000 to settle all claims and counterclaims. An Agreed Order of Dismissal was signed by the Court on January 5, 2005, dismissing all parties' claims and counterclaims with prejudice.

We believe that we have meritorious defenses to all lawsuits and legal proceedings in which we are defendants and will vigorously defend against them. Based on our evaluation of the above matters, and after consideration of reserves established, we believe that the resolution of such matters will not have a material adverse effect on our business, cash flows, financial position or results of operations.

In addition, we are a defendant in various lawsuits arising from the day-to-day operations of our businesses. Although no assurance can be given, we believe, based on our investigation and experience to date, that the ultimate resolution of such items will not have a material adverse impact on our business, cash flows, financial position or results of operations.

10. Property, Plant and Equipment

Investments in property, plant and equipment ("PP&E"), at cost, and accumulated depreciation and amortization ("Accumulated D&A") are as follows:

	December 31, 2004		
	Property, Plant and Equipment	Accumulated D&A	Net
		(In thousands)	
Natural Gas Pipelines	$ 5,880,944	$ 401,537	$ 5,479,407
Retail Natural Gas Distribution	376,364	143,574	232,790
Electric Power Generation	39,220	8,324	30,896
General and Other	188,174	79,302	108,872
PP&E Related to Continuing Operations	$ 6,484,702	$ 632,737	$ 5,851,965

	December 31, 2003		
	Property, Plant and Equipment	Accumulated D&A	Net
		(In thousands)	
Natural Gas Pipelines	$ 6,106,668	$ 384,680	$ 5,721,988
Retail Natural Gas Distribution	343,665	133,998	209,667
Electric Power Generation	39,220	6,861	32,359
General and Other	192,331	72,408	119,923
PP&E Related to Continuing Operations	$ 6,681,884	$ 597,947	$ 6,083,937

11. Income Taxes

Components of the income tax provision applicable to continuing operations for federal and state income taxes are as follows:

	Year Ended December 31,		
	2004	2003	2002
		(Dollars in thousands)	
Current Tax Provision:			
Federal	$ 170,345	$ 187,460	$ 61,108
State	15,635	27,810	17,270
	185,980	215,270	78,378
Deferred Tax Provision:			
Federal	89,351	30,287	85,026
State	(48,614)	(957)	(28,385)
	40,737	29,330	56,641
Total Tax Provision	$ 226,717	$ 244,600	$ 135,019
Effective Tax Rate	30.0%	39.1%	30.5%

The difference between the statutory federal income tax rate and our effective income tax rate is summarized as follows:

	Year Ended December 31,		
	2004	2003	2002
Federal Income Tax Rate	35.0%	35.0%	35.0%
Increase (Decrease) as a Result of:			
State Income Tax, Net of Federal Benefit	2.2%	2.8%	3.0%
Kinder Morgan Management Minority Interest	2.4%	2.5%	2.8%
Deferred Tax Rate Change	(9.3%)	-	(4.9%)
Prior Year Adjustments	-	-	(1.9%)
Resolution of Internal Revenue Service Audit	-	-	(2.0%)
Other	(0.3%)	(1.2%)	(1.5%)
Effective Tax Rate	30.0%	39.1%	30.5%

Income taxes included in the financial statements were composed of the following:

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Continuing Operations	$ 226,717	$ 244,600	$ 135,019
Discontinued Operations	(3,757)	-	(3,056)
Cumulative Effect of Transition Adjustment	-	-	-
Equity Items	(57,427)	(38,468)	(44,867)
Total	$ 165,533	$ 206,132	$ 87,096

Deferred tax assets and liabilities result from the following:

	December 31, 2004	December 31, 2003
	(In thousands)	
Deferred Tax Assets:		
Postretirement Benefits	$ 13,932	$ 9,986
Gas Supply Realignment Deferred Receipts	2,210	5,428
Book Accruals	15,640	11,767
Derivatives	62,642	26,193
Capital Loss Carryforwards	20,804	26,893
Other	6,021	11,289
Total Deferred Tax Assets	121,249	91,556
Deferred Tax Liabilities:		
Property, Plant and Equipment	1,771,710	1,791,263
Investments	826,939	736,598
Prepaid Pension Costs	20,103	9,836
Rate Matters	2,364	3,229
Discontinued Operations	-	27,959
Total Deferred Tax Liabilities	2,621,116	2,568,885
Net Deferred Tax Liabilities	$2,499,867	$2,477,329
Current Deferred Tax Asset	$ 30,198	$ -
Non-current Deferred Tax Liability	2,530,065	2,477,329
Net Deferred Tax Liabilities	$2,499,867	$2,477,329

During 2004, the effective tax rate applied in calculating deferred tax was reduced by approximately 1.1% due to a decrease in the state effective tax rate. As a result, net deferred tax liabilities were decreased by approximately $70.3 million. The effective tax rate for 2002 was reduced by approximately 0.35 %, principally due to a decrease in the provision for state income taxes. As a result, net deferred tax liabilities were decreased by approximately $21.0 million. Also, during 2002, we resolved certain issues with the Internal Revenue Service at amounts less than those previously accrued.

At December 31, 2004, we had a capital loss carryforward of approximately $56.1 million. A capital loss carryforward can be utilized to reduce capital gain during the five years succeeding the year in which a capital loss is incurred. The amounts and the years in which our capital loss carryforward expires are $52.5 million during 2005, $1.6 million during 2006 and $2.0 million during 2008. No valuation allowance has been provided with respect to this deferred tax asset.

12. Financing

(A) Notes Payable

As of December 31, 2004, we had available an $800 million five-year credit facility dated August 18, 2004. This credit facility replaced a $445 million 364-day credit facility dated October 14, 2003 and a $355 million three-year revolving credit agreement dated October 15, 2002 and can be used for general corporate purposes, including as backup for our commercial paper program, and includes financial covenants and events of default that are common in such arrangements. This credit facility does not contain a material adverse change clause. However, the margin that we pay with respect to borrowings and the facility fee we pay on the total commitment varies based on our senior debt investment rating. Based on our credit rating at December 31, 2004, our annual facility fee is 12.5 basis points on the available/committed amount. The complete agreement underlying this credit facility has been filed as an exhibit to our quarterly report on Form 10-Q for the quarter ended September 30, 2004, and certain significant provisions are shown following:

This credit facility includes the following financial covenants:

- Consolidated indebtedness not to exceed 65% of total capitalization;
- Total indebtedness of all consolidated subsidiaries not to exceed 10% of consolidated indebtedness; and
- Consolidated indebtedness of each material subsidiary not to exceed 65% of subsidiary capitalization.

The following constitute events of default under the credit facility, subject to certain cure periods:

- Nonpayment of interest, principal or fees;
- Failure to make required payments under hedging agreements that exceed $100,000,000;
- Adverse judgments in excess of $75,000,000; and
- Voluntary or involuntary bankruptcy or liquidation.

At December 31, 2004 and 2003, no amounts were outstanding under the bank facilities.

Commercial paper issued by us and supported by the bank facilities are unsecured short-term notes with maturities not to exceed 270 days from the date of issue. During 2004, all commercial paper was redeemed within 38 days, with interest rates ranging from 1.07% to 2.16%. No commercial paper was outstanding at December 31, 2004. Commercial paper outstanding at December 31, 2003 was $127.9 million. Average short-term borrowings outstanding during 2004 and 2003 were $107.3 million and $190.4 million, respectively. During 2004 and 2003, the weighted-average interest rates on short-term borrowings outstanding were 1.36% and 1.30%, respectively.

(B) Long-term Debt

	December 31, 2004	December 31, 2003
	(In thousands)	
Debentures:		
6.50% Series, Due 2013	$ 45,000	$ 50,000
8.75% Series, Due 2024	-	75,000
7.35% Series, Due 2026	125,000	125,000
6.67% Series, Due 2027	150,000	150,000
7.25% Series, Due 2028	493,000	493,000
7.45% Series, Due 2098	150,000	150,000
Senior Notes:		
6.65% Series, Due 2005	500,000	500,000
6.80% Series, Due 2008	300,000	300,000
6.50% Series, Due 2012	1,000,000	1,000,000
Deferrable Interest Debentures Issued to Subsidiary Trusts[1]:		
8.56% Junior Subordinated Deferrable Interest Debentures Due 2027	103,100	103,100
7.63% Junior Subordinated Deferrable Interest Debentures Due 2028	180,500	180,500
Carrying Value Adjustment for Interest Rate Swaps[2]	85,897	71,823
Unamortized Gain on Termination of Interest Rate Swap	2,346	16,419
Unamortized Premium on Long-term Debt	3,359	3,798
Unamortized Debt Discount	(3,409)	(4,311)
Current Maturities of Long-term Debt	(505,000)	(5,000)
Total Long-term Debt	$2,629,793	$3,209,329

[1] As a result of our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, effective December 31, 2003, the subsidiary trusts associated with these securities are no longer consolidated.

[2] Adjustment of carrying value of long-term securities subject to outstanding interest rate swaps; see Note 14.

Maturities of long-term debt (in thousands) for the five years ending December 31, 2009 are $505,000, $5,000, $5,000, $305,000 and $5,000, respectively.

The 2013 Debentures and the 2005 Senior Notes are not redeemable prior to maturity. The 2028 and 2098 Debentures and the 2008 and 2012 Senior Notes are redeemable in whole or in part, at our option at any time, at redemption prices defined in the associated prospectus supplements. The 2026 and 2027 Debentures are redeemable in whole or in part, at our option after August 1, 2006, and November 1, 2004, respectively, at redemption prices defined in the associated prospectus supplements, which redemption prices generally do not make early redemption an economically favorable alternative. The Junior Subordinated Deferrable Interest Debentures are redeemable in whole or in part, (i) at our option after April 14, 2007 and (ii) at any time in certain limited circumstances upon the occurrence of certain events and at prices, all defined in the associated prospectus supplements. Upon redemption by us or at maturity of the Junior Subordinated Deferrable Interest Debentures, we must use the proceeds to make redemptions of the Capital Trust Securities on a pro rata basis.

On October 21, 2004, we retired our $75 million 8.75% Debentures due October 15, 2024 at a premium of 104.0% of the face amount. We recorded a loss of $2.4 million (net of associated tax benefit of $1.5 million) in connection with this early extinguishment of debt, which is included under the caption "Other, Net" in the accompanying Consolidated Statement of Operations for 2004.

On March 3, 2003, our $500 million of 6.45% Senior Notes matured, and we paid the holders of the notes, utilizing a combination of cash on hand and incremental short-term borrowing.

On November 1, 2002, we retired the full $35 million of our 8.35% Series Sinking Fund Debentures due September 15, 2022 at a premium of 104.175% of the face amount of the debentures. We recorded a loss

of $1.0 million (net of associated tax benefit of $0.7 million) in connection with this early extinguishment of debt. This loss, and the loss recorded in conjunction with the early extinguishment of debt associated with the retirement of our 7.85% Series Debentures described below, are included under the caption "Other, Net" in the accompanying Consolidated Statement of Operations for 2002.

On October 10, 2002, we retired our $200 million of Floating Rate Notes due October 10, 2002, utilizing a combination of cash and incremental short-term debt. Effective September 1, 2002, we retired our $24 million of 7.85% Series Debentures due September 1, 2022 at par. We recorded a loss of $420 thousand (net of associated tax benefit of $275 thousand) in conjunction with this early extinguishment of debt, consisting of the unamortized debt expense associated with these debentures.

On August 27, 2002, we issued $750 million of our 6.50% Senior Notes due September 1, 2012, in an offering made pursuant to Rule 144A of the regulations of the Securities and Exchange Commission, with registration rights. The proceeds were used to retire our short-term notes payable then outstanding, with the balance invested in short-term commercial paper and money market funds. On November 18, 2002, we completed an exchange offer to exchange these notes for our 6.50% Senior Notes due September 1, 2012, which have been registered under the Securities Act of 1933. These new notes have the same form and terms and evidence the same debt as the original notes, and were offered for exchange to satisfy our obligation to exchange the original notes for registered notes. In December 2002, we re-opened this issue and sold an additional $250 million of 6.50% Senior Notes, which we also exchanged for registered securities pursuant to our currently effective registration statement on Form S-4, in an exchange offer that was completed on March 21, 2003.

At December 31, 2004 and 2003, the carrying amount of our long-term debt was $3.1 billion and $3.2 billion, respectively. The estimated fair values of our long-term debt at December 31, 2004 and 2003 are shown in Note 18.

(C) Capital Trust Securities

Our business trusts, K N Capital Trust I and K N Capital Trust III, are obligated for $100 million of 8.56% Capital Trust Securities maturing on April 15, 2027 and $175 million of 7.63% Capital Trust Securities maturing on April 15, 2028, respectively. As a result of adopting FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, effective December 31, 2003, we (i) no longer include the transactions and balances of K N Capital Trust I and K N Capital Trust III in our consolidated financial statements and (ii) began including our Junior Subordinated Deferrable Interest Debentures issued to the Capital Trusts in a separate caption under the heading "Long-term Debt" in our Consolidated Balance Sheets. In addition, effective July 1, 2003 we (i) reclassified our trust preferred securities to the debt portion of our balance sheet and (ii) began classifying payments made by us in conjunction with the trust preferred securities as interest expense, rather than minority interest. For periods and dates prior to July 1, 2003, the Capital Securities are treated as a minority interest, shown in our Consolidated Balance Sheets under the caption "Kinder Morgan-Obligated Mandatorily Redeemable Preferred Capital Trust Securities of Subsidiary Trust Holding Solely Debentures of Kinder Morgan," and periodic payments made to the holders of these securities are classified under "Minority Interests" in our Consolidated Statements of Operations. See Note 18 for the fair value of these securities.

(D) Common Stock

On February 14, 2005, we paid a cash dividend on our common stock of $0.70 per share to stockholders of record as of January 31, 2005.

On August 14, 2001, we announced a plan to repurchase $300 million of our outstanding common stock,

which program was increased to $400 million, $450 million, $500 million, $550 million and $750 million in February 2002, July 2002, November 2003, April 2004 and November 2004, respectively. As of December 31, 2004, we had repurchased a total of approximately $561.2 million (10,728,700 shares) of our outstanding common stock under the program, of which $108.6 million (1,695,900 shares), $38.0 million (724,600 shares) and $144.3 million (3,013,400 shares) were repurchased in the years ended December 31, 2004, 2003 and 2002, respectively.

(E) Kinder Morgan Management, LLC

On November 10, 2004, Kinder Morgan Management closed the issuance and sale of 1,300,000 listed shares in a privately negotiated transaction with a single purchaser. None of the shares in the offering were purchased by us. Kinder Morgan Management used the net proceeds of approximately $52.6 million from the offering to buy additional i-units from Kinder Morgan Energy Partners. Additional information concerning the business of, and our obligations to, Kinder Morgan Management is contained in Kinder Morgan Management's 2004 Annual Report on Form 10-K.

On March 25, 2004, Kinder Morgan Management closed the issuance and sale of 360,664 listed shares in a privately negotiated transaction with a single purchaser. None of the shares in the offering were purchased by us. Kinder Morgan Management used the net proceeds of approximately $14.9 million from the offering to buy additional i-units from Kinder Morgan Energy Partners.

In January 2003, our board of directors approved a plan to purchase shares of Kinder Morgan Management on the open market. During 2003 we purchased $0.9 million (29,000 shares) of Kinder Morgan Management stock.

On August 6, 2002, Kinder Morgan Management closed the issuance and sale of 12,478,900 limited liability shares in an underwritten public offering. The net proceeds of approximately $328.6 million from the offering were used by Kinder Morgan Management to buy additional i-units from Kinder Morgan Energy Partners. We did not purchase any of the offered shares.

13. Preferred Stock

We have authorized 200,000 shares of Class A and 2,000,000 shares of Class B preferred stock, all without par value. At December 31, 2004, 2003 and 2002, we did not have any outstanding shares of preferred stock.

14. Risk Management

We account for risk management activities according to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* collectively, "Statement 133." Statement 133 established accounting and reporting standards requiring that every derivative financial instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The accompanying Consolidated Balance Sheet as of December 31, 2004, includes, exclusive of amounts related to interest rate swaps as discussed below, balances of approximately $19.3 million, $258,000, $13.4 million and $166,000 in the captions "Current Assets: Other," "Deferred Charges and Other Assets," "Current Liabilities: Other," and "Other Liabilities and Deferred Credits: Other" respectively, related to these derivative financial instruments. Statement 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. If the

derivatives meet those criteria, Statement 133 allows a derivative's gains and losses to offset related results from the hedged item in the income statement, and requires that a company formally designate a derivative as a hedge and document and assess the effectiveness of derivatives associated with transactions that receive hedge accounting.

We enter into derivative contracts solely for the purpose of hedging exposures that accompany our normal business activities. In accordance with the provisions of Statement 133, we designated these instruments as hedges of various exposures as discussed following, and we test the effectiveness of changes in the value of these hedging instruments with the risk being hedged. Hedge ineffectiveness is recognized in income in the period in which it occurs. We enter into these transactions only with counterparties whose debt securities are rated investment grade by the major rating agencies. In general, the risk of default by these counterparties is low. While we enter into derivative transactions only with investment grade counterparties and actively monitor their credit ratings, it is nevertheless possible that losses will result from counterparty credit risk in the future.

Our businesses require that we purchase, sell and consume natural gas. Specifically, we purchase, sell and/or consume natural gas (i) to serve our regulated natural gas distribution sales customers, (ii) to serve certain of our retail natural gas distribution customers in areas where regulatory restructuring has provided for competition in natural gas supply, for customers who have selected the Company as their supplier of choice under our "Choice Gas" program, (iii) as fuel in one of our Colorado power generation facilities, (iv) as fuel for compressors located on NGPL's pipeline system and (v) for operational sales of gas by NGPL.

With respect to item (i), we have no commodity risk because the regulated retail gas distribution regulatory structure provides that actual gas cost is "passed-through" to our customers. With respect to item (iii), our exposure is minimal and primarily consists of basis rather than commodity risk. With respect to item (iv), this fuel is supplied by in-kind fuel recoveries that are part of the transportation tariff. Items (ii) and (v) give rise to natural gas commodity price risk which we have chosen to substantially mitigate through our risk management program. We provide this mitigation through the use of financial derivative products, and we do not utilize these derivatives for any purpose other than risk mitigation.

Under our Choice Gas program, customers in certain areas served by Kinder Morgan Retail are allowed to choose their natural gas supplier from a list of qualified suppliers, although the transportation of the natural gas to the homes and businesses continues to be provided by Kinder Morgan Retail in all cases. When those customers choose Kinder Morgan Retail as their Choice Gas supplier, we enter into agreements providing for sales of gas to these customers during a one-year period at fixed prices per unit, but variable volumes. We mitigate the risk associated with these anticipated sales of gas by purchasing natural gas futures contracts on the New York Mercantile Exchange ("NYMEX") and, as applicable, over-the-counter basis swaps to mitigate the risk associated with the difference in price changes between Henry Hub (NYMEX) basis and the expected physical delivery location. In addition, we mitigate a portion of the volumetric risk through the purchase of over-the-counter natural gas options. The time period covered by this risk management strategy does not extend beyond one year.

With respect to operational sales of natural gas made by NGPL, we are exposed to risk associated with changes in the price of natural gas during the periods in which these sales are made. We mitigate this risk by selling natural gas futures and, as discussed above, over-the-counter basis swaps, on the NYMEX in the periods in which we expect to make these sales. In general, we do not hedge this exposure for periods in excess of 18 months.

During the three years ended December 31, 2004, all of our natural gas derivative activities were

designated and qualified as cash flow hedges. We recognized a pre-tax loss of approximately $1,354,000 in 2004, a pre-tax gain of approximately $56,000 in 2003 and a pre-tax loss of approximately $46,000 in 2002 as a result of ineffectiveness of these hedges, which amounts are reported within the caption "Gas Purchases and Other Costs of Sales" in the accompanying Consolidated Statements of Operations. There was no component of these derivative instruments' gain or loss excluded from the assessment of hedge effectiveness.

As the hedged sales and purchases take place and we record them into earnings, we also reclassify the gains and losses included in accumulated other comprehensive income into earnings. We expect to reclassify into earnings, during 2005, substantially all of the accumulated other comprehensive income balance of approximately $138,000 at December 31, 2004, representing unrecognized net losses on derivative activities. During the three years ended December 31, 2004, we reclassified no gains or losses into earnings as a result of the discontinuance of cash flow hedges due to a determination that the forecasted transactions would no longer occur by the end of the originally specified time period.

We also provide certain administrative risk management services to Kinder Morgan Energy Partners, although Kinder Morgan Energy Partners retains the obligations and rights arising from all derivative transactions entered into on its behalf.

Our outstanding fixed-to-floating interest rate swap agreements had a notional principal amount of $1.5 billion at December 31, 2004. These agreements, entered into in August 2001, September 2002 and November 2003, effectively convert the interest expense associated with our 7.25% Debentures due in 2028 and our 6.50% Senior Notes due in 2012 from fixed rates to floating rates based on the three-month London Interbank Offered Rate ("LIBOR") plus a credit spread. These swaps have been designated as fair value hedges and we have accounted for them utilizing the "shortcut" method prescribed for qualifying fair value hedges under Statement 133. Accordingly, the carrying value of the swap is adjusted to its fair value as of the end of each reporting period, and an offsetting entry is made to adjust the carrying value of the debt securities whose fair value is being hedged. The fair value of the swaps of $85.9 million at December 31, 2004 is included in the caption "Deferred Charges and Other Assets" in the accompanying Consolidated Balance Sheet. We record interest expense equal to the floating rate payments, which is accrued monthly and paid semi-annually. Based on the long-term debt effectively converted to floating rate debt as a result of the swaps discussed above, the market risk related to a 1% change in interest rates would result in a $15.0 million annual impact on pre-tax income.

On March 3, 2003, we terminated the interest rate swap agreements associated with our 6.65% Senior Notes due in 2005 and received $28.1 million in cash. We are amortizing this amount (reducing interest expense) over the remaining period the 6.65% Senior Notes are outstanding. The unamortized balance of $2.3 million at December 31, 2004 is included in the caption "Value of Interest Rate Swaps" under the heading "Long-term Debt" in the accompanying Consolidated Balance Sheet.

Following is selected information concerning our natural gas risk management activities as of December 31, 2004:

	Commodity Contracts	Over the Counter Swaps and Options Contracts	Total
		(Dollars in thousands)	
Deferred Net Gain (Loss)	$ 8,810	$ (8,989)	$ (179)
Contract Amounts — Gross	$ 120,275	$ 154,120	$ 274,395
Contract Amounts — Net	$ (49,631)	$(130,051)	$(179,682)
		(Number of contracts[1])	
Natural Gas			
Notional Volumetric Positions: Long	544	185	729
Notional Volumetric Positions: Short	(1,210)	(2,341)	(3,551)
Net Notional Totals to Occur in 2005	(666)	(2,167)	(2,833)
Net Notional Totals to Occur in 2006 and Beyond	-	11	11
Crude Oil			
Notional Volumetric Positions: Long	-	-	-
Notional Volumetric Positions: Short	-	(24)	(24)
Net Notional Totals to Occur in 2005	-	(24)	(24)
Net Notional Totals to Occur in 2006 and Beyond	-	-	-
Natural Gas Liquids			
Notional Volumetric Positions: Long	-	-	-
Notional Volumetric Positions: Short	-	(8)	(8)
Net Notional Totals to Occur in 2005	-	(8)	(8)
Net Notional Totals to Occur in 2006 and Beyond	-	-	-

[1] A term of reference describing a unit of commodity trading. One natural gas contract equals 10,000 MMBtus. One crude oil or natural gas liquids contract equals 1,000 barrels..

Our over-the-counter swaps and options are with a number of parties, each of which is an investment grade credit. At December 31, 2004, we were not owed money by any counterparties, and therefore have no credit exposure.

15. Employee Benefits

(A) Retirement Plans

We have defined benefit pension plans covering eligible full-time employees. These plans provide pension benefits that are based on the employees' compensation during the period of employment, age and years of service. These plans are tax-qualified subject to the minimum funding requirements of the *Employee Retirement Income Security Act of 1974,* as amended. Our funding policy is to contribute annually the recommended contribution using the actuarial cost method and assumptions used for determining annual funding requirements. Plan assets consist primarily of pooled fixed income, equity, bond and money market funds. Plan assets included our common stock valued at $26.2 million and $20.4 million as of December 31, 2004 and 2003, respectively. The measurement date for our retirement plans is December 31.

Net periodic pension cost includes the following components:

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Service Cost	$ 8,619	$ 8,133	$ 7,121
Interest Cost	11,566	11,118	10,484
Expected Return on Assets	(16,338)	(13,282)	(15,665)
Net Amortization and Deferral	227	1,625	21
Settlement Loss	-	-	76
Net Periodic Pension Benefit Cost	$ 4,074	$ 7,594	$ 2,037

The following table sets forth the reconciliation of the beginning and ending balances of the pension benefit obligation:

	2004	2003
	(In thousands)	
Benefit Obligation at Beginning of Year	$ 180,862	$ 162,181
Service Cost	8,619	8,133
Interest Cost	11,566	11,118
Actuarial Loss	13,865	8,416
Benefits Paid	(10,031)	(8,986)
Benefit Obligation at End of Year	$ 204,881	$ 180,862

The accumulated benefit obligation through December 31, 2004 and 2003 was $192.9 million and $170.9 million, respectively.

The following table sets forth the reconciliation of the beginning and ending balances of the fair value of the plans' assets, the plans' funded status and prepaid (accrued) pension cost:

	December 31,	
	2004	2003
	(In thousands)	
Fair Value of Plan Assets at Beginning of Year	$ 185,610	$ 147,591
Actual Return on Plan Assets During the Year	24,197	37,971
Contributions by Employer	6,834	9,034
Benefits Paid During the Year	(10,031)	(8,986)
Fair Value of Plan Assets at End of Year	206,610	185,610
Benefit Obligation at End of Year	(204,881)	(180,862)
Plan Assets in Excess of Projected Benefit Obligation	1,729	4,748
Unrecognized Net Loss	25,596	19,802
Prior Service Cost Not Yet Recognized in Net Periodic Pension Costs	1,840	2,017
Unrecognized Net Asset at Transition	(33)	(196)
Prepaid Pension Cost	$ 29,132	$ 26,371

For 2005, we expect to contribute approximately $25 million to the Plan.

Prepaid pension cost as of December 31, 2004 is recognized under the caption, "Current Assets: Other" in the accompanying Consolidated Balance Sheets.

The following net benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Expected Net Benefit Payments
	(In thousands)
2005	$10,370
2006	$10,933
2007	$11,921
2008	$12,368
2009	$13,897
2010-2014	$87,809

Effective January 1, 2001, we added a cash balance plan to our retirement plan. Certain collectively bargained employees and "grandfathered" employees will continue to accrue benefits through the defined pension benefit plan described above. All other employees will accrue benefits through a personal retirement account in the new cash balance plan. All employees converting to the cash balance plan were credited with the current fair value of any benefits they have previously accrued through the defined benefit plan. We make contributions on behalf of these employees equal to 3% of eligible compensation every pay period. In addition, we may make discretionary contributions to the plan based on our performance. Interest is credited to the personal retirement accounts at the 30-year U.S. Treasury bond rate in effect each year. Employees will be fully vested in the plan after five years, and they may take a lump sum distribution upon termination or retirement.

In addition to our retirement plan described above, we have the Kinder Morgan, Inc. Savings Plan (the "Plan"), a defined contribution plan. We make contributions to the Plan in an amount equal to 4% of compensation on behalf of each eligible employee. In July 2004, our Board of Directors Compensation Committee approved, contingent upon its approval at its July 2005 meeting, an additional 1% contribution to each eligible employee beginning with the first pay period after the July 2005 meeting. This additional 1% contribution is discretionary and will require annual approval by the Compensation Committee. All contributions are in the form of Company stock, which is immediately convertible into other available investment vehicles at the employee's discretion. Our Board of Directors has authorized a total of 6.7 million shares to be issued through the Plan. In addition to the above contributions, we may make annual discretionary contributions based on our performance. These contributions are made in the year following the year for which the contribution amount is calculated. The total amount contributed for 2004, 2003 and 2002 was $12.2 million, $11.5 million and $11.4 million, respectively. For employees hired on or prior to December 31, 2004, all contributions, together with earnings thereon, are fully vested in the Plan. Employer contributions for employees hired on or after January 1, 2005 will vest on the second anniversary of the date of hire.

(B) Other Postretirement Employee Benefits

We have a defined benefit postretirement plan providing medical and life insurance benefits upon retirement for eligible employees and their eligible dependents. We fund a portion of the future expected postretirement benefit cost under the plan by making payments to Voluntary Employee Benefit Association trusts. Plan assets are invested in a mix of equity funds and fixed income instruments similar to the investments in our pension plans. The measurement date for our postretirement plan is December 31.

Net periodic postretirement benefit cost includes the following components:

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Service Cost	$ 373	$ 406	$ 419
Interest Cost	5,652	6,968	7,251
Expected Return on Assets	(5,178)	(5,450)	(6,721)
Net Amortization and Deferral	3,199	3,333	2,352
Net Periodic Postretirement Benefit Cost	$ 4,046	$ 5,257	$ 3,301

The following table sets forth the reconciliation of the beginning and ending balances of the accumulated postretirement benefit obligation:

	2004	2003
	(In thousands)	
Benefit Obligation at Beginning of Year	$ 106,939	$ 105,278
Service Cost	373	406
Interest Cost	5,652	6,968
Actuarial Loss	21,045	6,151
Benefits Paid	(13,906)	(15,510)
Retiree Contributions	3,796	3,646
Plan Amendments	(31,959)	-
Benefit Obligation at End of Year	$ 91,940	$ 106,939

The following table sets forth the reconciliation of the beginning and ending balances of the fair value of plan assets, the plan's funded status and the amounts included under the caption "Other" in the category "Other Liabilities and Deferred Credits" in our Consolidated Balance Sheets:

	December 31,	
	2004	2003
	(In thousands)	
Fair Value of Plan Assets at Beginning of Year	$ 62,693	$ 65,084
Actual Return on Plan Assets	9,888	6,382
Contributions by Employer	-	5,000
Retiree Contributions	3,728	3,637
Benefits Paid	(16,166)	(17,410)
Fair Value of Plan Assets at End of Year	60,143	62,693
Benefit Obligation at End of Year	(91,940)	(106,939)
Excess of Projected Benefit Obligation Over Plan Assets	(31,797)	(44,246)
Unrecognized Net Loss	68,084	54,283
Unrecognized Net Obligations at Transition	-	8,361
Unrecognized Prior Service Cost	(19,606)	2,329
Prepaid Expense	$ 16,681	$ 20,727

We expect to make contributions of approximately $8.5 million to the plan in 2005.

A one-percentage-point increase (decrease) in the assumed health care cost trend rate for each future year would have increased (decreased) the aggregate of the service and interest cost components of the 2004 net periodic postretirement benefit cost by approximately $5,418 ($5,019) and would have increased (decreased) the accumulated postretirement benefit obligation as of December 31, 2004 by approximately $86,726 ($80,676).

The following net benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Expected Net Benefit Payments (In thousands)
2005	$10,135
2006	$ 7,389
2007	$ 7,213
2008	$ 7,027
2009	$ 6,871
2010-2014	$32,469

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") was signed into law. In January 2004, the FASB issued Staff Position ("FSP") FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* to provide guidance on accounting and disclosure for the Act as it pertains to postretirement benefit plans, and in May 2004, the FASB issued FSP FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* which superseded FSP FAS 106-1 effective July 1, 2004, which provides specific authoritative guidance on the accounting for the federal subsidy included in the Act. In the third quarter of 2004, our board approved a resolution to amend our postretirement benefit plan to eliminate prescription drug benefits for Medicare eligible retirees effective January 1, 2006, which eliminates any potential effects on our periodic postretirement benefit costs due to the federal subsidy included in the Act.

(C) Actuarial Assumptions

The assumptions used to determine benefit obligations for the pension and postretirement benefit plans were:

	December 31,		
	2004	2003	2002
Discount Rate	6.0%	6.5%	7.0%
Expected Long-term Return on Assets	9.0%	9.0%	9.0%
Rate of Compensation Increase (Pension Plan Only)	3.5%	3.5%	3.5%

The assumptions used to determine net periodic benefit cost for the pension and postretirement benefits were:

	Year Ended December 31,		
	2004	2003	2002
Discount Rate	6.5%	7.0%	7.25%
Expected Long-term Return on Assets	9.0%	9.0%	9.5%
Rate of Compensation Increase (Pension Plan Only)	3.5%	3.5%	3.5%

The assumed healthcare cost trend rates for the postretirement plan were:

	December 31,		
	2004	2003	2002
Healthcare Cost Trend Rate Assumed for Next Year	3.0%	3.0%	3.0%
Rate to which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate)	3.0%	3.0%	3.0%
Year the Rate Reaches the Ultimate Trend Rate	2004	2003	2002

(D) Plan Investment Policies

The investment policies and strategies for the assets of our pension and retiree life and medical plans are established by the plans' Fiduciary Committee (the "Committee"). The stated philosophy of the Committee is to manage these assets in a manner consistent with the purpose for which the plans were established and the time frame over which the plans' obligations will be met. The objectives of the investment management program are to (1) ultimately achieve and maintain a fully funded status based on relevant actuarial assumptions, (2) have the ability to pay all plan obligations when due, (3) as a minimum, meet or exceed actuarial return assumptions and (4) earn the highest possible rate of return consistent with established risk tolerances. In seeking to meet these objectives, the Committee recognizes that prudent investing requires taking reasonable risks in order to raise the likelihood of achieving the targeted investment returns. In order to reduce portfolio risk and volatility, the Committee has adopted a strategy of using multiple asset classes. As of December 31, 2004, the following target asset allocation ranges were in effect (Minimum/Target/Maximum): Cash – 0%/0%/5%; Fixed Income – 20%/30%/40% and Equity – 60%/70%/80%. In order to achieve enhanced diversification, the equity category is further subdivided into sub-categories with respect to Kinder Morgan Stock, small cap vs. large cap, value vs. growth and international vs. domestic, each with its own target asset allocation (in the case of Kinder Morgan Stock, the allocation range was 5%/10%/15% at December 31, 2004).

In implementing its investment policies and strategies, the Committee has engaged a professional investment advisor to assist with its decision making process and has engaged professional money managers to manage plan assets. The Committee believes that such active investment management will achieve superior returns with comparable risk in comparison to passive management. Consistent with its goal of reasonable diversification, no manager of an equity portfolio for the plan is allowed to have more than 10% of the market value of the portfolio in a single security or weight a single economic sector more than twice the weighting of that sector in the appropriate market index. Finally, investment managers are not permitted to invest or engage in the following unless specific permission is given in writing (which permission has not been requested or granted by the Committee to-date): derivative instruments, except for the purpose of asset value protection (such as writing covered calls), direct ownership of letter stock, restricted stock, limited partnership units (unless the security is registered and listed on a domestic exchange), venture capital, short sales, margin purchases or borrowing money, stock loans and commodities. Certain other types of investments such as hedge funds and land purchases are not prohibited as a matter of policy but have not, as yet, been adopted as an asset class or received any allocation of fund assets.

(E) Return on Plan Assets

At December 31, 2004, our pension and retiree life and medical fund assets consisted of approximately 73.5% equity, 23.8% debt and 2.7% cash and cash equivalents. At December 31, 2003, the corresponding amounts were approximately 71.9% equity, 25.6% debt and 2.5% cash and cash equivalents. Historically over long periods of time, widely traded large-cap equity securities have provided a return of approximately 10%, while fixed income securities have provided a return of approximately 6%, indicating that a long-term expected return predicated on the asset allocation as of December 31, 2004 would be approximately 8.8% if the investments were made in the broad indexes. Since our pension funds are actively managed by professional managers who provide this service for a fee, we expect to earn a premium of 0.75% to 1.5% on the equity portion of our portfolio and 0.25% to 0.50% on the fixed income portion, over and above the fees we pay our money managers. Thus, on a weighted basis, we would expect to earn a premium of 0.62% to 1.24% due to active management. Our historical premium over a balanced index was 2.8%, 2.4% and 5.7% for the 1-year, 3-year and 5-year periods ended December 31, 2003, respectively. Therefore, using the low end of the range for the expected active management premium, we arrive at an overall expected return of approximately 9.4%,

which we have lowered slightly to 9% for purposes of making the required calculations.

16. Common Stock Option and Purchase Plans

We have the following stock option plans: The 1992 Non-Qualified Stock Option Plan for Non-Employee Directors, the 1994 Kinder Morgan, Inc. Long-term Incentive Plan (which also provides for the issuance of restricted stock) and the Kinder Morgan, Inc. Amended and Restated 1999 Stock Option Plan. We also have an employee stock purchase plan.

We account for these plans using the "intrinsic value" method contained in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees.* Had we applied the "fair value" method contained in SFAS No. 123, *Accounting for Stock-Based Compensation*, our earnings would have been affected; see Note 1(S). In December 2004, the FASB issued SFAS No. 123R (revised 2004), *Share-Based Payment*. This statement, which we will adopt in the third quarter of 2005, will affect the way we account for these plans; see Note 20.

On October 8, 1999, our Board of Directors approved the creation of our 1999 stock option plan, a broadly based non-qualified stock option plan. Under the plan, options may be granted to individuals who are regular full-time employees, including officers and directors who are employees. Prior to 2004, options under the plan vested in 25% increments on the anniversary of the grant over a four-year period from the date of grant and had a 10-year life. On July 20, 2004, approximately 289,000 shares were granted under the plan that will vest 100% after three years and have a seven-year life. All options granted under the plan must be granted at not less than the fair market value of Kinder Morgan, Inc. common stock at the close of trading on the date of grant. On January 17, 2001, our Board of Directors approved an additional 5 million shares for future grants to participants in the 1999 Stock Option Plan, which brings the aggregate number of shares subject to the plan to 10.5 million. The Board also recommended, and our shareholders approved at our May 8, 2001 annual meeting, an additional 0.5 million shares for future grants to participants in the 1992 Directors' Plan, which brings the aggregate number of shares subject to that plan to 1.03 million. On July 16, 2003, approximately 706,000 shares were granted to employees under the Long-term Incentive Plan. These shares will vest 100% after three years and have a 7-year life.

Under all plans, except the Long-term Incentive Plan, options must be granted at not less than 100% of the market value of the stock at the date of grant. Under the Long-term Incentive Plan options may be granted at less than 100% of the market value of the stock at the date of grant although we do not expect to make any grants of options at less than 100% of the market value of the stock at the grant date. Compensation expense was recorded totaling $5.1 million, $3.4 million and $1.4 million for 2004, 2003 and 2002, respectively, relating to restricted stock grants awarded under the plans.

Plan Name	Shares Subject to the Plan	Option Shares Granted Through December 31, 2004	Vesting Period	Expiration Period
1992 Directors' Plan.....	1,025,000	702,875	0 – 6 Months	10 Years
Long-term Incentive Plan..	5,700,000	4,163,720	0 – 5 Years	5 – 10 Years
1999 Plan.....	10,500,000	7,897,016	3 – 4 Years	7 – 10 Years

A summary of the status of our stock option plans at December 31, 2004, 2003 and 2002, and changes during the years then ended is presented in the table and narrative below:

	2004		2003		2002	
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Outstanding at Beginning of Year	6,499,507	$ 35.45	7,480,915	$ 35.94	6,975,717	$ 33.12
Granted	354,525	$ 60.91	1,019,700	$ 50.42	1,231,525	$ 47.76
Exercised	(1,712,685)	$ 34.16	(1,653,991)	$ 26.25	(519,091)	$ 23.46
Forfeited	(114,911)	$ 49.11	(347,117)	$ 36.54	(207,236)	$ 38.64
Outstanding at End of Year	5,026,436	$ 44.18	6,499,507	$ 35.45	7,480,915	$ 35.94
Exercisable at End of Year	3,154,197	$ 39.47	3,918,118	$ 35.46	3,978,017	$ 31.93
Weighted-Average Fair Value of Options Granted		$ 16.87		$ 16.60		$ 19.36

The following table sets forth our common stock options outstanding at December 31, 2004, weighted-average exercise prices, weighted-average remaining contractual lives, common stock options exercisable and the exercisable weighted-average exercise price:

	Options Outstanding			Options Exercisable	
Price Range	Number Outstanding	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Life	Number Exercisable	Wtd. Avg. Exercise Price
$00.00 - $23.81	834,100	$ 23.73	4.66 years	834,100	$ 23.73
$24.04 - $43.10	1,324,434	$ 35.74	6.17 years	933,284	$ 33.69
$49.00 - $53.20	1,335,494	$ 51.13	6.17 years	996,061	$ 50.98
$53.60 - $60.18	1,164,633	$ 55.16	6.24 years	310,752	$ 56.55
$60.79 - $61.40	367,775	$ 60.92	7.10 years	80,000	$ 61.40
	5,026,436	$ 44.18	6.00 years	3,154,197	$ 39.47

Under the employee stock purchase plan, we may sell up to 2,400,000 shares of common stock to eligible employees. Employees purchase shares through voluntary payroll deductions. Through 2004, shares were purchased quarterly at a 15% discount from the closing price of the common stock on the last trading day of each calendar quarter. Beginning with the March 31, 2005 quarterly purchase, the discount will be 5%. Employees purchased 86,255 shares, 95,997 shares and 127,425 shares for plan years 2004, 2003 and 2002, respectively. Using the Black-Scholes model to assign value to the option inherent in the right to purchase stock under the provisions of the employee stock purchase plan, the weighted-average fair value per share of purchase rights granted in 2004, 2003 and 2002 was $11.28, $9.67 and $9.60, respectively.

17. Commitments and Contingent Liabilities

(A) Leases and Guarantee

Expenses incurred under operating leases were $24.3 million in 2004, $6.4 million in 2003 and $8.1 million in 2002. The principal reason for the increased expense in 2004 is the lease associated with the Jackson, Michigan power generation facility as discussed below. Future minimum commitments under major operating leases as of December 31, 2004 are as follows:

Year	Commitment (In thousands)
2005	$ 30,512
2006	29,166
2007	28,440
2008	25,903
2009	20,593
Thereafter	415,840
Total	$ 550,454

Included in the future minimum commitments shown in the preceding table is the lease obligation associated with the Jackson, Michigan power generation facility. The project company that is the lessee of this facility is consolidated as of December 31, 2003, as a result of the adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. The facility is subject to a long-term tolling agreement, and the lease obligation is without recourse to the project investors.

As a result of our December 1999 sale of assets to ONEOK, ONEOK became primarily obligated for the lease of the Bushton gas processing facility. We remain secondarily liable for the lease, which had a remaining minimum obligation of approximately $189.1 million at December 31, 2004, with payments that average approximately $23 million per year through 2012. In conjunction with our contributions of assets to Kinder Morgan Energy Partners at December 31, 1999, December 31, 2000 and November 1, 2004, we are a guarantor of approximately $733.5 million of Kinder Morgan Energy Partners' debt. We would be obligated to perform under this guarantee only if Kinder Morgan Energy Partners and/or its assets were unable to satisfy its obligations.

(B) Capital Expenditures Budget

Approximately $2.2 million of our consolidated capital expenditure budget for 2005 had been committed for the purchase of plant and equipment at December 31, 2004.

(C) Commitments for Incremental Investment

We could be obligated (i) based on operational performance of the equipment at our Jackson, Michigan power generation facility to invest up to an additional $3 to $8 million per year for the next 14 years and (ii) based on cash flows generated by the facility, to invest up to an additional $25 million beginning in 2018, in each case in the form of an incremental preferred interest.

(D) Standby Letters of Credit

Letters of credit totaling $32.2 million outstanding at December 31, 2004 consisted of the following: (i) four letters of credit, totaling $13.0 million, required under provisions of our property and casualty, worker's compensation and general liability insurance policies, (ii) a $10.7 million letter of credit supporting the subordination of operating fees payable to us for operation of the Jackson, Michigan power generation facility to payments due under the operating lease of the facilities, (iii) a $6.6 million letter of credit associated with the outstanding debt of Thermo Cogeneration Partnership, L.P., the entity responsible for the operation of our Colorado power generation assets and (iv) a $1.9 million letter of credit supporting Thermo Cogeneration Partnership, L.P.'s performance under its contract with Public Service Company of Colorado, the principal customer of our Colorado power generation assets.

(E) Other Obligations

Other obligations are discussed in Note 1(N) and Note 7.

18. Fair Value

The following fair values of Long-term Debt and Capital Securities were estimated based on an evaluation made by an independent securities analyst. Fair values of "Energy Financial Instruments, Net" reflect the estimated amounts that we would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses on open contracts. Market quotes are available for substantially all instruments we use.

	December 31,			
	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
Financial Liabilities:				
Long-term Debt	$ 3,132.5[1]	$ 3,420.6[1]	$ 3,198.4[1]	$ 3,495.4[1]
Energy Financial Instruments, Net	$ (0.2)	$ (0.2)	$ (9.8)	$ (9.8)
Outstanding Interest Rate Swaps	$ (85.9)	$ (85.9)	$ (71.8)	$ (71.8)

[1] Includes an adjustment exactly offsetting the fair value of the outstanding interest rate swaps. See Note 14.

19. Business Segment Information

In accordance with the manner in which we manage our businesses, including the allocation of capital and evaluation of business segment performance, we report our operations in the following segments: (1) Natural Gas Pipeline Company of America and certain affiliates, referred to as Natural Gas Pipeline Company of America or NGPL, a major interstate natural gas pipeline and storage system; (2) Prior to its sale as discussed following, TransColorado Gas Transmission Company, referred to as TransColorado, an interstate natural gas pipeline located in western Colorado and northwest New Mexico; (3) Kinder Morgan Retail, the regulated sale and transportation of natural gas to residential, commercial and industrial customers (including a small distribution system in Hermosillo, Mexico) and the sales of natural gas to certain utility customers under the Choice Gas Program and (4) Power, the operation and, in previous periods, construction of natural gas-fired electric generation facilities. Our investment in TransColorado Gas Transmission Company was contributed to Kinder Morgan Energy Partners effective November 1, 2004 (see Note 5). In previous periods, we owned and operated other lines of business that we discontinued during 1999.

The accounting policies we apply in the generation of business segment information are generally the same as those described in Note 1, except that (i) certain items below the "Operating Income" line are either not allocated to business segments or are not considered by management in its evaluation of business segment performance and (ii) equity in earnings of equity method investees, other than Kinder Morgan Energy Partners and certain insignificant international investees, are included in segment results. These equity method earnings are included in "Other Income and (Expenses)" in our Consolidated Statements of Operations. In addition, (i) certain items included in operating income (such as general and administrative expenses) are not allocated to individual business segments and (ii) gains and losses from incidental sales of assets are included in segment earnings. With adjustment for these items, we currently evaluate business segment performance primarily based on operating income in relation to the level of capital employed. We account for intersegment sales at market prices, while we account for asset transfers at either market value or, in some instances, book value. As necessary for

comparative purposes, we have reclassified prior period results and balances to conform to the current presentation.

NGPL's principal delivery market area encompasses the states of Illinois, Indiana, Iowa and portions of Wisconsin, Nebraska, Kansas, Missouri and Arkansas. NGPL is the largest transporter of natural gas to the Chicago, Illinois area, its largest market. During 2004, approximately 42% of NGPL's transportation represented deliveries to this market. NGPL's storage capacity is largely located near its transportation delivery markets, effectively serving the same customer base. NGPL has a number of individually significant customers, including local gas distribution companies in the greater Chicago area and major natural gas marketers and, during 2004, approximately 54% of its operating revenues from tariff services were attributable to its eight largest customers. Kinder Morgan Retail's markets are represented by residential, commercial and industrial customers located in Colorado, Nebraska and Wyoming. These markets represent varied types of customers in many industries, but a significant amount of Kinder Morgan Retail's load is represented by the use of natural gas for space heating, grain drying and irrigation. The latter two groups of customers are concentrated in the agricultural industry, and all markets are affected by the weather. Power's current principal market is represented by the local electric utilities in Colorado, which purchase the power output from its generation facilities. Due to the adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, the results of operations of our Triton Power affiliates are included in our consolidated operating results and in the results of our Power segment beginning with the first quarter of 2004. Although the results of Triton have an impact on the total operating revenues and expenses of the Power business segment, after taking into account the associated minority interests, the consolidation of Triton had no effect on Power's segment earnings. During 2004 and excluding certain non-recurring revenues, approximately 71% of Power's operating revenues were for operating the Jackson, Michigan Power facility, 21% were electric sales revenues from XCEL Energy's Public Service Company of Colorado under a long-term contract, and the remaining 8% were primarily for operating the Ft. Lupton, Colorado power facility.

Our business activities expose us to credit risk with respect to collection of accounts receivable. In order to mitigate that risk, we routinely monitor the credit status of our existing and potential customers. When customers' credit ratings do not meet our requirements for the extension of unsupported credit, we obtain cash prepayments or letters of credit. Note 1(G) provides information on the amount of prepayments we have received.

During 2004, 2003 and 2002, we did not have revenues from any single customer that exceeded 10% of our consolidated operating revenues.

Business Segment Information

	Year Ended December 31, 2004					December 31, 2004
	Segment Earnings	Revenues From External Customers	Intersegment Revenues	Depreciation And Amortization	Capital Expenditures	Segment Assets
			(In thousands)			
Natural Gas Pipeline Company of America	$ 392,806	$ 778,877	$ -	$ 94,462	$ 88,202	$ 5,546,509
TransColorado[1]	20,255	28,795	-	3,605	15,002	-
Kinder Morgan Retail	69,264	287,197	-	17,123	61,038	462,760
Power[2]	15,255	70,064	-	3,552	-	378,008
Segment Totals	497,580	$1,164,933	$ -	$ 118,742	$ 164,242	6,387,277
Earnings from Investment in Kinder Morgan Energy Partners	558,078			Investment In Kinder Morgan Energy Partners		2,305,212
General and Administrative Expenses	(77,841)			Goodwill		918,076
Other Income and (Expenses)	(222,596)			Other[3]		506,336
Income from Continuing Operations Before Income Taxes	$ 755,221			Consolidated		$10,116,901

	Year Ended December 31, 2003					December 31, 2003
	Segment Earnings	Revenues From External Customers	Intersegment Revenues	Depreciation And Amortization	Capital Expenditures	Segment Assets
			(In thousands)			
Natural Gas Pipeline Company of America	$ 372,017	$ 784,732	$ -	$ 92,193	$ 114,504	$ 5,551,595
TransColorado[1]	23,112	32,197	-	4,224	14,841	267,597
Kinder Morgan Retail	65,482	249,119	-	16,197	28,816	423,138
Power[2]	22,076	31,849	-	4,914	2,643	450,799
Segment Totals	482,687	$1,097,897	$ -	$ 117,528	$ 160,804	6,693,129
Earnings from Investment in Kinder Morgan Energy Partners	464,967			Investment In Kinder Morgan Energy Partners		2,106,312
General and Administrative Expenses	(71,741)			Goodwill		972,380
Other Income and (Expenses)	(249,609)			Other[3]		264,890
Income from Continuing Operations Before Income Taxes	$ 626,304			Consolidated		$10,036,711

	Year Ended December 31, 2002					December 31, 2002
	Segment Earnings	Revenues From External Customers	Intersegment Revenues	Depreciation And Amortization	Capital Expenditures	Segment Assets
			(In thousands)			
Natural Gas Pipeline Company of America	$ 359,911	$ 699,998	$ -	$ 87,305	$ 132,026	$ 5,629,355
TransColorado[1]	12,648	7,725	93	1,062	325	258,627
Kinder Morgan Retail	64,056	259,748	-	15,044	25,395	406,797
Power[2]	36,673	47,784	-	3,085	17,207	389,596
Segment Totals	473,288	$1,015,255	$ 93	$ 106,496	$ 174,953	6,684,375
Earnings from Investment in Kinder Morgan Energy Partners	392,135			Investment In Kinder Morgan Energy Partners		2,034,160
General and Administrative Expenses	(73,496)			Goodwill		990,878
Other Income and (Expenses)	(349,197)			Other[3]		393,337
Income from Continuing Operations Before Income Taxes	$ 442,730			Consolidated		$10,102,750

[1] Effective November 1, 2004 we contributed our investment in TransColorado Gas Transmission Company to Kinder Morgan Energy Partners (see Note 5). TransColorado was a 50/50 joint venture with Questar Corp. until we bought Questar's interest effective October 1, 2002, thus becoming the sole owner. As a result, TransColorado's results shown above reflect our 50% equity interest in its earnings prior to October 1, 2002 and 100% of its results on a consolidated basis from October 1, 2002 through October 31, 2004.

[2] Does not include (i) pre-tax charges of $33.5 million, $44.5 million and $134.5 million in 2004, 2003 and 2002, respectively, to record the impairment of certain assets, (ii) incremental earnings of $18.5 million in 2004 reflecting (1) the recognition of previously deferred revenues associated with construction of the Jackson, Michigan power generation facility, (2) gains from the sale of surplus power generation equipment and (3) the settlement of certain litigation. Results for 2003 exclude a pre-tax loss of $2.9 million resulting from the sale of natural gas reserves by an equity-method investee (see Notes 5 and 6).

[3] Includes, as applicable to each particular year, cash and cash equivalents, the market value of derivative instruments (including interest rate swaps), income tax receivables and miscellaneous corporate assets (such as information technology and telecommunications equipment) not allocated to individual segments.

Geographic Information

All but an insignificant amount of our assets and operations are located in the continental United States.

20. Recent Accounting Pronouncements

In January 2004, the FASB issued FSP FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the "Act"). This FSP permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to postpone accounting for the effects of the Act. Regardless of whether a company elects that deferral, the FSP requires certain disclosures pending further consideration of the underlying accounting issues. In May 2004, the FASB issued FSP FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* which superseded FSP FAS 106-1 effective July 1, 2004. FSP FAS 106-2 provides transitional guidance for accounting for the effects of the Act on the accumulated projected benefit obligation and periodic postretirement health care benefit expense. In the third quarter of 2004, our board approved a resolution to amend our postretirement benefit plan to eliminate prescription drug benefits for Medicare eligible retirees effective January 1, 2006, which eliminates any potential effects on our periodic postretirement benefit costs due to the federal subsidy included in the Act.

At its November 30, 2004 meeting, the FASB ratified the consensus reached by its Emerging Issues Task Force on Issue No. 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations." This consensus clarified (i) how an entity should evaluate whether the operations and cash flows of a disposed component have been or will be eliminated from the ongoing operations of the entity and (ii) the types of continuing involvement that constitute significant continuing involvement in the operations of the disposed component. This consensus is required to be applied to a component of an enterprise that is either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004. Operating results related to a component that is disposed of or classified as held for sale within an enterprise's fiscal year that includes the date that this consensus was ratified is permitted to be classified to reflect this consensus. This consensus, while not required to be applied to this transaction, provided further guidance confirming that our contribution of TransColorado Gas Transmission Company to Kinder Morgan Energy Partners as of November 1, 2004 (see Note 5) should not be given discontinued operations treatment.

In December 2004, the FASB issued SFAS No. 123R (revised 2004), *Share-Based Payment.* This Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation,* and requires companies to expense the value of employee stock options and similar awards. Significant provisions of SFAS No. 123R include the following:

- share-based payment awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised;

- when measuring fair value, companies can choose an option-pricing model that appropriately reflects their specific circumstances and the economics of their transactions;

- companies will recognize compensation cost for share-based payment awards as they vest, including the related tax effects. Upon settlement of share-based payment awards, the tax effects will be recognized in the income statement or additional paid-in capital; and

- public companies are allowed to select from three alternative transition methods – each having different reporting implications.

In October 2004, the FASB decided to delay by six months the effective date for public companies to implement SFAS No. 123R (revised 2004). The new Statement is now effective for public companies for interim and annual periods beginning after June 15, 2005. Public companies with calendar year-ends will be required to adopt SFAS No. 123R in the third quarter of 2005. We are currently reviewing the effects of this accounting Statement.

SELECTED QUARTERLY FINANCIAL DATA
KINDER MORGAN, INC. AND SUBSIDIARIES
Quarterly Operating Results for 2004

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In thousands except per share amounts) (Unaudited)			
Operating Revenues	$ 352,586	$ 236,867	$ 249,642	$ 325,838
Gas Purchases and Other Costs of Sales	133,471	52,210	55,821	108,062
Other Operating Expenses	96,344	95,971	97,886	127,240[1]
Operating Income	122,771	88,686	95,935	90,536
Other Income and (Expenses)	85,113	83,331	88,118	100,731
Income from Continuing Operations Before Income Taxes	207,884	172,017	184,053	191,267
Income Taxes	80,842	67,627	72,123	6,125
Income from Continuing Operations	127,042	104,390	111,930	185,142
Loss on Disposal of Discontinued Operations, Net of Tax	-	-	-	(6,424)
Net Income	$ 127,042	$ 104,390	$ 111,930	$ 178,718
Basic Earnings (Loss) Per Common Share:				
Income from Continuing Operations	$ 1.03	$ 0.84	$ 0.91	$ 1.49
Loss on Disposal of Discontinued Operations	-	-	-	(0.05)
Total Basic Earnings Per Common Share	$ 1.03	$ 0.84	$ 0.91	$ 1.44
Number of Shares Used in Computing Basic Earnings Per Common Share	123,715	123,882	123,673	123,844
Diluted Earnings (Loss) Per Common Share:				
Income from Continuing Operations	$ 1.02	$ 0.84	$ 0.90	$ 1.48
Loss on Disposal of Discontinued Operations	-	-	-	(0.05)
Total Diluted Earnings Per Common Share	$ 1.02	$ 0.84	$ 0.90	$ 1.43
Number of Shares Used in Computing Diluted Earnings Per Common Share	124,938	124,955	124,683	125,021

[1] Includes a charge of $33.5 million to record an impairment of certain of our Power assets; see Note 6.

SELECTED QUARTERLY FINANCIAL DATA
KINDER MORGAN, INC. AND SUBSIDIARIES
Quarterly Operating Results for 2003

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In thousands except per share amounts) (Unaudited)			
Operating Revenues	$ 318,868	$ 251,865	$ 246,983	$ 280,181
Gas Purchases and Other Costs of Sales	112,955	79,852	72,515	88,939
Other Operating Expenses	83,108	86,765	86,888	130,782[1]
Operating Income	122,805	85,248	87,580	60,460
Other Income and (Expenses)	59,079	68,787	69,323	73,022
Income Before Income Taxes	181,884	154,035	156,903	133,482
Income Taxes	70,814	59,841	61,273	52,672
Net Income	$ 111,070	$ 94,194	$ 95,630	$ 80,810
Basic Earnings Per Common Share	$ 0.91	$ 0.77	$ 0.78	$ 0.66
Number of Shares Used in Computing Basic Earnings Per Common Share	121,877	122,218	123,109	123,196
Diluted Earnings Per Common Share	$ 0.90	$ 0.76	$ 0.77	$ 0.65
Number of Shares Used in Computing Diluted Earnings Per Common Share	123,078	123,474	124,345	124,365

[1] Includes a charge of $44.5 million to record an impairment of certain of our Power assets; see Note 6.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2004, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon and as of the date of the evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective in all material respects to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control – Integrated Framework* issued by the COSO, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the fourth quarter of 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant.***

Certain information required by this item is contained in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference. For information regarding our current executive officers, see "Executive Officers of the Registrant" in Part I.

Item 11. ***Executive Compensation.***

Information required by this item is contained in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management.***

Information required by this item is contained in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions.***

Information required by this item is contained in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference. Also see the discussion under "Other" within Items 1 and 2 (c) of this report and Note 5 of the accompanying Notes to Consolidated Financial Statements.

Item 14. ***Principal Accounting Fees and Services.***

Information required by this item is contained in our Proxy Statement related to the 2005 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934, and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a) (1) *Financial Statements*

Reference is made to the index of financial statements and supplementary data under Item 8 in Part II.

(2) *Financial Statement Schedules*

Schedule II - Valuation and Qualifying Accounts is omitted because the required information is shown in Note 1(G) of the accompanying Notes to Consolidated Financial Statements.

The financial statements, including the notes thereto, of Kinder Morgan Energy Partners, an equity method investee of the Registrant, are incorporated herein by reference from pages 101 through 181 of Kinder Morgan Energy Partners' Annual Report on Form 10-K for the year ended December 31, 2004.

(3) *Exhibits*

Any reference made to K N Energy, Inc. in the exhibit listing that follows is a reference to the former name of Kinder Morgan, Inc., a Kansas corporation and the registrant, and is made because the exhibit being listed and incorporated by reference was originally filed before October 7, 1999, the date of the change in the Registrant's name.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of July 8, 1999, by and among K N Energy, Inc., Rockies Merger Corp., and Kinder Morgan, Inc., (Annex A-1 of K N Energy, Inc.'s Registration Statement on Form S-4 (File No. 333-85747))
2.2	First Amendment to Agreement and Plan of Merger, dated as of August 20, 1999, by and among K N Energy, Inc., Rockies Merger Corp., and Kinder Morgan, Inc., (Annex A-2 of K N Energy, Inc.'s Registration Statement on Form S-4 (File No. 333-85747))
2.3	Contribution Agreement, dated as of December 30, 1999, by and among Kinder Morgan, Inc., Natural Gas Pipeline Company of America, K N Gas Gathering, Inc., Kinder Morgan G.P., Inc. and Kinder Morgan Energy Partners, L.P. (Exhibit 99.1 to Kinder Morgan, Inc.'s Current Report on Form 8-K filed on January 14, 2000)
3.1	Restated Articles of Incorporation of Kinder Morgan, Inc. (Exhibit 3(a) to Kinder Morgan, Inc.'s Annual Report on Form 10-K/A, Amendment No. 1 filed on May 22, 2000)
3.2	Certificate of Amendment to the Restated Articles of Incorporation of Kinder Morgan, Inc. as filed on October 7, 1999, with the Secretary of State of Kansas (Exhibit 3.1 to Kinder Morgan, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999)
3.3	Certificate of Restatement of Articles of Incorporation of K N Energy, Inc. (Exhibit 4.19 to the Registration Statement on Form S-3 (File No. 333-55921) of K N Energy, Inc., filed on June 3, 1998)
3.4	By-Laws of Kinder Morgan, Inc., as amended to January 2004 (Exhibit 3.4 to Kinder Morgan, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003)
4.1	Indenture dated as of September 1, 1988, between K N Energy, Inc. and Continental Illinois National Bank and Trust Company of Chicago (Exhibit 4(a) to Kinder Morgan, Inc.'s Annual Report on Form 10-K/A, Amendment No. 1 filed on May 22, 2000)
4.2	First supplemental indenture dated as of January 15, 1992, between K N Energy, Inc. and Continental Illinois National Bank and Trust Company of Chicago (Exhibit 4.2 to the Registration Statement on Form S-3 (File No. 33-45091) of K N Energy, Inc. filed on January 17, 1992)

Exhibit Number	Description
4.3	Second supplemental indenture dated as of December 15, 1992, between K N Energy, Inc. and Continental Bank, National Association (Exhibit 4(c) to Kinder Morgan, Inc.'s Annual Report on Form 10-K/A, Amendment No. 1 filed on May 22, 2000)
4.4	Indenture dated as of November 20, 1993, between K N Energy, Inc. and Continental Bank, National Association (Exhibit 4.1 to the Registration Statement on Form S-3 (File No. 33-51115) of K N Energy, Inc. filed on November 19, 1993) Note — Copies of instruments relative to long-term debt in authorized amounts that do not exceed 10% of the consolidated total assets of Kinder Morgan, Inc. and its subsidiaries have not been furnished. Kinder Morgan, Inc. will furnish such instruments to the Commission upon request.
4.5	Registration Rights Agreement among Kinder Morgan Management, LLC, Kinder Morgan Energy Partners, L.P. and Kinder Morgan, Inc. dated May 18, 2001 (Exhibit 4.7 to Kinder Morgan, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002)
4.6	Rights Agreement between K N Energy, Inc. and the Bank of New York, as Rights Agent, dated as of August 21, 1995 (Exhibit 1 on Form 8-A dated August 21, 1995 (File No. 1-6446))
4.7	Amendment No. 1 to Rights Agreement between K N Energy, Inc. and the Bank of New York, as Rights Agent, dated as of September 8, 1998 (Exhibit 10(cc) to K N Energy, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-6446))
4.8	Amendment No. 2 to Rights Agreement of Kinder Morgan, Inc. dated July 8, 1999, between Kinder Morgan, Inc. and First Chicago Trust Company of New York, as successor-in-interest to the Bank of New York, as Rights Agent (Exhibit 4.1 to Kinder Morgan, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999)
4.9	Form of Amendment No. 3 to Rights Agreement of Kinder Morgan, Inc. dated September 1, 2001, between Kinder Morgan, Inc. and First Chicago Trust Company of New York, as Rights Agent (Exhibit 4(m) to Kinder Morgan, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001)
4.10	Form of Indenture dated as of August 27, 2002 between Kinder Morgan, Inc. and Wachovia Bank, National Association, as Trustee (filed as Exhibit 4.1 to Kinder Morgan, Inc.'s Registration Statement on Form S-4 (File No. 333-100338) filed on October 4, 2002)
4.11	Form of First Supplemental Indenture dated as of December 6, 2002 between Kinder Morgan, Inc. and Wachovia Bank, National Association, as Trustee (filed as Exhibit 4.2 to Kinder Morgan, Inc.'s Registration Statement on Form S-4 (File No. 333-102873) filed on January 31, 2003)

Exhibit Number	Description
4.12	Form of 6.50% Note (contained in the Indenture incorporated by reference to Exhibit 4.12 hereto)
4.13	Form of Registration Rights Agreement dated as of December 6, 2002 among Kinder Morgan, Inc., Wachovia Securities, Inc., and Barclays Capital Inc. (filed as Exhibit 4.4 to Kinder Morgan, Inc.'s Registration Statement on Form S-4 (File No. 333-102873) filed on January 31, 2003)
4.14	Form of certificate representing the common stock of Kinder Morgan, Inc. (filed as Exhibit 4.1 to Kinder Morgan, Inc.'s Registration Statement on Form S-3 (File No. 333-102963) filed on February 4, 2003)
4.15	Form of Senior Indenture between Kinder Morgan, Inc. and Wachovia Bank, National Association, as Trustee (filed as Exhibit 4.2 to Kinder Morgan, Inc.'s Registration Statement on Form S-3 (File No. 333-102963) filed on February 4, 2003)
4.16	Form of Senior Note of Kinder Morgan, Inc. (included in the Form of Senior Indenture incorporated by reference to Exhibit 4.16 hereto)
4.17	Form of Subordinated Indenture between Kinder Morgan, Inc. and Wachovia Bank, National Association, as Trustee (filed as Exhibit 4.4 to Kinder Morgan, Inc.'s Registration Statement on Form S-3 (File No. 333-102963) filed on February 4, 2003)
4.18	Form of Subordinated Note of Kinder Morgan, Inc. (included in the Form of Subordinated Indenture incorporated by reference to Exhibit 4.18 hereto)
10.1	1994 Amended and Restated Kinder Morgan, Inc. Long-term Incentive Plan (Appendix A to Kinder Morgan, Inc.'s 2000 Proxy Statement on Schedule 14A)
10.2	Kinder Morgan, Inc. Amended and Restated 1999 Stock Plan (Appendix B to Kinder Morgan, Inc.'s 2004 Proxy Statement on Schedule 14A)
10.3	Kinder Morgan, Inc. Amended and Restated 1992 Stock Option Plan for Nonemployee Directors (Appendix A to Kinder Morgan, Inc.'s 2001 Proxy Statement on Schedule 14A)
10.4	2000 Annual Incentive Plan of Kinder Morgan, Inc. (Appendix D to Kinder Morgan, Inc.'s 2000 Proxy Statement on Schedule 14A)
10.5	Kinder Morgan, Inc. Employees Stock Purchase Plan (Appendix E to Kinder Morgan, Inc.'s 2000 Proxy Statement on Schedule 14A)
10.6	Form of Nonqualified Stock Option Agreement (Exhibit 10(f) to Kinder Morgan, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000)
10.7	Form of Restricted Stock Agreement (Exhibit 10(g) to Kinder Morgan, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000)

Exhibit Number	Description
10.8	Directors and Executives Deferred Compensation Plan effective January 1, 1998 for executive officers and directors of K N Energy, Inc. (Exhibit 10(aa) to K N Energy, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-6446))
10.9	Employment Agreement dated October 7, 1999, between the Company and Richard D. Kinder (Exhibit 99.D of the Schedule 13D filed by Mr. Kinder on November 16, 1999)
10.10	Form of Purchase Provisions between Kinder Morgan Management, LLC and Kinder Morgan, Inc. (included as Annex B to the Second Amended and Restated Limited Liability Company Agreement of Kinder Morgan Management, LLC filed as Exhibit 4.2 to Kinder Morgan Management, LLC's Registration Statement on Form 8-A/A filed on July 24, 2002)
10.11	Resignation and Non-Compete Agreement, dated as of July 21, 2004, between KMGP Services, Inc. and Michael C. Morgan (Exhibit 10.12 to Kinder Morgan, Inc.'s Form 10-Q for the quarter ended June 30, 2004)
10.12	5-Year Credit Agreement dated as of August 18, 2004, among Kinder Morgan, Inc., the lenders party thereto and Wachovia Bank, National Association as Administrative Agent (Exhibit 10.1 to Kinder Morgan, Inc.'s Form 10-Q for the quarter ended September 30, 2004)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of PricewaterhouseCoopers LLP
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	The financial statements of Kinder Morgan Energy Partners, L.P. and subsidiaries (incorporated by reference to pages 101 through 181 on the Annual Report on Form 10-K of Kinder Morgan Energy Partners, L.P. for the year ended December 31, 2004)

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KINDER MORGAN, INC.
(Registrant)
By /s/ C. Park Shaper
C. Park Shaper
Executive Vice President and Chief Financial Officer

Date: March 4, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities set forth below and as of the date set forth above.

/s/ Edward H. Austin, Jr. Edward H. Austin, Jr.	Director
/s/ Charles W. Battey Charles W. Battey	Director
/s/ Stewart A. Bliss Stewart A. Bliss	Director
/s/ Ted A. Gardner Ted A. Gardner	Director
/s/ William J. Hybl William J. Hybl	Director
/s/ Richard D. Kinder Richard D. Kinder	Director, Chairman, Chief Executive Officer and President (Principal Executive Officer)
/s/ Michael C. Morgan Michael C. Morgan	Director
/s/ Edward Randall, III Edward Randall, III	Director
/s/ Fayez Sarofim Fayez Sarofim	Director
/s/ C. Park Shaper C. Park Shaper	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ H. A. True, III H. A. True, III	Director

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2005**
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-06446

Kinder Morgan, Inc.

(Exact name of registrant as specified in its charter)

Kansas	48-0290000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Dallas Street, Suite 1000, Houston, Texas 77002
(Address of principal executive offices, including zip code)

(713) 369-9000
(Registrant's telephone number, including area code)

_____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

The number of shares outstanding of the registrant's common stock, $5 par value, as of July 22, 2005 was 122,490,746 shares.

KINDER MORGAN, INC. AND SUBSIDIARIES
FORM 10-Q
QUARTER ENDED JUNE 30, 2005

Contents

PART I. - FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (Unaudited)
Kinder Morgan, Inc. and Subsidiaries

	June 30, 2005	December 31, 2004
	(In thousands)	
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$ 4,944	$ 176,520
Restricted Deposits	6,657	38,049
Accounts Receivable, Net:		
Trade	83,544	82,544
Related Parties	3,916	5,859
Note Receivable	2,269	4,594
Inventories	93,370	41,781
Gas Imbalances	6,361	5,625
Other	190,456	114,286
	391,517	469,258
Investments:		
Kinder Morgan Energy Partners	2,136,809	2,305,212
Goodwill	914,434	918,076
Other	178,693	176,143
	3,229,936	3,399,431
Property, Plant and Equipment, Net	5,828,723	5,851,965
Deferred Charges and Other Assets	449,378	396,247
Total Assets	$ 9,899,554	$10,116,901

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS (Unaudited)
Kinder Morgan, Inc. and Subsidiaries

	June 30, 2005	December 31, 2004
	(In thousands except shares)	
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current Liabilities:		
Current Maturities of Long-term Debt	$ 5,000	$ 505,000
Notes Payable	158,400	-
Accounts Payable:		
Trade	32,007	58,119
Related Parties	1,230	180
Accrued Interest	59,721	67,206
Accrued Taxes	33,200	32,547
Gas Imbalances	22,508	18,254
Other	123,333	157,503
	435,399	838,809
Other Liabilities and Deferred Credits:		
Deferred Income Taxes	2,520,778	2,530,065
Other	140,258	148,044
	2,661,036	2,678,109
Long-term Debt:		
Outstanding Notes and Debentures	2,507,916	2,257,950
Deferrable Interest Debentures Issued to Subsidiary Trusts	283,600	283,600
Value of Interest Rate Swaps	119,749	88,243
	2,911,265	2,629,793
Minority Interests in Equity of Subsidiaries	1,136,439	1,105,436
Stockholders' Equity:		
Common Stock-		
Authorized - 300,000,000 Shares, Par Value $5 Per Share		
Outstanding - 135,394,956 and 134,198,905 Shares, Respectively, Before Deducting 13,204,951 and 10,666,801 Shares Held in Treasury	676,975	670,995
Additional Paid-in Capital	1,923,275	1,863,145
Retained Earnings	1,069,483	975,912
Treasury Stock	(751,646)	(558,844)
Deferred Compensation	(26,450)	(31,712)
Accumulated Other Comprehensive Loss	(136,222)	(54,742)
Total Stockholders' Equity	2,755,415	2,864,754
Total Liabilities and Stockholders' Equity	$ 9,899,554	$10,116,901

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
Kinder Morgan, Inc. and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands except per share amounts)			
Operating Revenues:				
Natural Gas Transportation and Storage	$ 188,478	$ 171,946	$ 395,838	$ 370,739
Natural Gas Sales	80,910	42,941	190,759	180,043
Other	23,997	21,980	43,671	38,671
Total Operating Revenues	293,385	236,867	630,268	589,453
Operating Costs and Expenses:				
Gas Purchases and Other Costs of Sales	99,559	52,210	212,169	185,681
Operations and Maintenance	46,410	37,934	86,555	74,128
General and Administrative	18,566	19,879	35,239	42,167
Depreciation and Amortization	30,216	29,707	59,571	59,188
Taxes, Other Than Income Taxes	8,566	8,451	17,114	16,832
Total Operating Costs and Expenses	203,317	148,181	410,648	377,996
Operating Income	90,068	88,686	219,620	211,457
Other Income and (Expenses):				
Equity in Earnings of Kinder Morgan Energy Partners	157,162	132,802	311,207	261,569
Equity in Earnings of Other Equity Investments	3,307	2,695	6,620	5,502
Interest Expense	(38,564)	(32,361)	(74,328)	(64,795)
Interest Expense – Deferrable Interest Debentures	(5,478)	(5,478)	(10,956)	(10,956)
Minority Interests	(19,629)	(15,089)	(31,328)	(24,397)
Other, Net	23,235	762	29,303	1,521
Total Other Income and (Expenses)	120,033	83,331	230,518	168,444
Income from Continuing Operations Before Income Taxes	210,101	172,017	450,138	379,901
Income Taxes	88,528	67,627	183,474	148,469
Income from Continuing Operations	121,573	104,390	266,664	231,432
Gain (Loss) on Disposal of Discontinued Operations, Net of Tax	423	-	(1,389)	-
Net Income	$ 121,996	$ 104,390	$ 265,275	$ 231,432
Basic Earnings (Loss) Per Common Share:				
Income from Continuing Operations	$ 1.00	$ 0.84	$ 2.17	$ 1.87
Loss on Disposal of Discontinued Operations	-	-	(0.01)	-
Total Basic Earnings Per Common Share	$ 1.00	$ 0.84	$ 2.16	$ 1.87
Number of Shares Used in Computing Basic Earnings Per Common Share (Thousands)	122,012	123,882	122,605	123,799
Diluted Earnings (Loss) Per Common Share:				
Income from Continuing Operations	$ 0.99	$ 0.84	$ 2.15	$ 1.85
Loss on Disposal of Discontinued Operations	-	-	(0.01)	-
Total Diluted Earnings Per Common Share	$ 0.99	$ 0.84	$ 2.14	$ 1.85
Number of Shares Used in Computing Diluted Earnings Per Common Share (Thousands)	123,103	124,955	123,755	124,942
Dividends Per Common Share	$ 0.7000	$ 0.5625	$ 1.4000	$ 1.1250

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Kinder Morgan, Inc. and Subsidiaries
Increase (Decrease) in Cash and Cash Equivalents

	Six Months Ended June 30,	
	2005	2004
	(In thousands)	
Cash Flows From Operating Activities:		
Net Income	$ 265,275	$ 231,432
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Loss on Disposal of Discontinued Operations, Net of Tax	1,389	-
Depreciation and Amortization	59,571	59,188
Deferred Income Taxes	81,645	59,845
Equity in Earnings of Kinder Morgan Energy Partners	(311,207)	(261,569)
Distributions from Kinder Morgan Energy Partners	254,386	207,992
Equity in Earnings of Other Investments	(6,620)	(5,502)
Minority Interests in Income of Consolidated Subsidiaries	31,328	24,397
Deferred Purchased Gas Costs	16,290	6,518
Net Gains on Sales of Assets	(27,077)	(733)
Pension Contribution in Excess of Expense	(24,349)	-
Changes in Gas in Underground Storage	(42,704)	15,064
Changes in Working Capital Items	(125,841)	(83,092)
Payment to Terminate Interest Rate Swap	(3,543)	-
Other, Net	(1,979)	(7,522)
Net Cash Flows Provided by Continuing Operations	166,564	246,018
Net Cash Flows Used in Discontinued Operations	(782)	(423)
Net Cash Flows Provided by Operating Activities	165,782	245,595
Cash Flows From Investing Activities:		
Capital Expenditures	(48,995)	(61,381)
Investment in Kinder Morgan Energy Partners (Note 7)	(625)	(17,504)
Net Proceeds from Margin Deposits	31,392	9,061
Other Investments	(293)	(292)
Sale of Kinder Morgan Management Shares	92,500	-
Net (Cost of Removal) Proceeds from Sales of Other Assets	(915)	25,693
Net Cash Flows Provided by (Used in) Investing Activities	73,064	(44,423)
Cash Flows From Financing Activities:		
Short-term Debt, Net	158,400	(62,400)
Long-term Debt Issued	250,000	-
Long-term Debt Retired	(500,000)	-
Issuance of Shares by Kinder Morgan Management	-	15,000
Common Stock Issued	42,149	30,061
Short-term Advances From (To) Unconsolidated Affiliates	2,982	(8,817)
Treasury Stock Acquired	(189,573)	(39,309)
Cash Dividends, Common Stock	(171,704)	(139,379)
Minority Interests, Net	(1,163)	(614)
Debt Issuance Costs	(1,513)	-
Securities Issuance Costs	-	(75)
Net Cash Flows Used in Financing Activities	(410,422)	(205,533)
Net Decrease in Cash and Cash Equivalents	(171,576)	(4,361)
Cash and Cash Equivalents at Beginning of Period	176,520	11,076
Cash and Cash Equivalents at End of Period	$ 4,944	$ 6,715

For supplemental cash flow information, see Note 4.
The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

We are an energy transportation, storage and related services provider and have operations in the Rocky Mountain and mid-continent regions of the United States, with principal operations in Arkansas, Colorado, Illinois, Iowa, Kansas, Louisiana, Missouri, Nebraska, New Mexico, Oklahoma, Texas and Wyoming. Our business activities include: (i) storing, transporting and selling natural gas, (ii) providing retail natural gas distribution services and (iii) operating and, in previous periods, developing and constructing electric generation facilities. We have both regulated and nonregulated operations. In addition, we own the general partner interest, as well as significant limited partner interests, in Kinder Morgan Energy Partners, L.P., a publicly traded pipeline master limited partnership, referred to in these Notes as "Kinder Morgan Energy Partners," and receive a substantial portion of our earnings from returns on these investments. Our common stock is traded on the New York Stock Exchange under the symbol "KMI."

We have prepared the accompanying unaudited interim consolidated financial statements under the rules and regulations of the Securities and Exchange Commission. Under such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America. We believe, however, that our disclosures are adequate to make the information presented not misleading. The consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of our financial results for the interim periods presented. You should read these interim consolidated financial statements in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2004 ("2004 Form 10-K"). Unless the context requires otherwise, references to "we," "us," "our," or the "Company" are intended to mean Kinder Morgan, Inc. and its consolidated subsidiaries.

1. Summary of Significant Accounting Policies

For a complete discussion of our significant accounting policies, see Note 1 of Notes to Consolidated Financial Statements included in our 2004 Form 10-K.

Stock-Based Compensation

Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, encourages, but does not require, entities to adopt the fair value method of accounting for stock-based compensation plans. As allowed under SFAS No. 123, we continue to apply Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, compensation expense would not be recognized for stock options unless the options were granted at an exercise price lower than the market price on the grant date, which we have not done. Had compensation cost for these plans been determined consistent with SFAS No. 123, net income and diluted earnings per share would have been reduced to the pro forma amounts shown in the table below. Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, among other factors, the resulting pro forma compensation cost may not be representative of that to be expected in future years. Additionally, the pro forma amounts include approximately $278,000 and $507,000 for the three months and six months ended June 30, 2004, respectively, related to the 15 percent purchase discount offered under the employee stock purchase plan. Effective January 1, 2005, the purchase discount offered under the employee stock purchase plan was reduced to 5 percent. Amounts related to the 5 percent discount are not included in the pro forma amounts for the three months and six months ended June 30, 2005 because the employee stock purchase plan is no longer considered a compensatory plan under SFAS No. 123.

The Financial Accounting Standards Board ("FASB") recently issued SFAS No. 123R (revised 2004), *Share-Based Payment*, which will change our accounting for stock options and similar awards, see Note 17.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			
Net Income, As Reported	$ 121,996	$ 104,390	$ 265,275	$ 231,432
Add: Stock-based Employee Compensation Expense Included in Reported Net Income, Net of Related Tax Effects	1,253	775	2,449	1,550
Deduct: Total Stock-based Employee Compensation Expense Determined under the Fair Value Method for All Awards, Net of Related Tax Effects	(3,271)	(3,567)	(7,157)	(8,091)
Net Income, Pro Forma	$ 119,978	$ 101,598	$ 260,567	$ 224,891
Basic Earnings Per Share:				
As Reported	$ 1.00	$ 0.84	$ 2.16	$ 1.87
Pro Forma	$ 0.98	$ 0.82	$ 2.13	$ 1.82
Diluted Earnings Per Share:				
As Reported	$ 0.99	$ 0.84	$ 2.14	$ 1.85
Pro Forma	$ 0.97	$ 0.81	$ 2.11	$ 1.80

2. Earnings Per Share

Basic earnings per common share is computed based on the weighted-average number of common shares outstanding during each period. In recent periods, we have repurchased a significant number of our outstanding shares, see Note 11. Diluted earnings per common share is computed based on the weighted-average number of common shares outstanding during each period, increased by the assumed exercise or conversion of securities (stock options are currently the only such securities outstanding) convertible into common stock, for which the effect of conversion or exercise using the treasury stock method would be dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands)			
Weighted-average Common Shares Outstanding	122,012	123,882	122,605	123,799
Dilutive Common Stock Options	1,091	1,073	1,150	1,143
Shares Used to Compute Diluted Earnings Per Common Share	123,103	124,955	123,755	124,942

No options were excluded from the diluted earnings per share calculation for the three months and the six months ended June 30, 2005. Weighted-average stock options outstanding totaling 0.1 million for the three months and the six months ended June 30, 2004 were excluded from the diluted earnings per common share calculation because the effect of including them would have been antidilutive.

3. Income Taxes

The effective tax rate (calculated by dividing the amount in the caption "Income Taxes" by the amount in the caption "Income from Continuing Operations Before Income Taxes" as shown in the accompanying interim Consolidated Statements of Operations) was 42.1% and 40.8% for the three and six months ended June 30, 2005, respectively. These effective tax rates reflect, among other factors, the impact of (i) the tax effects of our first and second quarter 2005 gains from sales of Kinder Morgan

Management shares that we owned (see Note 7) and (ii) the minority interest associated with Kinder Morgan Management. We recorded pre-tax gains from sales of Kinder Morgan Management shares of $22.0 million and $26.5 million in the three months and six months ended June 30, 2005, respectively. In conjunction with these gains, we increased our total income tax provision by $13.9 million and $15.5 million in the three months and six months ended June 30, 2005, respectively. We have not recorded deferred taxes with respect to our investment in KMR due to our ability and intent to recover our investment in a tax-free manner. The effective tax rate was 39.3% and 39.1% for the three and six months ended June 30, 2004, respectively, reflecting the impact of the minority interest associated with Kinder Morgan Management, among other factors.

4. Cash Flow Information

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Changes in Working Capital Items:
(Net of Effects of Acquisitions and Sales)
Increase (Decrease) in Cash and Cash Equivalents

	Six Months Ended June 30,	
	2005	**2004**
	(In thousands)	
Accounts Receivable	$ (1,000)	$ 10,102
Materials and Supplies Inventory	(213)	31
Other Current Assets	(72,920)	(33,513)
Accounts Payable	(25,304)	(38,911)
Income Tax Benefits from Employee Benefit Plans	15,269	9,713
Other Current Liabilities	(41,673)	(30,514)
	$(125,841)	$ (83,092)

Supplemental Disclosures of Cash Flow Information:

Cash Paid During the Period for:		
Interest, Net of Amount Capitalized	$ 85,547	$ 81,328
Income Taxes Paid	$ 139,776	$ 117,103

Distributions received by our Kinder Morgan Management subsidiary from its investment in i-units of Kinder Morgan Energy Partners are in the form of additional i-units, while distributions made by Kinder Morgan Management to its shareholders are in the form of additional Kinder Morgan Management shares, see Note 6. "Other, Net" as presented in the accompanying interim Consolidated Statements of Cash Flows includes other non-cash increases and decreases to earnings, including amortization of deferred revenue, amortization of debt discount and expense and amortization of interest rate swap proceeds previously received upon termination of the swap.

5. Comprehensive Income

Our comprehensive income is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands)			
Net Income:	$ 121,996	$ 104,390	$ 265,275	$ 231,432
Other Comprehensive Income (Loss), Net of Tax:				
Change in Fair Value of Derivatives Utilized for Hedging Purposes	15,202	(4,253)	(13,980)	(12,626)
Reclassification of Change in Fair Value of Derivatives to Net Income	4,471	7,998	2,131	8,754
Equity in Other Comprehensive Loss of Equity Method Investees	(29,298)	(19,377)	(147,417)	(36,704)
Minority Interest in Other Comprehensive Loss of Equity Method Investees	17,966	10,089	77,786	18,571
Other Comprehensive Income (Loss)	8,341	(5,543)	(81,480)	(22,005)
Comprehensive Income	$ 130,337	$ 98,847	$ 183,795	$ 209,427

The Accumulated Other Comprehensive Loss balance of $136.2 million at June 30, 2005 consisted of (i) $124.2 million representing our pro rata share of the accumulated other comprehensive loss of Kinder Morgan Energy Partners and (ii) $12.0 million representing unrecognized net losses on hedging activities.

6. Kinder Morgan Management, LLC

On May 13, 2005, Kinder Morgan Management, LLC, referred to in this report as Kinder Morgan Management, made a distribution of 0.017482 of its shares per outstanding share (963,495 total shares) to shareholders of record as of April 29, 2005, based on the $0.76 per common unit distribution declared by Kinder Morgan Energy Partners. On August 12, 2005, Kinder Morgan Management will make a distribution of 0.016210 of its shares per outstanding share (909,009 total shares) to shareholders of record as of July 29, 2005, based on the $0.78 per common unit distribution declared by Kinder Morgan Energy Partners. These distributions are paid in the form of additional shares or fractions thereof calculated by dividing the Kinder Morgan Energy Partners' cash distribution per common unit by the average market price of a Kinder Morgan Management share determined for a ten-trading day period ending on the trading day immediately prior to the ex-dividend date for the shares.

7. Investments and Sales

On June 1, 2005, we sold 1,717,033 Kinder Morgan Management shares that we owned for approximately $75.0 million. We recognized a pre-tax gain of $22.0 million associated with this sale.

In April 2005, Kinder Morgan Energy Partners issued 957,656 common units as partial consideration for the acquisition of seven bulk terminal operations. This transaction reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 18.13% to approximately 18.06% and had the associated effects of increasing our (i) investment in the net assets of Kinder Morgan Energy Partners by $5.1 million, (ii) associated accumulated deferred income taxes by $0.5 million and (iii) paid-in capital by $0.9 million and, in addition, reduced our equity method goodwill in Kinder Morgan Energy Partners by $3.6 million. In addition, in April 2005, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we

made a contribution of approximately $0.6 million.

On January 31, 2005, we sold 413,516 Kinder Morgan Management shares that we owned for approximately $17.5 million. We recognized a pre-tax gain of $4.5 million associated with this sale.

In April 2004, we sold two LM6000 gas-fired turbines for $16.5 million (net of marketing fees), which consideration consisted of $2.4 million in cash, a note receivable of $14.5 million and a note payable for marketing fees of $0.4 million. During September 2004, the remaining balance of this receivable was collected. In June 2004, we sold two LM6000 turbines and two boilers to Kinder Morgan Production Company, L.P., a subsidiary of Kinder Morgan Energy Partners, for their estimated fair market value of $21.1 million, which we received in cash. This equipment was a portion of the equipment that became surplus as a result of our decision to exit the power development business.

In February 2004, Kinder Morgan Energy Partners issued 5.3 million common units in a public offering at a price of $46.80 per common unit, receiving total net proceeds (after underwriting discount) of $237.8 million. We did not acquire any of these common units. This transaction reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 19.0% to approximately 18.5% and had the associated effects of increasing our (i) investment in the net assets of Kinder Morgan Energy Partners by $23.2 million, (ii) associated accumulated deferred income taxes by $0.1 million and (iii) paid-in capital by $0.2 million and, in addition, reduced our equity method goodwill in Kinder Morgan Energy Partners by $23.1 million. In addition, in February 2004, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $2.4 million.

On March 25, 2004, Kinder Morgan Management closed the issuance and sale of 360,664 listed shares in a limited registered offering. None of the shares from the offering were purchased by Kinder Morgan, Inc. Kinder Morgan Management used the net proceeds of approximately $14.9 million from the offering to buy 360,664 additional i-units from Kinder Morgan Energy Partners. This issuance of i-units reduced our percentage ownership of Kinder Morgan Energy Partners (at the time of the transaction) from approximately 18.54% to approximately 18.51% and had the associated effects of increasing our investment in the net assets of Kinder Morgan Energy Partners by $1.2 million and reducing our (i) equity method goodwill in Kinder Morgan Energy Partners by $1.5 million, (ii) paid-in capital by $0.2 million and (iii) associated accumulated deferred income taxes by $0.1 million. In addition, in order to maintain our 1% general partner interest in Kinder Morgan Energy Partners' operating partnerships, we made a contribution of approximately $0.2 million.

8. Summarized Income Statement Information for Kinder Morgan Energy Partners

Following is summarized income statement information for Kinder Morgan Energy Partners, a publicly traded master limited partnership in which we own the general partner interest, in addition to limited partner interests in the form of Kinder Morgan Energy Partners common units, i-units and Class B limited partner units. This investment, which is accounted for under the equity method of accounting, is described in more detail in our 2004 Form 10-K. Additional information on Kinder Morgan Energy Partners' results of operations and financial position are contained in its Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 and in its Annual Report on Form 10-K for the year ended December 31, 2004.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands)			
Operating Revenues	$ 2,126,355	$ 1,957,182	$ 4,098,287	$ 3,779,438
Operating Expenses	1,851,226	1,725,818	3,554,181	3,322,932
Operating Income	$ 275,129	$ 231,364	$ 544,106	$ 456,506
Net Income	$ 221,826	$ 195,218	$ 445,447	$ 386,972

9. Discontinued Operations

During 1999, we adopted and implemented a plan to discontinue a number of lines of business. During 2000, we essentially completed the disposition of these discontinued operations. For the three months ended June 30, 2005, a gain of approximately $0.4 million (net of tax of $0.2 million) was recorded to reflect the settlement of previously recorded liabilities. For the six months ended June 30, 2005, incremental losses of approximately $1.4 million (net of tax benefits of $0.8 million) were recorded to increase previously recorded liabilities to reflect updated estimates. The cash flows attributable to discontinued operations included in the accompanying interim Consolidated Statements of Cash Flows under the caption "Net Cash Flows Used in Discontinued Operations" result from cash activity attributable to retained liabilities associated with these discontinued operations. Note 7 of Notes to Consolidated Financial Statements included in our 2004 Form 10-K contains additional information on these matters.

10. Financing

At June 30, 2005, we had available an $800 million five-year credit facility dated August 18, 2004. This credit facility can be used for general corporate purposes, including as backup for our commercial paper program and includes financial covenants and events of default that are common in such arrangements. This credit facility does not contain a material adverse change clause. However, the margin that we pay with respect to borrowings and the facility fee we pay on the total commitment varies based on our senior debt investment rating. We had no borrowings under our credit facility at June 30, 2005. Note 12 of Notes to Consolidated Financial Statements included in our 2004 Form 10-K contains additional information on our credit facility.

The commercial paper we issue, which is supported by the credit facility described above, is comprised of unsecured short-term notes with maturities not to exceed 270 days from the date of issue. Commercial paper outstanding at June 30, 2005 was $158.4 million. We had no commercial paper outstanding at December 31, 2004. Our weighted-average interest rate on short-term borrowings outstanding at June 30, 2005 was 3.35 percent. Average short-term borrowings outstanding during the second quarter of 2005 were $235.0 million and the weighted-average interest rate was 3.10 percent. Average short-term borrowings outstanding during the first six months of 2005 were $196.2 million and the weighted-average interest rate was 2.98 percent.

Our current maturities of long-term debt of $5 million at June 30, 2005 represents $5 million of current maturities of our 6.50% Series Debentures due September 1, 2013 (which are payable September 1, 2005).

On March 1, 2005, our $500 million of 6.65% Senior Notes matured, and we paid the holders of the notes, utilizing a combination of cash on hand and borrowings under our commercial paper program.

On March 15, 2005, we issued $250 million of our 5.15% Senior Notes due March 1, 2015. The proceeds of $248.5 million, net of underwriting discounts and commissions, were used to repay short-term commercial paper debt which was incurred to pay our 6.65% Senior Notes that matured on March 1, 2005.

On May 13, 2005, we paid a cash dividend on our common stock of $0.70 per share to shareholders of record as of April 29, 2005. On July 20, 2005, our Board of Directors approved a cash dividend of $0.75 per common share payable on August 12, 2005 to shareholders of record as of July 29, 2005.

11. Common Stock Repurchase Plan

On August 14, 2001, we announced a program to repurchase $300 million of our outstanding common stock, which program was increased to $400 million, $450 million, $500 million, $550 million, $750 million and $800 million in February 2002, July 2002, November 2003, April 2004, November 2004 and April 2005, respectively. As of June 30, 2005, we had repurchased a total of approximately $744.9 million (13,147,000 shares) of our outstanding common stock under the program, of which $14.9 million (196,500 shares) and $183.7 million (2,418,300 shares) were repurchased in the three months and six months ended June 30, 2005, respectively. We repurchased $37.2 million (631,200 shares) and $39.3 million (666,200 shares) of our common stock in the three months and six months ended June 30, 2004, respectively.

12. Business Segments

In accordance with the manner in which we manage our businesses, including the allocation of capital and evaluation of business segment performance, we report our operations in the following segments: (1) Natural Gas Pipeline Company of America and certain affiliates, referred to as Natural Gas Pipeline Company of America or NGPL, a major interstate natural gas pipeline and storage system; (2) prior to its contribution to Kinder Morgan Energy Partners as discussed following, TransColorado Gas Transmission Company, referred to as TransColorado, an interstate natural gas pipeline located in western Colorado and northwest New Mexico; (3) Kinder Morgan Retail, the regulated sale and transportation of natural gas to residential, commercial and industrial customers (including a small distribution system in Hermosillo, Mexico) and the sale of natural gas to certain utility customers under the Choice Gas Program and (4) Power, the operation and, in previous periods, development and construction of natural gas-fired electric generation facilities. Our investment in TransColorado Gas Transmission Company was contributed to Kinder Morgan Energy Partners effective November 1, 2004.

The accounting policies we apply in the generation of business segment information are generally the same as those applied to our consolidated operations and described in Note 1 of Notes to Consolidated Financial Statements included in our 2004 Form 10-K, except that (i) certain items below the "Operating Income" line (such as interest expense) are either not allocated to business segments or are not considered by management in its evaluation of business segment performance and (ii) equity in earnings of equity method investees, other than Kinder Morgan Energy Partners, are included. These equity method earnings are included in "Other Income and (Expenses)" in the accompanying interim Consolidated Statements of Operations. In addition, (i) certain items included in operating income (such as general and administrative expenses) are not considered by management in its evaluation of business segment performance and (ii) gains and losses from incidental sales of assets are included in segment earnings. With adjustment for these items, we currently evaluate business segment performance primarily based on operating income in relation to the level of capital employed. We account for intersegment sales at market prices, while we account for asset transfers at either market value or, in some instances, book value.

BUSINESS SEGMENT INFORMATION

	Three Months Ended June 30, 2005				June 30, 2005
	Segment Earnings	Revenues From External Customers[1]	Depreciation And Amortization	Capital Expenditures	Segment Assets
			(In thousands)		
Natural Gas Pipeline Company of America	$ 99,400	$ 216,243	$ 24,579	$ 24,786	$ 5,576,700
Kinder Morgan Retail	4,944	58,697	4,561	8,954	442,613
Power	4,477	15,212	1,076	-	383,345
Segment Totals	108,821	290,152	$ 30,216	$ 33,740	6,402,658
Other Revenues[2]		3,233			
Total Revenues		$ 293,385			
Earnings from Investment in Kinder Morgan Energy Partners	157,162		Investment in Kinder Morgan Energy Partners		2,136,809
General and Administrative Expenses	(18,566)		Goodwill		914,434
Other Income and (Expenses)	(37,316)		Other[3]		445,653
Income from Continuing Operations Before Income Taxes	$ 210,101		Consolidated		$ 9,899,554

	Three Months Ended June 30, 2004			
	Segment Earnings	Revenues From External Customers[1]	Depreciation And Amortization	Capital Expenditures
		(In thousands)		
Natural Gas Pipeline Company of America	$ 93,427	$ 171,672	$ 23,564	$ 21,817
TransColorado	5,384	7,776	1,062	4,301
Kinder Morgan Retail	4,971	42,630	4,209	15,341
Power	3,908	14,789	872	-
Segment Totals	107,690	$ 236,867	$ 29,707	$ 41,459
Earnings from Investment in Kinder Morgan Energy Partners	132,802			
General and Administrative Expenses	(19,879)			
Other Income and (Expenses)	(48,596)			
Income from Continuing Operations Before Income Taxes	$ 172,017			

1 There were no intersegment revenues during the periods presented.

2 Revenues from KM Insurance Ltd., our wholly owned subsidiary that was formed during the second quarter of 2005 for the purpose of providing insurance services to Kinder Morgan Energy Partners and us. KM Insurance Ltd. was formed as a Class 2 Bermuda insurance company, the sole business of which is to issue policies for Kinder Morgan Energy Partners and us to secure the deductible portion of our workers' compensation, automobile liability and general liability policies placed in the commercial insurance market.

3 Includes market value of derivative instruments (including interest rate swaps) and miscellaneous corporate assets (such as information technology and telecommunications equipment) not allocated to individual segments.

	Six Months Ended June 30, 2005			
	Segment Earnings	Revenues From External Customers[1]	Depreciation And Amortization	Capital Expenditures
		(In thousands)		
Natural Gas Pipeline Company of America	$ 213,609	$ 422,716	$ 48,698	$ 36,799
Kinder Morgan Retail	38,011	179,829	9,028	12,196
Power	8,843	24,490	1,845	-
Segment Totals	260,463	627,035	$ 59,571	$ 48,995
Other Revenues[2]		3,233		
Total Revenues		$ 630,268		
Earnings from Investment in Kinder Morgan Energy Partners	311,207			
General and Administrative Expenses	(35,239)			
Other Income and (Expenses)	(86,293)			
Income from Continuing Operations Before Income Taxes	$ 450,138			

	Six Months Ended June 30, 2004			
	Segment Earnings	Revenues From External Customers[1]	Depreciation And Amortization	Capital Expenditures
		(In thousands)		
Natural Gas Pipeline Company of America	$ 200,173	$ 395,684	$ 46,944	$ 33,198
TransColorado	11,011	15,681	2,121	5,411
Kinder Morgan Retail	38,652	154,089	8,378	22,772
Power	7,631	23,999	1,745	-
Segment Totals	257,467	$ 589,453	$ 59,188	$ 61,381
Earnings from Investment in Kinder Morgan Energy Partners	261,569			
General and Administrative Expenses	(42,167)			
Other Income and (Expenses)	(96,968)			
Income from Continuing Operations Before Income Taxes	$ 379,901			

[1] There were no intersegment revenues during the periods presented.

[2] Revenues from KM Insurance Ltd., our wholly owned subsidiary that was formed during the second quarter of 2005 for the purpose of providing insurance services to Kinder Morgan Energy Partners and us. KM Insurance Ltd. was formed as a Class 2 Bermuda insurance company, the sole business of which is to issue policies for Kinder Morgan Energy Partners and us to secure the deductible portion of our workers' compensation, automobile liability and general liability policies placed in the commercial insurance market.

GEOGRAPHIC INFORMATION

All but an insignificant amount of our assets and operations are located in the continental United States of America.

13. Accounting for Derivative Instruments and Hedging Activities

Our normal business activities expose us to risks associated with changes in the market price of natural gas and associated transportation. We engage in derivative transactions for the purpose of mitigating these risks, which transactions are accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and associated amendments. During the three and six

month periods ended June 30, 2005 and 2004, our derivative activities relating to the mitigation of these risks were designated and qualified as cash flow hedges. We recognized a pre-tax loss of approximately $0.5 million and a pre-tax gain of $0.1 million in the three months ended June 30, 2005, and 2004, respectively and a pre-tax loss of approximately $1.8 million and $0.5 million in the six month periods ended June 30, 2005 and 2004, respectively, as a result of ineffectiveness of these hedges, which amounts are reported within the captions "Natural Gas Sales" and "Gas Purchases and Other Costs of Sales" in the accompanying interim Consolidated Statements of Operations. There was no component of these derivatives instruments' gain or loss excluded from the assessment of hedge effectiveness. As the hedged sales and purchases take place and we record them into earnings, we also reclassify the gains and losses included in accumulated other comprehensive income into earnings. We expect to reclassify into earnings, during the next twelve months, substantially all of our accumulated other comprehensive loss balance related to these derivatives of $12.0 million at June 30, 2005, representing unrecognized net losses on derivative activities. During the three and six month periods ended June 30, 2005 and 2004, we reclassified no gains or losses into earnings as a result of the discontinuance of cash flow hedges due to a determination that the forecasted transactions would no longer occur by the end of the originally specified time period. In conjunction with these activities, we are required to place funds in margin accounts (included with "Restricted Deposits" in the accompanying interim Consolidated Balance Sheet) when the market value of these derivatives with specific counterparties exceeds established limits, or in conjunction with the purchase of exchange-traded derivatives.

We have outstanding fixed-to-floating interest rate swap agreements with a notional principal amount of $1.25 billion at June 30, 2005. These agreements effectively convert the interest expense associated with our 7.25% Debentures due in 2028 and $750 million of our 6.50% Senior Notes due in 2012 from fixed rates to floating rates based on the three-month London Interbank Offered Rate ("LIBOR") plus a credit spread. These swaps have been designated as fair value hedges, and we have accounted for them utilizing the "shortcut" method prescribed for qualifying fair value hedges under SFAS No. 133. Accordingly, the carrying value of the swap is adjusted to its fair value as of the end of each reporting period, and an offsetting entry is made to adjust the carrying value of the debt securities whose fair value is being hedged. The fair value of the swaps of $123.1 million at June 30, 2005 is included in the caption "Deferred Charges and Other Assets" in the accompanying interim Consolidated Balance Sheet. We record interest expense equal to the floating rate payments, which is accrued monthly and paid semi-annually.

On March 10, 2005, we terminated $250 million of our interest rate swap agreements associated with our 6.50% Senior Notes due 2012 and paid $3.5 million in cash. We are amortizing this amount to interest expense over the period the 6.50% Senior Notes are outstanding. The unamortized balance of $3.4 million at June 30, 2005 is included in the caption "Value of Interest Rate Swaps" under the heading "Long-term Debt" in the accompanying interim Consolidated Balance Sheet.

14. Employee Benefits

(A) Retirement Plans

The components of net periodic pension cost for our retirement plans are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands)			
Service Cost	$ 2,494	$ 2,149	$ 4,987	$ 4,297
Interest Cost	2,994	2,859	5,987	5,717
Expected Return on Assets	(5,101)	(4,070)	(10,202)	(8,141)
Amortization of:				
Transition Asset	(8)	(40)	(16)	(81)
Prior Service Cost	45	45	89	89
(Gain)/Loss	176	(518)	355	144
Net Periodic Pension Cost	$ 600	$ 425	$ 1,200	$ 2,025

We previously disclosed in our 2004 Form 10-K that we expect to make contributions of approximately $25 million to our retirement plans during 2005. As of June 30, 2005, contributions of approximately $25 million have been made. We expect that additional contributions, if any, made during 2005 will not be significant.

(B) Other Postretirement Employee Benefits

The components of net periodic benefit cost for our postretirement benefit plan are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands)			
Service Cost	$ 110	$ 114	$ 220	$ 229
Interest Cost	1,301	1,653	2,603	3,306
Expected Return on Assets	(1,429)	(1,236)	(2,857)	(2,473)
Amortization of:				
Transition Obligation	-	233	-	465
Prior Service Cost	(416)	59	(831)	119
Loss	1,209	1,320	2,415	1,522
Net Periodic Postretirement Benefit Cost	$ 775	$ 2,143	$ 1,550	$ 3,168

We previously disclosed in our 2004 Form 10-K that we expect to make contributions of approximately $8.5 million to our postretirement benefit plan during 2005. As of June 30, 2005, contributions of approximately $8.5 million have been made. We expect that additional contributions, if any, to our postretirement benefit plan during 2005 will not be significant.

15. Regulatory Matters

On December 6, 2004, as revised on March 11, 2005, NGPL filed with the FERC, in Docket No. CP05-34, a certificate application for: (i) authorization to construct and operate a new 1,775 horsepower ("hp") compressor unit and a new 3,500 hp compressor unit at NGPL's Compressor Station No. 155 in Wise County, Texas, (ii) authorization to construct and operate a new 3,550 hp compressor unit and a new 2,370 hp compressor unit at NGPL's Compressor Station No. 801 in Carter County, Oklahoma and (iii) permission and approval to abandon three 660 hp compressor units and a 2,000 hp compressor unit at Compressor Station No. 155. This project will provide 20,000 dekatherms ("Dth") per day of additional

transportation capacity in NGPL's Segment No. 1 and 51,000 Dth per day of additional transportation capacity in NGPL's Amarillo/Gulf Coast line at a cost of approximately $21.1 million. The FERC issued a certificate approving the project on June 1, 2005. NGPL accepted the certificate on June 29, 2005.

On December 2, 2004, the FERC issued a Notice of Inquiry (Docket No. PL05-5) seeking comments on the implications of the July 20, 2004 opinion of the Court of Appeals for the District of Columbia Circuit in *BP West Coast Producers, LLC, v. FERC*. In reviewing a series of orders involving SFPP, L.P., the court held, among other things, that the FERC had not adequately justified its policy (the "*Lakehead*" policy) of providing an oil pipeline limited partnership with an income tax allowance equal to the proportion of its limited partnership interests owned by corporate partners. The FERC was seeking comments on whether the court's ruling applies only to the specific facts of the SFPP, L.P. proceeding, or also extends to other capital structures involving partnerships and other forms of ownership. Comments were filed by the Kinder Morgan interstate pipelines.

On May 4, 2005, the FERC adopted a policy statement in Docket No. PL05-5, providing that all entities owning public utility assets - oil and gas pipelines and electric utilities - would be permitted to include an income tax allowance in their cost-of-service rates to reflect the actual or potential income tax liability attributable to their public utility income, regardless of the form of ownership. Any tax pass-through entity seeking an income tax allowance would have to establish that its partners or members have an actual or potential income tax obligation on the entity's public utility income. The FERC expressed the intent to implement its policy in individual cases as they arise.

On November 22, 2004, the FERC issued a Notice of Inquiry seeking comments on its policy of selective discounting. Specifically, the FERC asked parties to submit comments and respond to inquiries regarding the FERC's practice of permitting pipelines to adjust their ratemaking throughput downward in rate cases to reflect discounts given by pipelines for competitive reasons – when the discount is given to meet competition from another gas pipeline. Comments were filed by numerous parties, including NGPL. After reviewing the comments, the FERC found that its current policy on selective discounting is an integral and essential part of the FERC's policies furthering the goal of developing a competitive national natural gas transportation market. The FERC further found that the selective discounting policy provides for safeguards to protect captive customers. If there are circumstances on a particular pipeline that may warrant special consideration or additional protections for captive customers, those issues can be considered in individual cases. The FERC stated that this order is in the public interest because it promotes a competitive natural gas market and also protects the interests of captive customers. By an order issued on May 31, 2005, the FERC reaffirmed its existing policy on selective discounting by interstate pipelines without change. Several entities have filed for rehearing.

On November 5, 2004, the FERC issued a Notice of Proposed Accounting Release that would require FERC jurisdictional entities to recognize costs incurred in performing pipeline assessments that are a part of a pipeline integrity management program as maintenance expense in the period incurred. The proposed accounting ruling is in response to the FERC's finding of diverse practices within the pipeline industry in accounting for pipeline assessment activities. The proposed ruling would standardize these practices. Specifically, the proposed ruling clarifies the distinction between costs for a "one-time rehabilitation project to extend the useful life of the system," which could be capitalized, and costs for an "on-going inspection and testing or maintenance program," which would be accounted for as maintenance and charged to expense in the period incurred.

On June 30, 2005, the FERC issued an order providing guidance to the industry on accounting for costs associated with pipeline integrity management requirements. The order is effective prospectively from January 1, 2006. Under the order, the costs to be expensed include those to: prepare a plan to implement

the program; identify high consequence areas; develop and maintain a record keeping system; and inspect affected pipeline segments. The costs of modifying the pipeline to permit in-line inspections, such as installing pig launchers and receivers, are to be capitalized, as are certain costs associated with developing or enhancing computer software or to add or replace other items of plant. We are currently reviewing the effects of this order on our financial statements.

On October 18, 2004, NGPL filed, in Docket No. CP05-7, a certificate application with the FERC for permission and approval to abandon certain storage field surface piping and for authority to construct and operate additional facilities at its Sayre Storage field located in Beckman County, Oklahoma. By this application, NGPL seeks to provide an additional 10 billion cubic feet ("Bcf") of nominated storage service ("NSS") on NGPL's Amarillo mainline system, increase Sayre's certificated peak day withdrawal from 400 MMcf per day to 600 MMcf per day, and increase Sayre's maximum working gas capacity to 57.1 Bcf, at a cost of approximately $35.4 million. By an order issued on March 25, 2005, the FERC approved NGPL's proposal without modification and subject only to the usual conditions. On April 20, 2005, NGPL accepted the issued certificate.

In April 2004, we were advised that, as part of an audit of the FERC Form 2s, the FERC would be conducting a compliance audit of NGPL's Form 2s for the period January 1, 2000 through December 31, 2003. On May 4, 2005, the FERC issued their audit report recommending that NGPL (i) revise its procedures to ensure that fines and penalties are recorded in the proper accounts as required by the FERC's Uniform System of Accounts, (ii) make a correcting entry in the amount of $215,000 to properly record a penalty that was paid in 2000 and (iii) implement procedures to ensure that inactive projects are cleared from construction work in progress on a timely basis. In addition, the FERC audit team identified approximately $20.6 million of costs associated with pipeline assessment that were capitalized by NGPL in accordance with its capitalization policies during the audit period. The Chief Accountant of the FERC has issued a Notice of Proposed Accounting Release that is intended to provide industry guidance on accounting for pipeline assessment activities. The FERC audit report indicates that appropriate accounting for these costs will be further considered when this industry-wide proceeding is concluded and a final Accounting Release is approved by the FERC. The FERC final Accounting Release was issued June 30, 2005 and the new accounting guidelines will be effective January 1, 2006, as further described above.

The FERC has commenced an audit of NGPL, as well as a number of other interstate gas pipelines, to test compliance with the FERC's requirements related to the filings and postings of the Index of Customers.

On February 20, 2004, the Circuit Court of Appeals for the District of Columbia remanded back to the FERC a Williston Basin Interstate Pipeline proceeding in which the Court ruled that the FERC did not explain how the selective discounting policy adopted by the FERC in the Colorado Interstate Gas Co. and Granite State Gas Transmission cases would not compromise the pipelines' ability to target discounts at particular receipt/delivery points, subsystems or other defined geographic areas. On June 1, 2004, the FERC issued a Notice of Request for Comments in the Williston Basin Interstate Pipeline proceeding, on issues pertaining to discounting policy adopted in the Colorado Interstate Gas Co. and Granite State Gas Transmission cases. Comments were due on August 9, 2004. Comments were filed by the Kinder Morgan interstate pipelines. On March 3, 2005, the FERC issued an Order on Remand in the Williston Basin Interstate Pipeline Co. proceeding (RP00-463). The FERC has concluded that it cannot, at the present time, satisfy its burden under NGA Section 5 to require Williston or other pipelines to modify their tariffs to incorporate the CIG/Granite State policy. The FERC will return to its pre-existing policy of permitting pipelines to limit the selective discounts they offer shippers to particular points. Pipelines who implemented the CIG/Granite State policy pursuant to orders that are now final may file pursuant to NGA Section 4 to remove their tariff provisions implementing that policy. The Kinder

Morgan interstate pipelines filed with the FERC to remove these tariff restrictions, which the FERC has approved.

On November 25, 2003, the FERC issued Order No. 2004, adopting new Standards of Conduct to become effective February 9, 2004. Every interstate natural gas pipeline was required to file a compliance plan by that date and was required to be in full compliance with the Standards of Conduct by June 1, 2004. The primary change from existing regulation is to make such standards applicable to an interstate pipeline's interaction with many more affiliates (termed "Energy Affiliates"), including intrastate/Hinshaw pipelines (in general, a Hinshaw pipeline is a pipeline that receives gas at or within a state boundary, is regulated by an agency of that state, and all the gas it transports is consumed within that state), processors and gatherers and any company involved in gas or electric markets (such as electric generators and electric or gas marketers) even if they do not ship on the affiliated interstate pipeline. Local distribution companies ("LDCs") are excluded, however, if they do not make any off-system sales. The Standards of Conduct require, inter alia, separate staffing of interstate pipelines and their Energy Affiliates (but certain support functions and senior management at the central corporate level may be shared) and strict limitations on communications from an interstate pipeline to an Energy Affiliate. NGPL and Kinder Morgan Interstate Gas Transmission LLC, a subsidiary of Kinder Morgan Energy Partners, filed for clarification and rehearing of Order No. 2004 on December 29, 2003, and numerous other rehearing requests have been submitted. In the request for rehearing, NGPL and Kinder Morgan Interstate Gas Transmission LLC asked that intrastate/Hinshaw pipeline affiliates not be included in the definition of Energy Affiliates. On February 9, 2004, the interstate pipelines owned by Kinder Morgan, Inc. and Kinder Morgan Energy Partners filed their compliance plans under Order No. 2004. In addition, on February 19, 2004, the Kinder Morgan interstate pipelines filed a joint request asking that their interaction with intrastate/Hinshaw pipeline affiliates be exempted from the Standards of Conduct. Separation from these entities would be the most burdensome requirement of the new rules for the Kinder Morgan interstate pipelines.

On April 16, 2004, the FERC issued Order No. 2004-A. The FERC extended the effective date of the new Standards of Conduct from June 1, 2004, to September 1, 2004. Otherwise, the FERC largely denied rehearing of Order No. 2004, but provided further clarification or adjustment in several areas. The FERC continued the exemption for LDCs that do not make off-system sales, but clarified that the LDC exemption still applies if the LDC is also a Hinshaw pipeline. The FERC also clarified that an LDC can engage in certain sales and other Energy Affiliate activities to the limited extent necessary to support sales to customers located on its distribution system, and sales necessary to remain in balance under pipeline tariffs, without becoming an Energy Affiliate. The FERC declined to exempt producers from the definition of Energy Affiliate. The FERC also declined to exempt intrastate and Hinshaw pipelines, processors and gatherers from the definition of Energy Affiliate, but did clarify that such entities will not be Energy Affiliates if they do not participate in gas or electric commodity markets or interstate capacity markets (as capacity holder, agent or manager) or in financial transactions related to such markets. The FERC also clarified further the personnel and functions that can be shared by interstate pipelines and their Energy Affiliates, including senior officers and risk management personnel and the permissible role of holding or parent companies and service companies. The FERC also clarified that day-to-day operating information can be shared by interconnecting entities. Finally, the FERC clarified that an interstate pipeline and its Energy Affiliate can discuss potential new interconnects to serve the Energy Affiliate, but subject to posting and record-keeping requirements. The Kinder Morgan interstate pipelines sought rehearing to clarify the applicability of the LDC and Parent Company exemptions to them.

On July 21, 2004, the Kinder Morgan interstate pipelines filed additional joint requests asking for limited exemptions from certain requirements of FERC Order No. 2004 and asking for an extension of the deadline for full compliance with Order No. 2004 until 90 days after the FERC has completed action

on the pipelines' various rehearing and exemption requests. The pipelines also requested that Rocky Mountain Natural Gas Company, one of Kinder Morgan, Inc.'s wholly owned subsidiaries, be classified as an exempt LDC for purposes of Order No. 2004. These exemptions requested relief from the independent functioning and information disclosure requirements of Order No. 2004. The exemption requests proposed to treat as Energy Affiliates within the meaning of Order No. 2004 two groups of employees, (i) individuals in the Choice Gas Commodity Group within Kinder Morgan, Inc.'s Retail operations and (ii) commodity sales and purchasing personnel within Kinder Morgan Energy Partners' Texas intrastate operations. Order No. 2004 regulations governing relationships between interstate pipelines and their Energy Affiliates would apply to relationships with these two groups. Under these proposals, certain critical operating functions could continue to be shared.

On August 2, 2004, the FERC issued Order No. 2004-B. In this order, the FERC extended the effective date of the new Standards of Conduct from September 1, 2004 to September 22, 2004. Also in this order, among other actions, the FERC denied the request for rehearing made by the Kinder Morgan interstate pipelines to clarify the applicability of the LDC and Parent Company exemptions to them.

On September 20, 2004, the FERC issued an order that conditionally granted the July 21, 2004 joint requests for limited exemptions from the requirements of the Standards of Conduct described above. In that order, the FERC directed the Kinder Morgan interstate pipelines to submit compliance plans regarding these filings within 30 days. These compliance plans were filed on October 19, 2004 and set out certain steps taken by the Kinder Morgan interstate pipelines to assure that employees in the Choice Gas Commodity Group within Kinder Morgan, Inc.'s Retail operations and the commodity sales and purchasing personnel of Kinder Morgan Energy Partners' Texas intrastate operations do not have access to restricted interstate pipeline information or receive preferential treatment as to interstate pipeline services. The FERC will not enforce compliance of the independent functioning requirement of the Standards of Conduct as to these employees until 30 days after it acts on these compliance filings. In all other respects, the Kinder Morgan interstate pipelines were required to comply with Order No. 2004 by September 22, 2004.

The Kinder Morgan interstate pipelines have implemented compliance with the Standards of Conduct as of September 22, 2004, subject to the exemptions described in the prior paragraph. Compliance includes, inter alia, the posting of compliance procedures and organizational information for each interstate pipeline on its internet website, the posting of discount and tariff discretion information and the implementation of independent functioning for Energy Affiliates not covered by the prior paragraph (electric and gas gathering, processing or production affiliates).

On December 21, 2004, the FERC issued Order No. 2004-C, an order granting rehearing on certain issues and also clarifying certain provisions in the previous orders. The primary impact on the Kinder Morgan interstate pipelines from Order 2004-C is the granting of rehearing and allowing LDCs to participate in hedging activity related to on-system sales and still qualify for exemption from Energy Affiliate.

By an order issued on April 19, 2005, the FERC accepted the compliance plans filed by the Kinder Morgan interstate pipelines without modification, but subject to further amplification and clarification as to the intrastate group in three areas: (i) further description of the matters the shared transmission function personnel may discuss with the commodity sales and purchasing personnel within Kinder Morgan Energy Partners' Texas intrastate operations; (ii) additional posting of organizational information about the commodity sales and purchasing personnel within Kinder Morgan Energy Partners' Texas intrastate operations; and (iii) clarification that the President of Kinder Morgan Energy Partners' intrastate pipeline group has received proper training and will not be a conduit for improperly sharing transmission or customer information with the commodity sales and purchasing personnel within

Kinder Morgan Energy Partners' Texas intrastate natural gas operations. The FERC also approved treatment of Rocky Mountain Natural Gas Company as an exempt LDC. The Kinder Morgan interstate pipelines made a compliance filing on May 18, 2005.

On July 25, 2003, the FERC issued a Modification to Policy Statement stating that FERC-regulated natural gas pipelines will, on a prospective basis, no longer be permitted to use gas basis differentials to price negotiated rate transactions. Effectively, interstate pipelines will no longer be permitted to use commodity price indices to structure transactions. Negotiated rates based on commodity price indices in existing contracts will be permitted to remain in effect until the end of the contract period for which such rates were negotiated. Price indexed contracts currently constitute an insignificant portion of the contracts on the interstate pipelines owned by Kinder Morgan, Inc. and Kinder Morgan Energy Partners. Moreover, in subsequent orders in individual pipeline cases, the FERC has allowed negotiated rate transactions using pricing indices so long as revenue is capped by the applicable maximum rate(s). Rehearing on this aspect of the Modification to Policy Statement has been sought by several pipelines, but the FERC has not yet acted on rehearing.

See Note 8 of Notes to Consolidated Financial Statements included in our 2004 Form 10-K for additional information regarding regulatory matters.

16. Environmental and Legal Matters

(A) Environmental Matters

We are subject to a variety of federal, state and local laws that regulate permitted activities relating to air and water quality, waste disposal and other environmental matters. Additionally, we have established reserves totaling $11.9 million at June 30, 2005 to address known environmental remediation sites. After consideration of reserves established, we believe that costs for environmental remediation and ongoing compliance with these regulations will not have a material adverse effect on our cash flows, financial position or results of operations or diminish our ability to operate our businesses. However, there can be no assurances that future events, such as changes in existing laws, the promulgation of new laws, or the development of new facts or conditions will not cause us to incur significant costs.

See Note 9(A) of Notes to Consolidated Financial Statements included in our 2004 Form 10-K for additional information regarding environmental matters.

(B) Litigation Matters

United States of America, ex rel., Jack J. Grynberg v. K N Energy, Civil Action No. 97-D-1233, filed in the U.S. District Court, District of Colorado. This action was filed on June 9, 1997 pursuant to the federal False Claims Act and involves allegations of mismeasurement of natural gas produced from federal and Indian lands. The complaint asks to recover all royalties the Government allegedly should have received had the volume and heating content of the natural gas been valued properly, along with treble damages and civil penalties as provided for in the False Claims Act. Mr. Grynberg, as relator, seeks his statutory share of any recovery, plus expenses and attorney fees and costs. The Department of Justice has decided not to intervene in support of the action. The complaint is part of a larger series of similar complaints filed by Mr. Grynberg against 77 natural gas pipelines (approximately 330 other defendants). An earlier single action making substantially similar allegations against the pipeline industry was dismissed by Judge Hogan of the U.S. District Court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, Mr. Grynberg filed individual complaints in various courts throughout the country. In 1999, these cases were consolidated by the Judicial Panel for Multidistrict Litigation ("MDL"), and transferred to the District of Wyoming. The

MDL case is called *In Re Natural Gas Royalties Qui Tam Litigation*, Docket No. 1293. Motions to dismiss were filed and an oral argument on the motion to dismiss occurred on March 17, 2000. On July 20, 2000, the United States of America filed a motion to dismiss those claims by Grynberg that deal with the manner in which defendants valued gas produced from federal leases (referred to as valuation claims). Judge Downes denied the defendant's motion to dismiss on May 18, 2001. The United States' motion to dismiss most of the plaintiff's valuation claims has been granted by the Court. Mr. Grynberg appealed that dismissal to the 10th Circuit, which requested briefing regarding its jurisdiction over that appeal. Mr. Grynberg's appeal was dismissed for lack of appellate jurisdiction. Discovery to determine issues related to the Court's subject matter jurisdiction, arising out of the False Claims Act is complete. On May 7, 2003, Grynberg sought leave to file a Third Amended Complaint, which adds allegations of undermeasurement related to CO_2 production. Defendants have filed briefs opposing leave to amend. Neither the Court nor the Special Master have ruled on Mr. Grynberg's motion to amend. On May 13, 2005, the Special Master issued his Report and Recommendations to Judge Downes in the *In Re Natural Gas Royalties Qui Tam Litigation*, Docket No. 1293. The Special Master found that there was a prior public disclosure of the mismeasurement fraud Grynberg alleged, and that Grynberg was not an original source of the allegations. As a result, the Special Master recommended dismissal on jurisdictional grounds of the Kinder Morgan defendants. On June 27, 2005, Grynberg filed a motion to modify and partially reverse the Special Master's recommendations, and the Defendants filed a motion to adopt the Special Master's recommendations with modifications. We expect that the Federal Court in Wyoming may adopt the recommendations in the Special Master's report and enter the formal dismissal order in the third or fourth quarter of this year. It is likely that Grynberg will appeal any dismissal to the 10th Circuit Court of Appeals.

Lamb v. Kinder Morgan, Inc., et al., Civil Action No. 00-M-516, (formerly *Adams v. Kinder Morgan, Inc., et al.*) filed in the United States District Court for the District of Colorado. The case was originally filed on March 8, 2000 and is a purported class action. As of this date no class has been certified. Plaintiffs seek compensatory damages against all defendants jointly and severally, together with interest, attorney fees and expenses. The plaintiffs brought claims alleging securities fraud under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of all people who purchased the common stock of Kinder Morgan during the class period from October 30, 1997 to June 21, 1999. The class period occurred prior to the installation of our current management team in October 1999. The complaint centers on allegations of misleading statements concerning operations of the Bushton Processing Plant and certain contracts, as well as allegations of overstatement of income in violation of accounting principles generally accepted in the United States of America during the class period. On February 23, 2001, the federal district court dismissed several claims raised by the plaintiff, with prejudice, and dismissed the remaining claims, without prejudice. On April 27, 2001, the Adams plaintiffs filed their second amended complaint. On March 29, 2002, the federal district court dismissed the Adams plaintiffs' second amended complaint with prejudice. On May 2, 2002, the Adams plaintiffs appealed the dismissal to the 10th Circuit Court of Appeals. In a published decision, on August 11, 2003, the 10th Circuit Court of Appeals reversed the district court's dismissal, but upheld the dismissal of Mr. Kinder, our Chairman and Chief Executive Officer, from this action. The mandate from the 10th Circuit Court of Appeals was issued on October 17, 2003. Briefing regarding class certification is complete and a decision is pending. Merits discovery commenced on June 7, 2004. The Court granted Mr. Adams' motion to withdraw as a lead plaintiff. As a result, the case is now styled as *Lamb v. Kinder Morgan, Inc., et al.* The parties reached a settlement in principle of this matter and have signed a Memorandum of Understanding. The settlement documents were preliminarily approved by the Court on February 23, 2005. On May 20, 2005, the Court entered an order giving final approval to the settlement. The implementation of the settlement will not result in a material impact on our results of operations, financial position or cash flows.

Darrell Sargent d/b/a Double D Production v. Parker & Parsley Gas Processing Co., American Processing, L.P. and Cesell B. Cheatham, et al., Cause No. 878, filed in the 100th Judicial District Court, Carson County, Texas. The plaintiff filed a purported class action suit in 1999 and amended its petition in late 2002 to assert claims on behalf of over 1,000 producers who process gas through as many as ten gas processing plants formerly owned by American Processing, L.P. ("American Processing"), a former wholly owned subsidiary of Kinder Morgan, Inc., in Carson and Gray counties and other surrounding Texas counties. The plaintiff claims that American Processing (and subsequently, ONEOK, which purchased American Processing from us in 2000) improperly allocated liquids and gas proceeds to the producers. In particular, among other claims, the plaintiff challenges the methods and assumptions used at the plants to allocate liquids and gas proceeds among the producers and processors. The petition asserts claims for breach of contract and Natural Resources Code violations relating to the period from 1994 to the present. The plaintiff alleged generally in the petition that damages are "not to exceed $200 million" plus attorneys fees, costs and interest. The defendants filed a counterclaim for overpayments made to producers.

Pioneer Natural Resources USA, Inc., formerly known as Parker & Parsley Gas Processing Company ("Parker & Parsley"), is a co-defendant. Parker & Parsley claimed indemnity from American Processing based on its sale of assets to American Processing on October 4, 1995. We accepted indemnity and defense subject to a reservation of rights pending resolution of the suit. The plaintiff also named ONEOK as a defendant. We and ONEOK are defending the case pursuant to an agreement whereby ONEOK is responsible for any damages that may be attributable to the period following ONEOK's acquisition of American Processing from us in 2000.

On or about January 21, 2003, Benson-McCown & Company ("Benson-McCown"), another producer who sold gas to American Processing and ONEOK, filed a "Plea in Intervention" in which it essentially duplicated the plaintiff's claims and also asserted the right to bring a class action and serve as one of the class representatives. Defendants denied Benson-McCown's claim and filed a counterclaim for overpayments made to Benson-McCown over the years.

On January 14, 2005, Defendants filed a motion to deny class certification. Subsequently, the plaintiffs agreed to dismiss and withdraw their class claims. An Agreed Order Dismissing all class claims, with prejudice, was entered by the Court on January 19, 2005. The case is proceeding on the named-plaintiffs' individual claims, with no class action being asserted.

Harrison County Texas Pipeline Rupture

On May 13, 2005, NGPL experienced a rupture on its 36-inch diameter Gulf Coast #3 natural gas pipeline in Harrison County, Texas. The pipeline rupture resulted in an explosion and fire that severely damaged an adjacent power plant co-owned by EWO Marketing, L.P. and others. In addition, local residents within an approximate one-mile radius were evacuated by local authorities until the site was secured. According to published reports, injuries were limited to one employee at the power plant who was treated for minor injuries and released. Although we are not aware of any litigation related to this matter which has been commenced as of the date hereof, NGPL has received claims for damages to nearby homes and buildings which allegedly resulted from the explosion. NGPL and its insurers are investigating such claims and processing them in due course.

Although no assurances can be given, we believe that we have meritorious defenses to all lawsuits and legal proceedings in which we are defendants. Based on our evaluation of the above matters, and after consideration of reserves established, we believe that the resolution of such matters will not have a material adverse effect on our business, cash flows, financial position or results of operations.

In addition, we are a defendant in various lawsuits arising from the day-to-day operations of our businesses. Although no assurance can be given, we believe, based on our investigation and experience to date, that the ultimate resolution of such items will not have a material adverse impact on our business, cash flows, financial position or results of operations.

17. Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R (revised 2004), *Share-Based Payment*. This Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, and requires companies to expense the value of employee stock options and similar awards. Significant provisions of SFAS No. 123R include the following:

- share-based payment awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised;

- when measuring fair value, companies can choose an option-pricing model that appropriately reflects their specific circumstances and the economics of their transactions;

- companies will recognize compensation cost for share-based payment awards as they vest, including the related tax effects. Upon settlement of share-based payment awards, the tax effects will be recognized in the income statement or additional paid-in capital; and

- public companies are allowed to select from three alternative transition methods – each having different reporting implications.

In April 2005, the Securities and Exchange Commission extended the effective date for public companies to implement SFAS No. 123R (revised 2004). The new Statement is now effective for non-small business entities starting with the first interim or annual period of the company's first fiscal year beginning on or after June 15, 2005 (January 1, 2006, for us). We are currently reviewing the effects of this accounting Statement.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143*. This Interpretation clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event.

Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred – generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. This Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005

(December 31, 2005, for us). We are currently reviewing the effects of this Interpretation.

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This Statement replaces Accounting Principles Board Opinion ("APB") No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS No. 154 applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle.

SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. In contrast, APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle.

The provisions of this Statement will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (January 1, 2006 for us). Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The Statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this Statement. Adoption of this Statement will not have any immediate effect on our consolidated financial statements, and we will apply this guidance prospectively.

In June 2005, the Emerging Issues Task Force reached a consensus on Issue No. 04-5, or EITF 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. EITF 04-5 generally provides that a sole general partner is presumed to control a limited partnership and provides guidance for purposes of assessing whether certain limited partners rights might preclude a general partner from controlling a limited partnership.

For general partners of all new limited partnerships formed, and for existing limited partnerships for which the partnership agreements are modified, the guidance in EITF 04-5 is effective after June 29, 2005. For general partners in all other limited partnerships, the guidance is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005 (January 1, 2006, for us). We are currently reviewing the effects of this Issue.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

The following discussion should be read in conjunction with (i) the accompanying interim Consolidated Financial Statements and related Notes and (ii) our 2004 Form 10-K, including the Consolidated Financial Statements, related Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations. The following interim results may not be indicative of the results to be expected over the course of an entire year. In this report Kinder Morgan Energy Partners, L.P., a publicly traded pipeline master limited partnership in which we own the general partner interest and significant limited partner interests, is referred to as "Kinder Morgan Energy Partners." Additional information on Kinder Morgan Energy Partners is contained in its report on Form 10-K for the year ended December 31, 2004 and in its report on Form 10-Q for the quarter ended June 30, 2005.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based on our interim consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America as applicable to interim financial statements to be filed with the Securities and Exchange Commission and contained within this report. Certain amounts included in or affecting our financial statements and related disclosure must be estimated, requiring us to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time the financial statements are prepared. The reported amounts of our assets and liabilities, revenues and expenses and associated disclosures with respect to contingent assets and obligations are necessarily affected by these estimates. We evaluate these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates.

In preparing our financial statements and related disclosures, we must use estimates in determining the economic useful lives of our assets, the effective income tax rate to apply to our pre-tax income, obligations under our employee benefit plans, provisions for uncollectible accounts receivable, unbilled revenues for our natural gas distribution deliveries for which meters have not yet been read, cost and timing of environmental remediation efforts, potential exposure to adverse outcomes from judgments or litigation settlements, exposures under contractual indemnifications and various other recorded or disclosed amounts. Certain of these accounting estimates are of more significance in our financial statement preparation process than others. Information regarding our accounting policies and estimates that we consider to be "critical" can be found in our 2004 Form 10-K. There have not been any significant changes in these policies and estimates during the first six months of 2005.

Consolidated Financial Results

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Earnings Increase (Decrease)
	(In thousands except per share amounts)		
Operating Revenues	$ 293,385	$ 236,867	$ 56,518
Gas Purchases and Other Costs of Sales	(99,559)	(52,210)	(47,349)
General and Administrative Expenses	(18,566)	(19,879)	1,313
Other Operating Expenses	(85,192)	(76,092)	(9,100)
Operating Income	90,068	88,686	1,382
Other Income and (Expenses)	120,033	83,331	36,702
Income Taxes	(88,528)	(67,627)	(20,901)
Income from Continuing Operations	121,573	104,390	17,183
Gain on Disposal of Discontinued Operations, Net of Tax	423	-	423
Net Income	$ 121,996	$ 104,390	$ 17,606
Diluted Earnings (Loss) Per Common Share:			
Income from Continuing Operations	$ 0.99	$ 0.84	$ 0.15
Gain on Disposal of Discontinued Operations	-	-	-
Total Diluted Earnings Per Common Share	$ 0.99	$ 0.84	$ 0.15
Number of Shares Used in Computing Diluted Earnings Per Common Share	123,103	124,955	(1,852)

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	Earnings Increase (Decrease)
	(In thousands except per share amounts)		
Operating Revenues	$ 630,268	$ 589,453	$ 40,815
Gas Purchases and Other Costs of Sales	(212,169)	(185,681)	(26,488)
General and Administrative Expenses	(35,239)	(42,167)	6,928
Other Operating Expenses	(163,240)	(150,148)	(13,092)
Operating Income	219,620	211,457	8,163
Other Income and (Expenses)	230,518	168,444	62,074
Income Taxes	(183,474)	(148,469)	(35,005)
Income from Continuing Operations	266,664	231,432	35,232
Loss on Disposal of Discontinued Operations, Net of Tax	(1,389)	-	(1,389)
Net Income	$ 265,275	$ 231,432	$ 33,843
Diluted Earnings (Loss) Per Common Share:			
Income from Continuing Operations	$ 2.15	$ 1.85	$ 0.30
Loss on Disposal of Discontinued Operations	(0.01)	-	(0.01)
Total Diluted Earnings Per Common Share	$ 2.14	$ 1.85	$ 0.29
Number of Shares Used in Computing Diluted Earnings Per Common Share	123,755	124,942	(1,187)

Our income from continuing operations increased from $104.4 million in the second quarter of 2004 to $121.6 million in the second quarter of 2005, an increase of $17.2 million (16%). Income from continuing operations for the second quarter of 2005 included a net increase of $4.7 million, primarily

related to a pre-tax gain of $22 million on the sale of Kinder Morgan Management shares (see Note 7 of the accompanying Notes to Consolidated Financial Statements) and income tax expense of $13.9 million related to the gain on sale of Kinder Morgan Management shares. In addition to the items discussed above, the increase in continuing operations is comprised of a $1.4 million increase in operating income and an $18.2 million increase in "Other Income and (Expenses)," partially offset by a $7.0 million increase in income tax expense. Our net income increased from $104.4 million in the second quarter of 2004 to $122.0 million in the second quarter of 2005, an increase of $17.6 million (17%). Our income from continuing operations increased from $231.4 million in the first six months of 2004 to $266.7 million in the first six months of 2005. Income from continuing operations for the first six months of 2005 included a net increase of $4.7 million, primarily related to the gain on sale of Kinder Morgan Management shares discussed above. In addition to the items discussed above, the increase in continuing operations is comprised of an $8.2 million increase in operating income and a $43.5 million increase in "Other Income and (Expenses)," partially offset by a $21.2 million increase in income tax expense. Our net income increased from $231.4 million in the first six months of 2004 to $265.3 million in the first six months of 2005. Following is a discussion of items affecting operating income, other income and expenses and earnings per share. Please refer to the individual business segment discussions included elsewhere herein for additional information regarding business segment results. Refer to the headings "Other Income and (Expenses)," "Income Taxes – Continuing Operations" and "Discontinued Operations" included elsewhere herein for additional information regarding these items.

Our results for the second quarter of 2005, in comparison to 2004, reflect an increase of $56.5 million (24%) in operating revenues and an increase of $1.4 million (2%) in operating income. The increase in operating revenues in 2005 was principally attributable to (i) increased revenues in our NGPL and Kinder Morgan Retail business segments and (ii) $3.2 million of 2005 revenues from KM Insurance Ltd., our wholly owned subsidiary formed during the second quarter of 2005 for the purpose of providing insurance services to Kinder Morgan Energy Partners and us. These increases were partially offset by our contribution of TransColorado to Kinder Morgan Energy Partners, effective November 1, 2004. Operating income was positively impacted in the second quarter of 2005, relative to 2004, by (i) increased segment earnings from our NGPL business segment and (ii) reduced general and administrative expenses. These positive impacts were partially offset by our contribution of TransColorado to Kinder Morgan Energy Partners (see the individual business segment discussions following for additional information).

Our results for the first six months of 2005, in comparison to 2004, reflect an increase of $40.8 million (7%) in operating revenues and an increase of $8.2 million (4%) in operating income. The increases in operating revenues and operating income in the first six months of 2005, relative to 2004, were due principally to the same factors affecting second quarter results, as discussed above. In addition, on a year-to-date basis, general and administrative expenses were favorably impacted by approximately $3 million received in 2005 in connection with the resolution of claims in the Enron bankruptcy proceeding.

"Other Income and (Expenses)" increased from income of $83.3 million in the second quarter of 2004 to income of $120.0 million in the second quarter of 2005, an increase of $36.7 million (44%). This increase was primarily attributable to (i) increased equity in earnings of Kinder Morgan Energy Partners in 2005, due in part to the strong performance from the assets held by Kinder Morgan Energy Partners, partially offset by an increase of $5.3 million in minority interest expense attributable to the minority interests in Kinder Morgan Management and (ii) a $22.0 million pre-tax gain from the sale of Kinder Morgan Management shares that we owned (see Note 7 of the accompanying Notes to Consolidated Financial Statements). These positive impacts were partially offset by an increase of $6.2 million in interest expense due largely to higher interest rates.

"Other Income and (Expenses)" increased from income of $168.4 million in the first six months of 2004 to income of $230.5 million in the first six months of 2005, an increase of $62.1 million (37%). This increase was primarily attributable to (i) increased equity in earnings of Kinder Morgan Energy Partners in 2005, due in part to the strong performance from the assets held by Kinder Morgan Energy Partners, partially offset by an increase of $7.7 million in minority interest expense attributable to the minority interests in Kinder Morgan Management and (ii) $26.5 million in pre-tax gains from the sale of Kinder Morgan Management shares that we owned (see Note 7 of the accompanying Notes to Consolidated Financial Statements). These positive impacts were partially offset by an increase of $9.5 million in interest expense due largely to higher interest rates. Please refer to "Other Income and (Expenses)," included elsewhere herein for additional information.

Diluted earnings per common share from continuing operations increased from $0.84 in the second quarter of 2004 to $0.99 in the second quarter of 2005, an increase of $0.15 (18%), reflecting, in addition to the financial and operating impacts discussed preceding, a decrease of 1.9 million (1.5%) in average shares outstanding resulting principally from the net effect of (i) a decrease in shares due to our share repurchase program (see Note 11 of the accompanying Notes to Consolidated Financial Statements), (ii) an increase in shares due to the exercise of stock options by employees and the issuance of restricted shares to employees and (iii) the increased dilutive effect of stock options resulting from the increase in the market price of our shares.

Diluted earnings per common share from continuing operations increased from $1.85 in the first six months of 2004 to $2.15 in the first six months of 2005, an increase of $0.30 (16%), reflecting, in addition to the financial and operating impacts discussed preceding, a decrease of 1.2 million (1.0%) in average shares outstanding due principally to the same factors affecting the second quarter, as discussed above. In addition, in the first six months of 2005, we recorded a net loss on disposal of discontinued operations of $1.4 million, net of tax, or $0.01 per diluted common share (see "Discontinued Operations" included elsewhere herein).

Results of Operations

The following comparative discussion of our results of operations is by segment for factors affecting segment earnings, and on a consolidated basis for other factors.

We manage our various businesses by, among other things, allocating capital and monitoring operating performance. This management process includes dividing the company into business segments so that performance can be effectively monitored and reported for a limited number of discrete businesses.

Effective November 1, 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners. Effective with the contribution, the results of operations of TransColorado Gas Transmission Company are no longer included in our consolidated results of operations. In addition to our three remaining business segments, we derive a substantial portion of earnings from our investment in Kinder Morgan Energy Partners, which is discussed under "Earnings from Our Investment in Kinder Morgan Energy Partners" following.

Business Segment	Business Conducted	Referred to As:
Natural Gas Pipeline Company of America and certain affiliates	The ownership and operation of a major interstate natural gas pipeline and storage system	Natural Gas Pipeline Company of America, or NGPL
TransColorado Gas Transmission Company	Prior to its disposition on November 1, 2004, the ownership and operation of an interstate natural gas pipeline system in Colorado and New Mexico	TransColorado
Retail Natural Gas Distribution	The regulated sale and transportation of natural gas to residential, commercial and industrial customers (including a small distribution system in Hermosillo, Mexico) and the sale of natural gas to certain utility customers under the Choice Gas program	Kinder Morgan Retail
Power Generation.....	The operation and, in previous periods, development and construction of natural gas-fired electric generation facilities	Power

The accounting policies we apply in the generation of business segment earnings are generally the same as those applied to our consolidated operations and described in Note 1 of Notes to Consolidated Financial Statements included in our 2004 Form 10-K, except that (i) certain items below the "Operating Income" line (such as interest expense) are either not allocated to business segments or are not considered by management in its evaluation of business segment performance and (ii) equity in earnings of equity method investees, other than Kinder Morgan Energy Partners, are included. These equity method earnings are included in "Other Income and (Expenses)" in the accompanying interim Consolidated Statements of Operations. In addition, (i) certain items included in operating income (such as general and administrative expenses) are not considered by management in its evaluation of business segment performance and (ii) gains and losses from incidental sales of assets are included in segment earnings. With adjustment for these items, we currently evaluate business segment performance primarily based on operating income in relation to the level of capital employed. We account for intersegment sales at market prices, while we account for asset transfers at either market value or, in some instances, book value.

Following are operating results by individual business segment (before intersegment eliminations), including explanations of significant variances between the periods presented.

Natural Gas Pipeline Company of America

	Three Months Ended June 30,		
	2005	2004	Increase
	(In thousands except systems throughput)		
Total Operating Revenues	$ 216,243	$ 171,672	$ 44,571
Gas Purchases and Other Costs of Sales	$ 62,543	$ 30,134	$ 32,409
Segment Earnings	$ 99,400	$ 93,427	$ 5,973
Systems Throughput (Trillion Btus)	377.6	343.0	34.6

	Six Months Ended June 30,		
	2005	2004	Increase
	(In thousands except systems throughput)		
Total Operating Revenues	$ 422,716	$ 395,684	$ 27,032
Gas Purchases and Other Costs of Sales	$ 103,146	$ 99,918	$ 3,228
Segment Earnings	$ 213,609	$ 200,173	$ 13,436
Systems Throughput (Trillion Btus)	822.5	787.4	35.1

NGPL's segment earnings increased from $93.4 million in the second quarter of 2004 to $99.4 million in the second quarter of 2005, an increase of $6.0 million (6%). Segment earnings for the second quarter of 2005 were positively impacted, relative to 2004, by (i) increased transportation and storage service revenues in 2005 resulting, in part, from increased throughput volumes, successful re-contracting of transportation capacity, the recent expansion of our storage system and the acquisition of the Black Marlin Pipeline (see discussion below) and (ii) increased operational gas sales. These positive impacts were partially offset by (i) $4.0 million of revenue included in 2004 results recognized in conjunction with the finalization of a regulatory matter and (ii) increased operations and maintenance expenses in 2005 due, in part, to increased costs for electric compression. The increase in overall operating revenues in the second quarter of 2005, relative to 2004, was largely the result of (i) increased transportation and storage service revenues, as discussed above and (ii) increased operational gas sales volumes and increased natural gas prices in 2005. NGPL's operational gas sales are primarily made possible by its collection of fuel in-kind pursuant to its transportation tariffs and recovery of storage cushion gas volumes. The increase in systems throughput in the second quarter of 2005, relative to 2004, was due principally to higher utilization of the Amarillo and Louisiana lines and warmer weather. The increase in systems throughput in the second quarter of 2005, relative to 2004, did not have a significant direct impact on revenues or segment earnings due to the fact that transportation revenues are derived primarily from "demand" contracts in which shippers pay a fee to reserve a set amount of system capacity for their use.

NGPL's segment earnings increased from $200.2 million in the first six months of 2004 to $213.6 million in the first six months of 2005, an increase of $13.4 million (7%). Segment earnings for the first six months of 2005 were impacted, relative to 2004, by principally the same factors affecting second quarter results, as discussed above, except that, on a year-to-date basis, operational gas sales volumes were lower in 2005. The increase in overall operating revenues in the first six months of 2005, relative

to 2004, was largely the result of increased transportation and storage service revenues, as discussed above, partially offset by lower operational gas sales volumes. The increase in systems throughput in the first six months of 2005, relative to 2004, was due principally to the increase in second quarter throughput volumes, as discussed above.

In June 2005, NGPL received a certificate from the FERC for its Amarillo-Gulf Coast cross-haul expansion. The $16.5 million project will add 51,000 Dth per day of capacity and is expected to be in service in April 2006. NGPL will begin drilling storage injection withdrawal wells this month to expand its Sayre storage field in Oklahoma by 10 Bcf. The $35 million project is expected to begin service in the spring of 2006 and all of the expansion capacity has been contracted for under long-term agreements. In addition, NGPL recently completed an open season for a 10 Bcf expansion at its North Lansing storage facility in Texas. Binding long-term precedent agreements have been executed on all of the additional capacity, and NGPL intends to file for project approval with the FERC later this year. The approximately $64 million expansion is expected to begin service in the spring of 2007.

In the second quarter of 2004, NGPL completed construction of 10.7 Bcf of storage service expansion at its existing North Lansing storage facility in east Texas, all of which is fully subscribed under long-term contracts. Effective September 1, 2004, NGPL acquired the Black Marlin Pipeline, a 38-mile, 30-inch pipeline that runs from Bryan County, Oklahoma to Lamar County, Texas. The Black Marlin Pipeline ties into NGPL's Amarillo/Gulf Coast line and increased this line's capacity by 38,000 Dth per day. This incremental capacity was fully subscribed in an open season under long-term contracts. Please refer to our 2004 Form 10-K for additional information regarding NGPL.

TransColorado

	Three Months Ended June 30, 2004	Six Months Ended June 30, 2004
	(In thousands)	
Total Operating Revenues	$ 7,776	$ 15,681
Segment Earnings	$ 5,384	$ 11,011

Effective November 1, 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners for total consideration of $275.0 million (approximately $210.8 million in cash and 1.4 million Kinder Morgan Energy Partners common units). In conjunction with this contribution, we recorded a pre-tax loss of $0.6 million. As of November 1, 2004, we no longer include the results of operations of TransColorado Gas Transmission Company in our consolidated results of operations.

Kinder Morgan Retail

	Three Months Ended June 30,		Increase
	2005	2004	(Decrease)
	(In thousands except systems throughput)		
Total Operating Revenues	$ 58,697	$ 42,630	$ 16,067
Gas Purchases and Other Costs of Sales	$ 35,998	$ 21,082	$ 14,916
Segment Earnings	$ 4,944	$ 4,971	$ (27)
Systems Throughput (Trillion Btus)[1]	6.9	6.2	0.7

[1] Excludes transport volumes of intrastate pipelines.

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	Increase (Decrease)
	(In thousands except systems throughput)		
Total Operating Revenues	$ 179,829	$ 154,089	$ 25,740
Gas Purchases and Other Costs of Sales	$ 106,683	$ 83,298	$ 23,385
Segment Earnings	$ 38,011	$ 38,652	$ (641)
Systems Throughput (Trillion Btus)[1]	22.1	24.6	(2.5)

[1] Excludes transport volumes of intrastate pipelines.

Kinder Morgan Retail's segment earnings in the second quarter of 2005 decreased by less than 1% from the second quarter of 2004. Segment earnings were positively impacted in the second quarter of 2005, relative to 2004, by continued customer growth. The positive impact of customer growth was offset by increased operations and maintenance and depreciation expenses due to continued system expansion. The increase in operating revenues in the second quarter of 2005, relative to 2004, was principally due to (i) increased natural gas commodity prices in 2005 (which is accompanied by a corresponding increase in gas purchase costs), (ii) a higher percentage of our Wyoming customers choosing our pass-on commodity rates in 2005 rather than transportation only service (which increases natural gas sales revenues and is also accompanied by a corresponding increase in gas purchase costs) and (iii) continued customer growth, principally in Colorado.

Kinder Morgan Retail's segment earnings decreased by $0.6 million (2%) from the first six months of 2004 to the first six months of 2005. Segment results for the first six months of 2005, relative to 2004, were impacted by principally the same factors affecting second quarter results, as discussed above, except that, on a year-to-date basis, segment earnings were negatively impacted by reduced space heating demand in the first quarter of 2005, primarily due to warmer weather in our services territories (which effects are also partially reduced by our weather hedging program). Please refer to our 2004 Form 10-K for additional information regarding Kinder Morgan Retail.

Power

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Increase
		(In thousands)	
Total Operating Revenues	$ 15,212	$ 14,789	$ 423
Gas Purchases and Other Costs of Sales	$ 1,018	$ 915	$ 103
Segment Earnings	$ 4,477	$ 3,908	$ 569

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	Increase (Decrease)
		(In thousands)	
Total Operating Revenues	$ 24,490	$ 23,999	$ 491
Gas Purchases and Other Costs of Sales	$ 2,340	$ 2,386	$ (46)
Segment Earnings	$ 8,843	$ 7,631	$ 1,212

Power's segment earnings increased from $3.9 million in the second quarter of 2004 to $4.5 million in the second quarter of 2005, an increase of $0.6 million (15%). Segment earnings for the second quarter of 2005 were positively impacted, relative to 2004, by increased equity in earnings of Thermo Cogeneration Partnership due to the favorable resolution of claims in the Enron bankruptcy proceeding.

Power's segment earnings increased from $7.6 million in the first six months of 2004 to $8.8 million in the first six months of 2005, an increase of $1.2 million (16%). Segment earnings for the first six months of 2005 were positively impacted, relative to 2004, by increased equity in earnings of Thermo Cogeneration Partnership due to (i) the favorable resolution of claims in the Enron bankruptcy proceeding and (ii) higher capacity revenues. These positive impacts were partially offset by legal costs incurred in 2005 relating to the Wrightsville power facility, which was placed into bankruptcy by Mirant in 2003. Please refer to our 2004 Form 10-K for additional information regarding Power.

Earnings from Our Investment in Kinder Morgan Energy Partners

The impact on our pre-tax earnings from our investment in Kinder Morgan Energy Partners was as follows:

	Three Months Ended June 30,		Increase
	2005	2004	(Decrease)
		(In thousands)	
General Partner Interest, Including Minority Interest in the Operating Limited Partnerships	$ 119,605	$ 97,912	$ 21,693
Limited Partner Units (Kinder Morgan Energy Partners)	9,731	9,228	503
Limited Partner i-units (Kinder Morgan Management)	27,826	25,662	2,164
	157,162	132,802	24,360
Pre-tax Minority Interest in Kinder Morgan Management	(26,199)	(18,312)	(7,887)
Pre-tax Earnings from Investment in Kinder Morgan Energy Partners	$ 130,963	$ 114,490	$ 16,473

	Six Months Ended June 30,		Increase
	2005	2004	(Decrease)
		(In thousands)	
General Partner Interest, Including Minority Interest in the Operating Limited Partnerships	$ 233,543	$ 191,427	$ 42,116
Limited Partner Units (Kinder Morgan Energy Partners)	20,416	18,827	1,589
Limited Partner i-units (Kinder Morgan Management)	57,248	51,315	5,933
	311,207	261,569	49,638
Pre-tax Minority Interest in Kinder Morgan Management	(47,746)	(36,567)	(11,179)
Pre-tax Earnings from Investment in Kinder Morgan Energy Partners	$ 263,461	$ 225,002	$ 38,459

The increases in our earnings from this investment in the second quarter and first six months of 2005, in comparison to the corresponding periods of 2004, are principally due to improved operating results from Kinder Morgan Energy Partners' various businesses. For 2005, pre-tax earnings attributable to our investment in Kinder Morgan Energy Partners are expected to increase by approximately 18% due to, among other factors, improved performance from its existing assets. However, there are factors beyond the control of Kinder Morgan Energy Partners that may affect its results, including developments in the regulatory arena and as yet unforeseen competitive developments or acquisitions. Additional

information on Kinder Morgan Energy Partners is contained in its Quarterly Report on Form 10-Q for the three months ended June 30, 2005 and its Annual Report on Form 10-K for the year ended December 31, 2004.

Other Income and (Expenses)

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Earnings Increase (Decrease)
		(In thousands)	
Interest Expense	$ (38,564)	$ (32,361)	$ (6,203)
Interest Expense – Deferrable Interest Debentures	(5,478)	(5,478)	-
Equity in Earnings of Kinder Morgan Energy Partners	157,162	132,802	24,360
Equity in Earnings of Power Segment[1]	3,075	2,254	821
Equity in Earnings of Horizon Pipeline[2]	232	441	(209)
Minority Interests	(19,629)	(15,089)	(4,540)
Other, Net	23,235	762	22,473
	$ 120,033	$ 83,331	$ 36,702

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	Earnings Increase (Decrease)
		(In thousands)	
Interest Expense	$ (74,328)	$ (64,795)	$ (9,533)
Interest Expense – Deferrable Interest Debentures	(10,956)	(10,956)	-
Equity in Earnings of Kinder Morgan Energy Partners	311,207	261,569	49,638
Equity in Earnings of Power Segment[1]	6,028	4,673	1,355
Equity in Earnings of Horizon Pipeline[2]	592	829	(237)
Minority Interests	(31,328)	(24,397)	(6,931)
Other, Net	29,303	1,521	27,782
	$ 230,518	$ 168,444	$ 62,074

[1] Included in Power segment earnings.
[2] Included in Natural Gas Pipeline Company of America segment earnings.

"Other Income and (Expenses)" increased from income of $83.3 million in the second quarter of 2004 to income of $120.0 million in the second quarter of 2005, an increase of $36.7 million (44%). This increase was principally due to (i) increased equity in the earnings of Kinder Morgan Energy Partners in 2005, due in part to the strong performance from the assets held by Kinder Morgan Energy Partners, partially offset by an increase of $5.3 million in minority interest expense attributable to the minority interests in Kinder Morgan Management and (ii) a $22.0 million pre-tax gain, reflected in "Other, Net" in the table above, from the sale of Kinder Morgan Management shares that we owned (see Note 7 of the accompanying Notes to Consolidated Financial Statements). These positive impacts were partially offset by an increase of $6.2 million in interest expense due largely to higher interest rates.

"Other Income and (Expenses)" increased from income of $168.4 million in the first six months of 2004 to income of $230.5 million in the first six months of 2005, an increase of $62.1 million (37%). This increase was principally due to (i) increased equity in the earnings of Kinder Morgan Energy Partners in 2005, due in part to the strong performance from the assets held by Kinder Morgan Energy Partners, partially offset by an increase of $7.7 million in minority interest expense attributable to the minority interests in Kinder Morgan Management and (ii) a $26.5 million pre-tax gain from the sale of Kinder Morgan Management shares that we owned (see Note 7 of the accompanying Notes to Consolidated Financial Statements). These positive impacts were partially offset by an increase of $9.5 million in interest expense due largely to higher interest rates.

Income Taxes – Continuing Operations

The income tax provision increased from $67.6 million in the second quarter of 2004 to $88.5 million in the second quarter of 2005, an increase of $20.9 million (31%) due principally to (i) an increase in pre-tax income from continuing operations and (ii) the additional tax provision due to our gains from sales of Kinder Morgan Management shares that we owned (see Notes 3 and 7 of the accompanying Notes to Consolidated Financial Statements), partially offset by a decrease in the estimated state effective tax rate used in computing our income tax provision.

Our income tax provision for the second quarter of 2005 contains three primary components: (i) tax on income from continuing operations, (ii) tax on minority interest earnings (i.e., Kinder Morgan Management units not owned by us) and (iii) tax on the gain on the sale of Kinder Morgan Management shares owned by us.

The income tax provision increased from $148.5 million in the first six months of 2004 to $183.5 million in the first six months of 2005, an increase of $35.0 million (24%) due principally to the same factors affecting the second quarter, as discussed above.

Income Taxes – Realization of Deferred Tax Assets

At December 31, 2004, we had a capital loss carryforward of approximately $56.1 million. A capital loss carryforward can be utilized to reduce capital gain during the five years succeeding the year in which a capital loss is incurred. The amounts and the years in which our capital loss carryforward expires are $52.5 million during 2005, $1.6 million during 2006 and $2.0 million during 2008.

We have concluded that it is more likely than not that this deferred tax asset will be realized through the sale of assets that will generate sufficient capital gain to fully utilize the capital loss carryforward during the periods specified above. Our ownership of Kinder Morgan Energy Partners common units and Kinder Morgan Management shares are specific assets that could be sold to generate capital gain. We sold approximately 2.1 million Kinder Morgan Management shares during the first six months of 2005, generating a gain for tax purposes of approximately $41.8 million. We owned approximately 13.1 million Kinder Morgan Management shares at June 30, 2005.

No valuation allowance has been provided with respect to this deferred tax asset.

Discontinued Operations

During 1999, we adopted and implemented a plan to discontinue a number of lines of business. During 2000, we essentially completed the disposition of these discontinued operations. For the three months ended June 30, 2005, a gain of approximately $0.4 million (net of tax of $0.2 million) was recorded to reflect the settlement of previously recorded liabilities. For the six months ended June 30, 2005, incremental losses of approximately $1.4 million (net of tax benefits of $0.8 million) were recorded to increase previously recorded liabilities to reflect updated estimates. The cash flow impacts associated with discontinued operations are discussed under "Cash Flows" following. Note 9 of the accompanying Notes to Consolidated Financial Statements contains additional information on these matters.

Liquidity and Capital Resources

Primary Cash Requirements

Our primary cash requirements, in addition to normal operating, general and administrative expenses, are for debt service, capital expenditures, common stock repurchases and quarterly cash dividends to our common shareholders. Our capital expenditures (other than sustaining capital expenditures), our common stock repurchases and our quarterly cash dividends to our common shareholders are discretionary. We expect to fund these expenditures with existing cash and cash flows from operating activities. In addition to utilizing cash generated from operations, we could meet these cash requirements through borrowings under our credit facilities or by issuing short-term commercial paper, long-term notes or additional shares of common stock.

Invested Capital

The following table illustrates the sources of our invested capital. Our ratio of total debt to total capital has declined significantly since 2001. This decline has resulted from a number of factors, including our increased cash flows from operations as discussed under "Cash Flows" following. In recent periods, we have significantly increased our dividends per common share and have announced our intention to consider further increases on a periodic basis, and we maintain an ongoing program to repurchase outstanding shares of our common stock. For these reasons, among others, any declines in our ratio of total debt to total capital in the future may be smaller.

In addition to the direct sources of debt and equity financing shown in the following table, we obtain financing indirectly through our ownership interests in unconsolidated entities as shown under "Significant Financing Transactions" following. Our largest such unconsolidated investment is in Kinder Morgan Energy Partners. See "Investment in Kinder Morgan Energy Partners" following.

The discussion under the heading "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2004 Form 10-K includes a comprehensive discussion of (i) our investments in and obligations to unconsolidated entities, (ii) our contractual obligations and (iii) our contingent liabilities. These disclosures, which reflected balances and contractual arrangements existing as of December 31, 2004, also reflect current balances and contractual arrangements except for changes discussed following. Changes in our long-term debt and commercial paper are discussed under "Net Cash Flows from Financing Activities" following and in Note 10 of the accompanying Notes to Consolidated Financial Statements.

	June 30, 2005	December 31, 2004	2003	2002
		(Dollars in thousands)		
Long-term Debt:				
Outstanding Notes and Debentures	$2,507,916	$2,257,950	$2,837,487	$2,852,181
Deferrable Interest Debentures Issued to Subsidiary Trusts[1]	283,600	283,600	283,600	-
Value of Interest Rate Swaps[2]	119,749	88,243	88,242	139,589
	2,911,265	2,629,793	3,209,329	2,991,770
Minority Interests	1,136,439	1,105,436	1,010,140	967,802
Common Equity, Excluding Accumulated Other Comprehensive Loss	2,891,637	2,919,496	2,691,800	2,399,716
Capital Trust Securities[1]	-	-	-	275,000
	6,939,341	6,654,725	6,911,269	6,634,288
Less Value of Interest Rate Swaps	(119,749)	(88,243)	(88,242)	(139,589)
Capitalization	6,819,592	6,566,482	6,823,027	6,494,699
Short-term Debt, Less Cash and Cash Equivalents[3]	158,456	328,480	121,824	465,614
Invested Capital	$6,978,048	$6,894,962	$6,944,851	$6,960,313
Capitalization:				
Outstanding Notes and Debentures	36.8%	34.4%	41.6%	43.9%
Minority Interests	16.7%	16.8%	14.8%	14.9%
Common Equity	42.4%	44.5%	39.4%	37.0%
Capital Trust Securities	-	-	-	4.2%
Deferrable Interest Debentures Issued to Subsidiary Trusts	4.1%	4.3%	4.2%	-
Invested Capital:				
Total Debt[4]	38.2%	37.5%	42.6%	47.7%
Equity, Including Capital Trust Securities, Deferrable Interest Debentures Issued to Subsidiary Trusts and Minority Interests	61.8%	62.5%	57.4%	52.3%

1 As a result of our adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, effective December 31, 2003, the subsidiary trusts associated with these securities are no longer consolidated.

2 See "Significant Financing Transactions" following.

3 Cash and cash equivalents netted against short-term debt were $4,944, $176,520, $11,076 and $35,653 for June 30, 2005 and December 31, 2004, 2003 and 2002, respectively.

4 Outstanding notes and debentures plus short-term debt, less cash and cash equivalents.

Short-term Liquidity

Our principal sources of short-term liquidity are our revolving bank facility, our commercial paper program (which is supported by our revolving bank facility) and cash provided by operations. As of June 30, 2005, we had available an $800 million five-year credit facility dated August 18, 2004. We are currently in negotiations to extend the maturity of this credit facility by one year and to modify its pricing. This credit facility can be used for general corporate purposes, including as backup for our commercial paper program. At June 30, 2005 and July 22, 2005, we had $158.4 million and $191.7 million, respectively, of commercial paper issued and outstanding. After inclusion of applicable outstanding letters of credit, which reduce borrowing capacity, the remaining available borrowing capacity under the bank facility was $572.1 million and $538.6 million at June 30, 2005 and July 22, 2005, respectively.

Our current maturities of long-term debt of $5 million at June 30, 2005 represents $5 million of current maturities of our 6.50% Series Debentures due September 1, 2013. Apart from our notes payable and current maturities of long-term debt, our current assets exceed our current liabilities by approximately $119.5 million at June 30, 2005. Given our expected cash flows from operations and our unused debt capacity as discussed preceding, including our five-year credit facility, and based on our projected cash needs in the near term, we do not expect any liquidity issues to arise. Our next significant debt maturity is our $300 million of 6.80% Senior Notes in 2008.

Announcement of Dividend Increase

On July 20, 2005, our board of directors declared an increase in our quarterly dividend from $0.70 per common share ($2.80 annualized) to $0.75 per common share ($3.00 annualized). The increased quarterly dividend will be payable August 12, 2005 to shareholders of record as of July 29, 2005.

Significant Financing Transactions

On August 14, 2001, we announced a program to repurchase $300 million of our outstanding common stock, which program was increased to $400 million, $450 million, $500 million, $550 million, $750 million and $800 million in February 2002, July 2002, November 2003, April 2004, November 2004 and April 2005, respectively. As of June 30, 2005, we had repurchased a total of approximately $744.9 million (13,147,000 shares) of our outstanding common stock under the program, of which $14.9 million (196,500 shares) and $183.7 million (2,418,300 shares) were repurchased in the three months and six months ended June 30, 2005, respectively. We repurchased $37.2 million (631,200 shares) and $39.3 million (666,200 shares) of our common stock in the three months and six months ended June 30, 2004, respectively.

We had outstanding fixed-to-floating interest rate swap agreements with a notional principal amount of $1.25 billion at June 30, 2005. These agreements effectively convert the interest expense associated with our 7.25% Series Debentures due in 2028 and $750 million of our 6.50% Senior Notes due in 2012 from fixed to floating rates based on the three-month London Interbank Offered Rate ("LIBOR") plus a credit spread. These swaps are accounted for as fair value hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* These agreements are further described under "Risk Management" in Item 7A of our 2004 Form 10-K.

On March 25, 2004, Kinder Morgan Management closed the issuance and sale of 360,664 listed shares in a limited registered offering. None of the shares from the offering were purchased by Kinder Morgan, Inc. Kinder Morgan Management used the net proceeds of approximately $14.9 million from the offering to buy additional i-units from Kinder Morgan Energy Partners.

On March 1, 2005, our $500 million of 6.65% Senior Notes matured, and we paid the holders of the notes, utilizing a combination of cash and incremental short-term borrowings.

On March 15, 2005, we issued $250 million of our 5.15% Senior Notes due March 1, 2015. The proceeds of $248.5 million, net of underwriting discounts and commissions, were used to repay short-term commercial paper debt which was incurred to pay our 6.65% Senior Notes that matured on March 1, 2005.

Certain of our customers are experiencing financial problems that have had a significant impact on their creditworthiness. We have implemented and will continue to work to implement, as appropriate in the future, to the extent allowable under applicable laws, tariffs and regulations, prepayments and other security requirements such as letters of credit to enhance our credit position relating to amounts owed

from these customers. We cannot assure that one or more of our financially distressed customers will not default on their obligations to us or that such a default or defaults will not have a material adverse effect on our business.

Pursuant to our continuing commitment to operational excellence and our focus on safe reliable operations, we have implemented, and intend to implement in the future, enhancements to certain of our operational practices in order to strengthen our environmental and asset integrity performance. These enhancements have resulted and may result in higher operating costs; however, we believe these enhancements will provide us the greater long-term benefits of improved environmental and asset integrity performance.

Investment in Kinder Morgan Energy Partners

At June 30, 2005, we owned, directly, and indirectly in the form of i-units corresponding to the number of shares of Kinder Morgan Management we owned, approximately 32.8 million limited partner units of Kinder Morgan Energy Partners. These units, which consist of 14.4 million common units, 5.3 million Class B units and 13.1 million i-units, represent approximately 15.6 percent of the total limited partner interests of Kinder Morgan Energy Partners. In addition, we are the sole stockholder of the general partner of Kinder Morgan Energy Partners, which holds an effective 2 percent interest in Kinder Morgan Energy Partners and its operating partnerships. Together, our limited partner and general partner interests represented approximately 17.3 percent of Kinder Morgan Energy Partners' total equity interests at June 30, 2005. We receive quarterly distributions on the i-units owned by Kinder Morgan Management in additional i-units and distributions on our other units in cash.

In addition to distributions received on our limited partner interests as discussed above, we also receive an incentive distribution from Kinder Morgan Energy Partners as a result of our ownership of the general partner interest in Kinder Morgan Energy Partners. This incentive distribution is calculated in increments based on the amount by which quarterly distributions to unit holders exceed specified target levels as set forth in Kinder Morgan Energy Partners' partnership agreement, reaching a maximum of 50% of distributions allocated to the general partner for distributions above $0.23375 per limited partner unit.

We reflect our investment in Kinder Morgan Energy Partners under the equity method of accounting and, accordingly, report our share of Kinder Morgan Energy Partners' earnings as "Equity in Earnings" in our interim Consolidated Statement of Operations in the period in which such earnings are reported by Kinder Morgan Energy Partners. See Notes 7 and 8 of the accompanying Notes to Consolidated Financial Statements for additional information regarding our investment in Kinder Morgan Energy Partners.

Cash Flows

The following discussion of cash flows should be read in conjunction with the accompanying interim Consolidated Statements of Cash Flows and related supplemental disclosures, and the Consolidated Statements of Cash Flows and related supplemental disclosures included in our 2004 Form 10-K.

Net Cash Flows from Operating Activities

"Net Cash Flows Provided by Operating Activities" decreased from $245.6 million for six months ended June 30, 2004 to $165.8 million for the six months ended June 30, 2005, a decrease of $79.8 million (32.5%). This negative variance is principally due to (i) a $30.3 million increased use of cash for hedging activities, due to increases in NGPL hedge volumes and natural gas prices, (ii) a $25.0 million

pension payment and an $8.5 million postretirement benefit plan payment, (iii) a $22.7 million increase in cash paid for income taxes during 2005 and (iv) a net increased use of cash of $57.8 million for gas in underground storage. Significant period-to-period variations in cash used or generated from gas in storage transactions are due to changes in injection and withdrawal volumes as well as fluctuations in natural gas prices. These negative impacts were partially offset by (i) a $46.4 million increase in cash distributions received in 2005 attributable to our interest in Kinder Morgan Energy Partners and (ii) an increase of $9.8 million in 2005 cash attributable to deferred purchased gas costs.

Net Cash Flows from Investing Activities

"Net Cash Flows Provided By (Used in) Investing Activities" decreased from a use of $44.4 million for the six months ended June 30, 2004 to a source of $73.1 million for the six months ended June 30, 2005, a decrease of $117.5 million. This decreased use of cash is principally due to (i) $22.3 million net increased proceeds from margin deposits associated with hedging activities utilizing energy derivative instruments, (ii) $92.5 million of proceeds from the sale of Kinder Morgan Management shares, (see Note 7 of the accompanying Notes to Consolidated Financial Statements) and (iii) the fact that the six months ended June 30, 2004 included an additional $17.5 million investment in Kinder Morgan Energy Partners. Partially offsetting these factors is the fact that the six months ended June 30, 2004 included $25.7 million of proceeds from the sales of other assets.

Net Cash Flows from Financing Activities

"Net Cash Flows Used in Financing Activities" increased from $205.5 million for the six months ended June 30, 2004 to $410.4 million for the six months ended June 30, 2005, an increase of $204.9 million (99.7%). This increase is principally due to (i) $500 million of cash used to retire our $500 million 6.65% Senior Notes, (ii) an $150.3 million increase in cash paid during 2005 to repurchase our common shares, (iii) a $32.3 million increase in cash paid for dividends in 2005, principally due to the increased dividends declared per share and (iv) the fact that the six months ended June 30, 2004 included $14.9 million of proceeds, net of issuance costs, from the issuance of Kinder Morgan Management shares. Partially offsetting these factors were (i) $248.5 million of proceeds, net of issuance costs, from the issuance of our 5.15% Senior Notes due March 1, 2015 (See Note 10 of the accompanying Notes to Consolidated Financial Statements), (ii) a $62.4 million reduction in short-term debt during the six months ended June 30, 2004 versus incremental short-term borrowings of $158.4 million during the six months ended June 30, 2005 and (iii) an $11.8 million increased source of cash from short-term advances to unconsolidated affiliates, principally Kinder Morgan Energy Partners, during 2005.

Recent Accounting Pronouncements

Refer to Note 17 of the accompanying Notes to Consolidated Financial Statements for information regarding recent accounting pronouncements.

Information Regarding Forward-looking Statements

This filing includes forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as "anticipate," "believe," "intend," "plan," "projection," "forecast," "strategy," "position," "continue," "estimate," "expect," "may," or the negative of those terms or other variations of them or comparable terminology. In particular, statements, express or implied, concerning future actions, conditions or events, future operating results or the ability to generate sales, income or cash flow or to pay dividends are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future actions, conditions or events and future results of operations may

differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. Specific factors which could cause actual results to differ from those in the forward-looking statements include:

- price trends and overall demand for natural gas liquids, refined petroleum products, oil, carbon dioxide, natural gas, electricity, coal and other bulk materials and chemicals in the United States;

- economic activity, weather, alternative energy sources, conservation and technological advances that may affect price trends and demand;

- changes in our tariff rates or those of Kinder Morgan Energy Partners implemented by the FERC or another regulatory agency or, with respect to Kinder Morgan Energy Partners, the California Public Utilities Commission;

- Kinder Morgan Energy Partners' ability and our ability to acquire new businesses and assets and integrate those operations into existing operations, as well as the ability to make expansions to our respective facilities;

- difficulties or delays experienced by railroads, barges, trucks, ships or pipelines in delivering products to or from Kinder Morgan Energy Partners' terminals or pipelines or our pipelines;

- Kinder Morgan Energy Partners' ability and our ability to successfully identify and close acquisitions and make cost-saving changes in operations;

- shut-downs or cutbacks at major refineries, petrochemical or chemical plants, ports, utilities, military bases or other businesses that use Kinder Morgan Energy Partners' or our services or provide services or products to Kinder Morgan Energy Partners or us;

- changes in laws or regulations, third-party relations and approvals, decisions of courts, regulators and governmental bodies that may adversely affect our business or our ability to compete;

- changes in accounting pronouncements that impact the measurement of our results of operations, the timing of when such measurements are to be made and recorded, and the disclosures surrounding these activities;

- our ability to offer and sell equity securities and debt securities or obtain debt financing in sufficient amounts to implement that portion of our business plan that contemplates growth through acquisitions of operating businesses and assets and expansions of our facilities;

- our indebtedness could make us vulnerable to general adverse economic and industry conditions, limit our ability to borrow additional funds and/or place us at competitive disadvantages compared to our competitors that have less debt or have other adverse consequences;

- interruptions of electric power supply to our facilities due to natural disasters, power shortages, strikes, riots, terrorism, war or other causes;

- our ability to obtain insurance coverage without a significant level of self-retention of risk;

- acts of nature, sabotage, terrorism or other acts causing damage greater than our insurance coverage limits;

- capital markets conditions;

- the political and economic stability of the oil producing nations of the world;
- national, international, regional and local economic, competitive and regulatory conditions and developments;
- our ability to achieve cost savings and revenue growth;
- inflation;
- interest rates;
- the pace of deregulation of retail natural gas and electricity;
- foreign exchange fluctuations;
- the timing and extent of changes in commodity prices for oil, natural gas, electricity and certain agricultural products;
- the timing and success of business development efforts; and
- unfavorable results of litigation involving Kinder Morgan Energy Partners and the fruition of contingencies referred to in Kinder Morgan Energy Partners' Quarterly Report on Form 10-Q for the quarter ended June 30, 2005. Our future results also could be adversely impacted by unfavorable results of litigation and the fruition of contingencies referred to in Notes 15 and 16 of the accompanying Notes to Consolidated Financial Statements.

You should not put undue reliance on any forward-looking statements. See Items 1 and 2 "Business and Properties – Risk Factors" of our annual report filed on Form 10-K for the year ended December 31, 2004, for a more detailed description of these and other factors that may affect the forward-looking statements. When considering forward-looking statements, one should keep in mind the risk factors described in "Risk Factors" above. The risk factors could cause our actual results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to update the above list or to announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes in market risk exposures that would affect the quantitative and qualitative disclosures presented as of December 31, 2004, in Item 7A "Quantitative and Qualitative Disclosures About Market Risk" contained in our 2004 Form 10-K. See also Note 13 of the accompanying Notes to Consolidated Financial Statements.

Item 4. Controls and Procedures.

As of June 30, 2005, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon and as of the date of the evaluation, our Chief Executive

Officer and our Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective in all material respects to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required, and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure. There has been no change in our internal control over financial reporting during the quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 16 of the accompanying Notes to Consolidated Financial Statements in Part I, Item 1, which is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the quarter ended June 30, 2005, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

Our Purchases of Our Common Stock

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2005	196,500	$ 75.74	196,500	$ 55,083,777
May 1 to May 31, 2005	-	$ -	-	$ 55,083,777
June 1 to June 30, 2005	-	$ -	-	$ 55,083,777
Total	196,500	$ 75.74	196,500	$ 55,083,777

[1] All purchases were made pursuant to our publicly announced repurchase plan.
[2] On August 14, 2001, we announced a plan to repurchase $300 million of our outstanding common stock, which program was increased to $400 million, $450 million, $500 million, $550 million, $750 million and $800 million in February 2002, July 2002, November 2003, April 2004, November 2004 and April 2005, respectively.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

a) The Company held its Annual Meeting of Shareholders on May 10, 2005 (the "Annual Meeting").

b) Proxies for the Annual Meeting were solicited pursuant to Regulation 14A of the Securities Exchange Act of 1934. There was no solicitation in opposition to management's nominees for directors as listed in the Proxy Statement and all such nominees were elected, which included Messrs. Bliss, Morgan and Randall. In addition, those directors continuing in office after the meeting included Messrs. Austin, Battey, Gardner, Hybl, Kinder, Sarofim and True. The number of votes for and withheld for the nominees elected at the meeting were as follows:

	For	Withheld
Stewart A. Bliss	109,937,530	2,133,704
Michael C. Morgan	109,460,022	2,611,212
Edward Randall, III	109,766,800	2,304,434

c) The following matters were also voted on at the Annual Meeting:

(1) A proposal to amend and adopt our Restated Articles of Incorporation to increase our authorized Common Stock, par value $5.00 per share, from 150,000,000 shares to 300,000,000 shares was approved and the number of affirmative votes, negative votes, abstentions and broker non-votes with respect to the matter were as follows:

For	103,962,776
Against	7,360,705
Abstain	747,753
Broker Non-votes	N/A

(2) A proposal to ratify and approve our 2005 Annual Incentive Plan was approved and the number of affirmative votes, negative votes, abstentions and broker non-votes with respect to the matter were as follows:

For	109,647,248
Against	1,532,132
Abstain	891,854
Broker Non-votes	N/A

(3) A proposal to ratify and approve our Non-Employee Directors Stock Awards Plan was approved and the number of affirmative votes, negative votes, abstentions and broker non-votes with respect to the matter were as follows:

For	85,445,357
Against	5,606,481
Abstain	1,040,786
Broker Non-votes	19,978,610

(4) A proposal to ratify and approve the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2005 was approved and the number of affirmative votes, negative votes, abstentions and broker non-votes with respect to the matter were as follows:

For	110,881,213
Against	510,340
Abstain	679,681
Broker Non-votes	N/A

Item 5. Other Information.

At its July 20, 2005 meeting, the compensation committee of our board of directors approved a special contribution of an additional 1% of base pay into the Kinder Morgan Savings Plan (a defined contribution 401(k) plan) for each eligible employee. Each eligible employee will receive an additional 1% company contribution based on eligible base pay to his or her Savings Plan account each pay period beginning with the first pay period of August 2005 and continuing through the last pay period of July 2006.

The 1% contribution will be in the form of our common stock (the same as the current 4% contribution). The 1% contribution will be in addition to, and does not change or otherwise impact, the 4% contribution that eligible employees currently receive. It may be converted to any other Savings Plan investment fund at any time and it will vest on the second anniversary of the employee's date of hire. Since this additional 1% company contribution is discretionary, compensation committee approval will be required annually for each special contribution.

On May 4, 2005, we announced that C. Park Shaper, formerly our Executive Vice President and Chief Financial Officer, had been promoted and named our President, remaining a member of the Office of the Chairman, and that Steve Kean, formerly Kinder Morgan Energy Partners' President – Texas Intrastate Pipelines, had been promoted and named our Executive Vice President, Operations, becoming a member of the Office of the Chairman. In addition, we announced that Kim Allen had been promoted and named our Chief Financial Officer, retaining her role in charge of investor relations, and that David Kinder, our Vice President, Corporate Development, would also assume the role of Treasurer, formerly held by Ms. Allen. We also announced that (i) Deb Macdonald, our President – Natural Gas Pipelines, would resign from that position effective October 2005; (ii) Scott Parker, President of NGPL, would be promoted effective October 2005 to our President – Natural Gas Pipelines; (iii) David Devine would become President of NGPL effective October 2005; and (iv) Tom Martin had been promoted to Kinder Morgan Energy Partners' President – Texas Intrastate Pipelines. Until Ms. Macdonald's resignation in October 2005, each of Ms. Macdonald and Mr. Parker are serving as Co-Presidents – Natural Gas Pipelines.

Item 6. Exhibits.

3.1 Amended and Restated Articles of Incorporation of Kinder Morgan, Inc. and amendments thereto.

31.1 Section 13a – 14(a) / 15d – 14(a) Certification of Chief Executive Officer

31.2 Section 13a – 14(a) / 15d – 14(a) Certification of Chief Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer

32.2 Section 1350 Certification of Chief Financial Officer

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KINDER MORGAN, INC.
(Registrant)

August 1, 2005

/s/ Kimberly J. Allen
Kimberly J. Allen
Vice President and Chief Financial Officer

SCHEDULE 5

Table of Contents

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - Community Leaders (Mayors, Munis, Abor. Grps) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY& Individuals	COMMENTS OR FOLLOW-UP
1	BC MLA's	1-Aug-05	C - Email	An information email[2] was sent out by David Bodnar, Director Community, Aboriginal & Government Relations following the press release regarding proposed acquisition by Kinder Morgan Inc.	TGI (David Bodnar)	
2	BC MP's	1-Aug-05	C - Email	An information email[3] was sent out by David Bodnar, Director Community, Aboriginal & Government Relations following the press release regarding proposed acquisition by Kinder Morgan Inc.	TGI (David Bodnar)	
3	BC MP's	1-Aug-05	C - Email	An information email[3] was sent out by David Bodnar, Director Community, Aboriginal & Government Relations following the press release regarding proposed acquisition by Kinder Morgan Inc.	TGI (David Bodnar)	
4	BC Ministry of Energy & Mines (Minister)	1-Aug-05	T&C	An information letter was sent to the Minister and a telephone conversation held with the Minister to advise of and explain the transaction. Queries regarding office and employee retention as well as safety, environment and continued investment were addressed.	TGI (Randy Jespersen)	Agreed to a follow-up meeting to meet Kinder Morgan representative and discuss regulatory process and provide comfort of no detrimental impacts to customers and stakeholders as a consequence of the transaction.
5	City of Kelowna (Mayor)	1-Aug-05	T&C	An information letter was sent and a telephone conversation was held with the Mayor to advise of and explain the transaction. Upon explanation regarding "business as usual" no opposition was raised and appreciation of the notice was expressed.	TGI (Randy Jespersen)	TMUS was to hold discussions with appropriate City staff to ensure that they had a full understanding on their water related arrangements.
6	City of Victoria (Mayor)	1-Aug-05	T&C	An information letter was sent and a telephone conversation was held with the Mayor to advise of and explain the transaction. Upon explanation regarding "business as usual" no opposition was raised and appreciation of the notice was expressed.	TGI (Randy Jespersen)	None.

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - Community Leaders (Mayors, Munis, Abor. Grps) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY& Individuals	COMMENTS OR FOLLOW-UP
7	City of Vancouver (Mayor and Representative)	1-Aug-05	T&C	An information letter was sent to Mayor and a telephone conversation was held with Representative to advise of and explain the transaction. No specific concerns raised and appreciation of the notice was expressed.	TGI (Randy Jespersen)	None.
8	City of Prince George (Mayor)	1-Aug-05	T&C	An information letter was sent to the Mayor and a voice mail left. An e-mail query followed upon which assurances were provided that there would be no impact on the LILO related agreements with the City.	TGI (Randy Jespersen)	None.
9	City of Surrey (Mayor)	1-Aug-05	T&C	An information was sent to the Mayor and a voice mail left to advise and explain the transaction.	TGI (Randy Jespersen)	None.
10	Cowichan Tribes (Chief)	1-Aug-05	T&C	An information letter was sent and a telephone conversation was held with the Chief to advise of and explain the transaction. Upon explanation regarding "business as usual" no concerns were raised and appreciatio of the notice was expressed.	TGI (Randy Jespersen)	None.
11	Assembly of First Nations (Chief)	1-Aug-05	T&C	An information letter was sent to the Chief and a voice mail left to advise of and explain the transaction.	TGI (Randy Jespersen)	None.
12	Mayors within Terasen Gas Service Areas	2-Aug-05	C	Copy of the "Mayor Template" letter[1] provided by communications was signed and sent out by David Bodnar, Director Community, Aboriginal & Government Relations	TGI (David Bodnar)	Letters were sent out to municipalities with the exception of the muni's that were contacted directly by Randy Jespersen or Dietz Kellman (Vancouver, Surrey, North Vancouver, Whistler)
13	BC Regional District (Chairs)	2-Aug-05	C- Letters Faxed and Mailed	An information letter[4] was sent out by David Bodnar, Director Community, Aboriginal & Government Relations following the press release regarding proposed acquisition by Kinder Morgan Inc..	TGI (David Bodnar)	

superscript #'s referenced to Appendix

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - Community Leaders (Mayors, Munis, Abor. Grps) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY& Individuals	COMMENTS OR FOLLOW-UP
14	Cowichan Valley Regional District	2-Aug-05	T	Phone call toCowichan Valley Regional District Chair regarding KMI-Terasen acquisition and nil impact on TGVI. Chair was unaware of the transaction. Response is (+) regarding continued intent in LNG & intent to file CPCN with BCUC in Fall 2005. E-mailed info on KMI to home and again to business (CVRD) e-mail address.	TGI (David Bodnar)	
15	Town of Creston (Mayor's Office)	2-Aug-05	T	David Bodnar, Director Community, Aboriginal & Government Relations received a phone call from Creston Mayors Office regarding e-mail and fax receipt of information regarding KMI. Interested and pleased with no substantive change to TGI and nil impact on pending LILO (Lease in/Lease Out) deal between Creston & TGI.	TGI (David Bodnar)	
16	Business Council of B.C. (President & VP)	2-Aug-05	T & C - email	David Bodnar, Director Community, Aboriginal & Government Relations contacted President and VP Policy of Business Council of B.C. regarding KMI-Terasen acquisition. Response is (+) regarding the acquisition and supported a September 2005 presentation to either the regular BCBC Board of Governors meeting (Sept 14th) or a specially convened meeting of the Senior Executive Round Table at BCBC Board Room. Agreed to support Terasen in the deal as they see the benefits of KMI's intent in BC/Canada.	TGI (David Bodnar)	
17	Vancouver Board of Trade	2-Aug-05	C - Email	David Bodnar, Director Community, Aboriginal & Government Relations emailed information on KMI and suggested an opportunity to introduce the deal to the Vancouver Board of Trade executives and members.	TGI (David Bodnar)	Initiative to be considered within the context of a full Fall schedule.

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - Community Leaders (Mayors, Munis, Abor. Grps) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY& Individuals	COMMENTS OR FOLLOW-UP
18	BC Aboriginal Leaders	2-Aug-05	M - Event Planning	2015 Business of Aboriginal Gala - KMI/Terasen introduction planned at Co-sponsored meeting of the BC Aboriginal Leaders - September 27, 2005.	TGI (David Bodnar)	
19	UBCM	2-Aug-05	T	KMI/Terasen information sharing presence confirmed for YVR UBCM conference September 25-29, 2005.	TGI (David Bodnar)	
20	The Corporation of Delta	2-Aug-05	C - Letter received	Letter sent to David Bodnar, Director Community, Aboriginal & Government Relations regarding receipt of letter by the Mayor, Council and Chief Administrative Officer sent by Terasen on August 2nd.	TGI (David Bodnar)	Confirmed letter sent by Terasen Aug. 1st was received
21	Aboriginal Opinion Leaders	2-Aug-05	E	An information email[21] was sent out by David Bodnar, Director Community, Aboriginal & Government Relations following the press release regarding proposed acquisition by Kinder Morgan Inc.	TGI (David Bodnar)	
22	BC Public Interest Advocacy Centre	2-Aug-05	T/C	An info letter was sent out and a telephone conversation was held to advise of and explain the transaction.	TGI (Randy Jespersen)	Agreed to a follow-up meeting to meet Kinder Morgan representative and discuss regulatory process and provide comfort of no negative consequences to customers.
23	Quesnel (Mayor)	9-Aug-05	T	David Bodnar, Director Community, Aboriginal & Government Relations spoke with Mayor of Quesnel regarding inquiry from Assistant regarding KMI acquisition and info sent by TGI. Reference to US acquisition was "tongue in cheek". The question was asked by Mayor of Opportunity now for West Quesnel area gas exploration? David answered KMI, like Terasen is the transport, pipe, distribution, storage business vs exploration, processing or R&D. Explained anticipated regulatory process and BC energy project approval process. Also explained that our regional managers will remain Ruth Sulentich and Ken Zimmerman.	TGI (David Bodnar)	

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - Community Leaders (Mayors, Munis, Abor. Grps) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY& Individuals	COMMENTS OR FOLLOW-UP
24	Squamish & Lil'wat Joint Projects (Representatives)	10-Aug-05	M	David Bodnar, Director Community, Aboriginal & Government Relations along with Bruce Falstead, Aboriginal Relations Manager met with Squamish and Lil'wat Joint Projects Representatives regarding business development for Mt. Currie Indian Band and KMI impact, not negative and opportunities between Squamish Whistler Pipelines & RMOW Propane Systems for Mt. Currie/Pemberton distributed propane. Response (+) to go forward.	TGI (David Bodnar & Bruce Falstead)	
25	Cowichan Valley Regional District	15-Aug-05	T	David Bodnar, Director Community, Aboriginal & Government Relations spoke with Manager, Development Services regarding update to staff and CVRD directors, impact of KMI on LNG project, agreements (if project approved, honoured?) Answer YES. Interest to file Fall 2005, Name Change? KM open houses Victoria & Nanaimo.	TGI (David Bodnar)	
26	Sooke Harbour Chamber of Commerce (Representative)	15-Aug-05	T	David Bodnar, Director Community, Aboriginal & Government Relations received a phone message from Representative of the Sooke Harbour Chamber of Commerce regarding KMI impact, required change in database or accounting?	TGI (David Bodnar)	Message forwarded to Carol Greaves, Community Relations Manager TGVI - with no change comment by David Bodnar

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders (Government & Regulatory including Agencies) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
1	BC Safety Authority	1-Aug-05	T	Dwain Bell, VP Distribution left an information message with Representative of the BC Safety Authority following the press release regarding the proposed acquistion by Kinder Morgan Inc.	TGI (Dwain Bell)	No follow-up required
2	Oil & Gas Commission	2-Aug-05	T	Jan Marston, VP Gas Supply and Transmission spoke with Representative of Oil & Gas Commission. Interested in who would remain to run the Canadian Operations but no other comments of note. We plan to meet August 17th to garner letter of support and/or "no issue" letter	TGI (Jan Marston)	Meeting planned for August 17th.
3	BC Safety Authority	3-Aug-05	T	Dwain Bell, VP Distribution called Representative of the BC Safety Authority to see if there were any issues and to let him know that we expected to continue to operate as usual. His intitial concern was around what may change in our operating practices, but, after reading articles and our conversation, he felt the relationship between the two organizations would remain the same.	TGI (Dwain Bell)	No follow-up required
4	M.P. (Representative)	8-Aug-05	M	Cam Avery, Director Public Affairs had lunch meeting arranged for other purposes: Representative asked for explanation of the Kinder Morgan purchase and any implications it might have.	TI (Cam Avery)	No follow-up required
5	BC Safety Authority (Representative)	12-Aug-05	M	Steve Kean and Randy Jespersen met with Representative of BC Safety Authority. Steve relayed KMI's commitment to "business as usual" including code compliance, continued collaboration and regular review meetings. General discussion surfaced no areas of concern requiring further explanation.	KMI(Steve Kean) and TGI(Randy Jespersen)	BCSA agreed to provide correspondence to confirm KMI undertakings satisfied their concerns.

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - (Industrial and Commercial Customer) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
1	Rate 3, 5, 23 customers	12-Aug-05	C	"Solutions" newsletter published - story and Q&A [5] sent out with Sept. bill.	TGI (Communications) TGVI	Newsletter with story confirming that even though Kinder Morgan Inc. will be new owner, the purchase will not affect customer rates and service.
2	All Industrial customers - Rate 7, 22, 22A, 22B, 25, 27	15-Aug-05	C	Follow-up information letter[6] (after press release) regarding proposed acquisition by Kinder Morgan Inc sent out by Adrian Partridge, Manager, Commercial and Industrial	TGI/TGVI (Adrian Partridge)	Mailout letter with story confirming that even though Kinder Morgan Inc. will be new owner, the purchase will not affect customer rates and service.

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - (Partners, Suppliers and Associates) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
1	Canadian Utilities Construction (Representative)	1-Aug-05	T	Representative of Canadian Utilities Construction wanted to know the impact. Dwain Bell, VP, Distribution explained that we would continue to move forward with business as usual. No other concerns.	TGI (Dwain Bell)	No follow-up required
2	KMC Group (Khowutzen Mustimuhw Contractors Group (Representative)	1-Aug-05	T	Dwain Bell, VP Distribution left an information message with Representative of the KMC Group	TGI (Dwain Bell)	No follow-up required
3	IBEW Local 213	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
4	COPE 378	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
5	Manulife	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
6	Heenan Blaikie LLP	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
7	Fasken Martineau Dumoulin	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
8	Taylor Jordan Chafetz	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
9	Right Management	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
10	Margaret Livingstone & Assoc.	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
11	Knightsbridge Career Management	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - (Partners, Suppliers and Associates) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
12	Rideau Orders Decorations & Medals Inc.	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
13	Temporarily Yours	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
14	Adecco	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
15	Aquent	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
16	The 500 Staffing Services	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
17	Staff Systems	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
18	Miles Employment Group Ltd.	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
19	Vision2Hire Solutions	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
20	Vocational Pacific Ltd.	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
21	Frame & Associates Consulting Inc.	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
22	Canscott Management Services Ltd.	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
23	Young Drivers of Canada	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - (Partners, Suppliers and Associates) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
24	Polar Bear Corporate Education Solutions	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
25	Solocks.com Training Inc.	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
26	Tsunami Solutions Ltd.	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
27	Wray Consulting Group Inc.	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
28	Carswell - Canadian HR Reporter	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
29	Certified Management Accountants (CMA) Canada	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
30	CGA-BC	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
31	The Institute of Internal Auditors	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
32	T-Net British Columbia	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
33	British Columbia Institute of Technology (BCIT)	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
34	Canadian Technical Employment Network	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required
35	Workopolis	1-Aug-05	C	Standard Business Partner letter[10] sent out from Daryle Britton, VP Human Resources & Operations Governance.	TGI (Daryle Britton)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - (Partners, Suppliers and Associates) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
36	COPE 378	1-Aug-05	T & C	An information letter and telephone conversation took place to advise of the transaction.	TGI (Randy Jespersen)	Meeting to be held with Representative.
37	IBEW Local 213	1-Aug-05	T&C	An information letter and telephone conversation took place to advise of the transaction and a follow-up meeting was agreed to be held with Representative. Appreciation was expressed for the notification.	TGI (Randy Jespersen)	Meeting to be held with Representative.
38	Plainsmen	2-Aug-05	T	Representative inquired regarding press release. Jackson Wong, Procurement Support Admin directed them to Terasen website and ask Representative to contact Becky Douglas, Procurement Specialist (PE commodity buyer) if he had further questions.	TGI (Jackson Wong)	No follow-up required
39	KTI (Representative)	2-Aug-05	T	Representative discussed the press release with Sandra Kritikos, Procurement Specialist. No concerns noted.	TGI (Sandra Kritikos)	No follow-up required
40	Canadian Meter (Representative)	2-Aug-05	T	Representative inquired to Steve Booth, Procurement Specialist regarding press release that announced proposed acquisition by Kinder Morgan Inc.. He will work through his organization (American Meter) to see what more he could learn. No concerns noted.	TGI (Steve Booth)	No follow-up required
41	Western Management Consultants (Representative)	2-Aug-05	T	Dwain Bell, VP, Distribution talked to Representative of Western Management Consultants. He wanted to know the mood of those in the office and if I was aware of any impacts at this time. Supportive comments, no concerns raised.	TGI (Dwain Bell)	No follow-up required
42	Avista Corporation (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission spoke with Avista's NWGA member organization representative. He was interested and hoped continued open communication would stay in place	TGI (Jan Marston)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - (Partners, Suppliers and Associates) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
43	Avista Corporation (Canadian) (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission spoke with Representative, Avista Corporation (Canadian). Is a marketer to large volume customers on our system. Felt it was good news from everything they had heard previously about KMI Organization	TGI (Jan Marston)	No follow-up required
44	Duke Energy Gas Transmission (Representatives)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission spoke with Representative of Duke Energy Gas Transmission. They were interested in the announcement and had heard good things about KMI so hoped it meant Business as Usual with a good foundation to continue growth strategy Terasen had embarked on.	TGI (Jan Marston)	No follow-up required
45	Intermountain Gas Company, Boise, Idaho (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission left voice mail with Representative of Intermountain Gas Company	TGI (Jan Marston)	No anticipated follow-up required
46	TransCanada Pipelines Limited (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission spoke with Representative of TransCanada Pipelines Limited. He was interested in the announcement and had heard good things about KMI so hoped it meant Business as Usual with a good foundation to continue growth strategy Tersen had embarked on.	TGI (Jan Marston)	No follow-up required
47	TransCanada's GTN & North Baja Systems, Portland, Oregon (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission spoke with Representative of TransCanada's GTN & North Baja Systems. Interested in the announcement and had heard good things about KMI so hoped it meant Business as Usual with a good foundation to continue growth strategy Tersen had embarked on.	TGI (Jan Marston)	No follow-up required
48	Puget Sound Energy Inc. (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply & Transmission left voice mail	TGI (Jan Marston)	No anticipated follow-up required
49	Puget Sound Energy Inc. (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply & Transmission informed Representative of Puget Sound Energy Inc.of transaction - no comment	TGI (Jan Marston)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - (Partners, Suppliers and Associates) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
50	Williams Northwest Pipeline	2-Aug-05	T	Jan Marston, VP, Gas Supply & Transmission informed Representative of Williams Northwest Pipeline of transaction - no comment	TGI (Jan Marston)	No follow-up required
51	BCTC (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission left voice mail for Representative of BCTC	TGI (Jan Marston)	No anticipated follow-up required
52	Premstar Pacific (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply & Transmission informed Representative of Premstar Pacific of transaction - no comment	TGI (Jan Marston)	No follow-up required
53	Pacific Northern Gas (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission left voice mail for Representative of Pacific Northern Gas	TGI (Jan Marston)	No anticipated follow-up required
54	BP Canada Energy Company (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission spoke with Representative of BP Canada Energy Company. He felt it should assist with the growth platform. Hoped we would continue the relationships as in past.	TGI (Jan Marston)	No follow-up required
55	Canadian Gas Association (Representatives)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission supplied info from *Pipeline* Announcement to Representative of Canadian Gas Association in case CGA is called	TGI (Jan Marston)	No Follow-up required
56	Northwest Gas Association (NWGA) (Representative)	2-Aug-05	T	Jan Marston, VP, Gas Supply and Transmission spoke with Representataive of Northwest Gas Association (NWGA). He was thankful for the timely information. Hoped it would not impair Terasen's continued involvement in NWGA (Sent info from Pipeline).	TGI (Jan Marston)	No follow-up required
57	KTI (Representative)	3-Aug-05	T	Representative of KTI, inquired to Dwain Bell, VP Distribution. He wanted to know if there was any immediate impact. As a supplier wanted to ensure that everything was still on track.	TGI (Dwain Bell)	No follow-up required
58	Atco Gas (Representative)	3-Aug-05	T	Representative of Atco Gas called to inquire on impact to Terasen Gas. Bruce Jamer, Manager Transmission Operations indicated that there was little overlap in operations.	TGI (Bruce Jamer)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders - (Partners, Suppliers and Associates) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
59	To all Industrial Transportation Marketers on the TGI System	12-Aug-05	C	Ewart Nordby posted a copy of the Kinder Morgan and Terasen Gas Notice to Partners[18] on the Transportation Marketers Activities page of the Terasen Gas website.	TGI (Ewart Nordby)	No follow-up required

Summary of Consultation - Kinder Morgan Acquistion of Terasen Inc.

Stakeholders - (Retail and Residential Customers) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
1	ABSU Call Centre	3-Aug-05	C	Danielle Wensink, Manager Customer Care and Services developed Q&A[13] and sent for CSR responses to customer inquiries	TGI (Danielle Wensink)	Q&A regarding KMI and impacts to customers developed and sent to ABSU, TGVI, Installation Centre & Dispatch.
2	All residential customers	12-Aug-05	C - website	Posted Q&A[13] on external website answering the most common questions	TGI (Communications)	FAQ developed to answer the most common questions. Employees can use to refer customers to for further information
3	All residential customers	Sept 1-30, 2005	C	"Get Comfortable" Newsletter (story & Q&A)[16 & 17] published - to be sent out with Sept. bill.	TGI -(Communications) TGVI	Newsletter with story and Q&A confirming that even though KMI will be new owner, the purchase will not affect customer rates and service.
4	All builder/developers	16-Aug-05	C	Follow-up information letters (after press release) regarding proposed acquisition by Kinder Morgan Inc sent out by Stephen Connelly, Manager, New Construction and Residential Growth	TGI/TGVI (Stephen Connelly)	Mailout letter with story confirming that even though Kinder Morgan Inc. will be new owner, the purchase will not affect customer rates and service.

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders (General) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
1	Terasengas.com	Aug 01-15, 2005		Kinder Morgan and Terasen scheduled material posted on www.terasengas.com home page and Terasen Gas/Kinder Morgan Information Channel • **Kinder Morgan and Terasen Press Release**[8] • **Kinder Morgan Asset Map**[11] • **Kinder Morgan Fact Sheet**[12] • **Terasen Gas Customer Q&A**[13] **-** Find out what this means for Terasen Gas customers • **Get Comfortable newsletter** [16 & 17] **-** No changes for Terasen Gas customers as a result of the sale to Kinder Morgan • **Vancouver Sun Newspaper Article**[14] **-** Canadians getting a sweetheart deal with Terasen sale • **Letter to all customers from Randy Jespersen, President of Terasen Gas**[15]	TGI (Joan Hess)	No follow-up required
2	Camosun College (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
3	Rental Owners & Managers Association of BC (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
4	Commodity Unbundling Post-Implimentation (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
5	COPE (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders (General) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
6	Columbia Fuels Inc. (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
7	Owen Bird Barristers & Solicitors (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
8	Bull, Housser & Tupper (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
9	West Fraser Mills (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
10	Elk Valley Coal (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
11	Willis Energy (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
12	Direct Energy (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders (General) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
13	Higgins Energy (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
14	Aquila (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
15	Direct Energy Marketing Limited (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
16	Ontario Energy Savings Corporation (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
17	Boughton Peterson Yang Anderson Law Corporation (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
18	Duke Energy (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
19	IGI Resources (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders (General) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
20	BCPIAC (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
21	Econalysis Consulting Services (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
22	Lang Michener Barristers & Solicitors (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
23	ICBC (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
24	Nexen (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
25	CEG Energy (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
26	Conquest Energy (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders (General) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
27	Avista Energy (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
28	BC Greenhouse Growers Assoc. (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
29	Heating Ventilating & Cooling Industry (HVCI) Association of BC (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
30	Hollyburn Properties (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
31	Howe Sound Pulp & Paper (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
32	BCPIAC (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
33	R.T. O'Callaghan & Assoc. (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required

Summary of Consultation - Kinder Morgan Acquisition of Terasen Inc.

Stakeholders (General) Consultation Activities

	ORGANIZATION/ COMPANY	DATE	T= TELEPHONE C = CORRESPONDENCE M = MEETINGS P = PRESENTATION	SUMMARY OF COMMUNICATION	COMPANY & Individuals	COMMENTS OR FOLLOW-UP
34	Premstar Pacific (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
35	Ministry of Energy and Mines (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
36	BC Hydro (Representative)	1-Aug-05	C	Scott Thomson, VP Finance and Regulatory sent out the Standard Terasen Letter for Municipal and Community Leaders[20] by email following the press release regarding proposed acquistion by Kinder Morgan Inc.	TGI (Scott Thomson)	No follow-up required
37	UBCM Executives	2-Aug-05	C	Following the press release regarding proposed acquisition by Kinder Morgan Inc., David Bodnar, Director Community, Aboriginal & Government Relations sent out an information email[19] with copy of press release[8].	TGI (David Bodnar)	No follow-up required
40	BC Chamber of Commerce	2-Aug-05	C	Following the press release regarding proposed acquisition by Kinder Morgan Inc., David Bodnar, Director Community, Aboriginal & Government Relations sent out an information letter[7] and copy of press release[8] was sent to Chair of the BC Chamber of Commerce. Letter[7] and email[9] was forwarded to all local chapters asking them to circulate to local chamber members.	TGI (David Bodnar)	No follow-up required

Kinder Morgan / Terasen Gas – Employee Communication Summary

August 01	Randy Jespersen briefs Utility Management Team immediately prior to news release distribution
August 01	Utility Management Team briefs direct reports (where available) immediately following news release distribution.
August 01	Terasen Gas employee intranet – "Pipeline" Kinder Morgan site set up with "quick link" access. Information includes press release, KM fact sheet, KM asset map, Kinder Morgan backgrounder, John Reid & Randy Jespersen's letter to employees, press release, information announcement, Biography of Rich Kinder (Chairman & CEO KMI) "Headline news" includes article on Kinder Morgan announcement. Developed anonymous employee question submission process.
August 01	Randy Jespersen sends out a broadcast voice mail to all employees with Octel voice mail access advising them of the Kinder Morgan agreement. Those employees not on this system or without voice mail are advised by fax (to muster stations) or by broadcast message to SAP Mobile and MobileUp systems.
August 01	John Reid and Randy Jespersen send letter to all Terasen Gas employees. Management employees invited to attend Aug. 02 Managers webcast being hosted by Randy Jespersen and Steve Kean (COO-KMI)
August 02	John Reid met with employees of Terasen Inc.
August 02	Company-wide managers webcast & Q&A presented by Randy Jespersen and Steve Kean (COO-KMI). Managers provided with copies of presentation and talking points to brief employees. Presentation posted to employee intranet. Started employee Q&A process on "Pipeline".
August 02	All employees invited to attend company-wide webcast(s) being hosted by Rich Kinder (Chairman & CEO, KMI). Also included letter to all employees from Rich Kinder. Employees given opportunity to provide questions in advance.

August 04	Two one-hour company-wide webcast presentations & Q&A presented by Rich Kinder. Event recorded to accommodate future presentation to employees currently on vacation. Presentation posted to employee intranet.
August 05	Employee Questions submitted to Kinder Morgan.
August 09	Answers to employee questions received from Kinder Morgan with agreement to provide answers to questions bi-weekly.
August 12	Weekly posting to "Pipeline" of Q&A's received from employees and answered by both Kinder Morgan and Terasen, as appropriate. (Note: a set of Q&A are included in Appendix 5).
August 12	Posting (with attachments) to "Pipeline" providing employees with: a copy of a standard presentation being made to external stakeholders, a copy of a handout for use by all employees who need to provide stakeholders with additional information - and advising them to encourage stakeholders to visit terasengas.com for more information.
August 12	Daryle Britton, VP, Human Resources & Operations Governance sent out communication letter to all employees on leave of absence regarding Kinder Morgan acquisition of Terasen Inc.

LONGVIEW
COMMUNICATIONS INC

14/08/05
Terasen Gas Media Summary (for inclusion in BCUC submission)

Overview

Coverage of the transaction since August 1st has been overwhelmingly positive. The focus for the Canadian media, particularly in the first 48 hours, has been on the details and value of the transaction, and the growing international interest in Alberta's oil sands. The US coverage has focused on Kinder Morgan's expansion into the oil sands and the opportunities that presents, and has been universally positive in tone.

In all, only a small percentage of stories were negative in tone (approximately 10%). These tended to focus on labour uncertainty, consumer concerns, and political issues surrounding what some perceive as the loss of a former crown corporation. The Province and radio call-in programs carried the bulk of this coverage. With a few exceptions, little mention was made of the timing of the announcement (BC Day).

As expected, the transaction received extensive North American coverage, helped in large part to the US and Canadian wire services. International mentions of note include the International Herald Tribune, The Economist, and Financial Times. In additional to receiving extensive coverage in the Houston area, primarily in the Houston Chronicle, US coverage included The Wall Street Journal, New York Times, and Washington Post.

In British Columbia, the story has also received wide spread radio coverage, primarily on stations such as CKNW 980, CKWX News 1130, AM 600, and CBC Radio. In general, the story has not been of interest to television, with the exception of brief mentions in the first 24 hours and Michael Campbell's commentary on Global TV.

Trade coverage has also been extensive, and includes publications such as Upstream, Natural Gas Week and Petroleum Intelligence Weekly.

The media coverage to date tends to fall within five distinct themes, listed below in order of prominence:

1. Shareholder value
2. Oil sands opportunity
3. American acquisition
4. Impact on Terasen Gas customers
5. Who is Kinder Morgan?

The summary that follows examines the coverage by theme, highlighting the positive and negative coverage for each.

I Shareholder Value

The merits of the transaction, most notably the value it created for Terasen shareholders, has clearly been the dominant theme in the coverage to date. Coupled with this is the underlying message of increased scale, growth and opportunity the deal brings to Terasen.

Coverage that fell under this theme was, not surprisingly, predominantly positive in tone, as financial reporters and analysts highlighted the premium paid to shareholders and the opportunity for the company to expand its Western Canadian operations, with some reporters characterizing the deal as a validation of the company's long-term strategy.

"Kinder Morgan Inc's $6.9-billion cash, share and debt bid for Canadian natural gas distributor Terasen Inc. packs financial muscle behind Terasen's growth plans and is seen by analysts as a potential trump card in the battle to become the first shipper of oil sands crude from Alberta to the West Coast."

Jon Harding, National Post
Aug. 3/05

As mentioned, the scope of coverage in the first 48 hours included hundreds of print, radio and web mentions, in Canada, the U.S., and internationally. What follows is a sampling of headlines from this period.

"US giant bids for Terasen: Kinder Morgan, based in Houston, offers $6.9 billion for the BC utility"

Vancouver Sun
Aug. 2/05

"US firm offers $3-bln for Terasen"

Globe and Mail
Aug. 2/05

"Kinder Morgan to buy Terasen in $3.1 billion stock, cash deal"

Wall Street Journal
Aug. 1/05

"Houston based Kinder Morgan to buy Terasen Inc., formerly BC Gas, for $6.9B"

Canadian Press
Aug. 1/05

While this theme (shareholder value) represents more than 50% of the total coverage to date, there were no negative mentions that fell into this category. Negative stories were limited thematically to 'American Acquirer' and the 'Impact on Terasen Gas Customers'; both are outlined in the sections to follow.

II Oil Sands Opportunity

A significant portion of the coverage focused on access to the Alberta oil sands as the prime motivation for Kinder Morgan's offer. This theme often appeared concurrently to that of shareholder value, and was largely neutral in tone.

Expectedly, the US media focused on this aspect of the transaction more than its Canadian counterparts.

"Pipeline firm looks north with deal; Kinder Morgan to pay $3.1 billion for major player in Canadian oil sands"

Houston Chronicle
Aug. 1/05

Early coverage in Canada was also not without reference to the oil sands motivation, and most focused more on the economic stimulus this type of investment provides, and far less on the perceived loss of sovereignty or the 'theft' of a Canadian natural resource (see American Acquisition for a discussion of this angle). On Tuesday (Aug. 2) The Globe and Mail ran the headline "Terasen spells opportunity for Kinder boss; both firms want to add major new pipeline capacity from Edmonton to the West Coast", which typified the angle taken by much of the financial press.

"The future of Terasen's pipeline operations represent the biggest prize in the deal because of the company's connections to the Alberta oil sands, its 2,700-kilometre Express pipeline into the U.S. Rocky Mountain states, and a growing U.S. desire for North American sources of petroleum."

Scott Simpson, Vancouver Sun
Aug. 2/05

BC Mines and Energy Minister **Richard Neufeld** voiced his support for the acquisition when he noted to Vancouver Sun columnist Don Cayo that companies such as Shell from the Netherlands, BP from the U.K. and Exxon from the U.S. have all contributed greatly to the Canadian industry's growth. Neufeld said, "If we just had Canadian companies investing in oil and gas, we'd have a pretty small industry."

On Monday, August 7, one week after the announcement, the media's focused broadened to include the other major players in the Alberta oil sands. A Canadian Press story entitled "Terasen takeover puts spotlight on Canada's oil sands pipeline companies" was picked up in several national daily newspapers. These stories were also neutral to positive in tone.

III American Acquisition

Much of the opposition to the deal was directed at the nationality of the acquirer. The Province carried several letters to the editor in the week following the announcement that expressed concern over Canada 'losing its natural resources to the U.S.,' or the loss of what some perceive as a former crown corporation.

The Province also ran a story on August 2nd entitled "Terasen sale has downside: Will Americans care?" which focused on consumer concerns with the deal:

""There will be serious implications in the coming years if there is an energy shortage." Shelley Kean, 52, of North Vancouver said British Columbians invested a lot of money into one of Terasen's forerunners when it was part of Crown-owned B.C. Hydro. "Now that money will be spent by a Texas company on an ideology opposite to most Canadians," she said." (The Province, Aug. 2/05)

AM 600 talk show host **Rafe Mair** has been particularly outspoken about the transaction, and has voiced his concerns on several of his programs. He crystallized his argument in the following quote from his August 5th program:

"What troubles me is supply. The BC Utilities Commission cannot control the supply of natural gas if Kinder Morgan decides that because of higher prices elsewhere it will cut back on the BC supply…If the Kinder Morgan, the new American owner, had better markets for the use of its pipeline than serving the BC market, what's to stop them from cutting us off…" (Rafe Mair, Aug. 05/05)

NDP Opposition House Leader and economic development critic **Mike Farnworth** has echoed Mair's concerns.

There has, however, been a strong voice to the positive in this category, with both the Vancouver Sun and GlobalTV economic correspondent **Michael Campbell** pointing out that a) the notion that more U.S. firms are buying Canadian ones is wrong; and, b) that this particular transaction *will* benefit Canadians.

On Saturday August 6, the Vancouver Sun ran a prominent editorial entitled "Canadians are getting a sweetheart deal with Terasen sale," which addresses many of the concerns raised by customers and others concerned with losing a Canadian entity to the US. It makes particular note of that fact that, in the first quarter of 2005, Canadian companies acquired US companies by a factor of 2:1. It also notes that the Canada Pension Plan owns a sizeable block of Terasen shares, and thus all Canadians will benefit from the premium paid to shareholders as well as the opportunity to participate in Kinder Morgan's future success.

Campbell followed this up the same day with a similar positive argument on his weekly segment on GlobalTV's Morning News.

On August 12, Canada's Trade Minister **Jim Peterson** was quoted in Bloomberg News suggesting that Canadian companies may be targets for more foreign takeovers as surging commodity prices attract oil and natural gas firms such as Total SA and Kinder Morgan Inc.

IV The Impact on Terasen Gas Customers

Much of the coverage surrounding the announcement has involved speculation on what impact, if any, the deal will have on Terasen Gas customers. This speculation occurred despite emphatic statements by Terasen Inc CEO **John Reid** that service would not be affected. "The answer is absolutely no, there will be no change that is not positive. Service will continue at least at the present level," Reid was quoted as saying in several newspapers the day after the announcement.

As mentioned, The Province has tended to focus more on the labour and customer concerns resulting from the deal, taking a far more negative tone, which is reflective of the paper's demographic. Its August 2nd story carried the headline "Texas energy outfit

acquires Terasen Gas in $7-billion deal; union concerns for customers, thousands of jobs; company hails 'milestone.'"

Andy Ross, president of Canadian Office and Professional Employees' Local 378, expressed his opinion of the deal in the paper: "This is a terrible way to celebrate B.C. Day, by seeing a former Crown Corporation and an important B.C.-owned and based company move to Houston, Texas".

There has, however, been some notable coverage that reinforces the fact that jobs, service levels and rates will not change as a result of the transaction, most notably from former BC Utilities Commission chair **Mark Jaccard**.

"Local gas delivery companies all over North America, no matter who they are owned by, companies from the States or Canada or anywhere else, are local monopolies that are regulated by the local utility commission companies. Their tariffs for delivering gas are based on approved investments that they undertake to expand their system to provide good service. And that will continue here, as Terasen Gas remains regulated by the BC Utilities Commission."

Mark Jaccard, On the Bill Good Show, CKNW, Aug. 2/05

Influential Vancouver Sun political columnist **Vaughn Palmer** confirmed to CKNW's morning news on August 2nd that he doesn't see any "immediate" impact on customers. This was followed the next day by a very positive column by the Vancouver Sun's **Don Cayo**:

"I see little to dislike in Kinder Morgan's offer to buy B.C.'s Terasen Gas…If the deal goes ahead, the impact will be nil for customers, almost nil for employees, and potentially sizeable, favourably so, for the pipeline operation."

Don Cayo, Vancouver Sun, August 3rd, 2005

Vancouver energy analyst **David Austin** was quoted in The Province (Aug. 2/05) confirming that B.C. residents should not fear sudden price hikes. "Given that gas prices are fully regulated by the B.C. Utilities Commission, it doesn't matter who owns it," he said.

Energy Minister **Richard Neufeld** also shared his confidence in the interests of consumers being protected: "Kinder Morgan is a pretty big player in the oil and gas industry," he said. "Consumers do not need to be concerned because [natural] gas prices will still be regulated by the B.C. Utilities Commission." (The Province, Aug. 2//05)

NDP critic **Mike Farnworth**, appearing on **Michael Smyth**'s nightly talk show on CKNW (Aug. 2/05), questioned what might happen to service levels, but admitted that this was something regulated by the BCUC. In general, Farnworth was fairly neutral in his commentary on the transaction. The focus of his criticism was more on the Liberal government's actions (Bill 85) that opened the door to foreign ownership.

Smyth, who is also a political columnist for The Province, wrote a piece in the August 2nd paper entitled "Liberal loophole allowed sale of Terasen: Law that keeps utility in B.C. had a sneaky sub-clause."

> *"The Gordon Campbell government cleared the decks for the Americanization of Terasen Gas two years ago by passing a law with a rather ironic -- some would say downright sneaky -- name…The B.C. Hydro Public Power Legacy and Heritage Conservation Act…"* (The Province, Aug. 02/05)

V Who is Kinder Morgan?

In Canada, descriptions of Kinder Morgan have been largely neutral in tone. Much of the reporting focused on the basic background of the Texas-company largely unknown to Canadians, outlining its corporate history, current asset mix and leadership.

The Vancouver Sun's front-page story on August 2nd (Tuesday) referenced Kinder Morgan's Fortune magazine ranking, helping establish the credibility of the acquiring company in British Columbia at an early stage.

The Vancouver Sun, in addition The Province and a number of other publications, also made mention of Kinder Morgan founder and CEO **Rich Kinder**'s history with Enron; he was a former president of the Houston-based energy trading company. This, however, was fairly neutral in tone, and again referenced the Forbes article:

> *"According to the website of Forbes business magazine, Kinder "wisely" left Enron in 1996, well before the scandal, because he was uncomfortable with the company's lack of emphasis on hard assets such as pipelines."*
> (Vancouver Sun, Aug. 2/05)

CBC Radio did a brief report on Kinder Morgan's environmental record on August 4th entitled "Terasen buyer investigated for spills in U.S." It highlighted the fact that Kinder Morgan is currently under investigation in the U.S. for a series of safety and environmental incidents. The story also appeared on the network's web site. There has been no further follow up on this angle.

Conclusion

Coverage of the transaction to date has been largely positive to neutral in tone, particularly the commentary on the merits of the transaction. The limited negative media reaction, which accounted for approximately 10% of total coverage, was the result of issues such as the uncertainty around jobs, service levels and rates, and the idea of loss of a Canadian company. In almost every instance, negative stories were offset by editorial that delivered a positive argument.

Moving forward, the volume of coverage is expected to taper off in the coming weeks. Future spikes in volume can be expected at specific milestones, such as regulatory filings, the October shareholder vote and, barring any unforeseen incidents, at the close of the deal.

APPENDIX 1

Mayor Template Letter

August 1, 2005

[Mayor Name]
[Address]

Via Fax: [**Fax Number**]

Earlier today the Board of Directors of Terasen Inc. unanimously approved a definitive agreement that will see Kinder Morgan (www.kindermorgan.com), one of the largest and most respected energy companies in the United States, acquire all outstanding shares of Terasen.

A public announcement will be made at 1:30pm PDT today.

This development marks a significant milestone in our history. It will give us the scale, resources and capital to execute on our strategy and build on our company's long and proud history in Western Canada.

We expect the transaction to close by the end of the year. At that point, we will be an integral part of a much larger combined company with outstanding assets and a world-class reputation. Ranked by Fortune magazine as one of the most admired companies in the U.S., Kinder Morgan received the highest score in the magazine's history, as voted by its industry peers.

The combined company will be a leader in the North American energy distribution and transportation market. It will have almost 40,000 miles of natural gas and petroleum transportation pipelines, more than 1.1 million natural gas distribution customers, approximately 150 terminals and a combined market capitalization of approximately US$19 billion.

The head office for the combined company's Canadian gas distribution, water and utility operations will remain in Greater Vancouver, and Calgary will maintain its head office for the regional pipeline operation. With the exception of Terasen Gas, which will retain that name, the combined company will be known as Kinder Morgan Inc. and will be based in Houston.

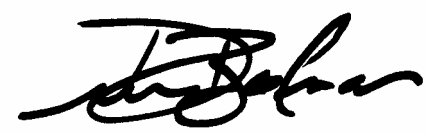
Kinder Morgan is committed to maintaining service levels and community support for the more than 875,000 residential natural gas customers in British Columbia. We do not anticipate any changes as a result of this transaction.

Terasen and Kinder Morgan share similar business philosophies, not the least of which is our belief in giving back to the communities we serve and operate in. We have a strong record of community investment through our ongoing community development, education and environmental initiatives. As we move forward with Kinder Morgan, we will continue to be an active participant in the community.

In the weeks and months to come, should you or any BC Chamber of Commerce members have any questions about this transaction and its impact please contact me directly 604.592.7671 or toll free at 1.888.773.9333.

We thank you for your continued support.

Sincerely,



David Bodnar
Director,
Community, Aboriginal and Government Relations

Mayor Letter – List of Recipients

Mayor of Anmore
Mayor of Armstrong
Mayor of Ashcroft
Mayor of Belcarra
Mayor of Bowen Island
Mayor of Campbell River
Mayor of Cashe Creek
Mayor of Castlegar
Mayor of Chase
Mayor of Chetwynd
Mayor of Chilliwack
Mayor of Clinton
Mayor of Coldstreem
Mayor of Colwood
Mayor of Comox
Mayor of Coquitlam
Mayor of Courtenay
Mayor of Cranbrook
Mayor of Creston
Mayor of Cumberland
Mayor of Delta
Mayor of Duncan
Mayor of Elkford
Mayor of Enderby
Mayor of Esquimalt
Mayor of Fernie
Mayor of Fort Nelson
Mayor of Fruitvale
Mayor of Grand Forks
Mayor of Greenwood
Mayor of Harrison Hot Springs
Mayor of Highlands
Mayor of Hope
Mayor of Hudson's Hope
Mayor of Kelowna
Mayor of Keremeos
Mayor of Kimberley
Mayor of Ladysmith
Mayor of Langley
Mayor of Lantzville
Mayor of Logan Lake
Mayor of Lumby
Mayor of Mackenzie
Mayor of Maple Ridge
Mayor of Merritt
Mayor of Metchosin
Mayor of Midway
Mayor of Mission
Mayor of Montrose
Mayor of Nanaimo
Mayor of Nelson
Mayor of New Westminster
Mayor of North Saanich
Mayor of North Vancouver
Mayor of Oak Bay
Mayor of Oliver
Mayor of Osoyoos
Mayor of Parksville
Mayor of Peachland
Mayor of Penticton
Mayor of Pitt Meadows
Mayor of Port Alberni
Mayor of Port Coquitlam
Mayor of Port Moody
Mayor of Powell River
Mayor of Prince George
Mayor of Princeton
Mayor of Qualicum Beach
Mayor of Quesnel
Mayor of Revelstoke
Mayor of Richmond
Mayor of Rossland
Mayor of Saanich
Mayor of Salmo
Mayor of Salmon Arm
Mayor of Sechelt
Mayor of Spallumcheen
Mayor of Sparwood
Mayor of Squamish
Mayor of Summerland
Mayor of Surrey
Mayor of Trail
Mayor of Vancouver
Mayor of Vernon
Mayor of Victoria
Mayor of View Royal
Mayor of Warfield
Mayor of West Vancouver
Mayor of White Rock
Mayor of Williams Lake

APPENDIX 2

Email sent to BC MLAs

Sent: Monday, August 01, 2005 5:18 PM
Subject: Terasen and Kinder Morgan are combining forces to create a North American energy leader

Due to the civic holiday, I was unable to reach your office directly by phone.

As a result, I have taken the liberty of attaching a press release acknowledging that Terasen and Kinder Morgan are combining forces to create a North American energy leader.

Should you have any questions, please consider contacting me directly at 604-592-7671 or toll free 1-888-773-9333.

Press Release.pdf
(53 KB)

David M. Bodnar
Director,
Community, Aboriginal & Government Relations
Terasen
16705 Fraser Highway
Surrey, B.C. V3S 2X7
(604) 592-7671 Phone
(604) 576-7122 Fax
david.bodnar@terasengas.com

APPENDIX 3

Email sent to BC MPs

Sent: Monday, August 01, 2005 5:19 PM
Subject: Terasen and Kinder Morgan are combining forces to create a North American energy leader

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Should you have any questions, please consider contacting me directly at 604-592-7671 or toll free 1-888-773-9333.

Press Release.pdf
(53 KB)

David M. Bodnar
Director,
Community, Aboriginal & Government Relations
Terasen
16705 Fraser Highway
Surrey, B.C. V3S 2X7
(604) 592-7671 Phone
(604) 576-7122 Fax
david.bodnar@terasengas.com

APPENDIX 4

Information Template Letter to BC Regional District Chairs

August 2, 2005

[Name]
[Address]

Via Fax: [Fax Number]

Earlier today the Board of Directors of Terasen Inc. unanimously approved a definitive agreement that will see Kinder Morgan (www.kindermorgan.com), one of the largest and most respected energy companies in the United States, acquire all outstanding shares of Terasen.

A public announcement will be made at 1:30pm PDT today.

This development marks a significant milestone in our history. It will give us the scale, resources and capital to execute on our strategy and build on our company's long and proud history in Western Canada.

We expect the transaction to close by the end of the year. At that point, we will be an integral part of a much larger combined company with outstanding assets and a world-class reputation. Ranked by Fortune magazine as one of the most admired companies in the U.S., Kinder Morgan received the highest score in the magazine's history, as voted by its industry peers.

The combined company will be a leader in the North American energy distribution and transportation market. It will have almost 40,000 miles of natural gas and petroleum transportation pipelines, more than 1.1 million natural gas distribution customers, approximately 150 terminals and a combined market capitalization of approximately US$19 billion.

The head office for the combined company's Canadian gas distribution, water and utility operations will remain in Greater Vancouver, and Calgary will maintain its head office for the regional pipeline operation. With the exception of Terasen Gas, which will retain that name, the combined company will be known as Kinder Morgan Inc. and will be based in Houston.

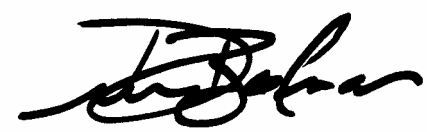
Kinder Morgan is committed to maintaining service levels and community support for the more than 875,000 residential natural gas customers in British Columbia. We do not anticipate any changes as a result of this transaction.

Terasen and Kinder Morgan share similar business philosophies, not the least of which is our belief in giving back to the communities we serve and operate in. We have a strong record of community investment through our ongoing community development, education and environmental initiatives. As we move forward with Kinder Morgan, we will continue to be an active participant in the community.

In the weeks and months to come, should you or any BC Chamber of Commerce members have any questions about this transaction and its impact please contact me directly 604.592.7671 or toll free at 1.888.773.9333.

We thank you for your continued support.

Sincerely,



David Bodnar
Director,
Community, Aboriginal and Government Relations

Regional District Letter – List of Recipients

Alberni-Clayoquot Regional District, Port Alberni
Bulkley-Nechako Regional District, Nelson
Capital Regional District, Victoria
Cariboo Regional District, Williams Lake
Central Coast Regional District, Bella Coola
Central Kootenay Regional District , Nelson
Central Okanagan Regional District , Kelowna
Columbia Shuswap Regional District , Salmon Arm
Comox-Strathcona , Courtenay

APPENDIX 5

Solutions
Energy services for commercial customers
Summer 2005
Terasen Gas

No changes for gas customers as result of sale

Customers need not worry that their natural gas service or rates will be affected by the purchase of Terasen Inc. by Kinder Morgan Inc.

"The fact the new owner will be based out of Houston, Texas, will have no effect on what customers pay for their natural gas either now or into the future," said Randy Jespersen, president of Terasen Gas.

"Our rates are regulated, reviewed in a very open and transparent process and ultimately approved by the British Columbia Utilities Commission. That won't change regardless of who owns Terasen Gas."

It's a point backed up by Mark Jaccard, a professor at the School of Resource and Environmental Management at Simon Fraser University and former chair of the BCUC.

In a recent radio interview on CKNW's Bill Good Show, Jaccard said the sale of Terasen Gas to Kinder Morgan will not be felt by the consumer as long as the utility remains locally regulated by the utilities commission.

"Who owns the company really doesn't have that much effect," Jaccard said. "We had West Kootenay Power in the 1990s bought out by an American company, the rates were unaffected for those customers."

Recalling his days overseeing the commission, Jaccard said regulation by the BCUC means companies—regardless of who owns them—can't unilaterally decide to either raise rates or spend money on pet projects.

"Their tariffs for delivering gas," said Jaccard, "are based on approved investments that they undertake to expand their system to provide good service."

Regardless of who owns Terasen Gas, it will remain a natural gas delivery company that purchases the natural gas commodity on the open market on behalf of its customers and sells the gas to its customer without mark up.

"What the Kinder Morgan purchase of Terasen does is provide us with expanded access to capital that will allow us to take advantage of good investment opportunities that in turn create good jobs and economic growth for Canadians generally and British Columbians specifically," Jespersen said. "We have an outstanding record on matters relating to safety, environment and service quality and Kinder Morgan expects us to keep it that way."

Ownership change Q & A

1. Will the sale of Terasen Gas to Kinder Morgan impact the price I pay for my natural gas?

No. The price you pay for natural gas is based on the market price and what Terasen Gas pays to obtain the gas. Terasen Gas rates are regulated by the BC Utilities Commission and this will not change. Regardless of who owns it, Terasen Gas will continue to purchase natural gas commodity on the open market and pass it along to customers without mark-up.

2. Won't Kinder Morgan try to recoup the $6.9 billion it spent to purchase Terasen by raising the price I pay for my natural gas?

Terasen Gas is now, and will continue to be into the future, a utility regulated by the British Columbia Utilities Commission. That means the price you pay for natural gas is reviewed and approved by the BCUC.

3. Does this sale mean we're giving away our natural gas to foreign interests?

As a gas distribution company, Terasen Gas has never been in the exploration or production end of the natural gas business. We buy gas from sources in Alberta or BC and sell that gas to our BC customers

Terasen Gas is now, and will continue to be, a utility regulated by the British Columbia Utilities Commission.

at the same price we pay without mark up.

The sale of Terasen Gas to Kinder Morgan will not result in more Canadian-sourced natural gas flowing to the U.S. or, for that matter, central Canadian markets. The amount of gas which flows to either of those two areas is determined by market demand.

Despite changes to the ownership structure of Terasen Gas, we continue to remain focused on providing safe and reliable delivery of natural gas to our 875,000 customers in British Columbia. We do not have customers in the U.S.

4. Does this sale mean BC's natural gas is now owned by a foreign interest?

No. Natural gas rights are owned by the Province of BC regardless of who owns the distribution pipelines.

The provincial government collects royalty payments from exploration companies that find and extract the gas. Many of these companies are Canadian (such as EnCana, Petro-Canada, Canadian Natural Resources); some are Dutch (Shell), others are English (BP).

As a natural gas distribution company, Terasen Gas eventually purchases the gas from these exploration companies and distributes it to customers in BC. This won't change under Kinder Morgan ownership.

Randy Jespersen, President and CEO of Terasen Gas with Rich Kinder, Chairman and CEO of Kinder Morgan

5. Is this another example of a private company takeover of a BC Crown corporation?

No. Terasen Gas, formerly BC Gas, has always been a privately owned company.

Confusion over this point continues to arise because, at one time, a portion of the existing company belonged to BC Hydro—the Lower Mainland gas division. That division was purchased from Hydro in 1988 when Inland Natural Gas acquired other gas utilities across the province. Inland Natural Gas eventually consolidated these separate holdings under the ownership banner of BC Gas. BC Gas became Terasen Gas in 2003.

But for Lower Mainland residents especially, confusion over the company's history still exists as, for several years, BC Hydro and BC Gas shared a common customer utility bill. The billing systems were separated in 2002.

Efficient Boiler Program heats up your bottom line

Whether you're a commercial customer considering a space-heating boiler replacement or a builder or developer looking at a new hydronic installation, the Efficient Boiler Program has an attractive financial incentive just for you.

The program began in April and offers cash rebates to offset the capital investment difference between higher efficiency (condensing or near condensing) boilers and standard-efficiency models.

To date, 20 different organizations have taken advantage of the program—which offers ongoing operating savings of up to 40 per cent along with other benefits.

With the Efficient Boiler Program, Terasen Gas is making a conscious effort to raise the energy efficiency bar and help you reduce operating costs.

Visit www.terasengas.com and select Promotions for more information.

E-mail your questions to commercial.energy@terasengas.com. Not online? Call us at 1-888-477-0777.

**Please note this does not apply to Rate 3 customers who are entering the Unbundling program (see back page).*

Plan ahead if you're switching gas supplier

If you've had to plan ahead with your holiday arrangements this summer, you'll understand why we're asking all Rate 3*, 5, 23 and 25 customers to plan ahead if switching your gas supply arrangements this fall.

If you're moving to a gas marketer, or changing your existing marketer, be sure to let Terasen Gas know by **August 31, 2005** so we can ensure your account is processed in time for your new contract to begin November 1.

Remember these two key points:

- If you buy gas from a marketer on a Rate 23 or 25 tariff, Terasen Gas needs to be able to read your gas meter automatically. For us to do this there must be a phone line installed which runs to the meter. It is the customer's responsibility to organize and pay for the installation and maintenance of the line.
- Once you have switched to a marketer, you will receive two bills each month—one from the marketer for the gas and one from Terasen Gas for transporting the gas.

**Please note this does not apply to Rate 3 customers who are entering the Unbundling program (see back page).*

Provincial Sales Tax on energy costs—are you exempt?

Some customer groups are exempt from paying the PST on their energy costs. Exemptions apply according to the particular use of a premise or building. In the past, some Terasen Gas customers have paid PST on their natural gas bills when they did not have to. (Note: this is an issue between the customer and the taxman, and not one controlled by Terasen Gas.) If you are unsure of your tax status on energy costs, visit the Ministry of Provincial Revenue Consumer Taxation Branch at www.rev.gov.bc.ca/ctb.

Not online? Call the taxation branch within the Vancouver area at 604-660-4524, or at 1-877-388-4440.

Our TV celebrity is coming back

Has the lobster claw grabbed you yet? Earlier this year he was featured in 30 second TV spots with safety messages and energy efficiency offers designed to assist all Terasen Gas customers. He returns to the big screen around mid-September.

Some of the solutions we offer you at Terasen Gas:

- provide general help and assistance on gas-related matters, including budget forecasts
- make sure you're on the right rate
- help you use gas more efficiently
- offer technical support

If you're a Terasen Gas commercial customer — Terasen Gas Rate 3, Rate 4, Rate 5 or Rate 23 — and you have questions about how you can achieve maximum efficiency from natural gas, please contact Pat Olsen at 604-576-7135 or via e-mail at commercial.energy@terasengas.com.

For questions about billing, new service, cut-offs or load increases, call 1-888-224-2710.

For more information, visit www.terasengas.com.

At home or at work, always call before you dig

In the yard this summer? Before you begin planting trees, installing fence posts or building a deck, remember to call before you dig to determine what lies underground.

In the workplace, following basic safety rules when excavating near natural gas lines helps prevent injury to the public and your work personnel—as well as preventing damage to our gas system. Knowing the location of natural gas pipelines is the first step to ensuring safety on the job.

For safety's sake, make sure you call BC ONE CALL to request location information at least three days in advance of work requiring any excavation.

1-800-474-6886

cellular *6886

BC 1 CALL

The Unbundling option for commercial customers on Rates 2 and 3

The recent July 1 gas commodity price increase may cause gas marketers to step up their efforts to sell long-term gas supply contracts.

Helping you choose

When you're faced with a variety of sales offers from gas marketers, questions are bound to arise. To help you decide the best course of action, here are some key points about Unbundling and how it works:

- Gas marketers are independent businesses. They are not associated with Terasen Gas.
- Purchasing your natural gas through a marketer is an option. You are not obliged to change from the bundled rate you pay Terasen Gas.
- You have an opportunity to enrol in the Unbundling program every quarter so there is no need to rush your decision.
- If you sign up, then change your mind, you have a 10-day cooling off period during which you can cancel your contract.
- The marketer's price must be for 100 per cent of your facility's natural gas consumption for a one, two, three, four or five-year period.

- Midstream charges are the costs we pay to other companies that help us manage the gas flow. They include costs for transportation and storage—and apply to all customers whether participating in the Unbundling program or purchasing Terasen Gas standard rate offerings.

To find details on specific licensed marketers, visit the BC Utilities Commission website at www.bcuc.com/gasmarketer.aspx.

Terasen Gas delivers natural gas and piped propane to homes and businesses. The Terasen Gas group of companies includes Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., Terasen Gas (Squamish) Inc., and Terasen Gas (Whistler) Inc. For information about natural gas service, safety and energy efficiency, visit www.terasengas.com.

Solutions 07/05 05-187

Terasen Gas

APPENDIX 6

August 2005

VIA MAIL

Contact Address Label

Dear First Name:

As most of you will likely have heard Terasen Inc. recently announced that Kinder Morgan, one of the largest and most respected energy companies in the United States, will acquire Terasen to create a North American energy distribution and transportation leader. This development marks a significant milestone in our history. It will give us the scale and resources to pursue additional growth and build on our company's long and proud history in Western Canada.

Although we're excited about these changes, it's important to emphasize that it's business as usual for Terasen Gas. We ill be keeping the Terasen Gas name and will remain headquartered in Surrey with our existing management team.

You need not worry that your natural gas service or rates will be affected by the ownership change. Terasen Gas will remain a natural gas delivery company that purchases the natural gas commodity on the open market on behalf of its customers and sells the gas to its customers without mark up. Our rates will continue to be regulated and reviewed and ultimately approved by the BC Utilities Commission and that will not change regardless of who owns Terasen Gas.

We expect the transaction to close early in 2006. At that point, we will be an integral part of a much larger combined company with a world-class reputation. Ranked by Fortune magazine as one of the most admired companies in the United States, Kinder Morgan received the highest score in the magazine's history, as voted by its industry peers.

This is a very exciting development for Terasen and its partners, which will further enhance our focus on customer growth and regional leadership.

In the weeks and months to come, should you or any member of your team, have any questions about this transaction and its impact on our business relationship with you, please do not hesitate to contact your Energy Representative or call 604.576.7135 or 1.800.773.7001 ext. 7135.

We value your business and thank you for your continued support.

Kind regards,

Adrian Partridge
Manager, Commercial and Industrial
Customer Management & Sales
Terasen Gas Inc.

APPENDIX 7

Information Letter sent to Chamber of Commerce Members

August 2, 2005

[Name]
[Address]

Via Fax: [**Fax Number**]

Yesterday the Board of Directors of Terasen Inc. unanimously approved a definitive agreement that will see Kinder Morgan (www.kindermorgan.com), one of the largest and most respected energy companies in the United States, acquire all outstanding shares of Terasen.

This development marks a significant milestone in our history. It will give us the scale, resources and capital to execute on our strategy and build on our company's long and proud history in Western Canada.

We expect the transaction to close by the end of the year. At that point, we will be an integral part of a much larger combined company with outstanding assets and a world-class reputation. Ranked by Fortune magazine as one of the most admired companies in the U.S., Kinder Morgan received the highest score in the magazine's history, as voted by its industry peers.

The combined company will be a leader in the North American energy distribution and transportation market. It will have almost 40,000 miles of natural gas and petroleum transportation pipelines, more than 1.1 million natural gas distribution customers, approximately 150 terminals and a combined market capitalization of approximately US$19 billion.

The head office for the combined company's Canadian gas distribution, water and utility operations will remain in Greater Vancouver, and Calgary will maintain its head office for the regional pipeline operation. With the exception of Terasen Gas, which will retain that name, the combined company will be known as Kinder Morgan Inc. and will be based in Houston.

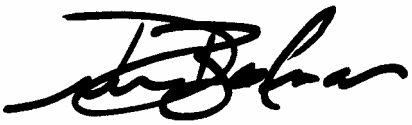
Kinder Morgan is committed to maintaining service levels and community support for the more than 875,000 residential natural gas customers in British Columbia. We do not anticipate any changes as a result of this transaction.

Terasen and Kinder Morgan share similar business philosophies, not the least of which is our belief in giving back to the communities we serve and operate in. We have a strong record of community investment through our ongoing community development, education and environmental initiatives. As we move forward with Kinder Morgan, we will continue to be an active participant in the community.

In the weeks and months to come, should you or any BC Chamber of Commerce members have any questions about this transaction and its impact please contact me directly 604.592.7671 or toll free at 1.888.773.9333.

We thank you for your continued support.

Sincerely,



David Bodnar
Director,
Community, Aboriginal and Government Relations

APPENDIX 8

Kinder Morgan Contacts
Media Relations
Larry Pierce (713) 369-9407
Rick Rainey (713) 369-9452
Investor Relations
Mindy Mills (713) 369-9490
www.kindermorgan.com

Terasen Inc. Contacts
Media Relations
Cam Avery (604) 443-6603
Investor Relations
David Bryson (604) 443-6527
Rhonda Dyce (604) 443-6648
www.terasen.com

KINDER MORGAN – TERASEN COMBINE TO CREATE A NORTH AMERICAN ENERGY LEADER

Kinder Morgan to Purchase Terasen for Approximately US$5.6 Billion

HOUSTON, Texas, and Vancouver, British Columbia, Aug. 1, 2005 – Kinder Morgan, Inc. (NYSE: KMI) and Terasen Inc. (TSX: TER) today announced a definitive agreement whereby KMI will acquire all of the outstanding shares of Terasen in a transaction that will create a leading North American energy transportation and distribution company. The total purchase price, including the assumption of debt, is approximately US$5.6 billion, or C$6.9 billion.

As described in detail below, the prorated value of the offer is C$35.91 per Terasen share based on KMI's share price and C$/US$ exchange rates as of July 29, representing a premium of approximately 20 percent over the 20 day average closing price of Terasen common shares for the period ending July 29. Under the transaction, Terasen shareholders will be able to elect, for each Terasen share held, either (i) C$35.75 in cash, (ii) 0.3331 shares of KMI common stock, or (iii) C$23.25 in cash plus 0.1165 shares of KMI common stock. All elections will be subject to proration in the event total cash elections exceed approximately 65 percent of the total consideration to be paid or total stock elections exceed approximately 35 percent.

(more)

The transaction has been unanimously approved by each company's board of directors, and by a special committee of independent directors created by the Terasen board to oversee this process. This transaction will require Terasen shareholder approval prior to closing, which is expected by year-end 2005. The transaction is also subject to customary regulatory approvals.

The combined company will have approximately 40,000 miles of natural gas and petroleum transportation pipelines, more than 1.1 million natural gas distribution customers, approximately 150 terminals and an enterprise value of more than US$19 billion. Including KMI affiliate Kinder Morgan Energy Partners, L.P. (NYSE: KMP), of which KMI is the general partner, the enterprise value of the total combined companies will be approximately US$35 billion.

"This transaction will combine two strong entities to create a premier energy company in North America with a bright future," said Kinder Morgan Chairman and CEO Richard D. Kinder. "It is a win-win transaction for both entities that is expected to produce immediate shareholder value through strong earnings and cash flow accretion, as well as provide exciting future growth opportunities. For Kinder Morgan, the merger will dramatically broaden our footprint into Canada. Terasen has two core businesses – a low-risk, large regulated natural gas distribution company in British Columbia that produces stable cash flow, and a strategically located refined products and crude oil transportation pipeline business that offers tremendous growth potential. Terasen's pipelines are well-positioned to transport growing production from the Alberta oilsands, which is expected to become an increasingly important supply source to North America and Asia. There is a definite need for additional pipeline infrastructure from the Alberta oilsands, and we have a great opportunity to use the capital strength of the combined company – along with our expertise in building and operating pipelines – to increase capacity on Terasen's existing pipeline system and help meet the growing demand of an oil-starved world."

Canadian oilsands production is projected to double from current levels to about 2 million barrels of crude oil per day between 2010 and 2012. According to the National Energy Board, Canada's recoverable oilsands reserves are the largest in the world. They currently account for about 37 percent of all Canadian oil production, and are expected to comprise as much as 67 percent of the country's oil production by 2015.

(more)

"Terasen also has a strong position in owning and operating water utilities, supplying materials and services for water and wastewater operations, and providing metering and other utility services in Canada and the United States. These markets offer significant potential for growth, as Terasen has laid an excellent foundation," Kinder said.

The transaction is expected to be approximately 6-8 percent accretive for KMI shareholders on a pro forma basis to recurring earnings per share in 2006, which is expected to be the first year of combined operations. For 2006, recurring earnings per share are expected to be approximately US$5.00, and cash flow is expected to be almost US$800 million. (Cash flow is defined as pre-tax income before DD&A, less cash paid for income taxes and sustaining capital expenditures – see the discussion following.) The annual KMI dividend is expected to be at least US$3.50 per share in 2006, up from its current rate of US$3 per share. The strengths of and prospects for the combined company are such that it expects to continue to grow earnings per share and the dividend at approximately 10 percent annually without any acquisitions at KMI or KMP.

Terasen President and CEO John Reid said the planned combination is a great opportunity for Terasen and its shareholders. "This transaction creates significant immediate and long-term value for our shareholders and gives us the scale, resources and access to capital we need to accelerate our business strategy and lead the development of world-class infrastructure across Western Canada. The offer represents a significant premium to our recent share price at a time when Terasen is trading at all-time highs, and gives Terasen shareholders the opportunity to participate in the ongoing success of the combined company. Kinder Morgan is one of the largest and most respected energy transportation and storage companies in the United States, is the market leader in most of its businesses and has produced outstanding returns for its shareholders. We are very pleased to become a significant part of a much larger and stronger enterprise, and believe this transaction will produce long-term benefits for both our retail and wholesale customers, and expand opportunities for our employees."

The combined entity will have approximately 9,000 employees and will feature:

- The largest independent owner/operator of products pipelines in the United States and a leader in the petroleum transportation industry in Canada with almost 13,000 miles of

pipelines that transport approximately 2.7 million barrels per day of refined petroleum products and crude oil.

- The largest natural gas distribution company in British Columbia, with approximately 875,000 meters, and over 1.1 million retail meters company wide.
- The second largest owner/operator of natural gas pipelines and storage assets in the United States, transporting up to 14.2 billion cubic feet (Bcf) per day through approximately 25,000 miles of pipelines and 384 Bcf of working gas storage capacity.
- The largest independent owner/operator of terminals in the United States, handling over 80 million tons of coal and other dry-bulk materials annually and having a liquids storage capacity of approximately 72 million barrels for refined petroleum products, crude oil and chemicals.
- The largest marketer/transporter of carbon dioxide (CO_2) for enhanced oil recovery projects in the United States, transporting over 1 Bcf of CO_2 per day through 1,100 miles of pipeline, and the second largest oil producer in Texas.
- The largest private sector provider of water and wastewater infrastructure and services in Western Canada, operating 90 systems in over 50 communities.

Kinder noted the combined company will be committed to returning cash to shareholders in an economic and tax-efficient manner, while at the same time maintaining a strong balance sheet and investing in additional energy infrastructure. Upon closing, the total debt-to-capital ratio of the combined entity is expected to be about 56 percent, and Kinder said he expects the combined company will maintain its BBB credit rating.

"Terasen's assets are a great fit with our long-standing strategy of owning and operating predominantly stable, regulated, fee-based businesses in growing markets," Kinder said. "We have a proven track record of merging companies, operating assets efficiently and growing existing assets through expansions."

Once the transaction is completed, Kinder will remain chairman and CEO of the combined entity, which will be known as Kinder Morgan, Inc., with corporate headquarters in Houston, Texas. Terasen's natural gas distribution operations, along with its water and utility services business, will remain headquartered in Greater Vancouver and its pipeline operations office will remain based in Calgary. Terasen Gas, Terasen's natural gas distribution company, will continue to operate under the Terasen name.

The transaction will be completed as a plan of arrangement under the Business Corporations Act (British Columbia) and will require the approval of 75 percent of Terasen shareholders who vote at a special meeting, which will be held on or before Oct. 31, 2005. The

(more)

board of directors of Terasen is unanimously recommending that Terasen shareholders vote in favor of the transaction. Terasen has agreed not to solicit competing transactions and to pay a termination fee of C$75 million to KMI under certain circumstances.

UBS Investment Bank acted as exclusive financial advisor to KMI and RBC Capital Markets acted as exclusive financial advisor and provided a fairness opinion to Terasen.

Terasen (TSX: TER), based in Vancouver, Canada, is a leading provider of energy and utility services. Through Terasen Gas and Terasen Gas (Vancouver Island), the company distributes natural gas to approximately 875,000 customers, representing more than 95 percent of natural gas consumers in British Columbia. Through Terasen Pipelines, the company provides petroleum transportation services from the Athabasca oilsands to Edmonton, and from Alberta to British Columbia, Washington State, the U.S. Rocky Mountain region and the U.S. Midwest. Information about Terasen is available via the Internet at www.Terasen.com.

Kinder Morgan, Inc. (NYSE: KMI) is one of the largest energy transportation and storage companies in America, operating more than 35,000 miles of natural gas and products pipelines and approximately 145 terminals. KMI owns the general partner interest of Kinder Morgan Energy Partners, L.P. (NYSE: KMP), one of the largest publicly traded pipeline limited partnerships in the United States. Combined, KMI and KMP have an enterprise value of almost $30 billion. (Enterprise value is market value of the equity securities plus net debt, excluding interest rate swaps.)

Please join Kinder Morgan at 8:30 a.m. Eastern Time on Tuesday, Aug. 2, at www.kindermorgan.com for a LIVE webcast conference call to discuss the announced transaction. The presentation for the call is available at www.kindermorgan.com.

Terasen will hold a separate investor call at 7:00 a.m. Pacific Time (10:00 a.m. Eastern Time) Tuesday, Aug. 2, to discuss the transaction. Analysts and other interested parties wanting to participate in the call can dial 1-877-375-5688 (toll-free within North America). International callers can dial 1-973-582-2745. No passcode is required. The call will also be broadcast live on www.terasen.com and will be available for replay following the call. The presentation for the call is available at www.terasen.com.

In this release, we present a measure of cash flow that differs from cash flow measures prepared under Generally Accepted Accounting Principles (GAAP). In this release, we have

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defined cash flow to be pre-tax income before depletion, depreciation and amortization (DD&A), less cash paid for income taxes and less sustaining capital expenditures. In each case, the amounts included in the calculation of these measures are computed in accordance with GAAP, with the exception of sustaining capital expenditures, which is not a defined term under GAAP. Sustaining capital expenditures are defined as capital expenditures (determined in accordance with GAAP) which do not increase the capacity of the asset. We believe the most directly comparable cash flow measure computed under GAAP is "cash flows provided by operating activities." This GAAP measure differs from the cash flow measure used in this release in that (1) it is not reduced for sustaining capital expenditures, and (2) it is affected by a number of items that are not taken into account in the cash flow measure used in this release, including (i) adjustments for equity in earnings, (ii) distributions from equity investments, (iii) minority interests in income of consolidated subsidiaries, (iv) deferred purchased gas costs, (v) changes in gas in underground storage, (vi) changes in other working capital items, (vii) net gains or losses on sale of facilities, (viii) proceeds from termination of interest rate swaps, and (ix) other, net. Cash flow should be considered in conjunction with cash provided from operations, as defined by GAAP.

We routinely calculate and communicate this measure to investors. We believe that continuing to provide this information results in consistency in our financial reporting. In addition, we believe that this measure is useful to investors because it provides investors with a quick, simple and reasonable estimate of our cash flow available for expansion projects, debt repayment, dividends and share repurchases.

INVESTOR NOTICES

This news release includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are those concerning the contemplated transaction and strategic plans, expectations and objectives for future operations. All statements, other than statements of historical facts, included in this press release that address activities, events or developments that the companies expect, believe or anticipate will or may occur in the future are forward-looking statements. This includes completion of the proposed transaction, realization of expected synergies from the transaction, future financial performance, future equity issuance and other matters. These statements are based on certain assumptions made by the companies based on their experience and perception of historical trends, current conditions, expected future developments and other factors they believe are appropriate in the circumstances. Although the companies believe that their expectations are based on reasonable assumptions, they can give no assurance that such assumptions will materialize. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of the companies. These risks include, but are not limited to, the risks identified as Risk Factors in each company's Forms 10-K, Forms 10-Q or other documents filed with the Securities and Exchange Commission or other securities regulatory authorities. Investors and security holders are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

This release is not intended to be proxy solicitation materials and it does not constitute an offer to sell or a solicitation of an offer to buy shares of KMI or Terasen.

APPENDIX 9

Email sent to BC Chamber of Commerce Members

Sent: Tuesday, August 02, 2005 2:12 PM
Subject: Terasen and Kinder Morgan are combining forces to create a North American energy leader

Importance: High

Good afternoon,

If you feel it is appropriate - please circulate the attachments (word document and PDF) to local Chamber of Commerce members. If you have any questions please feel free to contact me at 250.868.4517 or 250.718.1606.

Sincerely,

Ruth Sulentich
Terasen - Community Relations Manager
250.718.1606

BC Chamber of Commerce Letter....

Press Release.pdf (53 KB)

List of BC Chamber of Commerce Members

Abbotsford Chamber of Commerce
Alberni Valley Chamber of Commerce
Armstrong-Spallumcheen Chamber of Commerce
Bamfield Chamber of Commerce
Barriere & District Chamber of Commerce
Bowen Island Chamber of Commerce
Burnaby Board of Trade
Burns Lake Chamber of Commerce
Campbell River & District Chamber of Commerce
Castlegar & District Chamber of Commerce
Chase & District Chamber of Commerce
Chemainus & District Chamber of Commerce
Chetwynd & District Chamber of Commerce
Chilliwack Chamber of Commerce
Christina Lake Chamber of Commerce
Clinton & District Chamber of Commerce
Cloverdale & District Chamber of Commerce
Columbia Valley Chamber of Commerce
Comox Valley Chamber of Commerce
Cowichan Lake District Chamber of Commerce
Cranbrook Chamber of Commerce
Creston Chamber of Commerce
Cumberland Chamber of Commerce
Dawson Creek & District Chamber of Commerce
Delta Chamber of Commerce
Discovery Islands Chamber of Commerce
Duncan-Cowichan Chamber of Commerce
Elkford Chamber of Commerce
Enderby & District Chamber of Commerce
Esquimalt Chamber of Commerce
Falkland Chamber of Commerce
Fernie Chamber of Commerce
Fort Nelson Chamber of Commerce
Fort St. James Chamber of Commerce
Fort St. John & District Chamber of Commerce
Gabriola Island Chamber of Commerce
Galiano Island Chamber of Commerce
Gibsons & District Chamber of Commerce
Gold River Chamber of Commerce
Golden & District Chamber of Commerce
Grand Forks & District Chamber of Commerce
Greenwood Board of Trade
Harrison Agassiz Chamber of Commerce
Hope & District Chamber of Commerce
Houston & District Chamber of Commerce
Kamloops (Greater) Chamber of Commerce
Kaslo Chamber of Commerce

Kelowna Chamber of Commerce
Kimberley Bavarian Society Chamber of Commerce
Kitimat Chamber of Commerce
Kitsilano Chamber of Commerce
Kootenay Lake Chamber of Commerce
Ladysmith Chamber of Commerce
Lake Country Chamber of Commerce
Langley Chamber of Commerce
Lillooet & District Chamber of Commerce
Lumby & District Chamber of Commerce
Lytton & District Chamber of Commerce
Mackenzie Chamber of Commerce
Maple Ridge Pitt Meadows Chamber of Commerce
Mayne Island Community Chamber of Commerce
McBride & District Chamber of Commerce
Merritt & District Chamber of Commerce
Mission Regional Chamber of Commerce
Nakusp & District Chamber of Commerce
Nanaimo (Greater) Chamber of Commerce
Nelson & District Chamber of Commerce
New Westminster Chamber of Commerce
North Shuswap Chamber of Commerce
North Vancouver Chamber of Commerce
Okanagan Falls Chamber of Commerce
Oliver & District Chamber of Commerce
Osoyoos Chamber of Commerce
Parksville & District Chamber of Commerce
Peachland Chamber of Commerce
Pemberton Chamber of Commerce
Pender Harbour & Egmont Chamber of Commerce
Pender Island Chamber of Commerce
Penticton & Wine Country Chamber of Commerce
Port Hardy & District Chamber of Commerce
Port McNeill & District Chamber of Commerce
Port Renfrew Chamber of Commerce
Powell River Chamber of Commerce
Prince George Chamber of Commerce
Prince Rupert & District Chamber of Commerce
Princeton & District Chamber of Commerce
Qualicum Beach Chamber of Commerce
Queen Charlotte Island (QCI) Chamber of Commerce
Quesnel & District Chamber of Commerce
Radium Hot Springs Chamber of Commerce
Revelstoke Chamber of Commerce
Richmond Chamber of Commerce
Rossland Chamber of Commerce
Saanich Peninsula Chamber of Commerce

Salmo & District Chamber of Commerce
Salmon Arm & District Chamber of Commerce
Salt Spring Island Chamber of Commerce
Sandspit/North Moresby Chamber of Commerce
Sechelt & District Chamber of Commerce
Sicamous & District Chamber of Commerce
Smithers District Chamber of Commerce
Sooke Harbour Chamber of Commerce
South Cariboo Chamber of Commerce
South Cowichan Chamber of Commerce
South Shuswap Chamber of Commerce
Sparwood & District Chamber of Commerce
Squamish Chamber of Commerce
Stewart-Hyder International Chamber of Commerce
Summerland Chamber of Economic Develop. & Tourism
Surrey Chamber of Commerce
Tahsis Chamber of Commerce
Terrace & District Chamber of Commerce
Trail & District Chamber of Commerce
Tri-Cities Chamber of Commerce
Ucluelet Chamber of Commerce
Valemount & Area Chamber of Commerce
Vanderhoof & District Chamber of Commerce
Vernon (Greater) Chamber of Commerce
Victoria (Greater) Chamber of Commerce
Wells & District Chamber of Commerce
West Shore Chamber of Commerce
West Vancouver Chamber of Commerce
Westbank & District Chamber of Commerce
Whistler Chamber of Commerce
Williams Lake & District Chamber of Commerce
Zeballos Board of Trade

APPENDIX 10

Standard Business Partner Letter

August 1st, 2005

[Name]

[Address]

Dear [Name]:

As you may already have heard, we recently announced that Kinder Morgan, one of the largest and most respected energy companies in the United States, will acquire Terasen to create a North American energy distribution and transportation leader.

This development marks a significant milestone in our history. It will give us the scale, resources and capital to execute on our strategy and build on our company's long and proud history in Western Canada.

We expect the transaction to close early in 2006. At that point, we will be an integral part of a much larger combined company with outstanding assets and a world-class reputation. Ranked by Fortune magazine as one of the most admired companies in the U.S., Kinder Morgan received the highest score in the magazine's history, as voted by its industry peers.

The combined company will be a leader in the North American energy distribution and transportation market and will be in a stronger position to offer multi-utility infrastructure and service solutions across our energy, water and wastewater businesses. Together we will have almost 40,000 miles of natural gas and petroleum transportation pipelines, more than 1.1 million natural gas distribution customers, approximately 150 terminals and a combined market capitalization of approximately US$19 billion. It will also make us the largest private sector provider of water and wastewater infrastructure and services in Western Canada, operating 90 systems in over 50 communities.

The company's gas and water businesses will continue to be based in Greater Vancouver. Calgary will maintain its head office for the regional pipeline operation. With the exception of Terasen Gas, which will retain that name, the combined company will be known as Kinder Morgan Inc.

This is a very exciting development for Terasen and its partners.

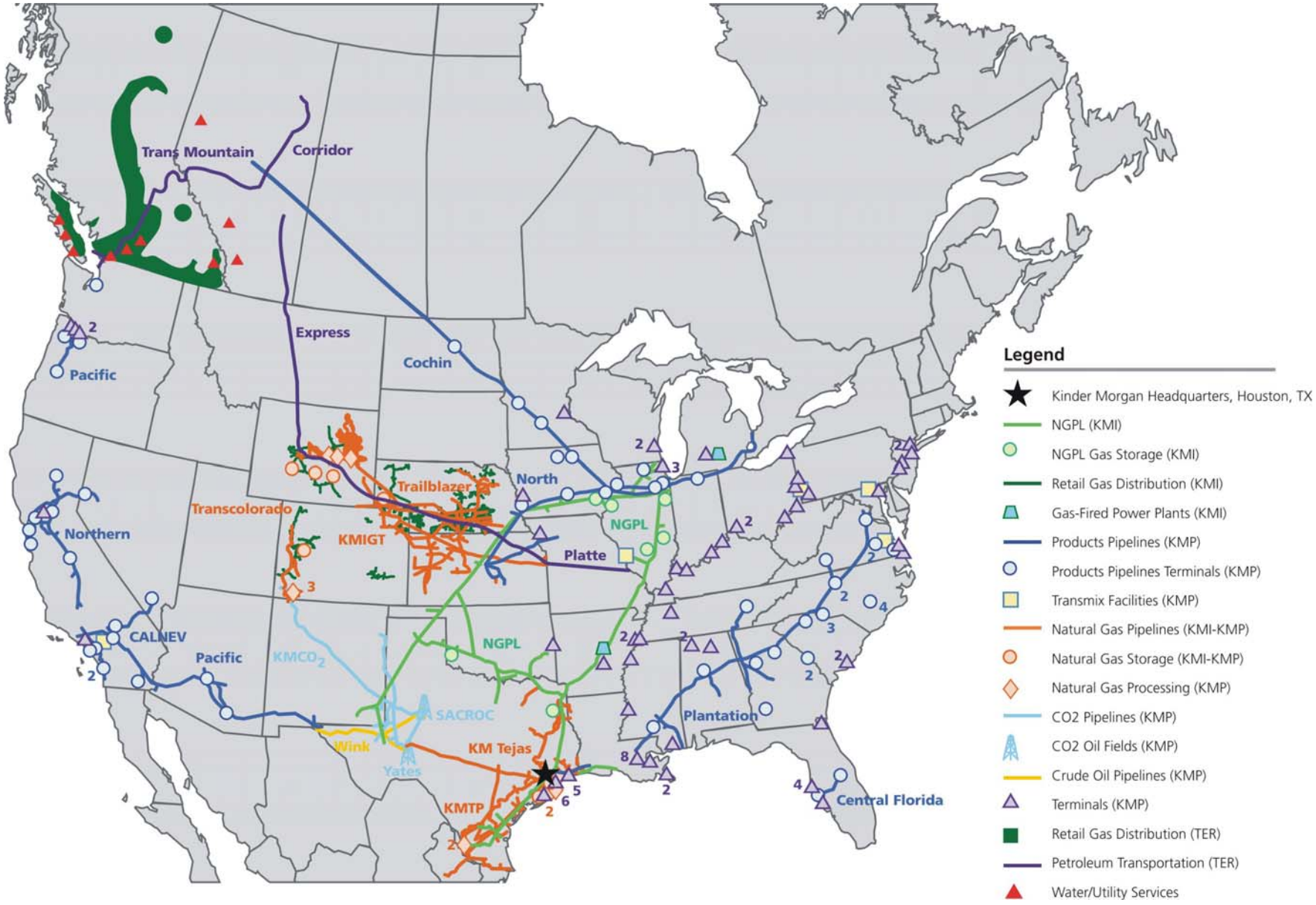
In the weeks and months to come, should you or any member of your team have any questions about this transaction and its impact on our business relationship with you, please contact me directly.

We value your business and thank you for your continued support.

Sincerely,

APPENDIX 11

TERASEN AND KINDER MORGAN COMBINED ASSET MAP



APPENDIX 12

FACT SHEET

Kinder Morgan, Inc. (NYSE: KMI)
Kinder Morgan Energy Partners, L.P. (NYSE: KMP)
Kinder Morgan Management, LLC (NYSE: KMR)

Headquarters: Houston, Texas
Employees: 6,500
www.kindermorgan.com

- KMI is one of the largest midstream energy companies in America, operating more than 35,000 miles of natural gas and products pipelines, and approximately 145 terminals.
- Company owns predominantly fee-based businesses, collecting a fee to transport and store energy products across the country, rather than owning the products directly. Minimal exposure to commodity prices.
- KMI was created in 1999 following a merger with KN Energy; KMP was formed in 1997; KMR in 2001.

Business Segments

KMI

- General Partner of KMP – Owns general partner interest and a 16 percent limited partner interest in KMP.
- Natural Gas Pipeline Company of America (NGPL) – Transports up to 5.8 Bcf/day of natural gas through nearly 10,000 miles of pipeline, primarily in the Midwest; has 243 Bcf of working gas storage capacity.
- Retail Natural Gas Distribution – Provides natural gas distribution and related services to more than 240,000 residential, commercial, agricultural and industrial customers in Colorado, Nebraska and Wyoming.
- Power – Owns an interest in four operating natural gas-fired power plants.

KMP – one of America's largest publicly traded pipeline master limited partnerships

- Largest independent owner/operator of products pipelines. Transports approximately 2 million barrels per day of gasoline, jet fuel, diesel and natural gas liquids through 10,000 miles of pipeline.
- Largest independent owner/operator of terminals. Approximately 145 terminals storing petroleum products and chemicals, and handling coal and other dry-bulk materials.
- Largest transporter and marketer of carbon dioxide for enhanced oil recovery projects, and the second largest oil producer in Texas.
- Major transporter of natural gas in Texas and the Rocky Mountain, Midwest and Gulf Coast areas; nearly 15,000-mile pipeline system has transportation capacity of more than 8 Bcf/day.

Highlights – Combined Enterprise Value of almost $30 billion

- KMP ranked #1 in the pipeline category in America's Most Admired Companies (Fortune Magazine–2005).
- Chairman and CEO Richard D. Kinder receives a salary of $1 a year, no bonuses, no option grants and no restricted stock.
- Since formation, average annual return of about 40% to KMI shareholders and 35% to KMP unitholders.
- Only S&P 500 company (to our knowledge) to post annual budget on its web site and compare results to budget every quarter during investor calls.
- Kinder Morgan does not have a Political Action Committee (PAC) or make any political contributions.

KMI-2004		
Earnings	$3.81 per share	
Cash Flow	$612 million	
Net Income	$528.5 million	
Debt to Cap	38%	
Revenues	$1.2 billion	
Current Dividend	$3.00 per share	(annualized)

KMP-2004	
Declared Distributions	$2.87 per unit
Distributable Cash Flow	$1.0 billion
Net Income	$831.6 million
Debt to Cap	52%
Revenues	$7.9 billion
Current Distribution	$3.12 per unit

Media Relations Contacts:
Larry Pierce (713) 369-9407
Rick Rainey (713) 369-9452

Investor Relations Contact:
Mindy Mills (713) 369-9490

APPENDIX 13

DRAFT – FOR INTERNAL USE ONLY
Terasen Gas Customers: Website FAQ
V1 August 4, 2005

Many of our customers have asked questions about the recent announcement of the merger between Kinder Morgan and Terasen Inc. and how it will affect them as customers of Terasen Gas

To keep you all informed we have included a list of answers to frequently asked questions below.

Q: Does this mean that rates will go up?
A: No, the rate structure for Terasen Gas customers will not change as a result of this transaction.

Q: How will this affect the service I receive?
A: The merger will not impact current service levels. We remain focused on connecting our customers safely, efficiently and reliably to the energy and services they need.

Q: Is Terasen Gas changing its name?
A: No. We will still be called Terasen Gas.

Q: Will I receive bills from Kinder Morgan now?
A: No. We will still be called Terasen Gas and you will receive bills from us as usual.

Q: Who will regulate Terasen Gas now?
A: We will continue to be regulated by the British Columbia Utilities Commission.

Q: Will there be any change to meter readings?
A: No, it is business as usual with regard to all meter readings.

Q: Where will Terasen Gas be located?
A: Our operations centre office will continue to be based in Surrey, British Columbia and our offices in other communities will remain in place.

Q: Will any jobs be lost?
A: We do not expect any jobs to be lost at Terasen Gas as a result of this transaction.

Q: Where will the head office be?
A: The Terasen Gas head office will remain in Surrey, BC. Terasen's water and gas businesses will continue to be based in Richmond, BC. The petroleum pipelines

business will continue to be based in Calgary and the corporate head office of the combined company will be in Houston, Texas.

Q: Why are you selling Canadian natural resources?

A: Terasen Gas does not own Canadian natural gas. As a natural gas distribution company, we buy gas from producers and deliver it to homes and businesses across BC.

Q: Will Terasen Gas customer information be given to the Americans?

A: Terasen Gas will not provide customer information to Kinder Morgan Inc. Terasen Gas is based in Canada and will continue to operate under Canadian laws. All federal and provincial privacy rules and regulations will continue to apply to our customers' personal information.

A: Will the profit from Terasen stay in Canada or go to the US?

Q: Once the purchase is finalized, earnings from all Terasen lines of business (Terasen Gas, Terasen Pipelines and Terasen Water and Utility Services) will be counted as part of the overall earnings of Kinder Morgan Inc which in turn will accrue to the shareholders of Kinder Morgan. As part of the acquisition, 10 per cent of Kinder Morgan's shares will be issued to Terasen's mainly Canadian shareholders. Kinder Morgan shares are traded on the New York Stock Exchange and can be purchased by investors in Canada, the US and most other countries around the world.

A: Are you going to be selling Canadian gas to the Americans now?

Q: Despite the pending changes to the ownership structure of Terasen Gas, we continue to remain focused on providing natural gas service to our 875,000 customers in British Columbia. We do not have customers in the U.S.

As a gas distribution company, Terasen Gas has <u>never</u> been in the exploration or production end of the natural gas business. We buy gas from sources in Alberta or BC and sell that gas to our B.C. customers at the same price we pay without mark up. We make our money by charging a delivery fee for bringing the gas to your door. None of this will change.

Q: Who owns the natural gas?

A: Natural gas rights are owned by the Province of BC. The provincial government in turn collects royalty payments from exploration companies that find and extract the gas. Gas utilities such as Terasen Gas then buy the gas from the exploration companies. Many of these companies are Canadian (such as EnCana, Petro-Canada, Canadian Natural Resources); some are Dutch (Shell) others are English (British Petroleum).

Q: What does this merger mean for the BC economy?
A: Terasen will move forward with additional resources and capital to further our investment in Western Canada. We expect to contribute to the economic growth of Western Canada through infrastructure investment and job creation.

Q: What happens now?
A: Both companies, Terasen and Kinder Morgan, are currently consulting with regulatory bodies and our respective shareholders towards receiving all the necessary approvals for the transaction. We expect the transaction will close by year-end.

Q: When will further information be available?
A: We expect the approval process to take at least six months. Please check back to the website for regular updates on this process.

APPENDIX 14

THE VANCOUVER SUN

PUBLISHED BY PACIFIC NEWSPAPER GROUP INC.
A CANWEST COMPANY
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THE NEWSPAPER'S VIEW

Canadians are getting a sweetheart deal with Terasen sale

The proposed takeover of Terasen Inc. by U.S. pipeline operator Kinder Morgan Inc. is a sweetheart deal for Canadians because they all own a chunk of the Vancouver-based company.

The Canadian Pension Plan Investment Board, which invests contributions not immediately needed to pay benefits, is mandated to maximize returns to ensure money will be available to fund the pensions for working Canadians when they retire.

Through good luck or good management, it has certainly fulfilled that commitment with its sizeable stake in Terasen. The CPP Investment Board owns about 8.4 million shares, or nearly eight per cent of the outstanding shares. The share price (adjusted for a two-for one stock split in June 2004) has soared from less than $15 a share in 2000, a year after the CPP Investment Board made its first investment, to $35.93 on Friday.

The $6.9-billion cash, stock and debt deal gives Terasen shareholders a 20-per-cent premium on the stock price of the past 20 trading days. And the CPP Investment Board is not the only Canadian institutional investor that stands to benefit on behalf of Canadian clients. The B.C. Investment Management Corp., which manages funds for the public sector in British Columbia, the Caisse de Depot et Placement du Quebec, the Ontario Teachers Pension Plan Board, Canada's big mutual fund companies — Investors Group and AGF — and the investment arms of the Bank of Montreal, Scotiabank, Royal Bank, TD Canada Trust and HSBC Canada all stand to make an enviable return on their investment.

Because the transaction is 65 per cent cash and 35 per cent stock, Canadian shareholders of Terasen will end up owning nearly 10 per cent of Kinder Morgan, enough — says the acquiring company — to merit Canadian board representation.

So rather than the deal being an American takeover of a Canadian energy company, it is rather Canadians getting a driver's seat on the decision-making body of a larger U.S. company — and having it pay for the privilege.

Not only will Canadian investors enjoy much greater liquidity holding shares of Kinder Morgan, but with access to a larger capital base, Terasen can pursue its strategic goal of expanding its pipeline network. On its own, Terasen would have had to take on more debt or issue shares, the latter representing a dilution of investors' equity.

As attractive as this deal is, there will be those who will natter about the perceived threat of Americans taking over Canadian companies. In fact, it's the Americans who should be worried about Canadians' aggressive moves on U.S. companies. A recent report on cross-border merger and acquisition activity by investment banker Crosbie & Co. notes that Canadian companies acquired U.S. companies in the 2005 first quarter by a ratio of two to one. In raw numbers, there were 32 acquisitions of U.S. companies by Canadian businesses and only 14 acquisitions of Canadian businesses by U.S. companies.

The five-year average of Canadian companies acquiring a foreign target is 294 transactions valued at $47.6 billion; while international companies acquiring Canadian targets came in at 162 transactions valued at $43.4 billion, of which U.S. purchasers represented just 40 per cent. It appears that Canada can hold its own in the international corporate takeover game.

Statistics Canada provides further evidence that Canada is an able and active player in international commerce with growth in the country's foreign assets in the first quarter this year outpacing growth in international liabilities.

In the quarter, Canadian investors bought $6.7 billion in foreign securities while foreign investors bought $4.7 billion of Canadian securities.

Last year, Canadian direct investment abroad totalled $445.1 billion, while foreign direct investment in Canada totalled just $365 billion. Canadian direct investment abroad has exceeded foreign direct investment in Canada every year since 1997. (Direct investment is when a company owns a minimum of 10 per cent of the voting equity in a foreign business.)

The 10-per-cent increase in Canadian direct investment in 2004 was driven partly by the $18-billion acquisition of John Hancock Financial Services of Boston by Toronto-based Manulife Financial, the largest cross-border takeover in Canadian history. There wasn't a peep of protest from the Americans on that one.

Shoemakers' merger gives them a leg up in the race for No. 1

The quest for world domination of the sporting goods market has become a foot race between the American leader Nike Inc. of Beaverton, Ore., and Adidas-Salomon AG of Herzogenaurach, Germany, now that Adidas has agreed to buy third-place Reebok International of Canton, Mass., for $3.8 billion US.

The deal narrows the gap between Nike, with sales of $14 billion, and Adidas, which will boast sales of nearly $12 billion when combined with Reebok. But will it lead to a cheaper sneaker?

The cost of the average running shoe is higher than Nike's stock price, which was $85 on the New York Stock Exchange Friday, so there should be plenty of give on margin. If Adidas consolidates distribution, accounting, administration and other operations, consumers stand to benefit from the cost efficiencies, especially with sales of athletic footwear in slo-mo (a mere $300-million gain last year to $14.75 billion).

On the other hand, the duopoly could put the squeeze on retailers who have few other manufacturers to turn to for merchandise.

In the end, the winner of this race might be decided by who fields the most popular stars. That still gives the edge to Nike, which claims Tiger Woods, Lance Armstrong and Kobe Bryant. But Armstrong has retired, Bryant has already played eight seasons and, besides, neither one is a Michael Jordan, the basketball superstar who made Nike's Air Jordan one of the best selling shoes of all time.

ASSOCIATED PRESS ARCHIVES

English soccer star David Beckham puts his best boot forward for Adidas.

Adidas has dibs on soccer star David Beckham and, with Reebok, inherits basketball bad boy Allen Iverson. But, more importantly, the Adidas-Reebok family will include Missy Elliot, 50 Cent, Jay-Z and Nelly. Talk about street cred.

Reebok chairman and CEO Paul Fireman, who transformed a small British shoemaker into a leading international athletic apparel company, walks away with $800 million for his trouble.

While no one knows which company will win the race, it's pretty clear who won the jackpot.

The editorials that appear in this space represent the opinion of The Vancouver Sun newspaper. They are unsigned because they do not necessarily represent the personal views of the writers. The positions taken in the editorials are arrived at through discussion among the members of the newspaper's editorial board, which operates independently from the news departments of the paper. The members of The Sun's editorial board are editorial page editor Fazil Mihlar, editorial writers Harvey Enchin, Craig McInnes and Peter McKnight, editor-in-chief Patricia Graham and publisher Dennis Skulsky. Columnists Stephen Hume, Jonathan Manthorpe and Barbara Yaffe are advisers to the board.

ROY PETERSON'S VIEWPOINT

VOICE OF THE PEOPLE

International glitz blinds banks to local businesses

Re: CIBC shares plunge on news of $2.8b lawsuit settlement, BusinessBC, Aug. 4

In 1999 I was a visiting lecturer at Simon Fraser University's Business School. The course dealt with issues concerning Canada's banking system. The federal Liberal government was under great pressure to allow the major banks to merge. David Bond, a respected University of B.C. finance professor, was writing a series of articles in favour.

Lucien Lieberman

I asked my students to follow his arguments and I countered them in my lectures. I argued that the big losers in such mergers would be Canadian small businesses, especially those in small centres. I also argued that mergers for the sake of size did not necessarily ensure economies of scale. The academic research backed me up.

Today, the major banks are suggesting that they would sell off the redundant bank centres to credit unions. This supposedly would take care of my earlier concerns, but I know that credit unions have loan authorization limits that often require growing businesses to seek financing at larger institutions. I believe the Canadian major banks want to be seen as bigger players on the international scene and leave the small business loans to others.

Now we have the CIBC facing a write-off of $2.4 billion US on its Enron business and the Royal Bank and the TD Bank are in the wings. I'm sure the Enron business was potentially more profitable than administering a thousand small business accounts, but consider the benefits to the Canadian economy if that business, now gone sour, had been placed at home.

LUCIEN LIEBERMAN
Vancouver

Modest war hero excelled in civilian life

The death of my uncle Ernest "Smokey" Smith is a loss to all who knew him. He was a true hero — an ordinary person transformed by unusual circumstances. He was the perfect model of military service, who, as a mere private, led with his valour, not his rank. He served his company of soldiers against overwhelming odds, and served his country.

John Weston

As great as he was in wartime, he surpassed his military achievement as a civilian. He inspired thousands of Canadians to be proud of their country.

Smokey was modest about his wartime achievement. He was aware of the many others who fell in wartime, having performed great deeds, usually without the medals.

I worked for Smokey and his wife, my aunt, the late Esther Smith, in their well-known Vancouver travel agency, Smith Travel. Smokey greeted all customers with laughter and charm. I do not recall either of them ever complaining about their workload or the stress of running a business.

Smokey's values — duty, loyalty, parsimony, discipline, a sense of community, patriotism, a commitment to build for the future — characterize the people who won the Second World War.

Lest we forget, Smokey fought for freedom but acknowledged responsibility. We Canadians must preserve the same sense of responsibility. Otherwise, Smokey's memory will be lost.

JOHN WESTON
West Vancouver

Forced voting would mask the real problems

Re: The case for compulsory voting, Vaughn Palmer, Aug. 4

Low turnout among young voters, who represent the future of our nation, is a serious problem and cause for action. However, compulsory voting is not the answer.

By forcing people to vote we would be ignoring the fact that there are underlying reasons people choose not to vote. We might mask the problems of our political system with quick-fix solutions like compulsory voting, but is a mandatory, uneducated vote better than no vote at all? How many of those disinterested voters would rally behind the first politicians offering lower taxes or other popular policies, oblivious to any social or economic repercussions?

It is not that 40 per cent of eligible voters in B..C don't have five minutes to go to the polling stations; people just don't believe that our politicians will listen and respond to them. In light of recent events, how can we help but feel that U.S. foreign policy and special interest groups have the final say in our country regardless of how we vote? With the slow pace and stubborn obstacles of political reform, I don't see how my government forcing me to vote will do anything to aid Canadian freedom and democracy.

TIM FOURNIER
Kwantlen University student
White Rock

Extraditing Emery dodges truth about our own laws

Re: The Prince of Pot has to answer for his choices, Editorial, Aug. ?

The headline sounds very fine and principled, but *The Sun*'s defence of this use of extradition falls a little short of common sense. Marc Emery did not commit a crime in the U.S. and then flee to Canada to avoid the consequences of his actions. He is a Canadian who openly broke the law in Canada as an act of civil disobedience and has been charged and, at times, convicted. If the police here have been given information that he has broken the law here, he should be arrested and charged here.

If Canadian law enforcement does not live up to the expectations of the U.S. government, the solution is not to hand over a Canadian citizen as a sacrificial lamb. This is just a way for politicians here to avoid telling their counterparts in the U.S. that they are aware of Emery's actions, but they have neither the political will nor the support of the Canadian populace to engage in a U.S. inspired "War on Drugs." Our politicians should ensure that no Canadian faces a potential life sentence in the U.S. simply because they have allowed our own laws to become dysfunctional.

KEVIN PARTRIDGE
Vancouver

Teachers have a right to discuss quality of education

Re: Teachers can bring politics to class: court, Aug. 4

I am an educator. This requires that I serve as an advocate for my students. It seems to have escaped the notice of the B.C. Public School Employers' Association and Education Minister Shirley Bond that class size and the presence or absence of learning assistance teachers does affect the quality of education and that these things might be of some concern to the parents at a parent-teacher interview. As an advocate, it should be part of my job to inform parents of decisions by the ministry that affect the student.

In my experience, most teachers try their best to support their students. For example, during most of my 15-year teaching career, contract provisions had more to do with job conditions such as class sizes, number of students per learning specialist teacher and professional development than teacher salaries. Those negotiated job conditions provided a benefit to teachers, but also conveyed benefits to students. If the contracts were only about salaries, the benefit would be solely to teachers. The current government legislated away the contract provisions that supported education and replaced them with an unfunded raise for teachers.

Parents have a right to know about such changes and it is not only appropriate, but important, to discuss these issues in parent-teacher interviews. In my opinion, the decision made by the B.C. Court of Appeal was correct.

NEILL SMITH
Grade 7 teacher
M.J. Norris Elementary School
Surrey

HOW TO CONTACT THE EDITOR:

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ADDRESS: The Vancouver Sun, Suite 1-200 Granville St., Vancouver, B.C., V6C-3N3.

APPENDIX 15

Letter to all customers from Randy Jespersen, President of Terasen Gas

August 12, 2005

On Monday, August 1st, Terasen and Kinder Morgan announced an exciting transaction that will create a premier organization in the business of North American energy transportation and delivery. We believe the Kinder Morgan decision to invest in Terasen is a clear and strong validation of our business strategy.

Regardless of who owns Terasen Gas, it will remain a natural gas delivery company that purchases natural gas on the open market on behalf of its customers and sells the gas to the customer without markup.

You can be sure that as we move forward, Terasen Gas will remain an active participant in the communities we serve and committed to the people who have helped build this company over the years.

But what does this mean to you, our customers?

Firstly, it is business as usual at Terasen Gas, or as the Vancouver Sun recently put it, "the impact is nil for customers". Combining Terasen with Kinder Morgan will not affect our day-to-day operations or our commitment to customer service. There will be no change in our rates or service levels as a result of this transaction, and we will continue to be regulated by the BC Utilities Commission. We also want you to know that since Terasen is an energy transportation and distribution company, this does not involve any transfer of ownership of Canadian natural resources.

This transaction is a significant milestone in our corporate history. Our company began in 1952 as Inland Natural Gas. In 1988 Inland bought the gas distribution division of BC Hydro. At the time of that acquisition, Inland changed its name to BC Gas, and over the next ten years steadily expanded its gas distribution and pipeline business in British Columbia and Alberta. In 2003, BC Gas changed its name to Terasen, in part to reflect our growing presence in Western Canada.

Kinder Morgan is a world-class company and a leader in the North American energy market and was ranked by Fortune magazine as one of "America's Most Admired Companies". As voted by its industry peers, Kinder Morgan scored first in its industry for innovation, employee talent, social responsibility, financial soundness and quality of management. I don't believe there could be a better "fit" for us.

The next steps in completing the transaction include proceeding with a regulatory approval process for the British Columbia Utilities Commission. This will include the submission of an application, stakeholder consultations, and a BCUC order setting out the application review process. For further information about the regulatory process visit www.bcuc.com.

Preparations are underway leading to shareholder and other approvals.

As always we welcome your questions and comments about our business, and we thank you for your continued support.

R.L. (Randy) Jespersen, President, Terasen Gas

APPENDIX 16

Get Comfortable.™

Terasen Gas

Summer 2005

DRAFT

Get Comfortable is the Terasen Gas newsletter featuring information on energy usage, conservation, rates and natural gas safety.

In this issue...

No changes for gas customers as result of sale

Customers need not worry that their natural gas service or rates will be affected by the purchase of Terasen Inc. by Kinder Morgan Inc.

"The fact the new owner will be based out of Houston, Texas, will have no effect on what customers pay for their natural gas either now or into the future," said Randy Jespersen, president of Terasen Gas.

"Our rates are regulated, reviewed in a very open and transparent process and ultimately approved by the British Columbia Utilities Commission. That won't change regardless of who owns Terasen Gas."

It's a point backed up by Mark Jaccard, a professor at the School of Resource and Environmental Management at Simon Fraser University and former chair of the BC Utilities Commission.

"Who owns the company really doesn't have that much effect," Jaccard said. "We had West Kootenay Power in the 1990s bought out by an American company, the rates never changed for those customers."

Continues on Page 2

Terasen Gas computer donations help students and charities navigate information superhighway

Terasen Gas recently donated more than 500 used computers to schools and charities across BC based on suggestions from the gas utility's employees.

"Traditionally, we give used computers to schools. But this time, we decided to ask our employees where they thought the computers should go since they're the ones involved in their communities," said Carol Greaves, Community Relations Manager.

The results were overwhelming. Twenty-eight schools and 57 non-profit agencies requested computers.

"Some groups asked only for one or two computers. Others said they could use 30 or 40 computers. We tried our best to match their requests with the resources we had available," Greaves said.

The computers were on average three or four years old and ranged from CPUs to lap-top models. All were replaced as part of a company-wide computer upgrade program.

Twenty-eight communities across BC benefited from the computer donations.

Learn about gas safety rules at Terasen Jr.! Visit www.terasenjr.com

TERASEN Jr.

Continued from Page 1

No changes for gas customers as result of sale

Recalling his days overseeing the commission, Jaccard said regulation by the BCUC means companies — regardless of who owns them — can't unilaterally decide to either raise rates or spend money on pet projects.

"Their tariffs for delivering gas," said Jaccard, "are based on approved investments that they undertake to expand their system to provide good service."

In a recent radio interview on CKNW's Bill Good Show, Jaccard said the sale of Terasen Gas to Kinder Morgan will not be felt by the consumer as long as the utility remains locally regulated by the utilities commission.

Regardless of who owns Terasen Gas, it will remain a natural gas delivery company that purchases the natural gas commodity on the open market on behalf of its customers and sells the gas to its customer without mark up.

"What the Kinder Morgan purchase of Terasen does is provide us with expanded access to capital that will allow us to take advantage of good investment opportunities that in turn create good jobs and economic growth for Canadians generally and British Columbians specifically," Jespersen said. "We have an outstanding record on matters relating to safety, environment and service quality and Kinder Morgan expects us to keep it that way."

Ownership change Q & A

1. Will the sale of Terasen Gas to Kinder Morgan impact the price I pay for my natural gas?

No. The price you pay for natural gas is based on the market price and what Terasen Gas pays to obtain the gas. Terasen Gas rates are regulated by the BC Utilities Commission and this will not change. Regardless of who owns it, Terasen Gas will continue to purchase natural gas on the open market and pass it along to customers without mark-up.

2. Won't this American company try to recoup the $6.9 billion it spent to purchase Terasen by raising the price I pay for my natural gas?

Terasen Gas is now, and will continue to be, a utility regulated by the British Columbia Utilities Commission. That means the price you pay for natural gas is reviewed and approved by the BCUC.

3. Does this sale mean we're giving away our natural gas to American interests?

As a distribution company, Terasen Gas has never been in the exploration or production end of the natural gas business. We buy gas from sources in Alberta and BC and sell that gas to our B.C. customers at the same price we pay without mark up.

The sale of Terasen Gas to Kinder Morgan will not result in more Canadian-sourced natural gas flowing to the U.S. or, for that matter, central Canadian markets. The amount of gas which flows to either of those two areas is determined solely by market demand.

Despite the pending changes to the ownership structure of Terasen Gas, we continue to remain focused on providing natural gas service to our 875,000 customers in British Columbia. We do not have customers in the U.S.

4. Does this sale mean BC's natural gas is now owned by a foreign interest?

No. Natural gas rights are owned by the Province of BC regardless of who owns the distribution pipelines.

The provincial government collects royalty payments from exploration companies that find and extract the gas. Many of these companies are Canadian (such as EnCana, Petro-Canada, Canadian Natural Resources); some are Dutch (Shell), others are English (BP).

As a natural gas distribution company, Terasen Gas eventually purchases the gas from these exploration companies and distributes it to awaiting customers in BC. This won't change under Kinder Morgan ownership.

5. Is this another example of an American takeover of a BC Crown corporation?

No. Terasen Gas, formerly BC Gas, has always been a privately owned company.

Confusion over this point continues to arise because, at one time, a portion of the existing company belonged to BC Hydro — the Lower Mainland gas division. That division was purchased from Hydro in 1988 when Inland Natural Gas acquired other gas utilities across the province. Inland Natural Gas eventually consolidated these separate holdings under the ownership banner of BC Gas. BC Gas became Terasen Gas in 2003.

But for Lower Mainland residents especially, confusion over the company's history still exists as, for several years, BC Hydro and BC Gas shared a common customer utility bill. The billing systems were separated in 2002.

Switch and save with natural gas

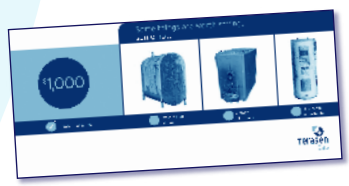
There's never been a better time to replace your old water heater and furnace.

With the Terasen Gas Switch and Save conversion offer, you can qualify for a rebate of up to $1,000 on your Terasen Gas bill when you replace your old oil, electric or propane-powered furnace and water heater with new natural gas models.

Plus, ENERGY STAR qualified furnaces and boilers are PST-exempt, so you can save even more.

See the enclosed bill insert for more information. You can also call toll-free 1-866-442-4456, or visit www.terasengas.com.

If your existing furnace and water heater aren't yet due for replacement, make sure they're operating efficiently.



Professional maintenance by a registered gas contractor once a year (or at intervals recommended in your owner's manual) is one of the easiest ways to ensure your natural gas furnace is operating at peak efficiency and optimum safety levels. A furnace that isn't operating at its peak is working harder to supply warmth and that drives up your heating bills.

And while your furnace is receiving its tune-up, have your other natural gas appliances — your cook top, oven, clothes dryer and fireplace — inspected as well. Every natural gas appliance can benefit from a little TLC.

Use the right fuel in the right place

At Terasen Gas, we encourage customers to think about how they use energy.

How do we heat our homes? How do we heat our water? Where does the electricity come from to keep the lights on and run our computers? These are questions we should consider given that a typical home in BC uses six per cent more electricity today than it did in 1995.

As we build more and more new homes, demand for electricity increases. By making informed choices and choosing to move your furnace, boiler, range, clothes dryer and water heater to natural gas from electricity, you will help conserve and reduce demand for electricity. It also means you're using resources more efficiently. This creates stability and puts downward pressure on natural gas rates.

Does it make sense to burn natural gas at 60 per cent efficiency to create electricity that is used for home heating when you can use modern, natural gas heating appliances that are 90 per cent efficient or more? Clearly the answer is no, that doesn't make sense.

What does make sense is matching your energy source to its best use. Natural gas is ideal for space and water heating. Electricity is best suited for keeping the lights on and powering our computers and televisions.

Keeping kids safe around your gas fireplace

A natural gas fireplace can take the chill out a cool fall day. Heater style units with a sealed glass front are excellent for zone heating areas of your home. Not unlike other fireplaces, it is important to note that the glass front may heat up to high temperatures, and they retain their heat for a period of time after being shut off.

When purchasing and installing a gas fireplace, locate the on/off switch out of reach of children and for added safety consider purchasing a fireplace screen to keep small hands away. Speak with your fireplace dealer about the many heater style units available for years of comfort and cozy ambience.

Co-operating for public safety

Public and workplace safety is everybody's business, and by working together, we can save lives.

For these reasons, Terasen Gas has joined forces with Fortis BC, Shaw Cable, the Workers' Compensation Board and BC One Call to launch the Co-operative Public Safety Campaign.

The campaign will raise awareness of potential safety hazards — such as buried natural gas lines and overhead electrical wires—and teach you how to avoid them when you're at work or working around your house and yard.

If you're building, planning a renovation project, installing fence posts or landscaping, remember to call before you dig.

Call BC ONE CALL at 1-800-474-6886 or *6886 on your cellular to request underground gas line information.

BC 1 CALL

Get comfortable with the Terasen Gas Finance Plan

The Terasen Gas Finance Plan lets you equip your home with the best of everything natural gas has to offer.

On approved credit and with no down payment, you can finance the purchase and installation of a variety of natural gas appliances and some companion electric appliances (clothes washers, fridges and dishwashers) if purchased and installed at the same time as a gas dryer or gas range.

The Terasen Gas Finance Plan is available through select Qualified Dealers on Vancouver Island and the Sunshine Coast. A list of Qualified Dealers can be found at www.terasengas.com or call Terasen Gas toll-free at 1-866-442-4456 for more information.

If you have any comments, suggestions or questions arising from this issue of *Get Comfortable*, please call us toll-free at 1-800-667-6064. In Victoria, call 250-388-6200.

Terasen Gas delivers natural gas and piped propane to homes and businesses. The Terasen Gas group of companies includes Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., Terasen Gas (Squamish) Inc. and Terasen Gas (Whistler) Inc. For information about natural gas service, safety, and energy efficiency visit www.terasengas.com.

Terasen Gas

Get Comfortable TGVI 07/05 05-170

APPENDIX 17

Get Comfortable.™

Terasen Gas

Summer 2005

DRAFT

In this issue...

Get Comfortable is the Terasen Gas newsletter featuring information on energy usage, conservation, rates and natural gas safety.

No changes for gas customers as result of sale

Customers need not worry that their natural gas service or rates will be affected by the purchase of Terasen Inc. by Kinder Morgan Inc.

"The fact the new owner will be based out of Houston, Texas, will have no effect on what customers pay for their natural gas either now or into the future," said Randy Jespersen, president of Terasen Gas.

"Our rates are regulated, reviewed in a very open and transparent process and ultimately approved by the British Columbia Utilities Commission. That won't change regardless of who owns Terasen Gas."

It's a point backed up by Mark Jaccard, a professor at the School of Resource and Environmental Management at Simon Fraser University and former chair of the BC Utilities Commission.

"Who owns the company really doesn't have that much effect," Jaccard said. "We had West Kootenay Power in the 1990s bought out by an American company, the rates never changed for those customers."

Continues on Page 2

Terasen Gas computer donations help students and charities navigate information superhighway

Terasen Gas recently donated more than 500 used computers to schools and charities across BC based on suggestions from the gas utility's employees.

"Traditionally, we give used computers to schools. But this time, we decided to ask our employees where they thought the computers should go since they're the ones involved in their communities," said Ruth Sulentich, Community Relations Manager, Kelowna.

The results were overwhelming. Twenty-eight schools and 57 non-profit agencies requested computers.

"Some groups asked only for one or two computers. Others said they could use 30 or 40 computers. We tried our best to match their requests with the resources we had available," Sulentich said.

The computers were on average three or four years old and ranged from CPUs to lap-top models. All were replaced as part of a company-wide computer upgrade program.

Twenty-eight communities across BC benefited from the computer donations.

Learn about gas safety rules at Terasen Jr.! Visit www.terasenjr.com

TERASEN Jr.

Continued from Page 1

No changes for gas customers as result of sale

Recalling his days overseeing the commission, Jaccard said regulation by the BCUC means companies — regardless of who owns them — can't unilaterally decide to either raise rates or spend money on pet projects.

"Their tariffs for delivering gas," said Jaccard, "are based on approved investments that they undertake to expand their system to provide good service."

In a recent radio interview on CKNW's Bill Good Show, Jaccard said the sale of Terasen Gas to Kinder Morgan will not be felt by the consumer as long as the utility remains locally regulated by the utilities commission.

Regardless of who owns Terasen Gas, it will remain a natural gas delivery company that purchases the natural gas commodity on the open market on behalf of its customers and sells the gas to its customer without mark up.

"What the Kinder Morgan purchase of Terasen does is provide us with expanded access to capital that will allow us to take advantage of good investment opportunities that in turn create good jobs and economic growth for Canadians generally and British Columbians specifically," Jespersen said. "We have an outstanding record on matters relating to safety, environment and service quality and Kinder Morgan expects us to keep it that way."

Ownership change Q & A

1. Will the sale of Terasen Gas to Kinder Morgan impact the price I pay for my natural gas?

No. The price you pay for natural gas is based on the market price and what Terasen Gas pays to obtain the gas. Terasen Gas rates are regulated by the BC Utilities Commission and this will not change. Regardless of who owns it, Terasen Gas will continue to purchase natural gas on the open market and pass it along to customers without mark-up.

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But for Lower Mainland residents especially, confusion over the company's history still exists as, for several years, BC Hydro and BC Gas shared a common customer utility bill. The billing systems were separated in 2002.

Fall's the time to think about your furnace

With the onset of cooler days and chilly nights, thoughts turn to keeping your home cosy and warm. Fall is the perfect time to think about natural gas your furnace or boiler system.

If your furnace is more than 10 years old, it may be considered a low-efficiency system. That's why Terasen Gas is bringing back its residential ENERGY STAR® Qualified Heating System Upgrade. The program begins September 1 and runs through December 31, 2006.

See the enclosed bill insert for more information. You can also call toll-free 1-866-585-5715, or visit www.terasengas.com.

If your furnace isn't yet ready for replacement, get a tune-up instead. A little regular maintenance will go a long way to saving you extra money on your monthly energy bill this winter

Professional maintenance by a registered gas contractor once a year (or at intervals recommended in your owner's manual) is one of the easiest ways to ensure your natural gas furnace is operating at peak efficiency and optimum safety levels. A furnace that isn't operating at its peak is working harder to supply warmth and that drives up your heating bills.

And while your furnace is receiving its tune up, have your other natural gas appliances — your cook top, oven, clothes dryer and fireplace — inspected as well. Every natural gas appliance can benefit from a little TLC.

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The campaign will raise awareness of potential safety hazards — such as buried natural gas lines and overhead electrical wires — and teach you how to avoid them when you're at work or working around your house and yard.

If you're building, planning a renovation project, installing fence posts or landscaping, remember to call before you dig.

Call BC ONE CALL at 1-800-474-6886 or *6886 on your cellular to request underground gas line information.

BC 1 CALL

Introducing the dull, boring gas bill

Stable Rate means the same old gas price, month after month. No matter what the commodity price of natural gas may be doing in the open market, Stable Rate guarantees residential customers on Mainland BC the same commodity price — with no ups or downs — for a full 12 months.

Stable Rate is about certainty — and the peace of mind you'll get from knowing you're protected from fluctuating natural gas commodity rates. Stable Rate registration begins in October, but visit www.terasengas.com for program details.

If you have any comments, suggestions or questions arising from this issue of *Get Comfortable*, please call us at 1-888-224-2710. Squamish customers please call 604-892-5455.

Terasen Gas delivers natural gas and piped propane to homes and businesses. The Terasen Gas group of companies includes Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., Terasen Gas (Squamish) Inc. and Terasen Gas (Whistler) Inc. For information about natural gas service, safety, and energy efficiency visit www.terasengas.com.

Terasen Gas

Get Comfortable TG 07/05 05-170

APPENDIX 18

August 12, 2005

Kinder Morgan and Terasen

On August 1, 2005, we announced that Kinder Morgan, one of the largest and most respected energy companies in the United States, will acquire Terasen to create a North American energy distribution and transportation leader.

This development marks a significant milestone in our history. It will give us the scale and resources to execute on our strategy and build on our company's long and proud history in Western Canada.

We expect the transaction to close by the end of the year. At that point, we will be an integral part of a much larger combined company with outstanding assets and a world-class reputation. Ranked by Fortune magazine as one of the most admired companies in the U.S., Kinder Morgan received the highest score in the magazine's history, as voted by its industry peers.

The combined company will be a leader in the North American energy distribution and transportation market and will be in a stronger position to offer multi-utility infrastructure and service solutions across our energy, water and wastewater businesses. Together we will have almost 38,000 miles of natural gas and petroleum transportation pipelines, more than 1.1 million natural gas distribution customers, approximately 150 terminals and a combined market capitalization of approximately US$19 billion. It will also make us the largest private sector provider of water and wastewater infrastructure and services in Western Canada, operating 90 systems in over 50 communities.

The company's gas and water businesses will continue to be based in Greater Vancouver. Calgary will maintain its head office for the regional pipeline operation. With the exception of Terasen Gas, which will retain that name, the combined company will be known as Kinder Morgan Inc.

This is a very exciting development for Terasen and its partners. In the weeks and months to come, should you or any member of your team have any questions about this transaction and its impact on our business relationship with you, please contact me directly.

For the latest information on this acquisition, go to our website, www.terasengas.com

We value your business and thank you for your continued support.

Sincerely,

Ewart Nordby
On System Transport Manager
Terasen Gas Inc.
Phone: 604-592-7853
Email: ewart.nordby@terasengas.com

APPENDIX 19

Information email sent to UBCM Executives

Sent: Tuesday, August 02, 2005 12:49 PM
Subject: Terasen and Kinder Morgan are combining forces to create a North American energy leader

Importance: High

Good afternoon.

You may already heard through the media that Terasen and Kinder Morgan are combining forces to create a North American energy leader. I have taken the liberty of attaching a press release.

This development marks a significant milestone in our history. It will give us the scale, resources and capital to execute on our strategy and build on our company's long and proud history in Western Canada.

We expect the transaction to close by the end of the year. At that point, we will be an integral part of a much larger combined company with outstanding assets and a world-class reputation. Ranked by Fortune magazine as one of the most admired companies in the U.S., Kinder Morgan received the highest score in the magazine's history, as voted by its industry peers.

The combined company will be a leader in the North American energy distribution and transportation market. It will have almost 40,000 miles of natural gas and petroleum transportation pipelines, more than 1.1 million natural gas distribution customers, approximately 150 terminals and a combined market capitalization of approximately US$19 billion.

The head office for the combined company's Canadian gas distribution, water and utility operations will remain in Greater Vancouver, and Calgary will maintain its head office for the regional pipeline operation. With the exception of Terasen Gas, which will retain that name, the combined company will be known as Kinder Morgan Inc. and will be based in Houston.

Kinder Morgan is committed to maintaining service levels and community support for the more than 875,000 residential natural gas customers in British Columbia. We do not anticipate any changes as a result of this transaction.

Terasen and Kinder Morgan share similar business philosophies, not the least of which is our belief in giving back to the communities we serve and operate in. We have a strong record of community investment through our ongoing community development, education and environmental initiatives. As we move forward with Kinder Morgan, we will continue to be an active participant in the community.

Should you have any questions, please consider contacting me directly at 250.718.1606 or David Bodnar toll free 1-888-773-9333.

Press Release.pdf
(53 KB)

David Bodnar &
Ruth Sulentich
Community, Aboriginal and Government Relations
Terasen

APPENDIX 20

Terasen Letter – Municipal and community leaders
V1 August, 2005

August 1, 2005

[address]

[name]:

Earlier today the Board of Directors of Terasen Inc. unanimously approved a definitive agreement that will see Kinder Morgan (www.kindermorgan.com), one of the largest and most respected energy companies in the United States, acquire all outstanding shares of Terasen.

A public announcement will be made at 1:30pm PDT today.

This development marks a significant milestone in our history. It will give us the scale, resources and capital to execute on our strategy and build on our company's long and proud history in Western Canada.

We expect the transaction to close by the end of the year. At that point, we will be an integral part of a much larger combined company with outstanding assets and a world-class reputation. Ranked by Fortune magazine as one of the most admired companies in the U.S., Kinder Morgan received the highest score in the magazine's history, as voted by its industry peers.

The combined company will be a leader in the North American energy distribution and transportation market. It will have almost 40,000 miles of natural gas and petroleum transportation pipelines, more than 1.1 million natural gas distribution customers, approximately 150 terminals and a combined market capitalization of approximately US$19 billion.

The head office for the combined company's Canadian gas distribution, water and utility operations will remain in Greater Vancouver, and Calgary will maintain its head office for the regional pipeline operation. With the exception of Terasen Gas, which will retain that name, the combined company will be known as Kinder Morgan Inc. and will be based in Houston.

Kinder Morgan is committed to maintaining service levels and community support for the more than 875,000 residential natural gas customers in British Columbia. We do not anticipate any changes as a result of this transaction.

Terasen and Kinder Morgan share similar business philosophies, not the least of which is our belief in giving back to the communities we serve and operate in. We have a strong record of community investment through our ongoing community development, education and environmental initiatives. As we move forward with Kinder Morgan, we will continue to be an active participant in the community.

In the weeks and months to come, should you or a member of your staff have any questions about this transaction and its impact on your [community/area], please contact me directly.

We thank you for your continued support.

Bev Macham
Corporate & Marketing Communications
Confidential Assistant
Terasen Gas
Phone: 604-592-7968
Fax: 604-592-7670
Email: bev.macham@terasengas.com

APPENDIX 21

Information email sent to Aboriginal Opinion Leaders

Sent: Monday, August 01, 2005 9:17 PM
Subject: Terasen and Kinder Morgan are combining forces to create a North American energy leader

Due to the civic holiday, I was unable to reach your office directly by phone.

As a result, I have taken the liberty of attaching a press release acknowledging that Terasen and Kinder Morgan are combining forces to create a North American energy leader.

Should you have any questions, please consider contacting me directly at 604-592-7671 or toll free 1-888-773-9333.

Press Release.pdf
(57 KB)

David M. Bodnar
Director,
Community, Aboriginal & Government Relations
Terasen
16705 Fraser Highway
Surrey, B.C. V3S 2X7
(604) 592-7671 Phone
(604) 576-7122 Fax
david.bodnar@terasengas.com

Aboriginal Opinion Leaders Information Email – List of Recipients

Adams Lake Indian Band
Assembly of First Nations, British Columbia Region
Chawathil First Nation (Formerly: Hope Indian Band)
Cheam First Nation
Cowichan Indian Band
Esquimalt Indian Band
Fort Nelson First Nation (Formerly: Fort Nelson Slave & Forst Nelson Indian Band)
Haida Nation
Squiala First Nation
Squiala First Nation
St. Mary's Indian Band
Sto:Lo Nation
Tobacco Plains Indian Band
Tsawwassen First Nation
Tseshaht Indian Band
Tsleil-Waututh Nation Indian Band (Formerly: The Burrard Band)
Tsleil-Waututh Nation, Burrard Indian Band
Tsleil-Waututh Nation, Burrard Indian Band
Tzeachten Indian Band
Union Bar Indian Band
Upper Nicola Indian Band
Upper Nicola Indian Band
Upper Similkameen Indian Band
Upper Similkameen Indian Band
Westbank First Nation
Westbank First Nation
Westbank First Nation
Westbank First Nation
Whispering Pines/Clinton Indian Band
Williams Lake Indian Band
Williams Lake Indian Band
Yale First Nation

Schedule 6

BRITISH COLUMBIA UTILITIES COMMISSION
ORDER NUMBER

BRITISH COLUMBIA UTILITIES COMMISSION

FORM OF ORDER

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by Kinder Morgan, Inc. and 0731297 B.C. Ltd.

BEFORE:)
)
)

ORDER

WHEREAS:

A. On August 17, 2005, Kinder Morgan, Inc. ("KMI") and 0731297 B.C. Ltd. ("Subco") (collectively the "Kinder Morgan Companies") filed an Application for approval to acquire indirect control of certain public utilities regulated by the British Columbia Utilities Commission (the "Application"), pursuant to Section 54 of the Utilities Commission Act (the "Act"); and

B. The public utilities are Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. ("TGVI"), Terasen Gas (Squamish) Inc. ("TGS "), Terasen Gas (Whistler) Inc. ("TGW"), and Terasen Multi-Utilities Services Inc. ("TMUS") (collectively "the Terasen Utilities"); and

C. Terasen owns or controls all of the outstanding shares of TGI, TGVI, TGW and TMUS. Each of TGI, TGVI, TGW and TMUS are, directly or indirectly, wholly-owned subsidiaries of Terasen. TGI owns all of the outstanding shares of TGS; and TGS is an indirect wholly-owned subsidiary of Terasen; and

D. The Kinder Morgan Companies and Terasen have entered into an agreement dated August 1, 2005 to complete a transaction under which Subco, a direct wholly-owned subsidiary of KMI, will acquire all of the outstanding common shares of Terasen, which will result in Terasen being an indirect wholly-owned subsidiary of KMI; and

E. KMI is a U.S. energy storage and transportation company with total assets of U.S. $10 billion and net income of $522 million for the fiscal year ended December 31, 2004; and

F. The transaction will not impact the ownership of the Terasen Utilities and will not affect the assets or liabilities of the Terasen Utilities; and

G. KMI and Terasen have undertaken a comprehensive stakeholder communication and consultation program in the service areas of the Terasen Utilities; and

H. No concerns or issues were raised respecting the Kinder Morgan Companies' acquisition; and

I. The Commission has considered the Application and supporting material and has determined that the users of the service of the Terasen Utilities will not be detrimentally affected.

NOW THEREFORE, the Commission orders as follows:

1. The Commission approves, pursuant to Section 54 of the Act, the acquisition by the Kinder Morgan Companies of the common shares of Terasen Inc., which acquisition will cause the Kinder Morgan Companies to have indirect control of Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., Terasen Gas (Squamish) Inc., Terasen Gas (Whistler) Inc., and Terasen Multi-Utilities Services Inc.

DATED at the City of Vancouver, in the Province of British Columbia, this _____ day of _____, 2005.

BY ORDER

Original signed by: