Submission Date: September 29, 2005

KINDER MORGAN, INC.
("Kinder Morgan" or "KMI")

APPLICATION FOR APPROVAL FOR THE ACQUISITION OF THE COMMON SHARES OF TERASEN INC. ("Terasen")
(the "Application")

RESPONSE TO THE COUNCIL OF CANADIANS, POWELL RIVER CHAPTER INFORMATION REQUEST NO. 2
(This document is referred to as the "Response")

1.0 Ring Fencing Document

Reference: KMI Response to CoC IR-1, 1.1–1.4

The "ring fencing" document contains five items. We have the following question

1.1 In general we do not understand how this document guarantees that the sale will not result in reduced credit ratings and therefore impaired financing capabilities. We do understand how it might allow credit rating agencies to assess Terasen Gas on a stand-alone basis. It has some merit in this regard. However how does allowing stand-alone assessment in any way guarantee the results of that assessment? Please explain.

Response

If a credit rating agency determines that an entity can be rated on a "stand-alone" basis, then the ownership of the entity becomes essentially irrelevant for ratings purposes. The inclusion of the order conditions will not guarantee a ratings outcome for Terasen Gas (which is influenced by a variety of factors including financial condition and business risk), but they are expected to ensure that the Transaction will not affect the ratings for Terasen Gas.

1.2 When did KMI envision that the process for the Commission to establish the required orders referred to in Item 1 would take place, i.e., as part of the current proceeding, prior to the sale being approved but separate from this proceeding or after the sale is approved?

Response

The Orders have been proposed as part of the current proceeding.

1.3 When you use the word "affiliate" in the document, does this include KMI, the future parent company? Does it include all subsidiaries or partners of KMI? Please list all specific entities you are referencing with this word.

Response

The term "affiliate" was intended, upon closing of the Transaction, to mean a parent company of a Terasen Utility (including Terasen Inc. and KMI) as well as any other entities that are subsidiaries of KMI or under common control. Kinder Morgan Energy Partners L.P., Kinder Morgan Management, LLC and subsidiaries of those entities are included.

1.4 *When you use the word "Terasen Utility" in the document does this include Terasen Utility as well as the various public utilities (TGI, TGVI, TGS, TGW)? Please define this word.*

Response

The term "Terasen Utility" was defined in the Application (Page 2, Paragraph 7) as TGI, TGVI, TGS, TGW and TMUS.

1.5 *Since each of the 5 items refers to "Commission approval or acceptance", we can infer that any of these items could be changed at a future date were KMI granted ownership and were it then to apply to the Commission for such change. If that is the case, then stand-alone credit rating assessment could be impaired in the future, could it not?*

Response

Ring fencing conditions that are made a part of the BCUC's order could only be modified or waived by the BCUC. The referenced language makes it clear that the ring fencing conditions apply as stated unless the BCUC approves or accepts otherwise. This language makes it clear that the ring fencing conditions are not intended to forever divest the BCUC of its ongoing regulatory jurisdiction and power to consider and act upon any exceptions or modifications to the conditions which may be shown to be appropriate, in the public interest, not detrimental to customers or the utility, etc.

1.6 *Item 1 discusses a certain percentage of common equity to total capital being maintained by utilities. Do you expect to recommend to the Commission that it set higher percentages than those currently established by the Commission for ratemaking? If not, how does this item offer any added protection since those percentage requirements are already in place and have to be maintained anyway?*

Response

The ring fencing restrictions are designed to provide rating agencies and debt holders with the comfort that the utility will maintain the capital structure

provided for by the regulators. In some jurisdictions, utilities rates are set with regard to a deemed capital structure but the utilities may not maintain the deemed level of equity that rates are set on. This condition in fact will maintain the current practice as noted in the question but provides added comfort to debt holders.

Terasen Gas Inc and Terasen Gas (Vancouver Island) Inc. currently have an application before the Commission concerning their capital structures where they are seeking increases in the equity levels. This application preceded the acquisition, however Kinder Morgan supports the Company's efforts to secure a more appropriate capital structure for the utilities.

1.7 *Does Item 2 refer to dividends which a Terasen Utility would be paying to the parent company, KMI, if this transaction is approved by the Commission? Please list all dividends this item refers to.*

Response

Yes, Item 2 refers to dividends paid from a Terasen Utility to KMI.

1.8 *Would you please discuss how each of Items 3, 4 and 5 are the same as or in contravention to requirements already established by the Commission in the 1996 RMDM Guidelines.*

Response

Terasen Gas Inc. is subject to the 1997 Code of Conduct and Transfer Pricing Policies which govern the Company's business dealings with non-regulated affiliates. These documents replaced the 1996 RMDM Guidelines. Conditions 3, 4 and 5 are not inconsistent with the Code of Conduct and Transfer Pricing Policies and are there to provide additional comfort to bondholders that the financial strength of the Terasen Utilities will not be impaired by transactions with affiliates or non-regulated businesses. Transfer Pricing Policies require that the Utility charge the greater of fair market value or fully load cost where it provides service to non-regulated affiliates (or some other amount as approved by the BCUC). This is not inconsistent with condition 4.

2.0 Credit Ratings

2.1 *In Responses to all Intervenor questions in regard the Terasen and Terasen Gas being put on credit watch by certain rating agencies and analysts, KMI states either that it does not "expect" or it does not "believe" the transaction will affect the companies credit ratings. In the Procedural Hearings Mr. Cassidy was most eloquent in explaining that*

belief was not evidence (Transcript, p 66, lines 1-26). Therefore, we must ask what evidence does KMI have that the transaction will not affect the credit ratings of the companies?

Response

The ratings report from Dominion Bond Rating Service expressing their opinion that the Transaction will not affect the credit ratings of Terasen Gas has already been filed as evidence. KMI understands that the other rating agencies are continuing their review of Terasen Gas ratings. KMI has requested an expedited review of Terasen Gas in light of the proposed order conditions, but given that the credit rating agencies are independent third parties KMI is obviously unable to control the timing of those reviews.

2.2 *Also in this regard, please respond to our question 1.2 which remains unanswered. I restate it here as follows: Please confirm that in general lowered credit ratings are a customer risk as they increase cost (interest rates) on debt.*

Response

As indicated in our original response to your IR # 1 Q1.2, with ring fencing conditions in place, Kinder Morgan does not anticipate any impact on credit ratings associated with the Transaction. We do confirm that in general, lower credit ratings will impact costs of borrowing which are recovered from customers. Rating agencies have been commenting for some time on the thin capitalization levels of the Terasen Utilities and both TGI and TGVI have an application before the Commission presently to attempt to remedy that deficiency and reduce the risk of a downgrade associated with the capital structure of the utilities. Such risk is independent of the Transaction.

2.3 *Please submit copies of the following Moody's rating agency documents:*
KMI: Liquidity Risk Assessment, August 26, 2005
Terasen: Credit Opinion, August 15, 2005

Response

In a previous information request, KMI responded that no new rating agency reports had been issued since around the time of the announcement of the acquisition. The two reports which are referenced above are attached. In preparing our response to the above-referenced previous information request, we checked the websites that we normally and historically have checked for similar information, namely, First Call, a site which contains published analyst research, and Bloomberg. We did not find the reports on either website when we checked

them. The foregoing said, we do not believe that either of these reports contains any new material information. Typically, when a rating agency issues a report, which contains a ratings change or any material change in its outlook, the rating agency discusses it with the company and the company is aware that a report will be issued. Consistent with our belief that neither of these reports contains any new material information, KMI was not aware of these reports

3.0 Regulatory and Customer Burden

We have been apprised of a number of complaints regarding Kinder Morgan's business conduct. As a result, one concern we have is that of increased regulatory burden should this sale go through.

Three recent documents have been filed by the Wyoming state Consumer Protection agency where KMI's gas utility operates. We do not have such an agency here in BC and wonder how we would fare without such protection. We assume customer's would be forced to watch-dog their own interests due to lack of government oversight of some of these matters.

1) *Less than a year ago in December 2004, the State of Wyoming Office of Consumer Advocate (OCA) requested a Hearing regarding Kinder Morgan Rate Increases.*

   The letter (attached) states:

   "KMI failed to provide required financial information and other documentation demonstrating that the recently approved increases are just and reasonable. ***This has been an on-going problem with Kinder Morgan****." [emphasis added]*

2) *On April 25, 2005, the OCA filed a formal complaint with the Wyoming Public Service Commission against Choice Gas program supplier Kinder Morgan Retail Energy Services, Inc. (KMRES). The OCA's complaint alleges that KMRES engaged in a pattern of* ***unlawful, deceptive, and misleading advertising*** *during the current Choice Gas selection period.*

   Furthermore , the OCA felt compelled to ask that all future advertising be pre-approved by the Public Service Commission (PSC).

3) *On Sept 3, 2003, the Office of Consumer Advocate alerted the Public Service Commission to Kinder Morgan's* ***Non-Compliance.*** *The press release states:*

   "The Wyoming Office of Consumer Advocate filed a motion with the Wyoming Public Service Commission today asking that the Commission reject the "Revenue and Expense" study submitted by Kinder Morgan, Inc. on August 29th."The study

submitted by the Company lacks even the most basic data required to determine whether or not the rates currently being charged by the Company for distribution service in Wyoming, on a consolidated basis, remain appropriate and do not cause the Company to exceed its authorized rate of return," said Bryce Freeman, Administrator of the OCA. Freeman went on to state that the study performed by the Company only relates to its Casper division operations and not its consolidated operations as required by the Commission's order."

Please comment on these complaints and explain how KMI would guarantee that problems of unfair rates, false advertising and non-compliance would be controlled if KMI were running our public utility? This especially concerns us as one of the only synergies we see is in the area of utility operations.

Response

The Office of Consumer Advocate (OCA), which issued the three referenced press releases, was created by the Wyoming legislature in 2003 with an automatic termination provision effective in 2009 absent further legislation. OCA represents interests of customers in utility proceedings. It has been the practice of OCA since its creation two years ago to issue press releases addressing issues it has with public utilities. The three referenced matters were resolved through settlement or Commission dismissal. Unsubstantiated claims issued in press releases do not constitute evidence that any "unfair rates, false advertising, or non-compliance" have actually occurred as the question implies.

With respect to the OCA's press release dated December 30, 2004, the release referred to OCA's request for hearing regarding a routine quarterly gas cost pass-on application filed by Kinder Morgan and an ongoing dispute over the information to be filed with such applications. The proceeding was subsequently resolved without a hearing through a Commission approved settlement. That settlement resolved a number of issues and, along with a parallel Commission rulemaking proceeding applicable to all utilities, sought to clarify the information to be filed with pass-on applications. No further issues have arisen with respect to quarterly pass-on filings since the settlement.

With respect to the OCA's press release dated April 25, 2005, it alleged misleading advertising by "KMRES", which is not a regulated utility. KMRES competes as a marketer with other unregulated gas suppliers and marketers in Kinder Morgan's "Choice Gas" program in which customers have the option to select an unregulated gas supplier in lieu of purchasing Kinder Morgan's regulated pass-on gas supply. After KMRES filed its answer, OCA's complaint was dismissed by the Commission on the grounds that OCA did not have authority to bring the complaint. Notwithstanding the Commission's consistent

support and approval of the Choice gas program over the past 10 years, and the fact that approximately half of all of Kinder Morgan's customers in Wyoming currently choose to participate in the program (which is one of the highest customer participation rates for such a program in the country), the OCA has consistently and unsuccessfully opposed the program, and has argued that customers should not have the option to choose their suppliers. The advertisement in question referred to a study that had been presented in sworn testimony to the Commission in a prior proceeding regarding benefits customers had received under Choice gas. OCA did not agree with the conclusions of the study. After its Complaint was dismissed OCA informally asked the Commission to investigate the advertisement, which the Commission has not done as of this date. KMRES has responded that both the advertisement and the study were accurate and not misleading. KMRES further responded that no customers were harmed (none have complained) and that, if anything, to the extent any customers may have selected a fixed rate under the Choice Gas program last fall in response to the advertisement, they now stand to benefit considerably given the gas market volatility and price increases that have since occurred.

With respect to the OCA press release dated September 3, 2003, the release is in reference to a cost and revenue study that was filed by Kinder Morgan in compliance with a prior stipulation and agreement. The study covered a rate area where a rate consolidation had occurred pursuant to the stipulation. OCA, which was not a party to the stipulation, complained in its motion that it wanted to see studies for two other rate which were not part of the rate consolidation. Although not required by the Stipulation, Kinder Morgan agreed to provide additional studies for the other Wyoming rate areas. The additional studies showed that Kinder Morgan was not over earning in any of its Wyoming rate areas and no findings contrary to those studies were made by the Commission.

Kinder Morgan and OCA worked together in a cooperative effort to address the rate issues and were successful in resolving them by settlement without need for a hearing. Kinder Morgan has worked hard to avoid having to increase its base rates to its customers, and has not filed for a rate increase in Wyoming, excluding gas cost pass-on adjustments, for a number of years. It has done this through careful cost control and increased productivity, including use of improved technology. Kinder Morgan believes that the Transaction and resulting combination with the Terasen Utilities will provide further potential synergistic opportunities for an exchange of best practices and economies of scale between the Terasen utilities and Kinder Morgan's existing utility operations. The regulatory relationships, practices, and BCUC oversight of the Terasen utilities will not change as a result of the Transaction.

4.0 Corporate Structure of KMI

We have endeavoured to understand the corporate structure of KMI. This is necessary in order to assess not only the effects that structure may have on our public utility if it were to become the parent company, but also to assess the responses to information requests.

4.1 Please confirm the following description of KMI is correct.

Kinder Morgan Inc (KMI) is a publicly traded company.
Richard Kinder is Director, Chairman of the Board, President and CEO KMI. He owns 19% of KMI.
C. Park Shaper is Director, Executive Vice President and CFO.

Response

KMI is a publicly traded company. Richard Kinder is a Director, the Chairman of the Board and the CEO of KMI. He owns approximately 19% (19.5%) of KMI. C. Park Shaper is the President.

KMI is the general partner of Kinder Morgan Energy Partners (KMP).
General partners of a Limited Partnership bear unlimited liability.
KMI owns general partner interest and a 16% Limited partner interest in KMP.

Response

KMI's wholly owned indirect subsidiary, Kinder Morgan G.P., Inc. (KMGP), is the general partner of KMP. As a general rule, the general partner of a limited partnership bears unlimited liability in respect of the obligations of the limited partnership; however, the assets of the limited partnership are looked to first to satisfy the obligations of the limited partnership and the general partner is often a corporation (as is the case with KMGP) and the shareholders of the corporation have limited liability in respect of the corporation's obligation. At June 30, 2005, KMI owned an approximate 16% (15.6%) limited partner interest in KMP.

KMP is an MLP (Master Limited Partnership). An MLP is defined as a limited partnership that is publicly traded. The advantage of MLPs (according to my on-line resource Investopedia.com) is the combination of the tax benefits of a limited partnership with the liquidity of a publicly traded company.
Richard Kinder is Chairman and CEO. C. Park Shaper is President, CFO, Treasurer and Director.
KMP's limited partnership agreement allows it to be run by the general partner rather than a Board of Directors. The general partner of KMP is KMI. KMI have

delegated their authority to run KMP to business unit Kinder Morgan Management (KMR). KMR owns 26% of KMP.

Response

KMP is an MLP. Two benefits of an MLP are that it is not taxed at the corporate level for United States federal income tax purposes and its shares are publicly traded. An MLP enjoys the liquidity of a publicly traded company as such liquidity is constrained by the number of units held in the public float and the daily trading volume of such float. Richard Kinder is the Chairman and CEO of Kinder Morgan G.P., Inc., the general partner of KMP, and of KMR, the delegate of KMGP. C. Park Shaper is the President and a director of KMGP and KMR. KMP's partnership agreement provides for a general partner to manage KMP; however, KMP's general partner, KMGP, has delegated to KMR its right to manage KMP, subject to KMGP's right to approve certain matters. Each of KMGP and KMR have Boards of Directors that oversee their respective responsibilities. The general partner of KMP is KMGP, a wholly owned indirect subsidiary of KMI. KMGP has delegated to KMR its right to manage and control the business and affairs of KMP subject to KMGP's right to approve certain matters. KMR's shares are publicly traded. KMR owns all of KMP's i-units (each of which corresponds to an outstanding KMR share); however, at June 30 , 2005, KMI owned indirectly in the form of KMP i-units corresponding to the number of shares of KMR owned by KMI only approximately 13.1 million of such i-units. The public owned indirectly in the form of i-units corresponding to the number of shares of KMR owned by the public the remaining approximately 43 million KMP i-units.

KMR is a publicly traded LLC. An LLC is a corporate structure whereby the shareholders of the company have a limited liability to the company's actions. Investopedia says: "Basically, an LLC is a hybrid between a partnership and a corporation." KMR has no employees. As Hoover's (www.hoovers.com) says, "Through Kinder Morgan Management, it [KMI] controls Kinder Morgan Energy Partners."

Response

The extent of KMI's control or influence over KMGP, the general partner of KMP, results from KMGP being a wholly owned indirect subsidiary of KMI. However, such control is limited by a variety of factors, three of which are highlighted following, designed to maintain the independence of KMGP, and KMGP's delegate, KMR, which manages and controls the business and affairs of KMP. First, each of KMGP and KMR has its own Board of Directors, a majority of the members of which are independent. The Boards of Directors of KMGP and

its, delegate KMR, do consist of the same five members; however, none of such members, except for Richard Kinder, sits on the Board of Directors of KMI. As an aside, KMI has stated that it will increase the number of directors on its Board to allow for the addition of two Canadian nationals. Second, KMI and KMP have implemented company policies, such as a business opportunities policy, which are designed to recognize each of KMI and KMP as separately governed and traded public companies. And, KMP's partnership agreement places limits on each of KMP and KMI in conflicts of interest situations. Third, KMP's partnership agreement provides that 66 and 2/3% of KMP's limited partners can vote to replace KMP's general partner and in the event KMGP is removed as KMP's general partner, KMGP's delegation to KMR of its right to manage and control the business and affairs of KMP terminates.

The KMI and KMR Board of Directors (and KMP by default) are comprised of the same persons. All of these persons belong to Kinder Morgan, G.P. Inc. This is I presume the general partnership.

Response

Please see the answer immediately preceding.

4.2 Does KMI view it's various business segments discussed above as indirectly controlled by KMI?

Response

No. KMP and KMR are not business segments of KMI, rather they are separate entities, the units and shares of which, respectively, are publicly traded. Also, please see the response to the last question of 4.1 above.

4.3 The simple diagrams KMI has presented to date reveal nothing regarding control and direction of our public utility and Terasen's other assets, nor the exceedingly complicated corporate structure of KMI and its group.

Where do your hoped for Canadian operations fit into the corporate structure outlined above?

Response

Upon the consummation of the Transaction, Terasen will become a wholly owned indirect subsidiary of KMI. The entities that Terasen partially and wholly owns, including the subsidiary entities which hold the assets comprising the natural gas utilities regulated by the BCUC, will be owned indirectly by KMI. KMP is not in

connection with the Transaction acquiring any of the entities comprising the Terasen family of companies or any of such entities' assets. KMR is not acquiring any of the entities comprising the Terasen family of companies or any of such entities' assets.

4.4 Regarding Subco we have the following questions:

What is a vertical amalgamation? What name will this amalgamation go by?

Response

A parent entity is amalgamated with a subsidiary entity resulting in a surviving entity, or a subsidiary entity is amalgamated with a parent entity resulting in a surviving entity. In the instant case, Subco will be amalgamated with Terasen Inc. The surviving entity will likely adopt the Terasen name. The surviving entity will become a wholly owned subsidiary of KMI.

Will Subco have its own Board of Directors or the same Directors as KMI, KMP and KMR?

Response

Subco will have a Board of Directors until it is amalgamated with Terasen Inc. and that Board will not be the Board of KMI, KMP (Kinder Morgan G.P., Inc.) or KMR. Following the closing, the Boards of Subco, Terasen and the resulting entity from the amalgamation of Subco and Terasen are expected to have a majority of Canadian members.

If not the same Board, who will be the Chair, President, CEO, CFO and Vice President of Canadian Operations? How will this be determined?

Response

While KMI does not know specifically who Subco's/Terasen's Chair, CEO, CFO and Vice President of Canadian Operations will be following the closing of the Transaction, it is expected that such persons will be Canadians and that the operational management of the Terasen Utilities will remain in place following the closing of the Transaction. The foregoing said, the CEO, CFO and Vice President of Canadian Operations will be subject to KMI's oversight and control. As has been stated in responses to previous IRs, while KMI will, following the closing, control and oversee the Chair, CEO, CFO and Vice President of Operations, the business of the Terasen Utilities that is regulated by the BCUC, will continue to be regulated by the BCUC.

4.5 Reference: Ministry of Mines IR#1, 2. Subco

What percentage of the Terasen shares will be held by each of KMI and KMR? What percentage by Subco?

Response

Immediately following the closing of the Transaction, 100% of the Terasen shares will be held by Subco, a direct wholly owned subsidiary of KMI. Upon the amalgamation of Subco with Terasen Inc., 100% of the resulting entity's shares will be held by KMI. KMR will hold no Terasen shares. The only assets KMR is authorized to own are i-units of KMP.

4.6 Will Terasen Gas still be publicly traded and required to file with security regulators? Will Subco/Terasen still be publicly traded and required to file with security regulators?

Response

Certain of Terasen Gas' debt is currently publicly traded, and such debt will continue to be publicly traded following the closing of the Transaction. Terasen Gas will be required to continue to file with security regulators in respect of its publicly traded debt. Terasen Gas' equity is not publicly traded and will not be publicly traded following the closing of the Transaction. Terasen Gas is a wholly owned indirect subsidiary of Terasen Inc. Terasen Inc.'s equity and certain of its debt is publicly traded. Following the closing of the Transaction Terasen Inc.'s equity will not be publicly traded; however, certain of its debt will be. This will be true of the newly formed entity resulting from the amalgamation of Subco and Terasen Inc. Terasen Inc. (and the newly formed entity) will be required to continue to file with security regulators in respect of its publicly traded debt.

5.0 Canadian and American GAAP Differences and KMI Financials

Until we read the KMI 8-K filed Sept 23, 2005 with the SEC and available on their website, we had not realized that American and Canadian Generally Accepted Accounting Principles were substantially different.

5.1 For example, on page 3 of the 8-K Supplemental Information report the Terasen Balance Sheet for Dec 31, 2004 financial figures according to Canadian GAAP are reconciled with United States GAAP. Terasen's Other assets are recorded as $74.5 Million CAN GAAP and then adjusted by $469.5 million for the US GAAP value of $554 million. Please explain

In a similar fashion, Terasen's Future income taxes are recorded at $68.7M CAN GAAP and adjusted by $470.6M to arrive at $539.3 US GAAP. Please explain.

Response

One of the primary differences between US GAAP and CAD GAAP relates to income tax. Under US GAAP there is a "deferred tax" concept; whereas, under CAD GAAP, with respect to the Terasen Utilities, there is a specific exemption from recording "deferred taxes" for rate-regulated enterprises, allowing Terasen Utilities to account for income taxes on a taxes payable (cash) basis. Under US GAAP, Terasen would recognize a deferred tax liability (or a deferred tax asset) related to timing differences between the tax and book income of the Terasen Utilities. The largest timing difference is related to depreciation of the Terasen Utilities PP&E. An asset (PP&E) is typically depreciated for tax purposes over a shorter time period than it is for book purposes, which under US GAAP results in a deferred tax liability (future income tax liability) in the early years. This entry is the primary cause of the change in both other assets and future income taxes.

5.2 *Has a reconciliation on KMI's books from US GAAP to Canadian GAAP been performed? If not, will you please perform and submit such a valuation?*

Response

A reconciliation from US GAAP to Canadian GAAP is not required and will not otherwise be performed due to the time and expense of completing such analysis.

6.0 KMI Valuation

When reading the submission from Mr. Downey which was mailed to us by the Commission, we noted Mr. Downy's inclusion of print-outs from industry analyst Kurt Wulff of McDep Associates(www.mcdep.com). Mr. Wulff is a highly respected analyst. We have attached his bio on page 8 to establish his credentials. Barron's magazine refers to him as "The analyst oil barons consult".
In an December 27, 2004 interview, Barron's asks Mr. Wulff, "What would you recommend people sell?" He answers,"

> *I'm recommending the sale of Kinder Morgan Inc., Kinder Morgan Energy Partners and Kinder Morgan Management. Kinder Morgan is an illusion that would make Houdini jealous. In the last few months they've transferred a pipeline asset from Kinder Morgan Inc., the general partner, to Kinder Morgan Energy Partners. The partnership presumably pays full value, maybe more than full value, because it is not an arms-length transaction. The general partner gets the full price of the asset. The general partner also gets 42% of the cash flow from all the assets of the partnership without making any capital contributions. They get 100% capital value of the assets and continue to get 42% of the cash flow of the partnership.*

When the pipeline was part of the general partner, the earnings on it were modest. Some years it made money, other years it didn't. It is not even a reliable asset. As part of the partnership, however, income from the asset is distributed and the general partners get a share and report the whole distribution as earnings. They have been very successful stocks, but I would argue they have underperformed, particularly when you allow for the risk. The partnership is selling not for five times [the] cash flow multiple like Chevron and ConocoPhillips, but for 15 times cash flow. It has 50% debt leverage and the general partner has got 75% debt.

6.1 The information regarding the transfer of TransColorada pipelines to which Mr. Wulff is referring is documented in KMI & KMP 10-Q. We note in particular these references from the KMI 10K Report:

Page 32 MD&A

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.

Page 76, Note 4. Business Combinations

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).

Page 76, Note 5. Investments and Sales

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.

Please comment on Mr. Wulff's interpretation of accounting used for this sale.

Response

Kurt Wulff's claim and Kinder Morgan explanation:

1. ***Not an arms length transaction; KMP paid full value, maybe more than full value***

Effective November 1, 2004, KMI contributed to KMP TransColorado Gas Transmission Company (TransColorado). KMP paid to KMI total consideration of approximately $275 million, (approximately eight times TransColorado's then EBITDA) which multiple is in line with historical pipeline acquisition multiples, but actually below recent transactions such as Southern Union's acquisition of Cross Country and Loews' acquisition of Gulf South. As further evidenced by the fairness opinions referenced below, KMP did not overpay.

Each of KMI's 10 member board of directors, on the one hand, and KMGP's and KMR's 5 member boards of directors, on the other hand, acted independently in evaluating this transaction. KMI hired its own independent investment banking firm (Goldman Sachs) and law firm (Bracewell & Giuliani) as did KMP and its independent directors, (Morgan Stanley and Baker & Botts). Each board met separately to review and approve the transaction. Following the receipt of fairness opinions from the respective independent investment banking firms, each of KMI's board, on the one hand, and KMGP's/KMR's board, on the other hand, unanimously approved the transaction.

2. ***GP gets 42% of the cash flow from KMP***

It is true that KMP's general partner, KMGP, currently receives on average 42% of the cash distributed from KMP. The split is based on a formula contained in the KMP's partnership agreement, which address the splitting of cash available for distribution between the limited partners and the general partner. The split provisions were contained within KMP's partnership agreement when Kinder Morgan's current management acquired KMP's general partner. KMP's split arrangement is similar to many other MLPs. KMP is in the 50%/50% splits (or receiving 42% of the cashflows) because KMGP has been successful at growing the distribution to the limited partners. The LP distribution per unit has grown at

approximately 20% per year and the stock has returned 35% per year on average since current management took over in January 1997.

3. ***Not a reliable asset***

KMI was formerly known as KN Energy, Inc. In October of 1999 KN Energy, Inc. acquired the owner of the general partner of KMP. Upon closing of that transaction, KN Energy's former management departed, Kinder Morgan's current management stepped in, and KN Energy, Inc. was renamed Kinder Morgan, Inc. It was KN Energy's former management that agreed to build the TransColorado pipeline in a 50%/50% joint venture with Questar without securing long-term commitments/contracts from shippers to justify its construction. It was also KN Energy's former management that gave Questar the right to "put" its 50% share in the pipeline to KN Energy at a price that had no correlation to the cash flows generated by the pipeline (or lack thereof). KMI believed that Quester had breached certain duties to KMI as a partner in TransColorado; consequently, KMI litigated with Questar. Eventually KMI acquired the other 50% of the pipeline from Questar in settlement of the litigation. As discussed, TransColorado was, at that time, not a stable asset. Since that time, however, KMI's current management has diligently worked to secure long-term contracts and has undertaken several expansion projects on TransColorado. The pipeline is currently 100% contracted until 2007 and the contract which expires in 2007 has below market rates. By January of 2004, KMI's current management had transformed TransColorado's profile from unstable to stable — and reliable. This information was readily available almost 12 months before Mr. Wulff made his comments in December 2004. Please see slide #15 in the Kinder Morgan presentation from January 23, 2004 entitled, "TransColorado: Asset has been stabilized."

4. ***Income from the asset is distributed***

Income from KMP's assets is not distributed. Rather, KMP's cash (and more precisely, KMP's "cash available for distribution" (as defined in KMP's partnership agreement)) is distributed to KMP's limited partners and its general partner, KMGP, pursuant to the "split provisions" of KMP's partnership agreement. The amount of cash distributed to KMGP by KMP comprises a portion of line item entitled "Equity in Earnings of Kinder Morgan Energy Partners" on KMI's income statement. Kinder Morgan's management believes that this income statement line item is exceptional because predominantly all of the earnings attributable to the general partners interest are backed up by cash. Cash cannot be "created."

5. ***Stocks have underperformed when allowing for risk***

KMI has returned 41% per year (765% total) since July 1999 when it was announced that the current management would take over the operations of KMI. KMP has returned 35% (1249% total) per year since the current management acquired the general partner of KMP around February of 1997. Over these same time frames, the S&P has returned –1% per year and 7% per year, respectively. According to Bloomberg, KMI has a beta of 0.81 and KMP has a beta of 0.51. Beta is used by many as a measure of risk. The S&P 500 has a risk of 1.0. Any number less than 1.0, means a stock has less risk than the overall S&P 500 market. A beta greater than 1.0 indicates more risk than the overall S&P 500 market. KMP and KMI have significantly outperformed the overall S&P 500 market and have less risk than such market.

6. ***GP has 75% debt***

The percentage of KMP's debt to its total capitalization at June 30, 2005 was approximately 54%. The percentage of KMI's debt to its total capitalization at June 30, 2005 was approximately 39%. If KMI were to consolidate KMP, as Mr. Wulff proposes and as will be required pursuant to U.S. GAAP commencing January 1, 2006, KMI's percentage of debt to its total capitalization would be approximately 55%. KMI has provided the consolidated numbers in several presentations posted on its web site. In addition, KMI is rated BBB or the equivalent by three different rating agencies. Its 10-year bonds trade approximately 105 basis points over the Treasury curve. These spreads and credit ratings are not indicative of a company with 75% leverage.

In addition to the KM responses above, we have attached a Lehman Brother email from December 28, 2004 which addresses the same article.

6.2 We have attached two of Mr. Wulff's reports on KMI:

The Game Goes On (July 21, 2005) and
Canada May Block KM-Terasen Deal (August 11, 2005).

For the first article, please comment on his rating of sell and his concerns regarding how as general partner KMI overstates earnings and understates debt and how this "misleading accounting may be contributing to excess" valuation of the company.

For the second article, please explain why we should not be concerned that "Canadians would be exchanging ownership and control of strategic assets for inflated stock and a high-risk financial structure…"?

Response

Mr. Wulff's accusations and KM response

(a) Neither KMI nor KMP overstates its earning or understates its debt. Each of KMI and KMP is regulated by the Securities and Exchange Commission and the New York Stock Exchange. Many of KMI's and KMP's respective businesses are regulated by the Federal Energy Regulatory Commission and several state public utility commissions. PricewaterhouseCoopers, KMI's and KMP's independent auditor, has issued a non-qualified opinion for KMI and KMP every year since Kinder Morgan's current management took over the respective operations of KMI and KMP. Each of KMI and KMP is rated investment grade by at least three different rating agencies. KMI and KMP are committed to transparency. Each publishes a detailed annual budget for the coming year on the Kinder Morgan web site and every quarter, each compares its actual results to the budget. Every year, each of KMI and KMP provides detailed information (200+ pages, collectively) on each of its respective business segments at the Kinder Morgan annual analyst conference and posts such information on the Kinder Morgan website. We are not aware of any other public U.S. companies which provide this level of financial and operational detail to investors. If either KMI or KMP were trying to inflate earnings or hide debt, certainly neither would provide this level of detail. Furthermore, Rich Kinder, KMI's, KMGP's and KMR's CEO and Chairman, owns approximately 19.5% of KMI's outstanding stock and he has never sold a share. He receives a $1.00 annual salary, no bonus, no options, and no restricted stock. He is a long term investor. Rather, Mr. Kinder has eliminated the conflict of interest that traditionally exists between a company's management (which acts as the company's owners' agent) and a company's owners, because KMI's management owns such a large part of KMI's stock. In short, management's interests are pari pasu with those of other owners/investors.

(b) The consideration to be paid to Terasen's shareholders will be limited to approximately 35% in KMI shares. To the extent that a Terasen shareholder does not want to hold any KMI shares it receives in connection with the transaction, the Shareholder can sell the KMI shares, which are traded on the NYSE under the ticker symbol "KMI." KMI's management cannot be and is not responsible for controlling the price of KMI stock. Rather, KMI's management (which management also owns approximately 20% of KMI stock) is responsible for operating its businesses consistent with its stated goals. Every year since 2000, each of KMI and KMP has met its annual budget targets which are published in January at the Kinder Morgan investor conference. Over the last eight and one-half years, KMP's current management has grown the total cash distributed by KMP by a compound

annual growth rate of 60% and it has grown the KMP distribution per unit by 20% per year. Over the past six years, KMI's management has grown its earnings per share by 35% per year and has returned over $2.7 billion in cash to investors (2000 through 2005). Each of KMI and KMP has accomplished the foregoing while maintaining a solid balance sheet. At KMI, the percentage of debt to total capitalization has declined from 67% in October of 1999 (the time of KN Energy merger) to 39% currently.

(c) Kinder Morgan's legal structure is arguably more complicated than a plain vanilla C-corporation. The MLP structure is intended to encourage the development of energy infrastructure and to incent a limited partnership's general partner to grow the limited partnerships' distributions. As is apparent from the responses above, that has been the case at Kinder Morgan. Although the MLP structure is somewhat complex, it has been used by American businesses for nearly 20 years. It is widely understood and followed by many securities analysts. There are more than 35 other publicly traded energy MLPs today and at least 10 other publicly traded general partners.

7.0 Current Market and Economy

7.1 Interest Rates

The USA Federal Reserve raised interest rates again this month. Considering KMI's high debt load, rising interest rates could (as one of the market analysts put it) "create some headwind" for KMI. Even KMI lists rising interest rates as a business risk in their SEC reports.

Please do not tell us this is not relevant to the sale. The financial stability of the company is a genuine and valid concern for Intervenors and for the Commission as we consider the best interests of the public in relation to this sale.

Please confirm that 50% of KMI debt is financed at floating interest rates. Please express this as an actual dollar amount and show increase for .25, .5 and .75 basis point rate increase.

Response

Every company has risks associated with it. Kinder Morgan is no different in that respect. However, what is different about Kinder Morgan is that it works to be as transparent as possible. As outlined above, each of KMI and KMP posts its annual budget on the Kinder Morgan website, and each compares its actual performance with that budget every quarter. In addition, each of KMI and KMP highlights the risks for each of its respective investors in almost every

presentation. One of those highlighted risks is interest rates. Each of KMI and KMP has made a decision to fix 50% of its debt and float 50% of its debt. Every long term study Kinder Morgan's management has seen consistently shows that floating rate debt is cheaper than fixed rate debt over the long term. Please see attached study from Citigroup. Each of KMI and KMP would like to deliver some of this benefit to its respective shareholders/unitholders. At the same time, KMI needs some stability in its cash flows because it pays out a significant portion in dividends — thus, the 50%/50% mix. At June 30, 2005, KMI had approximately $1.4 billion in floating rate debt. On a yearly basis KMI tries to mitigate part of this risk by budgeting for an increase in rates. For 2005, KMI budgeted a 100 basis point increase in rates from Q1 through Q4. Thus, interest rates would have to move more than 100 basis points before KMI would feel the impacts outlined below.

Basis Points	Pre-Tax Impact (millions)
+25	$4
+50	$7
+75	$11
+100	$14

On an after-tax basis the impact is even smaller than set forth above.

7.2 Hurricanes

a) Please submit the Moody's Corporate Finance Report issued September 19, 2005, Special Comment: Update on the Impact of Hurricane Katrina On the Credit Ratings of the Oil and Gas Industry.

Response

The Moody's report is attached.

b) Entergy's Corps New Orleans subsidiary declared bankruptcy on September 23, 2005 due to massive repair costs to its power grid. Was Entergy a customer of the KMI group? Have any of your customers indicated financial difficulties following the hurricanes on the Gulf Coast?

Response

No, Entergy's New Orleans subsidiary is not a customer of KMI or KMP. Neither KMI nor KMP is aware of any customer indicating financial difficulties following the hurricanes on the Gulf Coast.

c) *According to the Sunday, Sept 25, 2005 Minerals Management Service (MMS) report titled,* ***Hurricane Katrina/Hurricane Rita Evacuation and Production Shut-in Statistics Report:***

Today's shut-in oil production is 1,501,863 BOPD. This shut-in oil production is equivalent to 100% of the daily oil production in the GOM, which is currently approximately 1.5 million BOPD.

Today's shut-in gas production is 8.047 BCFPD. This shut-in gas production is equivalent to 80.47% of the daily gas production in the GOM, which is currently approximately 10 BCFPD.

The cumulative shut-in oil production for the period 8/26/05-9/25/05 is 33,283,422 bbls, which is equivalent to 6.079 % of the yearly production of oil in the GOM (approximately 547.5 million barrels).

The cumulative shut-in gas production 8/26/05-9/25/05 is 156.037 BCF, which is equivalent to 4.275% of the yearly production of gas in the GOM (approximately 3.65 TCF).

These cumulative numbers reflect updated production numbers from all previous reports.

In light of the information that 6% of annual oil production and 4% of annual gas production in the Gulf has been shut-in since August 26th, do you still contend this will not materially affect the company?

Response

Yes, we still contend that the recent hurricanes will not materially effect KMI or KMP. We attach two press releases which summarise the impacts of Hurricanes Katrina and Rita on KMI's assets.

Moody's Investors Service

Global Credit Research
Liquidity Risk Assessment
26 AUG 2005

Liquidity Risk Assessment: Kinder Morgan, Inc.

Kinder Morgan, Inc.

Houston, Texas, United States

Broad Industry:	Public Utility
Specific Industry:	Gas Transmission
Short Term Rating:	P-2

Contacts

Analyst	**Phone**
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Steven Wood/New York	
John Diaz/New York	

Opinion

Kinder Morgan, Inc. (KMI, Prime-2 CP rating) has good liquidity, reflecting its stable cash flow base comprised substantially of regulated pipelines, modest sustaining capital requirements, giving it the ability to generate free cash flow (post-sustaining capex). Its credit facility provides more than adequate alternate liquidity.

In 4Q05, KMI plans to consummate the acquisition of Terasen, Inc. for $3 billion plus the assumption of $2.5 billion of its debt, subject to the approval by various regulators and Terasen shareholders. At around closing, KMI expects to issue about $2 billion of acquisition debt from a yet-to-be created finance subsidiary above the Terasen parent company. KMI is also considering providing a guarantee of the acquisition debt on a pari passu basis with its outstanding senior unsecured notes. We estimate that KMI will have sufficient free cash flows to cover the incremental interest expense and dividends from the acquisition financing.

On a standalone basis, excluding the impact of the Terasen acquisition, KMI generates cash flow from operations of roughly $600 million, depending on working capital usage of its retail segment. After sustaining capital expenditures of about $100 million, KMI has cash flow of roughly $500 million to be applied towards dividends (about $370 million annualized at the current rate) and growth capex (approximately $40 million budgeted for 2005). Upcoming long-term debt maturities should be manageable: $5 million in 3Q05, and nominal amounts until $300 million of 6.8% senior notes on 3/1/08.

KMI has an $800 million commercial paper program. In the LTM 5/30/05, commercial paper outstandings averaged at about $139 million and peaked at about $600 million. In the near term, we expect outstandings generally to run in the $100 million range.

KMI maintains an undrawn $800 million credit facility due 8/18/10 to backstop its commercial paper program. The long tenor of this multi-year facility pushes out renewal risk. The facility does not require a MAC representation after closing, which improves the quality of liquidity insurance provided by this facility. KMI has ample cushion under the facility's financial covenants: a 65% debt-to-capital limit on a consolidated basis (vs. about 55% for the quarter ended 6/30/05) and for each of Material Subsidiaries (not applicable), debt of consolidated subsidiaries of less than 10% of consolidated debt (0%).

Moody's Investors Service

Global Credit Research
Credit Opinion
15 AUG 2005

Credit Opinion: Terasen Inc.

Terasen Inc.

Vancouver, British Columbia, Canada

Ratings

Category	**Moody's Rating**
Outlook	Rating(s) Under Review
Senior Unsecured -Dom Curr	*A3
Subordinate -Dom Curr	*Baa1
Terasen Gas Inc.	
Outlook	Rating(s) Under Review
Senior Secured -Dom Curr	*A1
Senior Unsecured -Dom Curr	*A2

* Placed under review for possible downgrade on August 2, 2005

Contacts

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John Diaz/New York	

Key Indicators

Terasen Inc.

	2004	**2003**	**2002**	**2001**
Net Income Avail. to Common/Ave. Common Equity	**11.2%**	**10.4%**	**10.8%**	**12.1%**
Adjusted Fixed Charge Coverage	**2.1x**	**1.9x**	**1.7x**	**1.7x**
Retained Cash Flow / Adjusted Debt [1][2]	**6.4%**	**6.3%**	**5.9%**	**5.2%**
Adjusted Debt / Adjusted Capitalization [3]	**70.7%**	**71.7%**	**71.4%**	**78.1%**
Funds from Operations / Adjusted Fixed Charges [1]	**2.6x**	**2.4x**	**2.2x**	**2.1x**
Common Dividends/Net Income	**57.6%**	**59.8%**	**56.5%**	**58.9%**

[1] FFO and RCF prior to rate stabilization adjustment [2] Adjusted Debt includes capital securities and debt equivalent of operating leases [3] Adjusted Capitalization includes Adjusted Debt and is net of goodwill

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Credit Strengths

- Regulated gas distribution and petroleum transportation businesses represent 95% of the asset base

- Gas distribution segment benefits from low business risk, stable results, supportive regulation, highly captive

customer base and mature service territory

- Regulated petroleum pipelines operate with a mix of long term contracts and short term tolls

Credit Challenges

- Proposed acquisition by Kinder Morgan, Inc. which could place pressure on Terasen and its subsidiaries to support significant levels of acquisition debt

- Relatively high leverage, low allowed ROEs and high level of short-term debt in regulated gas distribution segment

- Higher risk nature of petroleum pipeline segment including transformation/execution risk and the need to raise significant amounts of new debt and equity capital to fund expansion opportunities

- Gas distribution cash flow volatility - partially mitigated through regulatory deferrals

- Structural subordination of holdco debt

Rating Rationale

Moody's has placed the ratings of Terasen Inc. (TER) and Terasen Gas Inc. (TGI) under review for possible downgrade due to the proposed acquisition of all of the outstanding shares of TER by Kinder Morgan, Inc. for approximately $3.8 billion with an expected closing date of Q4 2005. KMI plans to fund the purchase price with a mixture of cash (up to 65%) and KMI stock. KMI plans to finance the cash portion of the purchase price (maximum $2.47 billion) with debt to be issued by a yet to be created intermediate holding company above TER. KMI is considering guaranteeing the acquisition debt which would render it pari passu with KMI's existing senior unsecured debt. Servicing and repayment of the acquisition debt will be primarily dependent upon dividends from TER and such other support as KMI chooses to provide. Moody's is concerned that the servicing of the acquisition debt could result in a weakening of the financial condition of TGI and TER. Moody's initial assessment is that given TER's historic payout ratio, dividends from TER would not be sufficient to support the maximum amount of the acquisition debt and an increase in TER's payout ratio would, all else being equal, result in a weakening of TER's financial condition. Moody's review also reflects Moody's concerns about the execution, financial and business risks associated with the potential growth opportunities in TER's petroleum pipeline segment. Moody's views the business risk of the pipeline segment, which is expected to represent a growing percentage of TER's business going forward, to be higher than that of TER's historic core gas distribution segment. Moody's also sees execution risk associated with the possibility of undertaking the construction of multiple large and complex pipeline projects simultaneously. The pursuit of these growth opportunities will increase TER's demand for debt and equity capital as virtually all of Terasen's non-consolidated FFO would be required to service the acquisition debt. Moody's review also reflects concerns about the high degree of leverage, low allowed ROEs and high levels of short-term debt in TER's regulated gas distribution segment which result in credit metrics at TER and TGI that are low relative to their international peers. Moody's review of the ratings of TER and TGI will include an assessment of the degree to which any ring-measures exist that would serve to support the credit profiles of TER or TGI, the structure of the acquisition financing, the nature and extent of cash flow generated by the KMI group of companies and its availability to service the acquisition financing and an assessment of the operational and financial strategies that KMI plans to employ for TER and TGI.

The current ratings of TER (A3 Sr. Unsec./Baa1 Subordinate) reflect the ratings of TGI (A2 Sr. Unsec./A1 Sec.). The regulated gas distribution businesses of TGI and Terasen Gas Vancouver Island (TGVI) represent the majority of the company's assets (~68%) and operating earnings (~72%). TGI's ratings reflect its low business risk, stable results, highly captive customer base, mature service territory and supportive regulation which partially offset the relatively high degree of consolidated leverage for the rating category. TGI's rating also reflects the fact that the company experiences a degree of cash flow volatility related to variations in gas prices and customer demand. While earnings are largely insulated from these factors by operation of deferral mechanisms (the GCRA and RSAM), there is a near-term cash flow impact as the deferred amounts are not collected until later periods. With the completion of the Corridor Pipeline in May 2003 and the acquisition of a 1/3rd interest in the Express System, the proportion of TER's operating income generated by the petroleum transportation segment has increased from roughly 17% (in 2002) to 27% (in 2004). TER's ratings reflect the structural subordination of TER's debt to operating subsidiary debt including debt at TGI, TGVI, Corridor, Trans Mountain and Express. TER's ratings also considers the company's manageable maturities over the next few years.

Rating Outlook

The ratings of TER and TGI are under review for possible downgrade for the reasons outlined above. Moody's expects to conclude its review on or around the closing of the proposed acquisition.

What Could Change the Rating - UP

- In light of the weak credit metrics of TER and TGI relative to their international peers and the significant debt financing associated with KMI's proposed acquisition of TER, it is unlikely that the ratings or TER and TGI would be upgraded in the foreseeable future.

What Could Change the Rating - DOWN

- Additional financial demands placed upon TER and TGI as a result of debt raised at the intermediate holding company that will acquire TER

- Operational or integration challenges related to KMI's proposed acquisition

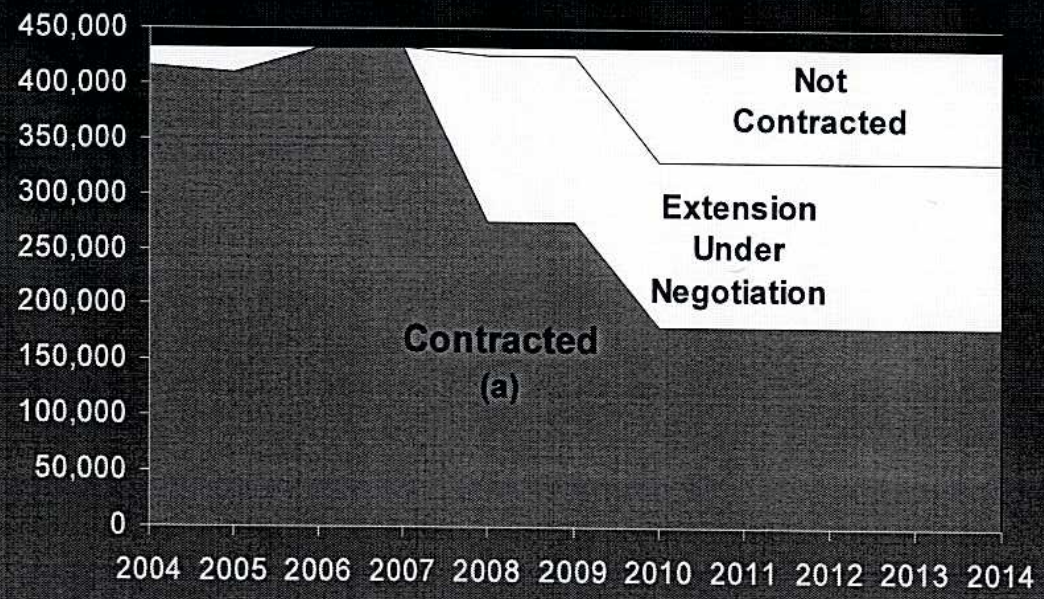
- The inability to demonstrate significant near-term improvements in the standalone credit metrics of TGI and TER

- Execution and financial risks associated with petroleum pipeline segment including insufficient contractual support or excessive financial leverage

KINDER MORGAN

TransColorado: Asset has been Stabilized

Long-Term Contracts in Place



~ 6-year average contract life compares favorably to KMP average

Reduced Exposure to Differentials

Customer	Capacity mmcf/d	Contract Exp. Date	Min. Rate
Customer A	10,000	3/05	$.07
Customer B	25,000	12/07	$.05
Total	35,000		

Represents only 2.8% of 2004E revenues

(a) Includes ROFR capacity

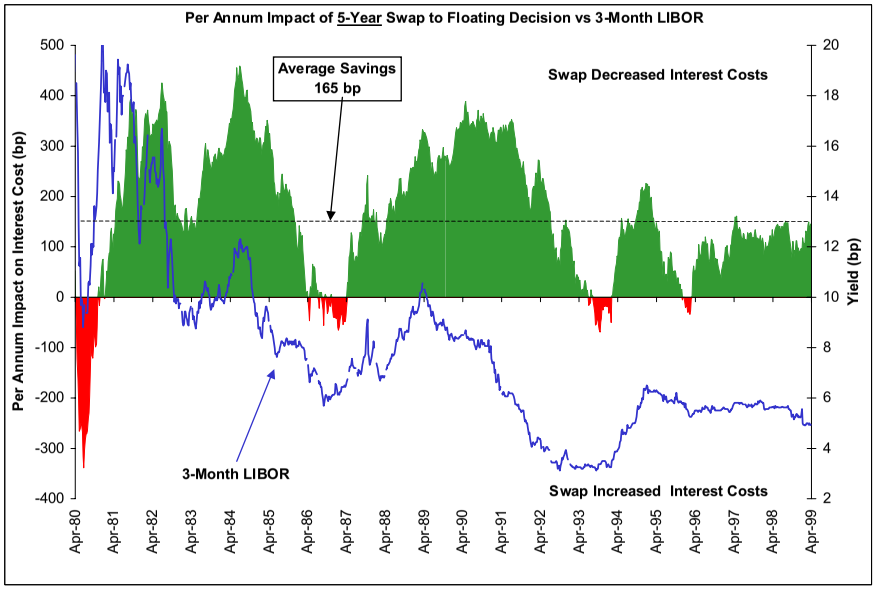
Staples, Peter

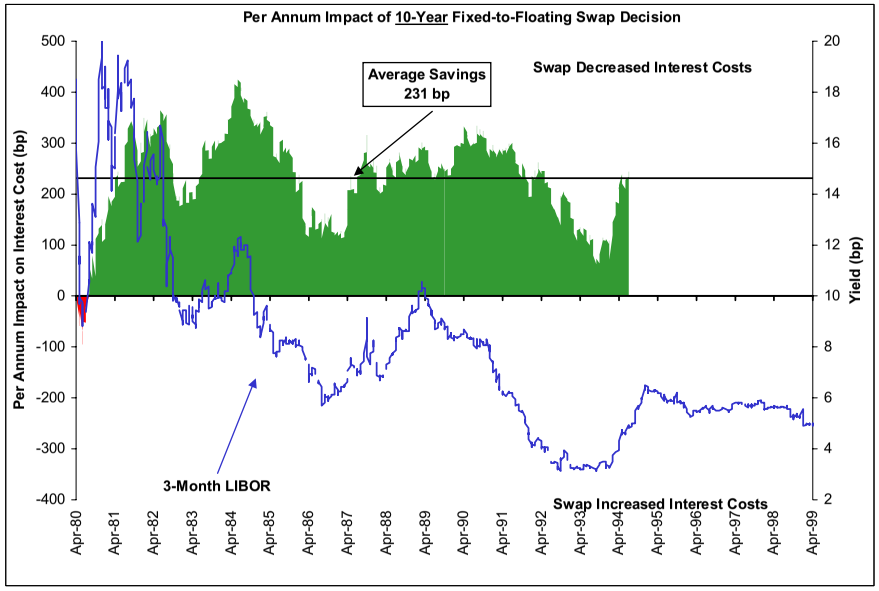
From: Karpf, Adam [adam.karpf@lehman.com]
Sent: Tuesday, December 28, 2004 8:36 AM
Subject: MLPs: KMP/KMR - Sell-off Creates Buying Opportunity

> Haven't we been here before?
>
> Yesterday, both KMP and KMR abruptly sold off 3.1% and 2.4% due to a negative article in Barron's over the weekend, "Drilling for Value". Specifically, we believe an interview negatively highlighted KMP for the TransColorado acquisition on November 22. The individual interviewed has been a notorious critic of KMP for an extended period of time. The latest questions, in a series of allegations, centers on the belief that 1) KMP purchased TransColorado at a healthy premium given its relationship with the seller (KMI), 2) the pipeline has highly volatile cash flows, 3) the Partnership is overvalued relative to other energy companies and 4) concerns over the burden of having a high GP split. Enclosed below we tackle each topic.
>
> 1) Multiple paid for TransColorado - We estimate KMP paid slightly below 8X EBITDA multiple for TransColorado, which is below comparable acquisitions in the 8X-9X EBITDA multiple range in 2004. In fact, more recently, there have been some assets acquired at over 9X EBITDA multiple. The EBITDA multiple paid was below our initial estimate early in the year and appears to be at an attractive level. In our view, KMP was able to purchase TransColorado at such an attractive multiple because KMI gains incremental accretion through its GP interest.
> 2) Volatility of the pipeline's cash flows - Historically, there was some volatility in TransColorado's cash flows. However, prior to KMP's acquisition, management took strategic initiatives to ensure the asset was stable enough to be transmitted down to the Partnership. Specifically, management secured long-term, fixed price contracts for the majority of the pipeline's capacity through 2007. Additionally, management seeks to spend $20 million on a project that will both add 300,000 Dth/d of incremental capacity and enable gas on the northern end of the pipeline to flow both north and south, which improves the pipeline's flexibility of services to customers. Notably, the project is secured by a long-term contract that includes commitments for up to 280,000 Dth/d. The contract extends through 2015. The pipeline project is slated to be completed in January 2006. Strong demand for TransColorado's services is further demonstrated by management spending an additional $33 million to increase transportation capacity by over 40% in August. Importantly, TransColorado provides a strategic link between the prolific Piceance Basin to the Midwest markets. Management has built a tremendous track record for acquiring and integrating acquisitions. In fact, we believe KMP has built the strongest track record for acquiring and integrating acquisitions in the sector to date. It is also significant to highlight that TransColorado is not a significant growth driver (we estimate the acquisition will only generate approximately 2-3% accretion) and contributor to earnings (less than 3.5% of estimated cash flows in 2005).
> 3) Question over valuation - Given the strong recent gains in the sector and lack of one recognized consensus valuation metric, questions related to valuation continue to circulate. The difficulties in valuing MLPs centers on the sector is still in the developmental stage (as an investment instrument), and the recent proliferation of partnerships that make distribution growth a top priority has created some uncertainties on how to appropriately value growth. In 1997, the market cap of MLPs in the energy sector was approximately $9 billion; at present, we estimate the market cap

> exceeds $53 billion. We believe the lack of standard valuation metric
> creates opportunities, since valuations have yet to stabilize into
> confined parameters. Although there isn't one recognized consensus
> valuation metric that is utilized by everyone to value partnerships,
> we believe relative yield analysis is the most appropriate metric. In
> this context, both KMP and KMR appear relatively cheap. KMP is
> currently trading at a 20 basis point discount, compared to its 5 year
> historical average 90 basis point premium, relative to the pipeline
> sector index. Historically, a strong buying opportunity is created
> when KMP reaches a discount relative valuation level compared to the
> pipeline index given the Partnership is widely viewed as the "gold
> standard for MLPs".
> 4) Concerns over KMP's high GP Split - Lastly, the article brought
> up a frequent concern related to the GP's high 42% average cut of cash
> flows. The concern over a high GP split has captured a significant
> amount of attention and we have recognized on many occasions the
> difficulties in sustaining growth rates with the burden of having a
> high average cut of cash flows received by the GP. While the high GP
> cut has undoubtedly dampened KMP's distribution growth rate, the
> Partnership is still poised to deliver high single digit percentage
> distribution growth over the next three years, which is above our
> forecasted industry growth rate of 6-7%. Notably, it is one of the
> few partnerships capable of delivering above industry-wide average
> distribution growth without acquisitions. Highly visible strong
> growth prospects are underpinned by possessing the strongest organic
> growth rate in the sector coupled with an abundant opportunity set for
> expansion projects. Additionally, KMP has one of the lowest risk
> profiles and most stable cash flows in the industry.
>
> Our answer to the earlier question ("haven't we been here before?"),
> is yes. Given KMP is the most visible partnership with a leading
> market cap and reputation, it is the most frequently attacked by
> critics of MLPs and vulnerable to headline risk. There are many past
> precedents, both at KMP/KMR and in the sector, demonstrating the
> tremendous buying opportunities created by rash sell-offs. We believe
> yesterday's rash sell-off provides another example of the necessary
> growing pains one encounters when investing in the early stages of a
> developing asset class and supports our contention the sector remains
> in the formation stage. In our opinion, the downside to investing in
> a developing investment class is the necessary struggles encountered
> from a general misunderstanding of fundamentals and immaturity of the
> sector, such as limited trading liquidity and sophistication of the
> shareholder base. Yesterday provided a sample of extreme selling
> sparked more by emotions than fundamentals, in our opinion. We believe
> management has built a strong track record for building shareholder
> value and judiciously spending capital. Consequently, we recommend
> investors capitalize on the sell-off and utilize it as a buying
> opportunity to purchase one of the premier MLPs at a discount
> valuation relative to peers. Although there could be some spill over
> in selling creating additional short-term weakness during this
> seasonal holiday quiet period, we believe past precedents in KMP/KMR
> clearly demonstrate rash sell-offs create compelling buying
> opportunities.
>
>
> _____
> Analyst Certification:
> We, Richard Gross and Adam Karpf, hereby certify (1) that the views
> expressed in this research email accurately reflect our personal views
> about any or all of the subject securities or issuers referred to in
> this email and (2) no part of our compensation was, is or will be
> directly or indirectly related to the specific recommendations or
> views expressed in this email.
>
> Lehman Brothers does and seeks to do business with companies covered
> in its research reports. As a result, investors should be aware that
> the firm may have a conflict of interest that could affect the

HISTORIC SWAP CURVE ANALYSIS – 5-YEAR SWAP VS 10-YEAR SWAP





Special Comment

September 2005

Contact	Phone
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Thomas Coleman	
Alexandra Parker	
Mihoko Manabe	
Andrew Oram	
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Steven Wood	
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Update On the Impact of Hurricane Katrina On the Credit Ratings of the Oil and Gas Industry

The purpose of this special comment is to provide investors with an update on the potential impact of hurricane Katrina on the credit quality of the companies in the key sectors of the oil and gas industry. This is based on the best available information to Moody's to date, compiled from public information as well as contacts with the affected issuers.

Summary

- The extent of the damage caused by Katrina on the oil and gas infrastructure in the Gulf Coast cannot yet be fully determined. However, we believe that the ratings impact on the industry as a whole will be neutral, although this does not rule out the possibility that some individual companies will be affected.
- Integrated oil companies and investment-grade independent exploration and production (E&P) companies are very well diversified across many areas of North America and the world. While some companies' production will be impaired by damage to specific fields and to the transportation infrastructure in the affected areas, those effects will likely be offset by higher revenues from other areas due to higher oil and gas prices.
- While many E&P companies that are rated non-investment grade have solid diversification characteristics, there are some that do not. Several rated firms have significant concentrations in the areas affected by Katrina. The immediate impact is a near-term reduction in cash flow that may be partially offset by the high prices for their production from this region. If there is an extended period of down-time the financial impact would be greater and could lead to a review of those ratings. However, it is still too early to gauge this.
- Ownership of the refining complexes along the Gulf Coast is concentrated among the large integrated oil companies, their affiliates, and large independents. Therefore, asset diversification serves as an important factor in supporting their ratings. We expect that revenue losses at the affected refineries will be offset by increased revenues at other facilities, particularly since refining margins remain high.
- The rated oil service sector, including contract drillers, should benefit from the need to rebuild infrastructure in the Gulf of Mexico (GOM). While some drilling rigs have been damaged and others have yet to be assessed, most companies carry insurance and will likely benefit from the tight availability of rigs that should support high day rates. Also, most contract drillers will be able to collect standby rates that should help offset business interruption losses.
- The Midstream sector (which includes pipelines, gathering & processing systems and fractionation) will see some impact on cash flows as transported volumes fall. This would be mitigated by the degree of diversification of the companies as well as the types of contracts and tariffs involved. For example, pipelines derive most of their revenues from capacity charges that are unrelated to volume flow. Midstream companies with percent of proceeds contracts benefited from the higher liquids and gas prices after the hurricane that offset some of the lost volume. Smaller midstream companies with high concentration in the affected areas could have their financial flexibility constricted if there is an extended period of low volume flow.

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- The availability of sufficient qualified personnel to assess the damage and begin the rebuilding process remains a serious constraint to current efforts as well as to the longer term recovery of the area. Much of the skilled labor needed to run the infrastructure has been displaced. Another longer term risk is that people may not want to return to the New Orleans area.
- There are logistical bottlenecks and a lack of sufficient equipment such as helicopters and boats. Also, some sites that would serve as staging areas have been impacted. This is likely to slow down progress in the recovery phase.
- Most companies have insurance to cover damage to the assets with very manageable deductibles. Most also have business interruption (BI) insurance, although it does not take effect until a certain amount of down-time has occurred (30-60 day minimum appears the norm). In addition, BI often has a limit on the amount of time and the total exposure covered.
- The Katrina disaster highlights the interdependence of energy companies operating in the Gulf Coast. It also demonstrates the importance of the midstream sector. There are many companies whose production or refining facilities were not damaged but cannot get their product to market due to damage to the midstream infrastructure. Even in cases where no damage has occurred, infrastructure inspection and certifications are delaying a return to normal operations.
- Given the high levels of oil and gas prices over the past few years, most companies are enjoying good overall liquidity, with excess cash on the balance sheet and good bank credit availability. The near-term run-up in energy prices will likely trigger margin calls on below-market hedges, depending on company-specific arrangements with counterparties.

Integrated Oil Companies

These companies have significant diversification of properties across many areas of North America and the world. While some companies' production will be impaired by damage to specific fields and to the transportation infrastructure in the affected areas, those effects will likely be offset by increased revenues from other areas as a result of higher oil and gas prices.

As of our latest information, approximately 45% of the normal GOM production remained shut-in. The integrated oil companies are the operators and leading participants in most of the significant deepwater GOM projects. We estimate that ExxonMobil, Royal Dutch Shell, BP and Chevron together account for over 40% of total GOM production, mostly in the deepwater. Even so, in relative terms their production exposures to Katrina were relatively small as a portion of their large global operations. The shut-in production could prove to be understated as more assessment work proceeds. Much of it is a result of infrastructure issues, large facilities such as the deepwater Mars platform suffered major damage that will likely take months to correct.

The major integrated companies likewise bore the brunt of onshore refining outages, reflecting the concentration of their control over refining on the Gulf Coast. The majors owned six of the eight refineries shut down in advance of the hurricane, equal to 83% of the 1.75 million bpd of capacity shuttered. To date, four refineries have returned to near full operation, leaving 884,000 barrels of capacity still shut down, including the two largest, Chevron's Pascagoula refinery (325,000 bpd) and ConocoPhillips' Alliance refinery (247,000 bpd). Indications are that the four could be shut down for an extended period as damages are still being assessed and repairs and restoration of power are undertaken.

The refineries will also continue to face supply issues on crude, intermediates, and catalysts. The full return of a qualified workforce is also a serious issue in these heavily damaged areas, and the company's are engaged in major efforts to meet housing, financial and medical needs for their employees and families. In the meantime, other refiners not affected by Katrina will benefit from a tight supply situation and generally higher margin environment, as well as from some opportunities to place more refined product volumes into the market to fill the supply gap.

NOTABLE IMPACT ON COMPANIES

Note: all ratings refer to the senior unsecured rating for an investment grade company and to the Corporate Family Rating for a non-investment grade company.

Exxon Mobil Corporation (Aaa)

ExxonMobil's 187,000 barrels-per day (bpd) Chalmette refinery is not operating and the company does not know when it will restart. The Federal Energy Regulatory Commission (FERC) estimates it will take several weeks before Entergy will be able to restore power to the refinery. Destruction around the refinery and to the basic infrastructure around New Orleans will make repairs more difficult. ExxonMobil's share of the refinery accounts for only 5% of its US refining capacity and 2% of its global refining capacity.

All of ExxonMobil's Gulf of Mexico platforms that were in Katrina's path appear to be intact. However, it could take several months before the company's production is restored to pre-hurricane levels. Moody's estimates that about one-third of the company's total GOM oil production and over one-quarter of its total GOM gas production might still be shut in. However, these volumes comprise less than 2% of the company's 2004 barrel-of-oil equivalent (BOE) daily production.

BP plc (Aa1)

BP is a major operator in the deepwater GOM, with approximately 351,000 BOE/day of production equal to about 30% of its U.S. and 9% of its global output. None of BP's operated facilities suffered major damage and most are back on stream, although some remain subject to infrastructure and pipeline constraints. BP also holds a 28.5% stake in the giant Shell operated Mars platform, which sustained serious damage and could be down for an extended period. A large gas processing facility at Pascagoula, Mississippi, remains shut down due to lack of pipeline deliveries of offshore natural gas.

Royal Dutch Shell Plc (Aa1)

Royal Dutch Shell's U.S. subsidiary, Shell Oil, was one of the companies most affected in both the upstream and downstream. The company's normal GOM production level is about 450,000 BOE/day, equal to about 12% of global production. About 160,000 BOE/day is currently producing. Most production in the Western/Central GOM has resumed, subject to some connecting pipeline inspections/constraints. However, the Mars platform, a major deepwater asset that produces about 150,000 bpd of crude, suffered significant topside damage, as did the West Delta transportation hub and several other platforms. An assessment of these facilities is continuing. It is not clear when repairs will be made and normal production can resume.

In the downstream, Katrina affected two refineries owned by Shell's 50% owned joint-venture, Motiva Enterprises. Both Covent (225,000 bpd) and Norco (240,000 bpd) are in Louisiana. Despite some flooding, neither suffered severe damage, and both have resumed near full production. These large refineries account of the Motiva joint-ventures's stand-alone capacity, but about 28% of Shell's net U.S. capacity and about 5% of its global capacity. Shell's Capline product pipeline is fully restored and delivering product into the mid-west.

Chevron Corporation (Aa2)

Chevron produces about 305,000 BOE/day in the GOM, equal to one-third of its U.S. production but only about 12% of its global output. Although none of its production facilities were seriously damaged (including the Petronius platform, which suffered extensive damage in 2004 from Hurricane Ivan), production is running at about 50% of capacity due to connecting infrastructure constraints and ongoing inspections.

The largest refinery in Chevron's U.S. system is its 325,000 bpd refinery at Pascagoula, Mississippi, equal to about 35% of U.S. capacity, but only about 15% of global capacity. The city was hard hit by the hurricane and the refinery was flooded. The company is still assessing damages there and it appears the refinery could be down for an extended period, also representing a significant regional capacity outage.

ConocoPhillips (A3)

ConocoPhillips has a very limited amount of production in the deepwater GOM, equal to about 5% of its total U.S. production. It was not affected and is fully on-stream. COP's 247,000 bpd refinery at Belle Chase, near New Orleans, is about 11% of its U.S. and 9% of its global refining capacity. Alliance experienced flooding but no major hurricane damage, and is still pumping water out. Equipment and electrical repairs could take several weeks or more to complete.

Marathon Oil Corporation (Baa1)

Marathon derives roughly 64,000 bpd of production from the GOM region, about one-third of its U.S. production and 19% of its global output. Marathon did not suffer any material damage or shut-in production, other than small volumes from the South Pass area, which could be down for an extended period. The 245,000 bpd Garyville refinery was not damaged and is fully on-stream. Marathon is a major taker of crude oil from LOOP, from which normal deliveries have resumed.

Exploration and Production Companies

Investment-grade rated Exploration and Production (E&P) companies are well diversified across many areas of North America and the world. While some companies' production will be impaired by damage to specific fields and to the transportation infrastructure in the affected areas, those effects will likely be offset by increased revenues from other areas as a result of higher oil and gas prices.

While many E&P companies that are rated non-investment grade have solid diversification characteristics, there are some that do not. Several rated firms have significant concentrations in the areas affected by Katrina. The immediate impact is a near-term reduction in cash flow that may be partially offset by the high prices for their production from this region. If there is an extended period of down-time the financial impact would be greater and could lead to a review of those ratings. However, it is still too early to gauge this since the companies are still assessing the problem.

Hedging is another potential area of concern for the smaller companies. With the sharp increase in energy prices, primarily of natural gas, many of their hedges are out of the money which could result in collateral calls by their counterparties. In these cases, their liquidity position could be affected or they could be forced to unwind their hedges at a loss. At this point, we have not identified any companies that have this problem, but we will continue to monitor developments.

NOTABLE IMPACT ON COMPANIES

Apache Corp. (A3)

Apache lost eight of its production platforms in the hurricane. Aggregate gross production from these platforms was 7,158 barrels of oil and 12.1 MMCF of gas per day before the storm. In total, 70,120 bpd of Apache's gross oil production and 565 MMcfpd of its gross gas production were curtailed in anticipation of the storm, of which 60% and 76% has now been restored, respectively. Apache carries insurance for its facilities and has up to $150 million of business interruption insurance.

Murphy Oil Corporation (Baa1)

The Murphy-operated Medusa field (60%) was in the main path of the storm and remains shut-in, awaiting further assessments of infrastructure in the area. Prior to the storm, Medusa produced approximately 20,000 boe/d (net), or approximately 15% of the company's total production. Murphy has business interruption insurance, subject to a 60 day waiting period. The majority of company's other Gulf of Mexico production has been restored. Given the offsetting effects of higher commodity prices and potential insurance recoveries (in the event production is out longer than 60 days), the impact on the company overall is not expected to be significant. Murphy also sustained damage and had an oil spill at its Meraux refinery as a result of the storm (see discussion below).

Devon Energy Corporation (Baa2)

Devon produces about 80 Mboe/d in the GOM, or about 13% of its production, almost all of which was initially shut in. Currently, close to 90% of production is back on. The company also has business interruption insurance should the remainder of production be shut-in for an extended period.

Kerr-McGee Corporation (Ba3)

KMG produces about 130 Mboe/d in the GOM, or about 36% of its production. As of September 6, 105 Mboe/d, or just over 80% was back on production. Returning the balance to production depends on pipelines, gas processing plants and onshore terminals.

Amerada Hess Corporation (Ba1)

Amerada Hess's GOM production makes up about 45% of its U.S. production but only about 12% of its global output. Most of its production is situated west of the hurricane affected areas. Its facilities sustained very minor damage and production is close to full capacity. The company's liquidity and collateral needs under for its hedging program are strongly covered.

Energy Partners Ltd. (B2)

Energy Partners has not found any significant structural damage. But, due to downed third party onshore facilities, about 25% of production from the East Bay may be down more than 45 days, triggering business interruption insurance. Another 20% is down at South Timbalier but expected back within 30 days.

Forest Oil Corp. (Ba3)

Forest is a net beneficiary of high prices driven by Katrina on its unaffected and unhedged production. Eight percent of production still shut-in and they expect at least half that amount to be back up within 30 days. Forest saw no significant damage to its facilities but is being held back due to downed third party onshore processing facilities.

Cimarex/Magnum Hunter (B1)

This firm also is likely to be a net beneficiary from higher O&G prices on unaffected production. Roughly 10% of production has been shut-in temporarily, being held back by down onshore third party processing facilities. The company found no platform damage although it suspended one well that was being drilled.

Newfield Exploration Company (Ba2)

Only 2% of Newfield's production is expected to be lost, pro-rata for this year and it is receiving higher prices on remaining production. One platform was lost but covered by casualty insurance. A part of the lost production is held back solely due to the down third party onshore processing plants.

Pioneer Natural Resources Company (Baa3)

Pioneer had 8.5% of production shut-in after Katrina but is also receiving higher prices on unaffected and unhedged production. The company has, so far, found no significant damage to its facilities but is being held back by testing of deepwater Gulf of Mexico pipelines and by downed third party onshore processing plants.

Plains Exploration & Producion Co. (Ba2)

Plains expect a 4% to 5% temporary production loss but is also getting higher prices on unaffected production. It has found no damage to its facilities but is held back by downed onshore processing.

Pogo Producing Company (Ba1)

Pogo has had approximately 19% of its production temporarily shut-in due to third party onshore processing problems. It expects 50% of that production to be back on line within a month and expects the remainder to be back in 90 to 180 days

Swift Energy Co. (Ba3)

The Company's Lake Washington and Bay de Chene production is still essentially shut-in, which Moody's estimates accounts for approximately half of the company's consolidated volumes. The company has recently began some initial drilling activity in Lake Washington and physically assessing the damage, but it could take several weeks before repairs are completed and production can re-start especially as it relates to logistical issues surrounding resumed production. Moody's believes the ratings are not immediately affected, especially with the non-affected U.S. production benefiting from higher prices. However, Moody's will continue to monitor the company's progress in restoring production to pre-shut-in levels to determine future ratings implications.

Stone Energy Corp. (Ba3)

Stone initially had all of its Gulf of Mexico volumes shut-in, however, we estimate that about 75% the shut-in production is back-on line. The unaffected Rocky Mountain volumes (about 10% of total company volumes) benefited from higher prices. The company's initial assessment indicates no sever damage to any its platforms, however, closer assessment is still ongoing. The company also is dependent upon third party pipelines and facilities that could affect its ability to re-start some of its production. Moody's believes there is no rating action required at this time. However, if a significant amount of production volumes are shut-in for an extended period of time, Moody's will assess the ratings impact.

Clayton Williams Energy, Inc. (B2)

Approximately 95% of the company's Louisiana production (about 20% of total production) was shut-in due to Katrina. While it appears the company's own facilities have sustained no major damage, the company is still assessing its facilities and needs to assess damage to third party gas processing facilities. The company's unaffected production has benefited from higher commodity prices which helps offset some of the shut-in production. While there is no immediate ratings impact, Moody's will continue to monitor the situation.

PetroQuest Energy, Inc (Caa1)

Moody's estimates that PetroQuest Energy had nearly 50% of its total production shut-in. However, the company has re-started the majority of that production and we believe is back to over 90% of pre-hurricane levels. The company, like other producers, has benefited from higher prices on its unaffected production. At this time, we do not anticipate the need for rating action.

Denbury Resources, Inc. (Ba3)

Denbury is the company that was the most directly impacted by Katrina, with nearly 90% of its oil production and nearly 50% of its natural gas shut-in. Most of the shut-in was primarily related to its limited access to the fields and to power outages, rather than direct impact to its facilities. However, the company has regained access to some of its core areas and power is being restored at some of the fields. This has enabled Denbury to bring a significant amount of the shut-in volumes back on line. We will monitor the situation but given the relatively low level of leverage combined with its cash balances, there is no immediate ratings impact.

Refining and Marketing

Ownership of the refining complexes along the Gulf Coast is concentrated among the large integrated oil companies, their affiliates, and large independents. Therefore, asset diversification serves as an important factor in supporting their ratings. We expect that revenue losses at the affected refineries will be offset by increased revenues at other facilities, particularly since refining margins remain high. In addition, the unaffected refineries in the region stand to benefit from both wider light/heavy and sweet/sour price differentials, as most refiners were already operating at near capacity. Some refiners will also benefit from some opportunities over the next few months to put more finished product through the distribution chain as long as some 884,000 bpd of competitor capacity is out of service, although the incremental volumes are unlikely to have any meaningful impact on margins.

NOTABLE IMPACT ON COMPANIES

CITGO Petroleum Corporation (Ba1)

CITGO suffered no material impact at its 321,000 bpd Lake Charles refinery, which is situated, was west of the affected area. With its access to Colonial Pipeline and other delivery points and high capacity utilization, CITGO (like other competitors) will be a net benefactor of the refineries that remain out of service.

Valero Energy Corporation (Baa3)

Valero has restarted its 260,000 (throughput) bpd St. Charles refinery and expects ramp up to maximum utilization in the near term. The refinery has started up its crude unit, fluid catalytic cracking unit, and coker.

Murphy Oil Corporation (Baa1)

Murphy's 120,000 bpd Meraux, Louisiana refinery, remains out of service and will not likely be restored for several months as repairs are made. Damage caused by Hurricane Katrina to a crude oil tank holding 85,000 barrels resulted in a spill of undetermined quantity. Clean-up crews continue to operate in the area and further assessments are necessary before the extent of the spill is known. Murphy could face potential liability as a result of the spill and even though the company has environmental liability insurance, Moody's will continue to monitor developments. With respect to lost income from the refinery itself, the impact on the company will be minor given the small size of the refinery relative to the company as a whole.

Motiva Enterprises LLC (A2)

The Convent refinery is back to full operation. The Norco refinery, which suffered greater damage and disruption to employees, is expected to be up later this week.

Oil Services and Drillers

The rated oil services sector, other than contract drilling and offshore support companies, was relatively unaffected from the storm. Oil services companies overall should benefit from the need to rebuild infrastructure in the Gulf of Mexico. With respect to contract drillers, the damage could have been much worse. Even though a number of drilling rigs were damaged or destroyed, most companies carry insurance to cover property damage and business interruption losses. Also, the impact from lost revenues due to rigs or equipment out of service and the costs of repairs will likely be offset by potentially higher day-rates due to the already tight availability of rigs in the region.

NOTABLE IMPACT ON COMPANIES

Halliburton Company (Baa2)

The company has not disclosed any material impact on its operations as a result of the hurricane.

Transocean Inc. (Baa2)

The company reported that one of its semi-submersible deepwater drilling rigs (the Deepwater Nautilus) suffered significant damage to its mooring system and to its marine riser package. The rig had been working for Shell prior to the hurricane. At this time, we do not expect that the revenue loss will be material to Transocean's overall revenue expectation.

Schlumberger Technology Corp. (A2)

The company has not disclosed any material impact on its operations as a result of the hurricane.

Nabors Industries Inc. (A3)

The company had four platform rigs in the path of the storm and lost one when the platform it was on was lost. Its workover jack-up rig needs repair and an onshore staging facility needs clean-up and repair. The company should have adequate property damage and BI insurance coverage.

Diamond Offshore Drilling, Inc. (Baa2)

Diamond Offshore's Ocean Warwick jack-up rig (300'IC) was destroyed in the storm. The impact to the company overall is expected to be minor given record day-rates on many of the company's other rigs and expected insurance recoveries. Several of the company's other rigs sustained some damage and repairs are currently underway.

Hercules Offshore, LLC (B2)

Hercules Offshore lost one its jack-up rigs, Rig 25 (190'IC). Given the small size of the company's fleet (which consists of only eight rigs excluding Rig 25 and including a recent acquisition of a rig to be renamed Rig 31), the impact to the company is not inconsequential. However, like other contract drillers, Hercules is benefiting from current high day-rates and insurance proceeds are expected to be sufficient to allow the company to purchase a replacement rig of relatively comparable quality.

Midstream Sector

This sector includes oil and gas pipelines, gathering & processing systems, and fractionation. There will be some impact on cash flows as transported volumes fall. This would be mitigated by the degree of diversification of the companies as well as the types of contracts and tariffs involved. For example, pipelines derive most of their revenues from capacity charges that are unrelated to volume flow. Midstream companies with percent of proceeds contracts benefited from the higher liquids and gas prices after the hurricane that offset some of the lost volume. Smaller midstream companies with high concentration in the affected areas could have their financial flexibility constricted if there is an extended period of low volume flow. It is too early to gauge this, and we will continue to monitor the situation. Another mitigating factor is that there is much more spare processing and fractionating capacity than there is spare refining capacity. Raw produced natural gas can be moved east and north away from closed plants in southern Louisiana. Therefore, midstream may be able to process gas at other plants they own.

Companies that have facilities in the affected areas in Louisiana, Mississippi, and offshore Gulf of Mexico include Consolidated Natural Gas Company, Gulf South Pipeline Company, LP, El Paso Corp., Kinder Morgan Energy Partners, L.P., Duke Energy Field Services, LLC, and National Fuel Gas Company. Almost all have reported minor dam-

age to-date, though all estimates are preliminary. Some offshore facilities have only been assessed visually by air. The estimation process has also been hampered by flooding at onshore facilities, lack of accessibility to the sites, and availability of personnel.

Pipelines appear to have suffered little damage, since most of the facilities are underground. Financially, they should not suffer material impact because substantially all their revenues come from demand charges that are paid regardless of volume. Volumes are recovering but not yet back to normal because wells or processing facilities upstream have been shut-in or processing facilities closed.

NOTABLE IMPACT ON COMPANIES

Louisiana Offshore Terminal Authority (LOOP) (A3)

LOOP has been operating at 100% of capacity since Monday, September 12th after Entergy restored full power using emergency generator facilities. The Company is still awaiting restoration of full power from Entergy using normal generation and transmission facilities which should take place imminently. Downtime in shipments caused by temporary power failures and refinery closures will be made up through additional oil imports from overseas, which will yield higher tariffs. Consequently, the impairment of the MARS platform, and the non-performance of the MardiGras pipeline will have limited overall impact. There has been only very minor property damage to the LOOP or LOCAP facilities, and LOOP will incur some added costs due to precautionary pipeline shut-downs and re-starts. LOOP believes that they have sufficient insurance coverage for property damage

The company has secured temporary quarters in La Rose, LA and plans to reside there for several months before returning to their regular office quarters sometime early next year.

Cash and banking operations have been working smoothly and commercial paper has been rolled-over without logistical problems. LOOP has no mandatory debt repayments until 2008 ($80 million) and its liquidity position is adequate.

Colonial Pipeline Company (A2)

The company has its full capacity available at 2.3 million bpd but is somewhat constrained as of September 15th due to the continued shut-down of Mississippi River refineries. Consequently, it is currently shipping approximately 2.1 million bpd (as opposed to the full 2.3 million bpd). The company has insurance coverage for its own property and also has casualty insurance for damage claims filed by others. There is flood coverage for above-ground facilities.

Alliance Pipeline which runs for 147 miles long from the ConocoPhillips refinery in Bell Chase is the most vulnerable of Colonial's pipelines because it has a stretch that runs under Lake Borgne and marshy areas in LA. This line was shut-down along with the refinery and is undergoing integrity testing.

Dynegy Holdings Inc. (B3)

Two Dynegy-operated gas processing plants in south Louisiana, Venice and Yscloskey, are down and not expected to resume production for at least several months. The company has done a ground inspection not an extensive damage assessment. This should not impact the sale of DMS to Targa. Dynegy has both property damage and business interruption insurance.

Enterprise Products Operating L.P. (Baa3)

Enterprise owns an interest in the two Dynegy plants described above and also operates the Toca plant that is shut down. For the most part, the company has been able to reroute gas volumes from these plants to other plants that it owns. In addition, its offshore pipeline systems typically have multiple takeaway options onshore, each connected with a gas plant. Virtually all of the company's offshore pipelines and other infrastructure are operating. Enterprise should have adequate property damage and BI insurance coverage.

MarkWest Energy Partners, L.P. (B1)

MarkWest's only GOM asset is the Starfish natural gas pipeline, which had been down for planned maintenance before the storm. The pipeline is now operating.

Williams Companies, Inc. (Ba3)

Williams had no significant damage and most facilities are coming back up. For the interstate gas pipes and midstream, they have been waiting for producers' volumes to increase. The company's offshore platforms don't appear to be damaged.

Gulf South Pipeline Company, LP (Baa1)

Gulf South serves the New Orleans area. It suffered minor physical damage since most facilities are underground. The company is still assessing its facilities for an estimate of the damages. It has $150 million in total insurance, subject to a $3 million deductible, which is expected to cover its exposure. Financial impact should not be material, since its revenues are primarily generated by non-volumetric demand charges.

El Paso Corporation (B3)

El Paso suffered limited physical damage to its production facilities. The company continues to assess the damage of its pipelines. It expects insurance to mitigate any significant financial impact of Katrina. The company has some E&P production in the Gulf of Mexico, three pipelines that source their gas from there, and related processing and other infrastructure. Volumes were down initially by 3 bcf/d of shut-in gas production, but since then, nearly two-thirds of that has come back on-line. ANR has returned to full capacity, but Southern Natural's and Tennessee's volumes are still recovering. Revenues should not be significantly impacted since most are generated by non-volumetric demand charges.

Local Gas Distribution Companies

Two LDCs — CenterPoint Energy Resources Corp. (CERC) and Atmos Energy, Inc. — have operations in severely affected areas. Flooding and destruction have dislocated a significant number of their customers. Physical damage has been limited by the fact that most facilities are underground, though companies have issued safety warnings about gas leaks.

NOTABLE IMPACT ON COMPANIES

Atmos Energy Corporation (Baa3)

About 230,000 customers in Louisiana (7% of Atmos's total customers) were affected in some manner, including those who were dislocated from their homes. Atmos expects substantially all of those customers to be re-connected over the next 12 months. The company is not billing the meters while they are unconnected and uninhabited. The storm should not have material financial impact, because the affected area is a small part of their total operations and because most of the 2005 budgeted net income (which is seasonal) has already been earned as the company approaches its September 30 year-end. The company is still in the process of estimating the damage to its above-ground equipment; it has property & casualty insurance with a low deductible to meet repair costs. The company could pursue regulatory relief for the recovery of storm-related expenses. Atmos expects that its existing $600 million revolver will well accommodate the recent run-up in gas prices.

Centerpoint Energy Resources Corp. (Baa3)

Areas served by CERC sustained widespread damage in Mississippi and to a lesser degree in Louisiana. Assessment so far is that damages will be too low to file for an insurance claim. The financial impact should be manageable, since the number of customers and facilities affected were a comparatively small part of the company's whole system. Financial impact is also mitigated by recovery clauses in its Mississippi rates. It may consider pursuing the recovery of unusual O&M expenses arising from the storm. Additionally, some of the lost meter charges will be mitigated by additional charges in the Houston area, where some of the evacuees have been relocated.

Given the hike in gas prices, CERC is assessing its liquidity needs under higher price scenarios. CERC's revolver has an accordion feature that could increase the capacity from $400 million to $525 million. Bank lines could be increased either at CERC or at the parent level.

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KINDER MORGAN ENERGY PARTNERS REPORTS SEVEN OF ITS NINE HURRICANE-AFFECTED TERMINALS IN SERVICE; REMAINING TWO AWAITING RESTORATION OF ELECTRICITY

HOUSTON, Sept. 7, 2005 – Kinder Morgan Energy Partners, L.P. (NYSE: KMP) today reported that its company-owned terminals in Louisiana and Mississippi suffered no significant structural damage as a result of Hurricane Katrina and seven of the nine are in service. As previously reported, KMP's Plantation Pipe Line, which delivers refined petroleum products to markets in the Southeast, was not damaged and full operations resumed Sept. 2, following the restoration of electricity service at key pump stations.

KMP's Delta Terminal in Harvey, La., which has storage capacity of about 3 million barrels for petrochemicals and oilfield products, is expected to resume limited operations this week, pending restoration of electric power. KMP is also waiting for electricity service to resume at its International Marine Terminal (IMT) facility in Myrtle Grove, La., which will allow the company to better assess the status of operations and establish a start-up schedule. IMT handles approximately 12 million tons of coal and other materials annually.

KMP continues to evaluate the full effect of Hurricane Katrina on its operations, but does not expect the storm will have a material adverse impact on the company's financial results. The company estimates that the cost will be less than $10 million, including insurance deductibles and lost business at its operations.

KMP continues to pay all of its employees in the affected areas, including those assigned to facilities not currently at full operations. Going forward, the company will offer these individuals positions at other locations should their duties be impacted for a prolonged period of time. In addition, KMP has created an employee disaster relief fund to financially aid employees who were impacted by the storm.

"Kinder Morgan has a large and flexible network of terminal assets to serve the southeast and Gulf Coast markets," said Jeff Armstrong, president of KMP's Terminals business segment.

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"We are working diligently with our impacted customers and have provided them with alternative storage and transportation solutions using other KMP terminals. Companies interested in procuring terminal services are urged to contact KMP's Terminals group at (713) 369-8753."

KMP's facilities in Louisiana and Mississippi that were minimally impacted and continued to operate include: 1) the Globalplex Terminal in Reserve, La., which primarily handles cement; 2) the Gramercy Bulk Terminal in Gramercy, La., which provides loading services for alumina; 3) the Potash Corporation of Saskatchewan facility in Geismar, La., which handles fertilizer; 4) the Barge Canal Dock in Baton Rouge, La., which handles mainly petroleum coke; 5) the Vicksburg, Miss., terminal, which provides break-bulk services; 6) KMP's terminal in St.Gabriel, La., which stores petrochemicals; and 7) the Baton Rouge Liquid dock, which also handles petrochemicals.

In DeLisle, Miss., where KMP provides contract handling services at a third-party facility, company personnel are working with customers to assist with clean-up efforts. KMP also provides contract services to handle petroleum coke for Chalmette Refining LLC, which owns a refinery in Chalmette, La. These are not KMP-owned facilities and future activity at the sites is dependent upon resumption of operations by the owners of the facilities.

Kinder Morgan Energy Partners, L.P. is one of the largest publicly traded pipeline limited partnerships in America. KMP owns or operates more than 25,000 miles of pipelines and approximately 145 terminals. Its pipelines transport more than 2 million barrels per day of gasoline and other petroleum products and up to 8.4 billion cubic feet per day of natural gas. Its terminals handle over 80 million tons of coal and other dry-bulk materials annually and have a liquids storage capacity of approximately 65 million barrels for petroleum products and chemicals. KMP is also the leading provider of CO_2 for enhanced oil recovery projects in the United States.

The general partner of KMP is owned by Kinder Morgan, Inc. (NYSE: KMI), one of the largest energy transportation and storage companies in America. Combined, the two companies have an enterprise value of approximately $31 billion.

This news release includes forward-looking statements. Although Kinder Morgan believes that its expectations are based on reasonable assumptions, it can give no assurance that such assumptions will materialize. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein are enumerated in Kinder Morgan's Forms 10-K and 10-Q as filed with the Securities and Exchange Commission

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KINDER MORGAN REPORTS KEY ASSETS OPERATING AND EXPERIENCED ONLY MINOR DAMAGE FROM HURRICANE RITA

HOUSTON, Sept. 26, 2005 – Kinder Morgan, Inc. (NYSE: KMI) and Kinder Morgan Energy Partners, L.P. (NYSE: KMP) today announced that their key assets in areas affected by Hurricane Rita are operating and experienced relatively minor damage. According to Chairman and CEO Richard D. Kinder, Kinder Morgan does not expect Hurricane Rita to have a material adverse financial impact on the company.

"I would like to commend our dedicated employees for their efforts in protecting our assets, keeping our assets operating as long as it was safe to do so and resuming operations as quickly as possible following the storm to serve our customers and meet consumer demand," Kinder said. "It was truly an extraordinary 24-7 effort by Kinder Morgan employees and government and emergency response officials along the entire Gulf Coast."

The following is a summary of certain Kinder Morgan assets and how they were impacted by the storm.

Products Pipelines (KMP)

- Plantation Pipe Line Company reported normal operations throughout the storm and expects to continue transporting approximately 600,000 barrels per day of gasoline, diesel/heating oil and jet fuel to the Southeast via its 3,100-mile pipeline system that runs from eastern Louisiana to Washington, D.C. It appears that most of the refineries that feed products to Plantation were not impacted by Hurricane Rita (**Kinder Morgan does not own any refineries**). Plantation is owned 51 percent by KMP and 49 percent by ExxonMobil.

- The Pacific system reported normal operations throughout the storm, including the East and West Lines that transport fuel into the Tucson and Phoenix, Ariz., markets. The Pacific

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system on average transports more than 1.1 million barrels of gasoline, jet fuel and diesel per day in California, Arizona, Nevada, New Mexico, Texas and Oregon through 3,100 miles of pipelines and has not been impacted by Hurricane Rita.

- The 104-mile Cypress Pipeline, which serves one customer and transports primarily ethane from Mont Belvieu, Texas, to Lake Charles, La., was temporarily shut down and is ready to resume operations once supply is available and the customer is back online.

Terminals (KMP)

- KMP's liquids terminals on the Houston Ship Channel resumed operations on Saturday, Sept. 24, after shutting down Thursday, Sept. 22, in coordination with refineries and other pipeline companies. The truck rack resumed service Saturday afternoon using generators and provided gasoline and diesel to emergency response authorities and tanker trucks. The terminal also began receiving inbound fuel deliveries from Corpus Christi and Houston Ship Channel refineries on Saturday. Power was restored to the Pasadena and Galena Park terminals Saturday night, at which time the company reenergized the facilities. Outbound pipeline deliveries began Sunday afternoon, Sept. 25, and the facilities are now available for normal operations. Combined, Pasadena/Galena Park stores up to 18 million barrels of refined products and petrochemicals with a daily throughput of about 1.1 million barrels.

- In Texas, seven KMP terminals that primarily handle petroleum coke temporarily ceased operations as a result of refineries being shut down prior to the storm. One of these facilities has already resumed service and the others will do so in coordination with the start up of applicable refineries. In Louisiana, KMP's bulk and liquids terminals did not experience significant damage from Hurricane Rita.

Natural Gas Pipelines (KMI and KMP)

- KMI's Natural Gas Pipeline Company of America (NGPL) continued to operate throughout the storm. The Gulf Coast and Amarillo pipelines that serve the Chicago market continue to operate at normal levels and were unaffected by the storm. The Louisiana Line experienced some curtailment of firm transportation capacity following mandatory evacuations of certain areas near compressor stations, as well as a temporary loss of electric power at some compressor stations. NGPL accessed its Louisiana facilities Sunday and found only minor damage. Currently, only one compressor station is unavailable for service and several meter sites are not accessible due to flooding. The NGPL system consists of about 9,800 miles of pipelines that transport up to 5.8 billion cubic feet (Bcf) of natural gas per day and features approximately 243 Bcf working gas storage capacity.

- KMP's Texas Intrastate pipeline system also operated throughout the storm and had sufficient supplies to meet market needs. Average daily volumes fell to about 50 percent of

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normal levels during the storm as a result of decreased demand from Gulf Coast industrial customers. On Sunday, demand began increasing and the system delivered about 60 percent of average daily volumes. The company expects utilization of the Texas Intrastate pipeline system will continue to increase as market demand ramps up after the hurricane. Access to natural gas storage has been impacted due to loss of electric power, but only minor damage has occurred to the Intrastate facilities. This system has peak transportation capacity of more than 5 Bcf and storage capacity of about 120 Bcf. It provides transportation, processing and treating services for industrial customers, as well as local distribution companies, electric utilities and merchant power generators primarily in the Gulf Coast area.

Kinder Morgan, Inc. 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. Kinder Morgan, Inc. owns the general partner interest of Kinder Morgan Energy Partners, L.P., one of the largest publicly traded pipeline limited partnerships in the United States. Combined, the two companies have an enterprise value of almost $31 billion.

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. Although Kinder Morgan believes that its expectations are based on reasonable assumptions, it can give no assurance that such assumptions will materialize. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein are enumerated in Kinder Morgan's Forms 10-K and 10-Q as filed with the Securities and Exchange Commission.

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