UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2006**

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____to_____

Commission File Number 1-06446

Kinder Morgan, Inc.

(Exact name of registrant as specified in its charter)

Kansas	**48-0290000**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Dallas Street, Suite 1000, Houston, Texas 77002
(Address of principal executive offices, including zip code)

Registrant s telephone number, including area code (713) 369-9000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, par value $5 per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

Preferred stock, Class A $5 cumulative series
(Title of class)

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes þ No o

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:

Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $10,705,381,712 at June 30, 2006.

The number of shares outstanding of the registrant s common stock, $5 par value, as of January 31, 2007 was 134,188,793 shares.

KINDER MORGAN, INC. AND SUBSIDIARIES
CONTENTS

KINDER MORGAN, INC. AND SUBSIDIARIES
CONTENTS (Continued)

Note: Individual financial statements of the parent company are omitted pursuant to the provisions of Accounting Series Release No. 302.

PART I

Items 1. and 2.

Business and Properties.

In this report, unless the context requires otherwise, references to we, us, our, or the Company are intended to m Kinder Morgan, Inc. (a Kansas corporation, incorporated on May 18, 1927, formerly known as K N Energy, Inc.) and its consolidated subsidiaries. All dollars are United States dollars, except where stated otherwise. Canadian dollars are designated as C$. To convert December 31, 2006 balances denominated in Canadian dollars to U.S. dollars, we used the December 31, 2006 Bank of Canada closing exchange rate of 0.8581 U.S. dollars per Canadian dollar. Unless otherwise indicated, all volumes of natural gas are stated at a pressure base of 14.73 pounds per square inch absolute and at 60 degrees Fahrenheit and, in most instances, are rounded to the nearest major multiple. In this report, the term MMcf means million cubic feet, the term Bcf means billion cubic feet, the term TJ means terajoule (one thousand gigajoules), the term PJ means petajoule (one million gigajoules), the term bpd means barrels per day and the terms Dth (dekatherms) and MMBtus mean million British Thermal Units (Btus). Natural gas liquids consist of ethane propane, butane, iso-butane and natural gasoline. For the purpose of making Imperial to Metric conversions, 1 mile equals 1.609 kilometers and 1MMBtu equals 1.055 gigajoules. The following discussion should be read in conjunction with the accompanying Consolidated Financial Statements and related Notes.

(A) General Development of Business

We are one of the largest energy transportation and storage companies in North America. We own the general partner interest and a significant limited partner interest in Kinder Morgan Energy Partners, L.P. (Kinder Morgan Energy Partners), a publicly traded pipeline limited partnership. Due to our implementation of Emerging Issues Task Force (EITF) No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, we have included Kinder Morgan Energy Partners and its consolidated subsidiaries in our consolidated financial statements effective January 1, 2006. This means that the accounts, balances and results of operations of Kinder Morgan Energy Partners and its consolidated subsidiaries are now presented on a consolidated basis with ours and those of our other consolidated subsidiaries for financial reporting purposes, instead of equity method accounting as previously reported. See Note 1(B) of the accompanying Notes to Consolidated Financial Statements. We operate or own an interest in approximately 43,000 miles of pipelines and approximately 155 terminals. Our pipelines transport more than two million barrels per day of gasoline and other petroleum products and up to 10.5 billion cubic feet per day of natural gas. Our terminals handle over 80 million tons of coal and other dry-bulk materials annually and have a liquids storage capacity of almost 70 million barrels for petroleum products and chemicals. We own and operate retail natural gas distribution businesses serving approximately 905,000 customers in British Columbia. We are also the leading independent provider of carbon dioxide for enhanced oil recovery projects in the United States. Our common stock is traded on the New York Stock Exchange under the symbol KMI. Our executive offices are located at 500 Dallas Street, Suite 1000, Houston, Texas 77002 and our telephone number is (713) 369-9000.

On October 7, 1999, we completed the acquisition of Kinder Morgan (Delaware), Inc., a Delaware corporation and the sole stockholder of the general partner of Kinder Morgan Energy Partners. To effect that acquisition, we issued approximately 41.5 million shares of our common stock in exchange for all of the outstanding shares of Kinder

Morgan (Delaware). Upon closing of the transaction, Richard D. Kinder, Chairman and Chief Executive Officer of Kinder Morgan (Delaware), was named our Chairman and Chief Executive Officer, and we were renamed Kinder Morgan, Inc. As a result of that acquisition and certain subsequent transactions, we own the general partner of, and have a significant limited partner interest in, Kinder Morgan Energy Partners, one of the largest publicly traded pipeline limited partnerships in the United States in terms of market capitalization, and the owner and operator of the largest independent refined petroleum products pipeline system in the United States in terms of volumes delivered. Additional information concerning our investment in Kinder Morgan Energy Partners and its various businesses is contained in Note 2 of the accompanying Notes to Consolidated Financial Statements and in Kinder Morgan Energy Partners 2006 Annual Report on Form 10-K.

In May 2001, Kinder Morgan Management, LLC (Kinder Morgan Management), one of our indirect subsidiaries, issued and sold its limited liability shares in an underwritten initial public offering. The net proceeds from the offering were used by Kinder Morgan Management to buy i-units from Kinder Morgan Energy Partners for $991.9 million. Upon purchase of the i-units, Kinder Morgan Management became a limited partner in Kinder Morgan Energy Partners and was delegated by Kinder Morgan Energy Partners general partner, the responsibility to manage and control the business and affairs of Kinder Morgan Energy Partners. The i-units are a class of Kinder Morgan Energy Partners limited partner interests that have been, and will be, issued only to Kinder Morgan Management. We have certain rights and obligations with respect to these securities.

In the initial public offering, we purchased 10% of the Kinder Morgan Management shares, with the balance purchased by the public. The equity interest in Kinder Morgan Management (which is consolidated in our financial statements) owned by the public is reflected as minority interest on our balance sheet. The earnings recorded by Kinder Morgan Management that

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are attributed to its shares held by the public are reported as minority interest in our Consolidated Statements of Operations. Subsequent to the initial public offering by Kinder Morgan Management of its shares, our ownership interest in Kinder Morgan Management has changed because (i) we recognize our share of Kinder Morgan Management s earnings, (ii) we record the receipt of distributions attributable to the Kinder Morgan Management shares that we own, (iii) Kinder Morgan Management has made additional sales of its shares (both through public and private offerings), (iv) pursuant to an option feature that was previously available to Kinder Morgan Management shareholders but no longer exists, we exchanged certain of the Kinder Morgan Energy Partners common units held by us for Kinder Morgan Management shares held by the public and (v) we sold some Kinder Morgan Management shares we owned in order to generate taxable gains to offset expiring tax loss carryforwards. At December 31, 2006, we owned 10.3 million Kinder Morgan Management shares representing 16.5% of Kinder Morgan Management s total outstanding shares. Additional information concerning the business of, and our investment in and obligations to, Kinder Morgan Management is contained in Note 3 of the accompanying Notes to Consolidated Financial Statements and in Kinder Morgan Management s 2006 Annual Report on Form 10-K.

On November 30, 2005, we completed the acquisition of Terasen Inc., referred to in this report as Terasen and, accordingly, Terasen s results of operations are included in our consolidated results of operations beginning on that date. Terasen is an energy transportation and utility services provider headquartered in Burnaby, British Columbia, Canada. Terasen s two core businesses are its natural gas distribution business and its petroleum pipeline business. Terasen Gas is the largest distributor of natural gas in British Columbia, serving approximately 905,000 customers at December 31, 2006. Terasen Pipelines, which we have renamed Kinder Morgan Canada, operates Trans Mountain Pipe Line, which extends from Edmonton to Vancouver and Washington State, and Corridor Pipeline, which operates between the Alberta oilsands and Edmonton. Both Trans Mountain Pipe Line and Corridor Pipeline are owned by Terasen. Kinder Morgan Canada also operates, and Terasen owns a one-third interest in, the Express System, which extends from Alberta to the U.S. Rocky Mountain region and Midwest.

On May 29, 2006, we announced that our board of directors had received a proposal from investors led by Richard D. Kinder, our Chairman and Chief Executive Officer, to acquire all of our outstanding common stock for $100 per share in cash. The investors include Richard D. Kinder, other senior members of our management, co-founder Bill Morgan, current board members Fayez Sarofim and Mike Morgan, and affiliates of Goldman Sachs Capital Partners, American International Group, Inc., The Carlyle Group, and Riverstone Holdings LLC. Our board of directors formed a special committee composed entirely of independent directors to consider the proposal. On August 28, 2006, we entered into a definitive merger agreement under which the investors would acquire all of our outstanding common stock (except for shares held by certain stockholders and investors) for $107.50 per share in cash, without interest, and our board of directors, on the unanimous recommendation of the special committee, approved the agreement and recommended that our stockholders approve the merger.

Our stockholders voted to approve the proposed merger agreement on December 19, 2006. On January 25, 2007, we announced that we had received Hart-Scott-Rodino Antitrust Improvements Act clearance for the proposed acquisition. The Federal Trade Commission had challenged the participation of certain investors, but those investors reached a settlement with the FTC that clears the way for the acquisition to proceed. Currently, the only outstanding approvals are from certain state regulatory utility commissions. The California Public Utilities Commission issued a procedural schedule which could delay the closing of the transaction until the second quarter of 2007; however, we are working diligently with the CPUC to try to expedite the matter and are hopeful that the transaction can be closed in the first or second quarter of 2007. Upon closing of the transaction, our common stock will no longer be traded on the New York Stock Exchange.

Business Strategy

Our business strategy is to: (i) focus on fee-based energy transportation and storage assets that are core to the energy infrastructure of growing markets within North America, (ii) increase utilization of our existing assets while controlling costs, operating safely and employing environmentally sound operating practices, (iii) leverage economies of scale from incremental acquisitions and expansions of properties that fit within our strategy and are accretive to earnings and cash flow and (iv) maximize the benefits of our financial structure to create and return value to our stockholders as discussed following.

We intend to maintain a capital structure that provides flexibility and stability, while returning value to our shareholders through dividends and share repurchases. During 2006, we utilized cash generated from operations (including cash received from distributions attributable to our investment in Kinder Morgan Energy Partners) to pay common stock dividends, finance our capital expenditures program and repurchase our common shares. In recent periods, we have increased our common stock dividends in response to changes in income tax laws that have made dividends a more efficient way to return cash to our shareholders.

We expect to benefit from accretive acquisitions (primarily by Kinder Morgan Energy Partners). Kinder Morgan Energy Partners has a multi-year history of making accretive acquisitions, which benefit us through our limited and general partner

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interests. This acquisition strategy is expected to continue, although we can provide no assurance that such acquisitions will occur in the future. In addition, we expect to benefit from expansion opportunities pursued both by Kinder Morgan Energy Partners and by us. Along with Sempra Pipelines & Storage, a unit of Sempra Energy, and ConocoPhillips, Kinder Morgan Energy Partners is developing the Rockies Express Pipeline, a new natural gas pipeline that when completed will link producing areas in the Rocky Mountain region to the upper Midwest and Eastern United States. The approximately $4.4 billion project will be placed in service in segments and is expected to be completed by June 2009, subject to regulatory approvals. The Rockies Express Pipeline will have the capability to transport 1.8 Bcf per day of natural gas, and binding firm commitments have been secured for virtually all of the pipeline capacity. We expect to expand, within strict guidelines as to risk, rate of return and timing of cash flows, Kinder Morgan Canada s (formerly Terasen Pipelines) pipeline systems and NGPL s pipeline system.

We regularly consider and enter into discussions regarding potential acquisitions and are currently contemplating potential acquisitions. Any such transaction would be subject to negotiation of mutually agreeable terms and conditions, receipt of fairness opinions and approval of the respective boards of directors. While there are currently no unannounced purchase agreements for the acquisition of any material business or assets, such transactions can be effected quickly, may occur at any time and may be significant in size relative to our existing assets or operations.

It is our intention to carry out the above business strategy, modified as necessary to reflect changing economic conditions and other circumstances. However, as discussed under Risk Factors elsewhere in this report, there are factors that could affect our ability to carry out our strategy or affect its level of success even if carried out.

Recent Developments

- **Going Private Transaction**

As discussed above, on December 19, 2006, our stockholders voted to approve a definitive merger agreement under which investors led by Richard D. Kinder, our Chairman and Chief Executive Officer, would acquire all of our outstanding common stock for $107.50 per share in cash. The transaction is expected to be completed in the first or second quarter of 2007, subject to receipt of regulatory approvals, as well as the satisfaction of other customary closing conditions.

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Sale of U.S. Retail Operations

In August 2006, we entered into a definitive agreement with a subsidiary of General Electric Company to sell our U.S. retail natural gas distribution and related operations for $710 million plus working capital. Pending regulatory approvals, we expect this transaction to close by the end of the first quarter of 2007. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* the financial results of these operations have been reclassified to discontinued operations for all periods presented.

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Sale of Terasen Gas Business Segment

On February 26, 2007, we entered into a definitive agreement to sell Terasen Inc. to Fortis Inc. (TSX: FTS), a Canada-based company with investments in regulated distribution utilities, for approximately $3.2 billion (C$3.7 billion) including cash and assumed debt. Terasen Inc. s principal assets include Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. The transaction is subject to certain closing conditions and regulatory approvals and is expected to close in mid 2007. This sale does not include assets of Kinder Morgan Canada.

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Dividends

We increased our annual rate of cash dividends per share by $0.50 in the first quarter of 2006, reaching an annual rate of $3.50. This increase was principally in response to federal tax legislation enacted in 2003 and to increased cash flow.

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NGPL Re-Contracting Transportation and Storage Capacity

In 2006, NGPL extended long-term firm transportation and storage contracts with some of its largest shippers, including Northern Illinois Gas Company (Nicor), The Peoples Gas Light and Coke Company, Centerpoint Energy Minnesota Gas, Interstate Power and Light Company, subsidiaries of Ameren Corporation, and Wisconsin Electric Power Co. Combined, the contracts represent approximately 0.49 million Dth per day of annual firm transportation service.

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NGPL Storage Expansions

In the second quarter of 2006, NGPL placed into service a $38 million expansion of its Sayre storage field located in Oklahoma, which added 10 Bcf of storage service capacity, all of which is contracted for under long-term agreements. In August 2005, NGPL filed a certificate application with the Federal Energy Regulatory Commission (FERC) for an additional 10 Bcf expansion of its North Lansing storage facility located in east Texas, at a cost of $74 million. All of the capacity is contracted for under long-term agreements. The FERC order approving the project was issued January 23, 2006. Service is anticipated to commence during the spring of 2007.

- **NGPL Amarillo-Gulf Coast Line Expansion**
In the second quarter of 2006, NGPL placed into service its Amarillo-Gulf Coast cross-haul expansion. The $21 million project added 51,000 Dth per day of capacity and is fully subscribed under long-term contracts. In addition, NGPL added a new compressor station to Segment 17 of its Amarillo-Gulf Coast line that provides 140 MMcf per day of additional capacity. The $17 million project was placed in service January 6, 2007, and all of the additional capacity is fully contracted.

- **NGPL Louisiana Line Expansion**
In October 2006, NGPL filed with the FERC seeking approval to expand its Louisiana Line by 200,000 Dth per day. This $66 million project is supported by five-year agreements that fully subscribe the additional capacity.

- **Kinder Morgan Illinois Pipeline**
In September 2006, Kinder Morgan Illinois Pipeline filed with FERC seeking approval to acquire lease capacity on NGPL and build facilities to supply service for The Peoples Gas Light and Coke Co., who has signed a 10-year agreement for all the capacity. The $13.3 million project would have a capacity of 360,000 Dth per day.

- **Terasen Gas Pipeline Project**
In June 2006, the BCUC approved an application from Terasen Gas Inc. to build a 50-kilometer natural gas pipeline from Squamish to Whistler. The estimated C$42 million project, which includes the cost of retrofitting utility customers gas-fired appliances from propane to natural gas use, will replace an aging propane system. Construction on this project is being integrated with and performed by the contractor performing the highway upgrades to Whistler in advance of the 2010 Winter Olympics. We expect full service to be available to Whistler by November 2008.

- **Kinder Morgan Canada Trans Mountain Pipeline Expansions**
On November 10, 2005, Kinder Morgan Canada received approval from the National Energy Board (NEB) to increase the capacity of the Trans Mountain pipeline system from 225,000 barrels per day (bpd) to 260,000 bpd. The C$195 million expansion is designed to add 35,000 bpd of heavy crude oil capacity by building new and upgrading existing pump stations along the pipeline system between Edmonton, Alberta, and Burnaby, British Columbia. Construction began in the summer of 2006 and the expansion is expected to be in service by April 2007.

Kinder Morgan Canada filed a comprehensive environmental report with the Canadian Environmental Assessment Agency on November 15, 2005, and filed a complete NEB application for the Anchor Loop Project on February 17, 2006. The C$443 million project involves looping a 98-mile section of the existing Trans Mountain pipeline system between Hinton, Alberta, and Jackman, British Columbia, and the addition of three new pump stations. With construction of the Anchor Loop, the Trans Mountain system s capacity will increase from 260,000 bpd to 300,000 bpd by the end of 2008. The public hearing of the application was held the week of August 8, 2006. On October 26, 2006, the NEB released its favorable decision on the application.

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Kinder Morgan Canada Corridor Pipeline Expansion

An application for the Corridor pipeline expansion project was filed with the Alberta Energy Utilities Board and Alberta Environment on December 22, 2005, and approval was received in August 2006. The proposed C$1.8 billion expansion, as authorized and supported by shipper resolutions and the underlying firm service agreement, includes building a new 42-inch diameter diluent/bitumen (dilbit) pipeline, a new 20-inch diameter products pipeline, tankage and upgrading existing pump stations along the existing pipeline system from the Muskeg River Mine north of Fort McMurray to the Edmonton region. The Corridor pipeline expansion would add an initial 180,000 bpd of dilbit capacity to accommodate the new bitumen production from the Muskeg River Mine. An expansion of the Corridor pipeline system has been completed in 2006 increasing the dilbit capacity to 278,000 bpd by upgrading existing pump station facilities. By 2009, the dilbit capacity of the Corridor system is expected to be approximately 460,000 bpd. Construction of the Corridor pipeline expansion began in November 2006.

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Products Pipelines KMP Pacific Operations Regulatory Matter

On March 7, 2006, Kinder Morgan Energy Partners Pacific operations filed a revised cost of service filing with the FERC in accordance with the FERC s December 16, 2005 order addressing two cases: (i) the phase two initial decision, issued September 9, 2004, which would establish the basis for prospective rates and the calculation of reparations for complaining shippers with respect to the Pacific operations West Line and East Line pipelines, and (ii) certain cost of service issues remanded to the FERC by the United States Court of Appeals for the District of Columbia Circuit, referred to in this report as D.C. Circuit, in its July 2004 *BP West Coast Products v. FERC* opinion, including the level of income tax allowance that the Pacific operations is entitled to include in its interstate rates. The December 16, 2005 order did not address the FERC s March 2004 phase one rulings on the grandfathered

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state of the Pacific operations rates that are currently pending on appeal before the D.C. Circuit.

On April 28, 2006, the FERC issued an order accepting Kinder Morgan Energy Partners Pacific operations compliance filing and revised tariffs, which lowered its West Line and East Line rates in conformity with previous FERC orders, and these lower tariff rates became effective May 1, 2006. Further, Kinder Morgan Energy Partners was required to calculate estimated reparations for complaining shippers consistent with the December 16, 2005 FERC order, and various parties have submitted comments to the FERC challenging aspects of the costs of service and tariff rates reflected in the compliance filings. The FERC indicated that a subsequent order would address the issues raised in these comments. In December 2005, Kinder Morgan Energy Partners recognized a $105.0 million non-cash expense attributable to an increase in its reserves related to its rate case liability; however, we are not able to predict with certainty the final outcome of the pending FERC proceedings, or whether we can reach a settlement with some or all of the complainants. For additional information, see Note 19 to our consolidated financial statements.

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Products Pipelines KMP Watson Station Regulatory Settlement

On May 17, 2006, Kinder Morgan Energy Partners entered into a settlement agreement and filed an offer of settlement with the FERC in response to certain challenges by complainants with regard to delivery tariffs and gathering enhancement fees at the Pacific operations Watson Station, located in Carson, California. On August 2, 2006, the FERC approved the settlement without modification and directed that it be implemented. Pursuant to the settlement, Kinder Morgan Energy Partners filed a new tariff, which took effect September 1, 2006, lowering the Pacific Operations going-forward rate, and Kinder Morgan Energy Partners also paid refunds to all shippers for the period April 1, 1999 through August 31, 2006.

On September 28, 2006, Kinder Morgan Energy Partners filed a refund report with the FERC, setting forth the refunds that had been paid and describing how the refund calculations were made. On December 5, 2006, the FERC approved the refund report with respect to all shippers except ExxonMobil, and it remanded the ExxonMobil refund issue to an administrative law judge for a determination as to whether additional refunds were due. On January 16, 2007, Kinder Morgan Energy Partners and ExxonMobil informed the presiding judge that they had reached a settlement in principle regarding the ExxonMobil refund issue, and in February 2007, Kinder Morgan Energy Partners and ExxonMobil reached agreement regarding ExxonMobil s protest of the refund report, and the protest was withdrawn. As of December 31, 2006, Kinder Morgan Energy Partners made aggregate payments pursuant to the agreement, including accrued interest, of $19.1 million.

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Products Pipelines KMP Pacific Operations East Line Expansion

On June 1, 2006, Kinder Morgan Energy Partners announced that it had completed and fully placed into service a $210 million expansion of the Pacific operations East Line pipeline segment. The completion of the project included the construction of a new pump station, a 490,000 barrel tank facility near El Paso, Texas, and upgrades to existing stations and terminals between El Paso and Phoenix, Arizona. Initially proposed in October 2002, the expansion also includes the replacement of 160 miles of 8-inch diameter pipe between El Paso and Tucson, Arizona, and 84 miles of 8-inch diameter pipe between Tucson and Phoenix with new state-of-the-art 12-inch and 16-inch diameter pipe, respectively. Kinder Morgan Energy Partners announced the completion of the pipeline portion of the project on April 19, 2006, and new transportation tariffs designed to earn a return on its construction costs went into effect June 1, 2006.

In addition, Kinder Morgan Energy Partners continues working on its second East Line expansion project, which it announced on August 4, 2005. This second expansion consists of replacing approximately 140 miles of 12-inch diameter pipe between El Paso and Tucson with 16-inch diameter pipe, constructing additional pump stations, and adding new storage tanks at Tucson. The project is expected to cost approximately $145 million. Kinder Morgan Energy Partners is currently working on engineering design and obtaining necessary pipeline permits, and construction is expected to begin in May 2007. The project, scheduled for completion in December 2007, will increase

East Line capacity by another 8% and will provide the platform for further incremental expansions through horsepower additions to the system.

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Products Pipelines KMP CALNEV Pipeline System Expansion

On October 19, 2006, Kinder Morgan Energy Partners announced the third of three investments in its CALNEV refined petroleum products pipeline system. CALNEV is a 550-mile pipeline that currently transports approximately 140,000 barrels of refined products per day of gasoline, diesel fuel and jet fuel from the Los Angeles, California area to the Las Vegas, Nevada market through parallel 14-inch and 8-inch diameter pipelines. Combined, the $413 million in capital improvements will upgrade and expand pipeline capacity and help provide sufficient fuel supply to the Las Vegas, Nevada market for the next several years. The investments include the following:

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the first project, estimated to cost approximately $10 million, involves pipeline expansions that will

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increase current transportation capacity by 3,200 barrels per day (2.2%), as well as the construction of two new 80,000 barrel storage tanks at the Las Vegas terminal;

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the second project, expected to cost approximately $15 million, includes the installation of new and upgraded pumping equipment and piping at the Colton, California terminal, a new booster station with two pumps at Cajon, California, and piping upgrades at the Las Vegas terminal; and

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the third project, expected to cost approximately $388 million, includes construction of a new 16-inch diameter pipeline that will further expand the system and which would increase system capacity to approximately 200,000 barrels per day upon completion. Capacity could be increased as necessary to over 300,000 barrels per day with the addition of pump stations. The new 16-inch diameter pipeline will parallel existing utility corridors between Colton and Las Vegas in order to minimize environmental impacts. It will transport gasoline and diesel, as well as military jet fuel for Nellis Air Force Base, which is located eight miles northeast of downtown Las Vegas. The existing 14-inch diameter pipeline will be dedicated to commercial jet fuel service for McCarran International Airport in Las Vegas and for any future commercial airports planned for the Las Vegas market. The 8-inch diameter pipeline that currently serves McCarran would be purged and held for future service. The expansion is subject to environmental permitting, rights-of-way acquisition and the receipt of approvals from the FERC authorizing rates that are economic to CALNEV. Start-up of the new pipeline is scheduled for early 2010.

In addition, Kinder Morgan Energy Partners is currently working with its customers to determine interest in the construction of a new refined products distribution terminal to be located south of Henderson, Nevada.

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Products Pipelines KMP Cochin Pipeline System Ownership Interest To Increase to 100%
On January 15, 2007, Kinder Morgan Energy Partners announced that it had entered into an agreement with affiliates of BP to increase Kinder Morgan Energy Partners ownership interest in the Cochin pipeline system to 100%. Kinder Morgan Energy Partners purchased its original undivided 32.5% ownership interest in the Cochin pipeline system in November 2000, and currently, Kinder Morgan Energy Partners owns a 49.8% ownership interest. BP Canada Energy Company, an affiliate of BP, owns the remaining 50.2% ownership interest and is the operator of the pipeline. The agreement is subject to due diligence, regulatory clearance and other customary closing conditions. The transaction is expected to close in the first quarter of 2007, and upon closing, Kinder Morgan Energy Partners will become the operator of the pipeline.

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Natural Gas Pipelines KMP Rockies Express Pipeline
Effective February 23, 2006, Rockies Express Pipeline LLC acquired Entrega Gas Pipeline LLC from EnCana Corporation for $244.6 million in cash. West2East Pipeline LLC is a limited liability company and is the sole owner of Rockies Express Pipeline LLC. Kinder Morgan Energy Partners contributed 66 2/3% of the consideration for this purchase, which corresponded to its percentage ownership of West2East Pipeline LLC at that time. At the time of acquisition, Sempra Energy held the remaining 33 1/3% ownership interest and contributed this same proportional amount of the total consideration.

On the acquisition date, Entegra Gas Pipeline LLC owned the Entrega Pipeline, an interstate natural gas pipeline that now consists of two segments: (i) a 136-mile, 36-inch diameter pipeline that extends from the Meeker Hub in Rio Blanco County, Colorado to the Wamsutter Hub in Sweetwater County, Wyoming and (ii) a 191-mile, 42-inch diameter pipeline that extends from the Wamsutter Hub to the Cheyenne Hub in Weld County, Colorado, where it will ultimately connect with the Rockies Express Pipeline, an interstate natural gas pipeline that is currently being developed by Rockies Express Pipeline LLC. In the first quarter of 2006, EnCana Corporation completed construction of the pipeline segment that extends from the Meeker Hub to the Wamsutter Hub, and interim service began on that portion of the pipeline on February 24, 2006. In February 2007, Kinder Morgan Energy Partners completed construction of the second pipeline segment that extends from the Wamsutter Hub to the Cheyenne Hub and service began on the first two pipeline segments on February 14, 2007.

However, our operating revenues and our operating expenses were not impacted during the construction or interim service periods due to the fact that regulatory accounting provisions require capitalization of revenues and expenses until the second segment of the project was completed and in-service.

In April 2006, Rockies Express Pipeline LLC merged with and into Entrega Gas Pipeline LLC, and the surviving entity was renamed Rockies Express Pipeline LLC. Going forward, the entire pipeline system (the two Entrega segments described above and the two Rockies Express segments that are currently being developed and described below) will be known as the Rockies Express Pipeline.

On May 31, 2006, Rockies Express Pipeline LLC filed an application with the FERC for authorization to construct

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and operate certain facilities comprising its proposed Rockies Express-West project. This project is the first planned eastward extension of the certificated Rockies Express segments, described above. The Rockies Express-West project will be comprised of approximately 713 miles of 42-inch diameter pipeline extending from the Cheyenne Hub to an interconnection with Panhandle Eastern Pipe Line located in Audrain County, Missouri. The segment extension will have capacity to transport up to 1.5 billion cubic feet per day of natural gas across the following five states: Wyoming, Colorado, Nebraska, Kansas and Missouri. The project will also include certain improvements to existing Rockies Express facilities located to the west of the Cheyenne Hub.

On June 30, 2006, ConocoPhillips exercised its option to acquire a 25% ownership interest in West2East Pipeline LLC (and indirectly, its subsidiary Rockies Express Pipeline LLC). On that date, a 24% ownership interest was transferred to ConocoPhillips, and an additional 1% interest will be transferred once construction of the entire Rockies Express Pipeline project is completed. Through its subsidiary Kinder Morgan W2E Pipeline LLC, Kinder Morgan Energy Partners continues to operate the project but its equity ownership interest decreased from 66 2/3% to 51%. Sempra s ownership interest in West2East Pipeline LLC decreased to 25% (down from 33 1/3%). When construction of the entire project is completed, Kinder Morgan Energy Partners ownership interest will be reduced to 50% at which time the capital accounts of West2East Pipeline LLC will be trued up to reflect Kinder Morgan Energy Partners 50% economics in the project. We do not anticipate any additional changes in the ownership structure of the project.

On September 21, 2006, the FERC issued a favorable preliminary determination on all non-environmental issues of the Rockies Express-West project, approving Rockies Express application (i) to construct and operate the 713 miles of new natural gas transmission facilities from the Cheyenne Hub and (ii) to lease capacity from Questar Overthrust Pipeline Company, which will extend the Rockies Express system 140 miles west from Wamsutter to the Opal Hub in Wyoming. Pending completion of the FERC environmental review and the issuance of a certificate, the Rockies Express-West project is expected to begin service in January 2008.

The final segment of the Rockies Express Pipeline consists of an approximate 635-mile pipeline segment that will extend from eastern Missouri to the Clarington Hub in eastern Ohio. Rockies Express will file a separate application in the future for this proposed Rockies Express-East project. In June 2006, Kinder Morgan Energy Partners made the National Environmental Policy Act pre-filing for Rockies Express-East with the FERC. This project is expected to begin interim service as early as December 31, 2008, and to be fully completed by June 2009. When fully completed, the combined 1,675-mile Rockies Express Pipeline system will be one of the largest natural gas pipelines ever constructed in North America. The approximately $4.4 billion project will have the capability to transport 1.8 billion cubic feet per day of natural gas, and binding firm commitments have been secured for virtually all of the pipeline capacity.

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Natural Gas Pipelines KMP Sale of Douglas Gathering System and Painter Unit Fractionation Facility
Effective April 1, 2006, Kinder Morgan Energy Partners sold its Douglas natural gas gathering system and its Painter Unit fractionation facility to Momentum Energy Group, LLC for approximately $42.5 million in cash. Our investment in net assets, including all transaction related accruals, was approximately $24.5 million, most of which represented property, plant and equipment, and we recognized approximately $18.0 million of gain on the sale of these net assets.

Additionally, with regard to the natural gas operating activities of our Douglas gathering system, we utilized certain derivative financial contracts to offset (hedge) our exposure to fluctuating expected future cash flows caused by periodic changes in the price of natural gas and natural gas liquids. According to the provisions of current accounting principles, when an asset generating a hedged transaction is disposed of prior to the occurrence of the transaction, the net cumulative gain or loss previously recognized in equity should be transferred to net income in the current period. Accordingly, we reclassified a net loss of $2.9 million from Accumulated other comprehensive loss into net income on those derivative contracts that effectively hedged uncertain future cash flows associated with forecasted Douglas gathering transactions. We included the net amount of the gain, $15.1 million, within the caption Other expense (income) in our accompanying consolidated statement of income for the year ended December 31, 2006.

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Natural Gas Pipelines KMP Long-term Transportation and Storage Services Contract
On April 18, 2006, Kinder Morgan Energy Partners announced that its Texas intrastate natural gas pipeline group had entered into a long-term agreement with CenterPoint Energy Resources Corp. to provide the natural gas utility with firm transportation and storage services. Under the terms of the agreement, CenterPoint has contracted for one billion cubic feet per day of transportation capacity and 16 billion cubic feet of storage capacity, effective April 1, 2007. CenterPoint owns and operates the largest local natural gas distribution company in Houston, Texas, and the agreement helps ensure the Houston metropolitan area has access to reliable and diverse supplies of natural gas in order to meet the growing demand.

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Natural Gas Pipelines KMP North Dayton, Texas Storage Expansion
On June 8, 2006, Kinder Morgan Energy Partners announced an approximate $76 million expansion project that will significantly increase capacity at its North Dayton, Texas natural gas storage facility. The project involves the development of a new underground cavern that will add an estimated 5.5 billion cubic feet of incremental working natural gas storage capacity. Currently, two existing storage caverns at the facility provide approximately 4.2 billion cubic feet of working gas capacity. The North Dayton natural gas storage facility is connected to Kinder Morgan Energy Partners Texas Intrastate natural gas pipeline system, and the expansion will greatly enhance storage options

for natural gas coming from new and growing supply areas located in East Texas and from liquefied natural gas along the Texas Gulf Coast. Project costs are now anticipated to range from $76 million to $82 million, and the additional capacity is expected to be available in mid-2009.

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Natural Gas Pipelines KMP TransColorado s Blanco-Meeker Expansion Project
On June 23, 2006, TransColorado Gas Transmission Company filed an application for authorization with the FERC to construct and operate certain facilities comprising its proposed Blanco-Meeker Expansion Project. Upon implementation, this approximately $58 million project will facilitate the transportation of up to approximately 250 million cubic feet per day of natural gas northbound from the Blanco Hub area in San Juan County, New Mexico through TransColorado s existing interstate pipeline for delivery to the Rockies Express Pipeline at an existing point of interconnection located at the Meeker Hub in Rio Blanco County, Colorado. The expansion is expected to begin service on January 1, 2008, subject to receipt of all necessary regulatory approvals.

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Natural Gas Pipelines KMP Kinder Morgan Louisiana Pipeline
On September 8, 2006, Kinder Morgan Energy Partners filed an application with the FERC requesting approval to construct and operate the Kinder Morgan Louisiana Pipeline. The project is expected to cost approximately $500 million and will provide approximately 3.2 billion cubic feet per day of take-away natural gas capacity from the Cheniere Sabine Pass liquefied natural gas terminal located in Cameron Parish, Louisiana. The project is supported by fully subscribed capacity and long-term customer commitments with Chevron and Total. Various water and environmental surveys have been completed and Kinder Morgan Energy Partners procured long-lead items, such as line pipe and mainline block valves. Kinder Morgan Energy Partners is currently finalizing interconnect agreements, preparing detailed designs of the facilities and acquiring necessary rights-of-way.

The Kinder Morgan Louisiana Pipeline will consist of two segments: (i) a 132-mile, 42-inch diameter pipeline with firm capacity of approximately 2.0 billion cubic feet per day of natural gas that will extend from the Sabine Pass terminal to a point of interconnection with an existing Columbia Gulf Transmission line in Evangeline Parish, Louisiana, including an offshoot consisting of approximately 2.3 miles of 24-inch diameter pipeline with firm peak day capacity of approximately 300 million cubic feet per day extending away from the 42-inch diameter line to the existing Florida Gas Transmission Company compressor station in Acadia Parish, Louisiana.; and (ii) a 1-mile, 36-inch diameter pipeline with firm capacity of approximately 1.2 billion cubic feet per day that will extend from the Sabine Pass terminal and connect to Natural Gas Pipeline Company of America s natural gas pipeline. In addition, in exchange for shipper commitments to the project, Kinder Morgan Energy Partners has granted options to acquire equity in the project, which, if fully exercised, could result in Kinder Morgan Energy Partners owning a minimum interest of 80% after the project is completed. The 132-mile pipeline segment is expected to be in service in the second quarter of 2009, and the 1-mile segment is expected to be in service in the third quarter of 2008.

On January 26, 2007, the FERC issued a draft Environmental Impact Statement (EIS) which addresses the potential environmental effects of the construction and operation of the Kinder Morgan Louisiana Pipeline. The draft EIS was prepared to satisfy the requirements of the National Environmental Policy Act. It concluded that approval of the proposed project would have limited adverse environmental impact. The public will have until March 19, 2007 to file comments on the draft, which will be taken into account in the preparation of the final EIS.

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Natural Gas Pipelines KMP Midcontinent Express Pipeline
On December 13, 2006, Kinder Morgan Energy Partners announced that it had entered into a joint development of the

Midcontinent Express Pipeline with Energy Transfer Partners, L.P., and the start of a binding open season for the pipeline s firm natural gas transportation capacity. The approximate $1.25 billion interstate natural gas pipeline project will consist of an approximate 500-mile pipeline that will originate near Bennington, Oklahoma, be routed through Perryville, Louisiana, and terminate at an interconnect with Williams Transco natural gas pipeline system in Butler, Alabama. Kinder Morgan Energy Partners will own 50% of the equity in the project and Energy Transfer Partners, L.P. will own the remaining 50% interest. The new pipeline will also connect to Natural Gas Pipeline Company of America s natural gas pipeline and to Energy Transfer Partners previously announced 135-mile, 36-inch diameter natural gas pipeline, which extends from the Barnett Shale natural gas producing area in North Texas to an interconnect with its 30-inch diameter Texoma Pipeline near Paris, Texas.

The Midcontinent Express Pipeline will have an initial transportation capacity of 1.4 billion cubic feet per day of

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natural gas, and pending necessary regulatory approvals, is expected to be in service by February 2009. The pipeline has prearranged binding commitments from multiple shippers for approximately 850,000 cubic feet per day, including a binding commitment for 500,000 cubic feet per day from Chesapeake Energy Marketing, Inc., an affiliate of Chesapeake Energy Corporation. Additionally, in order to provide a seamless transportation path from various locations in Oklahoma, the Midcontinent Express Pipeline has also executed a firm capacity lease agreement for up to 500,000 cubic feet per day with Enogex, Inc., an Oklahoma-based intrastate natural gas gathering and pipeline company that is wholly owned by OGE Energy Corp.

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CO_2 KMP Oil and Gas Property Acquisition

On April 5, 2006, Kinder Morgan Production Company L.P. purchased various oil and gas properties from Journey Acquisition I, L.P. and Journey 2000, L.P. for an aggregate consideration of approximately $63.9 million, consisting of $60.3 million in cash and $3.6 million in assumed liabilities. The acquisition was effective March 1, 2006. However, in the second and third quarters of 2006, Kinder Morgan Energy Partners divested certain acquired properties that were not considered candidates for carbon dioxide enhanced oil recovery, thus reducing its total investment. Kinder Morgan Energy Partners received proceeds of approximately $27.1 million from the sale of these properties. The acquired properties are primarily located in the Permian Basin area of West Texas and New Mexico, produce approximately 430 barrels of oil equivalent per day, and include some fields with potential for enhanced oil recovery development near Kinder Morgan Energy Partners current carbon dioxide operations.

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CO_2 KMP Carbon Dioxide Expansion Projects

On January 17, 2007, Kinder Morgan Energy Partners announced that its CO_2 business segment will invest approximately $120 million to further expand its operations and enable it to meet the increased demand for carbon dioxide in the Permian Basin. The expansion activities will take place in southwest Colorado and will include developing a new carbon dioxide source field and adding infrastructure at both the McElmo Dome Unit and the Cortez Pipeline. Specifically, the expansion will involve developing a new carbon dioxide source field in Dolores County, Colorado (named the Doe Canyon Deep Unit), adding eight carbon dioxide production wells at the McElmo Dome Unit, increasing transportation capacity on the Cortez Pipeline, and constructing a new pipeline that will connect the Cortez Pipeline to the new Doe Canyon Deep Unit. Initial construction activities have begun with expected in-service dates commencing in early 2008. The entire expansion is expected to be completed by the middle of 2008.

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Terminals KMP East Coast Liquids Terminal Expansion

On January 12, 2006, Kinder Morgan Energy Partners announced a major expansion project that will provide additional infrastructure to help meet the growing need for terminal services in key markets along the East Coast. The investment of approximately $45 million includes the construction of new liquids storage tanks at Kinder Morgan Energy Partners Perth Amboy, New Jersey liquids terminal located along the Arthur Kill River in the New York Harbor area. The Perth Amboy expansion involves the construction of nine new storage tanks with a capacity of 1.4 million barrels for gasoline, diesel and jet fuel. The expansion was driven by continued strong demand for refined products in the Northeast, much of which is being met by imported fuel arriving via the New York Harbor. The new tanks were expected to be in service beginning in the first quarter of 2007, however, due to inconsistencies in the soils underneath these tanks, we now estimate that the tank foundations will cost significantly more than originally budgeted, bringing the total investment to approximately $56 million and delaying the in-service date to the third quarter of 2007.

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Terminals KMP Bulk Terminal Expansion

On March 9, 2006, Kinder Morgan Energy Partners announced that it has entered into a long-term agreement with Drummond Coal Sales, Inc. that will support a $70 million expansion of Kinder Morgan Energy Partners Pier IX bulk terminal located in Newport News, Virginia. The agreement has a term that can be extended for up to 30 years. The project includes the construction of a new ship dock and the installation of additional equipment; it is expected to increase throughput at the terminal by approximately 30% and will allow the terminal to begin receiving shipments of imported coal. The expansion is expected to be completed in the first quarter of 2008. Upon completion, the terminal will have an import capacity of up to 9 million tons annually. Currently, the Pier IX terminal can store approximately 1.4 million tons of coal and 30,000 tons of cement on its 30-acre storage site.

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Terminals KMP Terminal Acquisition

In April 2006, Kinder Morgan Energy Partners acquired terminal assets and operations from A&L Trucking, L.P. and U.S. Development Group in three separate transactions for an aggregate consideration of approximately $61.9 million, consisting of $61.6 million in cash and $0.3 million in assumed liabilities. The first transaction included the acquisition of equipment and infrastructure for the storing and loading of bulk steel at a 30-acre site along the Houston Ship Channel leased through the Port of Houston. The second acquisition included the purchase of a rail terminal at the Port of Houston that handles both bulk and liquids products. The rail terminal offers a variety of loading, storage and staging services for up to 900 cars at a time, and complements Kinder Morgan Energy Partners existing Texas petroleum coke terminal operations by providing bulk product customers with rail transportation options. Thirdly, Kinder Morgan Energy Partners acquired the entire membership interest of Lomita Rail Terminal LLC, a limited liability company that owns a high-volume rail ethanol terminal in Carson, California. The terminal has the capability to receive and offload up to 100 railcars within a 24-hour period, and serves approximately 80% of the Southern California demand for reformulated fuel blend ethanol with expandable offloading/distribution capacity.

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Terminals KMP Construction of Crude Oil Tank Farm in Edmonton, Alberta
On June 21, 2006, Kinder Morgan Energy Partners announced that it, through its Kinder Morgan Terminals Canada, ULC subsidiary, began construction on a new $115 million crude oil tank farm located in Edmonton, Alberta, Canada, located slightly north of Kinder Morgan Canada s Trans Mountain Pipeline crude oil storage facility. In addition, Kinder Morgan Energy Partners entered into long-term contracts with customers for all of the available capacity at the facility, with options to extend the agreements beyond the original terms. Situated on approximately 24 acres, the new storage facility will have nine tanks with a combined storage capacity of approximately 2.2 million barrels for crude oil. Service is expected to begin in the fourth quarter of 2007, and when completed, the tank farm will serve as a premier blending and storage hub for Canadian crude oil. The tank farm will have access to more than 20 incoming pipelines and several major outbound systems, including a connection with Kinder Morgan Canada s 710-mile Trans Mountain Pipeline system, which currently transports up to 225,000 barrels per day of heavy crude oil and refined products from Edmonton to marketing terminals and refineries located in the greater Vancouver, British Columbia area and Puget Sound in Washington State.

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Terminals KMP Pasadena and Galena Park, Texas Liquids Terminal Expansions
On September 11, 2006, Kinder Morgan Energy Partners announced major expansions at its Pasadena and Galena Park, Texas liquids terminal facilities located on the Houston Ship Channel. The expansions will provide additional infrastructure to help meet the growing need for refined petroleum products storage capacity along the Gulf Coast. The investment of approximately $195 million will include the construction of the following: (i) new storage tanks at both the Pasadena and Galena Park terminals; (ii) an additional cross-channel pipeline to increase the connectivity between the two terminals; (iii) a new ship dock at Galena Park; and (iv) an additional loading bay at the fully automated truck loading rack located at the Pasadena terminal. The expansions are supported by long-term customer commitments and will result in approximately 3.4 million barrels of additional tank storage capacity at the two terminals. Construction began in October 2006 and all of the projects are expected to be completed by the spring of 2008.

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Terminals KMP Transload Services, LLC Acquisition
Effective November 20, 2006, Kinder Morgan Energy Partners acquired all of the membership interests of Transload Services, LLC for an aggregate consideration of approximately $16.8 million, consisting of $15.4 million in cash, an obligation to pay $0.9 million currently held as security for the collection of certain accounts receivable and for the perfection of certain real property title rights, and $0.5 million of assumed liabilities. Transload Services, LLC is a leading provider of innovative, high quality material handling and steel processing services, operating 14 steel-related terminal facilities located in the Chicago metropolitan area and various cities in the United States. Its operations include transloading services, steel fabricating and processing, warehousing and distribution, and project staging. The combined operations include over 92 acres of outside storage and 445,000 square feet of covered storage that offers customers environmentally controlled warehouses with indoor rail and truck loading facilities for handling temperature and humidity sensitive products.

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Terminals KMP Devco USA L.L.C. Acquisition
Effective December 1, 2006, Kinder Morgan Energy Partners acquired all of the membership interests in Devco USA L.L.C. for an aggregate consideration of approximately $7.3 million, consisting of $4.8 million in cash, $1.6 million in common units, and $0.9 million of assumed liabilities. The primary asset acquired was a technology-based identifiable intangible asset a proprietary process that transforms molten sulfur into premium solid formed pellets that are environmentally friendly, easy to handle and store, and safe to transport. The process was developed internally by Devco s engineers and employees. Devco, a Tulsa, Oklahoma-based company, has more than 20 years of sulfur handling expertise and we believe the acquisition and subsequent application of this acquired technology complements Kinder Morgan Energy Partners existing dry-bulk terminal operations.

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Kinder Morgan Energy Partners Public Offering
In August 2006, Kinder Morgan Energy Partners completed a public offering of 5,750,000 of its common units, including common units sold pursuant to the underwriters over-allotment option, at a price of $44.80 per unit, less commissions and underwriting expenses. Kinder Morgan Energy Partners received net proceeds of $248.0 million for the issuance of these 5,750,000 common units, and used the proceeds to reduce the borrowings under its commercial paper program.

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Kinder Morgan Energy Partners Credit Facility Changes
Effective August 28, 2006, Kinder Morgan Energy Partners terminated its $250 million unsecured nine-month credit facility due November 21, 2006, and increased its five-year unsecured revolving credit facility from a total commitment of $1.6 billion to $1.85 billion. The five-year credit facility remains due August 18, 2010; however, the facility can now be amended to allow for borrowings up to $2.1 billion. There were no borrowings under the five-year credit facility as of December 31, 2006. The credit facility primarily serves as a backup to Kinder Morgan Energy Partners commercial paper program, which had $1,098.2 million outstanding as of December 31, 2006.

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Kinder Morgan Energy Partners Cash Distribution Expectations for 2007
On December 14, 2006, Kinder Morgan Energy Partners announced that it expects to declare cash distributions of $3.44 per unit for 2007, an almost 6% increase over cash distributions of $3.26 per unit for 2006. This expectation includes contributions from assets owned by Kinder Morgan Energy Partners as of the announcement date and does not include any potential benefits from unidentified acquisitions. We expect Kinder Morgan Energy Partners growth to accelerate in the second half of 2007, and we anticipate that Kinder Morgan Energy Partners fourth quarter 2007 distribution per unit will be approximately 10% higher than its cash distribution per unit of $0.83 for the fourth quarter of 2006. Furthermore, while we expect that we will continue to be able to grow Kinder Morgan Energy Partners distribution per unit at about 8% per year over the long-term, the increase in 2008 is expected to be greater than 8%, due mainly to the anticipated in-service date of January 2008 for the western portion of the Rockies Express Pipeline.

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Kinder Morgan Energy Partners 2006 Capital Expenditures
During 2006, Kinder Morgan Energy Partners spent $1,058.3 million for additions to property, plant and equipment, including both expansion and maintenance projects. Capital expenditures included the following:

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$307.7 million in the Terminals KMP segment, largely related to expanding the petroleum products storage capacity at liquids terminal facilities, including the construction of additional liquids storage tanks at facilities on the Houston Ship Channel, and to various expansion projects and improvements undertaken at multiple bulk terminal facilities;

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$283.0 million in the CO2 KMP segment, mostly related to additional infrastructure, including wells and injection and compression facilities, to support the expanding carbon dioxide flooding operations at the SACROC and Yates oil field units in West Texas;

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$271.6 million in the Natural Gas Pipelines KMP segment, mostly related to the inclusion of the capital expenditures of Rockies Express Pipeline LLC during the six-month period we included its results in our consolidated financial statements, as well as various expansion and improvement projects on the Texas Intrastate natural gas pipeline systems, including the development of additional natural gas storage capacity at the natural gas storage facilities located at Markham and Dayton, Texas; and

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$196.0 million in the Products Pipelines KMP segment, mostly related to the continued expansion work on the Pacific operations East Line products pipeline, the construction of an additional refined products line on the CALNEV

Pipeline in order to increase delivery service to the growing Las Vegas, Nevada market, and to the combined expansion projects at the 24 refined products terminals included within the Southeast terminal operations.

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Kinder Morgan Energy Partners Debt Offerings On January 30, 2007, Kinder Morgan Energy Partners completed a public offering of senior notes. Kinder Morgan Energy Partners issued a total of $1.0 billion in principal amount of senior notes, consisting of $600 million of 6.00% notes due February 1, 2017 and $400 million of 6.50% notes due February 1, 2037. Kinder Morgan Energy Partners received proceeds from the issuance of the notes, after underwriting discounts and commissions, of approximately $992.8 million, and used the proceeds to reduce the borrowings under its commercial paper program.

(B) Financial Information about Segments

Note 17 of the accompanying Notes to Consolidated Financial Statements contains financial information about our business segments.

(C) Narrative Description of Business

Overview

We are an energy infrastructure provider. Our principal business segments are: (1) Natural Gas Pipeline Company of America and certain affiliates, referred to as Natural Gas Pipeline Company of America or NGPL, a major interstate natural

gas pipeline and storage system; (2) Kinder Morgan Canada, a refined products and crude oil transportation pipeline business; (3) Terasen Gas, a natural gas distribution business involved in the transmission and distribution of natural gas and propane for residential, commercial and industrial customers in British Columbia; (4) Power, a business that owns and operates natural gas-fired electric generation facilities; (5) Products Pipelines KMP, the ownership and operation of refined petroleum products pipelines that deliver gasoline, diesel fuel, jet fuel and natural gas liquids to various markets plus the ownership and/or operation of associated product terminals and petroleum pipeline transmix facilities; (6) Natural Gas Pipelines KMP, the ownership and operation of major interstate and intrastate natural gas pipeline and storage systems; (7) CO_2 KMP, the production, transportation and marketing of carbon dioxide (CO_2) to oil fields that use CO_2 to increase production of oil plus ownership interests in and/or operation of oil fields in West Texas plus the ownership and operation of a crude oil pipeline system in West Texas and (8) Terminals KMP, the ownership and/or operation of liquids and bulk terminal facilities and rail transloading and materials handling facilities located throughout the United States. In August 2006, we reached an agreement to sell our Kinder Morgan Retail segment. Accordingly, the activities and assets related to that segment are presented as discontinued items in the accompanying consolidated financial statements. In November 2004, we contributed TransColorado Gas Transmission Company to Kinder Morgan Energy Partners for total consideration of $275 million, consisting of approximately $210 million in cash and 1.4 million Kinder Morgan Energy Partners common units. TransColorado s segment earnings of $20.3 million in 2004 prior to its contribution represented approximately 2% of our total 2004 segment earnings plus earnings attributable to our investment in Kinder Morgan Energy Partners, and approximately 2% of our 2004 income from continuing operations before interest and income taxes. In 1999, we discontinued our wholesale natural gas marketing, non-energy retail marketing services and natural gas gathering and processing businesses. Notes 5 and 17 of the accompanying Notes to Consolidated Financial Statements contain additional information on asset sales and our business segments. As discussed following, certain of our operations are regulated by various federal and state entities.

Natural gas transportation, storage and retail sales accounted for approximately 92%, 93% and 92% of our consolidated revenues in 2006, 2005 and 2004, respectively. During 2006, 2005 and 2004, we did not have revenues from any single customer that exceeded 10% of our consolidated operating revenues. Our equity in the earnings of Kinder Morgan Energy Partners (before reduction for the minority interest in Kinder Morgan Management) constituted approximately 54% and 61% of our income from continuing operations before interest and income taxes in 2005 and 2004, respectively. The following table gives our segment earnings, our earnings attributable to our investment in Kinder Morgan Energy Partners (net of pre-tax minority interest) and the percent of the combined total each represents, for each of the last two years.

	Year Ended December 31,			
	2006		2005	
	Amount	% of Total	Amount	% of Total
	(Dollars in millions)			
Net Pre-tax Impact of Kinder Morgan Energy Partners[1, 2]	$ 582.9	37.95 %	$ 534.8	51.06 %
Segment Earnings:				
NGPL	499.0	32.49 %	435.2	41.55 %
Kinder Morgan Canada	119.9	7.81 %	12.5	1.20 %
Terasen Gas	312.9	20.37 %	45.2	4.31 %
Power	21.1	1.38 %	19.7	1.88 %
Total	$ 1,535.8	100.00 %	$ 1,047.4	100.00 %

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For 2006, Products Pipelines KMP, Natural Gas Pipelines KMP, CO_2 KMP, and Terminals KMP represented approximately 25.0%, 29.3%, 24.9% and 20.8%, respectively, of Kinder Morgan Energy Partners segment earnings before depreciation, depletion and amortization.

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Represents Kinder Morgan, Inc. s general partner incentive and earnings from its ownership of limited partner interests in Kinder Morgan Energy Partners, net of associated minority interests.

Natural Gas Pipeline Company of America

During 2006, NGPL s segment earnings of $499 million represented approximately 32% of total segment earnings plus net pre-tax impact of Kinder Morgan Energy Partners and approximately 28% of our income from continuing operations before interest, income taxes and the impairment of goodwill on our Terasen Gas segment. Through NGPL, we own and operate approximately 9,700 miles of interstate natural gas pipelines, storage fields, field system lines and related facilities, consisting primarily of two major interconnected natural gas transmission pipelines terminating in the Chicago, Illinois metropolitan area. The system is powered by 56 compressor stations in mainline and storage service having an aggregate of approximately 1.0 million horsepower. NGPL s system has 813 points of interconnection with 34 interstate pipelines, 34 intrastate pipelines, 38 local distribution companies, 32 end users including power plants, and a number of gas producers, thereby providing significant flexibility in the receipt and delivery of natural gas. NGPL s Amarillo Line originates in the

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West Texas and New Mexico producing areas and is comprised of approximately 4,400 miles of mainline and various small-diameter pipelines. Its other major pipeline, the Gulf Coast Line, originates in the Gulf Coast areas of Texas and Louisiana and consists of approximately 4,100 miles of mainline and various small-diameter pipelines. These two main pipelines are connected at points in Texas and Oklahoma by NGPL s approximately 800-mile Amarillo/Gulf Coast pipeline. In addition, NGPL owns a 50% equity interest in and operates Horizon Pipeline Company, L.L.C., a joint venture with Nicor-Horizon, a subsidiary of Nicor, Inc. This joint venture owns a natural gas pipeline in northern Illinois with a capacity of 380 MMcf per day.

NGPL provides transportation and storage services to third-party natural gas distribution utilities, marketers, producers, industrial end users and other shippers. Pursuant to transportation agreements and FERC tariff provisions, NGPL offers its customers firm and interruptible transportation, storage and no-notice services, and interruptible park and loan services. Under NGPL s tariffs, firm transportation customers pay reservation charges each month plus a commodity charge based on actual volumes transported, including a fuel charge collected in kind. Interruptible transportation customers pay a commodity charge based upon actual volumes transported. Reservation and commodity charges are both based upon geographical location and time of year. Under firm no-notice service, customers pay a reservation charge for the right to have up to a specified volume of natural gas delivered but, unlike with firm transportation service, are able to meet their peaking requirements without making specific nominations. NGPL has the authority to discount its rates and to negotiate rates with customers if it has first offered service to those customers under its reservation and commodity charge rate structure. NGPL s revenues have historically been somewhat higher in the first and fourth quarters of the calendar year, reflecting higher system utilization during the colder months. During the winter months, NGPL collects higher transportation commodity revenue, higher interruptible transportation revenue, winter-only capacity revenue and higher rates on certain contracts.

NGPL s principal delivery market area encompasses the states of Illinois, Indiana and Iowa and secondary markets in portions of Wisconsin, Nebraska, Kansas, Missouri and Arkansas. NGPL is the largest transporter of natural gas to the Chicago market, and we believe that its transportation rates are very competitive in the region. In 2006, NGPL delivered an average of 1.82 trillion Btus per day of natural gas to this market. Given its strategic location at the center of the North American natural gas pipeline grid, we believe that Chicago is likely to continue to be a major natural gas trading hub for growing markets in the Midwest and Northeast.

Substantially all of NGPL s pipeline capacity is committed under firm transportation contracts ranging from one to five years. Approximately 63% of the total transportation volumes committed under NGPL s long-term firm transportation contracts as of February 13, 2007 had remaining terms of less than three years. NGPL continues to actively pursue the renegotiation, extension and/or replacement of expiring contracts, and was very successful in doing so during 2006 as discussed under Recent Developments elsewhere in this report. Nicor Gas Company, Peoples Gas Light and Coke Company, and Northern Indiana Public Service Company (NIPSCO) are NGPL s three largest customers in terms of operating revenues from tariff services. During 2006, approximately 50% of NGPL s operating revenues from tariff services were attributable to its eight largest customers. Contracts representing approximately 6.3% of NGPL s total long-haul, contracted firm transport capacity as of January 31, 2007 are scheduled to expire during 2007.

NGPL is one of the nation s largest natural gas storage operators with approximately 600 Bcf of total natural gas storage capacity, approximately 250 Bcf of working gas capacity and over 4.4 Bcf per day of peak deliverability from its storage facilities, which are located in major supply areas and near the markets it serves. NGPL owns and operates 13 underground storage reservoirs in eight field locations in four states. These storage assets complement its pipeline facilities and allow it to optimize pipeline deliveries and meet peak delivery requirements in its principal markets. NGPL provides firm and interruptible gas storage service pursuant to storage agreements and tariffs. Firm storage customers pay a monthly demand charge irrespective of actual volumes stored. Interruptible storage customers pay a monthly charge based upon actual volumes of gas stored.

Competition: NGPL competes with other transporters of natural gas in virtually all of the markets it serves and, in particular, in the Chicago area, which is the northern terminus of NGPL s two major pipeline segments and its largest market. These competitors include both interstate and intrastate natural gas pipelines and, historically, most of the competition has been from such pipelines with supplies originating in the United States. NGPL also faces competition from Alliance Pipeline, which began service during the 2000-2001 heating season carrying Canadian-produced natural gas into the Chicago market. However, at the same time, the Vector Pipeline was constructed for the specific purpose of transporting gas from the Chicago area to other markets, generally further north and further east. The overall impact of the increased pipeline capacity into the Chicago area, combined with additional take-away capacity and the increased demand in the area, has created a situation that remains dynamic with respect to the ultimate impact on individual transporters such as NGPL.

NGPL also faces competition with respect to the natural gas storage services it provides. NGPL has storage facilities in both market and supply areas, allowing it to offer varied storage services to customers. It faces competition from independent storage providers as well as storage services offered by other natural gas pipelines and local natural gas distribution companies.

Business and Properties. (continued)

The competition faced by NGPL with respect to its natural gas transportation and storage services is generally price-based, although there is also a significant component related to the variety, flexibility and reliability of services offered by others. NGPL s extensive pipeline system, with access to diverse supply basins and significant storage assets in both the supply and market areas, makes it a strong competitor in many situations, but most customers still have alternative sources to meet their requirements. In addition, due to the price-based nature of much of the competition faced by NGPL, its proven track record as a low-cost provider is an important factor in its success in acquiring and retaining customers. Additional competition for storage services could result from the utilization of currently underutilized storage facilities or from conversion of existing storage facilities from one use to another. In addition, existing competitive storage facilities could, in some instances, be expanded.

Kinder Morgan Canada (Formerly Terasen Pipelines)

During 2006, Kinder Morgan Canada s segment earnings of $119.9 million represented 8% of total segment earnings plus net pre-tax impact of Kinder Morgan Energy Partners and approximately 7% of our income from continuing operations before interest, income taxes and the impairment of goodwill on our Terasen Gas segment.

Terasen Pipelines (Trans Mountain) Inc.

Terasen Pipelines (Trans Mountain) Inc. (Trans Mountain) operates a common carrier pipeline system, owned by Terasen, originating at Edmonton, Alberta for the transportation of crude petroleum, refined petroleum and iso-octane to destinations in the interior and on the west coast of British Columbia. A connecting pipeline owned by a wholly owned subsidiary delivers petroleum to refineries in the State of Washington. Another wholly owned subsidiary owns and operates a six-inch diameter, 25 mile long pipeline for the transportation of jet fuel from Vancouver area refineries and marketing terminals and from Westridge Marine Terminal to Vancouver International Airport.

Trans Mountain s pipeline is 715 miles in length and has a diameter of 24 inches for most of the line with the exception of two sections of 30-inch diameter pipeline, each having a length of approximately 51 miles. The capacity of the line out of Edmonton ranges from 225,000 bpd when heavy crude represents 20% of the total throughput to 285,000 bpd with no heavy crude. The pipeline system utilizes 11 pump stations controlled by a centralized computer system.

Trans Mountain also operates a 5.3 mile spur line from its Sumas Pump Station to the U.S. Canada international border where it connects with a 63 mile pipeline system owned and operated by a wholly owned subsidiary. The pipeline system in Washington State has a sustainable throughput capacity of approximately 135,000 bpd when heavy crude represents approximately 25% of throughput and connects to four refineries located in northwestern Washington State. The volumes of petroleum shipped to Washington State fluctuate in response to the price levels of Canadian crude oil in relation to petroleum produced in Alaska and other offshore sources.

The Trans Mountain pipelines are constructed on freehold lands and rights-of-way held by Trans Mountain. Crossings over or under highways, railways and bridges have been constructed pursuant to orders or permits from the appropriate authorities. Substantially all of Trans Mountain s pipelines are constructed in rights-of-way granted by the Crown or the owners of privately-held lands, either in perpetuity for as long as they are used for a pipeline, or for fixed terms negotiated by Trans Mountain.

Under published tariffs for the Trans Mountain system, the tolls at December 31, including applicable terminalling and tankage charges, for transportation of light crude oil from Edmonton to principal delivery points are set forth below.

	Toll Per Barrel	
	2006	**2005**
Edmonton to Burnaby	C$1.695	C$1.741
Edmonton to Sumas	C$1.535	C$1.560
US Mainline	US$0.30	US$0.30

Tolls charged to 11 shippers represented 88% of Trans Mountain s consolidated 2006 revenues.

The petroleum transported through Trans Mountain s pipeline system originates from fields in Alberta and British Columbia. The refined and partially refined petroleum transported to Kamloops and Vancouver originates from oil refineries located in Edmonton. Petroleum delivered through Trans Mountain s pipeline system is used in markets in British Columbia and Washington State and elsewhere.

Overall Alberta crude oil supply has been increasing steadily over the past few years as a result of significant oilsands development with projects led by Shell Canada, Suncor Energy and Syncrude Canada. Further development is expected to continue into the future with expansions to existing oilsands production facilities as well as with new projects. In its moderate case, the Canadian Association of Petroleum Producers (CAPP) has recently forecasted Western Canadian production to

increase by over 2.5 million barrels per day by 2015. This supply increase will likely result in constrained pipeline export capacity from Western Canada, which supports Trans Mountain s view that both the demand for transportation services provided by Trans Mountain s pipeline and the supply of petroleum will remain strong for the foreseeable future.

In 2006, deliveries on Trans Mountain averaged 229,369 bpd. This was an increase of 4% from average 2005 deliveries of 220,886 bpd. A breakdown of total average deliveries for 2006 and 2005 is as follows:

	(bpd)	
<u>Delivery Point:</u>	**2006**	**2005**

Vancouver (crude petroleum)	46,417	42,482
Vancouver (refined petroleum)	49,611	60,634
Kamloops (refined petroleum)	15,040	20,366
Westridge Marine Terminal	25,206	22,782
Washington State refineries	93,095	74,622
	229,369	220,886

Throughput in the U.S. pipeline system increased by 25% from 2005 levels. The year over year increase in Trans Mountain throughput reflects first quarter 2005 refinery turnarounds in Washington State and temporary production outages in the oilsands. Throughput levels in 2005 were also influenced by refined product margins on the west coast and by crude oil price differentials for Canadian crude compared against competitive offshore supply sources.

Shipments of refined petroleum represent a significant portion of Trans Mountain s throughput. In 2006, shipments of refined petroleum and iso-octane represented 28% of throughput, as compared with 37% in 2005.

Terasen Pipelines (Corridor) Inc.

In July 1998, Trans Mountain and Terasen Inc. entered into an agreement with Shell Canada Limited (Shell) and its partners for the construction and operation of the Corridor pipeline system (Corridor Pipeline). The Corridor Pipeline is owned by our subsidiary, Terasen Pipelines (Corridor) Inc. (Corridor) and is operated by Kinder Morgan Canada. Revenues and commercial operation commenced in May 2003, following the successful completion of construction.

The Corridor Pipeline provides for the pipeline transportation of diluted bitumen produced at the Muskeg River Mine, located approximately 43 miles north of Fort McMurray, Alberta, to a heavy oil upgrader that Shell and its partners have built adjacent to Shell s existing Scotford Refinery near Edmonton, Alberta, a distance of approximately 281 miles. A smaller diameter parallel pipeline transports recovered diluent from the upgrader back to the mine. Corridor also consists of two additional pipelines, each 27 miles in length, to provide pipeline transportation between the Scotford Upgrader and the existing trunk pipeline facilities of Trans Mountain and Enbridge Pipelines Inc. in the Edmonton area.

Express System

We own a one-third interest in the Express System. The Express System is a batch-mode, common-carrier, crude pipeline system comprised of the Express Pipeline and the Platte Pipeline. The Express System transports a wide variety of crude types produced in Alberta to markets in Petroleum Administration Defense District IV, comprised of the states in the Rocky Mountain area of the United States (PADD IV) and Petroleum Administration Defense District II, comprised of the states in the central area of the United States (PADD II). The Express System also transports crude oil produced in PADD IV to downstream delivery points in PADD IV and to PADD II.

The Express Pipeline is a 780 mile, 24-inch diameter pipeline that begins at the crude pipeline hub at Hardisty, Alberta and terminates at the Casper, Wyoming facilities of the Platte Pipeline, and includes related metering and storage facilities including tanks and pump stations. At Hardisty, the Express Pipeline receives crude from certain other pipeline systems and terminals, which currently provide access to approximately 1.3 million bpd of crude moving through this delivery hub. The Express Pipeline is the major pipeline transporting Alberta crude into PADD IV.

The Express Pipeline has a design capacity of 280,000 bpd, after an expansion completed in April 2005. Receipts at Hardisty averaged 226,717 bpd during the year ended December 31, 2006, compared with 212,965 bpd during the year ended December 31, 2005.

The Platte Pipeline is a 926 mile, 20-inch diameter pipeline that runs from the crude pipeline hub at Casper, Wyoming to refineries and interconnecting pipelines in the Wood River, Illinois area, and includes related pumping and storage facilities (including tanks). The Platte Pipeline transports crude shipped on the Express Pipeline, crude produced in PADD IV and crude received in PADD II, to downstream delivery points. It is currently the only major crude pipeline transporting crude oil from PADD IV to PADD II. Various receipt and delivery points along the Platte Pipeline, with interconnections to other pipelines, enable crude to be moved to various markets in PADD IV and PADD II. The Platte Pipeline has a capacity of

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150,000 bpd when shipping heavy oil and averaged 151,552 bpd east of Casper during the year ended December 31, 2006, versus 137,164 bpd for the year ended December 31, 2005.

The current Express System rate structure is a combination of committed rates and uncommitted rates. The committed rates apply to those shippers who have signed long-term (10 or 15 year) contracts with the Express System to transport crude on a ship-or-pay basis. Uncommitted rates are the rates that apply to uncommitted services whereby shippers transport oil through the Express System without a long-term commitment between the shipper and the Express System.

Committed rates vary according to the destination of shipments and the length of the term of the transportation services agreement, with those shippers committing to longer-term agreements receiving lower rates.

Express Pipeline received 105,000 bpd of additional firm service commitments to the pipeline starting April 1, 2005, bringing the total firm commitment on Express to 235,000 bpd, or 84% of its total capacity. These contracts expire in 2007, 2012, 2014 and 2015 in amounts of 1%, 40%, 11% and 32% of total capacity, respectively. These contracts provide for committed tolls for transportation on the Express System, which can be increased each year by up to 2%. The remaining capacity is made available to shippers as uncommitted capacity.

Uncommitted rates were established on a cost of service basis and can be changed in accordance with applicable regulations discussed below. See Regulation elsewhere in this report. The table below provides a selection of tolls at December 31.

Toll Per Barrel (US$)

	2006	2005
Hardisty, Alberta to Casper, Wyoming	$ 1.612	$ 1.552
Hardisty, Alberta to Casper, Wyoming (committed)	$ 1.313	$ 1.287
Casper, Wyoming to Wood River, Illinois	$ 1.497	$ 1.410

Competition: Trans Mountain s pipeline to the west coast of North America and the Express System pipeline to the U.S. Rocky Mountains and Midwest are two of several pipeline alternatives for Western Canadian petroleum production, and throughput on these pipelines may decline if overall petroleum production in Alberta declines or if tolls become uncompetitive compared to alternatives. Our oil transportation business competes against other pipeline providers who could be in a position to establish and offer lower tolls, which may provide a competitive advantage in new pipeline development. Throughput on Trans Mountain may decline in situations where west coast petroleum prices, net of transportation costs, are relatively lower than alternative prices in the U.S. Midwest. Throughput on the Express System may also decline as a result of reduced petroleum product demand in the U.S. Rocky Mountains.

Terasen Gas

On February 26, 2007, we entered into a definitive agreement to sell Terasen Inc. to Fortis Inc. (TSX: FTS), a Canada-based company with investments in regulated distribution utilities, for approximately $3.2 billion (C$3.7 billion) including cash and assumed debt. Terasen Inc. s principal assets include Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. The transaction is subject to certain closing conditions and regulatory approvals and is expected to close in mid 2007. This sale does not include assets of Kinder Morgan Canada.

During 2006, Terasen Gas segment earnings of $312.9 million represented 20% of total segment earnings plus net pre-tax impact of Kinder Morgan Energy Partners and approximately 18% of our income from continuing operations before interest, income taxes and the impairment of goodwill on our Terasen Gas segment.

Terasen Gas Inc.

Terasen Gas Inc. provides service to more than 100 communities with a service territory that has an estimated population of approximately 4.3 million. Terasen Gas Inc. is one of the largest natural gas distribution companies in Canada. As of December 31, 2006, Terasen Gas Inc. and its subsidiaries transported and distributed natural gas to 815,032 residential, commercial and industrial customers, representing approximately 87% of the natural gas users in British Columbia. Terasen Gas Inc. s service area extends from Vancouver to the Fraser Valley and the interior of British Columbia. The transmission and distribution business is carried on under statutes and franchises or operating agreements granting the right to operate in the municipalities or areas served. Terasen Gas Inc. is regulated by the British Columbia Utilities Commission (BCUC).

Terasen Gas Inc. provides natural gas distribution services to residential, small commercial and industrial heating customers predominantly on a non-contractual basis, whereby the customers are charged based on general services provided. Larger commercial and industrial customers are normally provided with services on a contractual basis.

Terasen Gas Inc. has approximately 1,956 commercial and industrial customers that arrange for some or all of their own gas supply and use Terasen Gas Inc. s transportation services for delivery. Notwithstanding shifts over time between utility supply and direct purchases, Terasen Gas Inc. s earnings remain unaffected since Terasen Gas Inc. s margins remain substantially the same whether or not customers choose to buy natural gas from Terasen Gas Inc. or arrange their own supply. Customers arranging for their own supply in fact reduce the credit risk to Terasen Gas Inc.

Of Terasen Gas Inc. s industrial customers, 143 are on interruptible service. The majority of these customers are capable of switching to alternative fuels. Forecast variances in industrial consumption can have an impact on Terasen Gas Inc. s earnings. However, forecasts are updated annually based largely on the results of an annual survey of industrial customers.

Of the various industries that comprise Terasen Gas Inc. s industrial market, the pulp and paper and wood products industries combined comprise approximately 47% of total consumption. All other industries individually represent less than 10% of total consumption.

In order to acquire supply resources that ensure reliable natural gas deliveries to its customers, Terasen Gas Inc. purchases supply from a select list of producers, aggregators, and marketers by adhering to strict standards of counterparty creditworthiness, and contract execution/management procedures. Terasen Gas Inc. contracts for approximately 140 PJ of baseload and seasonal supply, of which, 95 PJ is delivered off the Duke Energy Gas Transmission system, and 25 PJ is comprised of Alberta-sourced supply transported into British Columbia via TransCanada Pipelines Limited (TransCanada) Alberta and British Columbia systems. The remaining 20 PJ of baseload and seasonal supply is sourced at Sumas. The majority of supply contracts in the current portfolio are one year in length, with the exception of one long-term contract expiring in October 2009.

Terasen Gas Inc. serves Greater Vancouver and the Fraser Valley through a transmission and distribution system that connects to the Duke Energy Gas Transmission pipeline near Huntingdon, British Columbia. This transmission system also supplies gas to Terasen Gas (Vancouver Island) Inc. for delivery to the Sunshine Coast, Vancouver Island and to Terasen Gas (Squamish) Inc., a subsidiary of Terasen Gas Inc., for distribution in Squamish, British Columbia. In addition, Terasen Gas Inc. is connected at Huntingdon to Northwest Pipeline to facilitate gas movement both north and south. Effective January 1, 2007, Terasen Gas (Squamish) Inc. has amalgamated with Terasen Gas Inc.

In the interior of British Columbia, Terasen Gas Inc. serves municipalities with numerous connections to the Duke pipeline system. Communities in the East Kootenay region of British Columbia are served through connections with TransCanada s British Columbia system. Terasen Gas Inc. is connected to TransCanada s British Columbia system through Terasen Gas Inc. s Southern Crossing Pipeline between Yahk and Oliver. Terasen Gas Inc. also operates a propane distribution system in Revelstoke, British Columbia.

The Duke and TransCanada transportation tolls are regulated by the National Energy Board (NEB). Terasen Gas Inc. pays both fixed and variable charges for use of the pipelines, which are recovered through rates paid by Terasen Gas Inc. s customers.

Terasen Gas Inc. incorporates peak shaving and gas storage facilities into its portfolio to:

1.

Manage the load factor of baseload supply contracts throughout the year.

2.

Eliminate the risk of supply shortages during a peak throughput day.

3.

Reduce the cost of gas during winter months.

4.

Balance daily supply and demand on the distribution system.

5.

Supplement its baseload supply sources at times when the demand for natural gas is greatest.

Terasen Gas Inc. s peak shaving and storage assets and contracts for 2007 include the following:

1.

Liquefied natural gas (LNG) plant: The plant is located on Tilbury Island in Delta, British Columbia, and has a capacity of approximately 660 TJ with a maximum daily deliverability rate of 165 TJ.

2.

Carbon Storage: Atco Midstream Ltd. owns and operates the Carbon storage facility in Alberta. The contract provides for 3 PJ of capacity with a maximum daily deliverability of 28 TJ.

3.

Aitken Creek Storage: Terasen Gas Inc. has storage contracts with Unocal Canada Limited which provide 20 PJ of capacity at the Aitken Creek storage facility in British Columbia, with a daily deliverability rate of 135 TJ.

4.

Jackson Prairie Storage: The Jackson Prairie storage facility is jointly owned by two U.S. Pacific Northwest gas utilities and Northwest Pipeline near Chehalis, Washington. Terasen Gas Inc. is a party to three storage lease agreements that provide the right to approximately 3 PJ of capacity, with a maximum daily deliverability rate of about 130 TJ.

5.

Mist Storage: Terasen Gas Inc. has two contracts with Northwest Natural Gas Company for natural gas storage in Oregon. The contracts provide a total capacity of approximately 3 PJ with a maximum daily deliverability rate of 115 TJ.

Terasen Gas Inc. is eligible for incentives under the Gas Supply Mitigation Incentive Plan established with the BCUC relating to its off-system sales activities and capacity release of excess transportation and storage capacity. For the 2007 Gas Year which runs from November 2006 to October 2007, Terasen Gas Inc. has marketed approximately 27.6 PJ of surplus gas and 56.1 PJ of excess pipeline and storage capacity up to December 31, 2006, which resulted in margins eligible for incentives totaling C$39.9 million (pre-tax), of which C$1.3 million (pre-tax) accrued to Terasen Gas Inc.

As of December 31, 2006, Terasen Gas Inc. had 24,000 miles of pipelines for use in natural gas transmission and distribution. In addition to the pipelines, Terasen Gas Inc. owns properties and equipment utilized for service shops, warehouses, metering, and regulating stations, as well as its main operations center in Surrey, British Columbia.

Terasen Gas Inc. s pipelines are constructed for the most part under highways and streets pursuant to permits or orders from the appropriate authorities, franchise or operating agreements entered into with municipalities and rights-of-way held directly or jointly with British Columbia Hydro & Power Authority (B.C. Hydro). Compressor stations and major regulator stations are located on freehold land, rights-of-way owned by Terasen Gas Inc. or properties shared with B.C. Hydro.

Terasen Gas Inc. currently holds operating agreements with all of the incorporated municipalities in which it distributes gas in the Greater Vancouver and Fraser Valley service areas, other than Richmond, British Columbia. The operating agreements are in force so long as the distribution lines of Terasen Gas Inc. are operative and do not contain any provision entitling the municipality to purchase the distribution system. No fees are payable by Terasen Gas Inc. under these operating agreements.

Terasen Gas Inc. currently holds franchise or operating agreements with most of the incorporated municipalities in which it distributes gas in the interior of British Columbia. Historically, approximately one-quarter of these franchise agreements contained a provision to the effect that at the end of the term the municipality could purchase the distribution system within the municipality as a going concern and at a price equal to the fair value of the business undertaking. If the municipality did not exercise the right to purchase or grant a new franchise or operating agreement, the gas utility would be required under the Utilities Commission Act to continue to provide service in the municipality unless the BCUC ordered otherwise. While such franchise agreements are in effect, the municipalities receive franchise fees of three per cent of the gross revenue from customers in the municipality. The term of the franchise agreements ranges from 10 to 21 years. Some have expired and Terasen Gas Inc. is currently negotiating renewals and extensions with the remaining municipalities, some of which have a right to purchase the distribution system within their boundaries. For those municipalities with the right to purchase those distribution systems, an arrangement has been developed to transfer the economic risks and rewards of ownership to the municipality, while allowing Terasen Gas Inc. to continue to operate within the municipality.

These arrangements have been entered into with five municipalities to date. In each of the transactions, Terasen Gas Inc. entered into an arrangement whereby the municipality leased Terasen Gas Inc. s gas distribution assets within the municipality s boundaries for a term of 35 years for an initial cash payment. Terasen Gas Inc. in turn entered into a 17 year operating lease with the municipality whereby Terasen Gas Inc. will operate the gas distribution assets. Terasen Gas Inc. has the option to terminate the lease of the assets to the municipality at the end of 17 years in exchange for a payment to the municipality equal to the depreciated value of the leased assets. As of December 31, 2006, Terasen Gas Inc. had entered into such arrangements involving a total value of C$153 million.

Terasen Gas (Vancouver Island) Inc.

Terasen Gas (Vancouver Island) Inc. (TGVI) owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia. The combined system consists of 382 miles of natural gas transmission pipelines and 3,300 miles of distribution pipelines, some of which are under water. The combined system has a designed throughput capacity of 155 TJ per day. TGVI serves approximately 87,369 residential, commercial and industrial customers along the Sunshine Coast and in various communities on Vancouver Island including Victoria and surrounding areas, including seven pulp and paper mills on Vancouver Island and the Sunshine Coast and a natural gas-fired electricity generation facility on Vancouver Island. During 2006, TGVI delivered approximately 27.7 petajoules of gas through its system. The rate base of TGVI as of December 31, 2006 was approximately C$468.4 million.

TGVI provides gas transportation service to the seven pulp and paper mills under a long-term transportation service agreement that was amended in December 2004 to extend it beyond the original renewal period by two years to December 31, 2012. The maximum daily volume of firm transportation service under the agreement was 20 TJ per day for 2005. In

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2006, the maximum daily volume changes to 12.5 TJ per day for the remainder of the renewal period. TGVI also delivers gas on both a firm (45.0 TJ per day) and interruptible basis to the gas-fired cogeneration plant at Elk Falls on Vancouver Island.

In order to acquire effective supply resources that ensure reliable natural gas deliveries to its customers, TGVI purchases supply from a select list of producers, aggregators, and marketers by adhering to strict standards of counterparty credit worthiness, and contract execution/management procedures. TGVI contracts for approximately 37.6 TJ per day of seasonal supply to meet load during the months from November 2006 to March 2007. TGVI further contracts 9.5 TJ per day of seasonal supply to meet the higher loads during the winter months from December 2006 to February 2007. 15 TJ per day of supply is contracted to meet the load requirement during summer from April 2007 to October 2007. The supply contracts in the current portfolio are for one season in length (i.e. either November to March for winter supply or April to October for summer supply).

Terasen Gas (Whistler) Inc.

Terasen Gas (Whistler) Inc. (Whistler Gas) distributes piped propane gas to approximately 2,370 residential and commercial customers in the Whistler area of British Columbia. Whistler Gas owns and operates two propane storage and vaporization plants and approximately 80 miles of distribution pipelines serving customers in the Whistler area. Whistler Gas is regulated by the BCUC. The rate base of Whistler Gas at December 31, 2006 was approximately C$17.0 million.

Competition: Natural gas has maintained a competitive advantage in terms of pricing when compared with alternative sources of energy in British Columbia, despite the significant increase in natural gas commodity prices since 1999. However, because electricity prices in British Columbia continue to be set based on the historical average cost of production, rather than based on market forces, they have remained artificially low compared to market-priced electricity and, as a result, only marginally higher than comparable, market-based natural gas costs. A further sustained increase in natural gas commodity prices could cause natural gas in British Columbia to be uncompetitive with electricity, thereby decreasing the use of natural gas by customers.

Power

Power s 2006 earnings represented approximately 1% of each of our total segment earnings plus net pre-tax impact of Kinder Morgan Energy Partners and our income from continuing operations before interest, income taxes and the impairment of goodwill on our Terasen Gas segment. We currently have ownership interests in two natural gas-fired electricity generation facilities in Colorado and one natural gas-fired electricity generation facility in Michigan. We also have a net profits interest in a third natural gas-fired electricity generation facility in Colorado. One of the Colorado facilities is operated as an independent power producer, with both a long-term power sales agreement and gas supply contract. The other Colorado facility and the Michigan facility are operated under tolling agreements. Under the tolling agreements, purchasers of the electrical output take the risks in the marketplace associated with the cost of fuel and the value of the electric power generated. Kinder Morgan Power s customers include power marketers and utilities. During 2006, approximately 64% of Power s operating revenues represented tolling revenues of the Michigan facility, 24% was derived from the Colorado facility operated as an independent power producer under a long-term contract with XCEL Energy s Public Service Company of Colorado unit, and the remaining 12% were primarily for operating the Ft. Lupton, Colorado power facility and a gas-fired power facility in Snyder, Texas that began operations during the second quarter of 2005 and provides electricity to Kinder Morgan Energy Partners SACROC operations. In recent periods, we have recorded impairment charges associated with our power business activities; see Note 6 of the accompanying Notes to Consolidated Financial Statements.

Kinder Morgan Power previously designed, developed and constructed power projects. In 2002, following an assessment of the electric power industry s business environment and noting a marked deterioration in the financial condition of certain power generating and marketing participants, we decided to discontinue our power development activities.

In February 2001, Kinder Morgan Power announced an agreement under which Williams Energy Marketing and Trading agreed to supply natural gas to and market capacity for 16 years for a 550 megawatt natural gas-fired Orion technology (discussed below) electric power plant in Jackson, Michigan. Effective July 1, 2002, construction of this facility was completed and commercial operations commenced. Concurrently with commencement of commercial operations, (i) Kinder Morgan Power made a preferred investment in Triton Power Company LLC (now valued at approximately $119 million); and, (ii) Triton Power Company LLC, through its wholly owned subsidiary, Triton Power Michigan LLC, entered into a 40-year lease of the Jackson power facility from the plant owner, AlphaGen Power, LLC. Williams Energy Marketing and Trading supplies all natural gas to and purchases all power from the power plant under a 16-year tolling agreement with Triton Power Michigan LLC.

In 1998, Kinder Morgan Power acquired interests in the Thermo Companies, which provided us with our first electric generation assets as well as knowledge and expertise with General Electric Company jet engines (LMs) configured in a combined cycle mode. Through the Thermo Companies, Kinder Morgan Power acquired the interests in three Colorado natural gas-fired electric generating facilities discussed above, which have a combined 380 megawatts of electric generation

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capacity. Kinder Morgan Power used the LM knowledge to develop its proprietary Orion technology. Pursuant to a right we obtained in conjunction with the 1998 acquisition of the Thermo Companies, in December 2003, we made an additional investment in the Thermo Companies in the form of approximately 1.8 million Kinder Morgan Management shares that we owned. We delivered these shares to an entity controlled by the former Thermo owners. For further information regarding this incremental investment, see Power within Management s Discussion and Analysis of Financial Condition and Results of Operations.

Competition: With respect to the electric generating facilities acquired from the Thermo entities, Kinder Morgan Power does not directly face competition with respect to the sale of the power generated, as it is sold to or generated for the local electric utility under long-term contracts. With respect to Power s investment in the Jackson, Michigan facility, the principal impact of competition is the level of dispatch of the plant and the related (but minor) effect on profitability.

Products Pipelines KMP

The Products Pipelines KMP segment consists of Kinder Morgan Energy Partners refined petroleum products and natural gas liquids pipelines and associated terminals, Southeast terminals and transmix processing facilities.

Pacific Operations

The Pacific operations include Kinder Morgan Energy Partners SFPP, L.P. operations, CALNEV Pipeline operations and West Coast terminals operations. The assets include interstate common carrier pipelines regulated by the FERC, intrastate pipelines in the State of California regulated by the California Public Utilities Commission, and certain non rate-regulated operations and terminal facilities.

The Pacific operations serve seven western states with approximately 3,000 miles of refined petroleum products pipelines and related terminal facilities that provide refined products to some of the fastest growing population centers in the United States, including California; Las Vegas and Reno, Nevada; and the Phoenix-Tucson, Arizona corridor. For 2006, the three main product types transported were gasoline (61%), diesel fuel (22%) and jet fuel (17%).

The Pacific operations pipeline system consists of seven pipeline segments, which include the following:

- the West Line, which consists of approximately 515 miles of primary pipeline and currently transports products for 37 shippers from six refineries and three pipeline terminals in the Los Angeles Basin to Phoenix, Arizona and various intermediate commercial and military delivery points. Products for the West Line also come through the Los Angeles and Long Beach port complexes;

- the East Line, which is comprised of two parallel pipelines, 12-inch/16-inch diameter and 8-inch/12-inch diameter, originating in El Paso, Texas and continuing approximately 300 miles west to Kinder Morgan Energy Partners Tucson terminal, and one 12-inch diameter line continuing northwest approximately 130 miles from Tucson to Phoenix. Products received by the East Line at El Paso come from a refinery in El Paso and through inter-connections with non-affiliated pipelines;

- the San Diego Line, which is a 135-mile pipeline serving major population areas in Orange County (immediately south of Los Angeles) and San Diego. The same refineries and terminals that supply the West Line also supply the San Diego Line;

- the CALNEV Line, which consists of two parallel 248-mile, 14-inch and 8-inch diameter pipelines that run from Kinder Morgan Energy Partners facilities at Colton, California to Las Vegas, Nevada, and which also serves Nellis Air Force Base located in Las Vegas. It also includes approximately 55 miles of pipeline serving Edwards Air Force Base;

- the North Line, which consists of approximately 864 miles of trunk pipeline in five segments that transport products from Richmond and Concord, California to Brisbane, Sacramento, Chico, Fresno, Stockton and San Jose, California, and Reno, Nevada. The products delivered through the North Line come from refineries in the San Francisco Bay Area and from various pipeline and marine terminals;

- the Bakersfield Line, which is a 100-mile, 8-inch diameter pipeline serving Fresno, California; and

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the Oregon Line, which is a 114-mile pipeline transporting products to Eugene, Oregon for 18 shippers from marine terminals in Portland, Oregon and from the Olympic Pipeline.

The Pacific operation s West Coast terminals are fee-based terminals located in several strategic locations along the west coast of the United States with a combined total capacity of approximately 8.3 million barrels of storage for both petroleum

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products and chemicals. The Carson terminal and the connected Los Angeles Harbor terminal are located near the many refineries in the Los Angeles Basin. The combined Carson/LA Harbor system is connected to numerous other pipelines and facilities throughout the Los Angeles area, which gives the system significant flexibility and allows customers to quickly respond to market conditions.

The Richmond terminal is located in the San Francisco Bay Area. The facility serves as a storage and distribution center for chemicals, lubricants and paraffin waxes. It is also the principal location in northern California through which tropical oils are imported for further processing, and from which United States produced vegetable oils are exported to consumers in the Far East. The Pacific operations also have two petroleum product terminals located in Portland, Oregon and one in Seattle, Washington.

The Pacific operations include 15 truck-loading terminals (13 on SFPP, L.P. and two on CALNEV) with an aggregate usable tankage capacity of approximately 13.5 million barrels. The truck terminals provide services including short-term product storage, truck loading, vapor handling, additive injection, dye injection and oxygenate blending.

Markets. Combined, the Pacific operations pipelines transport approximately 1.2 million barrels per day of refined petroleum products, providing pipeline service to approximately 31 customer-owned terminals, 11 commercial airports and 14 military bases. Currently, the Pacific operations pipelines serve approximately 93 shippers in the refined petroleum products market; the largest customers being major petroleum companies, independent refiners, and the United States military.

A substantial portion of the product volume transported is gasoline. Demand for gasoline depends on such factors as prevailing economic conditions, vehicular use patterns and demographic changes in the markets served. If current trends continue, we expect the majority of the Pacific operations markets to maintain growth rates that will exceed the national average for the foreseeable future. Currently, the California gasoline market is approximately one million barrels per day. The Arizona gasoline market, which is served primarily by the Pacific operations, is approximately 178,000 barrels per day. Nevada s gasoline market is approximately 71,000 barrels per day and Oregon s is approximately 100,000 barrels per day. The diesel and jet fuel market is approximately 545,000 barrels per day in California, 86,000 barrels per day in Arizona, 33,000 barrels per day in Nevada and 62,000 barrels per day in Oregon.

The volume of products transported is affected by various factors, principally demographic growth, economic conditions, product pricing, vehicle miles traveled, population and fleet mileage. Certain product volumes can experience seasonal variations and, consequently, overall volumes may be lower during the first and fourth quarters of each year.

Supply. The majority of refined products supplied to the Pacific operations pipeline system come from the major refining centers around Los Angeles, San Francisco and Puget Sound, as well as from waterborne terminals located near these refining centers.

Competition. The most significant competitors of the Pacific operations pipeline system are proprietary pipelines owned and operated by major oil companies in the area where the Pacific operations pipeline system delivers products as well as refineries with related terminal and trucking arrangements within the Pacific operations market areas. We believe that high capital costs, tariff regulation, and environmental and right-of-way permitting considerations make it unlikely that a competing pipeline system comparable in size and scope to the Pacific operations will be built in the foreseeable future. However, the possibility of individual pipelines being constructed or expanded to serve specific markets is a continuing competitive factor.

The use of trucks for product distribution from either shipper-owned proprietary terminals or from their refining centers continues to compete for short haul movements by pipeline. We cannot predict with any certainty whether the use of short haul trucking will decrease or increase in the future.

Longhorn Partners Pipeline is a pipeline that transports refined products from refineries on the Gulf Coast to El Paso and other destinations in Texas. Increased product supply in the El Paso area has resulted in some shift of volumes transported into Arizona from the West Line to the East Line. Increased movements into the Arizona market from El Paso could displace lower tariff volumes supplied from Los Angeles on the West Line. Such shift of supply sourcing has not had, and is not expected to have, a material effect on our operating results.

The Pacific operation s terminals compete with terminals owned by its shippers and by third party terminal operators in Sacramento, San Jose, Stockton, Colton, Orange County, Mission Valley, and San Diego, California, Phoenix and Tucson, Arizona and Las Vegas, Nevada. Short haul trucking from the refinery centers is also a competitive factor to terminals close to the refineries. Competitors of the Carson terminal in the refined products market include Shell Oil Products U.S. and BP (formerly Arco Terminal Services Company). In the crude/black oil market, competitors include Pacific Energy, Wilmington Liquid Bulk Terminals (Vopak) and BP. Competition to the Richmond terminal s chemical business comes primarily from IMTT. Competitors to the Portland, Oregon terminals include ST Services, ChevronTexaco and Shell Oil Products U.S.

Competitors to the Seattle petroleum products terminal primarily include BP and Shell Oil Products U.S.

Plantation Pipe Line Company

Kinder Morgan Energy Partners owns approximately 51% of Plantation Pipe Line Company, a 3,100-mile refined petroleum products pipeline system serving the southeastern United States. An affiliate of ExxonMobil owns the remaining 49% ownership interest. ExxonMobil is the largest shipper on the Plantation system both in terms of volumes and revenues. Kinder Morgan Energy Partners operates the system pursuant to agreements with Plantation Services LLC and Plantation Pipe Line Company. Plantation serves as a common carrier of refined petroleum products to various metropolitan areas, including Birmingham, Alabama; Atlanta, Georgia; Charlotte, North Carolina; and the Washington, D.C. area.

For the year 2006, Plantation delivered an average of 555,060 barrels per day of refined petroleum products. These delivered volumes were comprised of gasoline (67%), diesel/heating oil (20%) and jet fuel (13%). Average delivery volumes for 2006 were 6.8% lower than the 595,248 barrels per day delivered during 2005. The decrease was predominantly driven by alternative pipeline service into Southeast markets and to changes in supply patterns from Louisiana refineries related to new ultra low sulfur diesel and ethanol blended gasoline requirements.

Markets. Plantation ships products for approximately 40 companies to terminals throughout the southeastern United States. Plantation s principal customers are Gulf Coast refining and marketing companies, fuel wholesalers, and the United States Department of Defense. Plantation s top five shippers represent approximately 82% of total system volumes.

The eight states in which Plantation operates represent a collective pipeline demand of approximately two million barrels per day of refined petroleum products. Plantation currently has direct access to about 1.5 million barrels per day of this overall market. The remaining 0.5 million barrels per day of demand lies in markets (e.g., Nashville, Tennessee; North Augusta, South Carolina; Bainbridge, Georgia; and Selma, North Carolina) currently served by another pipeline company. Plantation also delivers jet fuel to the Atlanta, Georgia; Charlotte, North Carolina; and Washington, D.C. airports (Ronald Reagan National and Dulles). Combined jet fuel shipments to these four major airports decreased 13% in 2006 compared to 2005, due primarily to a 19% decrease in shipments to Atlanta Hartsfield-Jackson International Airport and a 35% decrease in shipments to Charlotte-Douglas International airport, which was largely the result of air carriers realizing lower wholesale prices on jet fuel transported by competing pipelines.

Supply. Products shipped on Plantation originate at various Gulf Coast refineries from which major integrated oil companies and independent refineries and wholesalers ship refined petroleum products. Plantation is directly connected to and supplied by a total of ten major refineries representing approximately 2.3 million barrels per day of refining capacity.

Competition. Plantation competes primarily with the Colonial pipeline system, which also runs from Gulf Coast refineries throughout the southeastern United States and extends into the northeastern states.

Central Florida Pipeline

The Central Florida pipeline system consists of a 110-mile, 16-inch diameter pipeline that transports gasoline and an 85-mile, 10-inch diameter pipeline that transports diesel fuel and jet fuel from Tampa to Orlando, with an intermediate delivery point on the 10-inch pipeline at Intercession City, Florida. In addition to being connected to Kinder Morgan Energy Partners Tampa terminal, the pipeline system is connected to terminals owned and operated by TransMontaigne, Citgo, BP, and Marathon Petroleum. The 10-inch diameter pipeline is connected to Kinder Morgan Energy Partners Taft, Florida terminal (located near Orlando) and is also the sole pipeline supplying jet fuel to the Orlando International Airport in Orlando, Florida. In 2006, the pipeline system transported approximately 112,000 barrels per day of refined products, with the product mix being approximately 69% gasoline, 13% diesel fuel, and 18% jet fuel.

Kinder Morgan Energy Partners also owns and operates liquids terminals in Tampa and Taft, Florida. The Tampa terminal contains approximately 1.4 million barrels of storage capacity and is connected to two ship dock facilities in the Port of Tampa. In early 2007, a new tank will go into service, increasing storage capacity to approximately 1.5 million barrels. The Tampa terminal provides storage for gasoline, diesel fuel and jet fuel for further movement into either trucks through five truck-loading racks or into the Central Florida pipeline system. The Tampa terminal also provides storage for non-fuel products, predominantly spray oil used to treat citrus crops; ethanol; and bio-diesel. These products are delivered to the terminal by vessel or railcar and loaded onto trucks through truck-loading racks. The Taft terminal contains approximately 0.7 million barrels of storage capacity, providing storage for gasoline and diesel fuel for further movement into trucks through 13 truck-loading racks.

Markets. The estimated total refined petroleum products demand in the State of Florida is approximately 800,000 barrels per day. Gasoline is, by far, the largest component of that demand at approximately 545,000 barrels per day. The total refined petroleum products demand for the Central Florida region of the state, which includes the Tampa and Orlando markets, is estimated to be approximately 360,000 barrels per day, or 45% of the consumption of refined products in the state. Kinder

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Morgan Energy Partners distributes approximately 150,000 barrels of refined petroleum products per day including the Tampa terminal truck loadings. The balance of the market is supplied primarily by trucking firms and marine transportation firms. Most of the jet fuel used at Orlando International Airport is moved through Kinder Morgan Energy Partners Tampa terminal and the Central Florida pipeline system. The market in Central Florida is seasonal, with demand peaks in March and April during spring break and again in the summer vacation season, and is also heavily influenced by tourism, with Disney World and other amusement parks located in Orlando.

Supply. The vast majority of refined petroleum products consumed in Florida is supplied via marine vessels from major refining centers in the Gulf Coast of Louisiana and Mississippi and refineries in the Caribbean basin. A lesser amount of refined petroleum products is being supplied by refineries in Alabama and by Texas Gulf Coast refineries via marine vessels and through pipeline networks that extend to Bainbridge, Georgia. The supply into Florida is generally transported by ocean-going vessels to the larger metropolitan ports, such as Tampa, Port Everglades near Miami, and Jacksonville. Individual markets are then supplied from terminals at these ports and other smaller ports, predominately by trucks, except the Central Florida region, which is served by a combination of trucks and pipelines.

Competition. With respect to the Central Florida pipeline system, the most significant competitors are trucking firms and marine transportation firms. Trucking transportation is more competitive in serving markets close to the marine terminals on the east and west coasts of Florida. Kinder Morgan Energy Partners is utilizing tariff incentives to attract volumes to the pipeline that might otherwise enter the Orlando market area by truck from Tampa or by marine vessel into Cape Canaveral. We believe it is unlikely that a new pipeline system comparable in size and scope to the Central Florida Pipeline system will be constructed, due to the high cost of pipeline construction, tariff regulation and environmental and right-of-way permitting in Florida. However, the possibility of such a pipeline or a smaller capacity pipeline being built is a continuing competitive factor.

With respect to the terminal operations at Tampa, the most significant competitors are proprietary terminals owned and operated by major oil companies, such as Marathon Petroleum, BP and Citgo, located along the Port of Tampa, and the ChevronTexaco and Motiva terminals in Port Tampa. These terminals generally support the storage requirements of their parent or affiliated companies refining and marketing operations and provide a mechanism for an oil company to enter into exchange contracts with third parties to serve its storage needs in markets where the oil company may not have terminal assets.

Federal regulation of marine vessels, including the requirement, under the Jones Act, that United States-flagged vessels contain double-hulls, is a significant factor influencing the availability of vessels that transport refined petroleum products. Marine vessel owners are phasing in the requirement based on the age of the vessel and some older vessels are being redeployed into use in other jurisdictions rather than being retrofitted with a double-hull for use in the United States.

North System

The North System consists of an approximate 1,600-mile interstate common carrier pipeline system that delivers natural gas liquids and refined petroleum products for approximately 50 shippers from south central Kansas to the Chicago area. Through interconnections with other major liquids pipelines, the North System s pipeline system connects mid-continent producing areas to markets in the Midwest and eastern United States. Kinder Morgan Energy Partners also has defined sole carrier rights to use capacity on an extensive pipeline system owned by Magellan Midstream Partners, L.P. that interconnects with the North System. This capacity lease agreement, which requires Kinder Morgan Energy Partners to pay approximately $2.3 million per year, is in place until February 2013 and contains a five-year renewal option.

In addition to its capacity lease agreement with Magellan, Kinder Morgan Energy Partners also has a reversal agreement with Magellan to help provide for the transport of summer-time surplus butanes from Chicago area refineries to storage facilities at Bushton, Kansas. Kinder Morgan Energy Partners has an annual minimum joint tariff commitment of $0.6 million to Magellan for this agreement. The North System has approximately 7.7 million barrels of storage capacity, which includes caverns, steel tanks, pipeline line-fill and leased storage capacity. This storage capacity provides operating efficiencies and flexibility in meeting seasonal demands of shippers and provides propane storage for Kinder Morgan Energy Partners truck-loading terminals.

Kinder Morgan Energy Partners also owns a 50% ownership interest in the Heartland Pipeline Company, which owns the Heartland pipeline system, a natural gas liquids pipeline that ships liquids products in the Midwest. Kinder Morgan Energy Partners equity interest in Heartland is included as part of the North System operations. ConocoPhillips owns the remaining 50% interest in the Heartland Pipeline Company. The Heartland pipeline comprises one of the North System s main line sections that originate at Bushton, Kansas and terminate at a storage and terminal area in Des Moines, Iowa. Kinder Morgan Energy Partners operates the Heartland pipeline, and ConocoPhillips operates Heartland s Des Moines, Iowa terminal and serves as the managing partner of Heartland. Heartland leases to ConocoPhillips 100% of the Heartland terminal capacity at Des Moines for $1.0 million per year on a year-to-year basis. The Heartland pipeline lease fee, payable to Kinder Morgan Energy Partners for reserved pipeline capacity, is paid monthly, with an annual adjustment. The 2007 lease fee will be approximately $1.1 million.

In addition, the North System has eight propane truck-loading terminals at various points in three states along the pipeline system and one multi-product complex at Morris, Illinois, in the Chicago area. Propane, normal butane and natural gasoline can be loaded at the North System s Morris terminal.

Markets. The North System currently serves approximately 50 shippers in the upper Midwest market, including both users and wholesale marketers of natural gas liquids. These shippers include the three major refineries in the Chicago area. Wholesale marketers of natural gas liquids primarily make direct large volume sales to major end-users, such as propane marketers, refineries, petrochemical plants and industrial concerns. Market demand for natural gas liquids varies in respect to the different end uses to which natural gas liquids products may be applied. Demand for transportation services is influenced not only by demand for natural gas liquids but also by the available supply of natural gas liquids.

Supply. Natural gas liquids extracted or fractionated at the Bushton gas processing plant have historically accounted for a significant portion (approximately 15%) of the natural gas liquids transported through the North System. Other sources of natural gas liquids transported in the North System include large oil companies, marketers, end-users and natural gas processors that use interconnecting pipelines to transport hydrocarbons. Refined petroleum products transported by Heartland on the North System are supplied primarily from the National Cooperative Refinery Association crude oil refinery in McPherson, Kansas and the ConocoPhillips crude oil refinery in Ponca City, Oklahoma. In an effort to obtain the greatest benefit from the North System s line-fill on a year round basis, Kinder Morgan Energy Partners added isobutane as a component of line-fill in 2005, and increased the proportion of normal butane and reduced the proportion of propane. We believe this restructured line-fill helps mitigate any operational constraints that could result from shippers holding reduced inventory levels at any point in the year.

Competition. The North System competes with other natural gas liquids pipelines and to a lesser extent with rail carriers. In most cases, established pipelines are the lowest cost alternative for the transportation of natural gas liquids and refined petroleum products. With respect to the Chicago market, the North System competes with other natural gas liquids pipelines that deliver into the area and with railcar deliveries primarily from Canada. Other Midwest pipelines and area refineries compete with the North System for propane terminal deliveries. The North System also competes indirectly with pipelines that deliver product to markets that the North System does not serve, such as the Gulf Coast market area. Heartland competes with other refined petroleum products carriers in the geographic market served. Heartland s principal competitor is Magellan Midstream Partners, L.P.

Cochin Pipeline System

Kinder Morgan Energy Partners owns 49.8% of the Cochin pipeline system, a joint venture that operates an approximate 1,900-mile, 12-inch diameter multi-product pipeline operating between Fort Saskatchewan, Alberta and Sarnia, Ontario, including five terminals. BP Canada Energy Company, an affiliate of BP, owns the remaining 50.2% ownership interest and is the operator of the pipeline. On January 15, 2007, Kinder Morgan Energy Partners announced that it had entered into an agreement with BP Canada Energy Company to increase its ownership interest in the Cochin pipeline system to 100%. The agreement is subject to due diligence, regulatory clearance and other standard closing conditions. The transaction is expected to close in the first quarter of 2007, and upon closing, Kinder Morgan Energy Partners will become the operator of the pipeline.

The pipeline operates on a batched basis and has an estimated system capacity of approximately 112,000 barrels per day. Its peak capacity is approximately 124,000 barrels per day. It includes 31 pump stations spaced at 60 mile intervals and five United States propane terminals. Associated underground storage is available at Fort Saskatchewan, Alberta and Windsor, Ontario.

Markets. The pipeline traverses three provinces in Canada and seven states in the United States transporting high vapor pressure ethane, propane, butane and natural gas liquids to the Midwestern United States and eastern Canadian petrochemical and fuel markets. The system operates as a National Energy Board (Canada) and FERC (United States) regulated common carrier, shipping products on behalf of its owners as well as other third parties. The system is connected to the Enterprise pipeline system in Minnesota and in Iowa, and connects with the North System at Clinton, Iowa. The Cochin pipeline system has the ability to access the Canadian Eastern Delivery System via the Windsor Storage Facility Joint Venture at Windsor, Ontario.

Supply. Injection into the system can occur from BP, EnerPro or Dow fractionation facilities at Fort Saskatchewan, Alberta; from Provident Energy storage at five points within the provinces of Canada; or from the Enterprise West Junction, in Minnesota.

Competition. The pipeline competes with railcars and Enbridge Energy Partners for natural gas liquids long-haul business from Fort Saskatchewan, Alberta and Windsor, Ontario. The pipeline s primary competition in the Chicago natural gas

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liquids market comes from the combination of the Alliance pipeline system, which brings unprocessed gas into the United States from Canada, and from Aux Sable, which processes and markets the natural gas liquids in the Chicago market.

Cypress Pipeline

Kinder Morgan Energy Partners Cypress pipeline is an interstate common carrier natural gas liquids pipeline originating at storage facilities in Mont Belvieu, Texas and extending 104 miles east to a major petrochemical producer in the Lake Charles, Louisiana area. Mont Belvieu, located approximately 20 miles east of Houston, is the largest hub for natural gas liquids gathering, transportation, fractionation and storage in the United States.

Markets. The pipeline was built to service Westlake Petrochemicals Corporation in the Lake Charles, Louisiana area under a 20-year ship-or-pay agreement that expires in 2011. The contract requires a minimum volume of 30,000 barrels per day.

Supply. The Cypress pipeline originates in Mont Belvieu where it is able to receive ethane and ethane/propane mix from local storage facilities. Mont Belvieu has facilities to fractionate natural gas liquids received from several pipelines into ethane and other components. Additionally, pipeline systems that transport natural gas liquids from major producing areas in Texas, New Mexico, Louisiana, Oklahoma and the Mid-Continent Region supply ethane and ethane/propane mix to Mont Belvieu.

Competition. The pipeline s primary competition into the Lake Charles market comes from Louisiana onshore and offshore natural gas liquids.

Southeast Terminals

Kinder Morgan Energy Partners Southeast terminal operations consist of Kinder Morgan Southeast Terminals LLC and its consolidated affiliate, Guilford County Terminal Company, LLC. Kinder Morgan Southeast Terminals LLC, a wholly-owned subsidiary referred to in this report as KMST, was formed in 2003 for the purpose of acquiring and operating high-quality liquid petroleum products terminals located primarily along the Plantation/Colonial pipeline corridor in the Southeastern United States.

Since its formation, KMST has acquired 24 petroleum products terminals with a total storage capacity of approximately 7.8 million barrels. These terminals transferred approximately 347,000 barrels of refined products per day during 2006.

The 24 terminals consist of the following:

- seven petroleum products terminals acquired from ConocoPhillips and Phillips Pipe Line Company in December 2003. The terminals are located in the following markets: Selma, North Carolina; Charlotte, North Carolina; Spartanburg, South Carolina; North Augusta, South Carolina; Doraville, Georgia; Albany, Georgia; and Birmingham, Alabama. The terminals contain approximately 1.2 million barrels of storage capacity. ConocoPhillips has entered into a long-term contract with Kinder Morgan Energy Partners to use the terminals. All seven terminals are served by the Colonial Pipeline and three are also connected to the Plantation Pipeline;

- seven petroleum products terminals acquired from Exxon Mobil Corporation in March 2004. The terminals are located at the following locations: Newington, Virginia; Richmond, Virginia; Roanoke, Virginia; Greensboro, North Carolina; Charlotte, North Carolina; Knoxville, Tennessee; and Collins, Mississippi. The terminals have a combined storage capacity of approximately 3.2 million barrels for gasoline, jet fuel and diesel fuel. ExxonMobil has entered into a long-term contract to use the terminals. All seven of these terminals are connected to products pipelines owned by either Plantation Pipe Line Company or Colonial Pipeline Company;

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nine petroleum products terminals acquired from Charter Terminal Company and Charter-Triad Terminals in November 2004. Three terminals are located in Selma, North Carolina, and the remaining facilities are located in Greensboro and Charlotte, North Carolina; Chesapeake and Richmond, Virginia; Athens, Georgia; and North Augusta, South Carolina. The terminals have a combined storage capacity of approximately 3.2 million barrels for gasoline, jet fuel and diesel fuel. Kinder Morgan Energy Partners fully owns seven of the terminals and jointly owns the remaining two. All nine terminals are connected to Plantation or Colonial pipelines; and

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one petroleum products terminal acquired from Motiva Enterprises, LLC in December 2006. The terminal, located in Roanoke, Virginia, has storage capacity of approximately 180,000 barrels per day for refined petroleum products and is served exclusively by the Plantation Pipeline. Motiva Enterprises, LLC has entered into a long-term contract to use the terminal.

Markets. KMST s acquisition and marketing activities are focused on the Southeastern United States from Mississippi through Virginia, including Tennessee. The primary function involves the receipt of petroleum products from common

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carrier pipelines, short-term storage in terminal tankage, and subsequent loading onto tank trucks. Longer term storage is also available at many of the terminals. KMST has a physical presence in markets representing almost 80% of the pipeline-supplied demand in the Southeast and offers a competitive alternative to marketers seeking a relationship with a truly independent truck terminal service provider.

Supply. Product supply is predominately from Plantation and/or Colonial pipelines. To the maximum extent practicable, we endeavor to connect KMST terminals to both Plantation and Colonial.

Competition. There are relatively few independent terminal operators in the Southeast. Most of the refined petroleum products terminals in this region are owned by large oil companies (BP, Motiva, Citgo, Marathon, and Chevron) who use these assets to support their own proprietary market demands as well as product exchange activity. These oil companies are not generally seeking third party throughput customers. Magellan Midstream Partners and TransMontaigne Product Services represent the other independent terminal operators in this region.

Transmix Operations

Kinder Morgan Energy Partners Transmix operations include the processing of petroleum pipeline transmix, a blend of dissimilar refined petroleum products that have become co-mingled in the pipeline transportation process. During transportation, different products are transported through the pipelines abutting each other, and the volume of different mixed products is called transmix. At transmix processing facilities, pipeline transmix is processed and separated into pipeline-quality gasoline and light distillate products. Kinder Morgan Energy Partners processes transmix at six separate processing facilities located in Colton, California; Richmond, Virginia; Dorsey Junction, Maryland; Indianola, Pennsylvania; Wood River, Illinois; and Greensboro, North Carolina.

At the Dorsey Junction, Maryland facility, transmix processing is performed for Colonial Pipeline Company on a for fee basis pursuant to a long-term contract that expires in 2012. Transmix is processed on a for fee basis for Shell Trading (U.S.) Company, referred to as Shell, according to the provisions of a long-term contract that expires in 2011 at Kinder Morgan Energy Partners transmix facilities located in Richmond, Virginia; Indianola, Pennsylvania; and Wood River, Illinois. At these locations, Shell procures transmix supply from pipelines and other parties, pays a processing fee to Kinder Morgan Energy Partners, and then sells the processed gasoline and fuel oil through their marketing and distribution networks. The arrangement includes a minimum annual processing volume and a per barrel fee to Kinder Morgan Energy Partners, as well as an opportunity to extend the processing agreement beyond 2011.

The Colton processing facility is located adjacent to the products terminal in Colton, California, and it produces refined petroleum products that are delivered into the Pacific operations pipelines for shipment to markets in Southern California and Arizona. The facility can process over 5,000 barrels of transmix per day. In June 2006, Duke Energy Merchants exercised an early termination provision contained in Kinder Morgan Energy Partners long term processing contract due to expire in 2010. Following Duke s exercise, Kinder Morgan Energy Partners transitioned to processing transmix at Colton for various pipeline shippers directly on a for fee basis arrangement.

The Richmond, Virginia processing facility is supplied by the Colonial and Plantation pipelines as well as deep-water barges (25 feet draft), transport truck and rail. The facility can process approximately 7,500 barrels per day. The Dorsey Junction processing facility is located within Colonial s Dorsey Junction terminal facility, near Baltimore, Maryland. The facility can process approximately 5,000 barrels per day. The Indianola processing facility is located near Pittsburgh, Pennsylvania and is accessible by truck, barge and pipeline. It primarily processes transmix from the Buckeye, Colonial, Sun and Teppco pipelines. It has capacity to process 12,000 barrels of transmix per day. The Wood River processing facility is constructed on property owned by ConocoPhillips and is accessible by truck, barge and pipeline. It primarily processes transmix from both the Explorer and ConocoPhillips pipelines. It has capacity to process 5,000 barrels of transmix per day.

In the second quarter of 2006, Kinder Morgan Energy Partners completed construction and placed into service its approximately $11 million Greensboro, North Carolina transmix facility, which is located along KMST s refined products tank farm. The facility includes an atmospheric distillation column with a direct fired natural gas heater to process up to 6,000 barrels of transmix per day for Plantation and other interested parties. In addition to providing additional processing business, the facility also gives Plantation a lower cost alternative that recovers ultra low sulfur diesel, and more fully utilizes current KMST tankage at the Greensboro, North Carolina tank farm.

Markets. The Gulf and East Coast refined petroleum products distribution system, particularly the Mid-Atlantic region, is the target market for Kinder Morgan Energy Partners East Coast transmix processing operations. The Mid-Continent area and the New York Harbor are the target markets for Kinder Morgan Energy Partners Illinois and Pennsylvania assets, respectively. Kinder Morgan Energy Partners West Coast transmix processing operations support the markets served by its Pacific operations in Southern California.