Financial Review

Portions of the following Items from the Partnership's Form 10-K for the year ended December 31, 2000, are included in this Annual Report commencing at the page indicated.

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Items 1. and 2. Business and Properties

General

Kinder Morgan Energy Partners, L.P., a Delaware limited partnership, is a publicly traded master limited partnership formed in August 1992. We are the largest pipeline master limited partnership in terms of market capitalization and the second largest products pipeline system in the United States in terms of volumes delivered. Unless the context requires otherwise, references to "we", "us", "our", "KMP" or the "Partnership" are intended to mean Kinder Morgan Energy Partners, L.P., our operating limited partnerships and their subsidiaries.

We manage a diversified portfolio of midstream energy assets that provide fee-based services to customers. Our assets primarily include:

- more than 10,000 miles of product pipelines and over 20 associated terminals serving customers across the United States;
- 10,000 miles of natural gas transportation pipelines, plus natural gas gathering and storage facilities;
- Kinder Morgan CO_2 Company, L.P., the largest transporter and marketer of carbon dioxide in the country; and
- over 25 bulk terminal facilities which transload coal, liquid and other bulk products.

On October 7, 1999, K N Energy, Inc., a Kansas corporation that provided integrated energy services including the gathering, processing, transportation and storage of natural gas, the marketing of natural gas and natural gas liquids and the generating of electric power, acquired Kinder Morgan (Delaware), Inc., a Delaware corporation. Kinder Morgan (Delaware), Inc. is the sole stockholder of our general partner, Kinder Morgan G.P., Inc. At the time of the closing of the acquisition, K N Energy, Inc. changed is name to Kinder Morgan, Inc. In connection with the acquisition, Richard Kinder, Chairman and Chief Executive Officer of our general partner, became the Chairman and Chief Executive Officer of KMI. KMI trades on the New York Stock Exchange under the symbol "KMI" and is one of the largest midstream energy companies in America, operating more than 30,000 miles of natural gas and product pipelines. KMI also has significant natural gas retail distribution and electric generation. In addition, KMI, through its general partner interest, operates our portfolio of businesses and holds a significant limited partner interest in us.

The address of our principal executive offices is 500 Dallas Street, Suite 1000, Houston, Texas 77002 and our telephone number at this address is (713) 369-9000. We trade under the New York Stock Exchange symbol "KMP". Our operations are grouped into four reportable business segments. These segments and their major assets are as follows:

- *Product Pipelines,* consisting of refined petroleum product pipelines and joint venture projects including:
    - our Pacific operations, which are comprised of approximately 3,300 miles of pipeline that transport refined petroleum products to some of the faster growing population centers in the United States, including Los Angeles, San Diego, and Orange County, California; the San Francisco Bay Area; Las Vegas, Nevada and Tucson and Phoenix, Arizona, and 13 truck-loading terminals with an aggregate usable tankage capacity of approximately 8.2 million barrels;
    - our North System, a 1,600 mile pipeline that transports natural gas liquids and refined petroleum products between south central Kansas and the Chicago area and various intermediate points, including eight terminals;
    - our 51% interest in Plantation Pipe Line Company, which owns and operates a 3,100 mile refined petroleum products pipeline system throughout the southeastern United States, serving major metropolitan areas including Birmingham, Alabama; Atlanta, Georgia; Charlotte, North Carolina; and the Washington, D.C. area;
    - our 32.5% interest in the Cochin Pipeline System, a 1,900 mile multiproduct pipeline transversing Canada and the United States from Fort Saskatchewan, Alberta to Sarnia, Ontario;
    - our Cypress Pipeline, which transports natural gas liquids from Mont Belvieu, Texas to a major petrochemical producer in Lake Charles, Louisiana;
    - our transmix operations, which include the processing and marketing of petroleum pipeline transmix via transmix processing plants in Colton, California; Richmond, Virginia; Dorsey Junction, Maryland; Indianola, Pennsylvania; and Wood River, Illinois;
    - our 50% interest in the Heartland Pipeline Company, which ships refined petroleum products in the Midwest; and

- our Painter Gas Processing Plant, a natural gas processing plant, fractionator and natural gas liquids terminal with truck and rail loading facilities, which is leased to BP Amoco under a long-term arrangement.

- *Natural Gas Pipelines,* consisting of assets acquired in late 1999 and 2000 including:
  - Kinder Morgan Interstate Gas Transmission LLC, which owns a 6,700 mile natural gas pipeline, including the Pony Express pipeline facilities, that extends from northwestern Wyoming east into Nebraska and Missouri and south through Colorado and Kansas;
  - Kinder Morgan Texas Pipeline L.P, which owns a 2,700 mile intrastate pipeline along the Texas Gulf Coast;
  - our 66 2/3% interest in the Trailblazer Pipeline Company, which transmits natural gas from Colorado through southeastern Wyoming to Beatrice, Nebraska;
  - our Casper and Douglas Gathering Systems, which is comprised of approximately 1,560 miles of natural gas gathering pipelines and two facilities in Wyoming capable of processing 210 million cubic feet of natural gas per day;
  - our 49% interest in the Red Cedar Gathering Company, which gathers natural gas in La Plata County, Colorado and owns and operates a carbon dioxide processing plant;
  - our 50% interest in Coyote Gas Treating, LLC, which owns a 250 million cubic feet per day natural gas treating facility in La Plata County, Colorado; and
  - our 25% interest in Thunder Creek Gas Services, LLC, which gathers, transports and processes coal bed methane gas in the Powder River Basin of Wyoming.

- *CO_2 Pipelines*, consisting of Kinder Morgan CO_2 Company, L.P., which transports, markets and produces carbon dioxide for use in enhanced oil recovery operations in the continental United States, through the following:
  - Central Basin Pipeline, a 300 mile carbon dioxide pipeline located in the Permian Basin between Denver City, Texas and McCamey, Texas;
  - interests in carbon dioxide pipelines, including an approximate 81% interest in the Canyon Reef Carriers Pipeline, a 50% interest in the Cortez Pipeline and a 13% interest in the Bravo Dome Pipeline;
  - interests in carbon dioxide reserves, including an approximate 45% interest in the McElmo Dome and an approximate 11% interest in the Bravo Dome; and
  - interests in oil-producing fields, including an approximate 71% interest in the SACROC Unit and minority interests in the Sharon Ridge Unit, the Reinecke Unit and the Yates Field Unit, all of which are located in the Permian Basin of West Texas.

- *Bulk Terminals,* consisting of over 25 owned or operated bulk terminal facilities including:
  - coal terminals located in Cora, Illinois; Paducah, Kentucky; Newport News, Virginia; Mount Vernon, Indiana; and Los Angeles, California;
  - petroleum coke terminals located on the lower Mississippi River and along the west coast of the United States;
  - liquids chemical terminals located in New Orleans, Louisiana and Cincinnati, Ohio; and
  - other bulk terminals handling alumina, cement, salt, soda ash, fertilizer and other dry bulk materials.

Business Strategy

Our management's objective is to grow our portfolio of businesses by:

- focusing on stable, fee-based assets which are core to the energy infrastructure of growing markets;
- increasing utilization of assets while containing costs;
- leveraging economies of scale from incremental acquisitions; and
- maximizing the benefits of our financial structure.

Since February 1997, we have announced 20 acquisitions valued at over $4.7 billion. These acquisitions and associated cost reductions have assisted us in growing from $17.7 million of net income in 1997 to $278.3 million of net income in 2000. We regularly consider and enter into discussions regarding potential acquisitions, including those from KMI or its affiliates, and are currently contemplating potential acquisitions. 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.

We primarily transport and/or handle products for a fee and generally are not engaged in the purchase and sale of commodity products. As a result, we do not face significant risks relating directly to shifts in commodity prices.

Product Pipelines. We plan to continue to expand our presence in the rapidly growing refined petroleum products markets in the western and southeastern United States through incremental expansions of our Pacific and Plantation pipelines and through acquisitions that increase unitholder distributions. Because our North system serves a relatively mature market, we intend to focus on increasing throughput within the system by remaining a reliable, cost-effective provider of transportation services and by continuing to increase the range of products transported and services offered. We recently assumed operation of Plantation Pipe Line Company. Our acquisition of our transmix operations in September 1999, October 2000 and December 2000 strengthened our existing transmix processing business and added fee-based services related to our core refined products pipeline business.

Natural Gas Pipelines. Kinder Morgan Interstate Gas Transmission also serves a stable, mature market, and thus we are focused on reducing costs and securing throughput for this pipeline. New measurement systems and other improvements will aid in managing expenses. We will explore expansion and storage opportunities to increase utilization levels. Kinder Morgan Texas Pipeline L.P. intends to grow its transportation and storage businesses by identifying and serving significant new customers with demand for capacity on its intrastate pipeline system. Trailblazer is currently pursuing an expansion of its system supported by commitments secured in August 2000. Red Cedar Gathering Company, a partnership with the Southern Ute Indian Tribe, is pursuing additional gathering and processing opportunities on tribal lands.

CO_2 Pipelines. $KMCO_2$'s Permian Basin strategy is to offer customers "one-stop shopping" for carbon dioxide supply, transportation and technical support service. Outside the Permian Basin, we intend to compete aggressively for new supply and transportation projects. Our management believes these projects will arise as other United States oil producing basins mature and make the transition from primary production to enhanced recovery methods.

Bulk Terminals. We are dedicated to growing our bulk terminals business through selective acquisitions, expansions, and development of new terminals. The bulk terminals industry in the United States is highly fragmented, leading to opportunities for us to make selective, accretive acquisitions. We will make investments to expand and improve existing facilities, particularly those facilities that handle low-sulfur western coal. Additionally, we plan to design, construct and operate new facilities for current and prospective customers. Our management believes we can use newly acquired or developed facilities to leverage our operational expertise and customer relationships.

Recent Developments

During 2000, our assets increased 43% and our net income increased 53% from 1999 levels. In addition, distributions per unit increased 31% from $0.725 for the fourth quarter of 1999 to $0.95 for the fourth quarter of 2000.

The following is a brief listing of activity since the end of the third quarter of 2000. Additional information regarding these items is contained in the rest of this report.

- On October 25, 2000, we acquired Kinder Morgan Transmix Company, LLC, formerly known as Buckeye Refining Company, LLC, for approximately $37 million plus net working capital. The acquisition included two transmix processing plants located in Indianola, Pennsylvania and Wood River, Illinois and other transmix assets. The two facilities are projected to process over 4.3 million barrels of transmix in 2001.
- On October 25, 2000, we entered into a new $600 million 364-day bank revolving facility that replaced and expanded our then existing $300 million facility and contains substantially the same covenants. In August 2000, we refinanced a fully drawn $175 million revolving credit facility at our subsidiary, SFPP, L.P., with an intercompany obligation to us.
- On November 8, 2000, we closed on a private placement of $250 million of 10-year notes bearing a coupon of 7.5%. On February 27, 2001, we announced an offer to exchange these notes for substantially identical notes that are registered under the Securities Act of 1933. The exchange offer expires on March 27, 2001, unless extended by us at our sole discretion.
- On November 30, 2000, we announced that we had signed a definitive agreement with GATX Corporation to purchase its United States pipeline and terminal businesses for approximately $1.15 billion, consisting of cash, assumed debt and other obligations. Primary assets included in the transaction are the CALNEV Pipe Line Company and the Central Florida Pipeline Company, along with 12 terminals that store refined petroleum products and chemicals. CALNEV is a 550 mile refined petroleum products pipeline system

originating in Colton, California and extending to the Las Vegas, Nevada market. The Central Florida pipeline is a 195 mile refined petroleum products pipeline system consisting of a 16-inch gasoline pipeline and a 10-inch jet fuel and diesel pipeline, transporting product from Tampa to the Orlando, Florida market. The 12 terminals we are acquiring from GATX have a storage capacity of 35.6 million barrels, and the largest of these terminals are located in Houston, New York, Los Angeles and Chicago, with a total capacity of approximately 31.2 million barrels. The other terminals are located in Philadelphia, Portland, Oregon, San Francisco and Seattle. In addition, we are acquiring six other terminals from GATX with a capacity of 3.6 million barrels that are part of the CALNEV and Central Florida pipeline systems. On March 1, 2001, we announced that all of the assets in the transaction have closed, except for CALNEV, which is pending approval from the California Public Utilities Commission. CALNEV is expected to close in March or April of 2001.

- On December 1, 2000, we purchased Delta Terminal Services, Inc. for approximately $114 million in cash. The acquisition included two liquid bulk storage terminals in New Orleans, Louisiana and Cincinnati, Ohio. The facilities provide services to producers of petroleum, chemicals and other products. The New Orleans terminal has a storage capacity of 2.8 million barrels. It is located at the 98.5 mile point on the Mississippi River close to the Harvey Canal and the Greater New Orleans Bridge. The terminal serves the New Orleans/Baton Rouge corridor and is situated on approximately 100 acres of land. The Cincinnati terminal has a storage capacity of 500,000 barrels. It is located at the 465.7 mile point on the Ohio River and is situated on approximately 60 acres of land.
- On December 21, 2000, we reached agreement with the other owner of Plantation Pipe Line Company to become the operator of Plantation, a 3,100-mile refined petroleum products pipeline system throughout the southeastern United States.
- On December 21, 2000, we completed a transaction whereby KMI contributed approximately $300 million of its assets to us. As consideration for these assets, we paid KMI approximately 50% of the fair value of the assets in cash and the remaining 50% of the fair value of the assets in units. The largest asset contributed was Kinder Morgan Texas Pipeline L.P., a 2,700 mile natural gas pipeline system that extends from south Texas to Houston along the Texas gulf coast. Other assets contributed included the Casper and Douglas Natural Gas Gathering and Processing Systems, KMI's 50% interest in Coyote Gas Treating, LLC and KMI's 25% interest in Thunder Creek Gas Services, LLC.
- On December 28, 2000, we completed the purchase of a 32.5% interest in the Cochin Pipeline System from NOVA Chemicals Corporation. The effective date of the acquisition was November 3, 2000. The Cochin pipeline consists of approximately 1,900 miles of 12-inch pipeline transversing Canada and the United States from Fort Saskatchewan, Alberta to Sarnia, Ontario. It transports high vapor pressure ethane, ethylene, propane, butane and natural gas liquids to the midwestern United States and eastern Canadian petrochemical and fuel markets, and is a joint venture of our subsidiary and subsidiaries of BP Amoco, Conoco, Shell and NOVA Chemicals.
- On December 28, 2000, we entered into a definitive agreement to form a joint venture with Marathon Oil Company in the southern Permian Basin of West Texas. The joint venture was formed on January 1, 2001 and is owned 85% by Marathon Oil Company and 15% by $KMCO_2$. The joint venture consists of a nearly 13% interest in the SACROC Unit and a 49.9% interest in the Yates Field Unit, the largest single interest in that Unit. In connection with the formation of the joint venture, we entered into a 10 year contract to supply Marathon with an aggregate of 30 billion cubic feet of carbon dioxide expected to be used to enhance oil recovery in the area.
- On December 31, 2000, we increased our ownership in the Colton, California transmix processing facility by purchasing Duke Energy Merchants' 50% interest in the facility. SFPP, L.P., our subsidiary that owns our Pacific operations, owns the remaining 50% ownership interest. The facility's transmix processing agreements with third parties were transferred to Duke, and in turn, we entered into a ten year fee-based processing agreement to process transmix for Duke at the facility. Duke will market all of the transmix we process for it at the Colton facility.

Kinder Morgan Management, LLC, a wholly-owned subsidiary of our general partner, has filed a registration statement to issue and sell shares. Upon completion of that proposed offering, Kinder Morgan Management, LLC would become a partner in us and manage and control our business and affairs. The net proceeds from that offering would be used to buy i-units from us. The i-units would be a new class of our limited partner interests and would be issued only to Kinder Morgan Management, LLC. We would use the cash received from the sale of i-units to reduce short-term debt incurred to finance the GATX acquisition. No assurance can be given that the proposed issuance of shares and related financing will occur, or that they will not be modified from the foregoing description if ultimately completed.

Item 5. Market for the Registrant's Units and Related Security Holder Matters

The following table sets forth, for the periods indicated, the high and low sale prices per common unit, as reported on the New York Stock Exchange, the principal market in which our common units are traded, and the amount of cash distributions declared per common unit.

	Price Range		Cash
	High	Low	Distributions
2000			
First Quarter	$44.5625	$38.5000	$0.7750
Second Quarter	39.9375	37.1250	0.8500
Third Quarter	47.3750	39.6250	0.8500
Fourth Quarter	56.3125	46.0000	0.9500
1999			
First Quarter	$37.9375	$33.1250	$0.7000
Second Quarter	39.0000	33.9375	0.7000
Third Quarter	45.3750	37.5000	0.7250
Fourth Quarter	43.9375	39.6250	0.7250

The quarterly distribution for the fourth quarter of 2000 was $.95 per unit. We currently expect that we will continue to pay comparable cash distributions in the future assuming no adverse change in our operations, economic conditions and other factors. However, we can give no assurance that future distributions will continue at such levels.

As of February 14, 2001, there were approximately 36,000 beneficial owners of our common units and one holder of our class B units.

Recent Sales of Unregistered Securities. During the quarter ended December 31, 2000, we issued the following equity securities, which were not registered under the Securities Act of 1933, as amended. Effective December 31, 2000, we acquired over $300 million of assets from KMI. As consideration for these assets, we paid to KMI $192.7 million, 640,000 common units and 2,656,700 class B units. The units were issued to KMI pursuant to Section 4(2) of the Securities Act of 1933.

Item 6. Selected Financial Data (unaudited)

The following table sets forth, for the periods and at the dates indicated, selected historical financial and operating data for us.

	Year Ended December 31,				
	2000(7)	1999(8)	1998(9)	1997	1996
	(In thousands, except per unit and operating data)				
Income and Cash Flow Data:					
Revenues	$ 816,442	$ 428,749	$ 322,617	$ 73,932	$ 71,250
Cost of product sold	124,641	16,241	5,860	7,154	7,874
Operating expense	190,329	111,275	77,162	17,982	22,347
Fuel and power	43,216	31,745	22,385	5,636	4,916
Depreciation and amortization	82,630	46,469	36,557	10,067	9,908
General and administrative	60,065	35,612	39,984	8,862	9,132
Operating income	315,561	187,407	140,669	24,231	17,073
Earnings from equity investments	71,603	42,918	25,732	5,724	5,675
Amortization of excess cost of equity investments	(8,195)	(4,254)	(764)	-	-
Interest (expense)	(97,102)	(54,336)	(40,856)	(12,605)	(12,634)
Interest income and other, net	10,415	22,988	(5,992)	(353)	3,129
Income tax (provision) benefit	(13,934)	(9,826)	(1,572)	740	(1,343)
Income before extraordinary charge	278,348	184,897	117,217	17,737	11,900
Extraordinary charge	-	(2,595)	(13,611)	-	-
Net income	$ 278,348	$ 182,302	$ 103,606	$ 17,737	$ 11,900
Basic Limited Partners' income per unit before extraordinary charge(1)	$ 2.68	$ 2.63	$ 2.09	$ 1.02	$ 0.90
Basic Limited Partners' net income per unit	$ 2.68	$ 2.57	$ 1.75	$ 1.02	$ 0.90
Diluted Limited Partners' net income per unit(2)	$ 2.67	$ 2.57	$ 1.75	$ 1.02	$ 0.90
Per unit cash distribution paid	$ 3.20	$ 2.78	$ 2.39	$ 1.63	$ 1.26
Additions to property, plant and equipment	$ 125,523	$ 82,725	$ 38,407	$ 6,884	$ 8,575
Balance Sheet Data (at end of period):					
Net property, plant and equipment	$ 3,306,305	$ 2,578,313	$ 1,763,386	$ 244,967	$ 235,994
Total assets	$ 4,625,210	$ 3,228,738	$ 2,152,272	$ 312,906	$ 303,603
Long-term debt	$ 1,255,453	$ 989,101	$ 611,571	$ 146,824	$ 160,211
Partners' capital	$ 2,117,067	$ 1,774,798	$ 1,360,663	$ 150,224	$ 118,344
Operating Data:					
Product Pipelines -					
Pacific - Mainline delivery volumes (MBbls)(3)	386,611	375,663	307,997	-	-
Pacific - Other delivery volumes (MBbls)(3)	14,243	10,025	17,957	-	-
Plantation - Delivery volumes (MBbls)	226,795	214,900	-	-	-
North System/Cypress - Delivery volumes (MBbls)	51,111	50,124	44,783	46,309	46,601
Natural Gas Pipelines -					
Transport volumes (Bcf)(4)	449.2	424.3	-	-	-
Carbon Dioxide Pipelines -					
Delivery volumes (Bcf)(5)	386.5	379.3	-	-	-
Bulk Terminals -					
Transload tonnage (Mtons)(6)	41,529	39,190	24,016	9,087	6,090

(1) Represents income before extraordinary charge per unit adjusted for the two-for-one split of units on October 1, 1997. Basic Limited Partners' income per unit before extraordinary charge was computed by dividing the interest of our unitholders in income before extraordinary charge by the weighted average number of units outstanding during the period.

(2) Diluted Limited Partners' net income per unit reflects the potential dilution, by application of the treasury stock method, that could occur if options to issue units were exercised, which would result in the issuance of additional units that would then share in our net income.

(3) We acquired our Pacific operations on March 6, 1998.

(4) KMIGT and Trailblazer assets were acquired on December 31, 1999. 1999 volumes are shown for comparative purposes only.

(5) Acquired remaining 80% interest in Kinder Morgan CO_2 Company, L.P., effective April 1, 2000. 2000 and 1999 volume information is adjusted to include properties acquired from Devon Energy effective June 1, 2000, and to correct volumes previously reported. 2000 and 1999 volume information is shown for comparative purposes only.

(6) Represents the volumes of the Cora Terminal, excluding ship or pay volumes of 252 Mtons for 1996, the Grand Rivers Terminal from September 1997, Kinder Morgan Bulk Terminals from July 1, 1998 and the Pier IX and Shipyard Terminals from December 18, 1998.

(7) Includes results of operations for KMIGT, 66 2/3% interest in Trailblazer Pipeline Company, 49% interest in Red Cedar, Milwaukee Bulk Terminals, Dakota Bulk Terminal, remaining 80% interest in $KMCO_2$, Devon Energy carbon dioxide properties, Buckeye Refining Company, LLC, 32.5% interest in Cochin Pipeline System and Delta Terminal Services since dates of acquisition.

(8) Includes results of operations for 51% interest in Plantation Pipe Line Company, Product Pipelines' transmix operations and 33 1/3% interest in Trailblazer Pipeline Company since dates of acquisition.

(9) Includes results of operations for Pacific operations, Kinder Morgan Bulk Terminals and 24% interest in Plantation Pipe Line Company since dates of acquisition.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with our Consolidated Financial Statements included elsewhere in this report.

Results of Operations

Our financial results over the past two years reflect significant growth in revenues, operating income and net income. During this timeframe, we have consistently made strategic business acquisitions and experienced ongoing strength in all of our pipeline and terminal operations. The combination of targeted business acquisitions, higher capital spending, favorable economic conditions and management's continuing focus on controlling general and operating expenses across our entire business portfolio led the way to strong growth in all four of our business segments. In 2000, we reported record levels of revenue, operating income, net income and earnings per unit.

Our net income was $278.3 million ($2.67 per diluted unit) on revenues of $816.4 million in 2000, compared to net income of $182.3 million ($2.57 per diluted unit) on revenues of $428.7 million in 1999, and net income of $103.6 million ($1.75 per diluted unit) on revenues of $322.6 million in 1998. Included in our net income for 1999 and 1998 were extraordinary charges associated with debt refinancing transactions in the amount of $2.6 million in 1999 and $13.6 million in 1998. In addition, our 1999 net income included a benefit of $10.1 million related to the sale of our 25% interest in the Mont Belvieu fractionation facility, partially offset by special non-recurring charges. Our total consolidated operating income was $315.6 million in 2000, $187.4 million in 1999 and $140.7 million in 1998. Our total consolidated net income before extraordinary charges was $278.3 million in 2000, $184.9 million in 1999 and $117.2 million in 1998.

Our increase in overall net income and revenues in 2000 compared to 1999 primarily resulted from the inclusion of our Natural Gas Pipelines segment, acquired from Kinder Morgan, Inc. on December 31, 1999, and our acquisition of the remaining 80% ownership interest in Kinder Morgan CO_2 Company, L.P. (formerly Shell CO_2 Company, Ltd.) effective April 1, 2000. Prior to that date, we owned a 20% equity interest in Kinder Morgan CO_2 Company, L.P. and reported its results under the equity method of accounting. The results of Kinder Morgan CO_2 Company, L.P. are included in our CO_2 Pipelines segment. Our acquisition of substantially all of our Product Pipelines' transmix operations in September 1999, and Milwaukee Bulk Terminals, Inc. and Dakota Bulk Terminal, Inc. in January 2000, also contributed to our overall increase in period-to-period revenues and net income.

The inclusion of a full year of activity for our Pacific operations and Bulk Terminals segment was the largest contributing factor for the increase in total revenues and earnings in 1999 compared with 1998. We acquired our Pacific operations in March 1998, Kinder Morgan Bulk Terminals, Inc. in July 1998 and the Pier IX and Shipyard River terminals in December 1998.

Product Pipelines

Our Product Pipelines' segment revenues increased 34%, from $314.1 million in 1999 to $421.4 million in 2000, and net income increased 6%, from $209.0 million in 1999 to $221.2 million in 2000. The year-to-year increase in revenues resulted primarily from the inclusion of a full year of our transmix operations, which were mainly acquired in September 1999, and additional transmix assets acquired in October 2000. Furthermore, higher throughput volumes on both our Pacific operations and North System pipelines contributed to the increase in segment revenues. On our Pacific operations, average tariff rates remained relatively flat between 2000 and 1999, with an almost 3% increase in mainline delivery volumes resulting in a 3% increase in revenues. On our North System, revenues grew 14% in 2000 compared to 1999. The increase was due to an almost 10% increase in throughput revenue volumes, primarily due to strong refinery demand in the Midwest, as well as a 5% increase in average tariff rates.

In 1998, the Product Pipelines segment earned $156.9 million on revenues of $258.7 million. The increase in revenues in 1999 over 1998 relates to the inclusion in 1999 of a full year of results from our Pacific operations, acquired in March 1998, and the inclusion of almost four months of transmix operations, which were acquired in early September 1999. With a full twelve months of activity reported in 1999, total mainline throughput volumes on our Pacific operations pipelines increased 22% in 1999 compared to 1998. The higher 1999 segment revenues were partly offset by an almost 4% decrease in average tariff rates on our Pacific pipelines. The decrease in average tariff rates was mainly due to the reduction in transportation rates, effective April 1, 1999, on our Pacific operation's East Line.

Combined operating expenses for the Product Pipelines segment, which include the segment's cost of sales, fuel, power and operating and maintenance expenses, were $172.5 million in 2000, $76.5 million in 1999 and $56.3 million in 1998. The increase in expenses in each year resulted mainly from the inclusion of our transmix operations and the higher delivery volumes on our Pacific operations pipelines. Depreciation and amortization expense was $41.7 million in 2000, $38.9 million in 1999 and $32.7 million in 1998, reflecting our acquisitions, continued investments in capital additions and pipeline expansions. Segment operating income was $193.5 million in 2000, $186.1 million in 1999 and $159.2 million in 1998. Earnings from our equity investments, net of amortization of excess costs, were $29.1 million in 2000, $21.4 million in 1999 and $5.9 million in 1998. The increases in our equity earnings each year were chiefly due to our investments in Plantation Pipe Line Company. We acquired a 24% ownership interest in September 1998 and an additional 27% ownership interest in June 1999. Additionally, the Product Pipelines segment benefited from favorable changes in non-operating income/expense in 1999 compared to 1998, primarily the result of lower 1999 expense accruals made for our FERC rate case reserve (as a result of the FERC's opinion relating to an outstanding rate case dispute), 1999 insurance recoveries and favorable adjustments to employee post-retirement benefit liabilities.

Natural Gas Pipelines

Our Natural Gas Pipelines segment reported earnings of $112.9 million on revenues of $173.0 million in 2000. These results were produced from assets that we acquired from Kinder Morgan, Inc. on December 31, 1999. For comparative purposes, transported gas volumes on our natural gas assets increased almost 6% in 2000 compared with 1999 when Kinder Morgan, Inc owned these assets. The overall increase includes an almost 9% increase in volumes shipped on the Trailblazer Pipeline. Higher receipt-side pressure on the Trailblazer Pipeline during 2000 resulted in an increase in the available quantity of gas delivered to the Trailblazer Pipeline. Segment operating expenses totaled $51.2 million in 2000 and segment operating income was $97.2 million. Earnings for 2000 from the segment's 49% equity investment in Red Cedar Gathering Company, net of amortization of excess costs, were $15.0 million.

Segment results for 1999 and 1998 primarily represent activity from our since divested partnership interest in the Mont Belvieu fractionation facility. Segment earnings of $16.8 million in 1999 includes $2.5 million in equity earnings from our interest in the fractionation facility and $14.1 million from our third quarter gain on the sale of that interest to Enterprise Products Partners, L.P. In 1998, the segment reported earnings of $4.9 million, including equity income of $4.6 million. This amount represents earnings from our interest in the Mont Belvieu facility for a full twelve-month period.

CO_2 Pipelines

Our CO_2 Pipelines segment consists of Kinder Morgan CO_2 Company, L.P. After our acquisition of the remaining 80% interest in Kinder Morgan CO_2 Company, L.P., on April 1, 2000, we no longer accounted for our investment on an equity basis. Our 2000 results also include the segment's acquisition of significant carbon dioxide pipeline assets and oil-producing property interests on June 1, 2000. For the year 2000, the segment reported earnings of $68.0 million on revenues of $89.2 million. CO_2 Pipelines reported operating expenses of $26.8 million and operating income of $47.9 million. Equity earnings from the segment's 50% interest in the Cortez Pipeline Company, net of amortization of excess costs, were $19.3 million.

Segment results from 1999 and 1998 primarily represent equity earnings from our original 20% interest in Kinder Morgan CO_2 Company, L.P. Segment earnings of $15.2 million in 1999 include $14.5 million in equity earnings from our interest in Kinder Morgan CO_2 Company, L.P. In 1998, our CO_2 Pipelines segment reported earnings of $15.5 million, including $14.5 million in equity earnings from our Kinder Morgan CO_2 Company, L.P. investment. Under the terms of the prior Kinder Morgan CO_2 Company, L.P. partnership agreement, we received a priority distribution of $14.5 million per year during 1998, 1999 and the first quarter of 2000. After our acquisition of the remaining 80% ownership interest, we amended this partnership agreement, among other things, to eliminate the priority distribution and other provisions rendered irrelevant by our sole ownership.

Bulk Terminals

Our Bulk Terminals segment reported its highest amount of revenues, operating income and earnings in 2000. Following our acquisition of Kinder Morgan Bulk Terminals, Inc. effective July 1, 1998, we continued to make selective acquisitions and increase capital spending in order to grow and expand our bulk terminal businesses. Our 2000 results include the operations of Milwaukee Bulk Terminals, Inc. and Dakota Bulk Terminal, Inc., effective January 1, 2000, and Delta Terminal Services, Inc., acquired on December 1, 2000. The 1999 results include the full-year of operations for Kinder Morgan Bulk Terminals, Inc. and the Pier IX and Shipyard River terminals,

acquired on December 18, 1998.

The Bulk Terminals segment reported earnings of $37.6 million in 2000, $35.0 million in 1999 and $19.2 million in 1998. Segment revenues were $132.8 million in 2000, $114.6 million in 1999 and $62.9 million in 1998. In addition to our acquisitions, our Bulk Terminals segment's overall increases in year-to-year revenues were due to a 10% increase in revenues earned by the segment's Cora and Grand Rivers coal terminals in 1999 and 2000. The 16% increase in segment revenues in 2000 over 1999 reflects a 6% increase in transloaded coal volumes accompanied by a 4% increase in average coal transfer rates. The increase in 1999 was impacted by an 18% increase in transloaded coal volumes, partially offset by a 7% decrease in average transfer rates. The growth in the Bulk Terminals segment revenues over the two-year period was partially offset by lower revenue from coal marketing activities.

Bulk Terminals combined operating expenses totaled $81.7 million in 2000 compared to $66.6 million in 1999 and $36.9 million in 1998. The increase in 2000 versus 1999 was the result of acquisitions made in 2000, higher operating expenses associated with the transfer of higher coal volumes and an increase in fuel costs. The increase in 1999 compared to 1998 was the result of including a full year of operations for Kinder Morgan Bulk Terminals, Inc., partially offset by higher 1998 cost of sales expenses related to purchase/sale marketing contracts. Depreciation and amortization expense was $9.6 million in 2000, $7.5 million in 1999 and $3.9 million in 1998. The increases in depreciation were primarily due to the addition of Kinder Morgan Bulk Terminals, Inc. and the Pier IX and Shipyard River terminals in 1998, Milwaukee Bulk Terminals, Inc. and Dakota Bulk Terminal Inc. in 2000, and higher property balances as a result of increased capital spending.

Other

Items not attributable to any segment include general and administrative expenses, interest income and expense and minority interest. General and administrative expenses totaled $60.1 million in 2000 compared with $35.6 million in 1999 and $40.0 million in 1998. The increase in our 2000 general and administrative expenses over the prior year was mainly due to our larger and more diverse operations. During 2000, we assimilated the operations of our Natural Gas Pipelines and CO_2 Pipelines business segments. We continue to manage aggressively our infrastructure expense and to focus on our productivity and expense controls. Our total interest expense, net of interest income, was $93.3 million in 2000, $52.6 million in 1999 and $38.6 million in 1998. The increases were primarily due to debt we assumed as part of the acquisition of our Pacific operations as well as additional debt related to the financing of our 2000 and 1999 investments. Minority interest increased to $8.0 million in 2000 compared with $2.9 million in 1999 and $1.0 million in 1998. The $5.1 million increase in 2000 over 1999 primarily resulted from the inclusion of earnings attributable to the Trailblazer Pipeline Company. The $1.9 million increase in 1999 over 1998 resulted from higher earnings attributable to our Pacific operations as well as to our higher overall income.

Outlook

We actively pursue a strategy to increase our operating income. We will use a three-pronged strategy to accomplish this goal.

- *Cost Reductions.* We have substantially reduced the operating expenses of those operations that we owned at the time Kinder Morgan (Delaware), Inc. acquired our general partner in February 1997. In addition, we have made substantial reductions in the operating expenses of the businesses and assets that we acquired since February 1997. We intend to continue to seek further reductions where appropriate.

- *Internal Growth.* We intend to expand the operations of our current facilities. We have taken a number of steps that management believes will increase revenues from existing operations, including the following:

    - completing the expansion of our San Diego Line in June 2000. The expansion project cost approximately $18 million and consisted of the construction of 23 miles of 16-inch diameter pipe and other appurtenant facilities. The new facilities will increase capacity on our San Diego Line by approximately 25%;
    - entering into an agreement to provide pipeline transportation services on the North System for Aux Sable Liquid Products, L.P. in the Chicago area beginning in first quarter of 2001;
    - constructing a multi-million dollar cement import and distribution facility at the Shipyard River terminal, which was completed in the fourth quarter of 2000, as part of a 30 year cement contract with Blue Circle Cement;

- announcing an expansion project on the Trailblazer Pipeline in August 2000. The project will involve the installation of two new compressor stations and the addition of horsepower at an existing compressor station;
- continuing a $13 million upgrade to the coal loading facilities at the Cora and Grand Rivers coal terminals. The two terminals handled an aggregate of 17.0 million tons of coal during 2000 compared with 16.0 million tons in 1999; and
- increasing earnings and cash flow, as a result of our investments, acquisitions and operating performance.

- *Strategic Acquisitions.* Since January 1, 2000, we have made the following acquisitions:

Acquisition	Date
• Milwaukee Bulk Terminals, Inc.	January 1, 2000
• Dakota Bulk Terminal, Inc.	January 1, 2000
• Kinder Morgan CO_2 Company, L.P. (80%)	April 1, 2000
• Carbon Dioxide Assets	June 1, 2000
• Transmix Assets (Buckeye Refining Company, LLC)	October 25, 2000
• Cochin Pipeline System	November 3, 2000
• Delta Terminal Services, Inc.	December 1, 2000
• Kinder Morgan Texas Pipeline L.P.	December 21, 2000
• Casper-Douglas Gas Gathering and Processing Assets	December 21, 2000
• Coyote Gas Treating, LLC (50%)	December 21, 2000
• Thunder Creek Gas Services, LLC (25%)	December 21, 2000
• Carbon Dioxide Investment to be contributed to joint venture with Marathon	December 28, 2000
• Colton Transmix Processing Facility (50%)	December 31, 2000

We regularly seek opportunities to make additional strategic acquisitions, to expand existing businesses and to enter into related businesses. We periodically consider potential acquisition opportunities as such opportunities are identified. No assurance can be given that we will be able to consummate any such acquisition. Our management anticipates that we will finance acquisitions temporarily by borrowings under our bank credit facilities or by issuing commercial paper, and permanently by issuing new debt securities and/or units.

On January 17, 2001, we announced a quarterly distribution of $0.95 per unit for the fourth quarter of 2000. The distribution for the fourth quarter of 1999 was $0.725 per unit.

Liquidity and Capital Resources

Our primary cash requirements, in addition to normal operating expenses, are debt service, sustaining capital expenditures, expansion capital expenditures and quarterly distributions to our common unitholders. In addition to utilizing cash generated from operations, we could meet our cash requirements through borrowings under our credit facilities or issuing short-term commercial paper, long-term notes or additional units. We expect to fund:

- future cash distributions and sustaining capital expenditures with existing cash and cash flows from operating activities;
- expansion capital expenditures through additional borrowings or issuance of additional units;
- interest payments from cash flows from operating activities; and
- debt principal payments with additional borrowings as they become due or by issuance of additional units.

Operating Activities

Net cash provided by operating activities was $301.6 million in 2000 compared to $182.9 million in 1999. Increases in our period-to-period cash flows from operations resulted from:

- a $93.4 million increase in net earnings;
- a $36.2 million increase in non-cash depreciation and amortization charges;
- a $28.4 million increase in cash inflows relative to net changes in working capital items;
- a $14.0 million increase in cash inflows relative to other non-cash operating activities;
- a $13.8 million increase in distributions from equity investments; and
- a $10.1 million gain on the sale of our equity interest in the Mont Belvieu fractionation facility, net of special charges, in the third quarter of 1999.

Higher earnings and higher non-cash depreciation charges in 2000 compared to 1999 were primarily due to the business acquisitions and capital investments we made during 2000. Higher cash inflows from working capital items were mainly due to favorable changes in our accounts receivable-trade balances, particularly from our Pacific operations and our newly acquired carbon dioxide businesses, and from higher collections on our Pacific operations' insurance receivables. The $14.0 million increase in other non-cash operating activities was primarily due to favorable changes in accrued gas transportation imbalances recorded by our Natural Gas Pipelines. The increase in distributions from equity investments was mainly due to distributions we received in 2000 from our 50% ownership interest in Cortez Pipeline Company and our 49% ownership interest in Red Cedar Gathering Company. Following our acquisition of the remaining ownership interest in Kinder Morgan CO_2 Company, L.P. on April 1, 2000, we accounted for our investment in Cortez Pipeline Company under the equity method of accounting. We acquired our interest in Red Cedar Gathering Company from Kinder Morgan, Inc. on December 31, 1999. The overall increase in distributions from equity investments was partially offset by the absence of distributions from our original 20% interest in Kinder Morgan CO_2 Company, L.P. from April 1, 2000 through December 31, 2000 due to the fact we no longer accounted for this investment on an equity basis.

Our overall increase in cash provided by operating activities was offset by:

- a $52.5 million payment of accrued rate refund liabilities; and
- a $24.7 million increase in undistributed earnings from equity investments, net of amortization of excess costs.

The payment of the rate refunds was made under settlement agreements with shippers on our Natural Gas Pipelines. The increase in undistributed earnings from equity investments, net of amortization of excess costs, resulted primarily from earnings generated from our investments in Cortez Pipeline Company and Red Cedar Gathering Company. Higher overall equity earnings were partly offset by the absence of earnings in 2000 from our investment in the Mont Belvieu fractionation facility, and, as was the case in distributions, the absence of earnings from our original 20% interest in Kinder Morgan CO_2 Company, L.P. from April 1, 2000 through December 31, 2000 due to the fact we no longer accounted for this investment on an equity basis.

Investing Activities

Net cash used in investing activities was $1,197.6 million in 2000 compared to $196.5 million in 1999, an increase of $1,001.1 million chiefly attributable to the $1,008.6 million of asset acquisitions we made in 2000. Our 2000 acquisition outlays included:

- a $478.3 million payment to Kinder Morgan, Inc. for the Natural Gas Pipelines assets;
- a $188.9 million net payment for the remaining 80% interest in Kinder Morgan CO_2 Company, L.P.;
- a $120.5 million payment for our 32.5% ownership interest in the Cochin Pipeline System;
- a $114.3 million payment for Bulk Terminal acquisitions, including Milwaukee Bulk Terminals, Inc., Dakota Bulk Terminal, Inc. and Delta Terminal Services, Inc.;
- a $53.4 million payment for our interests in the Canyon Reef Carriers CO_2 Pipeline and SACROC Unit; and
- a $45.7 million payment for the acquisition of Buckeye Refining Company, LLC.

We expended an additional $42.8 million for capital expenditures in 2000 compared to 1999. Including expansion and maintenance projects, our capital expenditures were $125.5 million in 2000 and $82.7 million in 1999. The increase was driven primarily by continued investment in our Pacific operations and in our Bulk Terminals business segment. Proceeds from the sale of investments, property, plant and equipment, net of removal costs, were lower by $29.7 million in 2000 versus 1999. Proceeds received from sales and retirements of investments, property, plant and equipment were $13.4 million in 2000 and $43.1 million in 1999. The decrease was due to the $41.8 million we received for the sale of our interest in the Mont Belvieu fractionation facility in September 1999.

The overall increase in funds used in investing activities was offset by a $82.4 million decrease in cash used for acquisitions of investments. We used $79.4 million for acquisitions of investments in 2000 compared with $161.8 million in 1999.

Our 2000 investment outlays included:

- $34.2 million for our 7.5% interest in the Yates field unit subsequently contributed to the carbon dioxide joint venture with Marathon Oil Company; and
- $44.6 million for our 25% interest in Thunder Creek Gas Services, LLC and our 50% interest in Coyote Gas Treating, LLC.

Our 1999 investment outlays consisted of:

- $124.2 million for our second investment in Plantation Pipe Line Company; and
- $37.6 million for our first one-third interest in Trailblazer Pipeline Company.

Financing Activities

Net cash provided by financing activities amounted to $915.3 million in 2000. The increase of $893.3 million from the prior year was mainly the result of an additional $817.1 million we received from overall debt financing activities. The increase in borrowings was mainly due to 2000 acquisitions. We completed a private placement of $400 million in debt securities during the first quarter of 2000, resulting in a cash inflow of $397.9 million, net of discounts and issuing costs. We completed a second private placement of $250 million in debt securities during the fourth quarter of 2000, resulting in a cash inflow of $246.8 million, net of discounts and issuing costs. In addition, we received $171.4 million as proceeds from our issuance of units during 2000, most significantly realized from our 4,500,000-unit public offering on April 4, 2000. The overall increase in funds provided by our financing activities was partially offset by a $102.8 million increase in our distributions to partners. Distributions to all partners increased to $293.6 million in 2000 compared to $190.8 million in 1999. The increase in distributions was due to:

- an increase in our per unit distributions paid;
- an increase in our number of units outstanding;
- our general partner incentive distributions, which resulted from increased distributions to our unitholders; and
- distributions paid by Trailblazer Pipeline Company, which were included in our consolidated results following the acquisition of our controlling 66 2/3% interest on December 31, 1999.

We paid distributions of $3.20 per unit in 2000 compared to $2.775 per unit in 1999. The 15% increase in paid distributions per unit resulted from favorable operating results in 2000. We believe that future operating results will continue to support similar or higher levels of quarterly cash distributions, however, no assurance can be given that future distributions will continue at such levels.

Partnership Distributions

Our partnership agreement requires that we distribute 100% of our Available Cash to our partners within 45 days following the end of each calendar quarter in accordance with their respective percentage interests. Our available cash consists generally of all of our cash receipts, including cash received by our operating partnerships, less cash disbursements and net additions to reserves (including any reserves required under debt instruments for future principal and interest payments) and amounts payable to the former Santa Fe general partner in respect of its remaining 0.5% interest in SFPP, L.P.

Our available cash is initially distributed 98% to our limited partners and 2% to our general partner, Kinder Morgan G.P., Inc. These distribution percentages are modified to provide for incentive distributions to be paid to our general partner in the event that quarterly distributions to unitholders exceed certain specified targets.

Our available cash for each quarter is distributed:

- first, 98% to our limited partners and 2% to our general partner until our limited partners have received a total of $0.3025 per unit for such quarter;
- second, 85% to our limited partners and 15% to our general partner until our limited partners have received a total of $0.3575 per unit for such quarter;
- third, 75% to our limited partners and 25% to our general partner until our limited partners have received a total of $0.4675 per unit for such quarter; and
- fourth, thereafter 50% to our limited partners and 50% to our general partner.

Incentive distributions are generally defined as all cash distributions paid to our general partner that are in excess of 2% of the aggregate amount of cash being distributed. The general partner's incentive distributions declared by us for 2000 were $107,764,885, while the incentive distributions paid during 2000 were $89,399,771.

Debt and Credit Facilities

Our debt and credit facilities as of December 31, 2000, consist primarily of:

- a $600 million unsecured 364-day credit facility due October 25, 2001;
- a $300 million unsecured five-year credit facility due September 29, 2004;
- $250 million of 6.30% Senior Notes due February 1, 2009;
- $200 million of 8.00% Senior Notes due March 15, 2005;
- $250 million of 7.50% Senior Notes due November 1, 2010;
- $200 million of Floating Rate Senior Notes due March 22, 2002;
- $119 million of Series F First Mortgage Notes (our subsidiary, SFPP L.P., is the obligor on the notes);
- $20.2 million of Senior Secured Notes (Trailblazer Pipeline Company, of which we own 66 2/3%, is the obligor on the notes);
- $23.7 million of tax-exempt bonds due 2024 (our subsidiary, Kinder Morgan Operating L.P. "B" is the obligor on these bonds); and
- a $600 million short-term commercial paper program.

We have a $300 million unsecured five-year credit facility and a $600 million unsecured 364-day credit facility with a syndicate of financial institutions. First Union National Bank is the administrative agent under the agreements.

Interest on borrowings is payable quarterly. Interest on the credit facilities accrues at our option at a floating rate equal to either:

- First Union National Bank's base rate (but not less than the Federal Funds Rate, plus .5%); or
- LIBOR, plus a margin, which varies depending upon the credit rating of our long-term senior unsecured debt.

The LIBOR margins under the 364-day credit facility are lower than the margins under the five-year credit facility. The five-year credit facility also permits us to obtain bids for fixed rate loans from members of the lending syndicate.

The credit facilities include restrictive covenants that are customary for these types of facilities, including without limitation:

- requirements to maintain certain financial ratios;
- restrictions on the incurrence of additional indebtedness;
- restrictions on entering into mergers, consolidations and sales of assets;
- restrictions on granting liens;
- prohibitions on making cash distributions to holders of units more frequently than quarterly;
- prohibitions on making cash distributions in excess of 100% of Available Cash for the immediately preceding calendar quarter; and
- prohibitions on making any distribution to holders of units if an event of default exists or would exist upon making such distribution.

As of December 31, 2000, we had outstanding borrowings under our credit facilities of $789.6 million. At December 31, 2000, the interest rate on our credit facilities was 7.115% per annum. Our borrowings at December 31, 2000 included the following:

- $193 million borrowed to fund the purchase price of Natural Gas Pipelines assets acquired in December 2000;
- $175 million used to pay the outstanding balance on SFPP, L.P.'s credit facility;
- $118 million borrowed to fund the purchase price of our 32.5% interest in the Cochin Pipeline system in December 2000;
- $114 million borrowed to fund the purchase price of Delta Terminal Services, Inc. in December 2000;

- $72 million borrowed to fund principal and interest payments on SFPP, L.P.'s Series F First Mortgage Notes in December 2000;
- $34 million borrowed to fund the purchase price of our 7.5% interest in the Yates field unit in December 2000; and
- $83.6 million borrowed to fund expansion capital projects.

Our short-term debt at December 31, 2000, consisted of:

- $582 million of borrowings under our unsecured 364-day credit facility due October 25, 2001;
- $52 million of commercial paper borrowings;
- $35 million under the SFPP L.P.'s 10.70% Series F First Mortgage Notes; and
- $14.6 million in other borrowings.

During 2000, cash used for acquisitions and expansions exceeded $600 million. Historically, we have utilized our short-term credit facilities to fund acquisitions and expansions and then refinanced our short-term borrowings utilizing long-term credit facilities and by issuing equity or long-term debt securities. We intend to refinance our short-term debt during 2001 through a combination of long-term debt and equity. Based on prior successful short-term debt refinancings and current market conditions, we do not anticipate any liquidity problems.

We have an outstanding letter of credit issued under our five-year credit facility in the amount of $23.7 million that backs-up our tax-exempt bonds due 2024. The letter of credit reduces the amount available for borrowing under that credit facility. The $23.7 million principal amount of tax-exempt bonds due 2024 were issued by the Jackson-Union Counties Regional Port District. These bonds bear interest at a weekly floating market rate. At December 31, 2000, the interest rate was 5.00%.

In addition, as of December 31, 1999, we financed $330 million through Kinder Morgan, Inc. to fund part of the acquisition of assets acquired from Kinder Morgan, Inc. on December 31, 1999. In accordance with the Closing Agreement entered into as of January 20, 2000, we paid Kinder Morgan, Inc. a per diem fee of $180.56 for each $1,000,000 financed. We paid Kinder Morgan, Inc. $200 million on January 21, 2000, and the remaining $130 million on March 23, 2000 with a portion of the proceeds from our issuance of notes on March 22, 2000.

In December 1999, we established a commercial paper program providing for the issuance of up to $200 million of commercial paper, subsequently increased to $300 million in January, 2000 and then on October 25, 2000, in conjunction with our new 364-day credit facility, we increased the commercial paper program to provide for the issuance of up to $600 million of commercial paper. Borrowings under our commercial paper program reduce the borrowings allowed under our 364-day and five-year credit facilities combined. As of December 31, 2000, we had $52 million of commercial paper outstanding with an interest rate of 7.02%.

At December 31, 2000, the outstanding balance under SFPP, L.P.'s Series F notes was $119.0 million. The annual interest rate on the Series F notes is 10.70%, the maturity is December 2004, and interest is payable semiannually in June and December. The Series F notes are payable in annual installments of $39.5 million in 2001, $42.5 million in 2002 and $37.0 million in 2003. The Series F notes may also be prepaid in full or in part at a price equal to par plus, in certain circumstances, a premium. The Series F notes are secured by mortgages on substantially all of the properties of SFPP, L.P. The Series F notes contain certain covenants limiting the amount of additional debt or equity that may be issued and limiting the amount of cash distributions, investments, and property dispositions.

At December 31, 1999, the outstanding balance under SFPP, L.P.'s bank credit facility was $174.0 million. On August 11, 2000, we replaced the outstanding balance under SFPP, L.P.'s secured credit facility with a $175.0 million unsecured borrowing under our five-year credit facility. SFPP, L.P. executed a $175 million intercompany note in our favor to evidence this obligation.

In December 1999, Trailblazer Pipeline Company entered into a 364-day revolving credit agreement with Toronto Dominion, Inc. providing for loans up to $10 million. At December 26, 2000, the outstanding balance due under Trailblazer Pipeline Company's bank credit facility was $10 million. On December 27, 2000, Trailblazer Pipeline Company paid the outstanding balance under its credit facility with a $10 million borrowing under an intercompany account payable in favor of Kinder Morgan, Inc. In January 2001, Trailblazer Pipeline Company entered into a 364-day revolving credit agreement with Credit Lyonnais New York Branch, providing for loans up to $10 million. The agreement expires December 27, 2001. The borrowings were used to pay the account payable to Kinder Morgan, Inc. At January 31, 2001, the outstanding balance under Trailblazer Pipeline Company's revolving credit agreement was $10 million. The agreement provides for an interest rate of LIBOR plus 0.875%. At January

31, 2001 the interest rate on the credit facility debt was 6.625%. Pursuant to the terms of the revolving credit agreement with Credit Lyonnais New York Branch, Trailblazer Pipeline Company partnership distributions are restricted by certain financial covenants.

From time to time we issue long-term debt securities. All of our long-term debt securities issued to date, other than those issued under our revolving credit facilities, generally have the same terms except for interest rates, maturity dates and prepayment restrictions. All of our outstanding debt securities are unsecured obligations that rank equally with all of our other senior debt obligations. Our outstanding debt securities consist of the following:

- $250 million in principal amount of 6.3% senior notes due February 1, 2009. These notes were issued on January 29, 1999 at a price to the public of 99.67% per note. In the offering, we received proceeds, net of underwriting discounts and commissions, of approximately $248 million. We used the proceeds to pay the outstanding balance on our credit facility and for working capital and other partnership purposes. At December 31, 2000, the unamortized liability balance on the 6.30% senior notes was $249.3 million;
- $200 million of floating rate notes due March 22, 2002 and $200 million of 8.0% notes due March 15, 2005. These notes were issued on March 22, 2000. We used the proceeds to reduce outstanding commercial paper. At December 31, 2000, the interest rate on our floating rate notes was 7.0%; and
- $250 million of 7.5% notes due November 1, 2010. These notes were issued on November 8, 2000. The proceeds from this offering, net of underwriting discounts, were $246.8 million. These proceeds were used to reduce our outstanding commercial paper. At December 31, 2000, the unamortized liability balance on the 7.5% notes was $248.4 million.

The fixed rate notes provide that we may redeem the notes at any time at a price equal to 100% of the principal amount of the notes plus accrued interest to the redemption date plus a make-whole premium. We may not prepay the floating rate notes prior to their maturity.

On September 23, 1992, pursuant to the terms of a Note Purchase Agreement, Trailblazer Pipeline Company issued and sold an aggregate principal amount of $101 million of Senior Secured Notes to a syndicate of fifteen insurance companies. Trailblazer Pipeline Company provided security for the notes principally by an assignment of certain Trailblazer Pipeline Company transportation contracts. Effective April 29, 1997, Trailblazer Pipeline Company amended the Note Purchase Agreement. This amendment allowed Trailblazer Pipeline Company to include several additional transportation contracts as security for the notes, added a limitation on the amount of additional money that Trailblazer Pipeline Company could borrow and relieved Trailblazer Pipeline Company from its security deposit obligation. At December 31, 2000, Trailblazer Pipeline Company's outstanding balance under the Senior Secured Notes was $20.2 million. The Senior Secured Notes have a fixed annual interest rate of 8.03% and will be repaid in semiannual installments of $5.05 million from March 1, 2001 through September 1, 2002, the final maturity date. Interest is payable semiannually in March and September. Pursuant to the terms of this Note Purchase Agreement, Trailblazer Pipeline Company partnership distributions are restricted by certain financial covenants. Currently, Trailblazer Pipeline Company's proposed expansion project is pending before the FERC. If the expansion is approved, which is expected in the first quarter of 2001, we plan to refinance these notes.

Capital Requirements for Recent Transactions

Milwaukee Bulk Terminals, Inc. Effective January 1, 2000, we acquired Milwaukee Bulk Terminals, Inc. for approximately $14.6 million in aggregate consideration consisting of $0.6 million and 0.3 million common units.

Dakota Bulk Terminal, Inc. Effective January 1, 2000, we acquired Dakota Bulk Terminal, Inc. for approximately $9.5 million in aggregate consideration consisting of $0.2 million and 0.2 million common units.

Kinder Morgan CO_2 Company, L.P. On April 1, 2000, we acquired the remaining 80% ownership interest in Shell CO_2 Company, Ltd. that we did not own for approximately $212.1 million before purchase price adjustments. We paid this amount with approximately $171.4 million received from our public offering of 4.5 million units on April 4, 2000 and approximately $40.7 million received from the issuance of commercial paper.

Carbon Dioxide Assets. On June 1, 2000, we acquired certain carbon dioxide assets from Devon Energy Production Company, L.P. for approximately $55 million before purchase price adjustments. We borrowed the necessary funds under our commercial paper program.

Transmix Operations. On October 25, 2000, we acquired Kinder Morgan Transmix Company, LLC, formerly known as Buckeye Refining Company, LLC, for $45.6 million after purchase price adjustments. We borrowed the necessary funds under our commercial paper program.

Cochin Pipeline. On November 3, 2000, we acquired a 32.5% ownership interest in the Cochin Pipeline system for $120.5 million from NOVA Chemicals Corporation. We borrowed $118 million under our credit facilities.

Delta Terminal Services, Inc. On December 1, 2000, we acquired Delta Terminal Services, Inc. for $114.1 million. We borrowed $114 million under our credit facilities and our commercial paper program.

Carbon Dioxide Joint Venture With Marathon Oil Company. On December 28, 2000, we paid $34.2 million for a 7.5% interest in the Yates field unit, which was subsequently contributed to a carbon dioxide joint venture with Marathon Oil Company. The joint venture was formed on January 1, 2001. We borrowed $34 million under our credit facilities.

Colton Transmix Processing Facility. On December 31, 2000 we acquired an additional 50% ownership interest in the Colton Transmix Processing Facility from Duke Energy Merchants for $11.2 million. We borrowed the necessary funds under our commercial paper program.

Natural Gas Pipelines. Effective December 31, 2000, we acquired certain assets of Kinder Morgan Inc. for approximately $349.0 million in aggregate consideration consisting of $192.7 million, 0.64 million common units and 2.7 million class B units. We borrowed $193 million under our credit facilities.

Risk Management

The following discussion should be read in conjunction with note 14 to the Consolidated Financial Statements included elsewhere in this report.

To minimize the risk of price changes in the crude oil, natural gas liquids and natural gas and associated transportation markets, we use certain financial instruments for hedging purposes. These instruments include energy products traded on the New York Mercantile Exchange and over-the-counter markets including, but not limited to, futures and options contracts, fixed-price swaps and basis swaps. We are exposed to credit-related losses in the event of nonperformance by counterparties to these financial instruments but, given their existing credit ratings, we do not expect any counterparties to fail to meet their obligations.

Pursuant to our management's approved policy, we are to engage in these activities only as a hedging mechanism against price volatility associated with:

- pre-existing or anticipated physical natural gas, natural gas liquids, crude oil and carbon dioxide sales;
- gas purchases; and
- system use and storage.

Our risk management activities are only used in order to protect our profit margins and we are prohibited from engaging in speculative trading. Commodity-related activities of our risk management group are monitored by KMI's Risk Management Committee, which is charged with the review and enforcement of our management's risk management policy. Gains and losses on hedging positions are deferred and recognized as natural gas purchases expense in the periods in which the underlying physical transactions occur.

Through December 31, 2000, gains and losses on hedging positions have been deferred and recognized as cost of sales in the periods in which the underlying physical transactions occur. On January 1, 2001, we began accounting for derivative instruments under Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (after amendment by SFAS 137 and SFAS 138). As discussed above, our principal use of derivative financial instruments is to mitigate the market price risk associated with anticipated transactions for the purchase and sale of natural gas, natural gas liquids and crude oil. SFAS No. 133 allows these transactions to continue to be treated as hedges for accounting purposes, although the changes in the market value of these instruments will affect comprehensive income in the period in which they occur and any ineffectiveness in the risk mitigation performance of the hedge will affect net income currently. The change in the market value of these instruments representing effective hedge operation will continue to affect net income in the period in which the associated physical transactions are consummated. Adoption of SFAS No. 133 has resulted in $1.7 million of deferred net gain as of January 1, 2001, being reported as part of other comprehensive income in 2001, as well as subsequent changes in the market value of these derivatives prior to consummation of the transaction being hedged.

We measure the risk of price changes in the natural gas, natural gas liquids and crude oil markets utilizing a Value-at-Risk model. Value-at-Risk is a statistical measure of how much the marked-to-market value of a portfolio could change during a period of time, within a certain level of statistical confidence. We utilize a closed form model to evaluate risk on a daily basis. The Value-at-Risk computations utilize a confidence level of 97.7% for the resultant price movement and a holding period of one day chosen for the calculation. The confidence level used means that there is a 97.7% probability that the mark-to-market losses for a single day will not exceed the Value-at-Risk number presented. Financial instruments evaluated by the model include commodity futures and options contracts, fixed price swaps, basis swaps and over-the-counter options. During 2000, Value-at-Risk reached a high of $6.2 million and a low of $0.0 million. Value-at-Risk at December 31, 2000, was $6.2 million and averaged $0.3 million for 2000.

Our calculated Value-at-Risk exposure represents an estimate of the reasonably possible net losses that would be recognized on our portfolio or derivatives assuming hypothetical movements in future market rates, and is not necessarily indicative of actual results that may occur. It does not represent the maximum possible loss or any expected loss that may occur, since actual future gains and losses will differ from those estimated. Actual gains and losses may differ from estimates due to actual fluctuations in market rates, operating exposures and the timing thereof, as well as changes in our portfolio of derivatives during the year.

Year 2000

There was no interruption to any business operation because of any Year 2000 glitch in programming. All operations were running smoothly on January 1, 2000. All business operations ran smoothly on January 3, 2000, when a full staff returned to work, and have continued running without incident throughout the year. There have been no incidents of consequence reported by material suppliers, customers or service providers, and no disruption to business through any electronic interface with third party companies.

Expenditures to handle the Year 2000 issue were less than the moneys allocated and were not material. No further Year 2000 expenditures are planned. We have contingency plans and emergency response plans to address any unexpected incidents.

Information Regarding Forward-Looking Statements

This filing includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as "anticipate," "believe," "intend," "plan," "projection," "forecast," "strategy," "position," "continue," "estimate," "expect," "may," "will," or the negative of those terms or other variations of them or by comparable terminology. In particular, statements, express or implied, concerning future operating results or the ability to generate sales, income or cash flow are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. The future results of our operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. Specific factors which could cause actual results to differ from those in the forward-looking statements, include:

- price trends and overall demand for natural gas liquids, refined petroleum products, carbon dioxide, natural gas, coal and other bulk materials in the United States. Economic activity, weather, alternative energy sources, conservation and technological advances may affect price trends and demand;
- changes in our tariff rates implemented by the Federal Energy Regulatory Commission or the California Public Utilities Commission;
- our ability to integrate any acquired operations into our existing operations;
- any difficulties or delays experienced by railroads in delivering products to the bulk terminals;
- our ability to successfully identify and close strategic acquisitions and make cost saving changes in operations;
- shut-downs or cutbacks at major refineries, petrochemical plants, utilities, military bases or other businesses that use our services;
- interruptions of electric power supply to our facilities due to natural disasters, power shortages, strikes, riots or other causes;
- the condition of the capital markets and equity markets in the United States; and
- the political and economic stability of the oil producing nations of the world.

You should not put undue reliance on any forward-looking statements.

See Items 1 and 2 "Business and Properties - Risk Factors" for a more detailed description of these and other factors that may affect the forward looking statements. When considering forward looking statements, one should keep in mind the risk factors described in "Risk Factors" above. The risk factors could cause our actual results to differ materially from those contained in any forward looking statement. We disclaim any obligation to update the above list or to announce publicly the result of any revisions to any of the forward looking statements to reflect future events or developments.

In addition, our classification as a partnership for federal income tax purposes means that we do not generally pay federal income taxes on our net income. We do, however, pay taxes on the net income of subsidiaries that are corporations. We are relying on a legal opinion from our counsel, and not a ruling from the Internal Revenue Service, as to our proper classification for federal income tax purposes. See Items 1 and 2 "Business and Properties - Tax Treatment of Publicly Traded Partnerships Under the Internal Revenue Code."

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Energy Financial Instruments

We use energy financial instruments to reduce our risk of price changes in the spot and fixed price natural gas, natural gas liquids and crude oil markets. For a complete discussion of our risk management activities, see note 14 to the Consolidated Financial Statements included elsewhere in this report.

Interest Rate Risk

The market risk inherent in our market risk sensitive instruments and positions is the potential change arising from increases or decreases in interest rates as discussed below. Generally, our market risk sensitive instruments and positions are characterized as "other than trading." Our exposure to market risk as discussed below includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. Our views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated, based on actual fluctuations in interest rates and the timing of transactions.

We utilize both variable rate and fixed rate debt in our financing strategy. See note 9 to the Consolidated Financial Statements included elsewhere in this report for additional information related to our debt instruments. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not impact the fair value of the debt instrument, but may affect our future earnings and cash flows. We do not have an obligation to prepay fixed rate debt prior to maturity and, as a result, interest rate risk and changes in fair value should not have a significant impact on our fixed rate debt until we would be required to refinance such debt.

As of December 31, 2000 and 1999, the carrying values of our long-term fixed rate debt were approximately $836.7 million and $460.6 million, respectively, compared to fair values of $944.1 million and $471.9 million, respectively. Fair values were determined using quoted market prices, where applicable, or future cash flow discounted at market rates for similar types of borrowing arrangements. A hypothetical 10% change in the average interest rates applicable to such debt for 2000 and 1999, respectively, would result in changes of approximately $23.6 million and $12.8 million, respectively, in the fair values of these instruments.

The carrying value and fair value of our variable rate debt, including accrued interest, was $1,070.5 million as of December 31, 2000 and $740.0 million as of December 31, 1999. Fair value was determined using future cash flows discounted based on market rates for similar types of borrowing arrangements. A hypothetical 10% change in the average interest rate applicable to this debt would result in a change of approximately $7.4 million in our annualized pre-tax earnings.

As of December 31, 2000, we were party to interest rate swap agreements with a notional principal amount of $200 million for the purpose of hedging the interest rate risk associated with our variable rate debt obligations. A hypothetical 10% change in the average interest rates related to these swaps would not have a material effect on our annual pre-tax earnings.

We monitor our mix of fixed rate and variable rate debt obligations in light of changing market conditions and from time to time may alter that mix by, for example, refinancing balances outstanding under our variable rate debt with fixed rate debt (or vice versa) or by entering into interest rate swaps or other interest rate hedging agreements.

As of December 31, 2000, our cash and investment portfolio did not include fixed-income securities. Due to the short-term nature of our investment portfolio, a hypothetical 10% increase in interest rates would not have a material effect on the fair market value of our portfolio. Since we have the ability to liquidate this portfolio, we do not expect our operating results or cash flows to be materially affected to any significant degree by the effect of a sudden change in market interest rates on our investment portfolio.

Item 8. Financial Statements and Supplementary Data

The information required in this Item 8 is included in this report as set forth in the "Index to Financial Statements" on page F-1.

Item 9. Changes in and Disagreements on Accounting and Financial Disclosure

None.

Item 10. Directors and Executive Officers of the Registrant

Directors and Executive Officers of our General Partner

As is commonly the case with publicly traded limited partnerships, we do not employ any of the persons responsible for managing or operating our business, but instead reimburse our general partner for its services. Set forth below is certain information concerning the directors and executive officers of our general partner. All directors of our general partner are elected annually by, and may be removed by, Kinder Morgan (Delaware), Inc. as its sole shareholder. All officers serve at the discretion of the board of directors of our general partner.

Name	Age	Position with our General Partner
Richard D. Kinder	56	Director, Chairman and CEO
William V. Morgan	57	Director, Vice Chairman and President
Edward O. Gaylord	69	Director
Gary L. Hultquist	57	Director
Perry M. Waughtal	65	Director
William V. Allison	53	President, Natural Gas Pipelines
Thomas A. Bannigan	47	President, Products Pipelines
David G. Dehaemers, Jr.	40	Vice President, Corporate Development
Joseph Listengart	32	Vice President, General Counsel and Secretary
Michael C. Morgan	32	Vice President, Strategy and Investor Relations
C. Park Shaper	32	Vice President, Treasurer and Chief Financial Officer
Thomas B. Stanley	50	President, Bulk Terminals
James E. Street	44	Vice President, Human Resources and Administration

Richard D. Kinder was elected Director, Chairman and Chief Executive Officer of our general partner in February 1997. From 1992 to 1994, Mr. Kinder served as Chairman of our general partner. From October 1990 until December 1996, Mr. Kinder was President of Enron Corp. Enron and its affiliates and predecessors employed Mr. Kinder for over 16 years.

William V. Morgan was elected Director of our general partner in June 1994, Vice Chairman of our general partner in February 1997 and President of our general partner in November 1998. He has held legal and management positions in the energy industry since 1975, including the presidencies of three major interstate natural gas companies which are now a part of Enron: Florida Gas Transmission Company, Transwestern Pipeline Company and Northern Natural Gas Company. In addition, Mr. Morgan served as President of Cortez Holdings Corporation, a pipeline investment company, from October 1992.through March 2000. Prior to joining Florida Gas in 1975, Mr. Morgan was engaged in the private practice of law in Washington, D.C.

Edward O. Gaylord was elected Director of our general partner in February 1997. Mr. Gaylord is the Chairman of the Board of Directors of Jacintoport Terminal Company, a liquid bulk storage terminal on the Houston, Texas ship channel. Mr. Gaylord also serves on the Board of Directors for EOTT Energy Corporation, an oil trading and transportation company located in Houston, Texas, Seneca Foods Corporation and Imperial Sugar Company.

Gary L. Hultquist was elected Director of our general partner in October 1999. Mr. Hultquist is the Managing Director of Hultquist Capital, LLC, a San Francisco-based strategic and merger advisory firm. He also serves as Chairman and Chief Executive Officer of TitaniumX Corporation, a supplier of high-performance storage disk substrates and magnetic media to the disk drive industry. He is also a member of the Board of Directors of Rodel, Inc. Previously, Mr. Hultquist practiced law in two San Francisco area firms for over 15 years, specializing in business, intellectual property, securities and venture capital litigation.

Perry M. Waughtal was elected Director of our general partner in April 2000. Mr. Waughtal is a Limited Partner and 40% owner of Songy Partners Limited, an Atlanta, Georgia based real estate investment company. Mr. Waughtal advises Songy's management on real estate investments and has overall responsibility for strategic planning, management and operations. Previously, Mr. Waughtal served for over 30 years as Vice Chairman of Development and Operations and as Chief Financial Officer for Hines Interests Limited Partnership, a real estate and development entity based in Houston, Texas.

William V. Allison was elected President, Natural Gas Pipelines of our general partner in September 1999. He served as President, Pipeline Operations of our general partner from February 1999 to September 1999. From April 1998 to February 1999, he served as Vice President and General Counsel of our general partner. From 1977 to April 1998, Mr. Allison was employed at Enron Corp. where he held various executive positions, including President of Enron Liquid Services Corporation, Florida Gas Transmission Company and Houston Pipeline Company and Vice President and Associate General Counsel of Enron Corp. Prior to joining Enron Corp., he was an attorney at the FERC.

Thomas A. Bannigan was elected President, Products Pipelines of our general partner in October 1999. Since 1980, Mr. Bannigan has held various legal and management positions in the energy industry, including General Counsel and Secretary of Plantation Pipe Line Company, and from May 1998 until October 1999, President and Chief Executive Officer of Plantation Pipe Line Company.

David G. Dehaemers, Jr. was elected Vice President, Corporate Development of our general partner in January 2000. He was Treasurer of our general partner from February 1997 to January 2000 and Vice President and Chief Financial Officer of our general partner from July 1997 to January 2000. He served as Secretary of our general partner from February 1997 to August 1997. From October 1992 to January 1997, he was Chief Financial Officer of Morgan Associates, Inc., an energy investment and pipeline management company. Mr. Dehaemers was previously employed by the national CPA firms of Ernst & Whinney and Arthur Young. He is a CPA, and received his undergraduate Accounting degree from Creighton University in Omaha, Nebraska. Mr. Dehaemers received his law degree from the University of Missouri-Kansas City and is a member of the Missouri Bar.

Joseph Listengart was elected Vice President and General Counsel of our general partner in October 1999. Mr. Listengart became an employee of our general partner in March 1998 and was elected its Secretary in November 1998. From March 1995 through February 1998, Mr. Listengart worked as an attorney for Hutchins, Wheeler & Dittmar, a Professional Corporation. Mr. Listengart received his Juris Doctor, magna cum laude, from Boston University in May 1994, his Masters in Business Administration from Boston University in January 1995 and his Bachelors of Arts degree in Economics from Stanford University in June 1990.

Michael C. Morgan was elected Vice President, Strategy and Investor Relations of our general partner in January 2000. He was Vice President, Corporate Development of our general partner from February 1997 to January 2000. From August 1995 until February 1997, Mr. Morgan was an associate with McKinsey & Company, an international management consulting firm. In 1995, Mr. Morgan received a Masters in Business Administration from the Harvard Business School. From March 1991 to June 1993, Mr. Morgan held various positions at PSI Energy, Inc., an electric utility, including Assistant to the Chairman. Mr. Morgan received a Bachelor of Arts in Economics and a Masters of Arts in Sociology from Stanford University in 1990. Mr. Morgan is the son of William V. Morgan.

C. Park Shaper was elected Vice President, Treasurer and Chief Financial Officer of our general partner in January 2000. Previously, Mr. Shaper was President and Director of Altair Corporation, an enterprise focused on the distribution of web-based investment research for the financial services industry. He also served as Vice President and Chief Financial Officer of First Data Analytics, a wholly-owned subsidiary of First Data Corporation, from 1997 until June 1999. From 1995 to 1997, he was a consultant with The Boston Consulting Group. Mr. Shaper has prior experience with TeleCheck Services, Inc. and as a management consultant with the Strategic Services Division of Andersen Consulting. Mr. Shaper has a Bachelor of Science degree in Industrial Engineering and a Bachelor of Arts degree in Quantitative Economics from Stanford University. He also received a Master of Management degree from the J.L. Kellogg Graduate School of Management at Northwestern University.

Thomas B. Stanley was elected President, Bulk Terminals of our general partner in August 1998. From 1993 to July 1998, he was President of Hall-Buck Marine, Inc. (now known as Kinder Morgan Bulk Terminals, Inc.), for which he has worked since 1980. Mr. Stanley is a CPA with ten years' experience in public accounting, banking, and insurance accounting prior to joining Hall-Buck. He received his bachelor's degree from Louisiana State University in 1972.

James E. Street was elected Vice President, Human Resources and Administration of our general partner in August 1999. From October 1996 to August 1999, Mr. Street was Senior Vice President, Human Resources and Administration for Coral Energy. Prior to joining Coral Energy, he was Vice President, Human Resources of Enron Corp. from July 1989 to August 1992. Mr. Street received a Bachelor of Science degree from the University of Nebraska at Kearney in 1979 and a Masters of Business Administration degree from the University of Nebraska at Omaha in 1984.

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Certain supplementary financial statement schedules have been omitted because the information required to be set forth therein is either not applicable or is shown in the financial statements or notes thereto.

Report of Independent Accountants

To the Partners of
Kinder Morgan Energy Partners, L.P.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of partners' capital present fairly, in all material respects, the financial position of Kinder Morgan Energy Partners, L.P. and its subsidiaries (the Partnership) at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Partnership's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Houston, Texas
February 14, 2001

KINDER MORGAN ENERGY PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands Except Per Unit Amounts)

	Year Ended December 31,		
	2000	1999	1998
Revenues	$ 816,442	$ 428,749	$ 322,617
Costs and Expenses			
Cost of products sold	124,641	16,241	5,860
Operations and maintenance	164,379	95,121	65,022
Fuel and power	43,216	31,745	22,385
Depreciation and amortization	82,630	46,469	36,557
General and administrative	60,065	35,612	39,984
Taxes, other than income taxes	25,950	16,154	12,140
	500,881	241,342	181,948
Operating Income	315,561	187,407	140,669
Other Income (Expense)			
Earnings from equity investments	71,603	42,918	25,732
Amortization of excess cost of equity investments	(8,195)	(4,254)	(764)
Interest, net	(93,284)	(52,605)	(38,600)
Other, net	14,584	14,085	(7,263)
Gain on sale of equity interest, net of special charges	-	10,063	-
Minority Interest	(7,987)	(2,891)	(985)
Income Before Income Taxes and Extraordinary Charge	292,282	194,723	118,789
Income Taxes	(13,934)	(9,826)	(1,572)
Income Before Extraordinary Charge	278,348	184,897	117,217
Extraordinary Charge on Early Extinguishment of Debt	-	(2,595)	(13,611)
Net Income	$ 278,348	$ 182,302	$ 103,606
Calculation of Limited Partners' Interest in Net Income:			
Income Before Extraordinary Charge	$ 278,348	$ 184,897	$ 117,217
Less: General Partner's interest in Net Income	(109,470)	(56,273)	(33,447)
Limited Partners' Net Income before Extraordinary Charge	168,878	128,624	83,770
Less: Extraordinary Charge on Early Extinguishment of Debt	-	(2,595)	(13,611)
Limited Partners' Net Income	$ 168,878	$ 126,029	$ 70,159
Basic Limited Partners' Net Income per Unit:			
Income before Extraordinary Charge	$ 2.68	$ 2.63	$ 2.09
Extraordinary Charge	-	(.06)	(.34)
Net Income	$ 2.68	$ 2.57	$ 1.75
Weighted Average Units Outstanding	63,106	48,974	40,120
Diluted Limited Partners' Net Income per Unit:			
Income before Extraordinary Charge	$ 2.67	$ 2.63	$ 2.09
Extraordinary Charge	-	(.06)	(.34)
Net Income	$ 2.67	$ 2.57	$ 1.75
Weighted Average Units Outstanding	63,150	48,993	40,121

The accompanying notes are an integral part of these consolidated financial statements.

KINDER MORGAN ENERGY PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	December 31, 2000	December 31, 1999
ASSETS		
Current Assets		
Cash and cash equivalents	$ 59,319	$ 40,052
Accounts and notes receivable		
Trade	345,065	71,738
Related parties	3,384	45
Inventories		
Products	24,137	8,380
Materials and supplies	4,972	4,703
Gas imbalances	26,878	7,014
Gas in underground storage	27,481	-
Other current assets	20,025	-
	511,261	131,932
Property, Plant and Equipment, net	3,306,305	2,578,313
Investments	417,045	418,651
Notes receivable	9,101	10,041
Intangibles, net	345,305	56,630
Deferred charges and other assets	36,193	33,171
TOTAL ASSETS	$ 4,625,210	$ 3,228,738
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable		
Trade	$ 293,268	$ 15,692
Related parties	8,255	3,569
Current portion of long-term debt	648,949	209,200
Accrued rate refunds	1,100	36,607
Deferred revenues	43,978	-
Gas imbalances	48,834	6,189
Accrued other liabilities	54,572	47,904
	1,098,956	319,161
Long-Term Liabilities and Deferred Credits		
Long-term debt	1,255,453	989,101
Other	95,565	97,379
	1,351,018	1,086,480
Commitments and Contingencies (Notes 13 and 16)		
Minority Interest	58,169	48,299
Partners' Capital		
Common Units (64,858,109 and 59,137,137 units issued and outstanding at December 31, 2000 and 1999, respectively)	1,957,357	1,759,142
Class B Units (2,656,700 and 0 units issued and oustanding at December 31, 2000 and 1999, respectively)	125,961	-
General Partner	33,749	15,656
	2,117,067	1,774,798
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 4,625,210	$ 3,228,738

The accompanying notes are an integral part of these consolidated financial statements.

KINDER MORGAN ENERGY PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31, 2000	1999	1998
Cash Flows From Operating Activities			
Reconciliation of net income to net cash provided by operating activities			
Net income	$ 278,348	$ 182,302	$ 103,606
Extraordinary charge on early extinguishment of debt	-	2,595	13,611
Depreciation and amortization	82,630	46,469	36,557
Amortization of excess cost of equity investments	8,195	4,254	764
Earnings from equity investments	(71,603)	(42,918)	(25,732)
Distributions from equity investments	47,512	33,686	19,670
Gain on sale of equity interest, net of special charges	-	(10,063)	-
Changes in components of working capital			
Accounts receivable	6,791	(12,358)	1,203
Other current assets	(6,872)	-	-
Inventories	(1,376)	(2,817)	(734)
Accounts payable	(8,374)	(9,515)	197
Accrued liabilities	26,479	11,106	(14,115)
Accrued taxes	(1,302)	497	(1,266)
Rate refunds settlement	(52,467)	-	-
El Paso settlement	-	-	(8,000)
Other, net	(6,394)	(20,382)	8,220
Net Cash Provided by Operating Activities	301,567	182,856	133,981
Cash Flows From Investing Activities			
Acquisitions of assets	(1,008,648)	5,678	(107,144)
Additions to property, plant and equipment for expansion and maintenance projects	(125,523)	(82,725)	(38,407)
Sale of investments, property, plant and equipment, net of removal costs	13,412	43,084	64
Acquisitions of investments	(79,388)	(161,763)	(135,000)
Other	2,581	(800)	(1,234)
Net Cash Used in Investing Activities	(1,197,566)	(196,526)	(281,721)
Cash Flows From Financing Activities			
Issuance of debt	2,928,304	550,287	492,612
Payment of debt	(1,894,904)	(333,971)	(407,797)
Debt issue costs	(4,298)	(3,569)	(16,768)
Proceeds from issuance of common units	171,433	68	212,303
Contributions from General Partner's minority interest	7,434	146	12,349
Distributions to partners			
Common units	(194,691)	(135,835)	(93,352)
General Partner	(91,366)	(52,674)	(27,450)
Minority interest	(7,533)	(2,316)	(1,614)
Other, net	887	(149)	(420)
Net Cash Provided by Financing Activities	915,266	21,987	169,863
Increase in Cash and Cash Equivalents	19,267	8,317	22,123
Cash and Cash Equivalents, beginning of period	40,052	31,735	9,612
Cash and Cash Equivalents, end of period	$ 59,319	$ 40,052	$ 31,735
Noncash Investing and Financing Activities:			
Contribution of net assets to partnership investments	$ -	$ 20	$ 60,387
Assets acquired by the issuance of units	179,623	420,850	1,003,202
Assets acquired by the assumption of liabilities	333,301	111,509	569,822
Supplemental disclosures of cash flow information:			
Cash paid during the year for			
Interest (net of capitalized interest)	88,821	48,222	47,616
Income taxes	1,806	529	1,354

The accompanying notes are an integral part of these consolidated financial statements.

KINDER MORGAN ENERGY PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
(In Thousands)

	Common Units	Class B Units	General Partner	Total Partners' Capital
Partners' capital at December 31, 1997	$ 146,840	$ -	$ 3,384	$ 150,224
Net income	70,159	-	33,447	103,606
Net proceeds from issuance of common units	1,212,421	-	-	1,212,421
Capital contributions	10,234	-	2,678	12,912
Distributions	(91,063)	-	(27,437)	(118,500)
Partners' capital at December 31, 1998	1,348,591	-	12,072	1,360,663
Net income	126,029	-	56,273	182,302
Net proceeds from issuance of common units	420,357	-	(15)	420,342
Distributions	(135,835)	-	(52,674)	(188,509)
Partners' capital at December 31, 1999	1,759,142	-	15,656	1,774,798
Net income	168,878	-	109,470	278,348
Net proceeds from issuance of units	224,028	125,961	(11)	349,978
Distributions	(194,691)	-	(91,366)	(286,057)
Partners' capital at December 31, 2000	$ 1,957,357	$ 125,961	$ 33,749	$ 2,117,067

The accompanying notes are an integral part of these consolidated financial statements.

KINDER MORGAN ENERGY PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

General

Kinder Morgan Energy Partners, L.P., the "Partnership", is a Delaware limited partnership formed in August 1992. We are a publicly traded Master Limited Partnership managing a diversified portfolio of midstream energy assets that provide fee-based services to customers. We trade under the New York Stock Exchange symbol "KMP" and presently conduct our business through four reportable business segments:

- Product Pipelines;
- Natural Gas Pipelines;
- CO_2 Pipelines; and
- Bulk Terminals.

Acquisitions in 2000 required a reevaluation of our previously reported Pacific Operations, Mid-Continent Operations, Natural Gas Operations and Bulk Terminals business segments. Our previous Pacific Operations segment, previous Mid-Continent Operations segment, with the exception of our Mid-Continent's Gas Processing and Fractionation activities and carbon dioxide activities, and our 32.5% interest in the Cochin Pipeline System, acquired in the fourth quarter of 2000, have been combined to present our current Product Pipelines segment. Our prior interest in the Mont Belvieu fractionation facility has been combined with our acquisition of certain assets from Kinder Morgan, Inc., effective December 31, 1999 and December 31, 2000, to present our current Natural Gas Pipelines segment. Finally, due to our acquisition of the remaining 80% of Kinder Morgan CO_2 Company, L.P., effective April 1, 2000, we began reporting the CO_2 Pipelines segment. Prior to April 1, 2000, we only owned a 20% equity interest in Shell CO_2 Company, Ltd. and reported its results under the equity method of accounting in the Mid-Continent Operations. Other than acquisitions made during 2000, there was no change in our Bulk Terminals business segment. See note 3 for more information on these acquisitions and note 15 for financial information on these segments.

Merger of KMI

On October 7, 1999, K N Energy, Inc., a Kansas corporation that provided integrated energy services including the gathering, processing, transportation and storage of natural gas, the marketing of natural gas and natural gas liquids and the generating of electric power, acquired Kinder Morgan (Delaware), Inc., a Delaware corporation. Kinder Morgan (Delaware), Inc. is the sole stockholder of our general partner, Kinder Morgan G.P., Inc. At the time of the closing of the acquisition, K N Energy, Inc. changed its name to Kinder Morgan, Inc. It is referred to as "KMI" in this report. KMI trades on the New York Stock Exchange under the symbol "KMI" and is one of the largest midstream energy companies in America, operating more than 30,000 miles of natural gas and product pipelines. KMI also has significant retail distribution, electric generation and terminal assets. KMI, through its subsidiary Kinder Morgan (Delaware), Inc., remains the sole stockholder of our general partner. KMI also owns approximately 20.7% of our outstanding units.

2. Summary of Significant Accounting Policies

Basis of Presentation

Our consolidated financial statements include our accounts and those of our majority-owned and controlled subsidiaries and our operating partnerships. All significant intercompany items have been eliminated in consolidation. Certain amounts from prior years have been reclassified to conform to the current presentation.

Use of Estimates

The preparation of our financial statements in conformity with generally accepted accounting principles requires our management to make estimates and assumptions that affect:

- the amounts we report for assets and liabilities;
- our disclosure of contingent assets and liabilities at the date of the financial statements; and
- the amounts we report for revenues and expenses during the reporting period.

Actual results could differ from those estimates.

Cash Equivalents

We define cash equivalents as all highly liquid short-term investments with original maturities of three months or less.

Inventories

Our inventories of products consist of natural gas liquids, refined petroleum products, natural gas, carbon dioxide and coal. We report these assets at the lower of weighted-average cost or market. We report materials and supplies at the lower of cost or market.

Property, Plant and Equipment

We state property, plant and equipment at its acquisition cost. We expense costs for maintenance and repairs in the period incurred. The cost of property, plant and equipment sold or retired and the related depreciation are removed from our balance sheet in the period of sale or disposition. We compute depreciation using the straight-line method based on estimated economic lives. Generally, we apply composite depreciation rates to functional groups of property having similar economic characteristics. The rates range from 2.0% to 12.5%, excluding certain short-lived assets such as vehicles. Depreciation, depletion and amortization of the capitalized costs of producing carbon dioxide properties, both tangible and intangible, are provided for on a units-of-production basis. Proved developed reserves are used in computing units-of-production rates for drilling and development costs, and total proved reserves are used for depletion of leasehold costs. The basis for units-of-production rate determination is by field. We charge the original cost of property sold or retired to accumulated depreciation and amortization, net of salvage and cost of removal. We do not include retirement gain or loss in income except in the case of significant retirements or sales.

We evaluate impairment of our long-lived assets in accordance with Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." We review for the impairment of long-lived assets whenever events or changes in circumstances indicate that our carrying amount of an asset may not be recoverable. We would recognize an impairment loss when estimated future cash flows expected to result from our use of the asset and its eventual disposition is less than its carrying amount.

Equity Method of Accounting

We account for investments in greater than 20% owned affiliates, which we do not control, by the equity method of accounting. Under this method, an investment is carried at our acquisition cost, plus our equity in undistributed earnings or losses since acquisition.

Excess of Cost Over Fair Value

We amortize our excess cost over our underlying net asset book value in equity investments using the straight-line method over the estimated remaining useful lives of the assets. We amortize this excess for undervalued depreciable assets over a period not to exceed 50 years and for intangible assets over a period not to exceed 40 years. For our investments in consolidated affiliates, we report amortization of excess cost over fair value of net assets (goodwill) as amortization expense in our accompanying consolidated statement of income. For our investments accounted for under the equity method, we report amortization of excess cost on investments as amortization of excess cost of equity investments in our accompanying consolidated statement of income. Our total unamortized excess cost over fair value of net assets on investments in consolidated affiliates was approximately $158.1 million as of December 31, 2000 and $48.6 million as of December 31, 1999. These amounts are included within intangibles on our accompanying consolidated balance sheet. Our total unamortized excess cost over underlying book value of net assets on investments accounted for under the equity method was approximately $350.2 million as of December 31, 2000 and $273.5 million as of December 31, 1999. These amounts are included within equity investments on our accompanying balance sheet.

We periodically reevaluate the amount at which we carry the excess of cost over fair value of net assets of businesses we acquired, as well as the amortization period for such assets, to determine whether current events or circumstances warrant adjustments to our carrying value and/or revised estimates of useful lives. At this time, we believe no such impairment has occurred and no reduction in estimated useful lives is warranted.

Revenue Recognition

We recognize revenues for our pipeline operations based on delivery of actual volume transported or minimum obligations under take-or-pay contracts. We recognize bulk terminal transfer service revenues based on volumes loaded. We recognize transmix processing revenues based on volumes processed or sold, and if applicable, title has passed. We recognize energy-related product sales revenues based on delivered quantities of product.

Environmental Matters

We expense or capitalize, as appropriate, environmental expenditures that relate to current operations. We expense expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation. We do not discount liabilities to net present value and we record environmental liabilities when environmental assessments and/or remedial efforts are probable and we can reasonably estimate the costs. Generally, our making of these accruals coincides with our completion of a feasibility study or our commitment to a formal plan of action.

Minority Interest

Minority interest consists of the following:

- the 1.0101% general partner interest in our operating partnerships;
- the 0.5% special limited partner interest in SFPP, L.P.;
- the 33 1/3% interest in Trailblazer Pipeline Company;
- the 50% interest in Globalplex Partners, a Louisiana joint venture owned 50% and controlled by Kinder Morgan Bulk Terminals, Inc.; and
- the approximate 32% interest in MidTex Gas Storage Company, L.L.P., a Texas limited liability partnership owned approximately 68% and controlled by Kinder Morgan Texas Pipeline L.P. and its consolidated subsidiaries.

Income Taxes

We are not a taxable entity for Federal income tax purposes. As such, we do not directly pay Federal income tax. Our taxable income or loss, which may vary substantially from the net income or net loss we report in our consolidated statement of income, is includable in the Federal income tax returns of each partner. The aggregate difference in the basis of our net assets for financial and tax reporting purposes cannot be readily determined as we do not have access to information about each partner's tax attributes in the Partnership.

Some of our corporate subsidiaries and corporations in which we have an equity investment do pay Federal or state income taxes. Deferred income tax assets and liabilities for certain of our operations conducted through corporations are recognized for temporary differences between the assets and liabilities for financial reporting and tax purposes. Changes in tax legislation are included in the relevant computations in the period in which such changes are effective. Deferred tax assets are reduced by a valuation allowance for the amount of any tax benefit not expected to be realized.

Comprehensive Income

Due to the absence of items of other comprehensive income, our comprehensive income equaled our net income in each of the periods presented.

Net Income Per Unit

We compute Basic Limited Partners' Net Income per Unit by dividing limited partner's interest in net income by the weighted average number of units outstanding during the period. Diluted Limited Partners' Net Income per Unit reflects the potential dilution, by application of the treasury stock method, that could occur if options to issue units were exercised, which would result in the issuance of additional units that would then share in our net income.

Risk Management Activities

We utilize energy derivatives for the purpose of mitigating our risk resulting from fluctuations in the market price of natural gas, natural gas liquids, crude oil and carbon dioxide. Prior to December 31, 2000, our accounting policy for these activities was based on a number of authoritative pronouncements including SFAS No. 80 "Accounting for Futures Contracts". Our new policy, which is based on SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", became effective for us on January 1, 2001. See note 14 for more information on our risk management activities.

3. Acquisitions and Joint Ventures

During 1998, 1999 and 2000, we completed the following significant acquisitions. Each of the acquisitions was accounted for under the purchase method and the assets acquired and liabilities assumed were recorded at their estimated fair market values as of the acquisition date. The preliminary amounts assigned to assets and liabilities may be adjusted during a short period following the acquisition. The results of operations from these acquisitions are included in the consolidated financial statements from the date of acquisition.

Product Pipelines

Santa Fe

On March 6, 1998, we acquired 99.5% of SFPP, L.P., the operating partnership of Santa Fe Pacific Pipeline Partners, L.P. SFPP owns our Pacific operations. The transaction was valued at more than $1.4 billion inclusive of liabilities assumed. We acquired the interest of Santa Fe Pacific Pipeline's common unitholders in SFPP in exchange for approximately 26.6 million units (1.39 of our units for each Santa Fe Pacific Pipeline common unit). In addition, we paid $84.4 million to Santa Fe Pacific Pipelines, Inc. in exchange for the general partner interest in Santa Fe Pacific Pipeline Partners, L.P. Also on March 6, 1998, SFPP redeemed from Santa Fe Pacific Pipelines, Inc. a 0.5% interest in SFPP for $5.8 million. The redemption was paid from SFPP's cash reserves. After the redemption, Santa Fe Pacific Pipelines, Inc. continues to own a 0.5% special limited partner interest in SFPP. Assets acquired in this transaction comprise our Pacific operations, which include over 3,300 miles of pipeline and thirteen owned and operated terminals.

Plantation Pipe Line Company

On September 15, 1998, we acquired an approximate 24% interest in Plantation Pipe Line Company for $110 million. On June 16, 1999, we acquired an additional approximate 27% interest in Plantation Pipe Line Company for $124.2 million. Collectively, we now own approximately 51% of Plantation Pipe Line Company, and ExxonMobil Pipeline Company, an affiliate of ExxonMobil Corporation, owns approximately 49%. Plantation Pipe Line Company owns and operates a 3,100-mile pipeline system throughout the southeastern United States. The pipeline is a common carrier of refined petroleum products to various metropolitan areas, including Atlanta, Georgia; Charlotte, North Carolina; and the Washington, D.C. area. We do not control Plantation Pipe Line Company, and therefore, we account for our investment in Plantation under the equity method of accounting.

Transmix Operations

On September 10, 1999, we acquired transmix processing plants in Richmond, Virginia and Dorsey Junction, Maryland and other related assets from Primary Corporation. As consideration for the purchase, we paid Primary approximately $18.3 million (before purchase price adjustments) and 510,147 units valued at approximately $14.3 million.

On October 25, 2000, we acquired Buckeye Refining Company, LLC, which owns and operates transmix processing plants in Indianola, Pennsylvania and Wood River, Illinois and other related transmix assets. As consideration for the purchase, we paid Buckeye approximately $37.3 million for property, plant and equipment plus approximately $8.3 million for net working capital and other items.

Effective December 31, 2000, we acquired the remaining 50% interest in the Colton Transmix Processing Facility from Duke Energy Merchants for approximately $11.2 million, including working capital purchase price adjustments. We now own 100% of the Colton facility. Prior to our acquisition of the controlling interest in the Colton facility, we accounted for our ownership interest in the Colton facility under the equity method of accounting.

Cochin Pipeline

Effective November 3, 2000, we acquired from NOVA Chemicals Corporation an undivided 32.5% interest in the Cochin Pipeline System for approximately $120.5 million. We record our proportional share of joint venture revenues and expenses and cost of joint venture assets as part of our Product Pipelines business segment.

Natural Gas Pipelines

Trailblazer Pipeline Company

Effective November 30, 1999, we acquired a 33 1/3% interest in Trailblazer Pipeline Company for $37.6 million from Columbia Gulf Transmission Company, an affiliate of Columbia Energy Group. Trailblazer is an Illinois partnership that owns and operates a 436-mile natural gas pipeline system that traverses from Colorado through southeastern Wyoming to Beatrice, Nebraska. Trailblazer has a certificated capacity of 492 million cubic feet per day of natural gas. For the month of December 1999, we accounted for our 33 1/3% interest in Trailblazer under the equity method of accounting. Effective December 31, 1999, following our acquisition of an additional 33 1/3% interest in Trailblazer, which is discussed below, we included Trailblazer's activities as part of our consolidated financial statements.

Kinder Morgan, Inc. Asset Contributions

Effective December 31, 1999, we acquired over $700 million of assets from KMI. We paid to KMI $330 million and 9.81 million units, valued at approximately $406.5 million as consideration for the assets. We acquired Kinder Morgan Interstate Gas Transmission LLC (formerly K N Interstate Gas Transmission Co.), a 33 1/3% interest in Trailblazer and a 49% equity interest in Red Cedar Gathering Company. The acquired interest in Trailblazer, when combined with the interest purchased on November 30, 1999, gave us a 66 2/3% ownership interest.

Effective December 31, 2000, we acquired over $300 million of assets from KMI. As consideration for these assets, we paid to KMI $192.7 million, 640,000 common units and 2,656,700 class B units. The units were valued at $156.3 million. We acquired Kinder Morgan Texas Pipeline, Inc. and MidCon NGL Corp. (both of which were converted to single-member limited liability companies), the Casper and Douglas natural gas gathering and processing systems, a 50% interest in Coyote Gas Treating, LLC and a 25% interest in Thunder Creek Gas Services, LLC.

CO_2 Pipelines

Kinder Morgan CO_2 Company, L.P.

On March 5, 1998, we and affiliates of Shell Oil Company agreed to combine our carbon dioxide activities and assets into a partnership, Shell CO_2 Company, Ltd., to be operated by a Shell affiliate. We acquired a 20% interest in Shell CO_2 Company, Ltd. in exchange for contributing our Central Basin Pipeline and approximately $25 million in cash.

Effective April 1, 2000, we acquired the remaining 78% limited partner interest and the 2% general partner interest in Shell CO_2 Company, Ltd. from Shell for $212.1 million. We renamed the limited partnership Kinder Morgan CO_2 Company, L.P., and going forward from April 1, 2000, we have included its results as part of our consolidated financial statements under our CO_2 Pipelines business segment. As is the case with all of our operating partnerships, we own a 98.9899% limited partner ownership interest in $KMCO_2$ and our general partner owns a direct 1.0101% general partner ownership interest.

Other Acquisitions and Joint Ventures

Effective June 1, 2000, we acquired significant interests in carbon dioxide pipeline assets and oil-producing properties from Devon Energy Production Company L.P. for $55 million, before purchase price adjustments. Included in the acquisition was an approximate 81% equity interest in the Canyon Reef Carriers CO_2 Pipeline, an approximate 71% working interest in the SACROC field unit, and minority interests in the Sharon Ridge unit and the Reinecke unit. All of the assets and properties are located in the Permian Basin of west Texas.

On December 28, 2000, we announced that $KMCO_2$ had entered into a definitive agreement to form a joint venture with Marathon Oil Company in the southern Permian Basin of west Texas. The joint venture consists of a nearly 13% interest in the SACROC unit and a 49.9% interest in the Yates Field unit. The joint venture was formed on January 1, 2001 and named MKM Partners, L.P. As of December 31, 2000, we paid $34.2 million plus committed 30 billion cubic feet of carbon dioxide for our 7.5 % interest in the Yates field unit. In January 2001, we contributed our interest in the Yates field unit together with an approximate 2% interest in the SACROC unit in return for a 15% interest in the joint venture. In January 2001, Marathon Oil Company purchased an approximate 11% interest in the SACROC unit from $KMCO_2$ for $6.2 million. Marathon Oil Company then contributed this interest in the SACROC unit and its 42.4% interest in the Yates field unit for an 85% interest in the joint venture. Going forward from January 1, 2001 we will account for this investment under the equity method.

Bulk Terminals

Hall-Buck Marine, Inc.

Effective July 1, 1998, we acquired Hall-Buck Marine, Inc. for approximately $100 million. Hall-Buck, headquartered in Sorrento, Louisiana, is one of the nation's largest independent operators of dry bulk terminals. In addition, Hall-Buck owns all of the common stock of River Consulting Incorporated, a nationally recognized leader in the design and construction of bulk material facilities and port related structures. The $100 million of consideration consisted of approximately 2.1 million units and assumed indebtedness of $23 million. After the acquisition, we changed the name of Hall-Buck Marine, Inc. to Kinder Morgan Bulk Terminals, Inc.

Milwaukee Bulk Terminals, Inc. and Dakota Bulk Terminal, Inc.

Effective January 1, 2000, we acquired all of the shares of the capital stock of Milwaukee Bulk Terminals, Inc. and Dakota Bulk Terminal, Inc. We paid an aggregate consideration of approximately $24.1 million, including 574,172 units and approximately $0.8 million in cash. The Milwaukee terminal, located on nine acres of property leased from the Port of Milwaukee. Its major cargoes are coal and bulk de-icing salt. The Dakota terminal, located in St. Paul, Minnesota, primarily handles salt and grain products.

Delta Terminal Services, Inc.

Effective December 1, 2000, we acquired all of the shares of the capital stock of Delta Terminal Services, Inc. for approximately $114.1 million. The acquisition includes two liquid bulk storage terminals in New Orleans, Louisiana and Cincinnati, Ohio.

Pro Forma Information

The following summarized unaudited Pro Forma Consolidated Income Statement information for the twelve months ended December 31, 2000 and 1999, assumes the 2000 and 1999 acquisitions and joint ventures had occurred as of January 1, 1999. We have prepared these unaudited Pro Forma financial results for comparative

purposes only. These unaudited Pro Forma financial results may not be indicative of the results that would have occurred if we had completed the 2000 and 1999 acquisitions and joint ventures as of January 1, 1999 or the results which will be attained in the future. Amounts presented below are in thousands, except for the per unit amounts:

	Pro Forma Twelve Months Ended December 31,	
	2000	1999
Income Statement	(Unaudited)	
Revenues	$ 2,954,180	$ 1,806,453
Operating Income	393,982	350,075
Net Income before extraordinary charge	334,817	290,134
Net Income	334,817	287,539
Basic Limited Partners' Net Income per unit before extraordinary charge	$ 2.82	$ 2.63
Basic Limited Partners' Net Income per unit	$ 2.82	$ 2.59
Diluted Limited Partners' Net Income per unit before extraordinary charge	$ 2.81	$ 2.63
Diluted Limited Partners' Net Income per unit	$ 2.81	$ 2.59

Acquisitions Subsequent to December 31, 2000

On November 30, 2000, we announced that we had signed a definitive agreement with GATX Corporation to purchase its United States' pipeline and terminal businesses for approximately $1.15 billion, consisting of cash, assumed debt and other obligations. Primary assets included in the transaction are the CALNEV Pipe Line Company, the Central Florida Pipeline Company and twelve terminals that store refined petroleum products and chemicals. The transaction is expected to close in the first quarter of 2001.

4. Gain on Sale of Equity Interest, Net of Special Charges

During the third quarter of 1999, we completed the sale of our partnership interest in the Mont Belvieu fractionation facility for approximately $41.8 million. We recognized a gain of $14.1 million on the sale and included that gain as part of our Natural Gas Pipelines business segment. Offsetting the gain were charges of approximately $3.6 million relating to our write-off of abandoned project costs, primarily within our Product Pipelines business segment, and a charge of $0.4 million relating to prior years' over-billed storage tank lease fees, also within our Product Pipelines business segment.

5. Income Taxes

Components of the income tax provision applicable to continuing operations for federal and state taxes are as follows (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Taxes currently payable:			
Federal	$ 10,612	$ 8,169	$ 1,432
State	1,416	1,002	168
Total	12,028	9,171	1,600
Taxes deferred:			
Federal	1,627	583	(25)
State	279	72	(3)
Total	1,906	655	(28)
Total tax provision	$ 13,934	$ 9,826	$ 1,572
Effective tax rate	4.8%	5.0%	1.3%

The difference between the statutory federal income tax rate and our effective income tax rate is summarized as follows:

	Year Ended December 31,		
	2000	1999	1998
Federal Income Tax Rate	35.0%	35.0%	35.0%
Increase (Decrease) as a Result of:			
Partnership earnings not subject to tax	(35.0%)	(35.3%)	(35.4%)
Corporate subsidiary earnings subject to tax	0.6%	1.0%	0.8%
Income tax expense attributable to corporate equity earnings	4.1%	4.4%	1.6%
Gain on distribution of appreciated property from corporate subsidiary	-	-	3.7%
Utilization of net operating loss	-	-	(1.0%)
Utilization of alternative minimum tax credits	-	-	(1.5%)
Prior year adjustments	-	-	(2.0%)
State taxes	0.1%	0.1%	0.5%
Other	-	(0.2%)	(0.4%)
Effective Tax Rate	4.8%	5.0%	1.3%

Deferred tax assets and liabilities result from the following (in thousands):

	December 31,	
	2000	1999
Deferred tax assets:		
State taxes	$ 184	$ -
Book accruals	176	1,110
Alternative minimum tax credits	1,376	1,376
Total deferred tax assets	1,736	2,486
Deferred tax liabilities:		
Property, plant and equipment	4,223	3,323
Book accruals	-	661
Other	-	2
Total deferred tax liabilities	4,223	3,986
Net deferred tax liabilities	$ 2,487	$ 1,500

We had available, at December 31, 2000, approximately $1.4 million of alternative minimum tax credit carryforwards, which are available indefinitely.

6. Property, Plant and Equipment

Property, plant and equipment consists of the following (in thousands):

	December 31,	
	2000	1999
Natural Gas, liquids and carbon dioxide pipelines	$ 1,732,607	$ 1,729,034
Natural Gas, liquids and carbon dioxide pipeline station equip.	1,072,185	550,044
Coal and bulk tonnage transfer, storage and services	191,313	107,052
Natural Gas and transmix processing	95,624	45,232
Land	79,653	72,259
Land right-of-way	116,456	93,909
Construction work in process	90,067	38,653
Other	117,981	59,939
Total cost	3,495,886	2,696,122
Accumulated depreciation and depletion	(189,581)	(117,809)
	$ 3,306,305	$ 2,578,313

Depreciation and depletion expense charged against property, plant and equipment consists of the following (in thousands):

	2000	1999	1998
Depreciation and depletion expense	$ 79,740	$ 44,553	$ 35,288

7. Investments

Our significant equity investments at December 31, 2000 consisted of:

- Plantation Pipe Line Company (51%);
- Red Cedar Gathering Company (49%);
- Thunder Creek Gas Services, LLC (25%);
- Coyote Gas Treating, LLC (Coyote Gulch) (50%);
- Cortez Pipeline Company (50%); and
- Heartland Pipeline Company (50%).

On April 1, 2000, we acquired the remaining 80% ownership interest in Shell CO_2 Company, Ltd. and renamed the entity Kinder Morgan CO_2 Company, L.P. ($KMCO_2$). On December 31, 2000, we acquired the remaining 50% ownership interest in the Colton Transmix Processing Facility. Due to these acquisitions, we no longer report these two investments under the equity method of accounting. In addition, we had an equity investment in Trailblazer Pipeline Company (33 1/3%) for one month of 1999 and had an equity interest in Mont Belvieu Associates through two quarters of 1999. We sold our equity interest in Mont Belvieu Associates in the third quarter of 1999 and acquired an additional 33 1/3% interest in Trailblazer effective December 31, 1999.

We acquired our investment in Cortez as part of our $KMCO_2$ acquisition and we acquired our investments in Coyote Gas Treating and Thunder Creek from KMI on December 31, 2000.

Please refer to notes 3 and 4 for more information.

Our total equity investments consisted of the following (in thousands):

	December 31,	
	2000	1999
Plantation Pipe Line Company	$ 223,627	$ 229,349
Red Cedar Gathering Company	96,388	88,249
Thunder Creek Gas Services, LLC	27,625	-
Coyote Gas Treating, LLC	17,000	-
Cortez Pipeline Company	9,559	-
Heartland Pipeline Company	6,025	4,818
Shell CO_2 Company, Ltd.	-	86,675
Colton Transmix Processing Facility	-	5,263
All Others	2,658	4,297
Total	$ 382,882	$ 418,651

Our earnings from equity investments were as follows (in thousands):

	Year ended December 31,		
	2000	1999	1998
Plantation Pipe Line Company	$ 31,509	$ 22,510	$ 4,421
Cortez Pipeline Company	17,219	-	-
Red Cedar Gathering Company	16,110	-	-
Shell CO_2 Company, Ltd.	3,625	14,500	14,500
Colton Transmix Processing Facility	1,815	1,531	803
Heartland Pipeline Company	1,581	1,571	1,394
Coyote Gas Treating, LLC	-	-	-
Thunder Creek Gas Services, LLC	-	-	-
Mont Belvieu Associates	-	2,500	4,577
Trailblazer Pipeline Company	(24)	284	-
All Others	(232)	22	37
Total	$ 71,603	$ 42,918	$ 25,732
Amortization of excess costs	$ (8,195)	$ (4,254)	$ (764)

Summarized combined unaudited financial information for our significant equity investments is reported below (in thousands):

Income Statement	Year ended December 31, 2000	1999	1998
Revenues	$ 399,335	$ 344,017	$ 236,534
Costs and expenses	276,000	244,515	148,616
Earnings before extraordinary items	123,335	99,502	87,918
Net income	123,335	99,502	87,918

Balance Sheet	December 31, 2000	1999
Current assets	$ 117,050	$ 137,828
Non-current assets	665,435	450,791
Current liabilities	92,027	64,333
Non-current liabilities	576,278	289,671
Partners'/Owners' equity	114,180	234,615

On December 28, 2000, we announced that $KMCO_2$ had entered into a definitive agreement to form a joint venture with Marathon Oil Company in the southern Permian Basin of west Texas. The joint venture consists of a nearly 13% interest in the SACROC unit and a 49.9% interest in the Yates Field unit. The joint venture was formed on January 1, 2001 and named MKM Partners, L.P. As of December 31, 2000, we paid $34.2 million plus committed 30 billion cubic feet of carbon dioxide for our 7.5 % interest in the Yates field unit. In January 2001, we contributed our interest in the Yates field unit together with an approximate 2% interest in the SACROC unit in return for a 15% interest in the joint venture. In January 2001, Marathon Oil Company purchased an approximate 11% interest in the SACROC unit from $KMCO_2$ for $6.2 million. Marathon Oil Company then contributed this interest in the SACROC unit and its 42.4% interest in the Yates field unit for an 85% interest in the joint venture. Going forward from January 1, 2001 we will account for this investment under the equity method.

8. Intangibles

Our intangible assets include value associated with acquired:

- goodwill;
- contracts and agreements; and
- intangible lease value associated with our acquisition of Kinder Morgan Texas Pipeline, L.P. on December 31, 2000.

All of our intangible assets are amortized on a straight-line basis over their estimated useful lives. Goodwill is being amortized over a period of 40 years. Beginning in 2001, the intangible lease value will be amortized over 26 years, the remaining life of an operating lease covering the use of KMTP's natural gas pipeline.

Intangible assets consisted of the following (in thousands):

	December 31, 2000	December 31, 1999
Goodwill	$ 162,271	$ 50,546
Accumulated amortization	(4,201)	(1,941)
Goodwill, net	$ 158,070	$ 48,605
Lease value	$ 185,982	$ 6,592
Contracts and agreements	1,768	1,768
Other	93	93
Accumulated amortization	(608)	(428)
Other intangibles, net	$ 187,235	$ 8,025
Total intangibles, net	$ 345,305	$ 56,630

9. Debt

Our debt facilities as of December 31, 2000, consist primarily of:

- a $600 million unsecured 364-day credit facility due October 25, 2001;
- a $300 million unsecured five-year credit facility due September 29, 2004;
- $250 million of 6.30% Senior Notes due February 1, 2009;
- $200 million of 8.00% Senior Notes due March 15, 2005;
- $250 million of 7.50% Senior Notes due November 1, 2010;
- $200 million of Floating Rate Senior Notes due March 22, 2002;
- $119 million of Series F First Mortgage Notes (our subsidiary, SFPP, is the obligor on the notes);
- $20.2 million of Senior Secured Notes (our subsidiary, Trailblazer, is the obligor on the notes);
- $23.7 million of tax-exempt bonds due 2024 (our subsidiary, Kinder Morgan Operating L.P. "B" is the obligor on these bonds); and
- a $600 million short-term commercial paper program.

Our short-term debt at December 31, 2000, consisted of:

- $582 million of borrowings under our unsecured 364-day credit facility due October 25, 2001;
- $52 million of commercial paper borrowings;
- $35 million under the SFPP 10.7% First Mortgage Notes; and
- $14.6 million in other borrowings.

During 2000, our cash acquisitions and expansions exceeded $600 million. Historically, we have utilized our short-term credit facilities to fund acquisitions and expansions and then refinanced our short-term borrowings utilizing long-term credit facilities and by issuing equity or long-term debt securities. We intend to refinance our short-term debt during 2001 through a combination of long-term debt and equity. Based on prior successful short-term debt refinancings and current market conditions, we do not anticipate any liquidity problems.

Credit Facilities

In February 1998, we refinanced our first mortgage notes and existing bank credit facilities with a $325 million secured revolving credit facility expiring in February 2005. On December 1, 1998, the credit facility was amended to release the collateral and the credit facility became unsecured. Borrowings under the credit facility were primarily used to fund our investment in Plantation Pipe Line Company in June 1999. On September 29, 1999, the $325 million credit facility was replaced with a $300 million unsecured five-year credit facility expiring in

September 2004 and a $300 million unsecured 364-day credit facility. We recorded an extraordinary charge of $2.6 million related to the retirement of the $325 million credit facility. Our 364-day credit facility expired on September 29, 2000 and was extended until October 25, 2000. On October 25, 2000, the facility was replaced with a new $600 million unsecured 364-day credit facility. The terms of the new credit facility are substantially similar to the terms of the previous facility. The two credit facilities are with a syndicate of financial institutions. First Union National Bank is the administrative agent under the agreements.

The outstanding balance under our five-year credit facility was $197.6 million at December 31, 1999. On August 11, 2000, we refinanced the outstanding balance under SFPP's secured credit facility with a $175.0 million borrowing under our five-year credit facility. The outstanding balance under our five-year credit facility was $207.6 million at December 31, 2000.

No borrowings were outstanding under our 364-day credit facility at December 31, 1999. The outstanding balance under our 364-day credit facility was $582 million at December 31, 2000.

Interest on our credit facilities accrues at our option at a floating rate equal to either:

- First Union National Bank's base rate (but not less than the Federal Funds Rate, plus 0.5%); or
- LIBOR, plus a margin, which varies depending upon the credit rating of our long-term senior unsecured debt.

The five-year credit facility also permits us to obtain bids for fixed rate loans from members of the lending syndicate. At December 31, 2000, the interest rate on our credit facilities was 7.115% per annum. The weighted average interest rate on our borrowings under our credit facilities was 6.8987% during 2000 and 6.1313% during 1999.

Senior Notes

On January 29, 1999, we closed a public offering of $250 million in principal amount of 6.30% senior notes due February 1, 2009 at a price to the public of 99.67% per note. In the offering, we received proceeds, net of underwriting discounts and commissions, of approximately $248 million. We used the proceeds to pay the outstanding balance on our credit facility and for working capital and other partnership purposes. In connection with the refinancing of our credit facility on September 29, 1999, our subsidiaries were released from their guarantees of the credit facility. As a result, the subsidiary guarantees under these senior notes were also automatically released in accordance with the terms of the notes. At December 31, 2000, the unamortized liability balance on the 6.30% senior notes was $249.3 million.

Under an indenture dated March 22, 2000, we completed a private placement of $200 million of floating rate notes due March 22, 2002 and $200 million of 8.0% notes due March 15, 2005. On May 31, 2000, we exchanged these notes with substantially identical notes that were registered under the Securities Act of 1933. The proceeds from the issuance of these notes were used to reduce our outstanding commercial paper. At December 31, 2000, the unamortized liability balance on the 8.0% notes was $199.7 million and the unamortized liability balance on the floating rate notes was $200 million. At December 31, 2000, the interest rate on our floating rate notes was 7.0%.

On November 8, 2000, we closed a private placement of $250 million of 7.5% notes due November 1, 2010. We agreed to offer to exchange these notes with substantially identical notes that are registered under the Securities Act of 1933 within 210 days of the close of this transaction. The proceeds from this offering, net of underwriting discounts, were $246.8 million. These proceeds were used to reduce our outstanding commercial paper. At December 31, 2000, the unamortized liability balance on the 7.5% notes was $248.4 million.

In addition, as of December 31, 1999, we financed $330 million through KMI to fund part of the acquisition of assets acquired from KMI on December 31, 1999. In accordance with the Closing Agreement entered into as of January 20, 2000, we paid KMI a per diem fee of $180.56 for each $1,000,000 financed. We paid KMI $200 million on January 21, 2000, and the remaining $130 million on March 23, 2000 with a portion of the proceeds from our issuance of notes on March 22, 2000.

Commercial Paper Program

In December 1999, we established a commercial paper program providing for the issuance of up to $200 million of commercial paper, subsequently increased to $300 million in January 2000. As of December 31, 1999, we had not issued any commercial paper. On October 25, 2000, in conjunction with our new 364-day credit facility, we also increased our commercial paper program to provide for the issuance of up to $600 million of commercial paper. Borrowings under our commercial paper program reduce the borrowings allowed under our 364-day and five-year credit facilities combined. As of December 31, 2000, we had $52 million of commercial paper outstanding with an interest rate of 7.02%.

SFPP Debt

At December 31, 2000, the outstanding balance under SFPP's Series F notes was $119.0 million. The annual interest rate on the Series F notes is 10.70%, the maturity is December 2004, and interest is payable semiannually in June and December. The Series F notes are payable in annual installments of $39.5 million in 2001, $42.5 million in 2002 and $37.0 million in 2003. The Series F notes may also be prepaid in full or in part at a price equal to par plus, in certain circumstances, a premium. The Series F notes are secured by mortgages on substantially all of the properties of SFPP (the "Mortgaged Property"). The Series F notes contain certain covenants limiting the amount of additional debt or equity that may be issued and limiting the amount of cash distributions, investments, and property dispositions.

At December 31, 1999, the outstanding balance under SFPP's bank facility was $174.0 million. On August 11, 2000, we refinanced the outstanding balance under SFPP's secured credit facility with a $175.0 million borrowing under our five-year credit facility. Upon refinancing, SFPP executed a $175 million intercompany note in favor of Kinder Morgan Energy Partners, L.P. The weighted average interest rate on the SFPP bank facility was 5.477% for 1999 and 6.4797% in 2000.

Trailblazer Debt

On September 23, 1992, pursuant to the terms of a Note Purchase Agreement, Trailblazer Pipeline Company issued and sold an aggregate principal amount of $101 million of Senior Secured Notes to a syndicate of fifteen insurance companies. Trailblazer provided security for the notes principally by an assignment of certain Trailblazer transportation contracts. Effective April 29, 1997, Trailblazer amended the Note Purchase Agreement. This amendment allowed Trailblazer to include several additional transportation contracts as security for the notes, added a limitation on the amount of additional money that Trailblazer could borrow and relieved Trailblazer from its security deposit obligation. At December 31, 2000, Trailblazer's outstanding balance under the Senior Secured Notes was $20.2 million. The Senior Secured Notes have a fixed annual interest rate of 8.03% and will be repaid in semiannual installments of $5.05 million from March 1, 2001 through September 1, 2002, the final maturity date. Interest is payable semiannually in March and September. Pursuant to the terms of this Note Purchase Agreement, Trailblazer partnership distributions are restricted by certain financial covenants. Currently, Trailblazer's proposed expansion project is pending before the FERC. If the expansion is approved, which is expected in the first quarter of 2001, we plan to refinance these notes.

In December 1999, Trailblazer entered into a 364-day revolving credit agreement with Toronto Dominion, Inc. providing for loans up to $10 million. At December 26, 2000, the outstanding balance due under Trailblazer's bank facility was $10 million. Trailblazer paid the outstanding balance under its credit facility with a $10 million borrowing under an intercompany account payable in favor of KMI on December 27, 2000.

In January 2001, Trailblazer entered into a 364-day revolving credit agreement with Credit Lyonnais New York Branch, providing for loans up to $10 million. The agreement expires December 27, 2001. At January 31, 2001, the outstanding balance under Trailblazer's revolving credit agreement was $10 million. The borrowings were used to pay the account payable to KMI. The agreement provides for an interest rate of LIBOR plus 0.875%. At January 31, 2001, the interest rate on the credit facility debt was 6.625%. Pursuant to the terms of the revolving credit agreement, Trailblazer partnership distributions are restricted by certain financial covenants.

Kinder Morgan Operating L.P. "B" Debt

The $23.7 million principal amount of tax-exempt bonds due 2024 were issued by the Jackson-Union Counties Regional Port District. These bonds bear interest at a weekly floating market rate. During 2000, the weighted-average interest rate on these bonds was 4.47% per annum, and at December 31, 2000 the interest rate was 5.00%. We have an outstanding letter of credit issued under our credit facilities that backs-up our tax-exempt bonds. The letter of credit reduces the amount available for borrowing under our credit facilities.

Cortez Pipeline

Pursuant to a certain Throughput and Deficiency Agreement, the owners of Cortez Pipeline Company are required to contribute capital to Cortez in the event of a cash deficiency. The agreement contractually supports the financings of Cortez Capital Corporation, a wholly-owned subsidiary of Cortez Pipeline Company, by obligating the owners of Cortez Pipeline to fund cash deficiencies at Cortez Pipeline, including cash deficiencies relating to the repayment of principal and interest. Their respective parent or other companies further severally guarantee the obligations of the Cortez Pipeline owners under this agreement.

Due to our indirect ownership of Cortez through $KMCO_2$, we severally guarantee 50% of the debt of Cortez Capital Corporation. Shell Oil Company shares our guaranty obligations jointly and severally through December 31, 2006 for Cortez's debt programs in place as of April 1, 2000.

At December 31, 2000, the debt facilities of Cortez Capital Corporation consisted of:

- a $127 million uncommitted 364-day revolving credit facility;
- a $48 million committed 364-day revolving credit facility;
- a $175 million in short term commercial paper program; and
- $151.7 million of Series D notes.

Maturities of Debt

The scheduled maturities of our outstanding debt at December 31, 2000, are summarized as follows (in thousands):

2001	$ 683,649
2002	253,116
2003	37,016
2004	207,617
2005	199,670
Thereafter	523,334
Total	$ 1,904,402

Of the $683.6 million scheduled to mature in 2001, we intend and have the ability to refinance $34.7 million on a long-term basis under our existing credit facilities.

Fair Value of Financial Instruments

The estimated fair value of our long-term debt based upon prevailing interest rates available to us at December 31, 2000 and December 31, 1999 is disclosed below.

Fair value as used in SFAS No. 107 "Disclosures About Fair Value of Financial Instruments" represents the amount at which an instrument could be exchanged in a current transaction between willing parties.

	December 31, 2000		December 31, 1999	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Total Debt	$ 1,904,402	$ 2,011,818	$ 1,198,301	$ 1,209,625

10. Pensions and Other Postretirement Benefits

In connection with the acquisition of SFPP and Kinder Morgan Bulk Terminals in 1998, we acquired certain liabilities for pension and postretirement benefits. We have a noncontributory defined benefit pension plan covering the former employees of Kinder Morgan Bulk Terminals. The benefits under this plan were based primarily upon years of service and final average pensionable earnings. We provide medical and life insurance benefits to current employees, their covered dependents and beneficiaries of SFPP and Kinder Morgan Bulk Terminals. We also provide the same benefits to former salaried employees of SFPP. Additionally, we will continue to fund these costs for those employees currently in the plan during their retirement years.

SFPP's postretirement benefit plan is frozen and no additional participants may join the plan. Similarly, benefit accruals were frozen as of December 31, 1998 for the Hall-Buck plan. As a result of these events, we recognized a curtailment gain related to the SFPP's plan of $3.9 million in 1999 and a gain related to Hall-Buck's plan of $0.4 million in 1998.

Net periodic benefit costs and weighted-average assumptions for these plans include the following components (in thousands):

	2000		1999		1998	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Net periodic benefit cost						
Service cost	$ -	$ 46	$ -	$ 80	$ 98	$ 636
Interest cost	145	755	141	696	76	983
Expected return on plan assets	(171)	-	(150)	-	(70)	-
Amortization of transition obligation	1	-	-	-	-	-
Amortization of prior service cost	-	(493)	-	(493)	-	(493)
Actuarial loss (gain)	-	(290)	-	(340)	-	(208)
Net periodic benefit cost	$ (25)	$ 18	$ (9)	$ (57)	$ 104	$ 918
Additional amounts recognized						
Curtailment (gain) loss	$ -	$ -	$ -	$ (3,859)	$ (425)	$ -
Weighted-average assumptions as of December 31:						
Discount rate	7.5%	7.75%	7.0%	7.0%	7.0%	7.5%
Expected return on plan assets	8.5%	-	8.5%	-	8.5%	-
Rate of compensation increase	-	-	-	-	4.0%	4.0%

Information concerning benefit obligations, plan assets, funded status and recorded values for these plans follows (in thousands):

	2000		1999	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Change in benefit obligation				
Benefit obligation at Jan. 1	$ 1,737	$ 9,564	$ 1,862	$ 14,734
Service cost	-	46	-	80
Interest cost	145	755	141	696
Amendments	-	(371)	-	-
Administrative expenses	(9)	-	(12)	-
Actuarial (gain) loss	299	1,339	86	(1,521)
Curtailment (gain)	-	-	-	(3,859)
Benefits paid from plan assets	(189)	(435)	(340)	(566)
Benefit obligation at Dec. 31	$ 1,983	$ 10,898	$ 1,737	$ 9,564
Change in plan assets				
Fair value of plan assets at Jan. 1	$ 2,060	$ -	$ 1,833	$ -
Actual return on plan assets	(138)	-	300	-
Employer contributions	92	435	279	566
Administrative expenses	(9)	-	(12)	-
Benefits paid from plan assets	(189)	(435)	(340)	(566)
Fair value of plan assets at Dec. 31	$ 1,816	$ -	$ 2,060	$ -
Funded status	$ (167)	$ (10,898)	$ 323	$ (9,564)
Unrecognized net transition obligation	1	-	2	-
Unrecognized net actuarial (gain) loss	359	(1,383)	(250)	(3,012)
Unrecognized prior service (benefit)	-	(1,656)	-	(1,777)
Prepaid (accrued) benefit cost	$ 193	$ (13,937)	$ 75	$ (14,353)

In 2001, SFPP modified benefits associated with its postretirement benefit plan. This plan amendment resulted in a $0.4 million decrease in its benefit obligation for 2000. The unrecognized prior service credit is amortized on a straight-line basis over the remaining expected service to retirement (3.5 years). For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 5% by 2005 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$ 61	$ (52)
Effect on postretirement benefit obligation	$ 773	$ (665)

Multiemployer Plans and Other Benefits. With our acquisition of Kinder Morgan Bulk Terminals, effective July 1, 1998, we participate in multi-employer pension plans for the benefit of its employees who are union members. We contributed $0.6 million during each of the years 2000 and 1999. We do not administer these plans and contribute to them in accordance with the provisions of negotiated labor contracts. Other benefits include a self-insured health and welfare insurance plan and an employee health plan where employees may contribute for their dependents' health care costs. Amounts charged to expense for these plans were $0.5 million for each of the years 2000 and 1999. The amount charged from the period of acquisition through December 31, 1998 was $0.5 million.

We terminated the Employee Stock Ownership Plan held by Kinder Morgan Bulk Terminals for the benefit of its employees on August 13, 1998. All ESOP participants became fully vested retroactive to July 1, 1998, the effective date of our acquisition of Kinder Morgan Bulk Terminals. We distributed the assets remaining in the plan during 1999.

We assumed River Consulting, Inc.'s (a consolidated affiliate of Kinder Morgan Bulk Terminals) savings plan under Section 401(k) of the Internal Revenue Code. This savings plan allowed eligible employees to contribute up to 10% of their compensation on a pre-tax basis, with us matching 2.5% of the first 5% of the employees' wage. Matching contributions are vested at the time of eligibility, which is one year after employment. Effective January 1, 1999, we merged this savings plan into the retirement savings plan of our general partner (see next paragraph).

Effective July 1, 1997, our general partner established the Kinder Morgan Retirement Savings Plan, a defined contribution 401(k) plan, that permits all full-time employees of our general partner to contribute 1% to 15% of base compensation, on a pre-tax basis, into participant accounts. This plan was subsequently amended and merged to form the Kinder Morgan Savings Plan. In addition to a mandatory contribution equal to 4% of base compensation per year for each plan participant, our general partner may make discretionary contributions in years when specific performance objectives are met. Our mandatory contributions are made each pay period on behalf of each eligible employee. Any discretionary contributions are made during the first quarter following the performance year. All contributions, including discretionary contributions, are in the form of KMI stock that is immediately convertible into other available investment vehicles at the employee's discretion. In the first quarter of 2001, an additional 2% discretionary contribution was made to individual accounts based on 2000 financial targets to unitholders. The total amount charged to expense for our Retirement Savings Plan was $1.8 million during 2000. All contributions, together with earnings thereon, are immediately vested and not subject to forfeiture. Participants may direct the investment of their contributions into a variety of investments. Plan assets are held and distributed pursuant to a trust agreement.

Effective January 1, 2001, employees of our general partner became eligible to participate in a new Cash Balance Retirement Plan. Certain employees continue to accrue benefits through a career-pay formula, "grandfathered" according to age and years of service on December 31, 2000, or collective bargaining arrangements. All other employees will accrue benefits through a personal retirement account in the new Cash Balance Retirement Plan. Employees with prior service and not grandfathered convert to the Cash Balance Retirement Plan and will be credited with the current fair value of any benefits they have previously accrued through the defined benefit plan. We will then begin contributions on behalf of these employees equal to 3% of eligible compensation every pay period. In addition, we may make discretionary contributions to the plan based on our performance. Interest will be credited to the personal retirement accounts at the 30-year U.S. Treasury bond rate in effect each year. Employees will be fully vested in the plan after five years, and they may take a lump sum distribution upon termination of employment or retirement.

11. Partners' Capital

In connection with KMI's transfer to us of Natural Gas Pipelines assets effective December 31, 2000, we paid to KMI cash consideration and issued to KMI 640,000 common units and 2,656,700 class B units representing limited partnership interests in us. These units will not participate in our distribution declared for the fourth quarter of 2000. Our class B units are similar to our common units except our class B units are not eligible for trading on the New York Stock Exchange. Our class B unitholders (KMI) have the same rights as our common unitholders with respect to, without limitation, distributions from us, voting rights and allocations of income, gain, loss or deductions. The class B units are convertible into common units after such time as the New York Stock Exchange has advised us that common units issuable upon such conversion are eligible for listing on the NYSE. At any time after December 21, 2001, the holders of a majority of our class B units may notify us of their desire to convert their class B units into our common units. If at such time the common units issuable upon conversion of the class B units would not be eligible for listing on the NYSE, we must use our reasonable efforts to meet any unfulfilled requirements for such listing within 120 days after receipt of such notice. If we are unable to satisfy all of the requirements of the NYSE for listing of such common units within the 120 days, then our class B unitholders may at any time thereafter require that we redeem their class B units for cash by delivering a notice of redemption to us. KMI has represented that it will not demand cash redemption for the class B units. On the 60th day after our receipt of the redemption notice, we must redeem the class B units subject to the redemption notice, unless before the redemption date the NYSE has approved for listing the common units issuable in exchange for the class B units.

At December 31, 2000, Partners' capital consisted of 64,858,109 common units and 2,656,700 class B units. Together, these 67,514,809 units represent the limited partners' interest and an effective 98% economic interest in the Partnership, exclusive of our general partner's incentive distribution. The common unit total consisted of 53,546,109 units held by third parties, 10,450,000 units held by KMI and 862,000 units held by our general partner. The class B units were held entirely by KMI. At December 31, 1999 and 1998 there were 59,137,137 and 48,821,690 common units outstanding, respectively. The general partner has an effective 2% interest in the Partnership, excluding the general partner's incentive distribution.

During 1998, we issued 26,548,879 on March 6, 1998 for the acquisition of SFPP and 2,121,033 units on August 13, 1998 for the acquisition of Hall-Buck. Additionally, we issued 6,070,578 units in a primary public offering on June 12, 1998 and we repurchased 30,000 units in December 1998.

During 1999, we issued 510,147 units on September 10, 1999 for the acquisition of assets from Primary Corporation and 9,810,000 units on December 31, 1999 related to the acquisition of assets from KMI. Additionally, in 1999, we issued 2,000 units in accordance with unit option exercises, and we repurchased 6,000 units in January 1999 and 700 units in December 1999.

During 2000, we issued 574,172 units on February 2, 2000 for the acquisition of Milwaukee Bulk Terminals, Inc. and Dakota Bulk Terminal, Inc. On April 4, 2000, we issued 4,500,000 units in a public offering at an issuance price of $39.75 per unit, less commissions and underwriting expenses. We used the proceeds from the April 2000 unit issuance to acquire the remaining ownership interest in Kinder Morgan CO_2 Company, L.P. On December 21, 2000, we issued 3,296,700 units to KMI as partial consideration for acquired assets (see note 3). Additionally, in 2000, we issued 6,800 common units in accordance with common unit option exercises.

For purposes of maintaining partner capital accounts, our partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their percentage interests. Normal allocations according to percentage interests are made, however, only after giving effect to any priority income allocations in an amount equal to the incentive distributions that are allocated 100% to our general partner.

Incentive distributions allocated to our general partner are determined by the amount quarterly distributions to unitholders exceed certain specified target levels. For the years ended December 31, 2000, 1999 and 1998, we distributed $3.425, $2.85 and $2.4725, respectively, per unit. Our distributions to unitholders for 2000, 1999 and 1998 required incentive distributions to our general partner in the amount of $107.8 million, $55.0 million and $32.7 million, respectively. The increased incentive distributions paid for 2000 over 1999 and 1999 over 1998 reflect the increase in amounts distributed per unit as well as the issuance of additional units.

On January 17, 2001, we declared a cash distribution for the quarterly period ended December 31, 2000, of $0.95 per unit. This distribution was paid on February 14, 2001, to unitholders of record as of January 31, 2001, except for the 640,000 common units and 2,656,700 class B units issued to KMI on December 21, 2000. This distribution required an incentive distribution to our general partner in the amount of $32.8 million. Since this distribution was declared after the end of the quarter, no amount is shown in the December 31, 2000 balance sheet as a Distribution Payable.

12. Related Party Transactions

General and Administrative Expenses

Our general partner provides us with general and administrative services and is entitled to reimbursement of all direct and indirect costs related to our business activities. Our general partner incurred on behalf of us general and administrative expenses of $54.4 million in 2000, $30.7 million in 1999 and $38.0 million in 1998. We believe that these amounts were a reasonable allocation of the expenses incurred on our behalf.

Since K N Energy, Inc. acquired Kinder Morgan (Delaware), Inc. in October 1999, our general partner has shared administrative personnel with KMI to operate both KMI's business and our business. As a result, our general partner’s officers, who in some cases may also be officers of KMI, must allocate, in their reasonable and sole discretion, the time our general partner’s employees and KMI’s employees spend on behalf of KMI and on behalf of us. For 2000, KMI paid our general partner a net payment of $1.0 million in January 2001 as reimbursement for the services of our general partner’s employees. Although we believe this amount received from KMI for the services it provided in 2000 fairly reflects the net value of the services performed, the determination of this amount was not the result of arms length negotiations. However, due to the nature of the allocations, this reimbursement may not have exactly matched the actual time and overhead spent. We believe the agreed-upon amount was a reasonable allocation of the expenses for the services rendered. Our general partner and KMI will continue to evaluate the net amount to be charged for the services provided to KMI and us by the employees of our general partner and KMI.

Partnership Distributions

Kinder Morgan G.P., Inc.

Kinder Morgan G.P., Inc. serves as our sole general partner. Pursuant to our partnership agreements, our general partner’s interests represent a 1% ownership interest in the Partnership, and a direct 1.0101% ownership interest in each of our five operating partnerships. Collectively, our general partner owns an effective 2% interest in the operating partnerships, excluding incentive distributions: its 1.0101% direct general partner ownership interest (accounted for as minority interest in the consolidated financial statements of the Partnership) and its 0.9899% ownership interest indirectly owned via its 1% ownership interest in the Partnership.

At December 31, 2000, our general partner owned 862,000 common units, representing approximately 1.3% of the outstanding units. Our partnership agreement requires that we distribute 100% of “Available Cash” (as defined in the partnership agreement) to our partners within 45 days following the end of each calendar quarter in accordance with their respective percentage interests. Available Cash consists generally of all of our cash receipts less cash disbursements and net additions to reserves (including any reserves required under debt instruments for future principal and interest payments) and amounts payable to the former general partner of SFPP in respect of its remaining 0.5% special limited partner interest in SFPP.

Available Cash is initially distributed 98% to our limited partners (including the approximate 1.3% limited partner interest owned by our general partner) and 2% to our general partner. These distribution percentages are modified to provide for incentive distributions to be paid to our general partner in the event that quarterly distributions to unitholders exceed certain specified targets.

Available Cash for each quarter is distributed;

- first, 98% to our limited partners and 2% to our general partner until our limited partners have received a total of $0.3025 per unit for such quarter;
- second, 85% to our limited partners and 15% to our general partner until our limited partners have received a total of $0.3575 per unit for such quarter;

- third, 75% to our limited partners and 25% to our general partner until our limited partners have received a total of $0.4675 per unit for such quarter; and
- fourth, thereafter 50% to our limited partners and 50% to our general partner.

Incentive distributions are generally defined as all cash distributions paid to our general partner that are in excess of 2% of the aggregate amount of cash being distributed. Our general partner's declared incentive distributions for the years ended December 31, 2000, 1999 and 1998 were $107.8 million, $55.0 million and $32.7 million, respectively.

Kinder Morgan, Inc.

KMI, through its subsidiary Kinder Morgan (Delaware), Inc., remains the sole stockholder of our general partner. At December 31, 2000, KMI directly owned 10,450,000 common units and 2,656,700 class B units. These units, excluding the common units indirectly owned by our general partner, represent approximately 19.4% of the outstanding units.

13. Leases and Commitments

We have entered into certain operating leases. Including probable elections to exercise renewal options, the remaining terms on our leases range from one to 43 years. Future commitments related to these leases at December 31, 2000 are as follows (in thousands):

2001	$ 30,622
2002	50,021
2003	48,497
2004	46,480
2005	45,591
Thereafter	670,711
Total minimum payments	$ 891,922

We have not reduced our total minimum payments for future minimum sublease rentals aggregating approximately $2.4 million. Total lease and rental expenses, including related variable charges were $7.5 million for 2000, $8.8 million for 1999 and $7.3 million for 1998.

During 1998, we established a unit option plan, which provides that key personnel are eligible to receive grants of options to acquire units. The number of units available under the option plan is 250,000. The option plan terminates in March 2008. As of December 31, 2000, options for 206,800 units were granted to certain personnel with a term of seven years at exercise prices equal to the market price of the units at the grant date. In addition, as of December 31, 2000, options for 15,000 units were granted to our three non-employee directors. The options granted generally vest 40% in the first year and 20% each year thereafter.

We apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for unit options granted under our option plan. Pro forma information regarding changes in net income and per unit data, if the accounting prescribed by Statement of Financial Accounting Standards No.123 "Accounting for Stock Based Compensation," had been applied, is not material. No compensation expense has been recorded since the options were granted at exercise prices equal to the market prices at the date of grant.

We have an Executive Compensation Plan for certain executive officers of our general partner. We may, at our option and with the approval of our unitholders, pay the participants in units instead of cash. Eligible awards are equal to a percentage of an incentive compensation value, which is equal to a formula based upon the cash distributions paid to our general partner during the four calendar quarters preceding the date of redemption multiplied by eight. The amount of these awards are accrued as compensation expense and adjusted quarterly. Under the plan, no eligible employee may receive a grant in excess of 2% of the incentive compensation value and total awards under the plan may not exceed 10% of the incentive compensation value. The plan terminates January 1, 2007, and any unredeemed awards will be automatically redeemed.

At December 31, 1998, two executive officers of our general partner each had outstanding awards totaling 2% of the incentive compensation value eligible to be granted under the Executive Compensation Plan. On January 4, 1999, 50% of the awards granted to these executive officers were vested and paid out. On April 28, 2000, the remaining 50% of the awards granted to these executive officers were vested and paid out.

14. Risk Management

We use energy financial instruments to reduce our risk of price changes in the spot and fixed price natural gas, natural gas liquids and crude oil markets as discussed below. We are exposed to credit-related losses in the event of nonperformance by counterparties to these financial instruments but, given their existing credit ratings, we do not expect any counterparties to fail to meet their obligations. The fair value of these risk management instruments reflects the estimated amounts that we would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses on open contracts. We have available market quotes for substantially all of the financial instruments that we use.

The energy risk management products that we use include:

- commodity futures and options contracts;
- fixed-price swaps; and
- basis swaps.

Pursuant to our management's approved policy, we are to engage in these activities only as a hedging mechanism against price volatility associated with:

- pre-existing or anticipated physical natural gas, natural gas liquids, crude oil and carbon dioxide sales;
- gas purchases; and
- system use and storage.

Our risk management activities are only used in order to protect our profit margins and we are prohibited from engaging in speculative trading. Commodity-related activities of our risk management group are monitored by KMI's Risk Management Committee, which is charged with the review and enforcement of our management's risk management policy. Gains and losses on hedging positions are deferred and recognized as natural gas purchases expense in the periods in which the underlying physical transactions occur.

Purchases or sales of commodity contracts require a dollar amount to be placed in margin accounts. In addition, we are required to post margins with certain over-the-counter swap partners. These margin requirements are determined based upon credit limits and mark-to-market positions. At December 31, 2000, we had $7.0 million in margin deposits associated with commodity contract positions and $0.0 million in margin deposits associated with over-the-counter swap partners.

The differences between the current market value and the original physical contracts value associated with hedging activities are reflected, depending on maturity, as deferred charges or credits and other current assets or liabilities in the accompanying consolidated balance sheet at December 31, 2000. These deferrals are offset by the corresponding value of the underlying physical transactions. In the event energy financial instruments are terminated prior to the period of physical delivery of the items being hedged, the gains and losses on the energy financial instruments at the time of termination remain deferred until the period of physical delivery.

Given our portfolio of businesses as of December 31, 2000, our principal uses of derivative financial instruments will be to mitigate the risk associated with market movements in the price of energy commodities. Our short natural gas derivatives position primarily represents our hedging of anticipated future natural gas sales. Our short crude oil derivatives position represents our crude oil derivative sales made to hedge anticipated oil sales. In addition, crude oil contracts have been sold to hedge anticipated carbon dioxide sales that have pricing tied to crude oil prices. Finally, our short natural gas liquids derivatives position reflects the hedging of our forecasted natural gas liquids sales.

The short and long positions shown in the table that follows are principally associated with the activities described above. Current deferred net gains (losses) are reported as Deferred Revenues in the current liability section on the accompanying consolidated balance sheet at December 31, 2000. Long-term deferred net gains (losses) are included with Other Long-Term Liabilities and Deferred Credits on the accompanying consolidated balance sheet at December 31, 2000. In 2001, these amounts will be included with other comprehensive income as discussed below.

As of December 31, 2000, our commodity contracts and over-the-counter swaps and options (in thousands) consisted of the following:

	Commodity Contracts	Over the Counter Swaps and Options	Total
Deferred Net (Loss) Gain	$ 6,977	$ (36,229)	$ (29,252)
Contract Amounts - Gross	$ 816,216	$ 1,537,671	$ 2,353,887
Contract Amounts - Net	$ (58,679)	$ (156,966)	$ (215,645)
Credit Exposure of Loss	$ -	$ 23,570	$ 23,570
Natural Gas			
Notional Volumetric Positions: Long	5,206	11,837	
Notional Volumetric Positions: Short	(5,475)	(14,298)	
Net Notional Totals to Occur in 2001	186	(2,014)	
Net Notional Totals to Occur in 2002 and Beyond	(455)	(447)	
Crude Oil			
Notional Volumetric Positions: Long	34	102	
Notional Volumetric Positions: Short	(1,585)	(5,108)	
Net Notional Totals to Occur in 2001	(1,107)	(2,147)	
Net Notional Totals to Occur in 2002 and Beyond	(444)	(2,589)	
Natural Gas Liquids			
Notional Volumetric Positions: Long	-	120	
Notional Volumetric Positions: Short	-	(951)	
Net Notional Totals to Occur in 2001	-	(510)	
Net Notional Totals to Occur in 2002 and Beyond	-	(321)	

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". The statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset of liability measured at its fair value. The statement requires that changes in the derivatives fair value be recognized currently in earnings unless specific hedge accounting criteria are met. If the derivatives meet these criteria, the statement allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company formally designate a derivative as a hedge and document and assess the effectiveness of derivatives associated with transactions that receive hedge accounting.

SFAS No. 133, after amendment by SFAS No. 137 and SFAS No. 138, is effective for all quarters of all fiscal years beginning after June 15, 2000. The statement cannot be applied retroactively. As discussed above, our principal use of derivative financial instruments is to mitigate the market price risk associated with anticipated transactions for the purchase and sale of natural gas, natural gas liquids, crude oil and carbon dioxide. The statement allows these transactions to continue to be treated as hedges for accounting purposes, although the changes in the market value of these instruments will affect comprehensive income in the period in which they occur and any ineffectiveness in the risk mitigation performance of the hedge will affect net income currently. The change in the market value of these instruments representing effective hedge operation will continue to affect net income in the period in which the associated physical transactions are consummated. Adoption of the statement will result in the deferred net loss shown in the preceding table being reported as part of other comprehensive income, as well as subsequent changes in the market value of these derivatives.

15. Reportable Segments

We compete in four reportable business segments (see note 1):

- Product Pipelines;
- Natural Gas Pipelines;
- CO_2 Pipelines; and
- Bulk Terminals.

Each segment uses the same accounting policies as those described in the summary of significant accounting policies (see note 2). We evaluate performance based on each segments' earnings, which excludes general and administrative expenses, third-party debt costs, interest income and expense and minority interest. Our reportable segments are strategic business units that offer different products and services. Each segment is managed separately because each segment involves different products and marketing strategies.

Financial information by segment follows (in thousands):

	2000	1999	1998
Revenues			
Product Pipelines	$ 421,423	$ 314,113	$ 258,722
Natural Gas Pipelines	173,036	-	-
CO_2 Pipelines	89,214	23	979
Bulk Terminals	132,769	114,613	62,916
Total Segments	$ 816,442	$ 428,749	$ 322,617
Operating Income			
Product Pipelines	$ 193,531	$ 186,086	$ 159,227
Natural Gas Pipelines	97,198	-	(103)
CO_2 Pipelines	47,901	18	957
Bulk Terminals	36,996	36,917	20,572
Total Segments	$ 375,626	$ 223,021	$ 180,653
Earnings from equity investments, net of amortization of excess costs			
Product Pipelines	$ 29,105	$ 21,395	$ 5,854
Natural Gas Pipelines	14,975	2,759	4,577
CO_2 Pipelines	19,328	14,487	14,500
Bulk Terminals	-	23	37
Total Segments	$ 63,408	$ 38,664	$ 24,968
Interest revenue			
Product Pipelines	$ -	$ -	$ 22
Natural Gas Pipelines	-	-	-
CO_2 Pipelines	-	-	-
Bulk Terminals	-	-	-
Total Segments	$ -	$ -	$ 22

KINDER MORGAN ENERGY PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2000	1999	1998
Interest (expense)			
Product Pipelines	$ -	$ -	$ -
Natural Gas Pipelines	-	-	(338)
CO_2 Pipelines	-	-	-
Bulk Terminals	-	-	-
Total Segments	$ -	$ -	$ (338)
Other, net			
Product Pipelines	$ 10,492	$ 10,008	$ (6,492)
Natural Gas Pipelines	744	14,099	(6)
CO_2 Pipelines	741	710	-
Bulk Terminals	2,607	(669)	(765)
Total Segments	$ 14,584	$ 24,148	$ (7,263)
Income tax benefit (expense)			
Product Pipelines	$ (11,960)	$ (8,493)	$ (1,698)
Natural Gas Pipelines	-	(45)	726
CO_2 Pipelines	-	-	-
Bulk Terminals	(1,974)	(1,288)	(600)
Total Segments	$ (13,934)	$ (9,826)	$ (1,572)
Segment earnings			
Product Pipelines	$ 221,168	$ 208,996	$ 156,913
Natural Gas Pipelines	112,917	16,813	4,856
CO_2 Pipelines	67,970	15,215	15,457
Bulk Terminals	37,629	34,983	19,244
Total Segments (1)	$ 439,684	$ 276,007	$ 196,470

	2000	1999	1998
Assets at December 31			
Product Pipelines	$ 2,230,287	$ 2,015,995	$ 1,817,126
Natural Gas Pipelines	1,544,489	879,076	27,518
CO_2 Pipelines	417,278	86,684	86,760
Bulk Terminals	357,689	203,601	186,298
Total Segments (2)	$ 4,549,743	$ 3,185,356	$ 2,117,702
Depreciation and amortization			
Product Pipelines	$ 41,659	$ 38,928	$ 32,687
Natural Gas Pipelines	20,780	-	-
CO_2 Pipelines	10,559	-	-
Bulk Terminals	9,632	7,541	3,870
Total Segments	$ 82,630	$ 46,469	$ 36,557
Equity Investments at December 31			
Product Pipelines	$ 231,651	$ 243,668	$ 124,283
Natural Gas Pipelines	141,613	88,249	27,568
CO_2 Pipelines	9,559	86,675	86,688
Bulk Terminals	59	59	69
Total Segments	$ 382,882	$ 418,651	$ 238,608
Capital expenditures			
Product Pipelines	$ 69,243	$ 68,674	$ 28,393
Natural Gas Pipelines	14,496	-	-
CO_2 Pipelines	16,115	-	69
Bulk Terminals	25,669	14,051	9,945
Total Segments	$ 125,523	$ 82,725	$ 38,407

(1) The following reconciles segment earnings to net income.

	2000	1999	1998
Segment earnings	$ 439,684	$ 276,007	$ 196,470
Interest and corporate administrative expenses (a)	(161,336)	(93,705)	(92,864)
Net Income	$ 278,348	$ 182,302	$ 103,606

(a) Includes interest and debt expense, general and administrative expenses, minority interest expense, extraordinary charges and other insignificant items.

(2) The following reconciles segment assets to consolidated assets.

	2000	1999	1998
Segment assets	$ 4,549,743	$ 3,185,356	$ 2,117,702
Corporate assets (a)	75,467	43,382	34,570
Total assets	$ 4,625,210	$ 3,228,738	$ 2,152,272

(a) Includes cash, cash equivalents and certain unallocable deferred charges.

Our total operating revenues are derived from a wide customer base. During each of the years ended December 31, 2000 and December 31, 1999, no revenues from transactions with a single external customer amounted to 10% or more of our consolidated revenues. In 1998, revenues from one customer of our Products Pipelines and Bulk Terminals segments represented approximately $42.5 million (13.2%) of our consolidated revenues. Additionally, in 1998, three other customers of our Product Pipelines segment accounted for more than 10% of our consolidated revenues. Revenues from these customers were approximately $39.7 million (12.3%), $35.29 million (11.0%) and $35.28 million (10.9%), respectively, of consolidated revenues. Our management believes that we are exposed to minimal credit risk, and we generally do not require collateral for our receivables.

16. Litigation and Other Contingencies

The tariffs charged for interstate common carrier pipeline transportation for our pipelines are subject to rate regulation by the Federal Energy Regulatory Commission ("FERC") under the Interstate Commerce Act. The Interstate Commerce Act requires, among other things, that petroleum products pipeline rates be just and reasonable and non-discriminatory. Pursuant to FERC Order No. 561, effective January 1, 1995, petroleum products pipelines are able to change their rates within prescribed ceiling levels that are tied to an inflation index. FERC Order No. 561-A, affirming and clarifying Order No. 561, expands the circumstances under which petroleum products pipelines may employ cost-of-service ratemaking in lieu of the indexing methodology, effective January 1, 1995. For each of the years ended December 31, 2000, 1999 and 1998, the application of the indexing methodology did not significantly affect our tariff rates.

Federal Energy Regulatory Commission Proceedings

SFPP, L.P.

SFPP, L.P. is the partnership that owns our Pacific operations. Tariffs charged by SFPP are subject to certain proceedings involving shippers' protests regarding the interstate rates, as well as practices and the jurisdictional nature of certain facilities and services, on our Pacific operations' pipeline systems. In September 1992, El Paso Refinery, L.P. filed a protest/complaint with the FERC:

- challenging SFPP's East Line rates from El Paso, Texas to Tucson and Phoenix, Arizona;
- challenging SFPP's proration policy; and
- seeking to block the reversal of the direction of flow of SFPP's six-inch pipeline between Phoenix and Tucson.

At various dates following El Paso Refinery's September 1992 filing, other shippers on SFPP's South System filed separate complaints, and/or motions to intervene in the FERC proceeding, challenging SFPP's rates on its East and West Lines. These shippers include:

- Chevron U.S.A. Products Company;
- Navajo Refining Company;
- ARCO Products Company;
- Texaco Refining and Marketing Inc.;
- Refinery Holding Company, L.P. (a partnership formed by El Paso Refinery's long-term secured creditors that purchased its refinery in May 1993);
- Mobil Oil Corporation; and
- Tosco Corporation.

Certain of these parties also claimed that a gathering enhancement charge at SFPP's Watson origin pump station in Carson, California was charged in violation of the Interstate Commerce Act. In subsequent procedural rulings, the FERC consolidated these challenges (Docket Nos. OR92-8-000, et al.) and ruled that they must proceed as a complaint proceeding, with the burden of proof being placed on the complaining parties. These parties must show that SFPP's rates and practices at issue violate the requirements of the Interstate Commerce Act.

Hearings in the FERC proceeding were held in 1996 and an initial decision by the FERC administrative law judge was issued on September 25, 1997. The initial decision upheld SFPP's position that "changed circumstances" were not shown to exist on the West Line, thereby retaining the just and reasonable status of all West Line rates that were "grandfathered" under the Energy Policy Act of 1992. Accordingly, the administrative law judge ruled that these rates are not subject to challenge, either for the past or prospectively, in that proceeding. The administrative law judge's decision specifically excepted from that ruling SFPP's Tariff No. 18 for movement of jet fuel from Los Angeles to Tucson, which was initiated subsequent to the enactment of the Energy Policy Act.

The initial decision also included rulings that were generally adverse to SFPP on such cost of service issues as:

- the capital structure to be used in computing SFPP's 1985 starting rate base under FERC Opinion 154-B;
- the level of income tax allowance; and
- the recoverability of civil and regulatory litigation expense and certain pipeline reconditioning costs.

The administrative law judge also ruled that the gathering enhancement service at SFPP's Watson origin pump station was subject to FERC jurisdiction and ordered that a tariff for that service and supporting cost of service documentation be filed no later than 60 days after a final FERC order on this matter.

On January 13, 1999, the FERC issued its Opinion No. 435, which affirmed in part and modified in part the initial decision. In Opinion No. 435, the FERC ruled that all but one of the West Line rates are "grandfathered" as just and reasonable and that "changed circumstances" had not been shown to satisfy the complainants' threshold burden necessary to challenge those rates. The FERC further held that the one "non-grandfathered" West Line tariff did not require rate reduction. Accordingly, the FERC dismissed all complaints against the West Line rates without any requirement that SFPP reduce, or pay any reparations for, any West Line rate.

With respect to the East Line rates, Opinion No. 435 reversed in part and affirmed in part the initial decision's ruling regarding the methodology for calculating the rate base for the East Line. Opinion No. 435 modified the initial decision concerning the date on which the starting rate base should be calculated and the accumulated deferred income tax and allowable cost of equity used to calculate the rate base. In addition, Opinion No. 435 ruled that SFPP would not owe reparations to any complainant for any period prior to the date on which that complainant's complaint was filed, thus reducing by two years the potential reparations period claimed by most complainants. On January 19, 1999, ARCO filed a petition with the United States Court of Appeals for the District of Columbia Circuit for review of Opinion No. 435. SFPP and a number of the complainants each sought rehearing by FERC of elements of Opinion No. 435. In compliance with Opinion No. 435, on March 15, 1999, SFPP submitted a compliance filing implementing the rulings made by FERC, establishing the level of rates to be charged by SFPP in the future, and setting forth the amount of reparations owed by SFPP to the complainants under the order. The complainants contested SFPP's compliance filing.

SFPP and certain complainants sought rehearing of Opinion No. 435 by the FERC, asking that a number of rulings be modified. On May 17, 2000, the FERC issued its Opinion No. 435-A, which ruled on the requests for rehearing and modified Opinion No. 435 in certain respects. It denied requests to reverse its prior rulings that SFPP's West Line rates and Watson Station gathering enhancement facilities charge are entitled to be treated as just and reasonable "grandfathered" rates under the Energy Policy Act. It suggested, however, that if SFPP had fully recovered the capital costs of the Watson Station facilities, that might form the basis of an amended "changed circumstances" complaint.

Opinion No. 435-A granted a request by Chevron and Navajo to require that SFPP's December 1988 partnership capital structure be used to compute the starting rate base from December 1983 forward, as well as a request by SFPP to vacate a ruling that would have required the elimination of approximately $125 million from the rate base used to determine capital structure. It also granted two clarifications sought by Navajo, to the effect that SFPP's return on its starting rate base should be based on SFPP's capital structure in each given year (rather than a single capital structure from the outset) and that the return on deferred equity should also vary with the capital structure for each year. Opinion No. 435-A denied the request of Chevron and Navajo that no income tax allowance be recognized for the limited partnership interests held by SFPP's corporate parent, as well as SFPP's request that the tax allowance should include interests owned by certain non-corporate entities. However, it granted Navajo's request to make the computation of interest expense for tax allowance purposes the same as the computation for debt return.

Opinion No. 435-A reaffirmed that SFPP may recover certain litigation costs incurred in defense of its rates (amortized over five years), but reversed a ruling that those expenses may include the costs of certain civil litigation between SFPP and Navajo and El Paso. It also reversed a prior decision that litigation costs should be allocated between the East and West Lines based on throughput, and instead adopted SFPP's position that such expenses should be split equally between the two systems.

As to reparations, Opinion No. 435-A held that no reparations would be awarded to West Line shippers and that only Navajo was eligible to recover reparations on the East Line. It reaffirmed that a 1989 settlement with SFPP barred Navajo from obtaining reparations prior to November 23, 1993, but allowed Navajo reparations for a one-month period prior to the filing of its December 23, 1993 complaint. Opinion No. 435-A also confirmed that FERC's indexing

methodology should be used in determining rates for reparations purposes and made certain clarifications sought by Navajo.

Opinion No. 435-A denied Chevron's request for modification of SFPP's prorationing policy. This policy requires customers to demonstrate a need for additional capacity if a shortage of available pipeline space exits.

Finally, Opinion No. 435-A directed SFPP to revise its initial compliance filings to reflect the modified rulings. It eliminated the refund obligation for the compliance tariff containing the Watson Station gathering enhancement charge, but required SFPP to pay refunds to the extent that the compliance tariff East Line rates are higher than the rates produced under Opinion No. 435-A.

In June 2000, several parties filed requests for rehearing of certain rulings made in Opinion No. 435-A. Chevron and RHC both sought reconsideration of the FERC's ruling that only Navajo is entitled to reparations for East Line shipments. SFPP sought rehearing of the FERC's:

- decision to require use of the December 1988 partnership capital structure for the period 1994-98 in computing the starting rate base;
- elimination of civil litigation costs;
- refusal to allow any recovery of civil litigation settlement payments; and
- failure to provide any allowance for regulatory expenses in prospective rates.

ARCO, Chevron, Navajo, RHC, Texaco and SFPP sought judicial review of Opinion No. 435-A in the United States Court of Appeals for the District of Columbia Circuit. The FERC moved to:

- consolidate those petitions with prior ARCO and RHC petitions to review Opinion No. 435;
- dismiss the Chevron, RHC and SFPP petitions; and
- hold the other petitions in abeyance pending ruling on the requests for rehearing of Opinion No. 435-A.

On July 17, 2000, SFPP submitted a compliance filing implementing the rulings made in Opinion No. 435-A, together with a calculation of reparations due to Navajo and refunds due to other East Line shippers. SFPP also filed a tariff containing East Line rates based on those rulings. On August 16, 2000, the FERC directed SFPP to supplement its compliance filing by providing certain underlying workpapers and information; SFPP responded to that order on August 31, 2000.

On September 19, 2000, the Court of Appeals dismissed Chevron's petition for lack of prosecution, and the court in an order issued January 19, 2001 denied a November 2, 2000 motion by Chevron for reconsideration of that dismissal. On October 20, 2000, the court dismissed the petitions for review filed by SFPP and RHC as premature in light of their pending requests for FERC rehearing, consolidated the ARCO, Navajo and Texaco petitions for review with the petitions for review of Opinion No. 435, and ordered that proceedings be held in abeyance until after FERC action on the rehearing requests.

In December 1995, Texaco filed an additional FERC complaint, which involves the question of whether a tariff filing was required for movements on SFPP's Sepulveda Lines, which are upstream of its Watson, California station origin point, and, if so, whether those rates may be set in that proceeding and what those rates should be. Several other West Line shippers have filed similar complaints and/or motions to intervene in this proceeding, all of which have been consolidated into Docket Nos. OR96-2-000, et al. Hearings before an administrative law judge were held in December 1996 and the parties completed the filing of final post-hearing briefs in January 1997.

On March 28, 1997, the administrative law judge issued an initial decision holding that the movements on the Sepulveda Lines are not subject to FERC jurisdiction. On August 5, 1997, the FERC reversed that decision and found the Sepulveda Lines to be subject to the jurisdiction of the FERC. The FERC ordered SFPP to make a tariff filing within 60 days to establish an initial rate for these facilities. The FERC reserved decision on reparations until it ruled on the newly-filed rates. On October 6, 1997, SFPP filed a tariff establishing the initial interstate rate for movements on the Sepulveda Lines from Sepulveda Junction to Watson Station at the preexisting rate of five cents per barrel, along with supporting cost of service documentation. Subsequently, several shippers filed protests and motions to intervene at the FERC challenging that rate. On December 24, 1997, FERC denied SFPP's request for rehearing of the August 5, 1997 decision. On December 31, 1997, SFPP filed an application for market power determination, which, if granted, will

enable it to charge market-based rates for this service. Several parties protested SFPP's application. On September 30, 1998, the FERC issued an order finding that, based on SFPP's application, SFPP lacks market power in the Watson Station destination market served by the Sepulveda Lines. The FERC found that SFPP appeared to lack market power in the origin market served by the Sepulveda Lines as well, but established a hearing to permit the protesting parties to substantiate allegations that SFPP possesses market power in the origin market. Hearings before a FERC administrative law judge on this limited issue were held in February 2000.

On December 21, 2000, the FERC administrative law judge issued his initial decision finding that SFPP possesses market power over the Sepulveda Lines origin market. Upon the filing by SFPP and other parties of briefs opposing and supporting the initial decision with the FERC, the ultimate disposition of SFPP's market rate application will be before the FERC.

Since the issuance of the initial decision in the Sepulveda case, the FERC judge has indicated an intention to proceed to consideration of the justness and reasonableness of the existing rate for service on the Sepulveda Lines. SFPP has sought clarification from FERC on the proper disposition of that issue in light of the pendency of its market rate application and prior deferral of consideration of SFPP's tariff filing. Further proceedings on this matter have been suspended pending resolution of SFPP's motion for clarification to the FERC.

On October 22, 1997, ARCO, Mobil and Texaco filed another complaint at the FERC (Docket No. OR98-1-000) challenging the justness and reasonableness of all of SFPP's interstate rates. The complaint again challenges SFPP's East and West Line rates and raises many of the same issues, including a renewed challenge to the grandfathered status of West Line rates, that have been at issue in Docket Nos. OR92-8-000, et al. The complaint includes an assertion that the acquisition of SFPP and the cost savings anticipated to result from the acquisition constitute "substantially changed circumstances" that provide a basis for terminating the "grandfathered" status of SFPP's otherwise protected rates. The complaint also seeks to establish that SFPP's grandfathered interstate rates from the San Francisco Bay area to Reno, Nevada and from Portland to Eugene, Oregon are also subject to "substantially changed circumstances" and, therefore, are subject to challenge. In November 1997, Ultramar Diamond Shamrock Corporation filed a similar complaint at the FERC (Docket No. OR98-2-000, et al.). The shippers are seeking both reparations and prospective rate reductions for movements on all of the lines.

SFPP filed answers to both complaints, and on January 20, 1998, the FERC issued an order accepting the complaints and consolidating both complaints into one proceeding, but holding them in abeyance pending a FERC decision on review of the initial decision in Docket Nos. OR92-8-000, et al. In July 1998, some complainants amended their complaints to incorporate updated financial and operational data on SFPP. SFPP answered the amended complaints. In a companion order to Opinion No. 435, the FERC directed the complainants to amend their complaints, as may be appropriate, consistent with the terms and conditions of its orders, including Opinion No. 435. On January 10 and 11, 2000, the complainants again amended their complaints to incorporate further updated financial and operational data on SFPP. SFPP filed an answer to these amended complaints on February 15, 2000. On May 17, 2000, the FERC issued an order finding that the various complaining parties had alleged sufficient grounds for their complaints against SFPP's interstate rates to go forward to a hearing. At such hearing, the administrative law judge will assess whether any of the challenged rates that are grandfathered under the Energy Policy Act will continue to have such status and, if the grandfathered status of any rate is not upheld, whether the existing rate is just and reasonable.

Discovery in this new proceeding is currently being conducted, with a hearing scheduled for August 2001 and an initial decision by the administrative law judge due in January 2002.

In August 2000, Navajo and RHC filed new complaints against SFPP's East Line rates and Ultramar filed an additional complaint updating its pre-existing challenges to SFPP's interstate pipeline rates. SFPP answered the complaints, and on September 22, 2000, the FERC issued an order accepting these new complaints and consolidating them with the ongoing proceeding in Docket No. OR96-2-000, et al.

Applicable rules and regulations in this field are vague, relevant factual issues are complex and there is little precedent available regarding the factors to be considered or the method of analysis to be employed in making a determination of "substantially changed circumstances," which is the showing necessary to make "grandfathered" rates subject to challenge. The complainants have alleged a variety of grounds for finding "substantially changed circumstances," including the acquisition of SFPP and cost savings achieved subsequent to the acquisition. Given the newness of the grandfathering standard under the Energy Policy Act and limited precedent, we cannot predict how these allegations will be viewed by the FERC.

If "substantially changed circumstances" are found, SFPP rates previously "grandfathered" under the Energy Policy Act may lose their "grandfathered" status. If these rates are found to be unjust and unreasonable, shippers may be entitled to a prospective rate reduction together with reparations for periods from the date of the complaint to the date of the implementation of the new rates.

We are not able to predict with certainty the final outcome of the FERC proceedings, should they be carried through to their conclusion, or whether we can reach a settlement with some or all of the complainants. Although it is possible that current or future proceedings could be resolved in a manner adverse to us, we believe that the resolution of such matters will not have a material adverse effect on our business, financial position or results of operations.

KMIGT

On January 23, 1998, KMIGT filed a general rate case with the FERC requesting a $30.2 million increase in annual revenues. As a result of the FERC's action, KMIGT was allowed to place its rates into effect on August 1, 1998, subject to refund. On November 3, 1999, KMIGT filed a comprehensive Stipulation and Agreement to resolve all issues in this proceeding. The FERC approved the Stipulation and Agreement on December 22, 1999. The settlement rates have been placed in effect, and KMIGT paid refunds of $34.7 million during 2000. The refunds did not exceed amounts previously accrued.

Trailblazer

On July 1, 1997, Trailblazer filed a rate case with the FERC (Docket No. RP97-408) which reflected a proposed annual revenue increase of $3.3 million. The timing of the rate case filing was in accordance with the requirements of Trailblazer's previous rate case settlement in Docket No. RP93-55. The FERC issued an order on July 31, 1997, which suspended the rates to be effective January 1, 1998. Major issues in the rate case included:

- throughput levels used in the design of rates;
- levels of depreciation rates;
- return on investment; and
- the cost of service treatment of the Columbia settlement revenues.

Trailblazer filed a proposed settlement agreement with the administrative law judge on May 8, 1998. The presiding administrative law judge certified the settlement to the FERC in an order dated June 25, 1998. The FERC issued an order on October 19, 1998 remanding the settlement, which was contested by two parties, to the presiding administrative law judge for further action. A revised settlement was filed on November 20, 1998. The presiding administrative law judge certified the revised settlement to the FERC on January 25, 1999.

The FERC issued orders on April 28, 1999 and August 3, 1999, approving the revised settlement as to all parties except the two parties who contested the settlement. As to the two contesting parties, the FERC established hearing procedures. On March 3, 2000, Trailblazer and the two parties filed a joint motion indicating that a settlement in principle had been reached. On March 6, 2000, the presiding administrative law judge issued an order suspending the procedural schedule and hearing pending the filing of the appropriate documents necessary to terminate the proceeding. On March 16, 2000, the two contesting parties filed a motion to withdraw their requests for rehearing of the FERC orders approving the settlement and concurrently those parties and Trailblazer jointly moved to terminate the proceeding. On March 30, 2000, the administrative law judge issued an order granting motion to terminate further proceedings, followed by an initial decision on April 7, 2000, terminating the proceedings. On May 18, 2000, the FERC issued a notice of the finality of the initial decision. Refunds related to the rate case were made in April 28, 2000 and totaled approximately $17.8 million. Adequate reserves had previously been established.

California Public Utilities Commission Proceeding

ARCO, Mobil and Texaco filed a complaint against SFPP with the California Public Utilities Commission on April 7, 1997. The complaint challenges rates charged by SFPP for intrastate transportation of refined petroleum products through its pipeline system in the State of California and requests prospective rate adjustments. On October 1, 1997, the complainants filed testimony seeking prospective rate reductions aggregating approximately $15 million per year.

On August 6, 1998, the CPUC issued its decision dismissing the complainants' challenge to SFPP's intrastate rates. On June 24, 1999, the CPUC granted limited rehearing of its August 1998 decision for the purpose of addressing the proper ratemaking treatment for partnership tax expenses, the calculation of environmental costs and the public utility status of SFPP's Sepulveda Line and its Watson Station gathering enhancement facilities. In pursuing these rehearing issues, complainants seek prospective rate reductions aggregating approximately $10 million per year.

On March 16, 2000, SFPP filed an application with the CPUC seeking authority to justify its rates for intrastate transportation of refined petroleum products on competitive, market-based conditions rather than on traditional, cost-of-service analysis.

On April 10, 2000, ARCO and Mobil filed a new complaint with the CPUC asserting that SFPP's California intrastate rates are not just and reasonable based on a 1998 test year and requesting the CPUC to reduce SFPP's rates prospectively. The amount of the reduction in SFPP rates sought by the complainants is not discernible from the complaint.

Procedurally, the rehearing complaint will be heard first, followed by consideration of the April 2000 complaint and SFPP's market-based application, which have been consolidated for hearing by the CPUC. The rehearing complaint was the subject of evidentiary hearings in October 2000, and a decision is expected within two to six months. The April 2000 complaint and SFPP's market-based application will be the subject of evidentiary hearings in February 2001, with a decision expected within six months of the hearings.

We believe that the resolution of such matters will not have a material adverse effect on our business, financial position or results of operations.

Southern Pacific Transportation Company Easements

SFPP and Southern Pacific Transportation Company are engaged in a judicial reference proceeding to determine the extent, if any, to which the rent payable by SFPP for the use of pipeline easements on rights-of-way held by SPTC should be adjusted pursuant to existing contractual arrangements (*Southern Pacific Transportation Company vs. Santa Fe Pacific Corporation, SFP Properties, Inc., Santa Fe Pacific Pipelines, Inc., SFPP, L.P., et al.*, Superior Court of the State of California for the County of San Francisco, filed August 31, 1994). Although SFPP received a favorable ruling from the trial court in May 1997, in September 1999, the California Court of Appeals remanded the case back to the trial court for further proceeding. SFPP is accruing amounts for payment of the rental for the subject rights-of-way consistent with our expectations of the ultimate outcome of the proceeding.

FERC Order 637

On June 15, 2000, KMIGT made its filing to comply with the FERC's Orders 637 and 637-A. That filing contained KMIGT's compliance plan to implement the changes required by the FERC dealing with the way business is conducted on interstate pipelines. All interstate pipelines are required to make such compliance filings, according to a schedule established by the FERC. KMIGT's filing is currently pending FERC action, and any changes to its tariff provisions are not expected to take effect until after the entire Order 637 process is finished for all pipelines. Separately, numerous petitioners, including KMIGT, have filed appeals of Order No. 637 in the D.C. Circuit, potentially raising a wide array of issues.

Carbon Dioxide Litigation

Kinder Morgan CO_2Company, L.P., as the successor to Shell CO_2 Company, Ltd. and directly and indirectly through its ownership interest in the Cortez Pipeline Company, along with other entities, is a defendant in several actions in which the plaintiffs allege that the defendants undervalued carbon dioxide produced from the McElmo Dome field and overcharged for transportation costs, thereby allegedly underpaying royalties and severance tax payments. The plaintiffs are comprised of royalty, overriding royalty and small share working interest owners who claim that they were underpaid by the defendants. These cases are: CO_2 Claims Coalition, LLC v. Shell Oil Co., et al., No. 96-Z-2451 (U.S.D.C. Colo.); Rutter & Wilbanks et al. v. Shell Oil Co., et al., No. 00-Z-1854 (U.S.D.C. Colo.); Watson v. Shell Oil Co., et al., No. 00-Z-1855 (U.S.D.C. Colo.); Ainsworth et al. v. Shell Oil Co., et al., No.

00-Z-1856 (U.S.D.C. Colo.); United States ex rel. Crowley v. Shell Oil Company, et al., No. 00-Z-1220 (U.S.D.C. Colo.); Ptasynski et al. v. Shell Western E&P Inc., et al., No. 3:97-CV-1208-R (U.S.D.C. Tex. N. Dist. Dallas Div.); Feerer et al. v. Amoco Production Co., et al., No. 99-2231 (U.S. Ct. App. 10th Cir.); Shell Western E&P Inc. v. Bailey, et al., No 98-28630 (215th Dist. Ct. Harris County, Tex.); Shores, et al. v. Mobil Oil Corporation, et al., No. GC-99-01184 (Texas Probate Court, Denton County); and Celeste C. Grynberg v. Shell Oil Company, et al., No. 98-CV-43 (Colo. Dist. Ct. Montezuma County).

Although no assurances can be given, we believe that we have meritorious defenses to these actions, that we have established an adequate reserve to cover potential liability, and that these matters will not have a material adverse effect on our business, financial position or results of operations.

Environmental Matters

We are subject to environmental cleanup and enforcement actions from time to time. In particular, the federal Comprehensive Environmental Response, Compensation and Liability Act generally imposes joint and several liability for cleanup and enforcement costs on current or predecessor owners and operators of a site, without regard to fault or the legality of the original conduct. Our operations are also subject to federal, state and local laws and regulations relating to protection of the environment. Although we believe our operations are in substantial compliance with applicable environmental regulations, risks of additional costs and liabilities are inherent in pipeline and terminal operations, and there can be no assurance that we will not incur significant costs and liabilities. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from our operations, could result in substantial costs and liabilities to us.

We are currently involved in the following governmental proceedings related to compliance with environmental regulations:

- one cleanup ordered by the United States Environmental Protection Agency related to ground water contamination in the vicinity of SFPP's storage facilities and truck loading terminal at Sparks, Nevada; and
- several ground water hydrocarbon remediation efforts under administrative orders issued by the California Regional Water Quality Control Board and two other state agencies.

In addition, we are from time to time involved in civil proceedings relating to damages alleged to have occurred as a result of accidental leaks or spills of refined petroleum products, natural gas liquids, natural gas and carbon dioxide.

Review of assets related to Kinder Morgan Interstate Gas Transmission LLC includes the environmental impacts from petroleum and used oil releases to the soil and groundwater at five sites. Further delineation and remediation of these impacts will be conducted. A reserve was established to address the closure of these issues.

Although no assurance can be given, we believe that the ultimate resolution of all these environmental matters set forth in this note will not have a material adverse effect on our business, financial position or results of operations. We have recorded a reserve for environmental claims in the amount of $21.1 million at December 31, 2000.

Other

We are a defendant in various lawsuits arising from the day-to-day operations of our businesses. Although no assurance can be given, we believe, based on our experiences to date, that the ultimate resolution of such items will not have a material adverse impact on our business, financial position or results of operations.

17. Quarterly Financial Data (unaudited)

	Operating Revenues	Operating Income	Net Income	Basic Net Income per Unit	Diluted Net Income per Unit
	(In thousands, except per unit amounts)				
2000					
First Quarter	$157,358	$63,061	$59,559	$0.63	$0.63
Second Quarter	193,758	79,976	71,810	0.70	0.70
Third Quarter	202,575	79,826	69,860	0.67	0.67
Fourth Quarter	262,751	92,698	77,119	0.68	0.68
1999					
First Quarter	$100,049	$47,645	$41,069	$0.57	$0.57
Second Quarter	102,933	47,340	43,113	0.61	0.61
Third Quarter (1)	104,388	48,830	52,553	0.77	0.77
Fourth Quarter	121,379	43,592	45,567	0.62	0.62

(1) 1999 third quarter includes an extraordinary charge of $2.6 million due to an early extinguishment of debt. Net income before extraordinary charge was $55.1 million and basic net income per unit before extraordinary charge was $0.82

Principal Officers

Richard D. Kinder
Chairman and Chief Executive Officer

William V. Morgan
Vice Chairman and President

Richard L. Bullock
Vice President and Controller

David G. Dehaemers, Jr.
Vice President, Corporate Development

Joseph Listengart
Vice President and General Counsel

Michael C. Morgan
Vice President, Strategy and Investor Relations

C. Park Shaper
Vice President and Chief Financial Officer

James E. Street
Vice President, Human Resources

Laurel L. Tiffin
Vice President and Chief Information Officer

Operating Officers

William V. Allison
President, Natural Gas Pipelines

Thomas A. Bannigan
President, Product Pipelines

R. Tim Bradley
President, CO_2 Pipelines

Thomas B. Stanley
President, Bulk Terminals

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Kinder Morgan G.P., Inc.

William V. Morgan
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Kinger Morgan G.P., Inc.

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Gaylord Interests LLC

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Managing Director
Hultquist Capital, LLC

Perry M. Waughtal [2]
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Songy Partners Limited

*Kinder Morgan Energy Partners, L.P. does not have officers or directors. Listed above are the officers and directors of the General Partner, Kinder Morgan G.P., Inc.

(1) Chairman, Audit and Conflicts Committee
(2) Member, Audit and Conflicts Committee

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