UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

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

For the period ended December 31, 2001

or

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

For the transition period from to

Commission file number 1-16459

Kinder Morgan Management, LLC

(Exact name of registrant as specified in its charter)

Delaware	**76-0669886**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
500 Dallas, Suite 1000, Houston, Texas	**77002**
(Address of principal executive offices)	*(Zip Code)*

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

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

Title of each class	Name of each exchange on which registered
Shares Representing Limited Liability Company Interests	New York Stock Exchange

Securities registered Pursuant to Section 12(g) of the Act:
None
(Title of class)

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

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

The aggregate market value of the listed shares held by non-affiliates of the registrant was $863,564,181 as of January 31, 2002.

The number of shares outstanding for each of the registrant's classes of common equity, as of February 1, 2002 was: approximately two voting shares outstanding as of February 1, 2002; and 30,636,361 listed shares outstanding.

KINDER MORGAN MANAGEMENT, LLC

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

PART I

Items 1. and 2. ***Business and Properties.***

In this report, unless the context requires otherwise, references to "we," "us," "our," or the "Company" are intended to mean Kinder Morgan Management, LLC and its consolidated subsidiary. Our shares representing limited liability company interests are traded on the New York Stock Exchange under the symbol "KMR". All share and per share numbers in this report give effect to a two-for-one split in August 2001. Our executive offices are located at 500 Dallas, Suite 1000, Houston, Texas 77002 and our telephone number is (713) 369-9000.

We are a publicly traded Delaware limited liability company that was formed on February 14, 2001. We are a limited partner in Kinder Morgan Energy Partners, L.P., and manage and control its business and affairs pursuant to a delegation of control agreement. Our success is dependent upon our operation and management of Kinder Morgan Energy Partners, L.P. and its resulting performance. Therefore, we have attached as Annex A hereto Kinder Morgan Energy Partners, L.P.'s Annual Report on Form 10-K for the year ended December 31, 2001.

Pursuant to the delegation of control agreement among Kinder Morgan G.P., Inc., Kinder Morgan Energy Partners, L.P., Kinder Morgan Energy Partners, L.P.'s operating partnerships and us:

- Kinder Morgan G.P., Inc., as general partner of Kinder Morgan Energy Partners, L.P., delegated to us, to the fullest extent permitted under Delaware law and the Kinder Morgan Energy Partners, L.P. partnership agreement, and we assumed, all of Kinder Morgan G.P., Inc.'s power and authority to manage and control the business and affairs of Kinder Morgan Energy Partners, L.P. and Kinder Morgan Energy Partners, L.P.'s operating partnerships; and
- We have agreed that we will not take any of the following actions without the approval of Kinder Morgan G.P., Inc.:
  - amend or propose an amendment to the Kinder Morgan Energy Partners, L.P. partnership agreement,
  - change the amount of the distribution made on the Kinder Morgan Energy Partners, L.P. common units,
  - allow a merger or consolidation involving Kinder Morgan Energy Partners, L.P.,
  - allow a sale or exchange of all or substantially all of the assets of Kinder Morgan Energy Partners, L.P.,
  - dissolve or liquidate Kinder Morgan Energy Partners, L.P.,
  - take any action requiring unitholder approval,
  - call any meetings of the Kinder Morgan Energy Partners, L.P. common unitholders,
  - take any action that, under the terms of the partnership agreement of Kinder Morgan Energy Partners, L.P., must or should receive a special approval of the conflicts and audit committee of Kinder Morgan G.P., Inc.,
  - take any action that, under the terms of the partnership agreement of Kinder Morgan Energy Partners, L.P., cannot be taken by the general partner without the approval of all outstanding units,
  - settle or compromise any claim or action directly against or otherwise relating to indemnification of our or the general partner's (and respective affiliates) officers, directors, managers or members or relating to our structure or securities,

- settle or compromise any claim or action relating to the i-units, which are a separate class of Kinder Morgan Energy Partners, L.P.'s limited partnership interests, our shares or any offering of our shares,
- settle or compromise any claim or action involving tax matters,
- allow Kinder Morgan Energy Partners, L.P. to incur indebtedness if the aggregate amount of its indebtedness then exceeds 50% of the market value of the then outstanding units of Kinder Morgan Energy Partners, L.P., or
- allow Kinder Morgan Energy Partners, L.P. to issue units in one transaction, or in a series of related transactions, having a market value in excess of 20% of the market value of then outstanding units of Kinder Morgan Energy Partners, L.P.

• Kinder Morgan G.P., Inc.:

- is not relieved of any responsibilities or obligations to Kinder Morgan Energy Partners, L.P. or its unitholders as a result of such delegation,
- owns or one of its affiliates owns all of our voting shares, and
- will not withdraw as general partner of Kinder Morgan Energy Partners, L.P. or transfer to a non-affiliate all of its interest as general partner, unless approved by both the holders of a majority of each of the i-units and the holders of a majority of all units voting as a single class, excluding common units and Class B units held by Kinder Morgan G.P., Inc. and its affiliates and excluding the number of i-units corresponding to the number of our shares owned by Kinder Morgan G.P., Inc. and its affiliates.

• Kinder Morgan Energy Partners, L.P. has agreed to:

- recognize the delegation of rights and powers to us,
- indemnify and protect us and our officers and directors to the same extent as it does with respect to Kinder Morgan G.P., Inc. as general partner; and
- reimburse our expenses to the same extent as it does with respect to Kinder Morgan G.P., Inc. as general partner.

These agreements will continue until either Kinder Morgan G.P., Inc. has withdrawn or been removed as the general partner of Kinder Morgan Energy Partners, L.P. or all of our shares are owned by Kinder Morgan, Inc. and its affiliates. The partnership agreement of Kinder Morgan Energy Partners, L.P. reflects these agreements. These agreements also apply to the operating partnerships of Kinder Morgan Energy Partners, L.P. and their partnership agreements.

Kinder Morgan G.P., Inc. remains the only general partner of Kinder Morgan Energy Partners, L.P. and all of its operating partnerships. Kinder Morgan G.P., Inc. will retain all of its general partner interests and shares in the profits, losses and distributions from all of these partnerships.

The withdrawal or removal of Kinder Morgan G.P., Inc. as general partner of Kinder Morgan Energy Partners, L.P. will simultaneously result in the termination of our power and authority to manage and control the business and affairs of Kinder Morgan Energy Partners, L.P. Similarly, if Kinder Morgan G.P., Inc.'s power and authority as general partner are modified in the partnership agreement of Kinder Morgan Energy Partners, L.P., then the power and authority delegated to us will be modified on the same basis. The delegation of control agreement can be amended by all parties to the agreement, but on any amendment that would reduce the time for any notice to which owners of our shares are entitled or would have a material adverse effect on our shares, as determined by our board of directors in its discretion, the approval of the owners of a majority of the shares, excluding shares owned by Kinder Morgan, Inc. and its affiliates is required.

Through our ownership of i-units, we are a limited partner in Kinder Morgan Energy Partners, L.P. We do not expect to have any cash flow attributable to our ownership of the i-units, but we expect that we will receive quarterly distributions of additional i-units from Kinder Morgan Energy Partners, L.P. The number of additional i-units we receive will be based on the amount of cash to be distributed by Kinder Morgan Energy Partners, L.P. to an owner of a common unit. The amount of cash distributed by Kinder Morgan Energy Partners, L.P. to its owners of common units is dependent on the operations of Kinder Morgan Energy Partners, L.P. and its operating limited partnerships and subsidiaries and will be determined in accordance with its partnership agreement.

We have elected to be treated as a corporation for federal income tax purposes. Because we are treated as a corporation for federal income tax purposes, an owner of our shares will not report on its federal income tax return any of our items of income, gain, loss and deduction relating to an investment in us.

We are subject to federal income tax on our taxable income; however, the i-units owned by us generally are not entitled to allocations of income, gain, loss or deduction of Kinder Morgan Energy Partners, L.P. until such time as there is a liquidation of Kinder Morgan Energy Partners, L.P. Therefore, we do not anticipate that we will have material amounts of taxable income resulting from our ownership of the i-units unless we enter into a sale or exchange of the i-units or Kinder Morgan Energy Partners, L.P. is liquidated.

We have no properties.

Item 3. ***Legal Proceedings.***

We are not a party to any litigation.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

There were no matters submitted to a vote of our shareholders during the fourth quarter of 2001.

PART II

Item 5. ***Market for Registrant's Common Equity and Related Shareholder Matters.***

Our shares are listed for trading on the New York Stock Exchange under the symbol "KMR." The per share price range of our shares by quarter, since our initial public offering, are provided below.

	Market Price Data 2001	
	Low	High
Quarter Ended:		
June 30[1]	$33.800	$36.275
September 30	$29.100	$37.095
December 31	$34.250	$39.540

[1] Shares began trading on May 18, 2001.

There were approximately 2,600 holders of our listed shares as of February 19, 2002 which includes individual participants in security position listings.

Under the terms of our limited liability company agreement, except in connection with our liquidation, we do not pay distributions on our shares in cash but we make distributions on our shares in additional shares or fractions of shares. At the same time Kinder Morgan Energy Partners, L.P. makes a distribution on its common units and i-units, we distribute on each of our shares that fraction of a share determined by dividing the amount of the cash distribution to be made by Kinder Morgan Energy

Partners, L.P. on each common unit by the average market price of a share determined for the ten-trading day period ending on the trading day immediately prior to the ex-dividend date for our shares.

	Share Distributions	
	Equivalent Distribution Value Per Share[1]	Total Number of Additional Shares Distributed
Quarter Ended:		
June 30[2]	$0.525	441,400
September 30	$0.550	444,961
December 31	$0.550	453,970

[1] This is the cash distribution paid or payable to each common unit of Kinder Morgan Energy Partners, L.P. for the quarter indicated and is used to calculate our distribution of shares as discussed above. Because of this calculation, the market value of the shares distributed on the date of distribution may be less or more than the cash distribution per common unit of Kinder Morgan Energy Partners, L.P.

[2] The first quarterly distribution after the issuance of the shares in May 2001.

There were no sales of unregistered equity securities during the period covered by this report except for the sale of our voting shares to Kinder Morgan G.P., Inc. which was exempt pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 6. ***Selected Financial Data.***

KINDER MORGAN MANAGEMENT, LLC AND SUBSIDIARY

	February 14, 2001 (Inception) through December 31, 2001
	(In thousands except per share amounts)
Equity in Earnings of Kinder Morgan Energy Partners	$ 28,354
Income Taxes	11,342
Net Income	$ 17,012
Basic and Diluted Earnings Per Share	$ 0.78
Number of Shares Used in Computing Basic and Diluted Earnings Per Share	21,756
Equivalent Distribution Value Per Share[1]	$ 1.625
Total Number of Additional Shares Distributed	1,340
Total Assets[2]	$1,034,824

[1] This is the amount of cash distributions payable to each common unit of Kinder Morgan Energy Partners, L.P. Under the terms of our limited liability company agreement, except in connection with our liquidation, we do not pay distributions on our shares in cash but we make distributions on our shares in additional shares or fractions of shares. At the same time Kinder Morgan Energy Partners, L.P. makes a distribution on its common units and i-units, we distribute on each of our shares that fraction of a share determined by dividing the amount of the cash distribution to be made by Kinder Morgan Energy Partners, L.P. on each common unit by the average market price of a share determined for a ten-trading day period ending on the trading day immediately prior to the ex-dividend date for our shares. Because of this calculation, the market value of the shares distributed on the date of distribution may be less or more than the cash distribution per common unit of Kinder Morgan Energy Partners, L.P.

[2] At December 31, 2001.

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

General

We are a publicly traded Delaware limited liability company, formed on February 14, 2001, that has elected to be treated as a corporation for federal income tax purposes. Our voting shares are owned by Kinder Morgan, G.P., Inc., an indirect wholly owned subsidiary of Kinder Morgan, Inc. and the general partner of Kinder Morgan Energy Partners, L.P.

Business

Kinder Morgan G.P., Inc. has delegated to us, to the fullest extent permitted under Delaware law and Kinder Morgan Energy Partners, L.P.'s limited partnership agreement, all of its rights and powers to manage and control the business and affairs of Kinder Morgan Energy Partners, L.P. subject to Kinder Morgan G.P., Inc.'s right to approve specified actions.

Results of Operations

Our results of operations consist of the offsetting expenses and revenues associated with our managing and controlling the business and affairs of Kinder Morgan Energy Partners, L.P. and our equity in the earnings of Kinder Morgan Energy Partners, L.P. attributable to the i-units we own. At December 31, 2001, through our ownership of i-units, we owned approximately 18.5% of all of Kinder Morgan Energy Partners, L.P.'s outstanding limited partner interests. We use the equity method of accounting for our investment in Kinder Morgan Energy Partners, L.P. and, therefore, we record earnings equal to approximately 18.5% of Kinder Morgan Energy Partners, L.P.'s limited partners' net income. Our percentage ownership in Kinder Morgan Energy Partners, L.P. will change over time upon the distribution of additional i-units to us or upon issuances of additional common units or other equity securities by Kinder Morgan Energy Partners, L.P.

For the quarter and year ended December 31, 2001, Kinder Morgan Energy Partners, L.P. reported limited partners' net income of $65.6 million and $240.2 million, respectively. The corresponding amounts for the prior year were $43.9 million and $168.9 million, respectively. The reported segment earnings contribution by business segment for Kinder Morgan Energy Partners, L.P. is set forth below. This information should be read in conjunction with Kinder Morgan Energy Partners, L.P.'s 2001 Form 10-K filed with the Securities and Exchange Commission, which is attached hereto as Annex A.

Kinder Morgan Energy Partners, L.P.

	Year Ended December 31, 2001
	(In thousands)
Segment Earnings Contribution:	
Product Pipelines	$ 308,761
Natural Gas Pipelines	193,716
CO_2 Pipelines	91,823
Terminals	129,949
General and Administrative Expenses	(99,009)
Net Debt Costs (Includes Interest Income)	(171,457)
Minority Interest	(11,440)
Net Income	$ 442,343

Kinder Morgan Management, LLC

Our earnings, as reported in the accompanying Consolidated Statement of Income, represent equity in earnings attributable to the i-units that we own, reduced by a deferred income tax provision. The deferred income tax provision is calculated based on the book/tax basis difference created by our recognition, under accounting principles generally accepted in the United States of America, of our share of the earnings of Kinder Morgan Energy Partners, L.P. Our earnings per share (both basic and diluted) is our net income divided by our weighted-average number of outstanding shares during the period presented. There are no securities outstanding that may be converted into or exercised for shares.

Income Taxes

We are a limited liability company that has elected to be treated as a corporation for federal income tax purposes. Deferred income tax assets and liabilities are recognized for temporary differences between the basis of our 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. Currently, our only such temporary difference (and associated deferred tax expense) results from recognition of the increased investment associated with recording our equity in the earnings of Kinder Morgan Energy Partners, L.P. The effective tax rate used in computing our income tax provision is 40 percent, and is composed of the 35 percent federal statutory rate and five percent representing state income taxes.

We are a party to a tax indemnification agreement with Kinder Morgan, Inc. Pursuant to this tax indemnification agreement, Kinder Morgan, Inc. agreed to indemnify us for any tax liability attributable to our formation or our management and control of the business and affairs of Kinder Morgan Energy Partners, L.P., and for any taxes arising out of a transaction involving the i-units we own to the extent the transaction does not generate sufficient cash to pay our taxes with respect to such transaction.

Liquidity and Capital Resources

Our authorized capital structure consists of two classes of interests: (1) our listed shares and (2) our voting shares, collectively referred to in this document as our "shares". Additional classes of interests may be approved by our board and holders of a majority of our shares, excluding shares held by Kinder Morgan, Inc. and its affiliates. The number of our shares outstanding will at all times equal the number of i-units of Kinder Morgan Energy Partners, L.P. we own. Under the terms of our limited liability company agreement, except in connection with our liquidation, we do not pay distributions on our shares in cash but we make distributions on our shares in additional shares or fractions of shares. At the same time Kinder Morgan Energy Partners, L.P. makes a distribution on its common units and i-units, we distribute on each of our shares that fraction of a share determined by dividing the amount of the cash distribution to be made by Kinder Morgan Energy Partners, L.P. on each common unit by the average market price of a share determined for a ten-trading day period ending on the trading day immediately prior to the ex-dividend date for our shares.

On July 18, 2001, Kinder Morgan Energy Partners, L.P. announced that we, as the delegate of Kinder Morgan Energy Partners, L.P.'s general partner, had approved a two-for-one split of its common units. The common unit split, in the form of a one common unit distribution for each common unit outstanding, occurred on August 31, 2001. This split resulted in our receiving one additional i-unit for each i-unit we owned on the record date, August 17, 2001. Also on July 18, 2001, we announced a two-for-one split of our shares. This share split, in the form of a one-share distribution for each share outstanding, occurred on August 31, 2001.

Pursuant to the Kinder Morgan, Inc. exchange provisions which constitute part of our limited liability company agreement, holders of our shares have the right, at their option, to exchange any or all of their whole shares for common units of Kinder Morgan Energy Partners, L.P. owned by Kinder Morgan, Inc., directly or indirectly through its subsidiaries, at an exchange rate of one common unit per one share. At any time, instead of delivering a common unit, Kinder Morgan, Inc. may elect to make a cash payment in respect of any share surrendered for exchange by giving notice of the election to the tendering holder not

more than three trading days after such share is surrendered for exchange. This cash payment shall be in an amount, per share delivered for exchange, equal to the average of the closing price of common units on the three trading days commencing two trading days after Kinder Morgan, Inc. gives such notice to such holder. Kinder Morgan, Inc. will make this cash payment as promptly as practicable after the completion of such three trading day period. As of December 31, 2001, 2,840,374 shares (after adjustment for the August 31, 2001 two-for-one share split) had been exchanged for Kinder Morgan Energy Partners, L.P.'s common units. As a result of these exchanges, at December 31, 2001, Kinder Morgan, Inc. owned 5,956,946, or approximately 19.4%, of our outstanding shares.

On January 17, 2002, we announced that our board of directors had declared a share distribution payable on February 14, 2002 to shareholders of record as of January 31, 2002, based on the $0.55 per common unit distribution declared by Kinder Morgan Energy Partners, L.P. This distribution was paid in the form of additional shares or fractions thereof, as appropriate, based on the average market price of a share determined for a ten-trading day period ending on the trading day immediately prior to the ex-dividend date for our shares.

We expect that our expenditures associated with managing and controlling the business and affairs of Kinder Morgan Energy Partners, L.P. and the reimbursement for these expenditures received by us from Kinder Morgan Energy Partners, L.P. will continue to be equal. As stated above, the distributions we expect to receive on the i-units we own will be in the form of additional i-units. Therefore, we expect neither to generate nor to require significant amounts of cash in ongoing operations. We currently have no debt and have no plans to incur any debt. Any cash received from the sale of additional shares will be immediately used to purchase additional i-units. Accordingly, we do not anticipate any other sources or needs for additional liquidity.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 141 supercedes Accounting Principles Board Opinion No. 16 and requires that all transactions fitting the description of a business combination be accounted for using the purchase method and prohibits the use of the pooling of interests for all business combinations initiated after June 30, 2001. The Statement also modifies the accounting for the excess of fair value of net assets acquired as well as intangible assets acquired in a business combination. The provisions of this statement apply to all business combinations initiated after June 30, 2001, and all business combinations accounted for by the purchase method that are completed after July 1, 2001. This Statement requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets.* This Statement addresses financial accounting and reporting for (1) intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition and (2) goodwill and other intangible assets subsequent to their acquisition. This Statement supersedes APB Opinion No. 17, *Intangible Assets.* Under the provisions of this Statement, if an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its useful life is determined to be no longer indefinite. An intangible asset that is not subject to amortization shall be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill will not be amortized. Goodwill will be tested for impairment on an annual basis and between annual tests in certain circumstances at a level of reporting referred to as a reporting unit. This Statement is required to be applied starting with fiscal years beginning after December 15, 2001. Goodwill and intangible assets acquired after June 30, 2001 will be subject immediately to the nonamortization and amortization provisions of this Statement.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations.* This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a

reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This Statement contains disclosure requirements that provide descriptions of asset retirement obligations and reconciliations of changes in the components of those obligations. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier applications are encouraged.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement retains the requirements to (1) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (2) measure an impairment loss as the difference between the carrying amount and fair value of the asset. This Statement removes goodwill from its scope, eliminating the requirement to allocate goodwill to long-lived assets to be tested for impairment. This Statement requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off, be considered held and used until it is disposed of. This Statement requires the accounting model for long-lived assets to be disposed of by sale be used for all long-lived assets, whether previously held and used or newly acquired. Discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. This Statement broadens the presentation of discontinued operations in the income statement to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of this Statement generally are to be applied prospectively.

We do not expect these new pronouncements to have a significant impact on our financial statements, except for any impacts that may result from changes in our equity in earnings of Kinder Morgan Energy Partners, L.P. as a result of its adoption of these new pronouncements.

Risk Factors of our Business

Our success depends upon our operation and management of Kinder Morgan Energy Partners, L.P. and its resulting performance. We are a limited partner in Kinder Morgan Energy Partners, L.P. In the event that Kinder Morgan Energy Partners, L.P. decreases its cash distributions to its common unitholders, distributions of i-units on our i-units will decrease correspondingly, and distributions of additional shares to owners of our shares will decrease as well.

The value of the quarterly per-share distribution of an additional fractional share may be less than the cash distribution on a common unit of Kinder Morgan Energy Partners, L.P. The fraction of a Kinder Morgan Management, LLC share to be issued in distributions per share outstanding will be based on the average closing price of the shares for the ten consecutive trading days preceding the ex-dividend date. Because the market price of our shares may vary substantially over time, the market value of our shares on the date a shareholder receives a distribution of additional shares may vary substantially from the cash the shareholder would have received had the shareholder owned common units instead of shares.

Kinder Morgan Energy Partners, L.P. could be treated as a corporation for United States income tax purposes. The treatment of Kinder Morgan Energy Partners, L.P. as a corporation would substantially reduce the cash distributions on the common units and the value of i-units that Kinder Morgan Energy Partners, L.P. will distribute quarterly to us and the value of our shares that we will distribute quarterly to our shareholders. The anticipated benefit of an investment in our shares depends largely on the treatment of Kinder Morgan Energy Partners, L.P. as a partnership for United States income tax purposes. Kinder Morgan Energy Partners, L.P. has not requested, and does not plan to request, a ruling from the IRS on this or any other matter affecting Kinder Morgan Energy Partners, L.P. Current law requires Kinder Morgan Energy Partners, L.P. to derive at least 90% of its annual gross income from specific activities to continue to be treated as a partnership for United States income tax purposes. Kinder Morgan Energy

Partners, L.P. may not find it possible, regardless of its efforts, to meet this income requirement or may inadvertently fail to meet this income requirement. Current law may change so as to cause Kinder Morgan Energy Partners, L.P. to be treated as a corporation for United States income tax purposes without regard to its sources of income or otherwise subject Kinder Morgan Energy Partners, L.P. to entity-level taxation.

If Kinder Morgan Energy Partners, L.P. were to be treated as a corporation for United States income tax purposes, it would pay United States income tax on its income at the corporate tax rate, which is currently a maximum of 35% and would pay state income taxes at varying rates. Distributions to us of additional i-units would generally be taxed as a corporate distribution. Because a tax would be imposed upon Kinder Morgan Energy Partners, L.P. as a corporation, the cash available for distribution to a common unitholder would be substantially reduced which would reduce the values of i-units distributed quarterly to us and our shares distributed quarterly to our shareholders. Treatment of Kinder Morgan Energy Partners, L.P. as a corporation would cause a substantial reduction in the value of our shares.

As an owner of i-units, we may not receive value equivalent to the common unit value for our i-unit interest in Kinder Morgan Energy Partners, L.P. if Kinder Morgan Energy Partners, L.P. is liquidated. As a result, a shareholder may receive less per share in our liquidation than is received by an owner of a common unit in a liquidation of Kinder Morgan Energy Partners, L.P. If Kinder Morgan Energy Partners, L.P. is liquidated and Kinder Morgan, Inc. does not satisfy its obligation to purchase your shares, which is triggered by a liquidation, then the value of your shares will depend on the liquidating distribution received by us as the owner of i-units. The terms of the i-units provide that no allocations of income, gain, loss or deduction will be made in respect of the i-units until such time as there is a liquidation of Kinder Morgan Energy Partners, L.P. If there is a liquidation of Kinder Morgan Energy Partners, L.P., it is intended that we will receive allocations of income and gain in an amount necessary for the capital account attributable to each i-unit to be equal to that of a common unit. As a result, we will likely realize taxable income upon the liquidation of Kinder Morgan Energy Partners, L.P. However, there may not be sufficient amounts of income and gain to cause the capital account attributable to each i-unit to be equal to that of a common unit. If they are not equal, we and therefore our shareholders may receive less value than would be received by an owner of an equivalent number of common units.

Further, the tax indemnity provided to us by Kinder Morgan, Inc. only indemnifies us for our tax liabilities to the extent we have not received sufficient cash in the transaction generating the tax liability to pay the tax. Prior to the liquidation of Kinder Morgan Energy Partners, L.P. we do not expect to receive cash in a taxable transaction. If a liquidation of Kinder Morgan Energy Partners, L.P. occurs, however, we would likely receive cash which would need to be used at least in part to pay taxes. As a result, our residual value and the value of our shares could be reduced.

Our management and control of the business and affairs of Kinder Morgan Energy Partners, L.P. and its operating partnerships could result in our being liable for obligations to third parties who transact business with Kinder Morgan Energy Partners, L.P. and its operating partnerships and who reasonably believe that we are a general partner. Kinder Morgan Energy Partners, L.P. may not be able to reimburse or indemnify us as a result of its insolvency or bankruptcy. The primary adverse impact of that insolvency or bankruptcy on us will be the decline in or elimination of the value of our i-units, which are our only assets. Assuming under these circumstances that we have some residual value in our i-units, a direct claim against us could further reduce our net asset value and cause us also to declare bankruptcy. Another risk with respect to third party claims will come, however, under the circumstances when Kinder Morgan Energy Partners, L.P. is financially able to pay us but for some other reason does not reimburse or indemnify us. For additional information, see the following risk factor.

If we are not fully indemnified by Kinder Morgan Energy Partners, L.P. for all the liabilities we incur in performing our obligations under the delegation of control agreement, we could face material difficulties in paying those liabilities, and the net value of our assets could be adversely affected. Under the delegation of control agreement, we have been delegated management and control of Kinder Morgan Energy Partners, L.P. and the operating partnerships. There are circumstances under which we may not be

indemnified by Kinder Morgan Energy Partners, L.P. or Kinder Morgan G.P., Inc. for liabilities we incur in managing the business of Kinder Morgan Energy Partners, L.P. These circumstances include:

- if we act in bad faith; and
- if we breach laws like the federal securities laws where indemnification may not be allowed.

The interests of Kinder Morgan, Inc. may differ from our interests, the interest of our shareholders and the interests of unitholders of Kinder Morgan Energy Partners, L.P. Kinder Morgan, Inc. owns all of the stock of the general partner of Kinder Morgan Energy Partners, L.P. and elects all of its directors. The general partner of Kinder Morgan Energy Partners, L.P. owns all of our voting shares and elects all of our directors. Furthermore, some of our directors and officers are also directors and officers of Kinder Morgan, Inc. and the general partner of Kinder Morgan Energy Partners, L.P. and have fiduciary duties to manage the businesses of Kinder Morgan, Inc. and Kinder Morgan Energy Partners, L.P. in a manner that may not be in the best interest of our shareholders. Kinder Morgan, Inc. has a number of interests that differ from the interests of our shareholders and the interests of the common unitholders. As a result, there is a risk that important business decisions will not be made in the best interest of our shareholders.

Our limited liability company agreement restricts or eliminates a number of the fiduciary duties that would otherwise be owed by our Board of Directors to our shareholders and the partnership agreement of Kinder Morgan Energy Partners, L.P. restricts or eliminates a number of the fiduciary duties that would otherwise be owed by the general partner to the unitholders. Modifications of state law standards of fiduciary duties may significantly limit the ability of our shareholders and the unitholders to successfully challenge the actions of our board of directors and the general partner, respectively, in the event of a breach of their fiduciary duties. These state law standards include the highest duties of good faith, fairness and loyalty to the shareholders and to the unitholders, as applicable. The duty of loyalty would generally prohibit our board of directors or the general partner from taking any action or engaging in any transaction as to which it has a conflict of interest. Our limited liability company agreement provides that none of our directors or officers will be liable to us or any other person for any act or omission taken or omitted in the reasonable belief that the act or omission is in or is not contrary to our best interests and is within his scope of authority, provided that the act or omission does not constitute fraud, willful misconduct, bad faith or gross negligence.

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 actions, conditions or events or future operating results or the ability to generate sales, income or cash flow or to make distributions are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future actions, conditions or events and future results of 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 that could cause actual results to differ from those in the forward-looking statements include but are not limited to the following:

- price trends and overall demand for natural gas liquids, refined petroleum products, oil, 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 Kinder Morgan Energy Partners, L.P.'s tariff rates implemented by the Federal Energy Regulatory Commission or the California Public Utilities Commission;

- Kinder Morgan Energy Partners, L.P.'s ability to integrate any acquired operations into its existing operations;
- difficulties or delays experienced by railroads, barges, trucks, ships or pipelines in delivering products to Kinder Morgan Energy Partners, L.P.'s terminals;
- Kinder Morgan Energy Partners, L.P.'s ability to successfully identify and close strategic acquisitions and make cost saving changes in operations;
- shut-downs or cutbacks at major refineries, petrochemical or chemical plants, utilities, military bases or other businesses that use or supply Kinder Morgan Energy Partners, L.P.'s services;
- changes in laws or regulations, third party relations and approvals, decisions of courts, regulators and governmental bodies may adversely affect Kinder Morgan Energy Partners, L.P.'s business or its ability to compete;
- Kinder Morgan Energy Partners, L.P.'s indebtedness could make it vulnerable to general adverse economic and industry conditions, limit its ability to borrow additional funds, place it at competitive disadvantages compared to its competitors that have less debt or have other adverse consequences;
- interruptions of electric power supply to facilities due to natural disasters, power shortages, strikes, riots, terrorism, war or other causes;
- acts of sabotage and terrorism for which insurance is not available at reasonable premiums;
- 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.

One should not put an undue reliance on forward-looking statements.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

The nature of our business and operations is such that no activities or transactions of the type requiring discussion under this item are conducted or entered into.

Item 8. ***Financial Statements and Supplementary Data.***

INDEX

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
and Shareholders of Kinder Morgan Management, LLC

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Kinder Morgan Management, LLC and its subsidiary at December 31, 2001, and the results of their operations and their cash flows for the period from February 14, 2001 (inception) through December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit provides a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

Houston, Texas
February 15, 2002

KINDER MORGAN MANAGEMENT, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

	February 14, 2001 (Inception) through December 31, 2001
	(In thousands except per share amount)
Equity in Earnings of Kinder Morgan Energy Partners, L.P.	$ 28,354
Provision for Income Taxes	11,342
Net Income	$ 17,012
Earnings Per Share, Basic and Diluted	$ 0.78
Weighted Average Shares Outstanding	21,756

The accompanying notes are an integral part of this statement.

KINDER MORGAN MANAGEMENT, LLC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

	December 31, 2001 (In thousands)
ASSETS	
Current Assets:	
Accounts Receivable:	
Related Party	$ 6,140
Other	43
Prepayments and Other	8,488
	14,671
Investment in Kinder Morgan Energy Partners, L.P.	1,020,153
Total Assets	$1,034,824
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Accounts Payable	$ 160
Accrued Expenses	13,451
Other	960
	14,571
Deferred Income Taxes	11,342
Shareholders' Equity:	
Voting Shares — Unlimited Authorized; 2 Voting Shares Issued and Outstanding	100
Listed Shares — Unlimited Authorized; 30,636,361 Listed Shares Issued and Outstanding	1,024,317
Retained Deficit	(15,506)
Total Shareholders' Equity	1,008,911
Total Liabilities and Shareholders' Equity	$1,034,824

The accompanying notes are an integral part of this statement.

KINDER MORGAN MANAGEMENT, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Voting Shares	Listed Shares	Retained Earnings (Deficit)	Total Shareholders' Equity
		(In thousands)		
Issuance of Voting Share to Kinder Morgan G.P., Inc.	$100	$ —	$ —	$ 100
Initial Public Offering of Listed Shares:				
29,750,000[1] Listed Shares at $35.21[1] per Listed Share	—	1,047,349	—	1,047,349
Underwriting Discount and Offering Expenses	—	(55,480)	—	(55,480)
Other Issuance and Share Split Costs	—	(70)	—	(70)
Net Income — Inception Through December 31, 2001	—	—	17,012	17,012
Share Dividends: 886,361[1] Listed Shares	—	32,518	(32,518)	—
Total Shareholders' Equity at December 31, 2001	$100	$1,024,317	$ (15,506)	$1,008,911

[1] Adjusted for the August 31, 2001 two-for-one share split.

The accompanying notes are an integral part of this statement.

KINDER MORGAN MANAGEMENT, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents

	February 14, 2001 (Inception) through December 31, 2001
	(In thousands)
Cash Flows From Operating Activities:	
Net Income	$ 17,012
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:	
Deferred Income Taxes	11,342
Equity in Earnings of Kinder Morgan Energy Partners, L.P.	(28,354)
Increase in Accounts Receivable	(6,083)
Increase in Other Current Assets	(8,488)
Increase in Accounts Payable	160
Increase in Other Current Liabilities	14,411
Net Cash Flows Provided by Operating Activities	—
Cash Flows From Investing Activities:	
Purchase of i-units of Kinder Morgan Energy Partners, L.P.	(991,869)
Net Cash Flows Used in Investing Activities	(991,869)
Cash Flows From Financing Activities:	
Shares Issued	1,047,349
Share Issuance Costs	(55,480)
Net Cash Flows Provided by Financing Activities	991,869
Net Increase in Cash and Cash Equivalents	—
Cash and Cash Equivalents at Beginning of Period	—
Cash and Cash Equivalents at End of Period	$ —

The accompanying notes are an integral part of this statement.

KINDER MORGAN MANAGEMENT, LLC AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

Kinder Morgan Management, LLC is a publicly traded Delaware limited liability company that was formed on February 14, 2001. Kinder Morgan G.P., Inc., an indirect wholly owned subsidiary of Kinder Morgan, Inc. (one of the largest midstream energy companies in the United States and traded on the New York Stock Exchange under the symbol "KMI"), owns all of our voting shares.

2. Significant Accounting Policies

(A) Basis of Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Our consolidated financial statements include the accounts of Kinder Morgan Management, LLC and its wholly owned subsidiary, Kinder Morgan Services LLC. All material intercompany transactions and balances have been eliminated.

(B) Accounting for Investment in Kinder Morgan Energy Partners

We use the equity method of accounting for our investment in Kinder Morgan Energy Partners, L.P., which is further described in Notes 3 and 4. Kinder Morgan Energy Partners, L.P. is a publicly traded limited partnership and is traded on the New York Stock Exchange under the symbol "KMP." We record, in the period in which it is earned, our share of the earnings of Kinder Morgan Energy Partners, L.P. attributable to the i-units we own. We receive distributions from Kinder Morgan Energy Partners, L.P. in the form of additional i-units, which increase the number of i-units we own. We issue additional shares (or fractions thereof) of the Company to our existing shareholders in an amount equal to the additional i-units received from Kinder Morgan Energy Partners, L.P.

(C) Accounting for Share Distributions

Our board of directors declares and we make additional share distributions at the same times that Kinder Morgan Energy Partners, L.P. declares and makes distributions on the i-units to us, so that the number of i-units we own and the number of our shares outstanding remain equal. We account for the share distributions we make by charging retained earnings and crediting outstanding shares with amounts that equal the number of shares distributed multiplied by the closing price of the shares on the date the distribution is payable. As a result, we expect that our retained earnings will always be in a deficit position because distributions per unit for Kinder Morgan Energy Partners, L.P. exceed the earnings per unit.

(D) Earnings Per Share

Both basic and diluted earnings per share are computed based on the weighted-average number of shares outstanding during each period, adjusted for share splits. There are no securities outstanding that may be converted into or exercised for shares.

(E) Income Taxes

We are a limited liability company that has elected to be treated as a corporation for federal income tax purposes. Deferred income tax assets and liabilities are recognized for temporary differences between

the basis of our assets and liabilities for financial reporting and tax purposes. We include changes in tax legislation in the relevant computations in the period in which such changes are effective.

Currently, our long-term deferred income tax liability of $11.3 million (and associated deferred income tax expense of $11.3 million) results from recognition of the increased investment associated with recording our equity in the earnings of Kinder Morgan Energy Partners, L.P. The effective tax rate utilized in computing our income tax provision is 40 percent, and is composed of the 35 percent federal statutory rate and five percent representing state income taxes.

We entered into a tax indemnification agreement with Kinder Morgan, Inc. Pursuant to this tax indemnification agreement, Kinder Morgan, Inc. agreed to indemnify us for any tax liability attributable to our formation or our management and control of the business and affairs of Kinder Morgan Energy Partners, L.P. and for any taxes arising out of a transaction involving the i-units we own to the extent the transaction does not generate sufficient cash to pay our taxes with respect to such transaction.

(F) Cash Flow Information

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. No cash payments for interest or income taxes were made during the period presented.

3. Capitalization

Our authorized capital structure consists of two classes of interests: (1) our listed shares and (2) our voting shares, collectively referred to in this document as our "shares". Prior to the May 2001 initial public offering of our shares, our issued capitalization consisted of $100,000 contributed by Kinder Morgan, G.P., Inc. for two voting shares.

In May 2001, in each case after adjustment for the August 31, 2001 two-for-one share split, we issued 26,775,000 shares for cash to the public and 2,975,000 shares to Kinder Morgan, Inc., using all of the net proceeds of the offering of approximately $991.9 million to purchase 29,750,002 i-units from Kinder Morgan Energy Partners, L.P. Quarterly distributions on these i-units from Kinder Morgan Energy Partners, L.P.'s operations and interim capital transactions are received in additional i-units rather than cash. Each time Kinder Morgan Energy Partners, L.P. issues i-units to us, we distribute an equal number of shares to holders of our shares. Pursuant to our limited liability company agreement, the number of i-units and shares will remain equal.

On July 18, 2001, Kinder Morgan Energy Partners, L.P. announced that we, as delegate of its general partner, had approved a two-for-one split of its common units. The common unit split, in the form of a one common unit distribution for each common unit outstanding, occurred on August 31, 2001. This split resulted in our receiving one additional i-unit for each i-unit we owned on the record date, August 17, 2001. Also on July 18, 2001, we announced a two-for-one split of our shares. This share split, in the form of a one-share distribution for each share outstanding, occurred on August 31, 2001.

Pursuant to the Kinder Morgan, Inc. exchange provisions which constitute part of our limited liability company agreement, holders of our shares have the right, at their option, to exchange any or all of their whole shares for common units of Kinder Morgan Energy Partners, L.P. owned by Kinder Morgan, Inc., directly or indirectly through its subsidiaries, at an exchange rate of one common unit per one share. At any time, instead of delivering a common unit, Kinder Morgan, Inc. may elect to make a cash payment in respect of any share surrendered for exchange by giving notice of the election to the surrendering holder not more than three trading days after such share is surrendered for exchange. This cash payment shall be in an amount, per share delivered for exchange, equal to the average of the closing price of common units on the three trading days commencing two trading days after Kinder Morgan, Inc. gives such notice to

such holder. Kinder Morgan, Inc. will make this cash payment as promptly as practicable after the completion of such three trading day period. As of December 31, 2001, 2,840,374 shares (after adjustment for the August 31, 2001 two-for-one share split) had been exchanged for Kinder Morgan Energy Partners' common units. As a result of these exchanges, at December 31, 2001, Kinder Morgan, Inc. owned 5,956,946, or approximately 19.4%, of our outstanding shares.

On February 14, 2002, we paid a share distribution to shareholders of record as of January 31, 2002, based on the $0.55 per common unit distribution declared by Kinder Morgan Energy Partners, L.P. This distribution was paid in the form of additional shares or fractions thereof based on the average market price of a share determined for a ten-trading day period ending on the trading day immediately prior to the ex-dividend date for our shares.

4. Business Activities and Related Party Transactions

At no time after our formation and prior to our initial public offering did we have any operations or own any interest in Kinder Morgan Energy Partners, L.P. Upon our initial public offering, we became a limited partner in Kinder Morgan Energy Partners, L.P. and, pursuant to a delegation of control agreement, we assumed the management and control of its business and affairs. Under the delegation of control agreement, Kinder Morgan G.P., Inc. delegated to us, to the fullest extent permitted under Delaware law and the Kinder Morgan Energy Partners, L.P. partnership agreement, all of Kinder Morgan G.P., Inc.'s power and authority to manage and control the business and affairs of Kinder Morgan Energy Partners, L.P., subject to Kinder Morgan G.P., Inc.'s right to approve certain transactions. Kinder Morgan Energy Partners, L.P. will either pay directly or reimburse us for all expenses we incur in performing under the delegation of control agreement and will be obligated to indemnify us against claims and liabilities provided that we have acted in good faith and in a manner we believed to be in, or not opposed to, the best interests of Kinder Morgan Energy Partners, L.P. and the indemnity is not prohibited by law. Kinder Morgan Energy Partners, L.P. consented to the terms of the delegation of control agreement including Kinder Morgan Energy Partners, L.P.'s indemnity and reimbursement obligations. We do not receive a fee for our service under the delegation of control agreement, nor do we receive any margin or profit on the expense reimbursement. We incurred approximately $27.0 million of expenses on behalf of Kinder Morgan Energy Partners, L.P. during the quarter ended December 31, 2001, and $48.5 million for the period from inception through December 31, 2001. The expense reimbursements by Kinder Morgan Energy Partners, L.P. to us are accounted for as a reduction to the expense incurred. The net monthly balance payable or receivable from these activities is settled in cash in the following month. At December 31, 2001, a $6.1 million receivable from Kinder Morgan Energy Partners, L.P. is recorded in the caption "Accounts Receivable: Related Party" in the accompanying Consolidated Balance Sheet.

Kinder Morgan Services LLC is our wholly owned subsidiary and provides employees and related centralized payroll and employee benefits services to us, Kinder Morgan G.P., Inc., Kinder Morgan Energy Partners, L.P. and Kinder Morgan Energy Partners, L.P.'s operating partnerships and subsidiaries (collectively, the "Group"). Employees of Kinder Morgan Services LLC are assigned to work for one or more members of the Group. The direct costs of all compensation, benefits expenses, employer taxes and other employer expenses for these employees are allocated and charged by Kinder Morgan Services LLC to the appropriate members of the Group, and the members of the Group reimburse Kinder Morgan Services LLC for their allocated shares of these direct costs. There is no profit or margin charged by Kinder Morgan Services LLC to the members of the Group. The administrative support necessary to implement these payroll and benefits services is provided by the human resource department of Kinder Morgan, Inc., and the related administrative costs are allocated to members of the Group in accordance with existing expense allocation procedures. The effect of these arrangements is that each member of the Group bears the direct compensation and employee benefits costs of its assigned or partially assigned employees, as the case may be, while also bearing its allocable share of administrative costs. Pursuant to

its limited partnership agreement, Kinder Morgan Energy Partners, L.P. reimburses Kinder Morgan Services LLC for its share of these administrative costs and such reimbursements will be accounted for as described above.

Our named executive officers and some other employees that provide management or services to both Kinder Morgan, Inc. and the Group are employed by Kinder Morgan, Inc. Additionally, other Kinder Morgan, Inc. employees assist in the operation of Kinder Morgan Energy Partners' Natural Gas Pipeline assets formerly owned by Kinder Morgan, Inc. These Kinder Morgan, Inc. employees' expenses are allocated without a profit component between Kinder Morgan, Inc. and the appropriate members of the Group.

5. Summarized Financial Information for Kinder Morgan Energy Partners, L.P.

Following is summarized financial information for Kinder Morgan Energy Partners, L.P., a publicly traded limited partnership in which we own a significant interest. Additional information on Kinder Morgan Energy Partners, L.P.'s results of operations and financial position are contained in its 2001 Form 10-K, which is attached to this report as Annex A.

Summarized Income Statement Information

	Year Ended December 31,		
	2001	2000	1999
	(In thousands)		
Operating Revenues	$2,946,676	$816,442	$428,749
Operating Expenses	2,382,848	500,881	241,342
Operating Income	$ 563,828	$315,561	$187,407
Net Income	$ 442,343	$278,348	$182,302

Summarized Balance Sheet Information

	As of December 31,	
	2001	2000
	(In thousands)	
Current Assets	$ 568,043	$ 511,261
Noncurrent Assets	$6,164,623	$4,113,949
Current Liabilities	$ 962,704	$1,098,956
Noncurrent Liabilities	$2,545,692	$1,351,018
Minority Interest	$ 65,236	$ 58,169

6. Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 141 supercedes Accounting Principles Board Opinion No. 16 and requires that all transactions fitting the description of a business combination be accounted for using the purchase method and prohibits the use of the pooling of interests for all business combinations initiated after June 30, 2001. The Statement also modifies the accounting for the excess of fair value of net assets acquired as well as intangible assets acquired in a business combination. The provisions of this statement apply to all business combinations initiated after June 30, 2001, and all business combinations accounted for by the purchase method that are completed after July 1, 2001. This

Statement requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets.* This Statement addresses financial accounting and reporting for (i) intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition and (ii) goodwill and other intangible assets subsequent to their acquisition. This Statement supersedes APB Opinion No. 17, *Intangible Assets.* Under the provisions of this Statement, if an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its useful life is determined to be no longer indefinite. An intangible asset that is not subject to amortization shall be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill will not be amortized. Goodwill will be tested for impairment on an annual basis and between annual tests in certain circumstances at a level of reporting referred to as a reporting unit. This Statement is required to be applied starting with fiscal years beginning after December 15, 2001. Goodwill and intangible assets acquired after June 30, 2001 will be subject immediately to the nonamortization and amortization provisions of this Statement.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations.* This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This Statement contains disclosure requirements that provide descriptions of asset retirement obligations and reconciliations of changes in the components of those obligations. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier applications are encouraged.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement retains the requirements to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset. This Statement removes goodwill from its scope, eliminating the requirement to allocate goodwill to long-lived assets to be tested for impairment. This Statement requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off be considered held and used until it is disposed of. This Statement requires the accounting model for long-lived assets to be disposed of by sale be used for all long-lived assets, whether previously held and used or newly acquired. Discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. This Statement broadens the presentation of discontinued operations in the income statement to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of this Statement generally are to be applied prospectively.

We do not expect these new pronouncements to have a significant impact on our financial statements, except for any impacts that may result from changes in our equity in earnings of Kinder Morgan Energy Partners, L.P. as a result of its adoption of these new pronouncements.

KINDER MORGAN MANAGEMENT, LLC AND SUBSIDIARY

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly Operating Results for 2001

	February 14, 2001 (Inception) through March 31, 2001	2001 — Three Months Ended		
		June 30	September 30	December 31
	(In thousands except per share amounts)			
Equity in Earnings of Kinder Morgan Energy Partners, L.P.[1]	$—	$ 5,215	$11,075	$12,064
Provision for Income Taxes	—	2,086	4,430	4,826
Net Income	$—	$ 3,129	$ 6,645	$ 7,238
Earnings Per Share, Basic and Diluted	$—	$ 0.20	$ 0.22	$ 0.24
Weighted Average Shares Outstanding	—	15,536	29,966	30,424

[1] Included from May 18, 2001, the date when our equity interest in Kinder Morgan Energy Partners was acquired.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant.***

Set forth below is certain information concerning our directors and executive officers. All directors are elected annually by, and may be removed by, Kinder Morgan G.P., Inc. as the sole holder of our voting shares. All officers serve at the discretion of our board of directors. In addition to the individuals named below, Kinder Morgan, Inc. is one of our directors.

Name	Age	Position
Richard D. Kinder	57	Director, Chairman and Chief Executive Officer
William V. Morgan	58	Director and Vice Chairman
Michael C. Morgan	33	President
Edward O. Gaylord	70	Director
Gary L. Hultquist	58	Director
Perry M. Waughtal	66	Director
William V. Allison	54	President, Natural Gas Pipelines
Thomas A. Bannigan	48	President, Products Pipelines
R. Tim Bradley	46	President, Kinder Morgan CO_2 Pipelines
David G. Dehaemers, Jr.	41	Vice President, Corporate Development
Joseph Listengart	33	Vice President, General Counsel and Secretary
C. Park Shaper	33	Vice President, Treasurer and Chief Financial Officer
Thomas B. Stanley	51	President, Terminals
James E. Street	45	Vice President, Human Resources and Administration

Richard D. Kinder is Director, Chairman and Chief Executive Officer of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. Mr. Kinder has served as Director, Chairman and Chief Executive Officer of Kinder Morgan Management, LLC since its formation in February 2001. He was elected Director, Chairman and Chief Executive Officer of Kinder Morgan, Inc. in October 1999. He was elected Director, Chairman and Chief Executive Officer of Kinder Morgan G.P., Inc. in February 1997. Mr. Kinder is also a director of TransOcean Offshore Inc. and Baker Hughes Incorporated.

William V. Morgan is Director and Vice Chairman of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. Mr. Morgan served as the President of Kinder Morgan Management, LLC from February 2001 to July 2001. He served as President of Kinder Morgan, Inc. from October 1999 to July 2001. He served as President of Kinder Morgan G.P., Inc. from February 1997 to July 2001. Mr. Morgan has served as Director and Vice Chairman of Kinder Morgan Management, LLC since its formation in February 2001. Mr. Morgan has served as Director and Vice Chairman of Kinder Morgan, Inc. since October 1999. Mr. Morgan was elected Vice Chairman of Kinder Morgan G.P., Inc. in February 1997. He served as President of Cortez Holdings Corporation, a pipeline investment company, from October 1992 through March 2000. On January 17, 2002, we announced that Mr. Morgan would transition to a non-executive role in April 2003. At that time, Mr. Morgan will retain his Vice Chairman title and remain an active board member, but he will be less involved in our day-to-day operations. Mr. Morgan is the father of Michael C. Morgan, President of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc., and Kinder Morgan, Inc.

Michael C. Morgan is President of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. Mr. Morgan was elected to each of these positions in July 2001. Mr. Morgan served

as Vice President, Strategy and Investor Relations of Kinder Morgan Management, LLC from February 2001 to July 2001. He served as Vice President, Strategy and Investor Relations of Kinder Morgan, Inc. and Kinder Morgan G.P., Inc. from January 2000 to July 2001. He served as Vice President, Corporate Development of Kinder Morgan G.P., Inc. from February 1997 to January 2000. Mr. Morgan was the Vice President, Corporate Development of Kinder Morgan, Inc. from October 1999 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, including Assistant to the Chairman, at PSI Energy, Inc., an electric utility. 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.

Edward O. Gaylord is a Director of Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Gaylord was elected Director of Kinder Morgan Management, LLC upon its formation in February 2001. Mr. Gaylord was elected Director of Kinder Morgan G.P., Inc. in February 1997. Since 1989, Mr. Gaylord has been the Chairman of the Board of Directors of Jacintoport Terminal Company, a liquid bulk storage terminal on the Houston, Texas ship channel. Mr. Gaylord serves on the Board of Directors of Seneca Foods Corporation and is Chairman of the Board of Directors of the Houston Branch of the Federal Reserve Bank of Dallas.

Gary L. Hultquist is a Director of Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Hultquist was elected Director of Kinder Morgan Management, LLC upon its formation in February 2001. He was elected Director of Kinder Morgan G.P., Inc. in October 1999. Since 1995, Mr. Hultquist has been the Managing Director of Hultquist Capital, LLC, a San Francisco-based strategic and merger advisory firm. Mr. Hultquist is a member of the Board of Directors of netMercury, Inc., a supplier of automated supply chain services, critical spare parts and consumables used in semiconductor manufacturing. 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 is a Director of Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Waughtal was elected Director of Kinder Morgan Management, LLC upon its formation in February 2001. Mr. Waughtal was elected Director of Kinder Morgan G.P., Inc. in April 2000. Mr. Waughtal is the Chairman, a limited partner and a 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 is President, Natural Gas Pipelines of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. Mr. Allison was elected President, Natural Gas Pipelines of Kinder Morgan Management, LLC upon its formation in February 2001. He was elected President, Natural Gas Pipelines of Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. in September 1999. He was President, Pipeline Operations of Kinder Morgan G.P., Inc. from February 1999 to September 1999. Mr. Allison served as Vice President and General Counsel of Kinder Morgan G.P., Inc. from April 1998 to February 1999. From May 1997 to April 1998, Mr. Allison managed his personal investments. From April 1996 through May 1997, Mr. Allison served as President of Enron Liquid Services Corporation. On February 8, 2002, we announced that Mr. Allison will retire effective June 1, 2002.

Thomas A. Bannigan is President, Product Pipelines of Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. and President and Chief Executive Officer of Plantation Pipe Line Company. Mr. Bannigan was elected President, Product Pipelines of Kinder Morgan Management, LLC upon its formation in February 2001. He was elected President, Products Pipelines of Kinder Morgan G.P., Inc. in October 1999. Mr. Bannigan has served as President and Chief Executive Officer of Plantation Pipe Line Company since May 1998. From 1985 to May 1998, Mr. Bannigan was Vice President, General Counsel and Secretary of Plantation Pipe Line Company.

R. Tim Bradley is President, CO_2 Pipelines of Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. and President of Kinder Morgan CO_2 Company, L.P. Mr. Bradley was elected President, CO_2 Pipelines of Kinder Morgan Management, LLC and Vice President (President, CO_2 Pipelines) of Kinder Morgan G.P., Inc. in April 2001. Mr. Bradley has been President of Kinder Morgan CO_2 Company, L.P. (which name changed from Shell CO_2 Company, Ltd. in April 2000) since March 1998. From May 1996 to March 1998, Mr. Bradley was Manager of CO_2 Marketing for Shell Western E&P, Inc. Mr. Bradley received a Bachelor of Science in Petroleum Engineering from the University of Missouri at Rolla.

David G. Dehaemers, Jr. is Vice President, Corporate Development of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. Mr. Dehaemers was elected Vice President, Corporate Development of Kinder Morgan Management, LLC upon its formation in February 2001. Mr. Dehaemers was elected Vice President, Corporate Development of Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. in January 2000. He served as Vice President and Chief Financial Officer of Kinder Morgan, Inc. from October 1999 to January 2000. He served as Vice President and Chief Financial Officer of Kinder Morgan G.P., Inc. from July 1997 to January 2000 and Treasurer of Kinder Morgan G.P., Inc. from February 1997 to January 2000. He served as Secretary of Kinder Morgan G.P., Inc. from February 1997 to August 1997. Mr. Dehaemers was previously employed by the national CPA firms of Ernst & Whinney and Arthur Young. Mr. Dehaemers received his law degree from the University of Missouri-Kansas City and is a member of the Missouri Bar. He is also a CPA and received his undergraduate Accounting degree from Creighton University in Omaha, Nebraska.

Joseph Listengart is Vice President, General Counsel and Secretary of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. Mr. Listengart was elected Vice President, General Counsel and Secretary of Kinder Morgan Management, LLC upon its formation in February 2001. He was elected Vice President and General Counsel of Kinder Morgan G.P., Inc. and Vice President, General Counsel and Secretary of Kinder Morgan, Inc. in October 1999. Mr. Listengart was elected Secretary of Kinder Morgan G.P., Inc. in November 1998 and became an employee of Kinder Morgan G.P., Inc. in March 1998. From March 1995 through February 1998, Mr. Listengart worked as an attorney for Hutchins, Wheeler & Dittmar, a Professional Corporation. Mr. Listengart received his Masters in Business Administration from Boston University in January 1995, his Juris Doctor, magna cum laude, from Boston University in May 1994, and his Bachelor of Arts degree in Economics from Stanford University in June 1990.

C. Park Shaper is Vice President, Treasurer and Chief Financial Officer of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. Mr. Shaper was elected Vice President, Treasurer and Chief Financial Officer of Kinder Morgan Management, LLC upon its formation in February 2001. He has served as Treasurer of Kinder Morgan, Inc. since April 2000 and Vice President and Chief Financial Officer of Kinder Morgan, Inc. since January 2000. Mr. Shaper was elected Vice President, Treasurer and Chief Financial Officer of Kinder Morgan G.P., Inc. in January 2000. From June 1999 to December 1999, 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 served as Vice President and Chief Financial Officer of First Data Analytics, a wholly-owned subsidiary of First Data Corporation, from 1997 to June 1999. From 1995 to 1997, he was a consultant with The Boston Consulting Group. He received a Masters in Business Administration degree from the J.L. Kellogg Graduate School of Management at Northwestern University. Mr. Shaper also has a Bachelor of Science degree in Industrial Engineering and a Bachelor of Arts degree in Quantitative Economics from Stanford University.

Thomas B. Stanley is President, Terminals of Kinder Morgan Management, LLC and Kinder Morgan G.P., Inc. Mr. Stanley became President of our Terminals segment in July 2001 when we combined our previously separate Bulk Terminals and Liquids Terminals segments. Prior to that, Mr. Stanley served as President, Bulk Terminals of Kinder Morgan Management, LLC since February 2001 and of Kinder Morgan G.P., Inc. since 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 is Vice President, Human Resources and Administration of Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. Mr. Street was elected Vice President, Human Resources and Administration of Kinder Morgan Management, LLC upon its formation in February 2001. He was elected Vice President, Human Resources and Administration of Kinder Morgan G.P., Inc. and Kinder Morgan, Inc. in August 1999. From October 1996 to August 1999, Mr. Street was Senior Vice President, Human Resources and Administration for Coral Energy, a subsidiary of Shell Oil Company. Mr. Street received a Masters of Business Administration degree from the University of Nebraska at Omaha and a Bachelor of Science degree from the University of Nebraska at Kearney.

Item 11. *Executive Compensation.*

All of our individual executive officers and directors serve in the same capacities for Kinder Morgan G.P., Inc. Certain of those executive officers, including all of the named officers below, also serve as executive officers of Kinder Morgan, Inc. Since we do not have any benefit plans, our officers and directors receive options and awards from the compensation plans of Kinder Morgan, Inc. and Kinder Morgan Energy Partners, L.P. All references to the number of common units have been restated to reflect the effect of the two-for-one unit split of outstanding common units that occurred on August 31, 2001.

Summary Compensation Table

		Annual Compensation		Long-Term Compensation Awards		
Name and Principal Position	Year	Salary	Bonus(3)	Restricted Stock Awards(4)	Units/Kinder Morgan, Inc. Shares Underlying Options	All Other Compensation(7)
Richard D. Kinder(1)	2001	$ 1	$ —	$ —	—	$ —
Director, Chairman and CEO	2000	1	—	—	—	—
	1999	150,003	—	—	—	7,554
Michael C. Morgan	2001	200,000	350,000	569,900	—	7,835
President,	2000	200,000	300,000(5)	498,750	0/150,000(6)	10,836
Office of the Chairman	1999	161,249	250,000(5)	—	0/250,000	7,408
David G. Dehaemers, Jr.	2001	200,000	350,000	569,900	—	7,570
Vice President,	2000	200,000	300,000(5)	498,750	0/150,000(6)	10,920
Corporate Development	1999	161,249	250,000(5)	—	0/250,000	7,408
William V. Allison	2001	200,000	350,000	569,900	—	7,816
President,	2000	200,000	300,000	498,750	—	11,466
Gas Pipeline Group	1999	192,497	250,000	—	0/250,000	9,335
Joseph Listengart	2001	200,000	350,000	569,900	—	7,186
Vice President,	2000	181,250	225,000	498,750	0/6,300(8)	10,798
General Counsel and Secretary	1999	124,336	175,000	—	0/175,000	5,890
C. Park Shaper(2)	2001	200,000	350,000	569,900	—	7,186
Vice President,	2000	175,000	—	498,750	0/150,000(9)	10,836
Treasurer and CFO	1999	—	—	—	—	—

(1) Effective October 1, 1999, Mr. Kinder's annual salary was reduced to $1.00. Mr. Kinder is not eligible for annual bonuses or option grants.

(2) Mr. Shaper commenced employment with Kinder Morgan G.P., Inc. in January 2000.

(3) Amounts earned in year shown and paid the following year.

(4) Represent shares of restricted Kinder Morgan, Inc. stock awarded in 2002 and 2001 that relate to performance in 2001 and 2000, respectively. Value computed as the number of shares awarded (10,000) times the closing price on date of grant ($56.99 at January 16, 2002 and $49.875 at January 17, 2001). Twenty-five percent of the shares in each grant vest on each of the first four anniversaries after the date of grant. The holders of the restricted stock awards are eligible to vote and to receive dividends declared on such shares.

(5) Does not include for 1999, $3,753,868, or for 2000, $7,010,000 paid to Messrs. Dehaemers and Morgan under Kinder Morgan Energy Partners, L.P.'s Executive Compensation Plan. The payments made in 2000 were the last payments Messrs. Dehaemers and Morgan are to receive under the Executive Compensation Plan. Kinder Morgan Energy Partners, L.P. does not intend to compensate any employees providing services to us under the Executive Compensation Plan on a going forward basis. See "— Executive Compensation Plan."

(6) The 150,000 options in Kinder Morgan, Inc. shares were granted and became fully vested on April 20, 2000. The options were granted to Messrs. Dehaemers and Morgan in connection with the execution of their employment agreements. See "— Employment agreements."

(7) For 1999 and 2000, amounts represent Kinder Morgan G.P., Inc.'s contributions to the Retirement Savings Plan (a 401(k) plan), the imputed value of Kinder Morgan G.P., Inc. paid group term life insurance exceeding $50,000, and compensation attributable to taxable moving and parking expenses allowed. For 2001, amounts represent contributions to Retirement Savings Plan, value of group-term life insurance exceeding $50,000, parking compensation and a $50 cash payment.

(8) The 6,300 options in Kinder Morgan, Inc. shares were granted in 2001, but relate to performance in 2000. The options were granted and became fully exercisable on January 17, 2001 at a grant price of $49.875 per share.

(9) The year 2000 options in Kinder Morgan, Inc. shares include 25,000 options granted in 2001, but relating to performance in 2000. These options were granted and became fully exercisable on January 17, 2001 at a grant price of $49.875 per share. The remaining 125,000 options were granted on January 20, 2000 at a grant price of $24.75. These options vest at twenty five percent on each of the first four anniversaries after the date of grant.

Executive Compensation Plan. Pursuant to the Kinder Morgan Energy Partners, L.P. Executive Compensation Plan, executive officers of Kinder Morgan G.P., Inc. are eligible for awards equal to a percentage of the "incentive compensation value", which is defined as cash distributions to Kinder Morgan G.P., Inc. during the four calendar quarters preceding the date of redemption multiplied times eight (less a participant adjustment factor, if any). Under the plan, no eligible employee may receive a grant in excess of 2% and total awards under the plan may not exceed 10%. In general, participants may redeem vested awards in whole or in part from time to time by written notice. Kinder Morgan Energy Partners, L.P. may, at its option, pay the participant in units (provided, however, the unitholders approve the plan prior to issuing such units) or in cash. Kinder Morgan Energy Partners, L.P. may not issue more than 400,000 units in the aggregate under the plan. Units will not be issued to a participant unless such units have been listed for trading on the principal securities exchange on which the units are then listed. The plan terminates January 1, 2007 and any unredeemed awards will be automatically redeemed. However, the plan may be terminated before such date, and upon such early termination, Kinder Morgan Energy Partners, L.P. will redeem all unpaid grants of compensation at an amount equal to the highest incentive compensation value, using as the determination date any day within the previous twelve months, multiplied by 1.5. The plan was established in July 1997 and on July 1, 1997, the board of directors of Kinder Morgan G.P., Inc. granted awards totaling 2% of the incentive compensation value to each of David Dehaemers and Michael Morgan. Originally, 50% of such awards were to vest on each of January 1, 2000 and January 1, 2002. No awards were granted during 1998 and 1999.

On January 4, 1999, the awards granted to Mr. Dehaemers and Mr. Morgan were amended to provide for the immediate vesting and pay-out of 50% of their awards, or 1% of the incentive compensation value. On April 28, 2000, the awards granted to Mr. Dehaemers and Mr. Morgan were amended to provide for

the immediate vesting and pay-out of the remaining 50% of their awards, or 1% of the incentive compensation value. The board of directors of Kinder Morgan G.P., Inc. believes that accelerating the vesting and pay-out of the awards was in the best interest of Kinder Morgan Energy Partners, L.P. because it capped the total payment the participants were entitled to receive with respect to their awards.

Retirement Savings Plan. Effective July 1, 1997, Kinder Morgan G.P., Inc., established the Kinder Morgan Retirement Savings Plan, a defined contribution 401(k) plan. This plan was subsequently amended and merged to form the Kinder Morgan Savings Plan. The plan now permits all full-time employees of Kinder Morgan, Inc. and Kinder Morgan Services LLC, to contribute 1% to 50% of base compensation, on a pre-tax basis, into participant accounts. In addition to a mandatory contribution equal to 4% of base compensation per year for most plan participants, Kinder Morgan G.P., Inc., may make discretionary contributions in years when specific performance objectives are met. Certain employees' contributions are based on collective bargaining agreements. The 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 Kinder Morgan, Inc. stock that is immediately convertible into other available investment vehicles at the employee's discretion. In the first quarter of 2002, no discretionary contributions were made to individual accounts for 2001. 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. Because levels of future compensation, participant contributions and investment yields cannot be reliably predicted over the span of time contemplated by a plan of this nature, it is impractical to estimate the annual benefits payable at retirement to the individuals listed in the Summary Compensation Table above.

Common Unit Option Plan. Pursuant to Kinder Morgan Energy Partners, L.P.'s Common Unit Option Plan, Kinder Morgan Energy Partners, L.P. and its affiliates' key personnel are eligible to receive grants of options to acquire common units. The total number of common units available under the option plan is 500,000. None of the options granted under the option plan may be "incentive stock options" under Section 422 of the Internal Revenue Code. If an option expires without being exercised, the number of common units covered by such option will be available for a future award. The exercise price for an option may not be less than the fair market value of a common unit on the date of grant. Either our board of directors or a committee of our board of directors administers the option plan. The option plan terminates on March 5, 2008.

No individual employee may be granted options for more than 20,000 common units in any year. Kinder Morgan G.P., Inc.'s board of directors or the committee referred to in the prior paragraph will determine the duration and vesting of the options to employees at the time of grant. As of December 31, 2001, outstanding options for 379,400 common units were granted to 106 employees of Kinder Morgan, Inc. and its direct and indirect subsidiaries. Forty percent of such options will vest on the first anniversary of the date of grant and twenty percent on each anniversary, thereafter. The options expire seven years from the date of grant.

The option plan also granted to each of Kinder Morgan G.P., Inc.'s non-employee directors as of April 1, 1998, an option to acquire 10,000 common units at an exercise price equal to the fair market value of the common units on such date. In addition, each new non-employee director will receive options to acquire 10,000 common units on the first day of the month following his or her election. Under this provision, as of December 31, 2001, outstanding options for 30,000 common units were granted to Kinder Morgan G.P., Inc.'s three non-employee directors. Forty percent of such options will vest on the first anniversary of the date of grant and twenty percent on each anniversary, thereafter. The non-employee director options will expire seven years from the date of grant.

No common unit options were granted during 2001 to any of the individuals named in the Summary Compensation Table above. The following table sets forth certain information at December 31, 2001 with respect to common unit options previously granted to the individuals named in the Summary Compensation Table above. Mr. Allison and Mr. Listengart were the only persons named in the Summary

Compensation Table that were granted common unit options. No common unit options were granted at an option price below fair market value on the date of grant.

Aggregated Common Unit Option Exercises in 2001, and 2001 Year-End Common Unit Option Values

Name	Units Acquired on Exercise	Value Realized	Number of Units Underlying Unexercised Options at 2001 Year End		Value of Unexercised In-the-Money Options at 2001 Year-End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
William V. Allison	—	—	16,000	4,000	$340,120	$85,030
Joseph Listengart	—	—	8,000	2,000	$164,310	$41,078

(1) Calculated on the basis of the fair market value of the underlying common units at year-end, minus the exercise price.

Kinder Morgan, Inc. Option Plan. Under Kinder Morgan, Inc.'s stock option plans, key personnel of Kinder Morgan, Inc. and its affiliates, including employees of Kinder Morgan Services LLC, are eligible to receive grants of options to acquire shares of common stock of Kinder Morgan, Inc. Kinder Morgan, Inc.'s board of directors administers this option plan. The primary purpose for granting stock options under this plan to employees of Kinder Morgan, Inc. and Kinder Morgan Services LLC is to provide them with an incentive to increase the value of common stock of Kinder Morgan, Inc. A secondary purpose of the grants is to provide compensation to those employees for services rendered to Kinder Morgan Energy Partners, L.P.'s subsidiaries and Kinder Morgan Energy Partners, L.P.

The following tables set forth certain information at December 31, 2001 and for the fiscal year then ended with respect to Kinder Morgan, Inc. stock options granted to the individuals named in the Summary Compensation Table above. Mr. Listengart and Mr. Shaper are the only persons named in the Summary Compensation Table that were granted Kinder Morgan, Inc. stock options during 2001. None of these Kinder Morgan, Inc. stock options were granted with an exercise price below the fair market value of the common stock on the date of grant. The options were granted and became fully exercisable on January 17, 2001, but relate to performance in 2000. The options expire 10 years after the date of grant.

Kinder Morgan, Inc. Stock Option Grants in 2001

Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in 2001	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
					5%	10%
Joseph Listengart	6,300	0.28%	$49.875	01/17/2011	$197,600	$ 500,756
C. Park Shaper	25,000	1.14%	$49.875	01/17/2011	$784,125	$1,987,125

(1) The dollar amounts under these columns use the 5% and 10% rates of appreciation prescribed by the Securities and Exchange Commission. The 5% and 10% rates of appreciation would result in per share prices of $81.24 and $129.36, respectively. We express no opinion regarding whether this level of appreciation will be realized and expressly disclaim any representation to that effect.

Aggregated Kinder Morgan, Inc. Stock Option Exercises in 2001, and 2001 Year-End Kinder Morgan Inc. Stock Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Options at 2001 Year End		Value of Unexercised In-the-Money Options at 2001 Year-End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Michael C. Morgan	62,500	$2,107,013	212,500	125,000	$5,377,250	$3,985,000
David G. Dehaemers, Jr.	62,500	$2,012,994	212,500	125,000	$5,377,250	$3,985,000
William V. Allison	75,000	$2,291,020	175,000	—	$5,579,000	$ —
Joseph Listengart	48,750	$1,416,511	45,050	87,500	$1,271,985	$2,789,500
C. Park Shaper	—	—	56,250	93,750	$1,112,250	$2,900,625

(1) Calculated on the basis of the fair market value of the underlying shares at year-end, minus the exercise price.

Cash Balance Retirement Plan. Employees of Kinder Morgan Services LLC are eligible to participate in a new Cash Balance Retirement Plan that was put into effect on January 1, 2001. 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 converted to the Cash Balance Retirement Plan and were credited with the current fair value of any benefits they had previously accrued through the defined benefit plan. Under the plan, we make contributions on behalf of participating employees equal to 3% of eligible compensation every pay period. In addition, Kinder Morgan Energy Partners, L.P. may make discretionary contributions to the plan based on the performance of Kinder Morgan Energy Partners, L.P. In the first quarter of 2002, an additional 1% discretionary contribution was made to individual accounts based on achieving 2001 financial targets to unitholders. 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.

Compensation Committee Interlocks and Insider Participation. Our compensation committee, comprised of Mr. Edward Gaylord, Mr. Gary Hultquist and Mr. Perry Waughtal, makes compensation decisions regarding our executive officers. Mr. Richard Kinder and Mr. William Morgan participate in the deliberations of our board of directors concerning executive officer compensation. Messrs. Kinder and Morgan each receive $1.00 annually in total compensation for services to Kinder Morgan, Inc., Kinder Morgan Energy Partners, L.P. and their respective subsidiaries.

Directors fees. During 2001, each of the three non-employee members of our board of directors was paid $10,000 for each quarter in 2001 in which they served on the board of directors. Each will receive $10,000 for each quarter in 2002 in which they serve. Directors are reimbursed for reasonable expenses in connection with board meetings.

Employment agreements. In April 2000, Mr. David G. Dehaemers, Jr. and Mr. Michael C. Morgan entered into four-year employment agreements with Kinder Morgan, Inc. and Kinder Morgan G.P. Inc. Under the employment agreements, each of Mr. David G. Dehaemers, Jr. and Mr. Michael C. Morgan receives an annual base salary of $200,000 and bonuses at the discretion of the compensation committee of Kinder Morgan G.P., Inc. In connection with the execution of the employment agreements, Messrs. Dehaemers and Morgan no longer participate under the Kinder Morgan Energy Partners, L.P. Executive Compensation Plan. In addition, each are prevented from competing with Kinder Morgan, Inc. and Kinder Morgan Energy Partners, L.P. for a period of four years from the date of the agreements, provided Mr. Richard D. Kinder or Mr. William V. Morgan continues to serve as chief executive officer of Kinder Morgan, Inc. or its successor.

Retention Agreement. Effective January 17, 2002, Kinder Morgan Inc. entered into a retention agreement with C. Park Shaper, an officer of KMI, Kinder Morgan G.P., Inc. and us. Pursuant to the terms of the agreement, Mr. Shaper received a $5 million personal loan guaranteed by Kinder Morgan Energy Partners, L.P. Mr. Shaper was required to purchase Kinder Morgan, Inc. common shares and Kinder Morgan Energy Partners, L.P. common units in the open market with the loan proceeds. If he voluntarily leaves Kinder Morgan Energy Partners, L.P. prior to the end of five years, then he must repay the entire loan. On the fifth anniversary of the date of this agreement, provided Mr. Shaper has continued to be employed by Kinder Morgan G.P., Inc., Kinder Morgan Energy Partners, L.P. and Kinder Morgan, Inc. will assume Mr. Shaper's obligations under the loan. The agreement contains provisions that address termination for cause, death, disability and change of control.

Lines of Credit. Kinder Morgan Energy Partners, L.P. has agreed to guarantee potential borrowings under lines of credit available from First Union National Bank to Messrs. M. Morgan, Dehaemers, Listengart and Shaper. Each of these officers is primarily liable for any borrowing of his line of credit, and if Kinder Morgan Energy Partners, L.P. makes any payments with respect to an outstanding loan, the officer on behalf of whom payment is made must surrender a percentage of his Kinder Morgan, Inc. stock options. To date, Kinder Morgan Energy Partners, L.P. has made no payment with respect to these lines of credit.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management.***

The following table sets forth information as of January 31, 2002, regarding (a) the beneficial ownership of (i) Kinder Morgan Energy Partners, L.P. units, (ii) the common stock of Kinder Morgan, Inc., and (iii) our shares by all directors of Kinder Morgan G.P., Inc., each of the named executive officers and all of our directors and executive officers as a group and (b) all persons known by us to own beneficially more than 5% of Kinder Morgan Energy Partners, L.P. units or our shares. Unless otherwise noted, the address of each person below is c/o Kinder Morgan Management LLC, 500 Dallas Street, Suite 1000, Houston, Texas 77002. All references to the number of Kinder Morgan Energy Partners, L.P. units and to the number of our shares have been restated to reflect the effect of the two-for-one splits of

Kinder Morgan Energy Partners, L.P. outstanding common units and our shares that occurred on August 31, 2001.

Amount and Nature of Beneficial Ownership(1)

	Our Shares		Kinder Morgan Energy Partners, L.P. Common Units		Kinder Morgan Energy Partners, L.P. Class B Units		Kinder Morgan, Inc. Voting Stock	
	Number of Shares(2)	Percent of Class	Number of Units(3)	Percent of Class	Number of Units(4)	Percent of Class	Number of Shares(5)	Percent of Class
Richard D. Kinder(6)	25,595	*	305,200	*	—	—	23,995,092	19.41%
William V. Morgan(7)	—	—	4,000	*	—	—	4,500,000	3.64%
Edward O. Gaylord(8)	—	—	38,000	*	—	—	—	—
Gary L. Hultquist(9)	—	—	9,000	*	—	—	500	—
Perry M. Waughtal(10)	20,595	*	21,300	*	—	—	10,000	*
William V. Allison(11)	—	—	16,000	*	—	—	20,000	*
David G. Dehaemers, Jr.(12)	—	—	17,000	*	—	—	232,500	*
Joseph Listengart(13)	—	—	12,698	*	—	—	65,050	*
Michael C. Morgan(14)	3,057	*	6,000	*	—	—	242,500	*
C. Park Shaper(15)	2,057	*	85,000	*	—	—	145,500	*
Directors and Executive Officers as a group (14 persons)(16)	53,846	*	657,330	*	—	—	29,454,140	23.68%
Kinder Morgan, Inc.(17)	6,014,546	19.63%	19,726,026	15.19%	5,313,400	100.00%	—	—
Capital Group International, Inc.(18)	3,261,210	10.64%	—	—	—	—	—	—
FMR Corp.(19)	3,204,988	10.46%	—	—	—	—	—	—
Massachusetts Financial Services Company(20)	1,597,781	5.22%	—	—	—	—	—	—

* Less than 1%.

(1) Except as noted otherwise, all Kinder Morgan Energy Partners, L.P. units and Kinder Morgan, Inc. shares involve sole voting power and sole investment power.

(2) Represents our limited liability company shares. As of January 31, 2002, there were 30,636,363 issued and outstanding shares. In all cases, Kinder Morgan Energy Partners, L.P. i-units will be voted in proportion to the affirmative and negative votes, abstentions and non-votes of owners of our shares. Through the provisions in the Kinder Morgan Energy Partners, L.P. partnership agreement and our limited liability company agreement, the number of our outstanding shares and the number of Kinder Morgan Energy Partners, L.P. i-units will at all times be equal. Furthermore, our shareholders have the option to exchange any or all of their shares for common units owned by Kinder Morgan, Inc., directly or indirectly through its subsidiaries, at an exchange rate of one common unit per one share. At any time, instead of delivering a common unit, Kinder Morgan, Inc. may elect to make a cash payment in respect of any share surrendered for exchange by giving notice of the election to the tendering holder not more that three trading days after such share is surrendered for exchange. The numbers of common units reported in the table do not include any common units which might be received upon surrender of our shares reflected in the table.

(3) As of January 31, 2002, Kinder Morgan Energy Partners, L.P. had 129,862,418 common units issued and outstanding.

(4) As of January 31, 2002, Kinder Morgan Energy Partners, L.P. had 5,313,400 Class B units issued and outstanding.

(5) As of January 31, 2002, Kinder Morgan, Inc. had a total of 123,622,415 shares of outstanding voting common stock.

(6) Includes (a) 7,100 common units owned by Mr. Kinder's spouse and (b) 5,100 Kinder Morgan, Inc. shares held by Mr. Kinder's spouse. Mr. Kinder disclaims any and all beneficial or pecuniary interest in these units and shares.

(7) Porticullis Partners, LP, a Texas limited partnership beneficially owned by Mr. Morgan and his wife Sara S. Morgan, holds the Kinder Morgan, Inc. shares. Mr. Morgan may be deemed to own the 4,500,000 Kinder Morgan, Inc. shares and thereby shares in the voting and disposition power with Porticullis Partners, LP Includes 1,000,000 Kinder Morgan, Inc. shares with respect to which Porticullis Partners, LP wrote a costless collar that expires in August 2003.

(8) Includes options to purchase 8,000 common units exercisable within 60 days of January 31, 2002.

(9) Includes options to purchase 6,000 common units exercisable within 60 days of January 31, 2002.

(10) Includes options to purchase 4,000 common units exercisable within 60 days of January 31, 2002.

(11) Includes options to purchase 16,000 common units and includes 17,500 shares of restricted Kinder Morgan, Inc. stock.

(12) Includes options to purchase 212,500 Kinder Morgan, Inc. shares exercisable within 60 days of January 31, 2002, and includes 17,500 shares of restricted Kinder Morgan, Inc. stock.

(13) Includes options to purchase 10,000 common units and 45,050 Kinder Morgan, Inc. shares exercisable within 60 days of January 31, 2002, and includes 17,500 shares of restricted Kinder Morgan, Inc. stock.

(14) Includes options to purchase 212,500 Kinder Morgan, Inc. shares exercisable within 60 days of January 31, 2002, and includes 17,500 shares of restricted Kinder Morgan, Inc. stock.

(15) Includes options to purchase 87,500 Kinder Morgan, Inc. shares exercisable within 60 days of January 31, 2002, and includes 17,500 shares of restricted Kinder Morgan, Inc. stock.

(16) Includes options to purchase 60,000 common units and 756,050 Kinder Morgan, Inc. shares exercisable within 60 days of January 31, 2002, and includes 122,500 shares of Kinder Morgan, Inc. restricted stock.

(17) Includes common units owned by Kinder Morgan, Inc. and its consolidated subsidiaries, including 1,724,000 common units owned by Kinder Morgan G.P., Inc.

(18) As reported on the Schedule 13G/A filed February 11, 2002 by Capital Group International, Inc. and its subsidiary Capital Guardian Trust Company. Capital Group International, Inc. and Capital Guardian Trust Company report that in regard to our shares, they have sole voting power over 2,515,030 shares, shared voting power over 0 shares, sole disposition power over 3,261,210 shares and shared disposition power over 0 shares. They disclaim beneficial ownership of the shares but may be deemed to be the beneficial owners of the shares. Capital Group International, Inc.'s and Capital Guardian Trust Company's address is 11100 Santa Monica Blvd., Los Angeles, California 90025.

(19) As reported on the Schedule 13G/A filed February 14, 2002 by FMR Corp. FMR Corp. reports that in regard to our shares, it has sole voting power over 154,146 shares, shared voting power over 0 shares, sole disposition power over 3,204,988 shares and shared disposition power over 0 shares. FMR Corp.'s address is 82 Devonshire Street, Boston, Massachusetts 02109.

(20) As reported on the Schedule 13G filed February 12, 2002 by Massachusetts Financial Services Company. Massachusetts Financial Services Company reports that in regard to our shares, it has sole voting power over 1,597,781 shares, shared voting power over 0 shares, sole disposition power over 1,597,781 shares and shared disposition power over 0 shares. Massachusetts Financial Services Company's address is 500 Boylston Street, Boston, Massachusetts 02116.

Item 13. *Certain Relationships and Related Transactions.*

General and Administrative Expenses

Kinder Morgan Services LLC is our wholly owned subsidiary and provides employees and related centralized payroll and employee benefits services to us, Kinder Morgan G.P., Inc., Kinder Morgan Energy Partners, L.P. and Kinder Morgan Energy Partners, L.P.'s operating partnerships and subsidiaries (collectively, the "Group"). Employees of Kinder Morgan Services are assigned to work for one or more

members of the Group. The direct costs of all compensation, benefits expenses, employer taxes and other employer expenses for these employees are allocated and charged by Kinder Morgan Services LLC to the appropriate members of the Group; and the members of the Group reimburse Kinder Morgan Services for their allocated shares of these direct costs. There is no profit or margin charged by Kinder Morgan Services LLC to the members of the Group. The administrative support necessary to implement these payroll and benefits services is provided by the human resource department of Kinder Morgan, Inc., and the related administrative costs are allocated to members of the Group in accordance with existing expense allocation procedures. The effect of these arrangements is that each member of the Group bears the direct compensation and employee benefits costs of its assigned or partially assigned employees, as the case may be, while also bearing its allocable share of administrative costs. Pursuant to its limited partnership agreement, Kinder Morgan Energy Partners, L.P. reimburses Kinder Morgan Services LLC for its share of these administrative costs and such reimbursements will be accounted for as described above.

Our named executive officers and some other employees that provide management or services to both Kinder Morgan, Inc. and the Group are employed by Kinder Morgan, Inc. Additionally, other Kinder Morgan, Inc. employees assist in the operation of Kinder Morgan Energy Partners' Natural Gas Pipeline assets formerly owned by Kinder Morgan, Inc. These Kinder Morgan, Inc. employees' expenses are allocated without a profit component between Kinder Morgan, Inc. and the appropriate members of the Group.

Kinder Morgan Energy Partners, L.P. Distributions

Kinder Morgan G.P., Inc.

Kinder Morgan G.P., Inc. serves as the sole general partner of Kinder Morgan Energy Partners, L.P. Pursuant to their partnership agreements, Kinder Morgan G.P., Inc.'s interests represent a 1% ownership interest in Kinder Morgan Energy Partners, L.P., and a direct 1.0101% ownership interest in each of Kinder Morgan Energy Partners, L.P.'s five operating partnerships. Collectively, Kinder Morgan G.P., Inc. owns an effective 2% interest in the operating partnerships, without reference to incentive distributions paid under Kinder Morgan Energy Partners, L.P.'s partnership agreement:

- its 1.0101% direct general partner ownership interest (accounted for as minority interest in the consolidated financial statements of Kinder Morgan Energy Partners, L.P.); and
- its 0.9899% ownership interest indirectly owned via its 1% ownership interest in Kinder Morgan Energy Partners, L.P.

In addition, at December 31, 2001, Kinder Morgan G.P., Inc. owned 1,724,000 common units, representing approximately 1.04% of Kinder Morgan Energy Partners, L.P.'s outstanding limited partner units. Kinder Morgan Energy Partners, L.P.'s agreement requires that it distribute 100% of "Available Cash" (as defined in the partnership agreement) to its 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 Kinder Morgan Energy Partners, L.P.'s cash receipts less cash disbursements and net additions to or reductions in reserves (including any reserves required under debt instruments for future principal and interest payments) and amounts payable to the former general partner of SFPP, L.P. in respect of its remaining 0.5% special limited partner interest in SFPP, L.P.

Kinder Morgan G.P., Inc. is granted discretion by Kinder Morgan Energy Partners, L.P.'s partnership agreement, which discretion has been delegated to us, subject to the approval of Kinder Morgan G.P., Inc. in certain cases, to establish, maintain and adjust reserves for future operating expenses, debt service, maintenance capital expenditures, rate refunds and distributions for the next four quarters. These reserves are not restricted by magnitude, but only by type of future cash requirements with which they can be associated. When we determine Kinder Morgan Energy Partners, L.P.'s quarterly distributions, we consider current and expected reserve needs along with current and expected cash flows to identify the appropriate sustainable distribution level.

Typically, Kinder Morgan G.P., Inc. and owners of Kinder Morgan Energy Partners, L.P.'s common units and Class B units receive distributions in cash, while we, the sole owner of Kinder Morgan Energy Partners, L.P.'s i-units, receive distributions in additional i-units or fractions of i-units. For each outstanding i-unit, a fraction of an i-unit will be issued. The fraction is calculated by dividing the amount of cash being distributed per common unit by the average market price of our shares over the ten consecutive trading days preceding the date on which the shares begin to trade ex-dividend under the rules of the New York Stock Exchange. The cash equivalent of distributions of i-units will be treated as if it had actually been distributed, including for purposes of determining the distributions to Kinder Morgan G.P., Inc. and calculating Available Cash for future periods. Kinder Morgan Energy Partners, L.P. will not distribute the related cash but will retain the cash and use the cash in its business.

Available Cash is initially distributed 98% to Kinder Morgan Energy Partners, L.P.'s limited partners and 2% to Kinder Morgan G.P., Inc. These distribution percentages are modified to provide for incentive distributions to be paid to Kinder Morgan G.P., Inc. in the event that quarterly distributions to unitholders exceed certain specified targets.

Available Cash for each quarter is distributed as follows;

- first, 98% to the owners of all classes of units pro rata and 2% to Kinder Morgan G.P., Inc. until the owners of all classes of units have received a total of $0.15125 per unit in cash or equivalent i-units for such quarter;
- second, 85% of any Available Cash then remaining to the owners of all classes of units pro rata and 15% to Kinder Morgan G.P., Inc. until the owners of all classes of units have received a total of $0.17875 per unit in cash or equivalent i-units for such quarter;
- third, 75% of any Available Cash then remaining to the owners of all classes of units pro rata and 25% to Kinder Morgan G.P., Inc. until the owners of all classes of units have received a total of $0.23375 per unit in cash or equivalent i-units for such quarter; and
- fourth, 50% of any Available Cash then remaining to the owners of all classes of units pro rata, to owners of common units and Class B units in cash and to us, as the owner of i-units, in the equivalent number of i-units, and 50% to Kinder Morgan G.P., Inc. in cash.

Incentive distributions are generally defined as all cash distributions paid to Kinder Morgan G.P., Inc. that are in excess of 2% of the aggregate amount of cash being distributed. Kinder Morgan G.P., Inc.'s declared incentive distributions for the years ended December 31, 2001, 2000 and 1999 were $199.7 million, $107.8 million and $55.0 million, respectively.

Kinder Morgan, Inc.

Kinder Morgan, Inc., through its subsidiary Kinder Morgan (Delaware), Inc., remains the sole stockholder of Kinder Morgan G.P., Inc. At December 31, 2001, Kinder Morgan, Inc. directly owned 13,047,300 common units and 5,313,400 Class B units, indirectly owned 6,736,326 common units owned by its consolidated affiliates, including Kinder Morgan G.P., Inc., and owned 5,956,946 of our shares, representing an indirect ownership interest of 5,956,946 Kinder Morgan Energy Partners, L.P.'s i-units. These units represent approximately 18.7% of Kinder Morgan Energy Partners, L.P.'s outstanding limited partner units.

Kinder Morgan Management, LLC

We, as Kinder Morgan G.P., Inc.'s delegate, remain the sole owner of Kinder Morgan Energy Partners, L.P.'s 30,636,363 i-units.

Asset Acquisitions

Effective December 31, 1999, Kinder Morgan Energy Partners, L.P. acquired over $935.8 million of assets from Kinder Morgan, Inc. As consideration for the assets, Kinder Morgan Energy Partners, L.P.

paid to Kinder Morgan, Inc. $330 million and 19,620,000 common units, valued at approximately $406.3 million. In addition, Kinder Morgan Energy Partners, L.P. assumed $40.3 million in debt and approximately $121.6 million in liabilities. Kinder Morgan Energy Partners, L.P. acquired Kinder Morgan Interstate Gas Transmission LLC (formerly K N Interstate Gas Transmission Co.), a 33$^{1}/_{3}$% interest in Trailblazer Pipeline Company and a 49% equity interest in Red Cedar Gathering Company. The acquired interest in Trailblazer Pipeline Company, when combined with the interest purchased on November 30, 1999, gave Kinder Morgan Energy Partners, L.P. a 66$^{2}/_{3}$% ownership interest.

Effective December 31, 2000, Kinder Morgan Energy Partners, L.P. acquired over $621.7 million of assets from Kinder Morgan, Inc. As consideration for these assets, Kinder Morgan Energy Partners, L.P. paid to Kinder Morgan, Inc. $192.7 million in cash and approximately $156.3 million in units, consisting of 1,280,000 common units and 5,313,400 Class B units. Kinder Morgan Energy Partners, L.P. also assumed liabilities of approximately $272.7 million. Kinder Morgan Energy Partners, L.P. acquired Kinder Morgan Texas Pipeline, L.P. 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. The purchase price for the transaction was determined by the boards of directors of Kinder Morgan, Inc. and Kinder Morgan G.P., Inc. based on pricing principles used in the acquisition of similar assets as well as a fairness opinion from the investment banking firm A.G. Edwards & Sons, Inc.

Operations

Kinder Morgan, Inc. or its subsidiaries operate and maintain for Kinder Morgan Energy Partners, L.P. the assets comprising Kinder Morgan Energy Partners, L.P.'s Natural Gas Pipelines business segment. Natural Gas Pipeline Company of America, a subsidiary of Kinder Morgan, Inc., operates Trailblazer Pipeline Company's assets under a long-term contract pursuant to which Trailblazer Pipeline Company incurs the costs and expenses related to NGPL's operating and maintaining the assets. Trailblazer Pipeline Company provides the funds for capital expenditures. NGPL does not profit from or suffer loss related to its operation of Trailblazer Pipeline Company's assets.

The remaining assets comprising Kinder Morgan Energy Partners, L.P.'s Natural Gas Pipelines business segment are operated under two separate agreements, one entered into December 31, 1999, between Kinder Morgan, Inc. and Kinder Morgan Interstate Gas Transmission LLC, and one entered into December 31, 2000, between Kinder Morgan, Inc. and Kinder Morgan Operating L.P. "A". Both agreements have five-year terms and contain automatic five-year extensions. Under these agreements, Kinder Morgan Interstate Gas Transmission LLC and Kinder Morgan Operating L.P. "A" pay Kinder Morgan, Inc. a fixed amount as reimbursement for the corporate general and administrative costs incurred in connection with the operation of these assets. The amounts paid to Kinder Morgan, Inc. under these agreements for corporate general and administrative costs were $9.5 million for 2001 and $6.1 million for 2000. For 2002, the amount will decrease to $8.6 million. Although Kinder Morgan Energy Partners, L.P. believes the amounts paid to Kinder Morgan, Inc. for the services they provided each year fairly reflect the value of the services performed, the determination of these amounts were not the result of arms length negotiations. However, due to the nature of the allocations, these reimbursements may not have exactly matched the actual time and overhead spent. Kinder Morgan Energy Partners, L.P. believes the agreed-upon amounts were, at the time the contracts were entered into, a reasonable estimate of the corporate general and administrative expenses to be incurred by Kinder Morgan, Inc. and its subsidiaries in performing such services. Kinder Morgan Energy Partners, L.P. also reimburses Kinder Morgan, Inc. and its subsidiaries for operating and maintenance costs and capital expenditures incurred with respect to these assets.

Other

We make all decisions relating to the management and control of Kinder Morgan Energy Partners, L.P.'s business and activities, subject to Kinder Morgan G.P., Inc.'s right to approve certain matters. Kinder Morgan G.P., Inc. owns all of our voting securities. Kinder Morgan, Inc., through its wholly owned

and controlled subsidiary Kinder Morgan (Delaware), Inc., owns all the common stock of Kinder Morgan G.P., Inc. Certain conflicts of interest could arise as a result of the relationships among Kinder Morgan Energy Partners, L.P., Kinder Morgan G.P., Inc., Kinder Morgan, Inc. and us. The directors and officers of Kinder Morgan, Inc. have fiduciary duties to manage Kinder Morgan, Inc., including selection and management of its investments in its subsidiaries and affiliates, in a manner beneficial to the shareholders of Kinder Morgan, Inc. In general, we have a fiduciary duty to manage Kinder Morgan Energy Partners, L.P. in a manner beneficial to the unitholders. The partnership agreements for Kinder Morgan Energy Partners, L.P. and its operating partnerships contain provisions that allow us to take into account the interests of parties in addition to Kinder Morgan Energy Partners, L.P. in resolving conflicts of interest, thereby limiting our fiduciary duty to Kinder Morgan Energy Partners, L.P. unitholders, as well as provisions that may restrict the remedies available to unitholders for actions taken that might, without such limitations, constitute breaches of fiduciary duty. The duty of the directors and officers of Kinder Morgan, Inc. to the shareholders of Kinder Morgan, Inc. may, therefore, come into conflict with our duties and our directors and officers to Kinder Morgan Energy Partners, L.P. unitholders. The Conflicts and Audit Committee of our board of directors will, at our request, review (and is one of the means for resolving) conflicts of interest that may arise between Kinder Morgan, Inc. or its subsidiaries, on the one hand, and Kinder Morgan Energy Partners, L.P., on the other hand.

PART IV

Item 14. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K.***

(a) 1. *Financial Statements*

Reference is made to the index of financial statements and supplementary data under Item 8 in Part II.

2. *Financial Statements Schedules*

The financial statements of Kinder Morgan Energy Partners, L.P., an equity method investee of the Registrant, are incorporated herein by reference from pages 74 through 137 of Kinder Morgan Energy Partners, L.P.'s Annual Report on Form 10-K for the year ended December 31, 2001.

KINDER MORGAN MANAGEMENT, LLC AND SUBSIDIARY

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

We have no valuation or qualifying accounts subject to disclosure in Schedule II.

(b) Exhibits

Exhibit Number	Description
3.1	Form of Certificate of Formation of the Company (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-55868) and incorporated by reference herein).
3.2	Form of Amended and Restated Limited Liability Company Agreement of the Company (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-55868) and incorporated by reference herein).
4.1	Form of certificate representing shares of the Company (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-55868) and incorporated by reference herein).
4.2	Form of Purchase Provisions between the Company and Kinder Morgan, Inc. (included as Annex B to the Amended and Restated Limited Liability Company Agreement filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-55868) and incorporated by reference herein).
4.3	Form of Exchange Provisions between the Company and Kinder Morgan, Inc. (included as Annex A to the Amended and Restated Limited Liability Company Agreement filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-55868) and incorporated by reference herein).
4.4*	Form of Registration Rights Agreement between the Company and Kinder Morgan, Inc.
10.1	Form of Tax Indemnity Agreement between the Company and Kinder Morgan, Inc.
10.2	Delegation of Control Agreement among Kinder Morgan Management, LLC, Kinder Morgan G.P., Inc. and Kinder Morgan Energy Partners, L.P. and its operating partnerships (filed as Exhibit 10.1 to the Kinder Morgan Energy Partners, L.P. June 30, 2001 Form 10-Q (Commission File No. 1-11234)).
10.3	Retention Agreement dated January 16, 2002, by and between Kinder Morgan, Inc. and C. Park Shaper (filed as Exhibit 10(l) to Kinder Morgan, Inc.'s 2001 Annual Report on Form 10-K (Commission File No. 1-6446)).
21.1*	List of Subsidiaries.

* Filed herewith.

(c) *Reports on Form 8-K*

(1) Current Report on Form 8-K dated November 9, 2001 was filed on November 9, 2001 pursuant to Item 9. of that form.

Pursuant to Item 9. of that form, we announced our intention to make several presentations beginning on November 9, 2001 to institutional investors and others to address various strategic and financial issues relating to the business plans and objectives of Kinder Morgan, Inc., Kinder Morgan Energy Partners, L.P. and us, and the availability of materials to be presented at the meetings on Kinder Morgan, Inc.'s website.

(2) Current Report on Form 8-K dated January 16, 2002 was filed on January 16, 2002 pursuant to Item 9. of that form.

Pursuant to Item 9. of that form, we announced our intention to make presentations on January 17, 2002 to analysts and others to address various strategic and financial issues relating to the business plans and objectives of Kinder Morgan, Inc., Kinder Morgan Energy Partners, L.P. and us, and the availability of materials to be presented at the meetings on Kinder Morgan, Inc.'s website.