

KINDER MORGAN INC  
Form PRER14A  
October 24, 2006

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

**SCHEDULE 14A**

(Rule 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant   
Filed by a Party other than the Registrant   
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

**Kinder Morgan, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, If other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:  
Kinder Morgan, Inc. common stock, par value \$5.00 per share
  - (2) Aggregate number of securities to which transaction applies:  
133,990,784 shares of Kinder Morgan, Inc. common stock; 2,884,680 options to purchase Kinder Morgan, Inc. common stock; 58,700 shares of Kinder Morgan, Inc. related to other rights to receive shares of Kinder Morgan, Inc. common stock or benefits measured by the value of Kinder

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Morgan, Inc. common stock under certain stock or benefit plans.

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

**Calculated solely for the purpose of determining the filing fee.** The transaction valuation is determined based upon the sum of (a) the product of (i) the sum of 133,990,784 shares of Kinder Morgan common stock outstanding on September 19, 2006, and (ii) the merger consideration of \$107.50 per share (equal to \$14,404,009,280) and (b) an aggregate of \$185,646,558 expected to be paid upon the cancellation of outstanding options having an exercise price less than \$107.50 or in connection with other rights to receive shares of common stock or benefits measured by the value of common stock under certain stock or benefit plans (the "Total Consideration"). In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder, the filing fee was determined by multiplying 0.000107 by the Total Consideration.

- (4) Proposed maximum aggregate value of transaction: \$14,589,655,838

- (5) Total fee paid: \$1,561,094

ý Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:  
(2) Form, Schedule or Registration Statement No.:  
(3) Filing Party:  
(4) Date Filed:
-

**SUBJECT TO COMPLETION, OCTOBER 23, 2006**

To the Stockholders of Kinder Morgan, Inc.:

You are cordially invited to attend a special meeting of stockholders of Kinder Morgan, Inc. to be held on [                      ], [                      ], 2006 at 9:30 a.m., local time, at the Doubletree Hotel at Allen Center, 400 Dallas Street, Houston, Texas. The attached proxy statement provides information regarding the matters to be acted on at the special meeting, including at any adjournment or postponement thereof.

At the special meeting, you will be asked to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of August 28, 2006, among Kinder Morgan, Inc., Knight Holdco LLC and Knight Acquisition Co. Knight Holdco and Knight Acquisition Co. are entities organized by me and affiliates of GS Capital Partners V Fund, L.P., American International Group, Inc., The Carlyle Group and Riverstone Holdings LLC to effect the merger and related transactions discussed below. Pursuant to the merger agreement, Knight Acquisition Co. will merge with and into Kinder Morgan, with Kinder Morgan continuing as the surviving corporation.

If the merger agreement is approved and adopted and the merger is completed, each share of Kinder Morgan common stock (other than shares held by Knight Holdco, Knight Acquisition Co., subsidiaries of Kinder Morgan, stockholders who have perfected their appraisal rights under Kansas law and all or a portion of the shares held by certain stockholders defined in the attached proxy statement as "Rollover Investors") will be converted into the right to receive \$107.50 in cash without interest. Immediately prior to the merger, I, along with certain members of Kinder Morgan's senior management and the other Rollover Investors, will exchange all or a portion of our shares of Kinder Morgan common stock and all or a portion of the proceeds in respect of restricted stock and stock options for equity interests in Knight Holdco. As a result of the merger, Kinder Morgan will be privately owned through Knight Holdco by Kinder Morgan's senior management and other investors. A copy of the merger agreement is included as Annex A to the attached proxy statement.

On May 28, 2006, Kinder Morgan's board of directors established a special committee, consisting of three independent directors, and empowered it to, among other things, study, review, evaluate, negotiate and, if appropriate, make a recommendation to Kinder Morgan's board of directors with respect to acceptance of the merger proposed on that date. The special committee has unanimously determined that the merger agreement, the merger and the other transactions contemplated thereby are fair to, advisable to and in the best interests of the unaffiliated stockholders of Kinder Morgan, and has recommended to the full Kinder Morgan board of directors that the board of directors approve the merger agreement, the merger and the other transactions contemplated thereby.

Kinder Morgan's board of directors, after considering factors including the unanimous determination and recommendation of the special committee, unanimously determined (with the three directors who will be Rollover Investors taking no part in the deliberations or the vote) that the merger agreement is fair to, advisable to and in the best interests of the unaffiliated stockholders of Kinder Morgan, and approved the merger agreement, the merger and the other transactions contemplated thereby. Accordingly, Kinder Morgan's board of directors (with the three directors who will be Rollover Investors taking no part in the deliberations or the vote) unanimously recommends that you vote FOR the approval and adoption of the merger agreement. In arriving at their recommendations of the merger agreement, Kinder Morgan's board of directors and its special committee carefully considered a number of factors which are described in the accompanying proxy statement.

The attached proxy statement provides you with detailed information about the merger agreement and the merger. You are urged to read the entire document carefully.

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**Regardless of the number of shares you own, your vote is very important.** The affirmative vote of at least the holders of two-thirds of all of the Kinder Morgan common stock then entitled to vote at a meeting of stockholders is required to approve and adopt the merger agreement. If you fail to vote on the merger agreement, the effect will be the same as a vote against the approval and adoption of the merger agreement for purposes of the vote referred to above. Once you have read the accompanying materials, please take the time to vote on the proposals submitted to stockholders at the special meeting whether or not you plan to attend the meeting by completing and mailing the enclosed proxy card or by voting your shares by telephone or Internet by following the instructions on your proxy card. If you receive more than one proxy card because you own shares that are registered differently, please vote all of your shares shown on all of your proxy cards.

Voting by proxy will not prevent you from voting your shares in person in the manner described in the attached proxy statement if you subsequently choose to attend the special meeting.

If you have any questions or need assistance voting your shares, please call D.F. King & Co., Inc., which is assisting us, toll-free at (800) 967-7635.

Sincerely,

Chairman of the Board

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger, or passed upon the fairness or merits of the merger or the adequacy or accuracy of the information contained in the enclosed proxy statement. Any contrary representation is a criminal offense.**

This proxy statement is dated [ ], 2006, and it and the proxy card are first being mailed to stockholders on or about [ ], 2006.

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**SUBJECT TO COMPLETION, OCTOBER 23, 2006**

**KINDER MORGAN, INC.**

**NOTICE OF SPECIAL MEETING**

[ ], 2006

Dear Stockholder:

On [ ], [ ], 2006, Kinder Morgan, Inc. will hold a special meeting of stockholders at the Doubletree Hotel at Allen Center, 400 Dallas Street, Houston, Texas. The meeting will begin at 9:30 a.m., local time.

Only holders of shares of common stock, par value \$5.00 per share, of record at the close of business on [ ], 2006 may vote at this meeting or any adjournments or postponements that may take place. At the meeting we propose to:

consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger among Kinder Morgan, Inc., Knight Holdco LLC and Knight Acquisition Co., as it may be amended from time to time;

approve any motion to adjourn the special meeting to a later date to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the foregoing proposal; and

transact such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

Your board of directors (with the three directors who will be Rollover Investors taking no part in the deliberations or vote) has unanimously approved and recommends that you vote FOR the approval and adoption of the merger agreement and FOR the adjournment proposal, which are discussed in more detail in the attached proxy statement.

Under Kansas law, holders of Kinder Morgan common stock have the right to dissent from the merger and to seek judicial appraisal of the "fair value" of their shares upon compliance with the requirements of the Kansas General Corporation Code. This right is explained more fully under "Special Factors Appraisal Rights of Stockholders" in the accompanying proxy statement. The appraisal rights provisions of Kansas law are attached to the accompanying proxy statement as Annex D.

Regardless of the number of shares you own, your vote is very important. The affirmative vote of at least the holders of two-thirds of all of the Kinder Morgan common stock then entitled to vote at a meeting of stockholders is required to approve and adopt the merger agreement. If you fail to vote on the merger agreement, the effect will be the same as a vote against the approval and adoption of the merger agreement for purposes of the vote referred to above. We hope you will be able to attend the meeting, but whether or not you plan to attend, please vote your shares by:

signing and returning the enclosed proxy card as soon as possible,

calling the toll-free number listed on the proxy card, or

accessing the Internet as instructed on the proxy card.

Voting by proxy will not prevent you from voting your shares in person in the manner described in the attached proxy statement if you subsequently choose to attend the special meeting. You should not send in your certificates representing shares of Kinder Morgan, Inc. common

stock until you receive instructions to do so.

We are sure you can understand that if you do attend the meeting, space limitations will make it necessary to limit attendance to stockholders, though each stockholder may be accompanied by one

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guest. Admission to the meeting will be on a first-come, first-served basis. Registration will begin at 9:00 a.m. and seating will begin at 9:30 a.m. Each stockholder may be asked to present valid picture identification, such as a driver's license or passport. Stockholders holding stock in brokerage accounts will need a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic devices will not be permitted at the meeting, and cell phones must be turned off.

By Order of the Board of Directors,

Chairman of the Board

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**SUMMARY TERM SHEET**

*The following summary, together with "Questions and Answers About the Special Meeting and the Merger," highlights selected information contained in this proxy statement. It may not contain all of the information that may be important in your consideration of the proposed merger. We encourage you to read carefully this proxy statement and the documents we have incorporated by reference into this proxy statement before voting. See "Where You Can Find More Information" on page 141. Where appropriate, we have set forth a section and page reference directing you to a more complete description of the topics described in this summary.*

**The Parties to the Merger.** Kinder Morgan, Inc., which we sometimes refer to in this proxy statement as we or Kinder Morgan, is one of the largest energy transportation, storage and distribution companies in North America. It owns an interest in or operates for itself or Kinder Morgan Energy Partners, L.P., which we sometimes refer to in this proxy statement as Kinder Morgan Energy Partners, approximately 43,000 miles of pipelines that transport primarily natural gas, crude oil, petroleum products and carbon dioxide, commonly called CO<sub>2</sub>; more than 150 terminals that store, transfer and handle products like gasoline and coal; and provides natural gas distribution service to over 1.1 million customers. Kinder Morgan indirectly owns the general partner interest of Kinder Morgan Energy Partners, one of the largest publicly traded pipeline limited partnerships in the United States in terms of market capitalization and the largest independent refined products pipeline system in the United States in terms of volumes delivered.

Knight Holdco LLC, which we sometimes refer to in this proxy statement as Parent, is a Delaware limited liability company currently owned by Richard D. Kinder and affiliates of GS Capital Partners V Fund, L.P., American International Group, Inc., The Carlyle Group and Riverstone Holdings LLC.

Knight Acquisition Co., which we sometimes refer to in this proxy statement as Acquisition Co., is a Kansas corporation and wholly owned subsidiary of Knight Holdco LLC.

See "The Parties to the Merger," beginning on page 75.

**The Merger.** Pursuant to the merger agreement, Acquisition Co. will be merged with and into Kinder Morgan, with Kinder Morgan continuing as the surviving company in the merger, which we refer to as the Surviving Corporation. Immediately following the merger, Kinder Morgan, as the Surviving Corporation in the merger, will become a privately-held company, wholly owned by Parent. Parent will be owned by entities and individuals we refer to collectively as the Investors. The Investors will consist of:

certain private equity funds and other entities providing the equity financing for the merger, who we refer to as Sponsor Investors, and

certain current or former directors, officers or other members of management of Kinder Morgan (or entities controlled by such persons), who we refer to as Rollover Investors, who are directly or indirectly reinvesting all or a portion of their equity interests in Kinder Morgan and/or cash in exchange for equity interests in Parent.

The Sponsor Investors are affiliates of GS Capital Partners V Fund, L.P., American International Group, Inc., The Carlyle Group and Riverstone Holdings LLC and their permitted assignees. The Rollover Investors are Richard D. Kinder, Chairman and Chief Executive Officer of Kinder Morgan, Michael Morgan and Fayez Sarofim, directors of Kinder Morgan, William Morgan, a founder of Kinder Morgan, Portcullis Partners, LP, which we sometimes refer to in this proxy statement as Portcullis, an investment partnership in which Michael Morgan and William Morgan have an interest, and certain other members of senior management of Kinder Morgan. See "Special Factors Effects of the Merger" beginning on page 45, and "Special Factors

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Interests of Certain Persons in the Merger" beginning on page 51. Whenever we refer to the merger agreement in this proxy statement, we are referring to the Agreement and Plan of Merger attached as Annex A to this proxy statement, as the merger agreement may be amended from time to time. You should read the merger agreement because it, and not this proxy statement, is the legal document that governs the merger.

**Effects of the Merger.** If the merger is completed, you will receive \$107.50 per share in cash, without interest, for each of your shares of Kinder Morgan common stock you own at that time, unless you are a dissenting stockholder and you perfect your appraisal rights under Kansas law. As a result of the merger, Kinder Morgan's stockholders, other than the Investors, will no longer have a direct or indirect equity interest in Kinder Morgan; Kinder Morgan common stock will no longer be listed on the New York Stock Exchange, which we refer to as the NYSE; and the registration of Kinder Morgan common stock under Section 12 of the Securities Exchange Act of 1934, as amended, which we

refer to as the Exchange Act, will be terminated. However, the Surviving Corporation will continue to file periodic reports with the Securities and Exchange Commission, which we refer to as the SEC, to the extent required by the indentures governing its outstanding indebtedness. See "Special Factors Effects of the Merger" beginning on page 45.

**Treatment of Outstanding Options, Restricted Stock and Stock-Based Awards.** If the merger is completed, unless otherwise agreed between a holder and Parent, all outstanding options to purchase shares of Kinder Morgan common stock granted under a Kinder Morgan plan and not exercised prior to the merger will vest and be cancelled and converted into the right to receive a cash payment equal to the number of shares of Kinder Morgan common stock underlying the options multiplied by the amount (if any) by which \$107.50 exceeds the option exercise price, without interest and less any applicable withholding taxes. Unless otherwise agreed between a holder and Parent, all shares of restricted stock or Kinder Morgan stock based awards such as restricted stock units will vest and be cancelled and converted into the right to receive a cash payment equal to the number of shares of restricted stock or the number of shares of Kinder Morgan common stock underlying such Kinder Morgan stock based award, in each case multiplied by \$107.50, without interest and less any applicable withholding taxes. See "Special Factors Effects of the Merger" beginning on page 45.

**Interests of Certain Persons in the Merger.** In considering the proposed transactions, you should be aware that some Kinder Morgan stockholders, directors, officers and employees have interests in the merger that may be different from, or in addition to, your interests as a Kinder Morgan stockholder generally, including:

accelerated vesting and cash-out of in-the-money stock options and of restricted stock and other stock-based awards held by directors, officers and employees of Kinder Morgan, unless otherwise agreed between a holder and Parent;

ownership of equity interests in and certain governance rights with respect to Parent; and

continued indemnification and directors' and officers' liability insurance to be provided by Parent and the Surviving Corporation to current and former directors, officers and employees of Kinder Morgan and its subsidiaries.

These arrangements are more fully described under "Special Factors Effects of the Merger" beginning on page 45 and "Special Factors Interests of Certain Persons in the Merger" beginning on page 51.

The special committee and Kinder Morgan's board of directors were aware of these interests and considered them, among other matters, prior to providing their respective recommendations with respect to the merger agreement.

**Required Vote.** The affirmative vote of at least the holders of two-thirds of all of the Kinder Morgan common stock then entitled to vote at a meeting of stockholders, which means two-thirds of the outstanding shares of Kinder Morgan common stock, and which we sometimes refer to as the Required Vote, is required to approve and adopt the merger agreement. Approval of the adjournment proposal requires the affirmative vote of the holders of a majority of the shares of Kinder Morgan common stock present in person or by proxy and entitled to vote at the special meeting on that matter.

**Share Ownership of Directors and Executive Officers.** As of [ ], 2006, the record date, the directors and executive officers of Kinder Morgan held and were entitled to vote, in the aggregate, shares of our common stock representing approximately [ ]% of the outstanding shares. We believe our directors and executive officers intend to vote all of their shares of our common stock FOR the approval and adoption of the merger agreement and FOR the adjournment proposal, and Mr. Kinder has entered into a Voting Agreement with Parent and Acquisition Co. in which he agreed to vote all of his shares FOR the approval and adoption of the merger agreement. See "The Special Meeting Quorum; Vote Required" beginning on page 76.

**Recommendations.** The special committee of independent directors of Kinder Morgan's board of directors that was appointed to, among other things, review and evaluate the merger proposal has unanimously determined that the merger agreement, the merger and the other transactions contemplated thereby are substantively and procedurally fair to, and are advisable to and in the best interests of, the unaffiliated stockholders of Kinder Morgan (by which we mean the stockholders other than the Investors and the officers and directors of Kinder Morgan), and has recommended to the full Kinder Morgan board of directors that the board of directors approve the merger agreement and the transactions contemplated thereby, including the merger, and that the stockholders of Kinder Morgan approve and adopt the merger agreement. After considering factors including the unanimous recommendation of the special committee, Kinder Morgan's board of directors has unanimously:

determined that the merger agreement, the merger and the other transactions contemplated thereby are substantively and procedurally fair to, and are advisable to and in the best interests of, the unaffiliated stockholders of Kinder Morgan;

approved and adopted the merger agreement and the transactions contemplated thereby, including the merger; and

recommended that Kinder Morgan's stockholders approve and adopt the merger agreement.

Accordingly, the special committee and the board of directors unanimously recommend that you vote to approve and adopt the merger agreement. The unanimous action of the Kinder Morgan board of directors was taken with the three directors who will be Rollover Investors taking no part in the deliberations or the vote. See "Special Factors Recommendation of the Special Committee and Board of Directors; Reasons for Recommending Approval and Adoption of the Merger Agreement" beginning on page 21.

The Rollover Investors believe that the proposed merger is substantively and procedurally fair to Kinder Morgan's unaffiliated stockholders. See "Special Factors Position of Rollover Investors as to Fairness" beginning on page 29.

Parent and Acquisition Co. believe that the proposed merger is substantively and procedurally fair to Kinder Morgan's unaffiliated stockholders. See "Special Factors Position of Parent and Acquisition Co. as to Fairness" beginning on page 30.

**Opinions of Financial Advisors.** The special committee and the board of directors received opinions from each of Morgan Stanley & Co. Incorporated and The Blackstone Group L.P. to the effect that, as of the date of their respective opinions, the cash merger consideration of \$107.50 per share,

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without interest, to be received by the holders of Kinder Morgan common stock (other than Parent, Acquisition Co. and the Rollover Investors) in the merger was fair, from a financial point of view, to such holders. Morgan Stanley's and Blackstone's opinions are subject to the assumptions, limitations and qualifications set forth in such opinions, which are attached as Annex B and Annex C, respectively, to this proxy statement. We encourage you to read carefully these opinions in their entirety and the section entitled "Special Factors Opinions of Financial Advisors" beginning on page 31 for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. **The opinions of each of Morgan Stanley and Blackstone were provided to Kinder Morgan's special committee and its board of directors in connection with their evaluations of the merger, do not address any other aspect of the merger and do not constitute a recommendation to any stockholder as to how you should vote on any matter at the special meeting.**

**What We Need to Do to Complete the Merger.** We will complete the merger only if the conditions set forth in the merger agreement are satisfied or waived. These conditions include, among others:

approval and adoption of the merger agreement by the Required Vote;

the absence of any legal restraint or prohibition preventing the consummation of the merger and the other transactions contemplated by the merger agreement;

the expiration or early termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which we call the H-S-R Act;

the receipt of other regulatory approvals as described below under "Special Factors Regulatory Approvals" beginning on page 67;

the absence of any fact, circumstance, event, change, effect or occurrence that constitutes a material adverse effect on Kinder Morgan, as described under "The Merger Agreement Representations and Warranties," that has occurred since the date of the merger agreement and is continuing;

the representations and warranties of Kinder Morgan and those of Parent and Acquisition Co. being true and correct, subject in many cases to materiality or material adverse effect qualifications; and

Kinder Morgan's and Parent's performance in all material respects of all of their respective obligations and compliance in all material respects with all of their respective agreements in the merger agreement.

At any time before the merger, to the extent legally allowed, the board of directors of Kinder Morgan may waive compliance with any of the conditions contained in the merger agreement without the approval of its stockholders and Parent may waive compliance with any of the conditions contained in the merger agreement. As of the date of this proxy statement, neither Kinder Morgan nor Parent expects that any condition will be waived. See "The Merger Agreement Conditions to Completion of the Merger" beginning on page 97.

**Regulatory Approvals That Must be Obtained.** In addition to clearances from the Justice Department and the Federal Trade Commission under the H-S-R Act that must be obtained for any transaction of sufficient size, we will need to receive approvals from the Federal Energy Regulatory Commission, the public utility commissions of several states and appropriate regulatory authorities in Canada and Mexico. See "Special Factors Regulatory Approvals" beginning on page 67.

**Termination of the Merger Agreement.** The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger, whether prior to or after Kinder Morgan's stockholders approve and adopt the merger agreement:

by mutual written consent of Kinder Morgan and Parent;



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by either party if the merger is not completed by February 28, 2007, or the end of the "marketing period," which is a 15-business day period following the satisfaction or waiver of specified closing conditions that Parent and Acquisition Co. can use to complete their financing of the merger, if the marketing period has commenced and the end of the marketing period would be later, which we refer to in this proxy statement as the end date, and the party seeking to terminate the merger agreement has not breached its obligations in any manner that has proximately caused the failure to consummate the merger by the end date; although, if certain antitrust or regulatory conditions have not been satisfied by the end date, either Parent or Kinder Morgan may extend the date until August 28, 2007 (however, Kinder Morgan may not terminate under this provision during the marketing period);

by either party if a legal restraint or order permanently restraining or otherwise prohibiting the consummation of the merger has become final and non-appealable, provided that the party seeking to terminate the merger agreement has used its reasonable best efforts to remove the restraint or order;

by either party if the stockholders of Kinder Morgan fail to approve and adopt the merger agreement at the special meeting or any adjournment or postponement of that meeting;

by either party if the other party has breached or failed to perform any of its representations, warranties or covenants, the breach or failure to perform would result in a failure of a mutual condition or a condition to the terminating party's obligation to complete the merger and the breach or failure to perform cannot be cured by the end date, provided that the party seeking to terminate has given the other party the required notice;

by Kinder Morgan if, prior to the receipt of the Required Vote, the board of directors of Kinder Morgan (or the special committee) has received a superior proposal and enters into a definitive agreement implementing the superior proposal, provided we have complied with our obligations under the merger agreement described under "The Merger Agreement Other Covenants and Agreements No Solicitation," "The Merger Agreement Termination," and "The Merger Agreement Termination Fee and Expenses; Remedies;"

by Kinder Morgan if the merger shall not have been consummated by the last day of the marketing period and at the time of the termination the mutual conditions and certain of the conditions for Parent's and Acquisition Co.'s obligations to effect the merger have been satisfied;

by Parent if the board of directors of Kinder Morgan or the special committee withdraws or modifies, or publicly proposes to withdraw or modify, in a manner adverse to Parent or Acquisition Co., its recommendation, fails to recommend to Kinder Morgan's stockholders that they approve and adopt the merger agreement or approves or recommends, or publicly proposes to approve or recommend, any alternative proposal;

by Parent if Kinder Morgan gives notice of receipt of a superior proposal and the board of directors or the special committee has determined in good faith, after consultation with outside counsel, that the failure to withdraw or modify its recommendation of the merger agreement would be inconsistent with the board of directors' (or the special committee's) exercise of its fiduciary duty under applicable law; or

by Parent if since the date of the merger agreement there shall have been a material adverse effect with respect to Kinder Morgan that cannot be cured by the end date.

See "The Merger Agreement Termination" beginning on page 98.



**Expenses and Termination Fee.** If the merger agreement is terminated under certain specified circumstances:

Kinder Morgan will be obligated to pay a termination fee of \$215 million to Parent;

Kinder Morgan will be obligated to pay the reasonable out-of-pocket documented expenses of Parent and Acquisition Co., up to \$45 million, which would be credited against the \$215 million termination fee if it becomes payable; or

Parent will be obligated to pay a termination fee of \$215 million to Kinder Morgan. Certain of the entities that are Sponsor Investors or affiliates of the Sponsor Investors have severally agreed to guarantee the obligation of Parent to pay this termination fee, subject in each case to a specified cap. The aggregate amount of the caps is equal to \$215 million.

See "The Merger Agreement Termination Fee and Expenses; Remedies" beginning on page 100.

**Financing of the Merger.** The merger agreement does not contain any condition relating to the receipt of financing by Parent and Acquisition Co. Parent estimates that the total amount of funds necessary to consummate the transaction, including debt to be incurred or to remain outstanding in connection with the merger, is approximately \$22.4 billion. This amount is expected to be provided through a combination of:

up to \$5.0 billion in new equity financing from the Sponsor Investors, based on the rollover commitments received to date from the Rollover Investors,

approximately \$2.9 billion in rollover equity financing from Richard D. Kinder and the other Rollover Investors,

approximately \$7.3 billion in new debt financing, and

approximately \$7.2 billion of existing indebtedness of Kinder Morgan expected to remain outstanding in connection with the merger.

Prior to the effective time of the merger, Parent may permit additional rollover commitments from other members of senior management, in which case the aggregate equity commitments from the Sponsor Investors described above will decrease by the aggregate value of such new rollover commitments. In addition, each of the Sponsor Investors may syndicate its equity commitment to its affiliated funds, entities and investment vehicles and to co-investors where such Sponsor Investor retains direct or indirect control over voting and disposition. See "Special Factors Financing of the Merger" beginning on page 62.

**No Solicitation of Competing Proposals.** The merger agreement restricts the ability of Kinder Morgan to, among other things, solicit or engage in discussions or negotiations with a third party regarding specified transactions involving Kinder Morgan or its subsidiaries and the board of directors' ability to change or withdraw its recommendation of the merger agreement. Notwithstanding these restrictions, under circumstances specified in the merger agreement, Kinder Morgan may respond to an unsolicited "alternative proposal" or terminate the merger agreement and enter into an agreement with respect to a "superior proposal," as each term is defined in the section entitled "The Merger Agreement Other Covenants and Agreements No Solicitation," so long as it complies with the terms of the merger agreement. The board of directors or any board committee may also withdraw its recommendation of the merger agreement if it concludes that doing otherwise would be inconsistent with the board's or committee's exercise of its fiduciary duties. See "The Merger Agreement Other Covenants and Agreements No Solicitation" beginning on page 88.

**Appraisal Rights.** If you properly dissent from the merger and you fulfill several procedural requirements, Kansas law entitles you to a judicial appraisal of the "fair value" of your shares. The

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"fair value" of shares of Kinder Morgan common stock would be determined by a court pursuant to Kansas law. You should be aware that the fair value of your shares as determined under Kansas law could be more than, the same as, or less than the merger consideration you would receive pursuant to the merger agreement if you did not seek appraisal of your shares. To exercise your appraisal rights, you must follow the procedures outlined in Annex D, including, without limitation:

prior to or at the special meeting, delivering to Kinder Morgan a written demand for appraisal of your Kinder Morgan shares, and

not voting in favor of the merger and the merger agreement.

If you sign and return your proxy without voting instructions, and do not revoke the proxy, your proxy will be voted in favor of the merger and the merger agreement and you will lose your appraisal rights. You may also lose your appraisal rights if you fail to comply with other required procedures contained in Annex D. The procedures are summarized in greater detail in "Special Factors Appraisal Rights of Stockholders" beginning on page 70, and the relevant text of the appraisal rights statute is attached as Annex D to this proxy statement. **We encourage you to read the statute carefully and to consult with legal counsel if you desire to exercise your appraisal rights.**

**Material United States Federal Income Tax Consequences.** The receipt of cash in exchange for shares of Kinder Morgan common stock pursuant to the merger will be a taxable transaction for United States federal income tax purposes. In general, you will recognize gain or loss in the merger in an amount equal to the difference, if any, between the cash you receive and your tax basis in Kinder Morgan common stock surrendered. **Tax matters are very complicated. The tax consequences of the merger to you will depend upon your particular circumstances. You should consult your tax advisors for a full understanding of the U.S. federal, state, local, non-U.S. and other tax consequences of the merger to you.** See "Special Factors Material United States Federal Income Tax Consequences" beginning on page 60.

**Accounting Treatment of the Merger.** The merger is expected to be accounted for as a recapitalization for financial accounting purposes. The merger is structured as a management buyout transaction with certain members of Kinder Morgan senior management continuing as investors in the Surviving Corporation. The assets and liabilities of Kinder Morgan will be recorded at their historical carrying value on the Surviving Corporation balance sheet. The historical carrying values in the stockholders' equity section of Kinder Morgan's and Acquisition Co.'s financial statements will be eliminated and be recapitalized based on the equity transactions outlined in this proxy statement to form the stockholders' equity section of the Surviving Corporation's financial statements.

**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER**

**Q: *Where and when is the special meeting?***

**A:**  
We will hold a special meeting of stockholders of Kinder Morgan on [ ], [ ], 2006 at 9:30 a.m. local time, at the Doubletree Hotel at Allen Center, 400 Dallas Street, Houston, Texas.

**Q: *What matters will be voted on at the special meeting?***

**A:**  
You will be asked to consider and vote on the following proposals:

To approve and adopt the merger agreement;

To approve any motion to adjourn the special meeting to a later date to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal on the merger agreement; and

To transact such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

**Q: *How does Kinder Morgan's board of directors recommend that I vote on the proposals?***

**A:**  
The board of directors recommends that you vote:

FOR the proposal to approve and adopt the merger agreement, and

FOR the adjournment proposal.

**Q: *Who is entitled to vote at the special meeting?***

**A:**  
The record date for the special meeting is [ ], 2006. Only holders of Kinder Morgan common stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting or any adjournment or postponement thereof.

**Q: *What constitutes a quorum for the special meeting?***

**A:**  
The presence, in person or by proxy, of stockholders representing a majority of the shares of Kinder Morgan common stock outstanding on the record date will constitute a quorum for the special meeting.

**Q: *What vote is required to approve and adopt the merger agreement and to approve the adjournment proposal?***

**A:**  
Approval and adoption of the merger agreement requires the affirmative vote of at least the holders of two-thirds of all of the Kinder Morgan common stock then entitled to vote at the special meeting on that matter, which means two-thirds of the outstanding shares. Approval of an adjournment of the special meeting requires only the affirmative vote of the holders of a majority of the shares of Kinder Morgan common stock present in person or by proxy and entitled to vote at the special meeting on that matter.

**Q: *How do Kinder Morgan's directors and executive officers intend to vote?***

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**A:**

As of [ ], 2006, the record date, the directors and executive officers of Kinder Morgan held and are entitled to vote, in the aggregate, shares of our common stock representing approximately [ ]% of the outstanding shares. We believe our directors and executive officers intend to vote all of their shares of our common stock FOR the approval and adoption of the

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merger agreement and FOR the adjournment proposal, and Mr. Kinder has entered into a Voting Agreement with Parent and Acquisition Co. in which he agreed to vote all of his shares FOR the approval and adoption of the merger agreement.

**Q: *What will a Kinder Morgan stockholder receive when the merger occurs?***

**A:** For every share of Kinder Morgan common stock that they own at the effective time of the merger, stockholders will be given the right to receive \$107.50 in cash, without interest. This does not apply to shares held by Parent, Acquisition Co., Kinder Morgan or its subsidiaries, stockholders who have perfected their appraisal rights under Kansas law or the Rollover Investors to the extent their shares are contributed to Parent prior to the effective time of the merger.

**Q: *When do you expect the merger to be completed? What is the "marketing period"?***

**A:** We are working toward completing the merger as quickly as possible and currently expect the merger to close in the first quarter of 2007. In order to complete the merger, we must obtain stockholder approval and the other closing conditions under the merger agreement must be satisfied or waived, as permitted by law. In addition, the merger is not required to close until the completion of a 15-business day "marketing period" that Parent and Acquisition Co. can use to complete their financing of the merger. The marketing period begins after we have obtained stockholder approval and satisfied other specified conditions under the merger agreement. However, if the marketing period would otherwise end on or after December 18, 2006 but before January 19, 2007, the marketing period will end on January 22, 2007.

**Q: *What do I need to do now?***

**A:** Please vote as soon as possible. We urge you to read this proxy statement carefully, including its annexes, and to consider how the transaction affects you as a stockholder. You also may want to review the documents referenced under "Where You Can Find More Information" on page 141.

**Q: *How do I vote?***

**A:** You should simply indicate on your proxy card how you want to vote, and sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares will be represented at the special meeting. If you sign and send in your proxy and do not indicate how you want to vote, your proxy will be counted as a vote for approval and adoption of the merger agreement and for the adjournment proposal. If you fail to vote your shares or do not instruct your broker how to vote any shares held for you in a brokerage account, the effect will be a vote against approval and adoption of the merger agreement, but it will not affect the vote on any proposal to adjourn the special meeting.

If your shares are held by your broker, bank or other nominee, see below.

If you participate in the Kinder Morgan, Inc. Savings Plan, see below.

**Q: *Can I vote by telephone or electronically?***

**A:** If you hold your shares as a stockholder of record, you may vote by telephone or by the Internet by following the instructions set forth on the enclosed proxy card.

If your shares are held by your broker, bank, or other nominee, often referred to as held in "street name," please contact your broker, bank or other nominee to determine whether you will be able to vote by telephone or electronically.



**Q:** *If my shares are held in a brokerage account, will my broker vote my shares for me?*

**A:**

Your broker, bank or other nominee will only be permitted to vote your shares for you if you instruct them how to vote. Therefore, it is important that you promptly follow the directions provided by your broker regarding how to instruct them to vote your shares. If you do not instruct your broker, bank or other nominee how to vote your shares that they hold, those shares will not be voted and the effect will be the same as a vote against the approval and adoption of the merger agreement, but it will not affect the vote on any proposal to adjourn the special meeting.

**Q:** *What do I do if I participate in the Kinder Morgan, Inc. Savings Plan?*

**A:**

If you have money invested in Fund KM or Fund KM55 (commonly referred to as the KMI Stock Fund) under the Kinder Morgan, Inc. Savings Plan, you do not actually own shares of Kinder Morgan common stock that are allocated to your account under the Savings Plan. The trustee of the trust established for the Savings Plan is the owner of record of the shares held in the Savings Plan and will vote those shares as described below.

Kinder Morgan's Fiduciary Committee, which serves as the administrator of the Savings Plan and is composed of certain members of our management, has determined to engage United States Trust Company, N.A. as an investment manager, which shall serve as an independent fiduciary with respect to the Savings Plan, to manage the shares held in the KMI Stock Fund in connection with the merger. Participants will be eligible to direct the voting of shares of Kinder Morgan common stock allocated to their accounts under the Savings Plan as "named fiduciaries." You may direct the voting of shares allocated to your account only by completing and returning the voting instruction card for participants in the Kinder Morgan, Inc. Savings Plan you received with this proxy statement in accordance with the procedures included with the voting instruction card, or by following the instructions for directing the vote by telephone or the Internet described in the voting instruction card, and before the applicable deadline noted below. If your voting instruction card is received by [4]:00 [p].m., local time, in Houston, Texas on [ ] [ ], 2006, or if you give voting instructions by telephone or the Internet by 11:59 p.m. Central Time on [ ] [ ], 2006, the independent fiduciary will direct the trustee of the Savings Plan trust to vote the shares allocated to your account in accordance with your instructions. If you submit voting instructions and wish to change them, you may do so by submitting new voting instructions by mail, telephone or Internet, regardless of how your prior voting instructions were submitted. Your new voting instructions must be received by the applicable deadline specified above. The independent fiduciary will consider your voting instructions with the latest date and disregard all earlier instructions. The independent fiduciary will direct the trustee of the Savings Plan trust to vote any unallocated shares of Kinder Morgan common stock held by the Savings Plan, and any allocated shares for which it does not receive voting instructions by the applicable deadline specified above, as the independent fiduciary determines in its sole discretion consistent with its fiduciary duties under the Employee Retirement Income Security Act of 1974, as amended, which we sometimes refer to in this proxy statement as ERISA. Your voting instructions will be kept confidential. You may not vote or direct the voting of shares in the Savings Plan in person at the special meeting.

**Q:** *What does it mean if I receive more than one proxy card?*

**A:**

It means that you have multiple accounts at the transfer agent and/or with brokers, banks or other nominees. Please sign and return all proxy cards to ensure that all your shares are voted.

**Q: *May I change my vote?***

**A:**

Yes. You may change your vote at any time before your proxy is voted at the special meeting, subject to the limitations described below. You may do this in a number of ways. First, you may send us a written notice stating that you would like to revoke your proxy. Second, you may complete and submit a new proxy card. If you choose either of these two methods, you must submit your notice of revocation or your new proxy card to the secretary of Kinder Morgan, at the address under "The Parties to the Merger Kinder Morgan, Inc." on page 75. You may also submit a later-dated proxy using the telephone or Internet voting procedures on the proxy card so long as you do so before the deadline of 11:59 p.m. on [ ], 2006. Third, you may attend the special meeting and vote in person. Simply attending the special meeting, without voting in person, will not revoke your proxy. If your shares are held in street name and you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote or to vote at the special meeting.

**Q: *Should I send in my stock certificates now?***

**A:**

No. After the merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging your Kinder Morgan common stock certificates for the merger consideration. If your shares are held in "street name" by your broker, bank or other nominee you will receive instructions from your broker, bank or other nominee as to how to effect the surrender of your "street name" shares in exchange for the merger consideration. **Please do not send your certificates in now.**

**Q: *What are the material United States federal income tax consequences of the transaction to stockholders?***

**A:**

In general, your receipt of cash in exchange for shares of Kinder Morgan common stock pursuant to the merger will be a taxable transaction for United States federal income tax purposes. Since the tax consequences of the merger to you will depend on your particular circumstances, you should consult your own tax advisor for a full understanding of the U.S. federal, state, local, non-U.S. and other tax consequences of the merger to you.

**Q: *Do stockholders have appraisal rights?***

**A:**

If you do not vote in favor of the merger and you fulfill several procedural requirements, you are entitled to a judicial appraisal of the "fair value" of your shares under Kansas law. You should be aware that the fair value of your shares as determined under Kansas law could be more than, the same as, or less than the merger consideration you would receive pursuant to the merger agreement if you did not seek appraisal of your shares. We encourage you to read the Kansas statute carefully and consult with legal counsel if you desire to exercise your appraisal rights. The Kansas statute is included as Annex D to this proxy statement. See "Special Factors Appraisal Rights of Stockholders."

If you participate in the Kinder Morgan, Inc. Savings Plan, you are not entitled to exercise appraisal rights with respect to any shares allocated to your account. The independent fiduciary appointed to manage the KMI Stock Fund under the Savings Plan will decide whether or not to exercise any appraisal rights for such shares in its complete discretion, consistent with its fiduciary duties under ERISA.

**Q: *Who can help answer my questions?***

**A:**

If you have any questions about the merger or if you need additional copies of this proxy statement or the enclosed proxy card, you should contact D.F. King & Co., Inc., which is acting as the proxy solicitation agent and information agent in connection with the merger.

**D.F. King & Co., Inc.**  
48 Wall Street  
New York, New York 10005  
(800) 967-7635 (toll free)





**SPECIAL FACTORS**

***Background of the Merger***

It is part of Kinder Morgan's business strategy to consistently evaluate strategic alternatives in an effort to maximize stockholder value. On February 16, 2006, C. Park Shaper, Kinder Morgan's President, discussed with representatives of the investment banking division of Goldman, Sachs & Co., which we refer to as Goldman Sachs, various alternatives, including repurchasing shares of Kinder Morgan's common stock, ranging from small amounts to all of the outstanding shares.

On February 28, 2006, Kinder Morgan Energy Partners announced the estimated financial impact of its Rockies Express Pipeline and Kinder Morgan Louisiana Pipeline initiatives on Kinder Morgan and Kinder Morgan Energy Partners. On March 7, 2006, after taking into account the market reaction to this announcement, Mr. Shaper discussed with a representative of Goldman Sachs the possibility of further analyzing, with the assistance of Goldman Sachs, the strategic alternatives Kinder Morgan might pursue to enhance stockholder value. Among the options to be analyzed were repurchasing shares of Kinder Morgan's common stock using the proceeds of asset sales, sales of certain subsidiaries or lines of business or borrowed funds, a public restructuring, or taking Kinder Morgan private, although this last alternative was not the focus of the discussion. During the period between March 7, 2006 and April 5, 2006, representatives of Kinder Morgan management and representatives of Goldman Sachs met in person or via teleconference several times to discuss these analyses. Additionally, during such time, Mr. Joseph Listengart, Vice President and General Counsel of Kinder Morgan, discussed certain legal matters related to the feasibility of several of the alternatives with Bracewell & Giuliani LLP, Kinder Morgan's primary outside counsel, which we refer to as Bracewell.

On April 5, 2006, during a telephone conference between Mr. Shaper and a representative of the investment banking division of Goldman Sachs, the representative indicated that Goldman Sachs Capital Partners, which we refer to as GSCP, a private equity fund affiliated with Goldman Sachs, was interested in exploring with management the possibility of a going private transaction. On April 6, 2006, representatives of Kinder Morgan management, including Messrs. Richard Kinder and Shaper, as well as Mr. Michael Morgan, a director of Kinder Morgan, participated in a telephone conference with representatives of Goldman Sachs' investment banking division and GSCP to discuss the possibility of a going private transaction and various other alternatives relating to Kinder Morgan. At this meeting, GSCP indicated its potential interest in exploring further the possibility of participating with Kinder Morgan management in such a transaction.

Following these conversations, during the period between April 7, 2006 and April 26, 2006, Kinder Morgan management had multiple discussions with Weil, Gotshal & Manges LLP, which we refer to as Weil Gotshal, in its capacity as prospective counsel to the senior management of Kinder Morgan, and with GSCP about the possibility of a management led buyout of Kinder Morgan. During this time period, management also continued to discuss with representatives of the investment banking division of Goldman Sachs the feasibility and desirability of the other alternatives being considered, including a public restructuring and stock buyback.

On April 26, 2006, representatives of Kinder Morgan management, including Messrs. Kinder and Shaper, met with representatives of the investment banking division of Goldman Sachs and GSCP to discuss further the possibility of exploring a management led buyout of Kinder Morgan sponsored by GSCP. At this meeting, potential structures for a going private transaction were discussed, as were matters related to the valuation of Kinder Morgan and possible transaction terms. Following this meeting, based on the information presented at the meeting and on the discussions and analyses undertaken at that time, Kinder Morgan's senior management decided to further explore a management led buyout of Kinder Morgan sponsored by GSCP. On or around this date, Kinder Morgan's senior management formally engaged Weil Gotshal to represent them with respect to a potential going private transaction.

During the remainder of April and May of 2006, Kinder Morgan management, together with Weil Gotshal, and GSCP, which was advised by Wachtell, Lipton, Rosen & Katz, which we refer to as Wachtell Lipton, discussed a potential framework for the sponsorship of a management led buyout of Kinder Morgan. During this period, each of GSCP and Wachtell Lipton conducted business and legal diligence, respectively, with respect to Kinder Morgan. In connection with such due diligence, on May 21, 2006, GSCP executed a confidentiality agreement for the benefit of Kinder Morgan. As described below, this agreement was subsequently terminated at the request of the special committee and replaced with a new confidentiality agreement with Kinder Morgan. Also during this period, a draft preliminary framework outlining the post closing interaction between GSCP and management was circulated and discussed between the parties.

On May 5, 2006, Messrs. Kinder and Shaper met with Mr. William Morgan, a founder and substantial stockholder of Kinder Morgan, and Mr. Michael Morgan, a director of Kinder Morgan, and discussed with such individuals the possibility of their participation in such transaction. On May 9, 2006, Messrs. Kinder and Shaper met with Mr. Fayez Sarofim, a director and substantial stockholder of Kinder Morgan, and informed him of the possibility of a going private transaction and discussed with Mr. Sarofim the possibility of his participation in a potential transaction.

On May 10, 2006, representatives of senior management of Kinder Morgan and the investment banking division of Goldman Sachs had preliminary meetings with S&P and Moody's to discuss potential debt ratings for Kinder Morgan and Kinder Morgan Energy Partners following the contemplated transaction. Such initial meetings suggested that significant hurdles existed to achieve the desired credit ratings for such entities following any potential transaction.

Following the initial rating agency meetings and the receipt of one of the agencies' responses, at a telephonic meeting of Kinder Morgan's board of directors held on May 13, 2006, Mr. Kinder advised the board of directors that management had been evaluating a variety of restructuring alternatives, which were reviewed with the board at the meeting. Mr. Kinder indicated that while a management led buyout of Kinder Morgan was possible, there appeared to be significant hurdles that made such a transaction unlikely.

Over the course of the next two weeks, representatives of senior management of Kinder Morgan and Goldman Sachs continued discussions with rating agencies. In the course of those discussions, those representatives indicated that, in the event that a management led buyout of Kinder Morgan was pursued:

an additional \$1 billion of equity would be committed to Kinder Morgan upon the occurrence of certain specified events,

the existing regular quarterly dividends would be discontinued,

an independent minority investment in the general partner of Kinder Morgan Energy Partners would be obtained from an unaffiliated third party, and

they would take certain additional steps, such as changing the name of Kinder Morgan following the transaction, to emphasize the separate nature of Kinder Morgan Energy Partners.

These agreements and additional discussions of these topics led these representatives to believe that a management led buyout could be undertaken while preserving the desired credit ratings for Kinder Morgan and Kinder Morgan Energy Partners. These discussions also had the effect of reinforcing senior management's understanding that the other alternatives initially considered to increase stockholder value would also put at risk the critical objective of maintaining Kinder Morgan Energy Partners' investment-grade credit rating, and that many of the methods that would be available to preserve such credit rating in the context of a going private transaction would not be attractive if such other alternatives were pursued in a case where Kinder Morgan remained a public company.

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On May 18, 2006, representatives of the investment banking division of Goldman Sachs provided management with a list of financial sponsors that it believed could be interested in exploring a potential management-led buyout of Kinder Morgan. Over the course of the next week, Kinder Morgan senior management, together with representatives of Goldman Sachs' investment banking division and GSCP, met with such potential investors. In connection with such discussions, between May 20-22, 2006, each of such potential investors executed a confidentiality agreement for the benefit of Kinder Morgan and a confidentiality/exclusivity agreement with GSCP. As described below, at the request of the special committee, the exclusivity provisions of the confidentiality/exclusivity agreements were subsequently terminated and the confidentiality agreements of the participating financial sponsors were replaced with new confidentiality agreements with Kinder Morgan. Of the financial sponsors contacted, The Carlyle Group, Riverstone Holdings LLC and affiliates of American International Group, Inc. ("AIG") indicated their interest in participating in a potential transaction. Such sponsors were invited to consider further whether they would participate.

From May 27 through 28, 2006, Kinder Morgan senior management and GSCP, together with Weil Gotshal and Wachtell Lipton, continued to discuss documentation related to a potential management led buyout to take Kinder Morgan private. Additionally, on May 27, 2006, Kinder Morgan senior management, in consultation with GSCP and the other financial sponsors, established the offer price of \$100 per share for each issued and outstanding share of Kinder Morgan common stock in connection with the potential transaction. Additionally, on May 28, 2006, Mr. Richard Kinder, at the request of GSCP, executed a letter providing that, for a period of 90 days, so long as GSCP was pursuing a potential transaction involving Kinder Morgan, Mr. Kinder would not engage in any discussions or negotiations with any third party related to Mr. Kinder's continued service as a senior manager or director of Kinder Morgan in connection with a bid by such third party to acquire Kinder Morgan or a material portion of its business. As described below, this agreement was subsequently terminated at the request of the special committee. Mr. Kinder and the financial sponsors also agreed on behalf of the to-be-formed acquisition vehicle to retain formally the investment banking division of Goldman Sachs to be the financial advisors to the potential buyout group.

On May 28, 2006, Kinder Morgan's board of directors held a special telephonic board meeting called by Mr. Kinder, which representatives of Bracewell also attended. Just prior to the beginning of that meeting, Mr. Kinder delivered to the board of directors a letter setting forth the offer to have GSCP, Carlyle, AIG Global Asset Management Holdings Corp. and Riverstone Holdings LLC sponsor a management-led acquisition of all of the outstanding common stock of Kinder Morgan at a price of \$100 per share. The letter indicated that Mr. Kinder would continue as Chairman and CEO of Kinder Morgan following this proposed transaction and would reinvest all of his common stock in the new private company, and that Mr. Sarofim, Messrs. William and Michael Morgan and other members of Kinder Morgan's senior management were expected to participate in such transaction through a reinvestment of their equity in Kinder Morgan, which, together with Mr. Kinder's reinvestment, would have a value of \$2.8 billion based on the offer price. The letter outlined the expected debt and equity financing for a potential transaction and indicated that Goldman Sachs Credit Partners L.P. had delivered to the private equity sponsors and Mr. Kinder a letter indicating that it was "highly confident" that it could arrange the required debt financing for a potential transaction. The letter also conveyed the expectation that a special committee of independent directors would be established to consider the proposal on behalf of Kinder Morgan's public shareholders and to recommend to the board of directors whether to approve the proposal. The letter made clear that the transaction was subject to the execution of definitive documentation, recommendation by the special committee and approval of the board of directors of Kinder Morgan, and that no binding obligation on the part of the potential investors would arise with respect to the offer until such documentation and approval were obtained. Mr. Kinder reviewed the letter and the terms of the offer with the board. The board then discussed generally with Mr. Kinder the strategic alternatives available to Kinder Morgan, including how Mr. Kinder's proposal differed from any restructuring proposals or leveraged share repurchase

alternatives and why Mr. Kinder was making the proposal in lieu of Kinder Morgan's pursuing other alternatives.

Following that discussion, directors Kinder, Sarofim and Morgan and members of management who would participate in the proposal disconnected from the telephone meeting, and the meeting continued with the remainder of the directors present, as well as representatives of Bracewell. There followed a discussion of management's proposal and steps to take next. A discussion of these and related matters ensued, and the board established a special committee consisting of Messrs. Stewart Bliss (as Chair), Edward Austin and Ted Gardner. The special committee was delegated the full power and authority to, among other things, make any and all decisions regarding the proposal and any other alternatives and negotiate with the buyout group or any other party regarding the proposal or any other alternatives, and, if appropriate, reject the proposal or, in the alternative recommend to the full board acceptance of any proposed transaction. The special committee was also empowered to retain any and all independent advisors (including financial and legal advisors) as it deemed necessary or appropriate in connection with fulfilling its duties.

On May 29, 2006, Mr. Kinder, together with GSCP, Carlyle, AIG and Riverstone Holdings LLC, issued a press release announcing their proposal, and Kinder Morgan issued a press release announcing its receipt of Mr. Kinder's proposal and the formation of the special committee.

Following its formation, the special committee considered the retention of advisors. With assistance from Bracewell, from June 1 to June 5, the special committee interviewed three potential legal advisors. After deliberation, on June 5, the special committee selected Skadden, Arps, Slate, Meagher & Flom LLP, which we refer to as Skadden, in light of Skadden's experience in Kinder Morgan's industries and in representation of special committees. After being retained, Skadden reviewed with the special committee the fiduciary duties applicable to its actions. From June 7 to June 12, Skadden, on behalf of the special committee, negotiated separate indemnification agreements with Kinder Morgan that would indemnify the members of the special committee for certain possible losses arising from their service. Effective May 28, 2006, Kinder Morgan and the members of the special committee entered into these indemnification agreements.

On May 30, 2006, the first of several lawsuits challenging the proposal and related matters was commenced. Kinder Morgan is aware of four such existing lawsuits. For more information regarding these lawsuits, please see "Special Factors Litigation Related to the Merger."

From May 31 to June 6, the special committee interviewed six potential financial advisors. After deliberation, the special committee selected Morgan Stanley and Blackstone as co-equal financial advisors based on the financial advisors' broad experience with transactions of the type that the special committee might consider, the firms' experience in Kinder Morgan's lines of business and the commitment of their senior investment bankers to be personally involved in the representation of the special committee. At special committee meetings on June 8 and June 12, and in informal special committee discussions in between those meetings, the terms of engagement of Morgan Stanley and Blackstone were discussed, and on June 12, the special committee approved and entered into engagement letters and related non-disclosure and confidentiality agreements with Morgan Stanley and Blackstone. On June 13, the independent directors of Kinder Morgan held a telephonic meeting, at which the special committee updated the board on its activities, especially with respect to retention of advisors and the litigation relating to the pending offer. On June 14 the special committee caused Kinder Morgan to issue a press release announcing that the special committee had retained Morgan Stanley and Blackstone as its financial advisors and Skadden as its legal advisor.

Shortly after Skadden was retained by the special committee, the special committee and Skadden reviewed various documents that had been executed in connection with the proposed transaction, including confidentiality agreements between Kinder Morgan and the proposed sponsors and confidentiality/exclusivity agreements between GSCP and other potential sponsors, including those

which chose not to participate in a potential transaction. Skadden and the special committee negotiated new, separate confidentiality agreements between each of the participating sponsors and the man