

Rating: Sell  
 S&P 500: 1366

## Kinder Morgan (KMI, KMP, KMR) Dilution Ahead

<i>Symbol</i>	KMI	KMP	KMR	KMx
<i>Rating</i>	Sell	Sell	Sell	
<i>Price (US\$/sh)</i>	105.68	45.35	42.86	
<i>Pricing Date</i>	10/18/06	10/18/06	10/18/06	
<i>Publicly Held Shares (mm)</i>	135	148	51	
<i>Market Capitalization (US\$mm)</i>	14,300	6,710	2,180	23,200
<i>Debt (US\$mm)</i>	13,600	2,590	890	17,100
<i>Enterprise Value (EV) (US\$mm)</i>	27,900	9,300	3,070	40,300
<i>Present Value (PV) (US\$mm)</i>	18,100	4,810	1,650	24,600
<i>Net Present Value (US\$/share)</i>	33	15	15	
<i>Debt/Present Value</i>	0.75	0.54	0.54	0.70
<i>McDep Ratio - EV/PV</i>	1.54	1.93	1.86	1.64
<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	2,050	620	210	2,880
<i>North American Natural Gas/Ebitda (%)</i>	0	0	0	
<i>Natural Gas and Oil Production/Ebitda (%)</i>	7	17	17	
<i>Adjusted Reserves/Production NTM</i>	7.2	7.2	7.2	
<i>EV/Ebitda</i>	13.6	15.0	14.4	14.0
<i>PV/Ebitda</i>	8.8	7.8	7.8	8.5
<i>Undeveloped Reserves (%)</i>	42	42	42	
<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	24.21	24.21	24.21	
<i>Present Value Proven Reserves(US\$/boe)</i>	17.74	17.74	17.74	
<i>Present Value Proven Reserves(US\$/mcf)</i>	2.96	2.96	2.96	
<i>Earnings Next Twelve Months (US\$/sh)</i>	4.78	1.46	1.46	
<i>Price/Earnings Next Twelve Months</i>	22	31	29	25
<i>Indicated Annual Distribution (US\$/sh)</i>	3.50	3.24	3.24	
<i>Distribution Yield (%/yr)</i>	3.3	7.1	7.6	4.8
<i>Ebitda by Function</i>				
<i>Natural Gas Pipelines</i>	1431	162	55	1647
<i>Oil Products Pipelines</i>	243	180	61	483
<i>CO2 Pipelines</i>	213	158	53	424
<i>Terminals</i>	164	121	41	326

Reported results may vary widely from estimates.

Estimated present value per share revised only infrequently.

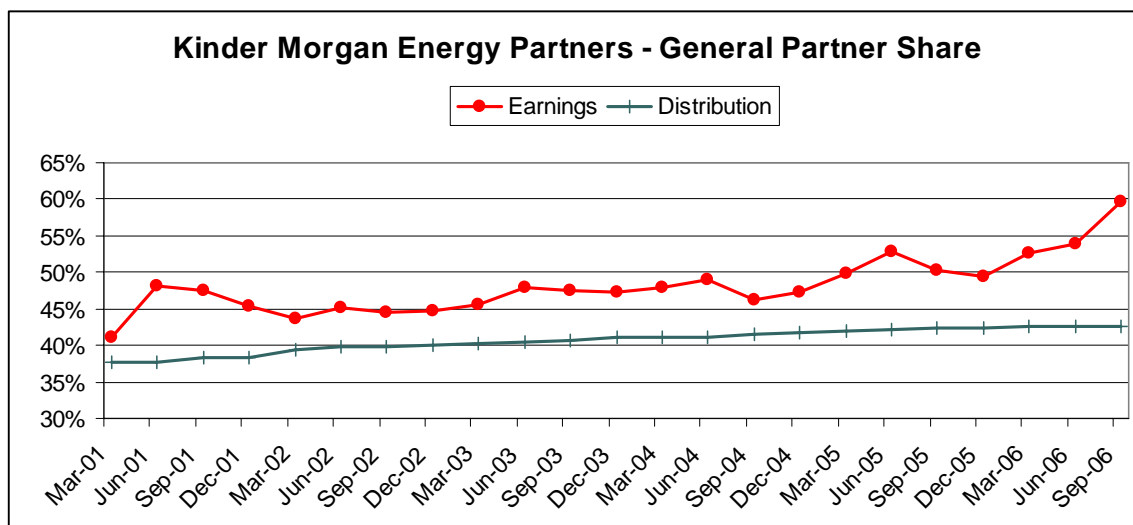
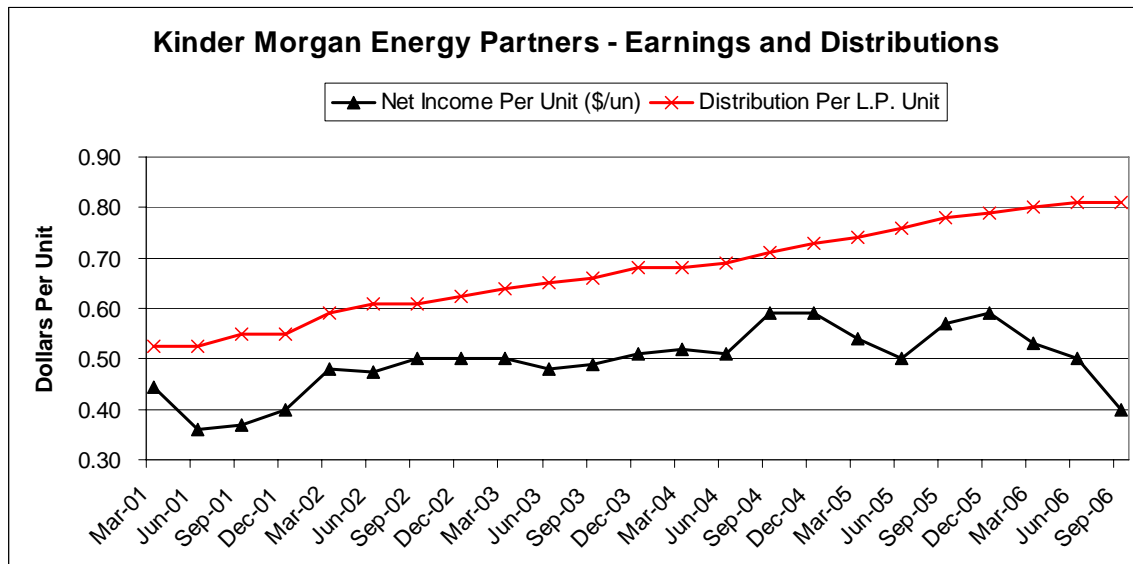
### Summary and Recommendation

Owners of sell-recommended **Kinder Morgan Energy Partners (KMP)** and **Kinder Morgan Management LLC (KMR)** face the prospect that some or all of the fees extracted by sell-recommended **Kinder Morgan Inc. (KMI)** will be transformed to permanent equity interests that dilute unit holders by as much as a half. The general partner of a competitor partnership has proposed a step in that direction with a vote on October 26 to give the general partner an

**Please see disclosures on the final page.**

additional 19% of units outstanding of Teppco (TPP) in exchange for capping the GP's fees at 25% of distributions rather than 50%. The proposed deal makes our point that limited partnership accounting that ignores the equity nature of the GP's extraordinary fees is false. Recall that a forced change to fairer debt accounting at KMI contributed to a downward stock price spiral that was stemmed with a hastily called management buyout (MBO) now expected early next year. Meanwhile operating results reported on October 18 showed signs of strain with net income dropping to half the distribution and general partner share hitting a new high of 60% (see charts). Finally, we believe that any contemplated "drop-down" of GP assets to KMP should be postponed until the accounting fairly represents the immediate 50% dilution of such conflicted transactions.

Kurt H. Wulff, CFA



Please see disclosures on the final page.

**Kinder Morgan Energy Partners, L.P.**  
**Next Twelve Months Financial Results**

	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3	Next Twelve Months
	9/30/05	6/30/06	9/30/06	12/31/06	2006E	3/31/07	6/30/07	9/30/07	9/30/07
<b>Oil Volume</b>									
Oil (mmb)	3.3	3.4	3.4	3.4	<b>14</b>	3.3	3.4	3.4	<b>14</b>
Oil (mbd)	36	37	37	37	<b>37</b>	37	37	37	<b>37</b>
<b>Oil Price (\$/bbl)</b>									
WTI Cushing	62.52	70.47	70.42	60.36	<b>66.15</b>	63.83	65.78	67.00	<b>64.24</b>
Partnership	29.35	34.08	35.30	34.04	<b>34.03</b>	34.53	34.79	34.95	<b>34.58</b>
<b>Oil Revenue (\$mm)</b>									
	98	115	120	116	<b>460</b>	115	117	119	<b>467</b>
<b>Ebitda</b>									
Products Pipelines	127	130	117	127	<b>500</b>	126	130	117	<b>500</b>
Natural Gas Pipelines	122	131	141	140	<b>556</b>	144	131	141	<b>556</b>
CO2 Pipelines	120	125	127	114	<b>488</b>	122	125	127	<b>488</b>
Terminals	82	102	98	85	<b>375</b>	90	102	98	<b>375</b>
Overhead	(53)	(66)	(64)	(64)	<b>(259)</b>	(64)	(64)	(64)	<b>(254)</b>
Total Ebitda	398	422	419	402	<b>1,660</b>	418	424	419	<b>1,665</b>
Deprec., Deplet., & Amort.	85	97	107	107	<b>404</b>	107	107	107	<b>428</b>
<b>Ebit</b>									
	313	325	312	295	<b>1,256</b>	311	317	312	<b>1,237</b>
Interest	68	84	88	88	<b>336</b>	88	88	88	<b>352</b>
<b>Ebt</b>									
	245	241	224	207	<b>920</b>	223	229	224	<b>885</b>
General Partner	123	130	134	137	<b>531</b>	137	138	138	<b>550</b>
<b>Net Income (\$mm)</b>									
	122	111	90	71	<b>389</b>	86	92	86	<b>334</b>
<b>Units (mm)</b>									
	214	222	226	227	<b>223</b>	228	229	230	<b>228</b>
Net Income Per Unit (\$/un)	0.57	0.50	0.40	0.31	<b>1.74</b>	0.38	0.40	0.37	<b>1.46</b>
Distribution Per L.P. Unit	0.78	0.81	0.81	0.81	<b>3.23</b>	0.81	0.81	0.81	<b>3.24</b>
<b>Distribution (\$mm)</b>									
	289	314	319	321	<b>1,261</b>	322	323	324	<b>1,290</b>
General Partner	122	134	136	137	<b>538</b>	137	138	138	<b>550</b>
Limited Partner	167	180	183	184	<b>723</b>	185	185	186	<b>740</b>
<b>General Partner Share</b>									
Earnings	50%	54%	60%	66%	<b>58%</b>	61%	60%	62%	<b>62%</b>
Distribution	42%	43%	43%	43%	<b>43%</b>	43%	43%	43%	<b>43%</b>

**Kinder Morgan, Inc.**  
**Next Twelve Months Financial Results**

	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3	Next Twelve Months
	9/30/05	6/30/06	9/30/06	12/31/06	2006E	3/31/07	6/30/07	9/30/07	9/30/07
<b>Ebitda</b>									
Natural Gas Pipelines	97	272	273	333	<b>1,228</b>	334	272	273	<b>1,213</b>
Kinder Morgan Energy Partner:	199	211	210	202	<b>832</b>	210	213	210	<b>834</b>
Total Ebitda	296	484	484	535	<b>2,060</b>	544	485	484	<b>2,047</b>
Deprec., Deplet., & Amort.	30	156	156	156	<b>624</b>	156	156	156	<b>624</b>
Kinder Morgan Energy Partner:	30	(91)	(98)	(98)	<b>(370)</b>	(98)	(98)	(98)	<b>(390)</b>
<b>Ebit</b>									
	236	418	425	477	<b>1,806</b>	485	426	425	<b>1,813</b>
Interest	45	200	205	205	<b>799</b>	205	205	205	<b>820</b>
<b>Ebt</b>									
	191	218	220	272	<b>1,007</b>	280	221	220	<b>993</b>
Income Tax	67	76	77	95	<b>352</b>	98	77	77	<b>348</b>
<b>Net Income (\$mm)</b>									
	124	142	143	177	<b>654</b>	182	144	143	<b>646</b>
<b>Shares (millions)</b>									
	123	135	135	135	<b>135</b>	135	135	135	<b>135</b>
Per Share (\$)	1.01	1.05	1.06	1.31	<b>4.85</b>	1.35	1.07	1.06	<b>4.78</b>
Tax Rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

Please see disclosures on the final page.

**Disclaimer:** This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**Research Methodology/Ratings Description:** McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.