

Rating: Sell
 S&P 500: 1541

Kinder Morgan Energy (KMP, KMR)

A Little Corruption, American Style

<i>Symbol</i>	KMP	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	840
<i>Rating</i>	Sell	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	51.56	<i>Natural Gas and Oil Production/Ebitda (%)</i>	16
<i>Pricing Date</i>	10/16/07	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Shares (mm)</i>	178	<i>EV/Ebitda</i>	15.3
<i>Market Capitalization (US\$mm)</i>	9,190	<i>PV/Ebitda</i>	7.9
<i>Debt (US\$mm)</i>	3,570	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	12,760	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.06
<i>Present Value (PV) (US\$mm)</i>	6,600	<i>Present Value Proven Reserves(US\$/boe)</i>	20.78
<i>Net Present Value (US\$/share)</i>	17	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.46
<i>Debt/Present Value</i>	0.54	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.60
<i>McDep Ratio - EV/PV</i>	1.93	<i>Price/Earnings Next Twelve Months</i>	32
<i>Distribution Yield (%/year)</i>	6.8	<i>Indicated Annual Distribution (US\$/sh)</i>	3.52

Note: Estimated cash flow and earnings at recent quarter rate annualized.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

For historical analysis of KMP since 2001 see www.mcdep.com/2kmp.htm

<i>Symbol</i>	KMR	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	300
<i>Rating</i>	Sell	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	49.52	<i>Natural Gas and Oil Production/Ebitda (%)</i>	16
<i>Pricing Date</i>	10/16/07	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Shares (mm)</i>	63	<i>EV/Ebitda</i>	14.8
<i>Market Capitalization (US\$mm)</i>	3,120	<i>PV/Ebitda</i>	7.9
<i>Debt (US\$mm)</i>	1,260	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	4,380	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.06
<i>Present Value (PV) (US\$mm)</i>	2,330	<i>Present Value Proven Reserves(US\$/boe)</i>	20.76
<i>Net Present Value (US\$/share)</i>	17	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.46
<i>Debt/Present Value</i>	0.54	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.60
<i>McDep Ratio - EV/PV</i>	1.88	<i>Price/Earnings Next Twelve Months</i>	31
<i>Dividend Yield (%/year)</i>	7.1	<i>Indicated Annual Dividend (US\$/sh)</i>	3.52

Note: Estimated cash flow and earnings at recent quarter rate annualized.

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For historical analysis of KMR since 2001 see www.mcdep.com/2kmr.htm

Summary and Recommendation

Sell-recommendations **Kinder Morgan Energy Partners (KMP)** and **Kinder Morgan Management LLC (KMR)** offer neither the upside potential nor the downside protection investors need to keep up in an inflationary environment for capital. It hardly matters what seeming progress the partnership reported in its quarterly financial disclosures after the market close on October 18 as long as the statements fail to take full account of the 50% equity dilution by the general partner. The statements don't recognize properly that when the partnership makes a dollar of investment in energy infrastructure, it gets fifty cents of value. Contrast that with investments in developing countries that Americans may criticize as corrupt when a dollar of public money gets perhaps eighty cents of economic value. In a subtle counter criticism a well-known

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former ambassador from a Middle Eastern country characterized the twenty percent leakage as a “pretty good deal for the economy” as we paraphrase it. What might we say about 50% leakages?

General Partners Not Complaining

The fifty percent leakage in unit holder investment goes to prominent general partners – a Wall Street House that has furnished two Secretaries of the Treasury in recent years, a Washington leveraged buyout fund that rewards politicians and a large insurance company that apparently has used an off-the-books offshore fund to pay bonuses to its executives. A former chairman of the Securities and Exchange Commission, whom we have often admired for his defense of individual investors, serves as a paid advisor to two of the general partners. In addition that person is a television commentator for and a director of a financial publishing house that relays information on the partnership that we term misleading (see *Stock Idea*, Kindler Morgan, July 19, 2007).

The World Functions Imperfectly

Global economic progress is favorable despite all those who would take unfair advantage. Cynics might say that is what drives it all, get ahead by taking unfair advantage. We are not that cynical, but we watch our wallet. Certainly the Finance Minister of Canada took advantage of investors when he reneged on the promise of no federal taxation of income trusts. The Alberta Royalty Review Panel would cheat by changing the deal under which billions of dollars were invested. Russia has changed deals made in the Wild West early years of its transition to market capitalism. The U.S Congress would impose punitive taxation on oil companies and give the contraband to venture capital promoters and pork barrel projects. Despite those investment threats, we are recommending oil and gas producers in Canada, Russia and the U.S. The higher risk deal as we see it is that offered to investors in KMP and KMR.

General Partner Free Riding while Distribution Financed by Debt

The latest declaration of an increase in quarterly distribution to \$0.88 a unit from \$0.85 amounts to an additional \$7 million a quarter to limited partners and an equal \$7 million to the general partner who has put up essentially no capital. When we allocate projected cash flow (Ebitda) in proportion to the debt ratio we have “equity Ebitda” of \$917 million for the next twelve months compared to a projected distribution of \$1499 million. The excess of \$582 million is that portion of the distribution we consider financed by debt and not sustainable by prudent standards.

Kurt H. Wulff, CFA

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

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/07</i>	<i>9/30/08</i>	<i>9/30/08</i>
Oil Volume									
Oil (mmb)	3.4	3.2	3.2	3.2	13	3.2	3.2	3.2	13
Oil (mbd)	37	35	35	35	35	35	35	35	35
Oil Price (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	85.06	70.88	83.45	81.52	80.14	82.54
Partnership	35.30	38.12	40.54	41.83	39.24	41.63	41.39	41.22	41.52
Oil Revenue (\$mm)									
	120	122	130	134	506	132	131	132	529
Ebitda									
Products Pipelines	117	149	155	155	602	155	155	155	620
Natural Gas Pipelines	141	145	142	142	565	142	142	142	568
CO2 Pipelines	127	129	138	138	530	138	138	138	552
Terminals	98	110	109	109	427	109	109	109	436
Trans Mountain		21	22	22	65	22	22	22	88
Overhead	(64)	(71)	(67)	(67)	(275)	(67)	(67)	(67)	(269)
Total Ebitda	419	483	499	499	1,914	499	499	499	1,995
Deprec., Deplet., & Amort.	107	136	138	138	540	138	138	138	552
Other Non Cash				-	-	-	-	-	-
Ebit									
	312	347	361	361	1,374	361	361	361	1,443
Interest	88	97	102	102	391	102	102	102	408
Ebt									
	224	250	259	259	983	259	259	259	1,035
General Partner	134	148	156	161	605	162	163	163	649
Net Income (\$mm)									
	90	102	103	97	378	97	96	95	386
Units (mm)									
	226	235	239	240	236	241	242	243	241
Net Income Per Unit (\$/un)	0.40	0.43	0.43	0.41	1.60	0.40	0.40	0.39	1.60
Distribution Per L.P. Unit	0.81	0.83	0.85	0.88	3.39	0.88	0.88	0.88	3.52
Distribution (\$mm)									
	319	341	357	372	1,406	374	375	377	1,499
General Partner	136	146	154	161	605	162	163	163	649
Limited Partner	183	195	203	211	801	212	213	214	850
General Partner Share									
Earnings	60%	59%	60%	62%	62%	63%	63%	63%	63%
Distribution	43%	43%	43%	43%	43%	43%	43%	43%	43%

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