

**Kinder Morgan Energy Partners, L.P.
Kinder Morgan Management, LLC
Smoking Gun: Distributions Exceed Cash Flow**

Symbol	Price	Market	Net	Debt/	EV/	EV/	Div'd	PV/			
	(\$/sh)								Value	Present	Sales
	23-Jan	Shares	Cap	Value	Present	McDep	Sales	Ebitda	P/E	NTM	Ebitda
	2002	(mm)	(\$mm)	(\$/sh)	Value	Ratio	NTM	NTM	NTM	(%)	NTM
KMP	36.59	135	4,900	11.60	0.48	2.11	5.1	19.0	25.7	6.3	9.0
KMR	36.35	30	1,100	11.60	0.48	2.10	5.1	18.9	25.6	6.3	9.0

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

EV = Enterprise Value = Market Cap and Debt:

US\$m 7,800

Ebitda = Earnings before interest, tax, depreciation and amortization:

US\$m 410

NTM = Next Twelve Months Ended December 31, 2002; P/E = Stock Price to Earnings

PV = Present Value of energy businesses:

US\$m 3,700

Summary and Recommendation

Our month-old Strong Sell recommendation for the equity securities of **Kinder Morgan Energy Partners, L.P. (KMP)**, **Kinder Morgan Management, LLC (KMR)** and **Kinder Morgan, Inc. (KMI)** takes on new urgency now that we have found what we believe to be the smoking gun. Wading through the unconventional Kinder Morgan accounting disclosures and making what we believe to be a fairer interpretation, we discover that limited partner distributions exceed cash flow. Traditionally that condition is the killer indicator for limited partnerships trading at high valuations. It implies that the full distribution can only be met when it includes proceeds from a non-operating source such as new financing or the sale of assets. Moreover the condition we have uncovered is likely to become more severe as the general partner “take” approaches half of all cash distributed, and in the ultimate extreme, potentially all the value of the limited partner assets. Our insight appears to be unique and quite contrary to Kinder Morgan press releases and other research sources.

Distribution Exceeds Cash Flow When General Partner Take Weighed

Last year the partnership’s reported income of \$442 million was split 46% for the general partner and 54% for the limited partners. The limited partnership share divided by limited partner units outstanding results in reported net income of \$1.56 per unit. There were about 154 million units outstanding on average throughout the year on a fully diluted basis.

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

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January 24, 2002

Fully diluted shares, or units in this case, normally include the equivalent shares or units for options, warrants, convertible securities and other contingent interests. At Kinder Morgan, fully diluted does not include the general partner's interest. The omission is critical. In our mind, the complete, fully diluted units outstanding is approximately 283 million, which can be obtained by dividing total income by income per unit.

With the more appropriate number of units let us calculate cash flow, which is normally considered to be net income plus depreciation, depletion and amortization. The depreciation, etc. of \$142 million last year amounts to \$0.50 a fully diluted unit. As a result cash flow is \$1.56 plus \$0.50, or \$2.06 per unit. The limited partner distribution of \$2.15 exceeded cash flow by 4%.

The degree of excess of the limited partner distribution over cash flow depends on the ultimate take of the general partner. The higher the general partner's share the more the overpayment of the limited partner distribution. We think that using the actual 46% share of 2001 earnings reported for the general partner is a neutral assumption. It is a contemporaneous number and it is calculable from the company's disclosures. The excess is likely to widen as the general partner's share of income grows faster than the limited partners' share. In the example of the oil tank purchase we illustrated recently, the general partner's share reached 100%.

Any suggestion that distributions exceed cash flow is a startling conclusion. Investors may be more accustomed to seeing analysis by others showing cash flow per share to be much higher than the distribution. Even Kinder Morgan makes the misleading calculation of depreciation and amortization per unit using all the depreciation and amortization and only the limited partner units.

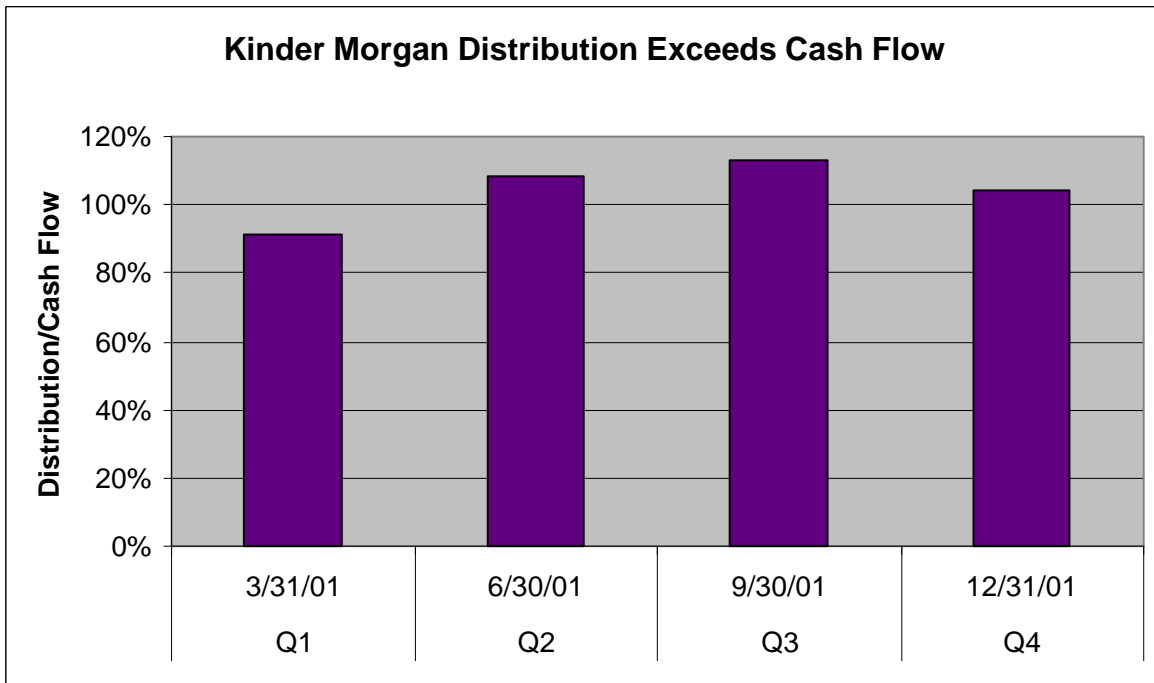
We found the smoking gun. Cash flow tends to be overstated by those promoting Kinder Morgan as well as by supposedly neutral sources. Contrary to the impressions left by the overstatements, cash flow does not exceed distributions by a comfortable cushion. Instead, distributions exceed a more realistic measure of cash flow. Thus, valuations of the KMP units on the basis that distribution can grow are likely to be examined more carefully. Projections of continued unusually high returns for KMI at the expense of KMP may in turn lose credibility.

Kurt H. Wulff, CFA

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

	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>3/31/01</i>	<i>6/30/01</i>	<i>9/30/01</i>	<i>12/31/01</i>	<i>2001</i>	<i>3/31/02</i>	<i>6/30/02</i>	<i>9/30/02</i>	<i>12/31/02</i>	<i>12/31/02</i>
Revenue (\$mm)	1,029	736	638	564	2,967	800	800	800	800	3,200
Expense	847	551	444	368	2,210	586	586	586	586	2,344
Ebitda	182	185	194	196	757	214	214	214	214	856
Deprec., Deplet., & Amort.	30	36	37	39	142	41	41	41	41	164
Other Non Cash										
Ebit	152	149	157	157	615	173	173	173	173	692
Interest	50	45	41	36	172	51	51	51	51	204
Ebt	102	104	116	121	443	122	122	122	122	488
Income Tax										
Net Income (\$mm)	102	104	116	121	443	122	122	122	122	488
General Partner	42	50	55	55	202	63	63	63	63	252
Limited Partner	60	54	61	66	240	59	59	59	59	236
G.P. Share	41%	48%	47%	45%	46%	52%	52%	52%	52%	52%
Units (mm)	229	289	314	303	284	343	343	343	343	343
General Partner Equivalent	94	140	149	137	129	177	177	177	177	177
Limited Partner	135	149	165	166	154	166	166	166	166	166
Net Income Per Unit (\$/un)	0.45	0.36	0.37	0.40	1.56	0.36	0.36	0.36	0.36	1.42
Distribution (\$mm)	114	126	147	148	535	156	156	156	156	626
General Partner	43	47	57	57	204	61	61	61	61	244
Limited Partner	71	78	91	91	331	95	95	95	95	382
G.P. Share	38%	38%	38%	38%	38%	39%	39%	39%	39%	39%
Distribution Per L.P. Unit	0.53	0.53	0.55	0.55	2.15	0.58	0.58	0.58	0.58	2.30
D.,D.&A. Per Unit	0.13	0.12	0.12	0.13	0.50	0.12	0.12	0.12	0.12	0.48
Cash Flow Per L.P. Unit	0.58	0.48	0.49	0.53	2.06	0.47	0.47	0.47	0.47	1.90

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