Deutsche Bank

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4 March 2003

El Paso Energy Partners, LP

Reuters: **EPN.N** Exchange: **NYSE** Ticker: **EPN**

Outlook improving, but many overhangs remain

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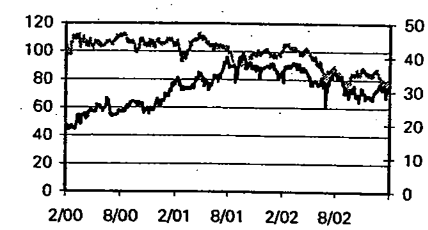
Initiation of Coverage

Hold

Price at 27 February 2003(US$)	32.02
Price target	31
52-week range (US$)	39-20

Price/Price Relative



	1m	3m	12m
Absolute	2.5%	8.5%	-8.7%
DJIA	-1.3%	-11.7%	-22.1%

Stock Data

Market Cap (US$)	1,761
Shares Outstanding (m)	55.0
Float	59%
Avg. daily volume ('000)	146
Beta	0.72
Est. 5 year EPS growth	6.0%
DJIA	7,884.99

Initiated coverage with a Hold rating

We have initiated coverage of El Paso Energy Partners, LP with a Hold rating and a twelve-month price target of $31 per unit.

EPN has exciting growth prospects . . .

Due to its strong competitive position in the growing Gulf of Mexico market, EPN has amongst the best internal growth prospects in the Master Limited Partnership group. The Partnership has committed to internal projects totaling almost $600 million ($350 million after joint venture project finance), with estimated Investment/EBITDA's ranging from 2.0x–4.5x.

. . . But also has many risks/negatives

First and foremost, distressed El Paso Corporation owns EPN's general partner (GP). In our opinion, this has clearly weighed on the units and remains a key issue. Further, at 66%, EPN has the highest debt/capitalization in the MLP group. We also forecast 4%–6% growth in distributions during 2003/2004, as EPN focuses on increasing cash flow coverage and improving its balance sheet.

Relatively high yield reflects overhangs

While EPN is trading at a significantly higher spread relative to its historical yield differential vs. US 10-year Treasuries, we do not foresee many catalysts to reduce this spread in the near-term. As the Partnership's debt continues to trend upward until its next equity offering, and concern over its GP persist, we believe the differential will remain significant. Our $31 price target is based on a yield of 8.7%.

Year End Dec 31	2002	2003E	2004E
1Q EPS (US$)	**0.17**	0.32	0.41
2Q EPS (US$)	**0.33**	0.30	0.37
3Q EPS (US$)	**0.21**	0.32	0.35
4Q EPS (US$)	**0.20**	0.35	0.43
FY EPS (US$)	**0.92**	1.30	1.55
Distributions Per Unit	**2.65**	2.78	2.90
Price/Distributions	***8.3%***	*8.7%*	*9.1%*
CY P/E	**34.8x**	24.7x	20.7x
EV/EBITDA	**15.3x**	9.2x	8.1x
Net debt/total cap	***65.9%***	*55.6%*	*57.4%*

Source: Deutsche Bank Securities Inc. Estimates and Company data

[1] 55 million shares outstanding includes 10.9 million Series C Shares owned by El Paso Corp.

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Model updated: 28 February 2003

Equity Research

North America

US

Energy

El Paso Energy Partners

Reuters code	EPN.N
Hold	
Price as at 27-Feb	US$32.02
Target price	US$31.00

Company website
www.elpaso.com/elpasopartners/

Company description

El Paso Energy Partners, LP is one of the top five master limited partnerships as measured by market capitalization. EPN operates platforms, pipelines, storage, and processing assets, with a focus in the GOM, TX and NM.

Research Team

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Absolute Price Return (%)

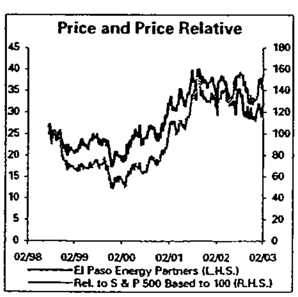
1m	1%
3m	7%
12m	-9%

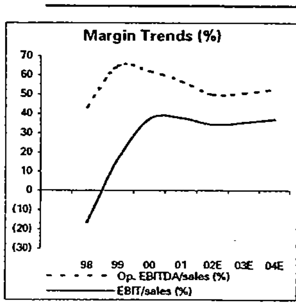
52-week High/Low:	US$38.50-25.43
Market Cap (m)	USD 1,761
	EUR 1639

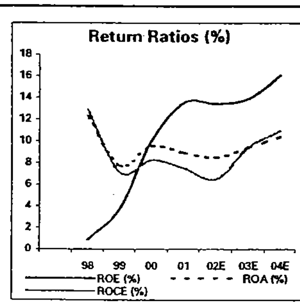
Company identifiers	
Bloomberg	EPN UN
Cusip	28368B102
SEDOL	2513153

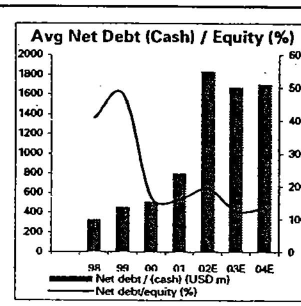
Source: Company data, DB estimates

Y/E 31 December	1998	1999	2000	2001	2002E	2003E	2004E
SUMMARY							
Headline EPS (US$)	0.02	0.26	-0.03	0.38	0.92	1.30	1.55
P/E ratio Headline (x)	974.5	86.4	nm	89.6	34.8	24.7	20.7
Headline EPS growth (%)	nm	940.6	-110.0	nm	143.3	40.9	19.4
EPS FD (US$)	0.02	-0.34	-0.03	0.39	0.92	1.43	1.55
P/E ratio FD (x)	974.5	nm	nm	88.0	34.8	22.4	20.7
Operating CFPS (US$)	1.05	1.96	1.66	2.54	4.23	5.00	4.79
Free CFPS (US$)	-1.32	-0.13	-2.35	-15.12	-35.70	-1.03	3.57
P/CFPS (x)	22.9	11.4	14.0	13.4	7.6	6.4	6.7
DPS (US$)	2.08	2.10	2.13	2.29	2.60	2.74	2.87
Dividend yield (%)	8.6	9.4	9.1	6.7	8.1	8.6	9.0
BV/Share (US$)	3.40	3.57	9.88	12.61	21.54	21.22	18.23
Price/BV (x)	5.92	5.32	2.78	2.95	1.49	1.51	1.76
Weighted average shares (m)	24	26	29	34	43	56	70
Average market cap (USD m)	589	578	678	1,167	1,370	1,370	1,370
Enterprise Value (USD m)	736	853	1,010	1,819	3,032	2,872	2,907
EV/Sales	15.11	13.39	8.99	9.00	6.48	3.76	3.48
EV/EBITDA	34.8	20.7	14.5	15.8	13.0	7.4	6.6
EV/EBIT	nm	80.2	24.0	23.8	18.8	10.6	9.3
EV/Adj capital employed	3.2	2.3	1.6	1.6	1.2	1.0	1.0
PROFIT & LOSS (USD m)							
Sales revenue	49	64	112	202	468	763	835
Operating EBITDA	21	41	70	115	233	388	439
Depreciation	29	31	28	39	72	117	128
Amortisation	0	0	0	0	0	0	0
EBIT	-8	11	42	76	161	271	311
Net interest income (expense)	-20	-35	-47	-43	-83	-127	-117
Associates/affiliates	27	33	23	8	14	13	14
Investment and other income	2	10	2	13	1	2	2
Exceptionals/extraordinaries	0	-15	0	0	5	0	0
Income tax expense	0	0	0	0	0	0	0
Minorities/preference dividends	0	12	21	42	58	80	102
Net profit	1	-9	-1	13	39	80	108
CASH FLOW STATEMENT (USD m)							
Cash flow from operations	26	51	48	87	181	278	333
Capex	-58	-54	-117	-607	-1,709	-335	-85
Free cash flow	-32	-3	-68	-520	-1,528	-57	248
Other investing activities	-8	-13	-9	108	162	0	0
Cash flow from investing	-66	-67	-126	-500	-1,547	-335	-85
Equity raised/(bought back)	0	1	103	240	500	450	0
Dividends paid	-62	-66	-79	-106	-113	0	0
Net inc/(dec) in borrowings	99	83	71	272	1,030	-172	32
Other financing cash flows	0	0	0	0	0	0	0
Cash flow from financing	37	17	94	405	1,417	278	32
Net cash flow	-3	1	16	-7	51	221	281
Movement in net debt/(cash)	102	82	55	279	979	-393	-248
BALANCE SHEET (USD m)							
Cash and other liquid assets	3	4	20	13	22	22	22
Tangible fixed assets	242	374	619	1,103	2,597	2,815	2,772
Goodwill	0	0	0	0	0	0	0
Other intangible assets	0	0	0	0	0	0	0
Associates/investments	186	186	183	154	177	175	173
Other assets	12	20	47	86	132	150	162
Total assets	443	584	869	1,357	2,928	3,162	3,129
Interest bearing debt	338	465	538	820	1,860	1,698	1,730
Other liabilities	23	23	23	37	117	125	130
Total liabilities	361	488	561	857	1,977	1,823	1,861
Shareholders' equity	83	96	311	501	950	1,338	1,267
Minorities	-1	0	-2	0	1	1	1
Total shareholders' equity	82	96	309	501	951	1,339	1,268
Net working capital	-2	-2	14	21	6	16	23
RATIO ANALYSIS							
Sales growth - pcp (%)	nm	30.6	76.6	79.9	131.4	63.1	9.4
Op. EBITDA/sales (%)	43.4	64.8	62.1	56.9	49.9	50.8	52.6
EBIT/sales (%)	-16.6	16.7	37.4	37.8	34.5	35.5	37.2
Payout ratio (%)	nm	nm	nm	593.1	282.2	191.4	185.2
ROA (%)	12.3	7.8	9.6	9.0	8.5	9.5	10.4
ROE (%)	0.9	3.8	10.1	13.6	13.5	13.9	16.1
ROCE (%)	12.9	7.1	8.3	7.5	6.5	9.5	11.0
Return on Adj Capital Employed (%)	-9.2	2.9	6.6	6.6	6.2	9.5	11.1
Capex/sales (%)	118.8	85.2	103.9	300.3	365.2	43.9	10.2
Capex/depreciation (x)	2.0	1.8	4.2	15.7	23.7	2.9	0.7
Net debt/(cash)	335	461	518	807	1,838	1,676	1,708
Net debt/equity (%)	408.9	480.0	167.7	161.1	193.3	125.1	134.7
Net interest cover (x)	nm	0.3	0.9	1.8	1.9	2.1	2.7









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Investment thesis

Outlook

EPN's underlying business has excellent growth opportunities

EPN is one of the largest independent mid-stream players focused on the deepwater Gulf of Mexico, one of the fastest growth areas for oil and gas development in the US. Accordingly, EPN has amongst the best internal growth prospects in the industry. Incremental returns on new projects appear to be very attractive.

Yet, distribution growth may only be 4%–6% in 2003 and 2004

As a result of several factors, however, we expect very slow growth in distributions from EPN over the next few years. EPN has historically paid out about 100% of distributable cash flow. Management, however, now intends to increase its coverage ratio to 1.1x from 1.0x over time. While clearly a positive in the long run, as it will provide more capital for internal growth, in the near-term it is negative for distribution growth. Further, since EPN's leverage is the highest in its peer group and the unit prices are likely below management expectations at the time of their last two acquisitions, EPN may need to issue units at lower prices than originally anticipated. This higher unit count makes distribution growth more difficult.

While management appears focused on the key issues, several overhangs are likely to hold the units back

We note, however, that management appears focused on several of the key issues facing the Partnership, including leverage, corporate governance, and the need to distance itself from El Paso Corporation (EP). EPN has also made strides to minimize the volatility of its cash flow through a greater portion of firm pipeline revenue as well as minimize "keep whole" exposure in gas processing. Nevertheless, we believe the high leverage, lack of expected growth in distributions, and affiliation with distressed El Paso Corporation will continue to hamper the valuation.

Valuation

Our 12-month stock price target on EPN is $31 based on a yield of 8.7%. This yield assumes that EPN continues to trade at a discount (one standard deviation) from its historic yield differentials relative to 10-year US Treasury Notes and that Treasury Note yields increase slightly. We believe EPN will continue to trade at a discount to its peers until it strengthens its balance sheet, reduces its cost of capital, distances itself from El Paso Corporation and distribution growth becomes more apparent.

Risks

Volumetric risk on assets. Given that many of EPN's assets are gathering facilities, these are much closer to the wellhead and carry significant volumetric risk as fields experience natural decline curves. However, new discoveries in nearby fields are typically tied back to these same gathering facilities, somewhat mitigating this risk.

EPN has the highest debt/ capitalization in its peer group

Leverage. Since EPN is truly one of the faster growth MLPs, and since it distributes nearly all of its cash flow, it will need to access the equity markets frequently in order to maintain a balanced capital structure.

Rising interest rates. EPN units are sensitive to changes in interest rates.

Distressed El Paso Corp. owns EPN's general partner. EPN has historically traded down in sympathy with El Paso Corporation, which has consistently disappointed over the last few months.

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The bull case

The bull case for EPN units is really quite simple. The Partnership has some of the best organic growth prospects in the industry, and the units are perhaps the most attractively valued they have been in the history of the Partnership. We expand more below:

EPN has the best organic growth prospects in the industry

EPN is well-positioned in a growing market. EPN is a leading player in midstream services in one of the highest growth energy markets in the world, the deepwater Gulf of Mexico. EPN's strong position in this market has provided the Partnership with a first class portfolio of high return expansion projects. EPN may have the best organic growth prospects in the entire MLP group. The Partnership's ability to grow at high rates in this market appears to only be limited by its access to capital.

The units are undervalued

Attractive yield/valuation. EPN is undervalued relative to historical ranges.

1. The units are currently yielding 8.4% vs. 7.5% for the peer group. The differential is now 104 basis points vs. a historic spread of 87 basis points.
2. EPN's yield differential over the 10-year US Treasury Note of 469 basis points is well above its historical average of 310 basis points.

Other key points in the bull case include:

Activity will remain robust

Strong commodity price outlook. The strong natural gas price outlook (12-month strip of $5.78/mcf) bodes well for activity on land and in the shallow water Gulf of Mexico. We believe activity will continue to increase in deepwater somewhat irrespective of short-term commodity prices, as those projects are very long-term in nature.

Corporate governance improving. Over the last several months EPN has taken several steps to improve corporate governance, including removing two El Paso executives from its Board and resolving to add two more outside directors. The new Board will consist of two insiders and five outsiders.

Short-term debt is minimal

Despite high debt, near-term liquidity appears adequate. EPN has only $7 million of debt maturities over the next year. Its next significant maturities are the $600 million revolving credit facility ($491 million outstanding) and the $238 million senior secured facility that matures in May 2004. We expect EPN will negotiate an extension on these facilities within the next three months. The Partnership's $160 million EPN holding acquisition facility matures in April 2005. All other significant maturities are greater than five years out.

Figure 1: Debt maturities

Amount ($MM)	Maturity	Description
$491	May-04	$600MM Revolving Credit Facility
238	May-04	Senior Secured Loan due May 2004
160	Apr-05	EPN Holding Acquisition Facility
160	Oct-07	Senior Secured Term Loan
175	Jun-09	10 3/8% Senior Subordinated Notes issued May 1999, due June 2009
250	Jun-11	8 1/2% Senior Subordinated Notes issued May 2001, due June 2011
235	Jun-11	8 12% Senior Subordinated Notes issued May 2002, due June 2011
28	various	Wilson natural gas storage facilty operating lease
200	Nov-12	10.63% Senior Subordinated Notes due 2012
$1,937	Total Debt	

Source: Deutsche Bank Securities Inc. estimates and company information

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The bear case

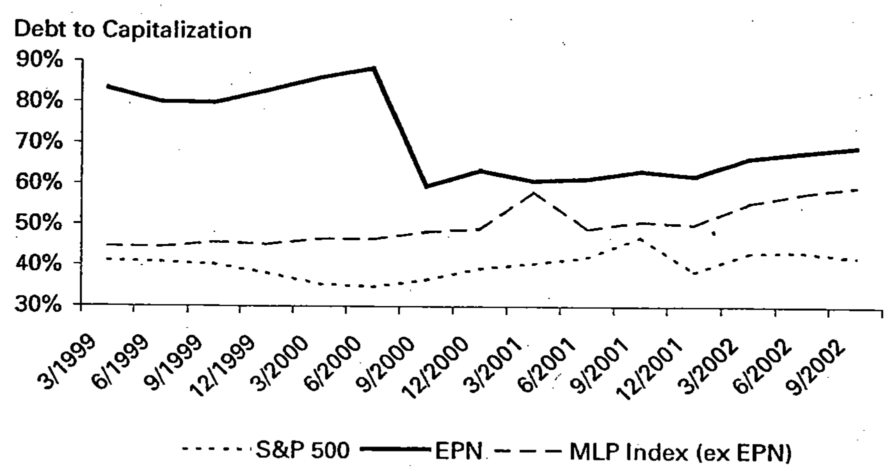
The bear case for EPN units centers around several key issues:

1. Its high debt to capital;
2. Low expected distribution growth;
3. Its relatively high distribution pay out ratio, particularly given the Partnership's level of capital expenditures and asset mix;
4. Association with distressed El Paso Corp. (owner of its GP);
5. Returns lagging its peers; and
6. Corporate governance issues.

EPN has the highest leverage in an overleveraged industry

The highest leverage in the peer group. With a 66% debt to capitalization ratio (projected to increase to 70% by mid-2003 without any equity offerings), EPN has the highest leverage in the MLP group. While high leverage is common in this industry, (average debt to capitalization of 59%), we believe the entire MLP industry is overleveraged and prefer MLP's with below average leverage.

Figure 2: EPN, MLP Index and S&P 500 leverage



Source: FactSet

EPN faces potential ratings downgrades

Standard & Poor's recently placed EPN's BB+ corporate credit rating on CreditWatch with negative implications based on its recent downgrades of general partner, El Paso Corporation. Moody's is also reviewing its long-term senior implied Ba1 rating on EPN for a possible downgrade. Should EPN get downgraded below BB+ by S&P or Ba1 by Moody's, the interest rate on its $160 million senior secured loan would increase by 1% (or about $0.03 per share annually). We are not aware of any other negative trigger mechanisms in any of the Partnership's debt covenants.

Recent acquisition exemplifies importance of a clean balance sheet

In the company's recent $782 million acquisition of El Paso Corporation's San Juan Basin assets, EPN funded the purchase with $200 million in 10.63% senior subordinated notes, $238 million in a senior secured credit facility, and issued El Paso Corporation 10.9 million Series C limited partner units. While, the Partnership ultimately pulled the acquisition off, the financing arrangements were less than ideal. EP's ownership stake of the LP units increased to 41% from 26.5%.

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The Series C units are non-voting. After April 30, 2003, however, EP has the right to cause EPN to propose a vote of their common unit holders as to whether the Series C units should be converted into common units. If the common unit holders do not approve the conversion within 120 days after EP requests a vote, then the distribution rate for the Series C units will increase to 105% of the common unit distribution rates. Thereafter, the distribution rate would increase on April 30, each of the two following years, by another 5%.

While a long-term positive, reducing the pay out ratio means slower distribution growth in the near term

Slow distribution growth. Given the combination of EPN's high debt load, and the Partnership's relatively high level of capex in 2003, management will likely keep distributions relatively flat over the coming year in order to limit its leverage and provide more margin for error. While raising equity will reduce EPN's leverage, increasing distributions becomes more difficult given that the higher unit count will result in a greater nominal pay out.

The wild card – El Paso Corporation

Distressed El Paso Corp. owns EPN's general partner. EP was recently downgraded to "junk" status by both Moody's and Standard & Poor's, in November 2002 causing EP to post over $2.0 billion in additional collateral on various contracts. It has since been downgraded to B by S&P and Caa1 by Moody's triggering another $200 million in collateral postings. As of January 31, EP had $2.6 billion in liquidity, however, many challenges remain, including:

1. Decision from the full FERC regarding the case of *The State of California, et al vs. El Paso Corporation* and the pending related litigation;
2. Sale of trading book;
3. Sale of refining and chemical assets; and
4. Refinancing of over $1 billion in debt in 2003.

Returns lagging peers. While not commonly analyzed for MLPs, EPN's return on assets, equity and capital are generally less than its peers that we follow. Further, ROE based on income available to limited partners is also generally below that of its peers. However, we note that there are shortcomings to this type of analysis including the fact that MLPs are managed for cash, not income. When reviewing EPN's EBITDA/assets and return on equity based on LP distributions, rather than income, EPN is much more comparable to its peers, even exceeding them in certain periods.

We do not believe EPN has a corporate governance problem; however, many investors focus in on the potential conflicts

Corporate governance issues. El Paso Corporation owns the general partner of EPN and also owns a 41% interest in the limited partner units. The two key issues where potential conflicts may arise are the question of transfer asset pricing and the management fee that EPN pays EP. The two companies mitigate these potential conflicts by:

1. The EPN board of directors has a Conflicts and Audit Committee with three independent directors to review any transaction over $10 million.
2. Both EP and EPN obtain independent fairness opinions from firms that do work for just one side or the other.
3. EP and EPN's interests are aligned, since EP is by far the largest unit holder in EPN with 41% of the LP units.

In a recent move to further strengthen corporate governance that we applaud, EPN announced that it plans to add two more outside Directors to its Board. EPN's current Board consists of two inside Directors and three outsiders. We obviously prefer to see larger Boards with more outsiders.

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Our view

We believe EPN has excellent growth prospects . . .

We agree completely with the first point in the bull case, that EPN has superior growth prospects vs. its peers. It is well positioned as the key midstream player in the deepwater Gulf of Mexico, one of the fastest growing arenas in the US, and one of the world's greatest new oil provinces.

. . . But has very poor access to capital . . .

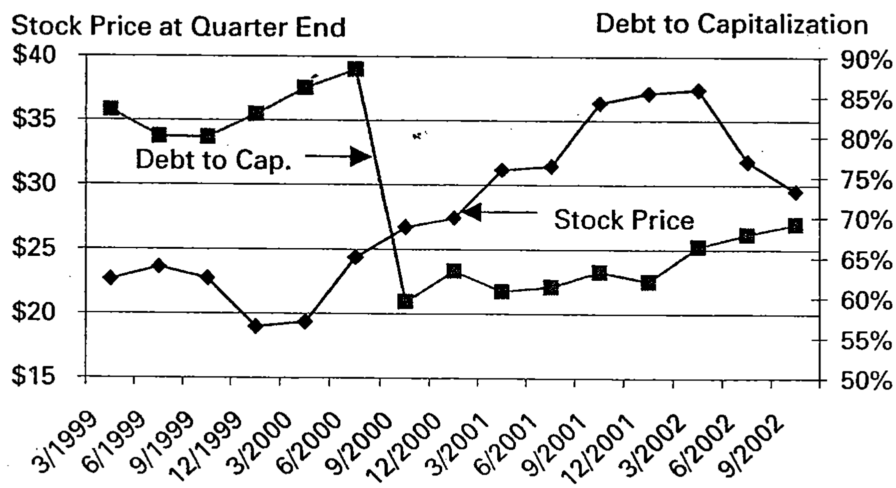
However, all of this potential growth is meaningless unless EPN reduces its cost of capital and gains improved access to capital. In the company's recent $782 million acquisition of EP's San Juan Basin assets, EPN funded the purchase with $200 million in 10.63% senior subordinated notes, $238 million in a senior secured credit facility, and issued EP 10.9 million Series C limited partner units. While, the Partnership ultimately pulled the acquisition off, the financing arrangements were far less than ideal. EP's ownership stake of the LP units increased to 41% from 26.5%. An additional equity infusion from EP and 10.6% debt highlights the capital constraints that face EPN due to its high leverage and perceived risk.

. . . Due to its high level of leverage

EPN's debt to capitalization ratio of 65%, projected to be 70% by mid-2003 (without any equity offerings), is the highest in a peer group that we believe is already over-leveraged. Generally, the only way for MLP's to grow beyond the 3% to 5% range is through internal expansion projects or acquisitions, both of which require capital. Given the fact that MLP's distribute the vast majority of their cash flow, they must raise equity periodically in order to maintain a conservative capital structure. Therefore, maintaining below average leverage is the best way to ensure that a Partnership can continue to grow through internal projects should the equity markets be weak at a given time.

While obviously there are other factors involved, the stock traded up significantly with the Partnership's reduction of debt in mid-2000. However, since the beginning of 2002, as leverage has continued to edge upward and the distress on El Paso Corp. has increased, the units have traded down again.

Figure 3: EPN stock price vs. debt-to-capitalization



Source: FactSet

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Yield is attractive, but other negative issues warrant a higher yield

While the first point in the bull case (good organic growth) has merit, we find cause to quarrel with the second point—attractive valuation. It goes without saying that a 8.4% yield is attractive in the current interest rate environment. However, given its high leverage (66% debt/capitalization), slow growth (4%–6%) in distributions for several years, and distress of El Paso Corp. (owner of its GP), we believe an above-average yield is currently warranted.

EPN's problems are not too dire to solve

That said we do not believe all of EPN's problems are impossible to fix. Most importantly, the Partnership's underlying business model appears solid and incremental returns are attractive. While leverage is high, interest coverage is adequate, maturities are manageable, and plans to issue new equity will improve debt/capitalization. Further, we believe decreasing the payout ratio is a long-term positive, as it will provide capital for expansion projects and leverage will not necessarily increase every time EPN takes on a new project. While the situation for El Paso Corporation appears relatively bleak, EPN has stated that EP is exploring its alternatives including the sale of its GP interest to other industry players.

Units will likely remain weak until these overhangs are removed

Nonetheless, in the face of potential credit rating downgrades, slow growth in distributions, coupled with the desire to raise to $350 million to $450 million in equity and association with distressed EP, we believe the units will remain weak until some of these issues are resolved.

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Risks

Rising interest rates: As a yield-oriented instrument, EPN units are sensitive to changes in interest rates.

EPN has the highest leverage in its peer group

High leverage: Since EPN is truly one of the faster growth MLPs, and since it distributes nearly all of its cash flow, it will need to access the equity markets frequently in order to maintain a balanced capital structure.

A reduction in taxes on dividends narrows MLPs advantage vs. C Corps

Elimination of taxes on dividends could reduce relative advantage: The Bush Administration recently proposed the elimination of taxes on dividend income. The elimination of or a reduction in the tax rate on dividends could adversely effect MLP valuations, as the benefits of tax deferral would be reduced on a relative basis.

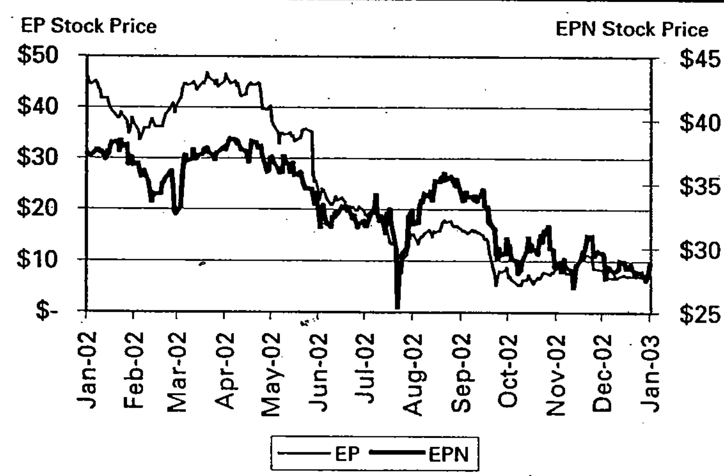
Pipelines have regulatory risk

Regulatory risk: Most of EPN's pipeline assets are subject to regulation by various federal, state and local authorities.

Negative headline risk has impacted EPN units in the past

Distressed general partner/Negative headline risk: EPN units have historically traded down significantly on negative announcements by El Paso Corporation. In the graph below, we exhibit EP vs. EPN recent stock price history. While the stock prices are not on the same axis and are not meant to portray the same magnitude of price changes, the graphs do illustrate that the general trend for EPN has followed EP, in many cases. In fact, EP was down more than 5% during 35 days in 2002. On those same days, EPN was down about 80% of the time. While MLPs will obviously not be impacted to the same extent as a negative announcement by the GP, the negative publicity and sometimes real concerns about the ongoing management of an MLP often causes its stock to decline as well.

Figure 4: EP vs. EPN



Source: FactSet

EPN's asset mix has more volumetric risk than do some of its MLP peers

Commodity price and volumetric risk: While the Partnership has de-emphasized its commodity based activity, such as E&P, it remains somewhat price sensitive to natural gas and natural liquids prices due to contracts where it is "paid-in-kind". Additionally, in many of EPN's businesses, the Partnership has volumetric risk, where volumes could decline considerably on certain assets due to low commodity prices or declining production on given fields. However, on EPN's San Juan Basin and Texas/New Mexico assets, the reserves in the area are long-lived and volume is relatively steady. Further, EPN typically hedges its commodity price risk.

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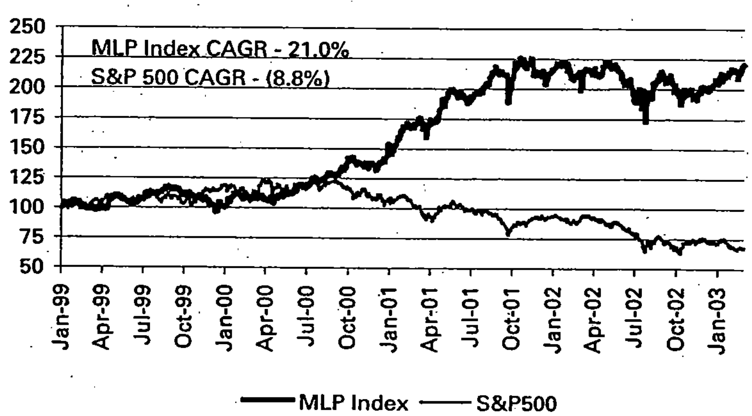
Valuation

While lagging behind the S&P 500 during 1999 and early 2000, the Deutsche Bank MLP Index has now surpassed the S&P 500, outperforming it by 153% since January 1999

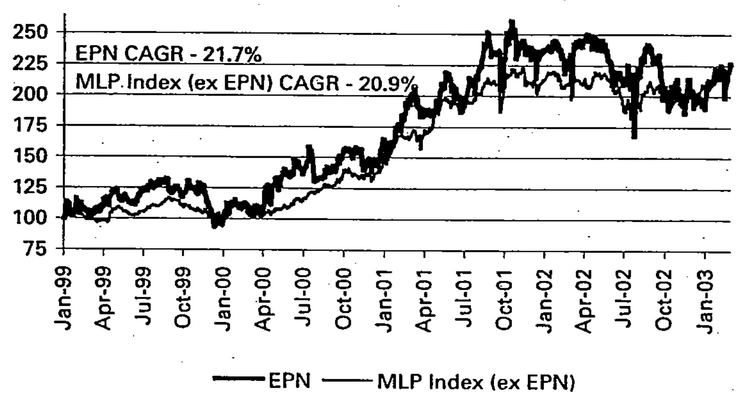
Figure 5: Total return – MLP Index vs. S&P 500



Source: FactSet

EPN has just recently begun to underperform the Deutsche Bank MLP Index, but has outperformed since 1999

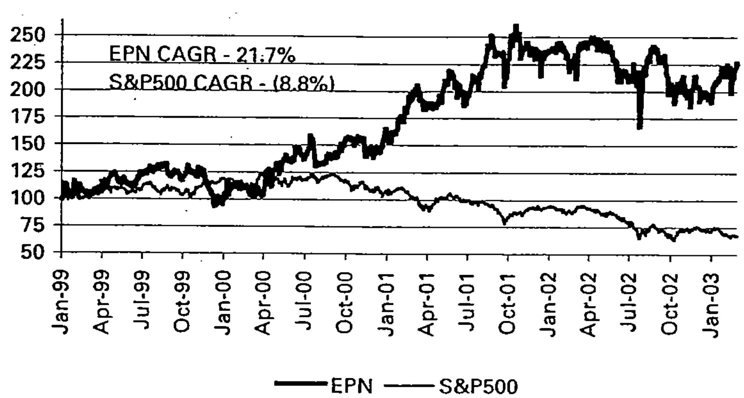
Figure 6: Total return – EPN vs. MLP Index (excluding EPN)



Source: FactSet

Like its peers, EPN has significantly outperformed the S&P 500 since January 1999

Figure 7: Total return – EPN vs. S&P 500



Source: FactSet

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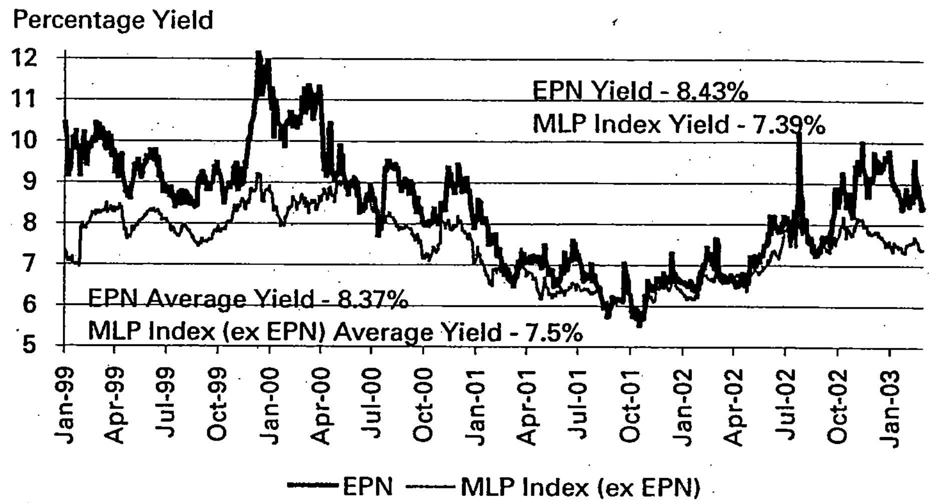
While EPN has historically traded at a discount (generating a higher yield) than its peers, the spread has widened since mid-2002, reflecting the increased likelihood of slower distribution growth

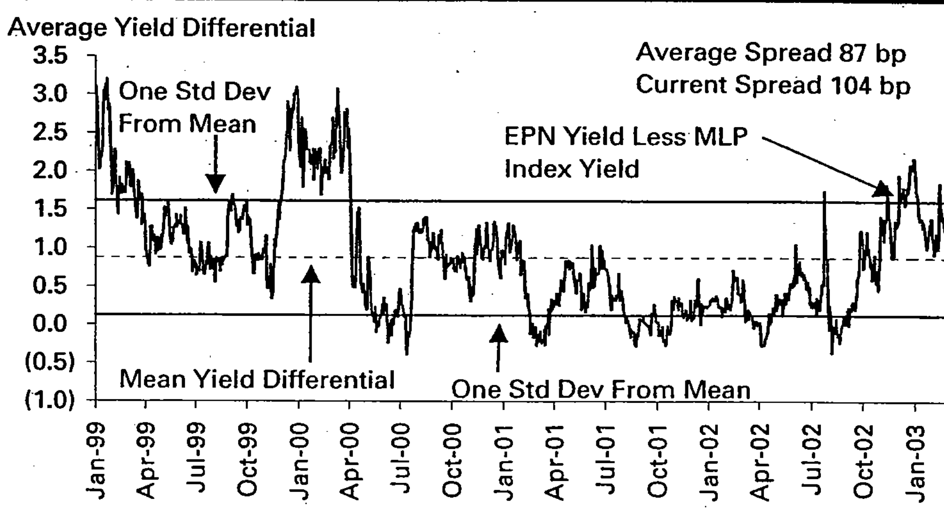
Figure 8: EPN yield vs. MLP Index



Source: FactSet

EPN's yield spread has averaged 87 basis points higher than its peers. However, its current spread is now 104 basis points higher

Figure 9: EPN yield less MLP Index



Source: FactSet

During 1999 and the first half of 2000, when EPN's leverage was in the 80% range, EPN's differential averaged 140 basis points over the MLP Index. From mid-2000 to mid-2002, when EPN's leverage was more in-line with the industry average, the differential narrowed significantly to only 46 basis points. Since mid-2002, however, the yield spread has widened to 104 basis points (and the spread was 218 bp less than two months ago), as EPN's leverage has edged up and is now forecast to reach 70% by mid-2003 without any equity offerings. Additionally, concern over distressed El Paso Corporation, owner of EPN's GP, has also acted as an overhang on the stock.

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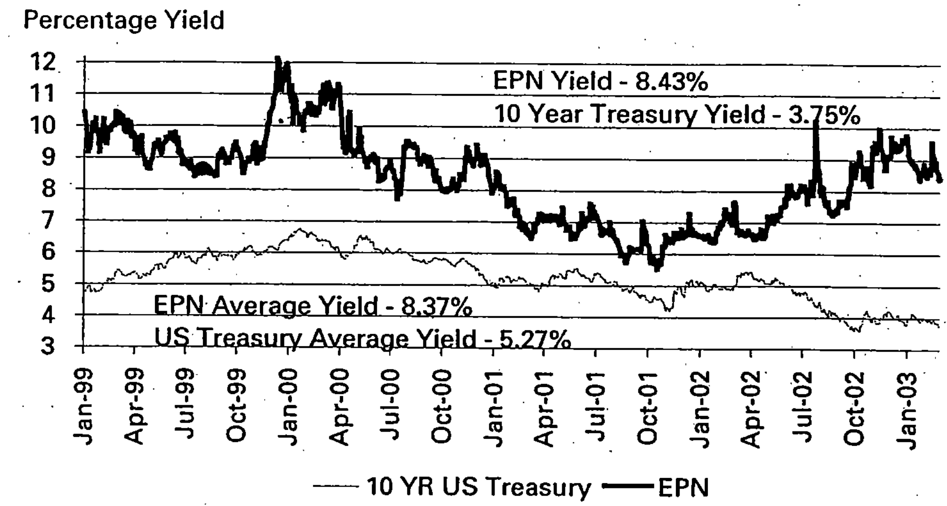
EPN's yield has increased significantly of late while 10-year US Treasury Note yields have declined

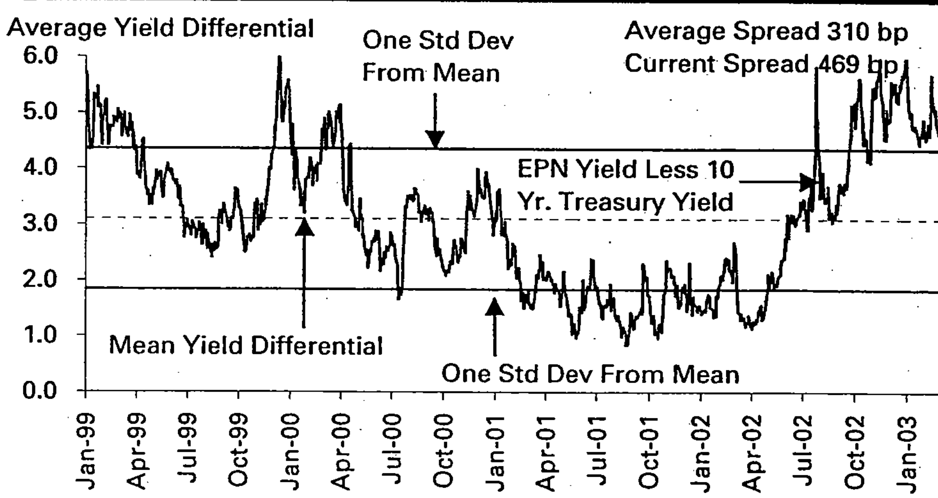
Figure 10: EPN yield vs. 10-year Treasury yield



Source: FactSet

At 469 basis points, EPN's yield differential vs. 10-year US Treasury Notes is greater than one standard deviation from its mean differential

Figure 11: EPN yield less 10-year Treasury yield



Source: FactSet

Since 1999, EPN has traded at an average yield of 310 basis points above the 10-year U.S. Treasury Note yield. Beginning in mid-2002, this differential began to expand, we believe due to three primary factors.

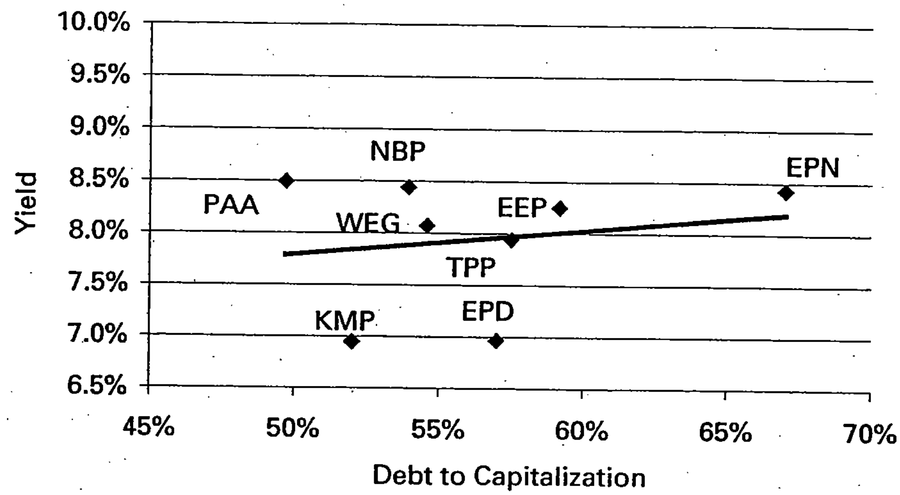
1. **A flight to quality out of the stock market in general**. The market commenced a steep decline in April 2002, with the S&P 500 losing 27% of its value since that time, leading to a sharp bidding down of Treasury yields as capital rotated to bonds;

2. **A flight out of energy stocks**. Energy stocks, particularly natural gas related companies, fell further out of market favor, as several high-profile companies announced substantial write-downs and rating downgrades; and

3. **Concern over EPN's leverage and the financial distress of El Paso Corporation (owner of its GP).**

While EPN generates amongst the highest yield in the group, it also maintains the highest financial leverage

Figure 12: MLP Group–debt to capitalization vs. yield



Source: Deutsche Bank Securities Inc. estimates and company information

Valuation conclusion

Our 12-month stock price target is $31 per unit

While EPN's yield differential vs. Treasury yields is almost two standard deviations from its average differential since January 1999, we do not see many catalysts to reduce this discount in the near-term. As the Partnership's debt continues to trend upward until its next equity offering, and concern over its GP persist, we believe the differential will remain significant. Further, should the US go to war with Iraq and the budget deficit worsen, we believe long-term interest rates could edge up. Assuming a Treasury yield of 4.53%, 78 basis points higher than current levels and a differential of between 4.36% and 4.69%, we calculate EPN units would trade in the $29 to $30 range. Should interest rates remain at current levels, the units could trade in the $32 to $33 range, as shown below. Our 12-month price target of $31 per share is based on the midpoint of these ranges.

Figure 13: Implied EPN unit prices at various Treasury yields and differentials

		10 Year US Treasury Yield				
		Avg.- 3's	Avg.- 2 s	Current	Avg.- 1 s	Avg.
Differential Vs Treasuries		**3.06%**	**3.80%**	**3.75%**	**4.53%**	**5.27%**
Avg Differential Since 1/99	**3.10%**	$ 43.83	39.14	39.43	35.36	32.24
Avg Diff. Plus 1 Std Dev	**4.36%**	$ 36.40	33.10	33.31	30.36	28.03
Current Differential	**4.69%**	$ 34.87	31.83	32.02	29.28	27.11
Avg Diff. Plus 2 Std Dev	**5.62%**	$ 31.12	28.68	28.83	26.59	24.79
Avg Diff. Plus 3 Std Dev	**6.88%**	$ 27.18	25.30	25.42	23.66	22.22

Source: Deutsche Bank Securities Inc. estimates and company information

This analysis does not take into account the potential growth in 2004 and 2005 from EPN's internal projects. However, it also ignores the fact that distributions are likely to grow slower than their peers in 2003/2004 and the equity-offering overhang. We estimate that the Partnership will likely need to complete two equity offerings during the year in order to reduce debt to capitalization to below 60%.

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Peer analysis

Each of the company displays were substantially created by their current management

The table below displays various returns for EPN and for the two others MLPs that we currently cover, Enterprise Product Partners, L.P. (EPD) and Kinder Morgan Energy Partners, L.P. (KMP). While average returns for companies can be skewed by investments made under previous management and ignore incremental returns, each of these companies have been substantially built in the last few years by the current management teams.

There are several shortcomings to this type of analysis

We also recognize that return analysis has additional shortcomings for MLP's, since they are managed for cash, not income. Differences in accounting depreciation and economic depreciation also tend to distort the balance sheet. Further, various securities such as Series B and C shares and I-Units can also complicate the analysis (as shown in the footnotes in Figure 14). Additionally, the historical numbers below are not pro forma for acquisitions. Nonetheless, while the various return measurements in their own right may not have as much meaning as they do for C-Corps, we believe they may be useful for comparing MLPs against each other.

Returns below are measured before adjusting for the GP take

The four returns shown below are what we consider "Enterprise" returns, since they are based on the EBITDA, EBIT, or net income across the entire enterprise before taking into account the GP distributions. As shown, EPN's returns have historically been inferior to EPD's and KMP's on the first three accounting measures. However, none of the figures below are pro forma for acquisitions, and all three partnerships completed significant acquisitions in 2001 or 2002. EPN's results for 2002 are skewed down by the fact that the San Juan Basin acquisition did not close until late November. Since we use a simple average of beginning and ending assets or capital for the denominator in ROA and ROIC, the calculated returns are lower than the actual returns are in reality.

While ROA is commonly calculated with EBIT in the numerator, we also calculate ROA based on EBITDA since these Partnerships are managed for cash. On that basis, the performance of the three Partnerships is much more comparable.

Figure 14: Returns – KMP, EPN and EPD

	2001	2002E	2003E	2004E	4 Yr Simple Average
Return on Avg. Invested Capital					
EPN	9.2%	8.6%	9.9%	10.9%	9.6%
EPD	18.2%	7.2%	10.9%	12.2%	12.1%
KMP	12.9%	12.3%	12.3%	13.2%	12.7%
Return on Avg. Equity					
EPN	13.6%	13.5%	13.9%	16.1%	14.3%
EPD	23.3%	8.0%	16.0%	17.5%	16.2%
KMP	16.8%	18.5%	19.9%	21.6%	19.2%
Retun on Avg. Assets					
EPN	8.8%	8.2%	9.4%	10.4%	9.2%
EPD	13.1%	5.8%	8.9%	10.0%	9.5%
KMP	11.3%	11.0%	11.1%	11.9%	11.3%
EBITDA/ Avg. Assets					
EPN	10.3%	10.9%	12.7%	14.0%	12.0%
EPD	15.5%	8.6%	11.8%	13.0%	12.2%
KMP	12.4%	12.2%	12.6%	13.7%	12.7%

ROIC = EBIT/(Avg. Debt + Avg. Partner's Capital)
ROA = EBIT/(Avg. Assets)
ROE = NI before GP Distributions/Avg. Partner's Capital
Source: Deutsche Bank Securities Inc. estimates and company information

After taking into account the GP distributions, EPD's ROE is far superior to either KMP's or EPN's

However, often overlooked in MLP analysis is that these returns are based on the EBIT (in the case of assets and capital) or net income (in the case of ROE) before the GP distributions. We believe investors should also analyze returns after the GP distributions, since the GP share of the capital contribution is typically only 1% or 2%, whereas they take a much greater proportion of the cash flow.

Below we calculate the return on equity, excluding the income allocated to the GP. While it is difficult to calculate this measure consistently due to differences in their capital structures, we have footnoted our treatment of various differences below. Nonetheless, EPD outperforms by a significant margin on this measure of performance, largely due to its lower GP distributions that are permanently capped at 25%.

Cash distributions/partner's capital may be more meaningful than the other measures

On the second measure of performance, we have replaced the numerator in the previous calculation with the cash distributions to LPs. Once again, EPN's returns are much more favorable on a cash basis. The weakness with the measure is that it ignores cash distribution coverage ratios. We estimate cash distribution coverage in 2003 and 2004 of 1.15x–1.20x for EPD, vs. 1.05x–1.1x for EPN and 1.00x–1.05x for KMP.

Figure 15: Returns – KMP, EPN and EPD (cont'd)

ROE based on LP Income Only					
EPN (excl. Series B Inc. & Equity)(1)	5.4%	7.1%	8.1%	9.6%	7.6%
EPN	7.5%	7.7%	8.3%	9.4%	8.2%
EPD	22.8%	7.2%	14.6%	15.7%	15.1%
KMP(2)	9.1%	10.3%	10.7%	11.3%	10.3%
Cash ROE based on LP Distributions					
EPN (excl. Series B Equity)(1)	33.0%	20.1%	17.3%	18.0%	22.1%
EPD	15.5%	17.5%	19.6%	20.1%	18.2%
KMP(2)	13.9%	13.5%	13.5%	14.4%	13.8%

ROE based on LP Income = Net Income after GP Distributions/Avg. Partner's Capital (did not back out GP interest since it is only 1-2%)
Cash ROE based on LP Distributions = Cash Distributions to LP/Avg. Partner's Capital
(1) Since Series B Units represent a significant portion of EPN's capital structure, they accrue distributions and can be repurchased/called, we excluded them from the denominator in these equations
(2) Partner's Capital includes Series B shares since they only represent 4% of capital structure. Cash LP distributions include value of share distributions on I-Units.
Note: Unless otherwise stated, LP income includes income for other unit classes (B or C) as well.
Source: Deutsche Bank Securities Inc. estimates and company information

Once again, we reiterate that these measures of performance have several flaws; nonetheless, we believe they do provide some insight when attempting a comparison based on projected financial performance.

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Background

History

EPN's roots are in Leviathan Gas Pipeline Partners, L.P., a Gulf of Mexico focused MLP

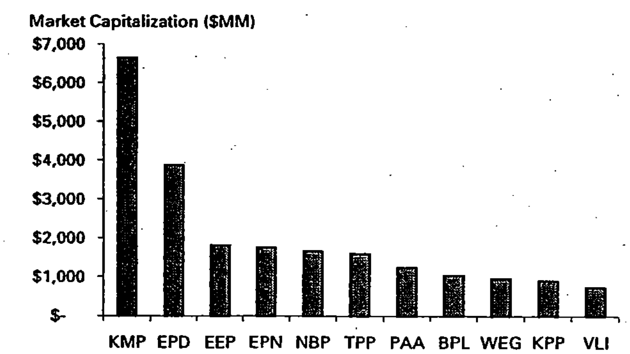
El Paso Energy Partners' predecessor, Leviathan Gas Pipeline Partners, L.P. was formed in 1992 and went public in February 1993. In August 1998, El Paso Corporation acquired DeepTech International Inc., the parent company and general partner of Leviathan. In, December 1999, the Partnership changed its name to El Paso Energy Partners L.P. and announced that while remaining committed to the deepwater Gulf of Mexico, its strategy would incorporate other geographic areas leveraging off El Paso Corporation's competencies. The Gulf of Mexico, Texas, and New Mexico are EPN's most strategic regions.

Summary

EPN is one of the top five MLP's as measured by market capitalization

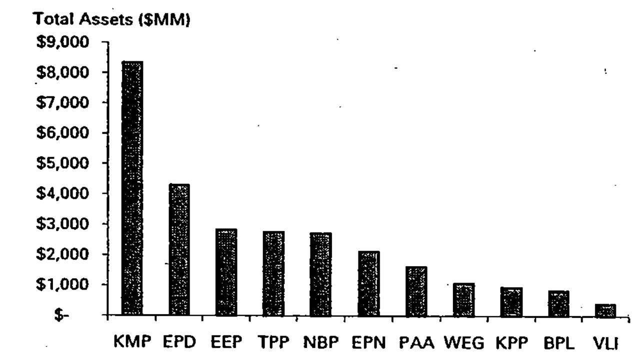
EPN is one of the five largest publicly traded master limited partnerships as measured by total market capitalization. EPN has five distinct business segments, natural gas plants and pipelines: 63% of 2002 Adjusted EBITDA, oil and NGL pipelines: 16%, platform services: 11%, natural gas storage: 6%, and other: 4%.

Figure 16: MLPs by market capitalization



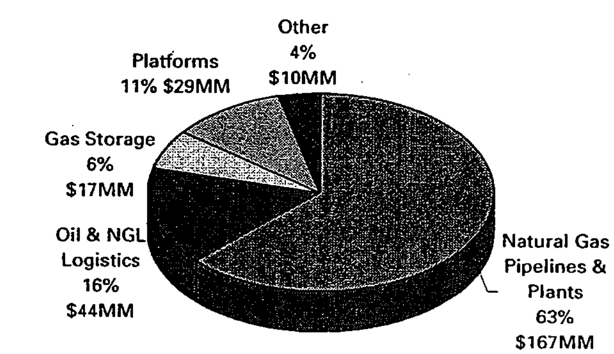
Source: FactSet

Figure 17: MLPs by total assets



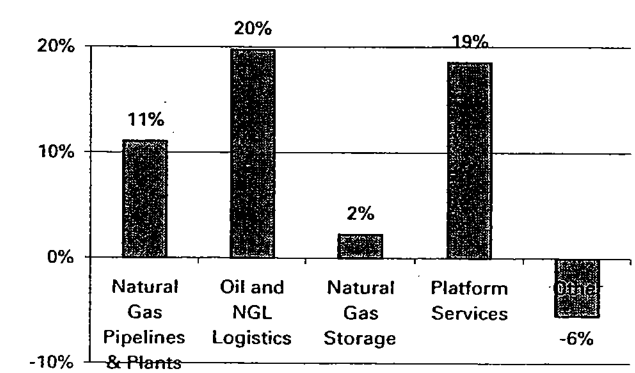
Source: FactSet

Figure 18: 2002 adjusted EBITDA by segment



Source: Deutsche Bank Securities Inc. estimates

Figure 19: ROA by segment LTM ended 9/30/02



Source: Company information, Not pro forma for acquisitions.

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Gas pipelines

Gas pipelines is EPN's largest segment

Natural Gas Pipelines and Plants is by far EPN's largest segment, representing over two-thirds of EPN's total assets and 63% of 2002E adjusted EBITDA. This segment consists of several key assets including the following:

Figure 20: Key natural gas pipeline and plant assets

Key Assets	Description
EPGT Texas	Largest intrastate pipeline system in Texas (9,400 miles) with capacity of 5 Bcf/d and 2001 throughput of 3.5 MMDth/d
Carlsbad, NW and Waha, Texas Gathering Systems	1,300 miles of Permian Basin gathering pipeline with a capacity of 465 MMcf/d and 2001 throughput of 341 MDth/d
HIOS Gathering System	204 miles of pipeline in the deepwater GOM with a capacity of 1.8 Bcf/d
East Breaks Gathering System	85 miles of pipeline in the deepwater GOM with capacity of 400 MMcf/d
Viosca Knoll Gathering System	125 miles of pipeline in the deepwater GOM with a capacity of 1 Bcf/d
EPIA Gathering System	450 miles of pipeline in Alabama's Black Warrior Basin coalbed methane pipeline
San Juan Basin Gathering System	5,300 mile natural gas gathering system located in New Mexico's San Juan Basin
Typhoon Gathing System	35 miles of 400 mmcf/d pipeline in the GOM
Chaco Gas Processing Plant	Third largest processing plant in the US. Located in San Juan Basin
Indian Basin Plant	42.3% non-operating interest in this processing plant with capacity of 240 MMcf/d

Source: Deutsche Bank Securities Inc. estimates and company information

As shown in the figure above, the majority of EPN's natural gas pipeline and plant assets are located in the Gulf of Mexico, Texas, and New Mexico. On EPGT Texas, the largest intrastate pipeline system in the state, 58% of the revenue is derived from firm demand charges (renting space on the line) typically from EPN's LDC customers. The remaining 42% of revenue is typically derived from interruptible service with producers of marketers where they pay EPN a fee based on the volume. On its gathering facilities the Partnership is typically paid based on volume as well.

EPN's primary competition in Texas is Kinder Morgan Energy Partners and AEP, through its Houston Pipeline. In the Gulf of Mexico, the company's primary competition is Shell Oil Company. Various federal, state and/or local authorities such as the Texas Railroad Commission typically regulate EPN's pipeline assets. The basis of competition for the gathering facilities is typically location while EPGT Texas' competitive advantage is its scale as well as the fact that it is the only intrastate system in the state with interconnects to all of the major hubs, city-gates and major producing basins in the state.

Gas processing accounts for about 20%–25% of EPN's EBITDA in this segment. Importantly, EPN does not have any "keep-whole" contracts. Keep-whole contracts are common in the gas processing businesses. Under this arrangement, the processor takes title to the gas and the NGLs extracted, and reimburses the producer for the market value of the energy extracted (based upon BTUs) with natural gas of a cash equivalent. Therefore, under a keep-whole contract the processor derives a profit margin to the extent the market value of the NGLs extracted exceeds the costs of extraction, which are largely determined by the price of natural gas. During periods of rapidly rising natural gas prices, the value of NGLs doesn't always keep up, causing processors with keep-whole arrangements to be unprofitable.

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Under EPN's contracts, they are paid a "percentage of proceeds" extracted, which is not nearly as risky as keep-whole. Of late, the company has benefited from higher NGL prices.

Outlook and forecast

The significant projected increase in EBITDA in 1Q03 is to take into account the full quarter run rate of the San Juan Basin assets that were acquired from EP in early late November 2002. The slight increase in 3Q03 represents the completion of the Medusa gas pipeline, which should eventually add about $6 million in EBITDA per year.

Figure 21: Natural gas pipelines and plants forecast

($MM)	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
EBITDA	19.9	47.1	43.9	55.2	69.9	70.4	72.1	72.7
DD&A	6.5	12.2	12.3	13.5	18.3	18.5	18.8	18.9
Operating Income	13.4	34.9	31.6	41.7	51.7	51.9	53.3	53.8
Earnings From Uncons. Affiliates	-	-	-	0.2	-	-	-	-
Other Income/(Expense)	0.3	0.0	(0.4)	(0.4)	-	-	-	-
EBIT	13.7	34.9	31.2	41.5	51.7	51.9	53.3	53.8
Plus: DD&A	6.5	12.2	12.3	13.5	18.3	18.5	18.8	18.9
Distributions From Affiliates	-	-	-	2.0	-	-	-	-
Other	-	-	1.0	(1.4)	-	-	-	-
Less: Earnings From Affiliates	-	-	-	(0.2)	-	-	-	-
Adjusted EBITDA	20.2	47.1	44.5	55.4	69.9	70.4	72.1	72.7

	2001	2002E	2003E	2004E
EBITDA	39.0	166.1	285.2	296.1
DD&A	11.7	44.6	74.5	76.6
Operating Income	27.3	121.5	210.7	219.5
Earnings From Uncons. Affiliates	5.8	0.2	-	-
Other Income/(Expense)	0.4	(0.5)	-	-
EBIT	33.5	121.2	210.7	219.5
Plus: DD&A	11.7	44.6	74.5	76.6
Distributions From Affiliates	12.8	2.0	-	-
Other	-	(0.4)	-	-
Less: Earnings From Affiliates	(5.8)	(0.2)	-	-
Adjusted EBITDA	52.2	167.2	285.2	296.1

Source: Deutsche Bank Securities Inc. estimates and company information

Oil and NGL logistics

This segment includes EPN's NGL fractionation facilities and pipelines and its oil pipeline systems. According to EPN, they are the largest supplier of NGLs to the South Texas refinery/petrochemical market. Oil and NGL Logistics contributed 16% of EPN's adjusted EBITDA in 2002 and currently accounts for about 9% of the Partnership's total assets. Key assets in the segment include the following:

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Figure 22: Key natural gas pipeline and plant assets

Key Assets	Description
NGL Assets	1248 miles of NGL pipeline, four fractionation plants with a capacity of 131 MBbls/d, and 20 MMbbls of NGL storage capacity
Poseidon Oil Pipeline	36% interest in 288 mile pipeline from the offshore GOM to Louisiana. The pipeline has a capacity of 400 MBbls/d
Allegheny Pipeline	43 miles of pipeline in the deepwater GOM with a capacity of 80 MBbls/d
Typhoon Oil Pipeline	12", 16 mile gathing system with capacity of 100 MBbl/d.
Cameron Highway Oil Pipeline System	50/50 Joint venture with Valero to construct, own and operate this 380 mile pipeline with a capacity of 500 MBbls/d. The pipeline will run from the deepwater GOM to East Texas. Completion is expected in Q3/Q4 2004.

Source: Deutsche Bank Securities Inc. estimates and company information

On these assets, EPN is typically paid a fee based on the volume shipped, rather than a reservation charge. As with the natural gas pipelines, the basis of competition is primarily location and interconnectivity between suppliers/producers and end users/refiners. EPN's NGL assets primary competition is Enterprise Products Partners, while Poseidon, Allegheny, and Cameron upon completion, compete primarily with Shell Oil Company. Various Federal, State and local authorities regulate these assets, but rates are generally negotiated.

Outlook and forecast

As with Natural Gas Pipelines and Plants, part of the San Juan Basin asset acquisition was completed in November, and is also reflected in this segment. This accounts for the increase in 1Q03. The increase in 2004 is related to the commencement of the Cameron Highway Oil Pipeline in 4Q04, which should eventually add about $38 million in annual EBITDA after the joint venture's debt service.

Figure 23: Oil & NGL logistics forecast

($MM)	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
EBITDA	6.2	7.4	7.3	6.7	9.4	10.0	11.1	11.2
DD&A	1.5	1.7	1.4	2.0	3.3	3.3	3.3	3.3
Operating Income	4.7	5.7	5.9	4.7	6.1	6.7	7.9	7.9
Earnings From Uncons. Affiliates	3.4	4.0	3.2	2.9	3.2	3.4	3.4	3.4
EBIT	8.1	9.7	9.1	7.6	9.3	10.1	11.3	11.3
Plus: DD&A	1.5	1.7	1.4	2.0	3.3	3.3	3.3	3.3
Distributions From Affiliates	4.5	4.7	4.0	2.7	3.7	3.9	3.9	3.9
Less: Earnings From Affiliates	(3.4)	(4.0)	(3.2)	(2.9)	(3.2)	(3.4)	(3.4)	(3.4)
Adjusted EBITDA	10.7	12.1	11.3	9.4	13.1	13.9	15.0	15.1

	2001	2002E	2003E	2004E
EBITDA	25.6	27.6	41.7	51.4
DD&A	5.2	6.5	13.0	15.7
Operating Income	20.4	21.1	28.7	35.7
Earnings From Uncons. Affiliates	18.2	13.5	13.4	13.6
EBIT	38.4	34.5	42.1	49.3
Plus: DD&A	5.2	6.5	13.0	15.7
Distributions From Affiliates	22.2	15.8	15.4	15.6
Less: Earnings From Affiliates	(18.2)	(13.5)	(13.4)	(13.6)
Adjusted EBITDA	47.6	43.4	57.1	67.0

Source: Deutsche Bank Securities Inc. estimates and company information

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Platform services

Platform Services accounted for about 11% of EPN's 2002 adjusted EBITDA. EPN has ownership interests in and operates six (plus two under construction) offshore Gulf of Mexico platforms that are used to interconnect offshore pipelines, assist in performing pipeline maintenance, and conducting drilling operations during the initial development phase of a property. Currently, most of EPN's revenue in the segment is derived from charges based on volume. However, as new platform projects come on line, they generally have a fixed fee component in their revenue.

The company expects to complete the $53 million Falcon Nest Platform late in 1Q03. This project is expected to ultimately add about $15 million in annual EBITDA. The significant increase in EBITDA in 2004 is related to the expected completion of the $108 million (their portion) Marco Polo Platform in 4Q03. The Marco Polo platform, which is a joint venture with Cal Dive International Anadarko Petroleum, is expected to generate five-year average annual EBITDA of $36 million to EPN after joint venture debt service.

Figure 24: Platforms services outlook

($MM)	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
EBITDA	7.2	7.4	4.1	4.4	4.8	7.5	7.9	8.4
DD&A	1.1	1.0	1.0	1.1	1.2	1.7	1.7	1.7
Operating Income	6.1	6.4	3.1	3.3	3.6	5.8	6.2	6.7
EBIT	6.1	6.4	3.1	3.3	3.6	5.8	6.2	6.7
Plus: DD&A	1.1	1.0	1.0	1.1	1.2	1.7	1.7	1.7
Other	5.6	-	0.5	-	-	-	-	-
Less: Earnings From Affiliates	-	-	-	-	-	-	-	-
Adjusted EBITDA	12.8	7.4	4.6	4.4	4.8	7.5	7.9	8.4

	2001	2002E	2003E	2004E
EBITDA	25.6	23.1	28.5	58.2
DD&A	4.1	4.2	6.2	12.8
Operating Income	21.5	18.9	22.3	45.5
Other Income/(Expense)	(0.6)	-	-	-
EBIT	20.9	18.9	22.3	45.5
Plus: DD&A	4.1	4.2	6.2	12.8
Other	5.8	6.1	-	-
Adjusted EBITDA	30.8	29.2	28.5	58.2

Source: Deutsche Bank Securities Inc. estimates and company information

Natural gas storage

Natural Gas Storage accounted for about 6% of 2002 adjusted EBITDA. This segment primarily consists of the Partnership's Petal and Hattiesburg salt dome storage facilities in Mississippi, the largest in the Southeastern United States. It was expanded in mid-2002 and now has storage capacity of 12.65 BCF, with deliverability in excess of 1.2 Bcf/d. The facilities are strategically situated to serve the Northeast, Mid-Atlantic and Southeast natural gas markets. These storage facilities have a significant portfolio of long-term contracts, providing stability. EPN's storage facilities are generally fully contracted.

The Hattiesburg facility is a regulated utility under the jurisdiction of the Mississippi Public Service Commission. The Petal facility is under the jurisdiction of the FERC. However, it is permitted to charge market based rates.

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Expansion projects

EPN currently has about $600 million ($350 million after joint venture project finance) of strategic expansion projects underway, most of which are in the Gulf of Mexico. EPN has little competition in the deepwater GOM. Despite the lack of competition, EPN must still be reasonable in its pricing, or its customers will take on the projects themselves. The following figure displays EPN's key projects.

Figure 25: Expansion projects underway

($MM)	Expected Completion	Total Budget	EPN Equity Portion	Investment/ Expected Avg. EBITDA	Description
Marco Polo Platform & Pipelines	Q403	$ 302.0	$ 108.0	3.0x	50/50 JV with Cal Dive to construct, install and own a TLP and install 100% EPN owned gas pipelines
Falcon Nest Platform	Q103	53.0	53.0	3.5x	Will construct, install and own a platform in the GOM for Mariner and Pioneer
Cameron Oil Highway Pipeline	Q304	450.0	76.0	2.0x	50/50 JV with Valero to own and operate a major 390 mile crude oil pipeline from Western GOM to East Texas
Medusa Gas Pipeline	Q103	28.0	26.0	4.3x	37 mile, 12" pipeline in Deepwater GOM
Red Hawk Pipeline	Q204	57.0	57.0	4.4x	16" Gas gathering pipeline in deepwater GOM that will connect to ANR pipeline
Texas NGL Expansion	Q203	31.0	31.0	NA	Adds 30,000 bpd market access to Mont Belvieu and Northern Mexico LPG market. Adds 12,000 bpd fractionation capacity

Source: Deutsche Bank Securities Inc. estimates and company information

Balance sheet & liquidity

As shown on page 4, EPN has only $7 million of debt maturities over the next year. It's $600 million revolver and $238 million senior secured facility mature in May 2004, but are likely to be extended within the next three months. The Partnership's $160 million EPN holding acquisition facility matures in April 2005. All other significant maturities are greater than five years out. EPN's major covenants on its Bank facilities are summarized below:

Ratio	Required	Current
Max. Total Debt/Pro forma LTM EBITDA	5.25x	4.9x
Max. Senior Debt/Pro forma LTM EBITDA	3.25x	2.7x
Min. Pro forma EBITDA/LTM Interest	2.00x	4.6x

Figure 26: Capitalization and coverage ratios

In Millions of $	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E	12/2004E
Capitalization									
Net Debt/Total Capital	63.0%	67.6%	68.9%	65.9%	59.2%	60.6%	61.2%	55.5%	56.5%
Book Value/share	$12.20	$14.75	$13.99	$21.54	$26.96	$22.54	$18.34	$21.24	$18.34
Debt Coverage									
LTM EBIT	100.2	130.1	153.3	175.9	216.7	237.0	265.2	286.0	326.1
LTM EBITDA	124.1	163.4	199.0	233.4	290.5	322.6	360.1	387.6	439.3
Total Debt/LTM EBITDA	7.8x	8.2x	7.0x	8.0x	6.0x	5.7x	5.1x	4.4x	3.8x
LTM Interest	44.0	56.8	68.8	83.4	105.6	115.9	125.1	126.7	112.9
EBITDA/Interest	2.8x	2.9x	2.9x	2.8x	2.8x	2.8x	2.9x	3.1x	3.9x
Return									
Return on Avg. Invested Capital	9.2%	9.1%	10.6%	8.6%	10.2%	9.6%	10.7%	9.9%	11.0%
Return on Avg. Equity	14.2%	15.7%	18.6%	13.5%	13.3%	13.5%	15.8%	13.9%	16.3%
Return on Avg. Assets	8.1%	8.5%	9.9%	8.2%	9.5%	9.1%	10.0%	9.4%	10.4%

Source: Deutsche Bank Securities Inc. estimates and company information. Not pro forma for acquisitions.

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Board of Directors

Member	Position
Robert G. Phillips	CEO and Chairman, El Paso Energy Partners, LP
James H. Lytal	President, El Paso Energy Partners, LP
Michael B. Bracy	Former Director, EVP and CFO of NorAm Energy Corp.
H. Douglas Church	Former SVP, Transmission, Engineering and Environmental for Texas Eastern Transmission Company
Kenneth L. Smalley	Former SVP of Phillips Petroleum Company and President of Phillips 66 Natural Gas Company

Management

Robert G. Phillips, Chairman and Chief Executive Officer
Mr. Phillips has been CEO since November 1999. He served as EVP from August 1998 to October 1999. He served as President of El Paso Field Services Company since June 1997, President of El Paso Energy Resources Company from December 1996 to June 1997, President of El Paso Field Services Company from April 1996 to December 1996 and SVP of El Paso from September 1995 to April 1996. For more than five years prior, Mr. Phillips was CEO of Eastex Energy, Inc.

James H. Lytal, President
Mr. Lytal has served as President since July 1995. He served as SVP from August 1994 to June 1995. Prior to joining EPN, Mr. Lytal served in various capacities in the oil and gas exploration and production and gas pipeline industries with United Gas Pipeline Company, Texas Oil and Gas, Inc. and American Pipeline Company.

D. Mark Leland, Chief Operating Officer
Mr. Leland was named COO in January 2003. He previously served as SVP and Controller since July 2000 and as VP of El Paso Field Services Company since September 1997. He served as VP and Controller from August 1998 to July 2000. Mr. Leland served as Director of Business Development for El Paso Field Services Company from September 1994 to September 1997. For more than five years prior, Mr. Leland served in various capacities in the finance and accounting functions of El Paso Corporation.

Keith B. Forman, Chief Financial Officer
Mr. Forman has served as CFO since January 1992. From 1982 to 1992, Mr. Forman served as VP of the Natural Gas Pipeline Group of Manufacturers Hanover Trust Company.

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EPN financial statements

Figure 27: Annual income statement

In Millions of $	1999	2000	2001	2002E	2003E	2004E
	For the fiscal years ending 12/31,					
Operating Revenues:						
Gathering & Transportation Services	20.3	63.5	93.6	357.6	619.9	643.8
Liquid Transportation and Handling	2.0	8.3	39.5	48.3	54.1	66.7
Platform Services	11.4	13.9	23.5	16.7	25.3	58.3
Natural Gas Storage Services	-	6.2	19.4	28.6	46.7	48.6
Oil and Natural Gas Sales, & Other	30.0	20.6	26.3	16.8	17.2	17.2
Net Sales	**63.7**	**112.4**	**202.2**	**467.9**	**763.2**	**834.6**
Operating Costs and Expenses:						
Cost of Natural Gas	-	28.2	51.5	119.3	187.8	197.7
Operations and Maintenance	22.4	14.5	35.5	115.2	187.8	197.7
EBITDA	**41.3**	**69.8**	**115.1**	**233.4**	**387.6**	**439.3**
D&A	30.6	27.7	38.6	72.1	116.6	128.4
Asset Impairment Charge	-	-	3.9	-	-	-
Operating Income	**10.6**	**42.1**	**72.6**	**161.3**	**271.0**	**310.9**
Other Income and Expenses:						
Equity in Earnings	32.8	22.9	8.4	13.6	13.4	13.6
Gain on Sale of Assets	10.1	-	(11.4)	(0.4)	-	
Other Income and Expenses	0.4	2.4	28.7	1.5	1.6	1.6
EBIT	**53.9**	**67.4**	**98.4**	**176.0**	**286.0**	**326.1**
Interest Expense, Net	35.3	47.1	43.1	83.4	126.7	116.7
Minority Interest	0.2	0.1	0.1	0.0	-	-
Profit Before Taxes	**18.4**	**20.2**	**55.1**	**92.6**	**159.3**	**209.4**
Income Taxes	(0.4)	(0.3)	-	-	-	-
Net Income	**18.8**	**20.5**	**55.1**	**92.6**	**159.3**	**209.4**
Extraordinary Items & Discontinued Ops.	-	-	-	5.1	-	-
Reported Net Income	**18.8**	**20.5**	**55.1**	**97.7**	**159.3**	**209.4**
Net Income Growth (Yr. Over Yr.)		*9%*	*169%*	*77%*	*63%*	*31%*
Net Income Allocated To GP	12.1	15.6	24.7	42.1	64.7	86.7
Net Income Allocated To Series C Unitholders				1.5	7.4	
Net Income Allocated To Series B Unitholders	-	5.7	17.2	14.7	15.0	15.0
Net Income Allocated to Limited Partners Before Accounting Change	**6.7**	**(0.7)**	**13.3**	**39.4**	**72.2**	**107.7**
Cumulative Effect of Accounting Change	(15.4)	-	-	-	-	-
Net Income Allocated to Limited Partners	(8.7)	(0.7)	13.3	39.4	72.2	107.7
Diluted Limited Partners' Net Income Per Unit:						
Income Before Charge	$ 0.26	$ (0.03)	$ 0.38	$ 0.92	$ 1.30	$ 1.55
Income After Charge	$ (0.34)	$ (0.03)	$ 0.38	$ 0.92	$ 1.30	$ 1.55
Weighted Avg. Units Outstanding	25.9	29.1	34.4	42.8	55.6	69.5
Declared Distribution Per Unit		$ 2.15	$ 2.36	$ 2.65	$ 2.78	$ 2.90
Distribution Per Unit Paid in Period	$ 2.10	$ 2.13	$ 2.29	$ 2.60	$ 2.74	$ 2.87
Distribution Growth			7.6%	13.7%	5.4%	4.7%

Source: Deutsche Bank Securities Inc. estimates and company information

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Figure 28: Quarterly income statement

In Millions of $	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
Operating Revenues:								
Gathering & Transportation Services	40.4	95.2	96.3	125.7	152.0	153.1	156.8	158.0
Liquid Transportation and Handling	8.8	9.8	9.5	20.2	12.2	13.0	14.5	14.5
Platform Services	4.5	5.2	3.6	3.5	3.7	6.7	7.2	7.7
Natural Gas Storage Services	4.4	5.5	8.6	10.1	11.5	11.6	11.7	11.8
Oil and Natural Gas Sales, & Other	3.5	4.9	4.3	4.1	4.3	4.3	4.3	4.3
Net Sales	61.5	120.5	122.3	163.6	183.7	188.7	194.5	196.3
Operating Costs and Expenses:								
Cost of Natural Gas	12.2	27.3	27.8	52.1	45.8	46.4	47.6	48.0
Operations and Maintenance	14.4	29.3	32.8	38.6	45.8	46.4	47.6	48.0
EBITDA	34.9	63.9	61.7	72.9	92.0	95.9	99.3	100.4
D&A	12.5	18.1	19.3	22.2	28.4	29.2	29.5	29.6
Asset Impairment Charge	-	-	-	-	-	-	-	-
Operating Income	22.4	45.8	42.4	50.7	63.7	66.7	69.8	70.8
Other Income and Expenses:								
Equity in Earnings	3.4	4.0	3.2	3.1	3.2	3.4	3.4	3.4
Gain on Sale of Assets	0.3	-	-	(0.4)	-	-	-	-
Other Income and Expenses	0.4	0.4	(0.2)	0.4	0.4	0.4	0.4	0.4
EBIT	26.5	50.2	45.4	53.8	67.3	70.5	73.6	74.6
Interest Expense, Net	11.8	21.5	22.1	28.0	34.0	31.9	31.3	29.6
Minority Interest	-	0.0	-	-	-	-	-	-
Profit Before Taxes	14.7	28.7	23.3	25.8	33.3	38.6	42.3	45.0
Income Taxes	-	-	-	-	-	-	-	-
Net Income	14.7	28.7	23.3	25.8	33.3	38.6	42.3	45.0
Extraordinary Items & Discontinued Ops.	4.4	0.1	0.5	0.2	-	-	-	-
Reported Net Income	19.1	28.7	23.8	26.0	33.3	38.6	42.3	45.0
Net Income Growth (Yr. Over Yr.)	*47%*	*143%*	*98%*	*42%*	*74%*	*34%*	*78%*	*73%*
Net Income Allocated To GP	8.7	10.8	10.7	11.8	12.2	15.2	18.3	19.0
Net Income Allocated To Series C Unitholders				1.5	3.5	3.9	-	-
Net Income Allocated To Series B Unitholders	3.6	3.6	3.7	3.8	3.8	3.8	3.8	3.8
Net Income Allocated to Limited Partners Before Accounting Change	6.8	14.3	9.4	8.9	13.9	15.8	20.2	22.2
Cumulative Effect of Accounting Change		-	-	-	-	-	-	-
Net Income Allocated to Limited Partners	6.8	14.3	9.4	8.9	13.9	15.8	20.2	22.2
Diluted Limited Partners' Net Income Per Unit:								
Income Before Charge	$ 0.17	$ 0.33	$ 0.21	$ 0.20	$ 0.32	$ 0.30	$ 0.32	$ 0.35
Income After Charge	$ 0.17	$ 0.33	$ 0.21	$ 0.20	$ 0.32	$ 0.30	$ 0.32	$ 0.35
Weighted Avg. Units Outstanding	39.9	42.8	44.1	44.1	44.1	52.2	63.1	63.1
Declared Distribution Per Unit	$ 0.650	$ 0.650	$ 0.675	$ 0.675	$ 0.675	$ 0.690	$ 0.700	$ 0.710
Distribution Per Unit Paid in Period	$ 0.625	$ 0.650	$ 0.650	$ 0.675	$ 0.675	$ 0.675	$ 0.690	$ 0.700
Distribution Growth	13.6%	18.2%	13.0%	10.2%	8.0%	3.8%	6.2%	3.7%

Source: Deutsche Bank Securities Inc. estimates and company information

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Figure 29: Annual balance sheet

In Millions of $	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Assets					
Cash & Equivalents	20.3	13.1	22.3	22.3	22.3
Accounts & Notes Receivable, Net:					
Trade	33.8	33.2	89.4	107.3	119.0
% of Revenue					
Related Parties	1.6	22.9	-	-	-
% of Revenue					
Other	0.6	0.6	9.0	9.0	9.0
% of Revenue					
Total Current Assets	56.3	69.7	120.7	138.6	150.3
Net PP&E	619.2	1,103.4	2,597.0	2,815.4	2,772.1
Investment In Processing Agreement	-	120.0	115.7	115.7	115.7
Investment In Unconsolidated Affiliates	182.7	34.4	61.2	59.1	57.1
Asset Held for Sale	-	-	-	-	-
Other Non Current Assets	11.2	29.8	33.6	33.6	33.6
Total Long-Term Assets	813.2	1,287.6	2,807.5	3,023.8	2,978.4
Total Assets	869.5	1,357.3	2,928.1	3,162.4	3,128.7
Liabilities and Shareholders' Equity					
Current Maturities of Long-term Debt	-	19.0	-	-	-
Accounts Payable:					
Trade	14.7	15.0	39.5	47.4	52.6
% of Revenue					
Affiliates	2.4	9.9	-	-	-
Accrued Interest	3.1	6.4	21.6	21.6	21.6
Other	2.2	4.2	31.2	31.2	31.2
Total Current Liabilities	22.4	54.5	92.4	100.3	105.5
Revolving Credit Facility	318.0	300.0	-	-	-
Long-term Debt	175.0	425.0	1,860.0	1,698.0	1,730.3
Limited-Recourse Financing	45.0	76.0	-	-	-
Other	0.4	1.1	24.9	24.9	24.9
Total Long-Term Liabilities	538.4	802.1	1,884.9	1,722.9	1,755.2
Minority Interest	(2.4)	-	0.9	0.9	0.9
Partners' Capital:					
Series C Units		-	350.3	340.4	340.4
Series B Units		142.9	157.6	172.6	187.6
Common Units		354.0	437.7	820.2	732.9
Accumulated Other Comprehensive Income to LP Interest		(1.3)	(0.7)	(0.7)	(0.7)
General Partner		5.1	5.0	5.8	6.9
Accumulated Other Comprehensive Income to GP Interest		(0.0)	(0.0)	(0.0)	(0.0)
Total Partners' Capital	311.1	500.7	949.9	1,338.3	1,267.1
Total Liabilities and Partners' Capital	869.5	1,357.3	2,928.1	3,162.4	3,128.7

Source: Deutsche Bank Securities Inc. estimates and company information

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Figure 30: Quarterly balance sheet

In Millions of $	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
Assets								
Cash & Equivalents	133.4	18.8	22.3	22.3	22.3	22.3	22.3	22.3
Accounts & Notes Receivable, Net:								
Trade	50.4	103.6	88.1	89.4	148.5	160.4	140.0	107.3
% of Revenue	81.8%	86.0%	72.0%	54.6%	80.8%	85.0%	72.0%	54.6%
Related Parties	-	-	-	-	-	-	-	-
% of Revenue	0.0%	0.0%	0.0%	37.4%	-1.0%	-1.0%	0.0%	37.4%
Other	3.3	4.9	9.0	9.0	9.0	9.0	9.0	9.0
% of Revenue	5.4%	4.1%	7.4%	-0.1%	4.4%	3.1%	7.4%	-0.1%
Total Current Assets	**187.1**	**127.3**	**119.4**	**120.7**	**179.8**	**191.7**	**171.3**	**138.6**
Net PP&E	**936.8**	**1,750.7**	**1,798.7**	**2,597.0**	**2,683.4**	**2,738.0**	**2,776.8**	**2,815.4**
Investment In Processing Agreement	118.5	116.9	115.7	115.7	115.7	115.7	115.7	115.7
Investment In Unconsolidated Affiliates	33.4	46.5	61.6	61.2	60.7	60.2	59.7	59.1
Asset Held for Sale	188.2	-	-	-	-	-	-	-
Other Non Current Assets	28.2	34.5	33.6	33.6	33.6	33.6	33.6	33.6
Total Long-Term Assets	**1,305.1**	**1,948.7**	**2,009.6**	**2,807.5**	**2,893.4**	**2,947.4**	**2,985.7**	**3,023.8**
Total Assets	**1,492.2**	**2,076.0**	**2,128.9**	**2,928.1**	**3,073.2**	**3,139.1**	**3,157.0**	**3,162.4**
Liabilities and Shareholders' Equity								
Current Maturities of Long-term Debt	19.0	-	-	-	-	-	-	-
Accounts Payable:								
Trade	19.9	36.0	44.9	39.5	57.7	54.4	71.4	47.4
% of Revenue	32.4%	29.9%	36.7%	24.1%	31.4%	28.9%	36.7%	24.1%
Affiliates	-	-	-	-	-	-	-	-
Accrued Interest	14.7	11.7	21.6	21.6	21.6	21.6	21.6	21.6
Other	5.2	29.9	31.2	31.2	31.2	31.2	31.2	31.2
Total Current Liabilities	**58.8**	**77.5**	**97.8**	**92.4**	**110.6**	**107.3**	**124.3**	**100.3**
Revolving Credit Facility	444.0	521.0	569.0					
Long-term Debt	425.0	659.6	819.4	1,860.0	1,747.7	1,830.4	1,850.7	1,698.0
Limited-Recourse Financing	76.0	160.0	-					
Other	1.1	24.9	24.9	24.9	24.9	24.9	24.9	24.9
Total Long-Term Liabilities	**946.1**	**1,365.5**	**1,413.4**	**1,884.9**	**1,772.7**	**1,855.3**	**1,875.6**	**1,722.9**
Minority Interest	-	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**
Partners' Capital:								
Series C Units				350.3	351.3	347.9	340.4	340.4
Series B Units	146.4	150.1	153.8	157.6	161.3	165.1	168.8	172.6
Common Units	335.8	476.7	458.5	437.7	671.8	657.8	642.1	820.2
Accumulated Other Comprehensive Income to LP Interest	0.1	(0.1)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
General Partner	4.9	5.4	5.2	5.0	5.2	5.4	5.6	5.8
Accumulated Other Comprehensive Income to GP Interest	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Total Partners' Capital	**487.3**	**632.1**	**616.9**	**949.9**	**1,189.0**	**1,175.5**	**1,156.2**	**1,338.3**
Total Liabilities and Partners' Capital	1,492.2	2,076.0	2,128.9	2,928.1	3,073.2	3,139.1	3,157.0	3,162.4

Source: Deutsche Bank Securities Inc. estimates and company information

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Figure 31: Annual cash flow statement

In Millions of $	1999	2000	2001	2002E	2003E	2004E
	For the fiscal years ending 12/31,					
Cash From Operations						
Net Income	18.8	20.5	55.1	92.8	159.3	209.4
DD&A	30.6	27.7	38.6	72.1	116.6	128.4
Net Loss (gain) on sale of assets	(10.1)	-	11.4	0.5	-	-
Asset Impairment Charge	-	-	3.9	-	-	-
Earnings from Unconsolidated Affiliates	(32.8)	(22.9)	(8.4)	(13.6)	(13.4)	(13.6)
Distributions from Unconsolidated Affiliates	46.2	34.0	35.1	16.7	15.4	15.6
Litigation Reserve	2.3	(2.3)	-	-	-	-
Other Non-Cash Items (amort of debt costs)	1.8	2.2	4.3	1.2	10.0	-
Changes in Working Capital Items	(6.0)	(10.8)	(42.1)	6.2	(10.0)	(6.6)
Noncurrent receivable from El Paso Corp.	-	-	(10.4)	-	-	-
Other	-	-	(0.2)	-	-	-
Cash Flows Provided by Continuing Operations	50.8	48.4	87.4	175.9	277.9	333.2
Cash Flows Used in Discontinued Operations	-	-	-	5.0	-	-
Net Cash Flows From Operations	**50.8**	**48.4**	**87.4**	**180.9**	**277.9**	**333.2**
Cash Flows From Investing Activities:						
Capital Expenditures	(54.2)	(116.9)	(607.3)	(1,708.9)	(335.0)	(85.0)
Proceeds From Sale of Assets	26.1	-	109.1	5.5		
Additions to Investments in Affiliates	(59.3)	(9.0)	(1.5)	(30.4)	-	-
Distributions related to the formation of Deepwater Holdings	20.0	-	-	-		
Other	0.3	(0.4)	-	-	-	-
Cash Flows Used in Continuing Investing Activities	(67.1)	(126.2)	(499.7)	(1,733.8)	(335.0)	(85.0)
Cash Flows Provided by Discont. Inv. Activities	-	-	-	186.5	-	-
Net Cash Flows From Investing Activities	**(67.1)**	**(126.2)**	**(499.7)**	**(1,547.3)**	**(335.0)**	**(85.0)**
Cash Flows From Financing Activities:						
Issuance (Repayment) of Debt	83.2	70.6	272.0	1,030.4	(172.0)	32.3
Proceeds from issuance of Common Units	-	100.6	286.7	499.2	450.0	-
Redemption of Series B Preference Units	-	-	(50.0)	-	-	-
Redemption of Publicly Held Preference Units	-	(0.8)	-	-	-	-
Contributions From General Partner	0.6	2.8	2.8	0.6	-	-
Distributions to GP				(12.0)	(63.9)	(85.6)
Distributions on Common LP Units				(29.8)	(139.7)	(194.9)
Distributions on C Units				-	(17.3)	-
Distributions To Partners	(66.3)	(79.3)	(106.4)	(112.8)	-	-
Other, Net	-	-	-	-	-	-
Cash Flows Used in Financing Activities	**17.5**	**93.9**	**405.1**	**1,375.6**	**57.1**	**(248.2)**
Cash Flows Provided by Discont. Fin. Activities	-	-	-	(0.0)	-	-
Net Cash Flows From Financing Activities	**17.5**	**93.9**	**405.1**	**1,375.6**	**57.1**	**(248.2)**
Net Decrease in Cash and Cash Equivalents	**1.1**	**16.1**	**(7.2)**	**9.2**	**0.0**	**-**
Cash and Cash Equivalents, Beginning	3.1	4.2	20.3	13.1	22.3	22.3
Cash and Cash Equivalents, Ending	**4.2**	**20.3**	**13.1**	**22.3**	**22.3**	**22.3**

Source: Deutsche Bank Securities Inc. estimates and company information

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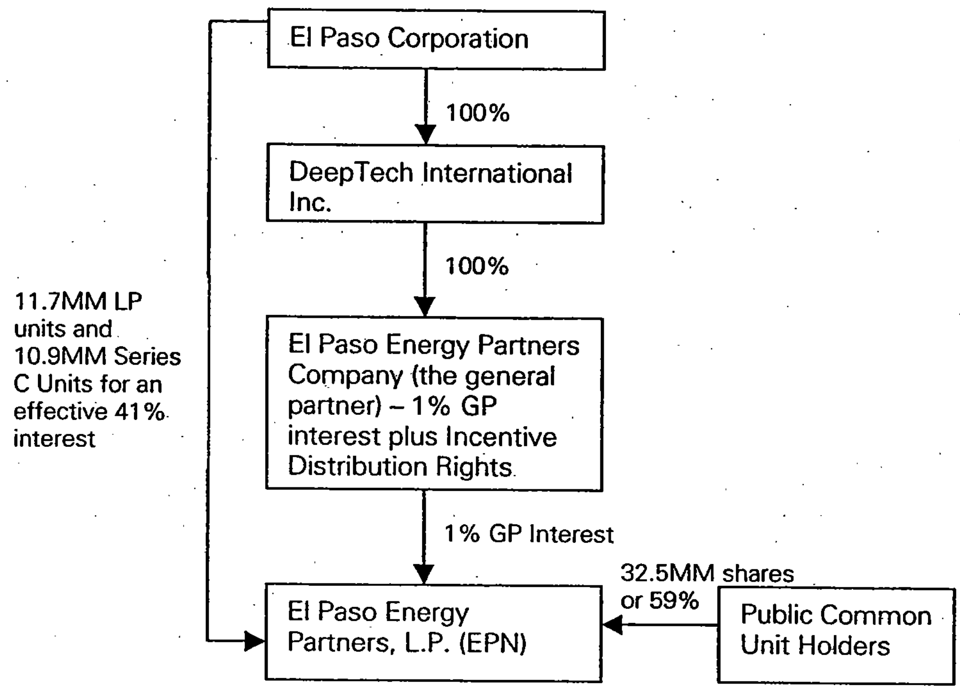
Figure 32: Quarterly cash flow statement

In Millions of $	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
Cash From Operations								
Net Income	14.7	28.7	23.3	26.0	33.3	38.6	42.3	45.0
DD&A	12.5	18.1	19.3	22.2	28.4	29.2	29.5	29.6
Net Loss (gain) on sale of assets	(0.3)	-	0.4	0.4	-	-	-	-
Asset Impairment Charge	-	-	-	-	-	-	-	-
Earnings from Unconsolidated Affiliates	(3.4)	(4.0)	(3.2)	(3.1)	(3.2)	(3.4)	(3.4)	(3.4)
Distributions from Unconsolidated Affiliates	4.5	4.7	4.0	3.6	3.7	3.9	3.9	3.9
Litigation Reserve	-	-	-	-	-	-	-	-
Other Non-Cash Items (amort of debt costs)	1.3	0.2	(0.3)	-	4.0	4.0	2.0	-
Changes in Working Capital Items	8.4	(28.9)	33.4	(6.7)	(40.9)	(15.1)	37.3	8.8
Noncurrent receivable from El Paso Corp.	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Cash Flows Provided by Continuing Operations	37.8	18.8	77.0	42.4	25.2	57.2	111.6	83.9
Cash Flows Used in Discontinued Operations	5.4	(0.4)	(0.0)	-	-	-	-	-
Net Cash Flows From Operations	**43.2**	**18.4**	**76.9**	**42.4**	**25.2**	**57.2**	**111.6**	**83.9**
Cash Flows From Investing Activities:								
Capital Expenditures	(35.1)	(786.4)	(66.5)	(820.9)	(114.8)	(83.8)	(68.3)	(68.3)
Proceeds From Sale of Assets	5.5	-	-	-	-	-	-	-
Additions to Investments in Affiliates	-	(14.1)	(16.2)	-	-	-	-	-
Distributions related to the formation of Deepwater Holdings	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Cash Flows Used in Continuing Investing Activities	(29.7)	(800.5)	(82.7)	(820.9)	(114.8)	(83.8)	(68.3)	(68.3)
Cash Flows Provided by Discont. Inv. Activities	(3.5)	190.0	0.0	-	-	-	-	-
Net Cash Flows From Investing Activities	**(33.2)**	**(610.5)**	**(82.7)**	**(820.9)**	**(114.8)**	**(83.8)**	**(68.3)**	**(68.3)**
Cash Flows From Financing Activities:								
Issuance (Repayment) of Debt	144.0	367.2	47.7	471.6	(116.3)	78.7	18.3	(152.7)
Proceeds from issuance of Common Units	0.1	149.3	1.1	348.8	250.0	-	-	200.0
Redemption of Series B Preference Units	-	-	-	-	-	-	-	-
Redemption of Publicly Held Preference Units	-	-	-	-	-	-	-	-
Contributions From General Partner	-	0.6	-	-	-	-	-	-
Distributions to GP				(12.0)	(12.0)	(15.0)	(18.1)	(18.8)
Distributions on Common LP Units				(29.8)	(29.8)	(29.8)	(36.0)	(44.1)
Distributions on C Units				-	(2.5)	(7.4)	(7.5)	-
Distributions To Partners	(33.7)	(39.5)	(39.5)					
Other, Net	-	-	-	-	-	-	-	-
Cash Flows Used in Financing Activities	**110.3**	**477.5**	**9.2**	**778.6**	**89.5**	**26.5**	**(43.3)**	**(15.6)**
Cash Flows Provided by Discont. Fin. Activities	(0.0)	(0.0)	0.0	-	-	-	-	-
Net Cash Flows From Financing Activities	**110.3**	**477.5**	**9.2**	**778.6**	**89.5**	**26.5**	**(43.3)**	**(15.6)**
Net Decrease in Cash and Cash Equivalents	**120.3**	**(114.6)**	**3.5**	-	-	-	-	-
Cash and Cash Equivalents, Beginning	13.1	133.4	18.8	22.3	22.3	22.3	22.3	22.3
Cash and Cash Equivalents, Ending	133.4	18.8	22.3	22.3	22.3	22.3	22.3	22.3

Source: Deutsche Bank Securities Inc. estimates and company information

Corporate structure

Figure 33: Corporate flowchart



Source: Deutsche Bank Securities Inc. estimates and company information

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MLP 101

What is a MLP?

MLPs are similar to REITs

Master Limited Partnerships (MLPs) are specialized, publicly-traded, investment vehicles, that are similar to real estate investment trusts (REIT). The key difference between MLPs and traditional corporations is pass-through taxation status, which exempts MLPs from corporate taxes. All gains and deductions, such as depreciation, are passed through directly to the individual investor.

What types of companies can qualify to be a MLP?

MLPs are restricted to natural resources

MLPs must have 90% or more of their income and gains derived from the development, production, transportation, storage and processing of natural resources. Many energy-related assets qualify, with the key exception being power-related assets. However, many other assets, such as refineries, would not be appropriate assets for an MLP, since its cash flow is not steady or very predictable. Most MLPs have pipeline or other fee-based midstream assets that generate relatively predictable cash flow. Different MLPs take on varying degrees of commodity price and other risks. We view KMP as one of the lower risk MLPs.

Why buy a MLP?

1. **Sizeable yields** – Like REITs, MLPs typically pay almost 100% of its cash flow to investors. Cash flow is commonly defined as net income, plus depreciation, less maintenance capital expenditures. Therefore, most MLPs generate sizeable dividends. The current dividend yield on the Deutsche Bank MLP index is 7.48%.

2. **Tax advantages** – It is common for as much as 50%–95% of the cash dividends to be treated as a return of capital, thereby simply reducing an investor's basis in the investment. Therefore, assuming long-term ownership of the units, not only are investors' receiving tax-deferred income, they also avoid high ordinary income tax rates in lieu of lower long-term capital gains rates when they sell the units. We recommend that investors consult a qualified tax advisor regarding tax issues related to investing in a MLP.

What's the catch?

1. **Complicated tax returns** – Investors receive a K-1 form instead of the more simple 1099 dividend form.

2. **Significant GP distributions** – The GP typically receives a substantial percentage of the distributable cash flow (DCF), that can rise over time as limited partner distributions increase. These incentive distributions, which are 49.5% of incremental DCF, or 29% of total DCF, in EPN's case, have been controversial. However, this incentive distribution plan is widely documented. These high distributions are meant to incentivize the GP to grow the

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distributions. Further, the incentive distribution cuts both ways should limited partner distributions decline.

Any risk of MLPs' status changing?

In our opinion, the risk of the tax status changing for the MLP is minuscule. Yet we want to highlight a number of reasons why we believe this to be the case.

1. MLPs have been around in its current form since the mid-1980s;
2. The U.S. is still short on energy infrastructure;
3. The primary owners of MLPs are individual investors, not big financial institutions; and
4. In 2001, the U.S. House of Representatives passed one of the most comprehensive energy bills in U.S. history and MLPs were not even an issue.

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Disclosures

Additional Information Available upon Request

Disclosure Checklist

Company	Ticker	Recent Price	Disclosure
El Paso Energy Partners, LP	EPN	$32.02	7,9
Enterprise Products Partners L.P.	EPD	$19.80	1,7,9
Kinder Morgan Energy Partners, L.P.	KMP	$35.97	8

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public offering for this company, for which it received fees.
2. Deutsche Bank and/or its affiliate(s) makes a market in securities issued by this company.
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10. Deutsche Bank and/or its affiliate(s) holds 1% or more of the share capital of this company, calculated under computational methods required by German law.
11. Please see special footnote below for other relevant disclosures.

The above-mentioned conflicts of interest may also pertain to other companies cross-referenced in this report. For company specific disclosures relating to cross-referenced recommendations or estimates made in this report, please refer to the most recently published single-company report on that company or visit our global disclosure look-up page on our website at http://equities.research.db.com.

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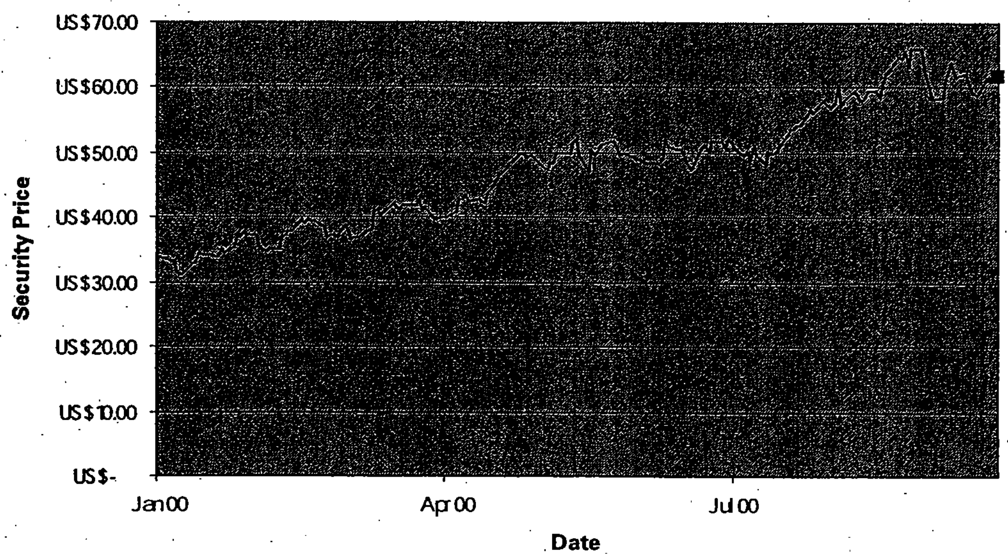
Historical Recommendations and Target Price:



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1. 10/12/2000: Suspended Rating
2.

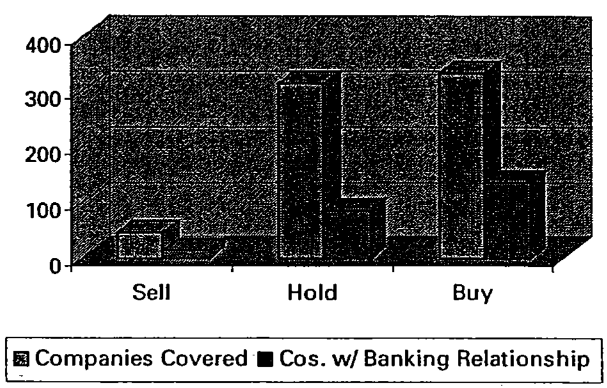
Rating Key

Buy: Total return expected to appreciate 10% or more over a 12-month period

Hold: Total return expected to be between 10% to –10% over a 12-month period

Sell: Total return expected to depreciate 10% or more over a 12-month period

Rating Dispersion and Banking Relationships



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