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Independent Research Report

ARGUS

NYSE: KMP

KINDER MORGAN EGY PTNS L P

Kinder Morgan Energy Partners, L. P. is the largest publicly traded pipeline limited partnership in the United States in terms of market capitalization and the largest independent refined petroleum products pipeline system in the U.S. in terms of volumes delivered. KMP owns or operates more than 25,000 miles of pipelines and almost 100 terminals. Its pipelines transport more than two million barrels per day of gasoline and other petroleum products and up to 7.8 billion cubic feet per day of natural gas. Its terminals handle over 60 million tons of coal and other dry-bulk materials annually and have a liquids storage capacity of approximately 60 million barrels for petroleum products and chemicals. KMP is also the leading provider of CO2 for enhanced oil recovery projects in the U.S.

Analyst's Notes

Argus Rating: BUY

- We are reiterating our BUY rating on Kinder Morgan Energy Partners, L.P. with a 12-month target of $52 per unit.
- Kinder Morgan Energy Partners is the largest publicly traded pipeline limited partnership in the United States.
- We expect Kinder Morgan Energy Partners to post annual earnings growth of around 9% over the next four-to-five years. Our financial strength rating for the partnership is Medium.
- By way of review, KMP reported record net income of $217.3 million for the third quarter, or $0.59 per limited partner unit, up 25% from $174.2 million, or $0.49 per unit, for the comparable period last year.
- The partnership recently announced an increase in the third quarter cash distribution per common unit to $0.73 ($2.92 annualized).
- We estimate that earnings at Kinder Morgan will advance 7%-8%, to $2.15 per unit, in 2004, and 9%-10%, to $2.35 per unit, in 2005.

Analysis by Gary P. Hovis, 12/3/04

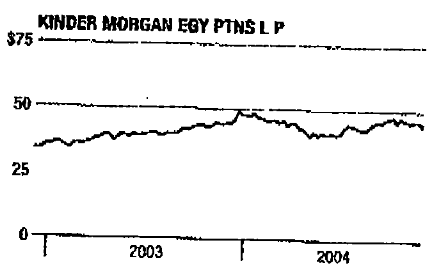
INVESTMENT THESIS

We are reiterating our BUY rating on Kinder Morgan Energy Partners, L.P. (NYSE: KMP) with a 12-month target of $52 per unit. We expect Kinder Morgan Energy Partners to post annual earnings growth of around 9% over the next four-to-five years. Our growth forecast is supported by the partnership's relatively high and expanding operating margin, a long-term debt load that remains in line with partnership capital, dominate and growing U.S. market share, successfully integrated and accretive acquisitions, and what we see as an impressive U.S. distribution system for both refined petroleum products and natural gas. Growth in both volume and earnings has been strong in recent years, reflecting a strong management team and operating assets that are strategically located near energy supply sources with direct connections to areas of growing demand. Overall, we think Kinder Morgan Energy Partners is well positioned to deliver solid long-term growth for KMP unitholders.

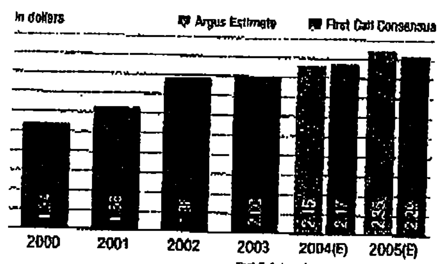
PARTNERSHIP DESCRIPTION

Kinder Morgan Energy Partners, L.P. is the largest publicly traded pipeline limited partnership in the United States in terms of market capitalization and the largest

Market Data



EPS Trend



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Argus Recommendations

Twelve Month Rating: BUY

Sector Rating: Under Weight

The distribution of ratings across Argus' entire company universe is: 48% Buy, 43% Hold, and 9% Sell.

Value/Growth Analysis

P/E: Growth/Income

Yield: Value

Beta: Value

Sector: Value

This chart illustrates the way in which KMP fits into and modifies an investor's portfolio. For more specific details, please see the "KMP In Context" graphic on page 2.

Key Statistics

All pricing data reflects previous trading day's closing price.

Market Analysis

Price: $44.01 Target Price: $52.00

52 Week Price Range	$50 to $38
Shares Outstanding	140.05 Million Shares
Dividend	$2.92

Sector Analysis

Sector	Energy
Sector Rating	Underweight
Total % of S&P 500 Market Cap.	7.00%

Financial Strength Analysis

Financial Strength Rating	Medium
Debt/Capital Ratio	55.6%
Return on Equity	19.8%
Net Margin	10.8%
Payout Ratio	1.24
Current Ratio	0.88
Revenue	$7.31 Billion
After-Tax Income	$788.04 Million

Valuation Analysis

Forecast P/E	18.73
Market Capitalization	$6.16 Billion
Book Value/Share	$17.29
Trailing P/E	7.82
Price/Sales	0.84
Price/Book	2.55

Growth Analysis

1 Year EPS Growth Forecast	9.3%
5 Year EPS Growth Forecast	9.0%
1 Year Dividend Growth Forecast	2.1%

Risk Analysis

Beta	0.45
Institutional Ownership	18.2%

Analyst's Notes...continued

independent refined petroleum products pipeline system in the U.S. in terms of volumes delivered. KMP owns or operates more than 25,000 miles of pipelines and approximately 120 terminals. Its pipelines transport more than two million barrels per day of gasoline and other petroleum products and up to 7.8 billion cubic feet per day of natural gas. Its terminals handle over 60 million tons of coal and other dry-bulk materials annually and have a liquids storage capacity of approximately 60 million barrels for petroleum products and chemicals. KMP is also the leading provider of CO_2 for enhanced oil recovery projects in the United States.

THIRD QUARTER 2004

Kinder Morgan Energy Partners recently announced an increase in the third quarter cash distribution per common unit to $0.73 ($2.92 annualized). Payable on Nov. 12, 2004, to unitholders of record as of Oct. 29, 2004, the distribution represents an 11% increase over the third quarter 2003 cash distribution per unit of $0.66 ($2.64 annualized). In addition, KMP reported record net income of $217.3 million for the third quarter, or $0.59 per limited partner unit, up 25% from $174.2 million, or $0.49 per unit, for the comparable period last year. For the first nine months of the year, net income was $604.3 million compared to $513.6 million for the same period in 2003.

These excellent results were driven by strong internal growth and contributions from acquisitions that closed since the end of the third quarter of 2003. Quarterly net income reached an all-time high, and the partnership increased the distribution for the 21st time in KMP's history. The current distribution of $0.73 ($2.92 annualized) is about 4.6 times higher than the distribution rate of $0.1575 ($0.63) when KMP was formed in February 1997.

All four of KMP's business segments reported increased earnings before DD&A quarter-over-quarter, and total segment earnings before DD&A are up almost 19% through September compared to the same period last year. For the first three quarters, KMP generated distributable cash flow in excess of distributions of approximately $31.6 million, already exceeding our 2004 published annual budget target of $28 million.

Beyond the strong current performance, management continues to position KMP for future growth by investing in infrastructure across the United States to help meet growing energy demand. Year-to-date, KMP has announced approximately $320 million in acquisitions, and its budget calls for more than $600 million in capital expansion projects this year.

An overview of the partnership's business segments follows:

PRODUCTS PIPELINES

The Products Pipelines segment delivered an almost 12% increase in third quarter earnings before DD&A to $120.4 million, compared to $107.9 million for the same period last year. This segment now appears on track to grow its 2004 earnings before DD&A by more than 8% over 2003, slightly short of its published annual budget of 9% growth. Results for the quarter were driven by earnings growth on Pacific, Cochin and Plantation, along with contributions from the recently acquired Southeast terminals. Pacific's earnings before DD&A were up 10% -- positively impacted by very strong terminal revenues, increased pipeline volumes and the annual Producer Price Index increase that became effective July 1. Cochin's earnings before DD&A were up nearly 92% over third quarter 2003. In addition, the 14 terminals KMP purchased in the Southeast in two separate transactions (December 2003 and March 2004) continued to outperform the partnership's acquisition plans.

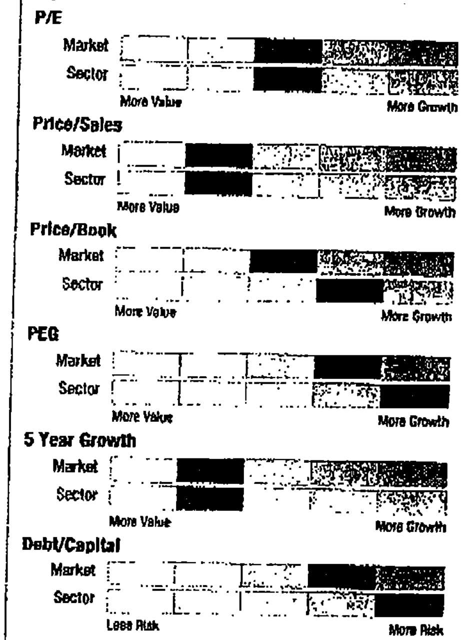
Total refined products volumes grew 2% in the third quarter and were up over 3% for the year through September. Jet fuel volumes, boosted by strong military demand, were up approximately 8% for both the quarter and the first nine months of the year. Gasoline volumes were up 2% for the quarter, led by Plantation's 5% increase in gasoline volumes, and up 2.6% year-to-date. NGL volumes on the North System, including Cypress, were up almost 8% quarter-over-quarter.

Meanwhile, KMP will acquire nine more refined petroleum products terminals in the Southeast that will produce additional fee-based income for this segment. The $77 million acquisition (including $2 million in planned upgrades) is expected to close by the end of this year and will increase Products Pipelines terminal storage capacity in the region by

KMP In Context

The Company

The charts below plot KMP in context of the market and its sector based on key financial metrics. The red (top) bars compare KMP against all Argus rated companies. The green (bottom) bars places KMP in context of its sector. For a sample of peers, please see the Argus Peer list below.



Sector Style Map

Value	Utility
	Basic Materials
	Telecommunications
	Industrials
	Energy
	Consumer Staples
Growth/Income	Financial
	Consumer Discretionary
Growth	Healthcare
	Technology

Argus Peer List

Company	EPS Growth%	P/E
EL PASO CORP COM	-58.8	24.8
DEVON ENERGY CORP NEW	6.0	8.8
UNOCAL CORP	8.5	9.7
NOBLE ENERGY INC COM	8.8	12.1
BURLINGTON RESOURCES	8.9	9.9
KINDER MORGAN EGY PTNS L P	**9.3**	**18.7**
KINDER MORGAN INC KANS	10.7	16.3
ENTERPRISE PRODS PARTNERS L	26.7	25.1
WILLIAMS COS INC	45.5	19.6

Analyst's Notes...continued

76% to 7.7 million barrels.

NATURAL GAS PIPELINES

The Natural Gas Pipelines segment produced third-quarter earnings before DD&A of $105.2 million, up 13% from $93.2 million in the same quarter last year, and on track to exceed its published annual budget of 3% growth. Growth in this segment was spearheaded once again by the partnership's Texas Intrastate Pipeline Group, which continued to significantly outperform its 2004 budget, offset by lower revenues on Trailblazer due to lower rates that became effective Jan. 1. The strong performance of the intrastate group was primarily attributable to benefits that KMP continues to realize from the combination of its major intrastate systems, including higher margins, particularly in the sales business. An increase in segment sales volumes of over 7% was somewhat offset by a decrease in transport volumes of about 2%.

CO2

The CO2 segment delivered third quarter earnings before DD&A of $86.1 million, up 62% from $53.1 million in the comparable period of 2003, and on target to achieve its published annual budget of 58% growth. Growth quarter-over-quarter was attributable to increased oil production at SACROC, strong CO2 delivery volumes and an increase in the partnership's interest in the Yates Field to 50%. Average oil production for the quarter increased by 33% at the SACROC Unit in the Permian Basin in Scurry County, Texas, to 27.7 thousand barrels per day (MBbl/d) and increased by more than 2% at the Yates Field located south of Midland, Texas, to 20.2 MBbl/d, compared to the third quarter last year. CO2 pipeline delivery volumes increased by 16% on strong demand. The CO2 segment is one of the only areas where KMP is exposed to commodity price risk, but that risk is mitigated by a long-term hedging strategy intended to generate more stable realized prices. The realized weighted average oil price per barrel, including hedges, was $25.21 for the third quarter compared to $23.50 for the same period last year.

On August 31, KMP announced the purchase of the Kaston Pipeline Company for $100 million, which is expected to produce approximately $18 million per year in distributable cash flow for this segment. KMP will invest an additional $11 million to upgrade the West Texas crude pipeline system and associated storage facilities, which will help the CO2 segment manage deliveries from the SACROC and Yates fields. Renamed the Wink Pipeline, the system is the sole source of crude oil for the Western refinery in El Paso, Texas, and KMP has entered into a long-term transportation contract with Western Refining Company.

TERMINALS

The Terminals segment reported an 11% increase in earnings before DD&A to $67.2 million, up from $60.5 million in the third quarter last year, and on target to meet its published annual budget of 7% growth. Third quarter results were driven by record throughput at the Pasadena/Galena Park liquids terminals complex on the Houston Ship Channel, up 15% from the third quarter in 2003, and strong coal and petcoke volumes at various terminals. Coal and petcoke volumes increased 22% quarter-over-quarter.

On October 7, KMP announced the purchase of 21 river terminals and two transload facilities along the Mississippi River system, which serve as loading, storage and unloading points for various bulk commodity imports and exports. The transaction is expected to produce approximately $12 million a year in distributable cash flow for this segment. KMP will invest over $80 million on this acquisition, including the purchase price, assumed debt and liabilities and planned upgrades.

EARNINGS GROWTH

We look for Kinder Morgan Energy Partners to post earnings increases in 2004 and 2005. Operating revenues should advance by about 7%-8% in 2004 and by 8%-9% in 2005, in both cases reflecting an expanding, energy intensive U.S. economy as well as partnership acquisitions that as a rule turn out to be accretive almost immediately. On the expense side, however, and while it does not affect cash distributions to the KMP unitholders, we are forecasting an increase in depreciation in the partnership's CO2 segment. As an offset, however, strong cost controls at Kinder Morgan are always in place. And as far as organic growth is concerned, we think operating income from the carbon dioxide business is set to expand further given today's growing demand for CO2 in crude oil production. Moreover, we look for growing volumes and continued high natural gas prices to fuel earnings in the Natural Gas Pipeline segment. Putting it all together, we estimate that earnings at Kinder Morgan will advance 7%-8%, to $2.15 per unit, in 2004, and 9%-10%, to $2.35 per unit, in 2005.

FINANCIAL STRENGTH

We think Kinder Morgan's financial and operational results will continue to show strength. Its programs are very much on track, especially in its Gas Pipeline and CO2 segments, and the partnership is constantly on the move in terms of its making accretive acquisitions.The Argus financial strength rating for Kinder Morgan is Medium, the midpoint on our five-point scale. The company's capital structure is sound and its bond ratings by the rating agencies are investment grade: (1) Moody's; outlook negative, Baa1 and (2) S&P; outlook stable, BBB+. Finally, internally generated funds are expected to cover over 85% of capital expenditures and distributions going forward.

UNIT DISTRIBUTIONS

Kinder Morgan Energy Partners recently announced an increase in the third quarter cash distribution per common unit to $0.73 ($2.92 annualized). Payable on November 12, 2004, to unitholders of record as of October 29, 2004, the distribution represents an 11% increase over the third quarter 2003 cash distribution per unit of $0.66 ($2.64 annualized). Even though Kinder Morgan's forward strategy calls for it to finance capital spending for both acquisitions and internal growth through a combination of debt and equity, we believe that not only is the new annual payout of $2.92 per unit solid, we look for regular annual increases in the cash distribution per unit on the order of 6%-to-8% out to 2007-2008.

MANAGEMENT

We think the Kinder Morgan management has performed exceedingly well over the last several years in terms of it strong track record of accretive acquisitions and the management of organic growth as well. All of this work is now making its appearance in the form of growing earnings and cash flow. As well, we are impressed with the fact that management will enter into the outside purchase of energy assets only after thorough due diligence. In all, we are confident that management can generate at least 9% annual earnings growth over the next four to five years. Thus, we

Analyst's Notes...continued

think the partnerships's platform for growth is solid, and are confident in management's ability to provide unitholders with increased value over the long term.

RISK FACTORS

In addition to the normal financial and market risks involving any investment in the energy industry, some of the partnership's operations involve high risks of severe personal injury, property damage and environmental damage, any of which could curtail operations and otherwise expose the partnership to liability and adversely affect its cash flow. For example, Kinder Morgan's natural gas facilities operate at high pressures, sometimes in excess of 1,100 pounds per square inch. It also operates midstream oil and natural gas facilities with a host of complexities. Finally, other risks specific to Kinder Morgan are a slowdown in the U.S. economy, a negative ruling from FERC involving a pending rate case with the partnership's products pipeline, and an across-the-board rise in interest rates.

INDUSTRY

We expect that the majority of publicly traded energy partnerships will generate robust earnings and cash flow in 2004 and on through 2005 given the strong fundamentals now endemic not only to the natural gas and product pipeline industries but to the oil and gas industry in general. In this connection, our analysis shows that most partnerships will produce significant free cash flow that should result in significant debt reduction and in a number of cases, accretive acquisitions.

EVALUATION

At a recent price of $44 per unit, and taking into account our earnings estimate of $2.35 per unit for 2005, the KMP units are trading at a P/E multiple of 18.7-times, a small discount to the multiple currently accorded KMP's peer group of energy-related master limited partnerships. We believe that given Kinder Morgan's earnings growth prospects, strong cost controls, strategically-placed products and pipeline assets, balanced FERC regulation and its well-managed integrated operating structure (as well as other strong fundamentals), the KMP units should in fact trade at a small premium to the units of the partnership's peers. Based on these valuation parameters, our 12-month target price for KMP is $52 per unit. If realized, and adding in a payout distribution yield of 6.63% (on an annual cash distribution of $2.92 per unit), over the next 12 months the KMP units would provide investors with better than a 20% total return from their recent price of $44 per unit.

On Friday at midday, the BUY-rated KMP units traded at $44.40, up $0.39.

Argus Rating: BUY

- We are initiating coverage of Kinder Morgan Energy Partners L.P. with a BUY rating and a 12-month target of $52 per unit.
- Kinder Morgan Energy Partners is the largest publicly traded pipeline limited partnership in the United States.
- We expect Kinder Morgan Energy Partners to post annual earnings growth of around 9% over the next four-to-five years. Our financial strength rating for the partnership is Medium.
- By way of review, KMP reported record net income of $195.2 million, or $0.51 per limited partner unit, up 16% from $169 million, or $0.48 per unit, for the comparable period last year.
- We estimate that earnings at Kinder Morgan will advance 7%-8%, to $2.15 per unit, in 2004, and 9%-10%, to $2.35 per unit, in 2005.

Analysis by Gary F. Hovis, 9/20/04

INITIATION OF COVERAGE

We are initiating coverage of Kinder Morgan Energy Partners L.P. (NYSE: KMP) with a BUY rating and a 12-month target of $52 per unit. Kinder Morgan Energy Partners is the largest publicly traded pipeline limited partnership in the United States in terms of market capitalization and the largest independent refined petroleum products pipeline system in the U.S. in terms of volumes delivered.

INVESTMENT THESIS

We expect Kinder Morgan Energy Partners to post annual earnings growth of around 9% over the next four-to-five years. Our growth forecast is supported by the partnership's relatively high and expanding operating margin, a long-term debt load that remains in line with partnership capital, dominate and growing U.S. market share, successfully integrated and accretive acquisitions, and what we see as an impressive U.S. distribution system for both refined petroleum products and natural gas. Growth in both volume and earnings has been strong in recent years, reflecting a strong management team and operating assets that are strategically located near energy supply sources with direct connections to areas of growing demand. Overall, we think Kinder Morgan Energy Partners is well positioned to deliver solid long-term growth for KMP unitholders.

PARTNERSHIP DESCRIPTION

Kinder Morgan Energy Partners, L. P. is the largest publicly traded pipeline limited partnership in the United States in terms of market capitalization as well as the largest independent refined petroleum products pipeline system in the U.S. in terms of volumes delivered. KMP owns or operates more than 25,000 miles of pipelines and almost 100 terminals. Its pipelines transport more than two million barrels per day of gasoline and other petroleum products and up to 7.8 billion cubic feet per day of natural gas. Its terminals handle over 60 million tons of coal and other dry-bulk materials annually and have a liquids storage capacity of approximately 60 million barrels for petroleum products and chemicals. Kinder Morgan is also the leading provider of CO2 for enhanced oil recovery projects in the United States.

The general partner of KMP is owned by Kinder Morgan, Inc. (NYSE: KMI), one of the largest energy transportation and storage companies in America. Combined, the two companies have an enterprise value of approximately $23 billion. (Enterprise value is

Analyst's Notes...continued

market value of the equity securities plus net debt, excluding interest rate swaps.)

SECOND QUARTER 2004

KMP reported record net income of $195.2 million, or $0.51 per limited partner unit, up 16% from $169 million, or $0.48 per unit, for the comparable period last year. For the first six months of the year, net income was $387 million compared to $339.4 million for the same period in 2003.

The record net income was attributable to strong internal growth and modest contributions from acquisitions that have closed since the end of the second quarter of 2003. All four of KMP's business segments reported increased earnings before DD&A quarter-over-quarter, and total segment earnings before DD&A are up approximately 18% year to date. Through the first six months of the year, KMP generated distributable cash flow in excess of distributions of approximately $22 million, compared to KMP's 2004 published annual budget target of $28 million.

The following comments address the operating performance of the partnership's major business segments during second-quarter 2004:

PRODUCTS PIPELINES

The Products Pipelines segment delivered an 8% increase in second-quarter earnings before DD&A to $119.3 million, compared to $110.5 million for the comparable period in 2003 and on target to meet its published annual budget of 9% growth. Growth in the segment was driven by the strong performance at KMP's West Coast Terminals and the recently acquired Southeast Terminals. Earnings were also aided by significant second quarter volume growth on the Cochin and Cypress natural gas liquids pipelines and an 11% increase in transmix volumes. KMP's transmix operations set a record in June for monthly volumes processed with over 32,000 barrels per day.

Total refined products volumes grew 1.7% in the second quarter and are up 3.7% year to date, with gasoline volumes up 3% year to date. Volume growth in the quarter was led by Central Florida, up 7.6%, and CalNev, up 3.6%. Mainline Pacific volumes in the second quarter were up 1.8%. Pacific volumes were impacted in the quarter by a general drawdown on terminal gasoline and jet fuel inventories in June, primarily in Arizona. Jet fuel volumes system wide were up over 8% in the quarter, as both military and commercial jet demand continues to rebound from 2003.

In the second quarter, KMP began construction to replace approximately 70 miles of an existing 14-inch products pipeline with new 20-inch pipe between Concord and Sacramento, Calif. The $88 million expansion project, expected to be in service in December this year, will provide increased capacity to serve growing markets in northern California and northern Nevada.

NATURAL GAS PIPELINES

The Natural Gas Pipelines segment produced second-quarter earnings before DD&A of $95.4 million, up 7% from $88.9 million in the same quarter last year and on track to exceed its published annual budget of 3% growth. The Texas Intrastate Pipeline Group has been the superstar at Kinder Morgan this year, with earnings substantially higher than the 2004 budget and the second quarter of 2003. Kinder Morgan is realizing the benefits of combining the former Tejas and KMTP pipelines into one strategic system in the competitive Texas intrastate market. An increase in segment sales volumes of nearly 7% was offset by a decrease in transport volumes of about 11%. The segment was impacted by a decline in earnings at the Red Cedar gathering system in southwest Colorado and lower rates on Trailblazer that became effective Jan. 1, 2004. Service commenced June 1 on Cheyenne Market Center, a $28.4 million project that provides natural gas suppliers in the Rocky Mountain region with 6 billion cubic feet of additional storage capacity.

CO2

The CO2 segment delivered second-quarter earnings before DD&A of $76 million, up 61% from approximately $47.2 million in the comparable period of 2003 and on target to achieve its published annual budget of 58% growth. Growth was attributable to increased oil production at SACROC, strong CO2 delivery volumes and an increase in KMP's interest in the Yates Field to 50%. Oil production at the SACROC Unit in the Permian Basin in Texas increased by 40% for the quarter to an average of 27.4 thousand barrels per day (MBbl/d) and CO2 delivery volumes increased by 32% due to strong demand. Average oil production at the Yates Field located south of Midland, Texas, declined by about 5% compared to the second quarter last year to an average of 18.6 MBbl/d, as KMP is still in the implementation stages of its production strategy since taking over operations last November.

The CO2 segment is one of the only areas where KMP is exposed to commodity price risk, but that risk is mitigated by a long-term hedging strategy intended to generate more stable realized prices. The realized weighted average oil price per barrel, including hedges, was $25.26 for the second quarter compared to $24.21 for the same period last year.

TERMINALS

The Terminals segment reported a 9% increase in earnings before DD&A to $65.7 million, up from $60.1 million in the second quarter last year and on target to meet its published annual budget of 7% growth. Results were driven by increased gasoline volumes at terminals located in New York Harbor and on the Houston ship channel; increased coal throughput at the Pier IX and IMT terminals in Virginia and Louisiana, respectively; new spot business at the Argo Terminal in Chicago; and contributions from the Tampaplex acquisition in Florida. The Carteret Terminal in New York Harbor added 300,000 barrels of capacity this month, with the completion of a $9.5 million project to construct three new 100,000 barrel tanks.

EARNINGS GROWTH

We look for Kinder Morgan Energy Partners to post earnings increases in 2004 and 2005. Operating revenues should advance by about 7%-8% in 2004 and by 8%-9% in 2005, in both cases reflecting an expanding, energy intensive U.S. economy as well as partnership acquisitions that as a rule turn out to be accretive almost immediately. On the expense side, however, and while it does not affect cash distributions to the KMP unitholders, we are forecasting an increase in depreciation in the partnership's CO2 segment. As an offset, however, strong cost controls at Kinder Morgan are always in place. And as far as organic growth is concerned, we think operating income from the carbon dioxide business is set to expand further given today's growing demand for CO2 in crude oil production. Moreover, we look for growing volumes and continued high natural gas prices to fuel earnings in

Analyst's Notes...continued

the Natural Gas Pipeline segment. Putting it all together, we estimate that earnings at Kinder Morgan will advance 7%-8%, to $2.15 per unit, in 2004, and 9%-10%, to $2.35 per unit, in 2005.

FINANCIAL STRENGTH

We think Kinder Morgan's financial and operational results will continue to show strength. Its programs are very much on track, especially in its Gas Pipeline and CO2 segments, and the partnership is constantly on the move in terms of making accretive acquisitions. The Argus financial strength rating for Kinder Morgan is Medium, the mid-point rating on our five-point scale. The company's capital structure is sound and its bond ratings by the rating agencies are investment grade: (1) Moody's; outlook negative, Baa1 and (2) S&P; outlook stable, BBB+. Finally, internally generated funds are expected to cover over 85% of capital expenditures and distributions going forward.

To note, the partnership recently entered into a new five-year senior unsecured revolving credit facility with a capacity of $1.25 billion, which is an increase from $1.05 billion in total commitments from the previous facility. KMP's credit covenants are substantially unchanged as compared to the previous facility, with the only meaningful modification being the removal of any net worth restriction. The facility will primarily serve to backup KMP's commercial paper program, which had $487.5 million outstanding as of June 30, 2004.

UNIT DISTRIBUTIONS

Kinder Morgan earlier announced an increase in the second quarter cash distribution per common unit to $0.71 ($2.84 annualized), the 20th distribution increase since KMP was formed in February 1997. The distribution was payable on August 13, 2004, to unitholders of record as of July 30, 2004. The payout represents a 9% increase over the second quarter 2003 cash distribution per unit of $0.65 ($2.60 annualized). Even though Kinder Morgan's forward strategy calls for it to finance capital spending for both acquisitions and internal growth through a combination of debt and equity, we believe that not only is the current annual payout of $2.84 per unit solid, we look for regular annual increases in the cash distribution per unit on the order of 8%-to-10% out to 2007-2008.

MANAGEMENT

We think the Kinder Morgan management has performed exceedingly well over the last several years in terms of it strong track record of accretive acquisitions and the management of organic growth as well. All of this work is now making its appearance in the form of growing earnings and cash flow. As well, we are impressed with the fact that management will enter into the outside purchase of energy assets only after thorough due diligence. In all, we are confident that management can generate at least 9% annual earnings growth over the next four to five years. Thus, we think the partnership's platform for growth is solid, and are confident in management's ability to provide unitholders with increased value over the long term.

RISK FACTORS

In addition to the normal financial and market risks involving any investment in the energy industry, some of the partnership's operations involve high risks of severe personal injury, property damage and environmental damage, any of which could curtail operations and otherwise expose the partnership to liability and adversely affect its cash flow. For example, Kinder Morgan's natural gas facilities operate at high pressures, sometimes in excess of 1,100 pounds per square inch. It also operates midstream oil and natural gas facilities with a host of complexities. Finally, other risks specific to Kinder Morgan are a slowdown in the U.S. economy, a negative ruling from FERC involving a pending rate case with the partnership's products pipeline, and an across-the-board rise in interest rates.

INDUSTRY

We expect that the majority of publicly traded energy partnerships will generate robust earnings and cash flow in 2004 and on through 2005 given the strong fundamentals now endemic not only to the natural gas and product pipeline industries but to the oil and gas industry in general. In this connection, our analysis shows that most partnerships will produce significant free cash flow that should result in significant debt reduction and in a number of cases, accretive acquisitions.

EVALUATION

At a recent price of $45 per unit, and taking into account our earnings estimate of $2.35 per unit for 2005, the KMP units are trading at a P/E multiple of 19.1-times, a small discount to the multiple currently accorded KMP's peer group of energy-related master limited partnerships. We believe that given Kinder Morgan's earnings growth prospects, strong cost controls, strategically-placed products and pipeline assets, balanced FERC regulation and its well-managed integrated operating structure (as well as other strong fundamentals), the KMP units should in fact trade at a small premium to the units of the partnership's peers. Based on these valuation parameters, our 12-month target price for KMP is $52 per unit. If realized, and adding in a payout distribution yield of 6.3% (on an annual cash distribution of $2.84 per unit), over the next 12 months the KMP units would provide investors with better than a 20% total return from their recent price of $45 per unit.

On Monday, the BUY-rated KMP units closed at $45.55, up 0.21.

METHODOLOGY & DISCLAIMER

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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