

## LETTER TO UNITHOLDERS FOR 2011

Kinder Morgan Energy Partners just celebrated its 15-year anniversary (Feb. 14, 2012) and I'm struck by the thought that as much as things have changed over the years, many things have stayed the same.

### What's changed?

We've grown from a small company with 175 employees, a few assets and an enterprise value of \$325 million into one of the largest energy transportation and storage companies in North America. We now have more than 8,000 employees, 29,000 miles of pipelines, 180 terminals and an enterprise value of over \$40 billion. We've also become an industry leader in all of our businesses.

KMP is the:

- Largest independent transporter of petroleum products in the United States.
  - Transport approximately 1.9 million barrels per day.
- Second largest transporter of natural gas in the United States.
  - Largest provider of contracted natural gas treating services in the United States.
- Largest transporter of CO<sub>2</sub> in the United States.
  - Transport approximately 1.3 billion cubic feet of CO<sub>2</sub> per day.
- Second largest oil producer in Texas.
  - Produce over 50,000 barrels of crude oil per day.
- Largest independent terminal operator in the United States.
  - Liquids capacity of approximately 111 million barrels. Also handle approximately 108 million tons of dry bulk products.
- Only oilsands pipeline serving the West Coast.
  - Transporting approximately 300,000 barrels of crude oil per day from Alberta to Vancouver, B.C., and Washington state.

### What's stayed the same?

Our strategy. We operate mostly fee-based assets that are core to North American energy infrastructure. These assets generate large stable cash flows, and we distribute that cash out to our partners. We continually leverage our large footprint of assets and actively pursue expansions, joint ventures and acquisitions so that we can further increase the distribution.

While past results are no guarantee of future performance, this management team has been very successful in delivering value to our unitholders. KMP's average annual return to unitholders is 26 percent since 1996 (assumes that distributions are reinvested). Our mantra is that Kinder Morgan is a company run by owners for owners. We understand that we are operating the company with investors' money, not management's, and we treat it that way.

### 26% AVERAGE ANNUAL RETURN TO UNITHOLDERS



Source: Bloomberg. Total returns calculated on a daily basis through Dec. 31, 2011, assuming dividends/distributions reinvested in index/stock/unit.

For 2011:

- We exceeded our distribution target of \$4.60 per unit (distributed \$4.61 per unit), which represents almost a 5 percent increase from the 2010 distribution per unit. KMP has increased the quarterly distribution 42 times since current management took over in February of 1997.
- KMP produced distributable cash flow before certain items of \$1.53 billion, a 12 percent increase over 2010. All five of our business segments performed well and produced higher segment earnings before DD&A and certain items than during the previous year.
- We invested over \$2.6 billion in expansions, joint ventures and acquisitions to further grow the company. KMP has now made over \$25 billion in capital investments since 1997.
- We again outperformed the industry averages in almost all safety and release categories. We continue to devote substantial resources to operate our assets safely and efficiently, and to protect the public, our employees, contractors and the environment.

## DECLARED DISTRIBUTIONS TO UNITHOLDERS (\$ per unit)



### Looking Ahead

With our large footprint of assets across North America, we believe KMP is well positioned for continued growth. We see exceptional opportunities to grow across all of our businesses, including the continuing emergence of the natural gas shale plays, increasing CO<sub>2</sub> demand for enhanced oil recovery operations, growing demand for export coal, and demand for additional pipeline and terminal capacity to handle oil and condensate produced in the shale plays like the Eagle Ford and Bakken.

For 2012:

- We expect to declare cash distributions of \$4.98 per unit, which would be an 8 percent increase over the \$4.61 distributed for 2011.
- We project that KMP will generate distributable cash flow available for our limited partners of approximately \$1.78 billion, which would be an increase of 16 percent over 2011.
- We expect to invest approximately \$1.8 billion in expansions, joint venture contributions and small acquisitions to further grow the company.
- We intend to maintain our strong balance sheet, which gives us continued access to capital markets and enables us to further grow the company.

We continue to be bullish on the future of natural gas. In recent years we have made substantial investments in the natural gas industry, ranging from

constructing new interstate pipelines, to purchasing assets and developing joint ventures in the shale plays, to acquiring treating and other ancillary businesses. Natural gas is abundant, domestic, affordable and clean, and the shale plays are revolutionizing gas (and oil) production in the United States. In my humble opinion, if America truly wants to lessen its dependence on foreign oil and reduce carbon emissions, then natural gas should undoubtedly be the fuel of choice.

While I'm discussing the benefits of natural gas, I would be remiss if I didn't mention the pending El Paso Corporation acquisition by Kinder Morgan, Inc. (NYSE: KMI), which owns the general partner of KMP. This strategic transaction (which is expected to close in the second quarter of 2012), when combined with Kinder Morgan's existing natural gas assets, will create the finest network of natural gas pipelines ever assembled in North America. Over time, we expect many of the pipelines that KMI is acquiring from El Paso to be sold to KMP. This will provide KMP with additional regulated interstate pipelines that produce substantial, stable cash flow, and will give us access to additional natural gas supply basins and markets for years to come. By the way, the 2012 expectations presented above are all before any impact from the acquisition of natural gas pipelines from KMI following the close of the El Paso transaction, even though we expect that some of those deals may occur in 2012.

As I remind you every year, KMP, like all companies, faces various challenges. These potential obstacles include more stringent regulatory oversight, rate cases and reviews, and higher interest rates. We pledge to do our best to manage these challenges when they arise and to continue delivering value to our unitholders.

Thanks for your ongoing support. We still believe the best is yet to come!

Sincerely,

Richard D. Kinder  
Chairman and CEO  
Kinder Morgan Energy Partners

**Kinder Morgan Energy Partners (NYSE: KMP)** is a premier publicly traded pipeline limited partnership in North America with approximately 29,000 miles of pipelines, 180 terminals and an enterprise value of over \$40 billion. KMP returned 29 percent to its limited partners in 2011 and has delivered a compound annual return of 26 percent since 1996.

Our large, diversified portfolio of assets operates like a giant toll road. We primarily receive fees for transporting, storing and handling various energy products such as natural gas, refined petroleum products, crude oil, ethanol, biodiesel, coal, steel, petroleum coke and CO<sub>2</sub>. Our customers include producers, shippers, oil companies, utilities and more. We have limited exposure to commodity prices.



## BUSINESS SEGMENTS

**Products Pipelines** produced 2011 segment earnings before DD&A and certain items of \$694 million, up 1 percent from 2010. Growth was attributable to increased volumes and revenues on the Cochin and Plantation pipelines, and strong results from our West Coast terminals. Segment earnings would have been \$31 million higher than in 2010 except for the impact of lower revenues related to FERC rate case rulings and increased rental expense associated with an unfavorable trial court decision concerning annual rights-of-way lease payments for certain West Coast operations.

Total refined products volumes were relatively flat for 2011 versus the previous year. Jet volumes were up 4.1 percent compared to 2010, with solid growth of commercial volumes on Plantation and CALNEV, and improved military jet volumes on the Pacific system. Ethanol barrels handled were up 2 percent over the previous year and biodiesel barrels handled increased substantially versus 2010.

For 2012, the Products Pipelines' budget projects \$734 million in segment earnings before DD&A, which

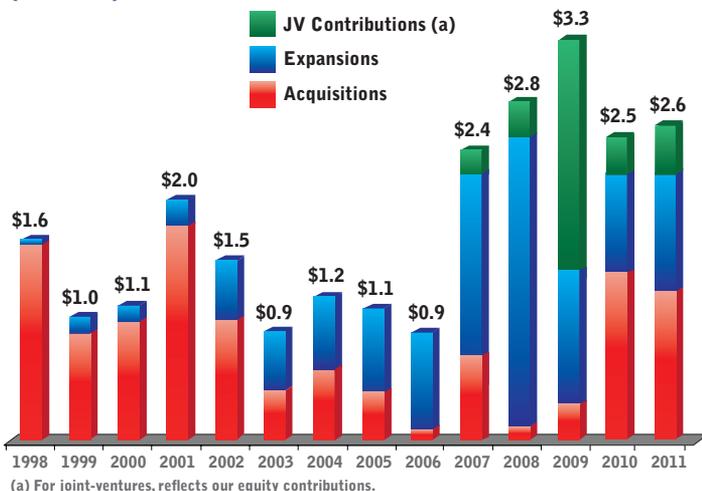
would be a 6 percent increase over 2011. This growth is expected to be driven by modest volume increases coupled with a positive FERC index rate adjustment and incremental revenues from expansion projects coming online. Projects expected to be completed this year include the \$220 million Kinder Morgan Crude Condensate Pipeline, which will transport product from the Eagle Ford Shale in south Texas to the Houston Ship Channel and is expected to be in service in the second quarter; construction of the third and final tank of a 450,000-barrel expansion to store military jet fuel at the Travis Air Force Base in California, which is expected to come online in March; the Tampa Ethanol Unit Train project that will bring ethanol into Tampa and is expected to be in service in October; and three additional 80,000-barrel tanks for refined petroleum storage that will complete the final phase of a nearly 1.5 million-barrel expansion at our Carson terminal in California. We also continue to make asset investments across the country to accommodate more ethanol and biodiesel, and we are evaluating opportunities to utilize our Cochin pipeline system to move crude oil and other NGL volumes. In total, we anticipate investing over \$300 million in 2012 alone to further grow our business.

Looking ahead, our joint-venture Parkway Pipeline project, which will transport refined products from Louisiana to Mississippi, is scheduled to be completed in 2013. We are also building a condensate processing facility on the Houston Ship Channel that is expected to be in service in 2014 and will complement our crude condensate pipeline.

The **Natural Gas Pipelines** business produced 2011 segment earnings before DD&A and certain items of \$951 million, up 14 percent versus 2010. Growth was driven by contributions from the KinderHawk and EagleHawk acquisitions in the Haynesville and Eagle Ford shales in Louisiana and Texas, along with good results from the Fayetteville Express Pipeline (FEP), which began full service in January of 2011. The commencement of commercial operations at our Eagle Ford Gathering joint venture also contributed to

## APPROXIMATELY \$22 BILLION IN CAPITAL INVESTED

(in billions)





growth. Other highlights included increased cash flow from the Midcontinent Express Pipeline expansion, and improved gathering results due to favorable processing spreads at our Casper-Douglas facilities in Wyoming and increased volumes on the Red Cedar system in Colorado.

Overall segment transport volumes were up 13 percent versus 2010 due to FEP coming online and solid transport volumes on the Texas intrastate pipeline system, which benefited from Eagle Ford Gathering volumes being transported on the intrastate pipelines.

For 2012, the Natural Gas Pipelines budget projects over \$1.1 billion in segment earnings before DD&A, which would be a 19 percent increase over 2011. This growth is expected to be driven by a full year of contributions from the KinderHawk, EagleHawk and SouthTex Treaters acquisitions, further development of the Eagle Ford Shale, a full year of higher throughput on FEP and an increase in fee-based services at our West Clear Lake Storage facility. In 2012, we anticipate investing approximately \$250 million in this segment to fuel future growth.

Long term, we believe that natural gas is the logical fuel of choice and that shale activities will provide excellent growth opportunities. Demand growth and shifting supply from multiple basins is expected to lead to pipeline expansion and extension opportunities, along with increased demand for related services like gathering, treating and processing. We also believe there are good opportunities for our Texas intrastate pipelines to provide connectivity to end-user plants, as various petrochemical, refinery, fractionation and power generation expansions are being planned along the Gulf Coast and are expected to be fueled by natural gas. Additional opportunities that we are exploring include converting the Pony Express Pipeline from natural gas to oil service, backhauling natural gas from the Marcellus and Utica shales on the Rockies Express Pipeline, and transporting natural gas on the Kinder Morgan Louisiana Pipeline for LNG exports.

The CO<sub>2</sub> business produced 2011 segment earnings before DD&A and certain items of \$1.09 billion, up 14 percent from 2010. Growth was attributable to higher oil and NGL prices, and effectively managing and reducing costs, which offset an overall decline in production at the SACROC and Yates oil fields in the Permian Basin. While production was slightly down at these two fields versus 2010, combined, they still produced over 50,000 barrels of oil per day. At our Katz Field, the initial production response to our enhanced oil recovery operations was slower than anticipated, but began ramping up in the fourth quarter. Highlights in 2011 included setting an all-time CO<sub>2</sub> production record at our source fields in southwestern Colorado and record NGL production at the Snyder Gasoline Plant in Texas (since we acquired an interest in 2000).

For 2012, the CO<sub>2</sub> budget projects almost \$1.4 billion in segment earnings before DD&A, which would be a 26 percent increase over 2011. This growth is expected to be driven by higher overall oil and NGL prices, and CO<sub>2</sub> sales and transport price increases. High oil prices have increased long-term demand for CO<sub>2</sub> which is used in enhanced oil recovery projects. To help meet that demand, we anticipate entering into new sales and transport contracts which will support further expansion of our CO<sub>2</sub> production units and our associated pipeline network. In 2012 alone, we plan to invest more than \$435 million in this segment. Projects will include expanding CO<sub>2</sub> production at our Doe Canyon Unit and activating additional patterns at the SACROC and Katz oil fields, along with horizontal wells at the Yates Field. We expect production at our Katz field to average over 2,250 barrels per day in 2012 versus about 500 barrels per day last year. At Doe Canyon, our expansion project will increase CO<sub>2</sub> capacity from 105 to 170 million cubic feet per day by the second quarter of 2014. We also plan to begin development work on the St. Johns CO<sub>2</sub> source field in Arizona and New Mexico that we recently acquired.

The CO<sub>2</sub> segment is an area where KMP is exposed to commodity price risk, but we mitigate that risk



through a long-term hedging strategy that is intended to generate more stable realized prices.

The **Terminals** business produced 2011 segment earnings before DD&A and certain items of \$701 million, up 8 percent from 2010. Approximately 70 percent of the growth was attributable to organic sources, with acquisitions accounting for the rest. Growth was driven by strong coal volumes across our terminal network, as throughput increased by 20 percent to 39 million tons versus 2010, led by record throughput at our Pier IX terminal in Newport News, Va. Higher rates and tank expansions at our Carteret liquids terminal in New York Harbor and at our Pasadena facility in Houston also added to this segment's organic growth. Acquisitions contributing to earnings in 2011 included the Watco rail transaction, the purchase of the Port Arthur, Texas, terminal that handles petcoke for the Total refinery, and the purchase of 50 percent of a crude oil terminal in Cushing, Okla.

Combined, the terminals and products pipelines business segments handled about 91.4 million barrels of ethanol versus 87.8 million barrels in 2010. KMP continues to handle approximately 30 percent of the ethanol used in the United States.

For 2012, the Terminals budget projects \$757 million in segment earnings before DD&A, which would be an 8 percent increase over 2011. Growth is expected to come from rate increases on existing contracts, higher coal throughput, a full year of contributions from acquisitions that were made last year, and contributions from various liquids and bulk terminal expansions. In 2012, we plan to invest over \$650 million, including small acquisitions, to further grow this business segment. Liquids expansions include development of a large tank farm (BOSTCO) in the Port of Houston and construction of new crude oil merchant storage tanks in Edmonton, Alberta, both of which are expected to be in service in 2013. The BOSTCO project will store 6.6 million barrels of residual fuel, feedstocks, distillates and other black oils. It is also expected to be used in part to help facilitate exporting diesel. The



Edmonton project will store primarily crude oil and provide 2.4 million barrels of capacity. On the bulk side, expansion projects include increasing export coal capacity along the Gulf Coast at our IMT terminal in Louisiana and the Deer Park facility in Houston, and expanding our petroleum coke handling capabilities in Whiting, Ind. These projects should also come online in 2013.

**Kinder Morgan Canada** produced fourth quarter segment earnings before DD&A and certain items of \$199 million, up 9 percent from 2010. Growth was led by a new toll agreement on our Trans Mountain pipeline system, favorable results on the Express-Platte pipeline system and the strength of the Canadian dollar.

For 2012, this segment is expected to produce segment earnings before DD&A of approximately \$201 million, up slightly from 2011. Longer term, we expect growth at Kinder Morgan Canada to be driven by expanded oilsands export capacity to the West Coast and Asia. Trans Mountain completed an encouraging open season and a decision on how we will proceed with the proposed \$3.8 billion expansion project will be made in the first quarter of this year. The open season received strong binding commercial support from a diverse group of customers. Trans Mountain is the only oilsands pipeline servicing the West Coast and currently transports approximately 300,000 barrels of crude oil per day from Alberta to British Columbia and Washington state. We also plan to expand our dock capabilities in Vancouver, B.C.

*In our ongoing efforts to be prudent in how we spend our unitholders' money, and to reduce our impact on the environment, we have chosen once again to publish our annual report and Form 10-K online. These reports are available in the Investor section of our web site, [www.kindermorgan.com](http://www.kindermorgan.com), where you may also sign up to automatically receive Kinder Morgan financial information by e-mail. Please direct any inquiries to Investor Relations at (800) 324-2900 or (713) 369-9490.*

