DEAR FELLOW UNITHOLDERS:

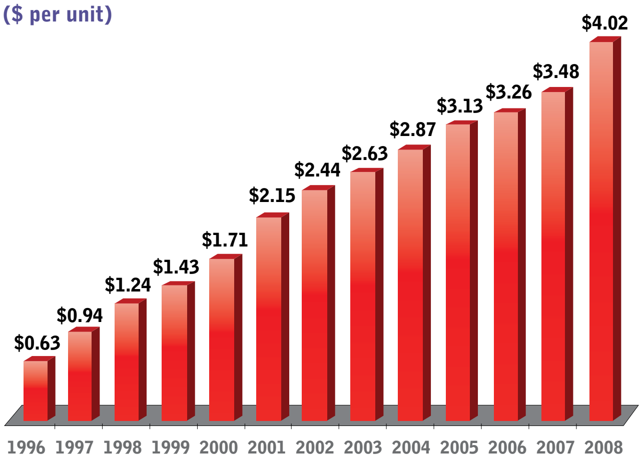
For many the best thing that can be said about 2008 is that it's over. At Kinder Morgan Energy Partners, L.P. (NYSE: KMP), we actually had a pretty good year considering the recessionary environment, but not all was rosy. One of the bright spots was that we raised the quarterly distribution to $1.05 per unit ($4.20 annualized), the 35th increase since this management team took over in 1997. Conversely, KMP's total return to unitholders fell considerably short of the compound annual return of 25 percent that we have delivered over the past 12 years. While we significantly outperformed the Alerian master limited partnership and the S&P 500 indexes, our total return, including distributions, was a negative 9 percent for the year. In a nutshell, KMP's year was analogous to a .250 hitter winning the Major League Baseball batting title.

Regardless, considering the tumultuous market conditions and other challenges that we faced, I'm quite proud of our accomplishments in 2008. We were impacted by volatile commodity prices which resulted in lower demand for gasoline, jet fuel and diesel in our Products Pipelines business, higher operating costs for our Terminals organization and lower oil production revenues in our CO_2 business in the fourth quarter. We also lost business due to two hurricanes. Despite these obstacles, our toll-road-like network of diversified and primarily fee-based assets generated a tremendous amount of stable cash flow. When all was said and done, we met our annual target of $4.02 in cash distributions per unit at KMP, up 16 percent from $3.48 per unit in 2007. Not too bad, everything considered.

2008 HIGHLIGHTS

- We increased our quarterly distribution per common unit to $1.05 ($4.20 annualized), up 14 percent from $0.92 ($3.68 annualized) in the fourth quarter of 2007.
- We produced limited partner distributable cash flow before certain items of $1.07 billion, up 23 percent from $865 million in 2007.
- We invested approximately $2.9 billion to drive future growth by expanding existing assets, building new energy infrastructure and making approximately $165 million in acquisitions.

DECLARED DISTRIBUTIONS TO UNITHOLDERS
($ per unit)



- We generated $4.15 per unit in distributable cash flow before certain items, producing about $33 million in excess cash flow above distributions, which was almost triple our published annual budget.
- We demonstrated that we can access capital even in difficult times, raising over $1 billion by issuing debt, equity and unwinding interest rate swaps at the end of the year and in early January of 2009.

If you would like more information about our 2008 financial performance, I invite you to read our fourth quarter and year-end earnings release and Form 10-K, as I intend to devote the rest of this letter to our 2009 game plan and expectations.

2009 OUTLOOK

We believe that KMP is better positioned than most companies to weather these extremely difficult economic times. Contrary to many businesses that are finding it necessary to lay off employees and are simply trying to survive, our focus remains on how we can continue to grow the company. That's not a bad problem to have. We feel good about our future growth opportunities, which are being driven by shifting natural gas supply sources, increased use of renewable fuels like ethanol and biodiesel, and higher utilization of heavy crude at refineries which creates more petroleum coke and sulfur opportunities for our terminals business.

We have been investing billions of dollars in capital projects at KMP which will drive growth in 2009 and beyond. For example, in 2008 Rockies Express-West began transporting natural gas through approximately 1,000 miles of pipeline from Wyoming to eastern Missouri. REX-East, another 600 miles of pipeline that will run from eastern Missouri to the Ohio-Pennsylvania border, is expected to be fully operational by year-end 2009. Referred to by some as the "King of pipelines," REX will have capacity of 1.8 billion cubic feet per day and is fully subscribed by long-term contracts. Other major natural gas projects expected to be completed and in service in 2009 include the Midcontinent Express Pipeline, which will move gas eastward from the Barnett and other shale plays in Texas and Oklahoma, and the Kinder Morgan Louisiana Pipeline. We also completed numerous expansions in each of our business segments last year, including the Trans Mountain Anchor Loop project in Alberta and British Columbia, which will produce additional cash flow this year.

But make no mistake, 2009 is shaping up to be a tough year, as the United States and countries around the world are experiencing the worst economic conditions that have been seen in years. KMP is not totally immune to these conditions. The three biggest headwinds that we expect to face this year are lower crude oil prices in our CO_2 business, lower transportation volumes in our Products Pipelines segment and decreased steel handling in our bulk terminals business. As I'm writing this letter (in February), we project that these factors could result in a shortfall to our 2009 budget. Well, we're not going to just sit back and wait and see how this year plays out.

To offset these potential budget shortfalls, we have been busting our tails across the company to minimize costs and maximize revenues without compromising operational safety or efficiency. We have developed a number of action items and believe that we have reloaded our quiver with a number of arrows that can help KMP meet its 2009 financial target of $4.20 in distributions per unit. Possible offsets include lower CO_2 operating and capital costs, better performance by other business segments, lower interest rates, lower general and administrative costs, acquisitions and cumulative excess coverage. We also have potential access to funds from Knight Inc. (the owner of the general partner of KMP), which may waive some of its general partner fees should that become necessary.

So what else could go wrong in 2009? Like other energy companies, we face such risks as regulatory matters and rate cases, construction cost overruns and completing projects on time, environmental issues and potential terrorism attacks. We believe that we have a good handle on managing these matters, but they are risks nonetheless.

With more than 26,000 miles of pipelines and 170 terminals, an ongoing concern is operating our assets safely to protect the public and the environment. Every year we spend millions of dollars on integrity management programs and maintenance. While striving for operational excellence is a never-ending proposition, our persistence is paying off in the areas of risk reduction and compliance. We continue to outperform various environmental, health and safety industry averages. Both our EHS performance and KMP's annual budget are published on our web site for your review, as we remain committed to transparency.

CLOSING THOUGHTS

KMP's 2009 published annual budget of $4.20 in distributions per unit represents a 4.5 percent increase over $4.02 per unit in 2008. Again, while it won't be easy, we are optimistic that this target can be met.

We are confident that our diversified portfolio of stable assets will continue to generate substantial cash flow. In 2009, for example, we anticipate producing over $3 billion in total segment earnings before DD&A. We also believe that there will be more demand for additional energy infrastructure in North America, and we have the expertise and experience to continue being a leading player in that arena.

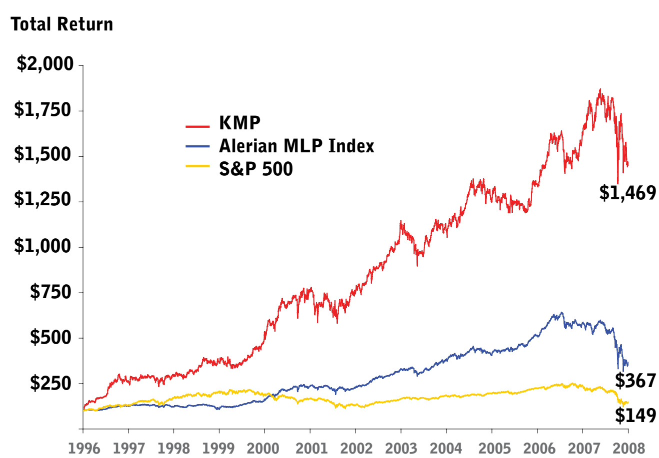
With strong cash flow, a stable balance sheet and a large footprint of strategically located assets, KMP could find itself in the catbird seat relative to acquisitions. The weak economic conditions, combined with the financial trouble some companies are finding themselves in, have already led to numerous acquisition opportunities for us. But as I have always said, we won't grow just to get bigger. We are looking primarily for fee-based assets that will provide a good return on our investment and will be immediately accretive to cash available for distributions to unitholders.

There obviously are no guarantees in life, but I believe that we are as prepared as we can be for 2009. All we can do now is execute our strategy and hold on for what may be a wild ride. We value your support and pledge to do our best to meet our customers' needs, operate our assets safely and efficiently and deliver an attractive return to our limited partners. We still believe the best is yet to come!

Sincerely,

Richard D. Kinder
Chairman and CEO
Kinder Morgan Energy Partners

KMP: 25% ANNUAL RETURN



Source: Bloomberg. Total returns calculated on a daily basis through Dec. 31, 2008, assuming dividends/distributions reinvested in index/stock/unit.

Kinder Morgan Energy Partners (NYSE: KMP) is a premier midstream energy company in North America, operating more than 26,000 miles of pipelines and 170 terminals. We are the largest pipeline company in the United States based on market capitalization. We are also the largest publicly traded pipeline limited partnership in America with an enterprise value of over $20 billion.

What does KMP do? Our business model has remained the same for the past 12 years. We own, operate, expand, build and acquire primarily fee-based midstream energy assets that have minimal exposure to commodity price volatility and generate stable cash flow. These assets transport, store and handle various energy products, such as natural gas, refined petroleum products, crude oil, ethanol, biodiesel, coal, petroleum coke and CO_2 for a variety of customers, including producers, shippers, oil companies, utilities and more.

KMP has a large footprint of strategically located assets. In the United States, we are the largest independent transporter of petroleum products, the second largest transporter of natural gas (including NGPL), the largest marketer and transporter of CO_2 and the largest independent terminal operator.

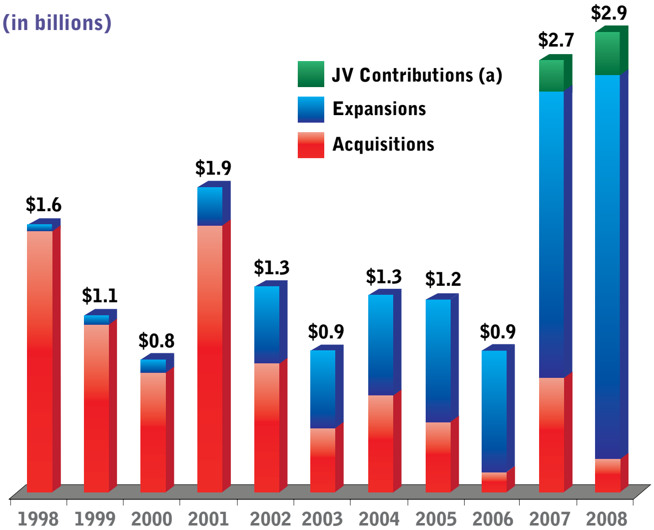
In 2008, our diversified portfolio of assets produced total segment earnings before DD&A and certain items of $2.8 billion, up 24 percent from 2007.

BUSINESS SEGMENTS AND PROJECT UPDATES

The **Products Pipelines** 2009 budget projects $628.7 million in segment earnings before DD&A, a 10 percent increase over $571.5 million in 2008. Growth is expected to be driven by expansion projects which include renewable fuels opportunities, a pipeline transportation tariff increase and a modest increase in transportation volumes. We expect our pipeline transport volumes to face continuing downward pressure due to weak economic conditions that have resulted in decreased demand.

In 2008, Products Pipelines invested approximately $160 million in expansion projects. These projects included modifying a pipeline in Florida to transport commercial batches of denatured ethanol along with gasoline shipments, and constructing new tanks and modifying facilities at various West Coast and Southeast terminals to handle more ethanol and biodiesel. We also built a new terminal with four military fuel storage tanks and ancillary facilities to provide uninterrupted fuel service to several military bases in Southern California. Additionally, we purchased a liquids storage terminal in Phoenix, Ariz., from ConocoPhillips for $29 million, including approved upgrades, that increased our storage tank and rack capacity for gasoline, diesel and ethanol in that market.

ABOUT $17 BILLION IN CAPITAL INVESTED
(in billions)



(a) For joint-ventures, reflects our equity contributions.

Products Pipelines has budgeted approximately $135 million in expansion capital for 2009. Projects include building additional military storage and metering facilities in California, modifying facilities to transport blended biodiesel on the Plantation pipeline system to key markets in the Southeast, and continued expansions at terminal facilities to handle more ethanol and biodiesel.

The **Natural Gas Pipelines** 2009 budget projects $827.4 million in segment earnings before DD&A, an 11 percent increase over $746.8 million in 2008. Most of our business in this segment is contracted for by long-term, fee-for-service contracts, so these assets generate very predictable and stable cash flow.

Growth in our Natural Gas Pipelines business is expected to be driven by new build and expansion projects. With the shift in natural gas supplies to the Rockies and various shale plays in the South, there continues to be a need for more infrastructure to move gas across the country from these new supply basins. We also anticipate that demand for natural gas will increase in the coming years as more gas is used to fuel electric generation. KMP is well positioned to capitalize on these growth opportunities. In fact, we already are.

In 2008, a number of expansions were completed. The largest was Rockies Express-West, which became fully operational in May and transports natural gas from Wyoming to eastern Missouri. Expansions were also completed on the KMIGT system, extending service to four ethanol plants in Nebraska and to a local distribution company in Colorado. The Texas Intrastate Pipelines completed a pipeline expansion to better serve East Texas and brought two storage projects online that added significant capacity to our system. Texas has the highest production and consumption of natural gas of any state in America.

This segment has budgeted approximately $1.8 billion in expansion capital for 2009. Projects include the Rockies Express-East, Midcontinent Express and the Kinder Morgan Louisiana pipelines, all of which are expected to be operational this year. REX is a joint venture with Sempra Energy and ConocoPhillips and is the largest pipeline to be built in the United States in more than 25 years. Midcontinent Express is a joint venture with Energy Transfer Partners. Other projects include the Fayetteville Express Pipeline, another joint venture with Energy Transfer that is expected to be completed in late 2010 or early 2011, and incremental storage projects on the Texas Intrastate pipeline system. We have been successful in identifying value-added expansions to many of these projects, including additional compression that will boost capacity on the western portion of REX.

The **CO_2** 2009 budget projects $800.5 million in segment earnings before DD&A, a 5 percent increase over $760.2 million in 2008. Growth is expected to be driven by increased CO_2 production and delivery volumes, the result of a large expansion project, higher hedge prices in place for 2009 and improved NGL sales.

As we have repeatedly disclosed, KMP's 2009 budget assumes an average West Texas Intermediate (WTI) crude oil price of $68 for the year. While we hedge the majority of oil production in this segment, we do have exposure to unhedged volumes, most of which are natural gas liquids. In 2009, every $1 change in the average WTI crude oil price per barrel is expected to impact the CO_2 segment by approximately $6 million (or about 0.2 percent of our combined business segments' anticipated distributable cash flow).

KMP is the second largest oil producer in Texas and combined production at the SACROC and Yates fields in the Permian Basin is expected to be about 55,000 barrels of oil per day, stable with 2008. With higher hedge prices in place this year, we expect a boost in segment earnings before DD&A from oil production. We also anticipate NGL sales will improve compared to last year when we lost business due to Hurricane Ike, which shut down refineries, fractionators and chemical plants on the Gulf Coast that purchase our NGLs. To help offset the impact of lower oil prices on unhedged volumes, we intend to reduce capital and operating costs, primarily at SACROC. We will be able to do this by shifting our development plans to areas of the field with more oil in place and negotiating cost reductions from vendors in light of the lower oil price environment. We expect to implement these strategies without a significant reduction in oil volumes.

In 2008, we completed a $290 million expansion in southwest Colorado that increased CO_2 supplies to customers by about 300 million cubic feet per day. The project included putting the new Doe Canyon CO_2 source field into service and expanding the McElmo Dome source field and the Cortez Pipeline. As a result of this project, this segment is already setting CO_2 production and delivery records.

After the reductions outlined above, we expect to invest approximately $400 million in expansion capital in 2009 to further grow this business, the majority of which will take place at SACROC.

The **Terminals** 2009 budget projects $615.8 million in segment earnings before DD&A, a 14 percent increase over $538.8 million in 2008. Growth is expected to be driven by both organic opportunities and acquisitions.

Like our natural gas business, most of our liquids terminals storage capacity is under long-term contracts, so we produce very stable cash flow at these facilities. We anticipate a 15 percent increase in liquids storage (ethanol, petroleum and distillates) this year as a result of completed tank expansions. On the bulk side, however, some of our customers are being impacted by the weak economy, resulting in less demand for our services. For example, the steel industry has experienced a slowdown. On a brighter note, we expect coal volumes to increase by 12 percent over 2008 levels to more than 38 million tons. Longer term, we believe that increased production of heavy crude at refineries will further boost our petcoke and sulfur handling operations. KMP is the largest petcoke handler in the United States.

In 2008, we completed over $500 million in major expansions and new build projects that added over 7.5 million barrels of incremental liquids capacity and more than 7 million tons of additional bulk capacity. The largest projects took place at terminals on the Houston Ship Channel, in New York Harbor, near Edmonton, Alberta, and in Newport News, Va. We also added 1.2 million barrels of liquids capacity by acquiring a terminal in Wilmington, N.C., in the third quarter of 2008 that handles petroleum and specialty chemicals. Last year our terminals handled nearly 100 million tons of bulk materials and had liquids throughput of almost 600 million barrels.

We plan to invest approximately $365 million in expansion and acquisition capital in 2009 to further grow our Terminals business.

The **Kinder Morgan Canada** 2009 budget projects $153.6 million in segment earnings before DD&A, a 9 percent increase over $140.9 million in 2008. Growth in this segment will primarily be driven by contributions from having all of these assets at KMP for a full calendar year.

In 2008, the $544 million Anchor Loop project was completed and increased capacity on the Trans Mountain pipeline system to 300,000 barrels per day. The pipeline transports crude oil and refined products from Edmonton, Alberta, to marketing terminals and refineries in British Columbia and Washington. Other assets in this segment include the Express-Platte pipeline system and a jet fuel pipeline, which KMP acquired from Knight Inc. in August of 2008. Express-Platte transports crude oil from Alberta to Wyoming and on to Illinois.

While no expansions are planned for this segment in 2009, we remain confident that there will be growth opportunities related to future oilsands production.

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 not to print and mail 200,000 copies of our annual report this year. Instead, we hope that this online letter, along with the availability of the Form 10-K on our web site (www.kindermorgan.com), will suffice and that the resulting cost savings and benefit to the environment will outweigh any inconvenience. Please direct any inquiries to Investor Relations at (800) 324-2900 or (713) 369-9490.