

MARCH 2011 LETTER TO UNITHOLDERS

Overall, 2010 was a good year at Kinder Morgan Energy Partners. We hit our distribution per unit target of \$4.40 for the year, and we generated cash in excess of that distribution, although we did fall a bit short of our annual budget in terms of distributable cash flow. The \$4.40 per unit represented a 4.8 percent increase over the 2009 distribution of \$4.20 per unit. More importantly to you, KMP's units generated a 23 percent return for 2010.

While we had our share of challenges in 2010, including a sputtering economy that continued to impact various market sectors during the year, our diversified portfolio of assets continued to successfully generate tremendous amounts of stable cash flow. Once again, all five of our business segments produced stronger results than in the prior year. Including joint ventures, total segment earnings before DD&A were \$3.5 billion for 2010, up 14 percent from 2009. This increase was driven by solid asset performance and contributions from various investment initiatives.

Highlights in 2010 included acquiring assets and forming joint ventures to participate in exciting opportunities in the Haynesville and Eagle Ford natural gas shale plays, acquiring 14 terminals that store refined petroleum products, ethanol and bulk materials, and completing the Fayetteville Express natural gas pipeline. In total, we invested approximately \$2.5 billion in 2010 to further grow the company.

We strive for operational excellence, and in 2010 we again outperformed the industry averages in virtually all safety and release categories. We spend hundreds of millions of dollars each year on integrity management programs and maintenance to operate our assets safely, as we are dedicated to protecting the public, our employees, contractors and the environment.

LOOKING AHEAD

In 2011, KMP expects to pay cash distributions of \$4.60 per unit, which would be a 4.5 percent increase over 2010. I've been asked repeatedly in recent years how we are going to continue to grow and increase the distribution; the notion being that the larger we become the tougher it will be to grow. There's no question that growth can be more dramatic in a smaller company, but we've found that size does matter as it allows us to identify more growth opportunities and bring those opportunities to fruition more cost effectively than smaller companies. Our large, unparalleled footprint of assets in North America has led to many expansion and acquisition opportunities, and we believe it will continue to do so.

Throughout our 14 years at Kinder Morgan, we've had a pretty simple formula for success and it's worked exceptionally well for us. We operate diversified assets that generate lots of stable cash flow, we pay that cash out to our limited partners, and we actively pursue internal growth, expansions and acquisitions so that we can continue to increase the distribution. In January of 2011, we increased the distribution for the 39th time since KMP was founded in February of 1997.

We have been executing the same strategy since 1997, and that strategy has enabled us to grow from a small company with an enterprise value of \$325 million to one of the largest midstream

energy companies in North America with an enterprise value of over \$33 billion.

- We focus on owning and operating primarily fee-based assets that are core to the energy infrastructure of growing markets and that produce relatively stable cash flow in all types of market conditions.
- While past results are no guarantee of future performance, we have a proven management team with a track record of producing strong results and we have delivered a compound annual return to our unitholders of 26 percent since we took over in 1997.
- We have outstanding employees who are committed to providing superior service to our customers and operating our assets safely.

We also take pride in keeping our finger on the pulse of emerging trends in the industry and taking steps to ensure that we are well positioned to capitalize on the opportunities that we find and help our customers meet demands in the marketplace. Natural gas, for example, appears to be the fuel of choice for the future to meet energy demand and reduce carbon emissions, as prolific natural gas shale plays across the United States offer abundant supplies. As I noted previously, we made substantial investments last year to acquire assets and form joint ventures in the Haynesville Shale in Louisiana and the Eagle Ford Shale in Texas. We are also expanding existing and building new infrastructure to address the challenge of getting natural gas from these supply basins to the marketplace. Additionally, as you know, we have recently built a number of major new pipelines to move natural gas around the country as the sources of supply have changed.

Another trend that we have capitalized on is the growing demand for ethanol across the country due to Renewable Fuels Standard mandates. We have made significant investments to expand existing assets and acquire additional terminals, and we currently handle about 30 percent of the ethanol used in the United States. We also continue to develop our crude oil reserves in the Permian Basin in West Texas and to expand infrastructure to transport CO₂ for third-party use in enhanced oil recovery projects, as high oil prices increase demand for production from existing domestic oil fields.

We are confident that the company is well positioned for future growth, and we're cautiously optimistic about the economy moving forward. Rest assured, however, that we will undoubtedly encounter various obstacles, such as more stringent and uncertain regulatory oversight. 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 28,000 miles of pipelines, 180 terminals and an enterprise value of over \$33 billion. KMP returned 23 percent to its limited partners in 2010 and has delivered a compound annual return of 26 percent since it was founded in early 1997.

Our large, diversified footprint of unmatched assets operates like a giant toll road and we have minimal exposure to commodity prices. We primarily receive fees for transporting, storing and handling various energy products such as natural gas, refined petroleum products, crude oil, ethanol, biodiesel, coal, petroleum coke and CO₂. Our customers include producers, shippers, oil companies, utilities and more.

In the United States, KMP is the largest independent transporter of petroleum products, the second largest transporter of natural gas, the largest provider of contracted natural gas treating services, the largest transporter and marketer of CO₂ for enhanced oil recovery projects and the largest independent terminal operator. We are also the second largest oil producer in Texas. Additionally, we are the only oilsands pipeline serving Vancouver, British Columbia and Washington state.



BUSINESS SEGMENTS

For 2011, including joint ventures, we anticipate generating approximately \$3.8 billion in segment earnings before DD&A, and we expect to distribute almost \$1.5 billion to our limited partners.

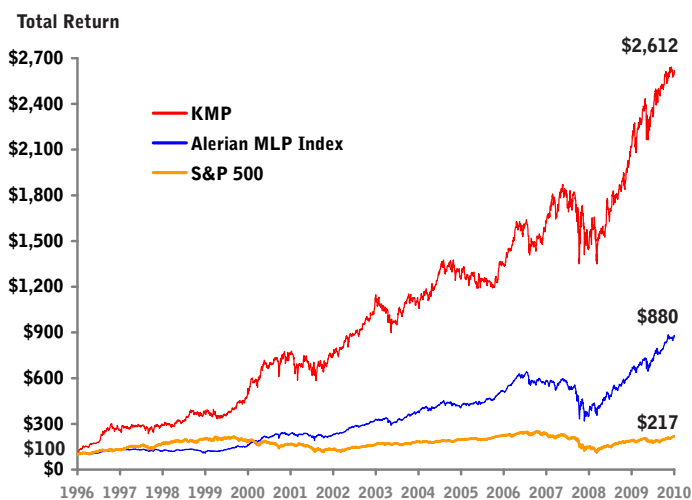
Products Pipelines produced 2010 segment earnings before DD&A and certain items of \$687.5 million, up 8 percent from 2009. Growth was attributable to higher tariffs on the East Line and revenue growth from expansions (including the completion of new liquids

storage tanks at our Carson, Calif., terminal) and the acquisition of five liquids storage terminals from major oil companies. We also continued to benefit from further increases in ethanol demand, boosted by both a mandate in California that increased ethanol blended into gasoline from 5.7 percent to 10 percent in that state, and favorable blending economics. While the growing use of ethanol as part of the country's fuel supply reduces pipeline volumes, our investments in ethanol storage and blending infrastructure at our terminals in this segment have allowed us to participate in those revenues and cash flows. Indeed, one-third of the revenue growth on the Pacific system in 2010 was attributable to our associated terminal operations.

Total refined products volumes unadjusted for the mandated ethanol blending change in California were up 0.5 percent in 2010 compared to the previous year (up 1.6 percent adjusted for the mandate). Also in 2010, we reached an agreement with 11 shippers to settle various rate challenges that had been filed with the Federal Energy Regulatory Commission pertaining to our SFPP system dating back to 1992. It was good to resolve these longstanding issues and put this matter behind us. More details are available in the Form 10-K.

For 2011, the Products Pipelines budget projects \$730.5 million in segment earnings before DD&A, which would be a 6 percent increase over 2010. The company expects growth to be driven by an increase in revenues from existing assets and incremental revenues from expansion projects. Products Pipelines expects to invest over \$100 million in 2011 in capital expansions. Projects include the construction of seven tanks that will add 560,000 barrels of refined petroleum storage at the Carson terminal, building a new pipeline and tanks that will transport and store military jet fuel at the Travis Air Force Base in California, and ongoing expansions at terminal facilities to handle and blend more ethanol and biodiesel. We are also pursuing a number of opportunities that would increase utilization of our Cochin Pipeline, including the possibilities of transporting natural gas liquids from the Marcellus shale basin and transporting crude oil from the Bakken basin.

KMP: 26% ANNUAL RETURN



Source: Bloomberg. Total returns calculated on a daily basis through Dec. 31, 2010, assuming dividends/distributions reinvested in index/stock/unit.



The **Natural Gas Pipelines** business produced 2010 segment earnings before DD&A and certain items of \$981.4 million (including joint ventures), up 14 percent from 2009. Growth was attributable to a full year of contributions from Kinder Morgan Treating and the Midcontinent Express and Kinder Morgan Louisiana pipelines, the benefit of the KinderHawk joint venture and good results at our Casper Douglas processing assets in Wyoming.

Highlights in 2010 included completion of the Fayetteville Express Pipeline, a joint venture with Energy Transfer Partners that was completed at a cost significantly below its \$1.3 billion construction budget. Interim service began in the fall of 2010, with firm contract service beginning for all shippers on Jan. 1, 2011. The pipeline has an initial capacity of 2 billion cubic feet per day and stretches from Arkansas to Mississippi. Nearly all of the capacity is subscribed under 10-year binding commitments. Additional highlights included the formation of the Eagle Ford Gathering joint venture with Copano Energy, whereby we are providing gathering, transportation, processing and fractionation services to natural gas producers in this south Texas resource play. The scope of the joint venture has already been expanded and long-term gas services agreements have been signed with SM Energy, Chesapeake Energy Marketing and Anadarko E&P Company. Also in 2010, we acquired 50 percent of Petrohawk Energy's assets in the Haynesville Shale in northwest Louisiana and subsequently formed KinderHawk, a natural gas gathering and treating joint venture. KinderHawk has entered into numerous third-party gas gathering and treating commitments in the Haynesville Shale. The joint venture currently has 365 miles of pipeline with throughput of about 800 million cubic feet per day.

For 2011, the Natural Gas Pipelines budget projects almost \$1.1 billion in segment earnings before DD&A (including joint ventures), which would be a 10 percent increase over 2010. Growth will be driven by a full year of contributions from Fayetteville Express and contributions from expansions and joint ventures, particularly those in the Eagle Ford and Haynesville shale plays. We will also be

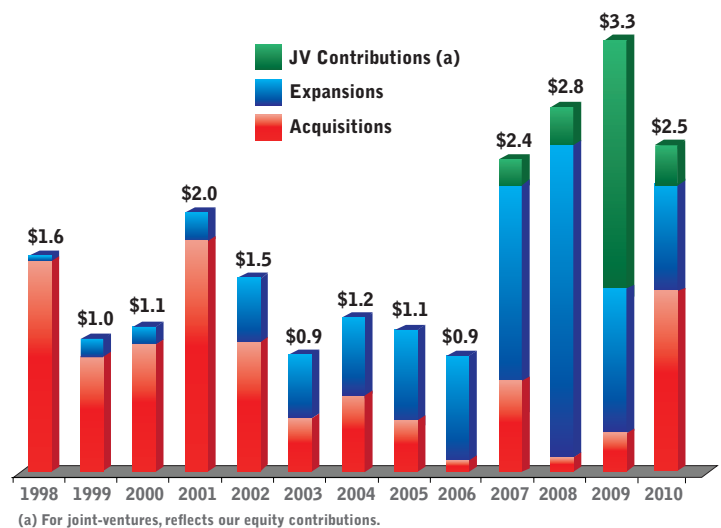
expanding our Texas Intrastate Pipeline system this year to move more Eagle Ford gas.

The CO₂ business produced 2010 segment earnings before DD&A and certain items of \$960.2 million, up 21 percent from 2009. Growth was driven primarily by a 5 percent increase in natural gas liquids (NGL) sales volumes, along with higher oil prices and higher NGL prices compared to 2009. Oil production was down slightly at the SACROC Unit and decreased by 9 percent at the Yates Field versus 2009, but we still produced over 53,000 barrels per day at both fields combined. We were able to offset most of the production declines by reducing costs, but this segment also was impacted by the West Texas Intermediate crude oil price, which averaged about \$4 per barrel less for the year than the \$83.73 that we assumed when developing the 2010 budget.

Highlights in 2010 included entering into new long-term sales and delivery contracts for over 1.3 trillion cubic feet (Tcf) of CO₂ with 10 customers, as demand for CO₂ in the Permian Basin is growing significantly. Nearly 1 Tcf of the CO₂ contracted for is with third-party customers, with the remaining amount for use at our enhanced oil recovery projects at our SACROC and Katz fields. We also completed construction of our Eastern Shelf Pipeline and began injecting CO₂ at the Katz Field, a relatively new project that has good growth potential for the future.

For 2011, the CO₂ budget projects \$1.1 billion in segment earnings before DD&A, which would be a 14 percent increase over 2010. The company anticipates higher realized oil prices (reflecting a more favorable market and improved hedge positions) and greater NGL production to drive growth. We plan to invest over \$460 million in 2011 to further expand our CO₂ operations in the SACROC, Yates and Katz oil fields. Production at the Katz Field is expected to increase by more than 1,000 barrels per day this year from about 240 barrels

APPROXIMATELY \$22 BILLION IN CAPITAL INVESTED (in billions)



per day. Long term, we anticipate the Katz Field project will unlock an incremental 25 million barrels of oil to be produced over the next 15 to 20 years and provide a platform for future enhanced oil recovery operations in the region.

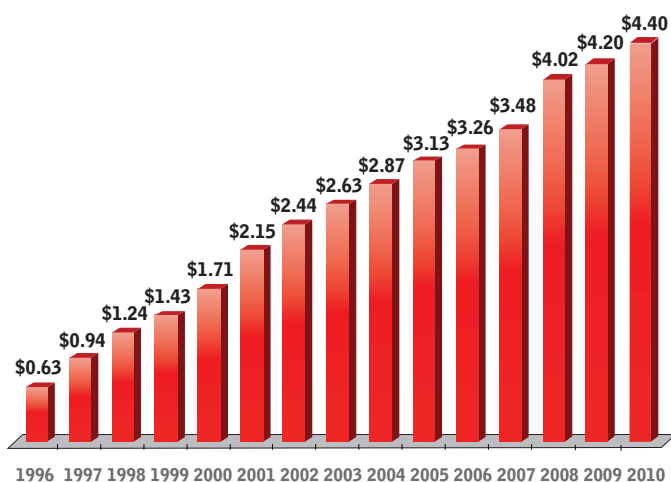
The **Terminals** business produced 2010 segment earnings before DD&A and certain items of \$646.5 million, up 12 percent from 2009. Growth was driven by contract renewals and new storage capacity at our Pasadena and Galena Park liquids terminals on the Houston Ship Channel, strong results at our Van Wharves facility in British Columbia and our crude tank farm in Alberta, a 48 percent increase over 2009 in steel volumes (to 24.7 million tons, as the steel industry rebounded), and contributions from the U.S. Development and Slay acquisitions.

Highlights in 2010 included a 78 percent increase in ethanol handling to 57.9 million barrels, the majority of which was attributable to the U.S. Development acquisition. Combined, the terminals and products pipelines business segments handled about 87.8 million barrels of ethanol in 2010, an increase of 58 percent over 2009. Additionally, we acquired nine terminals that offer services ranging from ethanol handling to liquids storage to bulk material handling. We also closed on an initial \$50 million investment in Watco Companies in January of 2011 for a preferred equity position in its rail transportation business that we believe will provide us with future growth sharing opportunities.

For 2011, the Terminals budget projects \$713.2 million in segment earnings before DD&A, which would be a 10 percent increase over 2010. Growth will come from

DECLARED DISTRIBUTIONS TO UNITHOLDERS

(\$ per unit)



internal expansions and contributions from acquisitions. In 2011, we have budgeted for approximately \$150 million in expansion capital and an additional \$175 million in small acquisitions. Looking to capitalize on increasing demand for coal export capacity, we have entered into agreements with two major coal producers to expand our IMT terminal in Louisiana (to handle up to 6 million incremental tons of coal) and at our Port of Houston facility (to handle up to 2 million tons of additional coal). We also plan to construct seven new storage tanks this year at our Carteret Terminal in New York Harbor.

Kinder Morgan Canada produced 2010 segment earnings before DD&A and certain items of \$181.6 million, up 10 percent from 2009. Growth was driven by increased deliveries over our Westridge Dock in British Columbia and into Washington state on the Trans Mountain pipeline system, as well as a favorable impact of appreciation in the Canadian dollar versus the U.S. dollar.

For 2011, the Kinder Morgan Canada budget projects \$192.9 million in segment earnings before DD&A, which would be a 6 percent increase over 2010. Growth will come from a new negotiated toll settlement with shippers and increased pipeline deliveries to Washington state. We also continue to ramp up efforts to obtain shipper support to further expand Trans Mountain.

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 for the third consecutive year to publish our annual report and Form 10-K online, as opposed to printing and mailing approximately 375,000 copies. These reports are available in the Investor section of our web site, 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.