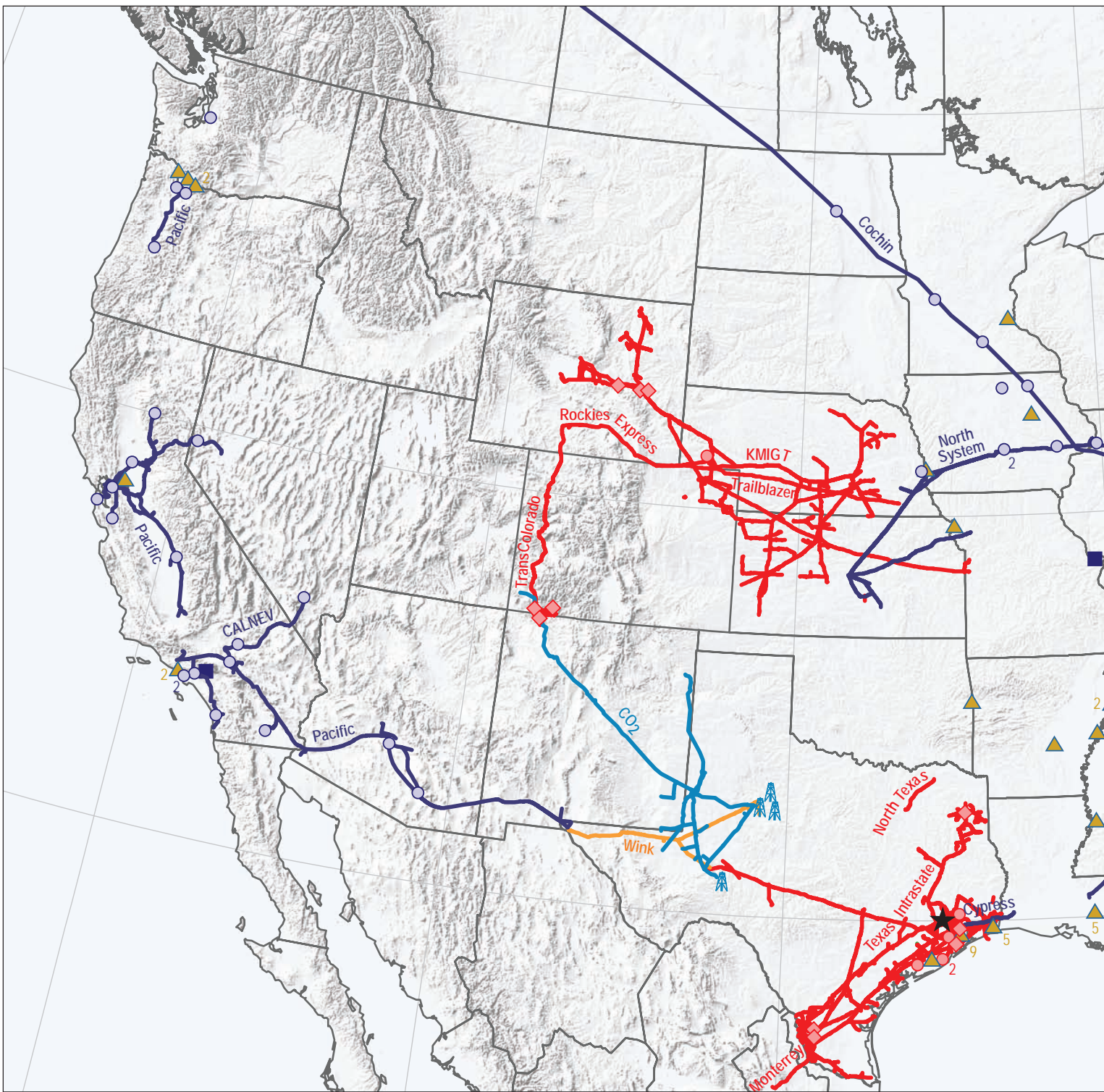




2006 ANNUAL REPORT



PRODUCTS PIPELINES

Largest independent owner/operator in the U.S. Transport over 2 million barrels/day of gasoline, jet fuel, diesel and natural gas liquids through more than 10,000 miles of pipelines. About 60 terminals have a storage capacity of over 29 million barrels. Also have six transmix facilities.

NATURAL GAS PIPELINES

Major transporter of natural gas in Texas, Colorado, Wyoming, Nebraska and Kansas. Approximately 14,000 miles of pipelines with transportation capacity of about 7 billion cubic feet/day and working gas storage capacity of about 35 billion cubic feet. Also own/operate gathering, treating and processing facilities.



LEGEND

- Products Pipelines
- Products Pipelines Terminals
- Transmix Facilities
- Natural Gas Pipelines
- Natural Gas Storage
- ◆ Natural Gas Processing
- CO₂ Pipelines
- ⚙️ CO₂ Oil Fields
- Crude Oil Pipelines
- ▲ Terminals
- (2, 3, 5) Indicates number of facilities in area
- ★ Kinder Morgan Headquarters

CO₂

Largest transporter and marketer of carbon dioxide for enhanced oil recovery projects in the U.S. Transport over 1 billion cubic feet/day of CO₂ through about 1,200 miles of pipelines. Second largest oil producer in Texas with significant assets in the Permian Basin.

TERMINALS

Largest independent owner/operator in the U.S. Approximately 90 terminals with a liquids storage capacity of over 40 million barrels for petroleum products and chemicals. Also handle over 90 millions tons annually of materials like coal and petcoke, and have about 70 transload facilities.

LETTER TO UNITHOLDERS

Kinder Morgan Energy Partners (KMP) celebrated its 10-year anniversary in February of 2007. It has been, and continues to be, an exciting ride! We have grown KMP from a company with a few small assets and an enterprise value of about \$325 million in 1997 into one of the largest energy transportation and storage players in the industry with an enterprise value of more than \$16 billion.

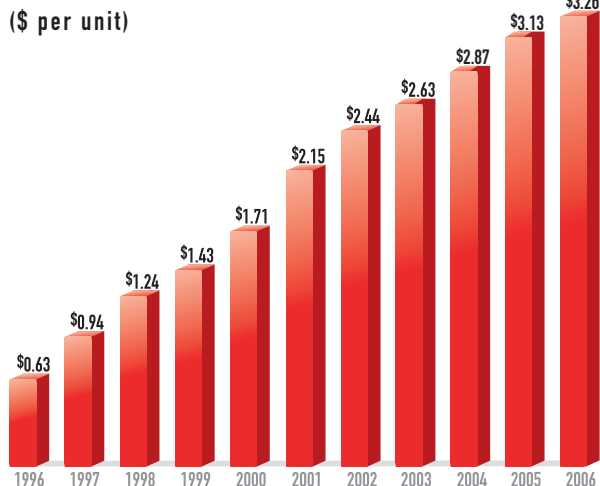
I'm proud of KMP's superb growth and the exemplary portfolio of assets that we have assembled over the past decade, which has enabled us to deliver strong returns to you – an average annual return of 30 percent to unitholders. Our future growth opportunities also appear to be exceptional. Sources of supply for energy products in North America continue to shift, which means there is a need for additional energy infrastructure. That is our forte – building and operating midstream energy assets – and we plan to invest approximately \$6.5 billion in new infrastructure and expansion projects at KMP over the next four years alone.

In keeping with our tradition of watching your dollars, my letter is relatively short. If you would like more detailed information, I encourage you to review the attached Form 10-K, along with the annual investor conference presentation and our news releases which are posted on our web site, www.kindermorgan.com.

HISTORY

KMP was formed Feb. 14, 1997, when a group of investors headed by Bill Morgan and me acquired the general partner of Enron Liquids Pipeline, L.P., a small master limited partnership which began in August of 1992. We developed a strategy that the company still follows today: focus on stable, fee-based assets which are core to the energy infrastructure of growing markets; increase utilization of assets while controlling costs; leverage economies of scale from incremental acquisitions and expansions; and maximize the benefit of a unique financial structure that fits with this strategy.

DECLARED DISTRIBUTIONS TO UNITHOLDERS (\$ per unit)



Our vision was to build a different type of energy company by utilizing the master limited partnership structure as a growth vehicle, something that had really never been done before. We committed to being lean and frugal, focusing on being a low-cost asset operator and generating maximum returns to our unitholders. That philosophy still holds true, as we continue to allocate capital in a disciplined way, eliminate perks and needless corporate overhead expenses, and relentlessly pursue both financial and operational excellence.

Over the past decade, we have been fortunate to acquire some premier energy assets that have produced outstanding growth at KMP due to both the markets in which they operate and the expansion opportunities that they have presented. Combined, we have invested more than \$11 billion in acquisitions and expansions through 2006. We have also invested substantial capital in maintenance, repairs and integrity management programs to ensure our assets operate safely.

KMP now owns an interest in or operates approximately 26,000 miles of pipelines and over 150 terminals. In the United States, we are the largest independent transporter of refined petroleum products, a major transporter and storage operator of natural gas, the largest transporter and marketer of carbon dioxide for enhanced oil recovery projects, and the largest independent terminal operator.

So, how have investors fared over the past 10 years? A \$1,000 investment in KMP units on Jan. 7, 1997, (the day before the announcement that investors, including myself, were acquiring the general partner) purchased 36.36 units. KMP has had two, two-for-one unit splits since then, so an investor who purchased then and held all of his units would now own 145.45 units. Since Jan. 7, 1997, the investor would have received over three times his initial investment (\$3,192) in distributions. For 2007, the investor would expect to receive \$500 in distributions – another 50 percent of his original investment – based on KMP's 2007 budgeted distribution per unit of \$3.44. Additionally, the investor would still own the units, which would now be worth over seven times his original investment (\$7,332) based on the closing price of \$50.41 on Jan. 31, 2007.

2006

Overall KMP had a good year, producing total segment earnings before depletion, depreciation and amortization (DD&A) of \$1.9 billion. While this represented 8 percent cumulative growth compared to 2005, it fell short of our 2006 published budget of 12 percent growth. The natural gas pipelines and terminals segments produced outstanding results, but earnings were less than expected from the products pipelines and CO₂ segments.





By the end of the year, we increased KMP's quarterly cash distribution per common unit to \$0.83 (\$3.32 annualized), a 4 percent increase over the 2005 fourth quarter cash distribution per unit of \$0.80. This was the 28th distribution increase in 10 years.

In total, KMP declared

2006 cash distributions of \$3.26 per unit compared to \$3.13 per unit for 2005, but below our published budget of \$3.28.

Because KMP failed to hit its 2006 budget target, we had no obligation to fund the employee bonus plan. However, the board of directors of Kinder Morgan, Inc. (KMI), the owner of the general partner of KMP, determined that it was in both companies' long-term interests to fund a partial payout of KMP's bonuses through a reduction in the general partner's incentive payment. Thus, KMI waived approximately \$20 million of its incentive payment for the fourth quarter, which equates to KMP's bonus payout for 2006 and represents about 75 percent of its full budgeted bonus payout. Four of our senior corporate officers, at their suggestion, received no bonus payout for 2006. My salary remains \$1 per year, and I continue to receive no bonuses, stock options or restricted stock.

During 2006, we invested approximately \$900 million in capital expansions and acquisitions, and we continued to make significant progress on large projects that will spearhead future growth. Additionally, we outperformed the industry averages in virtually all environmental, health and safety categories, as detailed on our web site. Believing that transparency drives accountability, we also continue to publish our annual budget on our web site, so investors and the public are able to track both our financial and operational performance.

BUSINESS SEGMENTS

Our portfolio of primarily fee-based assets, which are essential to our country's energy infrastructure, continues to produce strong, reliable cash flow. The following is a summary of how our business segments performed in 2006 and their future growth prospects.

The **Products Pipelines** segment produced 2006 earnings before DD&A of \$501.9 million, down slightly from 2005 and well below our published budget. The majority of this shortfall was due to environmental expenses and rate reductions that went into effect on the Pacific system for the SFPP rate case. The segment also was impacted by lower than expected results from Plantation Pipe Line. Excluding Plantation, 2006

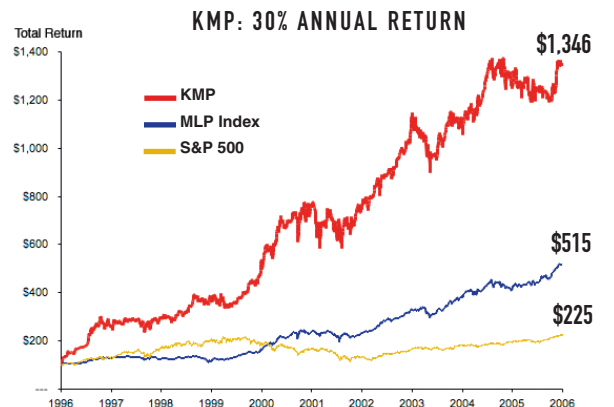
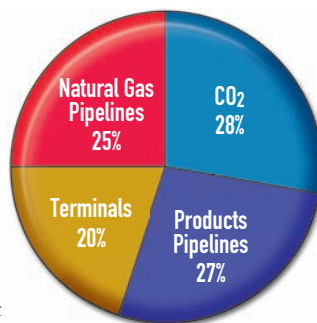
segment volumes increased by 1.6 percent and revenues were up 5.5 percent over 2005.

This business segment continues to offer numerous growth opportunities, serving seven of the 10 fastest growing markets in the United States. In 2006, we increased pipeline capacity for gasoline, jet fuel and diesel into Arizona by completing a \$210 million expansion of our East Line, which delivers fuel from El Paso, Texas, to Tucson and Phoenix, Ariz. An additional \$145 million expansion of the East Line is expected to be completed in the fourth quarter of 2007. We have also approved spending over \$400 million to expand and upgrade the CALNEV pipeline system to meet growing demand in Las Vegas, Nev. The majority of this expansion involves construction of a new pipeline and is subject to permitting and the receipt of regulatory approvals authorizing rates that make the project economically viable. Additionally, we entered into an agreement with affiliates of BP to increase our ownership stake in the Cochin pipeline system from almost 50 percent to 100 percent. The transaction is subject to standard closing conditions and is expected to be completed in the first quarter of 2007. Pending board approval, we also intend to acquire the Trans Mountain pipeline system from KMI during the second quarter this year. Trans Mountain transports crude oil and refined products from Edmonton, Alberta, to marketing terminals and refineries in Vancouver, British Columbia, and Washington state.

The **Natural Gas Pipelines** segment generated 2006 earnings before DD&A of \$554.9 million, up 11 percent from 2005 and significantly ahead of our published budget. Growth for the year was driven by another outstanding performance from the Texas Intrastate Pipeline Group, which experienced improved sales margins on renewal and incremental contracts and higher value from storage activities. This segment also benefited from an increase in transport volumes, along with good results from the KMITG and TransColorado pipelines, and the Casper Douglas and Red Cedar gathering and processing businesses.

While we have pipeline and storage expansions planned across this entire segment, the big news is three large natural gas

2007 BUDGETED
DISTRIBUTABLE CASH FLOW



Returns calculated on a daily basis through Dec. 29, 2006, assuming dividends/distributions reinvested in index/stock/unit, except MLP Index calculated on a monthly basis. Start date 12/31/1996.

pipeline projects that we continued to move forward in 2006. Rockies Express is a \$4.4 billion joint venture that will move natural gas from the prolific producing basins in Wyoming and Colorado to eastern Ohio. The 1,663-mile project will be one of the largest of its kind ever constructed in North America and will transport up to 1.8 billion cubic feet per day (Bcf/d) of natural gas. The first 328-mile leg of the project in the Rocky Mountains is in service and the full project is expected to be completed by June 2009, pending regulatory approvals. The \$1.2 billion Midcontinent Express Pipeline, another joint venture, is an approximately 500-mile pipeline that will have the capacity to transport about 1.4 Bcf/d of natural gas from Bennington, Okla., to Butler, Ala. The pipeline will move gas out of the Midcontinent and Barnett Shale areas and the anticipated in-service date for the entire system is the end of February 2009. The \$500 million Kinder Morgan Louisiana Pipeline will provide 3.2 Bcf/d of take-away capacity from the Cheniere Sabine Pass liquefied natural gas plant under construction in Louisiana. The 137-mile pipeline will interconnect with various interstate and intrastate pipelines, and the entire project is expected to be in service in the second quarter of 2009. All of these projects are supported by long-term binding contracts with creditworthy shippers.

The CO₂ segment delivered 2006 earnings before DD&A of \$490 million, up 4 percent from 2005 but well below our published budget. With the exception of the SACROC Unit, however, this segment had a strong year. Results reflected stronger than expected oil production at the Yates Field and record annual delivery volumes from the CO₂ and Wink pipelines. Average oil production year over year increased by almost 8 percent at Yates to 26.1 thousand barrels per day (MBbl/d), but declined by 4 percent at SACROC to 30.8 MBbl/d. This segment is one of the few areas where KMP is exposed to commodity price risk, but we mitigate that risk through a long-term hedging strategy designed to generate more stable realized prices.

Looking ahead, we plan to invest approximately \$445 million in 2007 to further develop production at SACROC and Yates and to expand our CO₂ operations in southwest Colorado. The Colorado expansion activities will

include developing a new CO₂ source field and adding infrastructure at the McElmo Dome and the Cortez Pipeline. Additionally, we are exploring various CO₂ opportunities in Canada, including capturing CO₂ that would otherwise be released to the atmosphere and transporting it for use in enhanced oil recovery projects.

The **Terminals** segment produced 2006 earnings before DD&A of \$396.9 million, a 25 percent increase over 2005 and ahead of our published budget. Growth was driven by internal expansions, incremental volumes and acquisitions.

Acquisitions in 2006 included a rail terminal in southern California that is one of the largest ethanol unit train handling facilities in the United States, a transload business located primarily in the Midwest that will increase our steel handling capabilities, and a company with expertise and technology that will enable us to pursue opportunities in the growing sulfur market.

We invested approximately \$264 million in expansion projects in this segment in 2006 and plan to make an additional \$400 million in capital investments in 2007. The expansions include building additional storage tanks for refined petroleum products, adding infrastructure to expand our coal operations and increase our ethanol handling capabilities, and constructing storage tanks and infrastructure to accommodate the growing biodiesel market. In addition, our first terminal facility in Canada, a fully-subscribed crude oil tank farm in Edmonton, Alberta, is expected to come on-line in the fourth quarter this year and will have storage capacity of nearly 2.2 million barrels.

OUTLOOK

As I say every year, like all companies, KMP has its share of challenges. Regulatory matters, CO₂ crude oil production, construction cost overruns, environmental issues, terrorism and interest rates are among the risks that we must effectively manage.

For 2007, we expect KMP to declare cash distributions of \$3.44 per unit, an increase of about 6 percent over 2006. We expect to grow the distribution per unit by about 8 percent for the next several years beyond 2007. Combined, the growth in distributions per unit and a yield in the 6 to 7 percent range on the units equates to an expected annual return to unitholders in the low to mid teens.

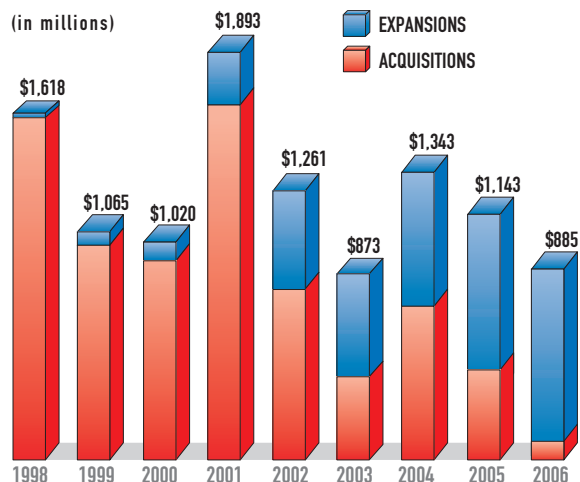
As noted throughout my letter, KMP has secured and continues to pursue many growth opportunities, and we believe the company is well positioned for the future. We also pledge to continue to maintain a solid balance sheet and invest your money wisely. I would like to thank our dedicated employees for successfully executing our vision and strategy, our customers for utilizing our assets and serving as the catalyst for us to expand and grow, and our investors for your longstanding support. I truly believe the best is yet to come!



Richard D. Kinder
Chairman and CEO

\$11 BILLION IN CAPITAL INVESTED

(in millions)



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Executive Vice President and Chief Operating Officer

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President, Products Pipelines

R. Tim Bradley
President, CO₂

Scott Parker
President, Natural Gas Pipelines

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Chief Financial Officer and Vice President, Investor Relations

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Vice President, Internal Audit

David D. Kinder
Vice President, Corporate Development and Treasurer

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Hultquist Capital, LLC

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Limited Partner and Chairman
Songy Partners Limited

Kinder Morgan Energy Partners, L.P. does not have officers or directors. Listed are the officers and directors of the General Partner, Kinder Morgan G.P., Inc. and Kinder Morgan Management, LLC (the delegate of Kinder Morgan G.P., Inc.).

⁽¹⁾ Chairman, Audit Committee

⁽²⁾ Member, Audit Committee

⁽³⁾ Lead Director

UNITHOLDER INFORMATION

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