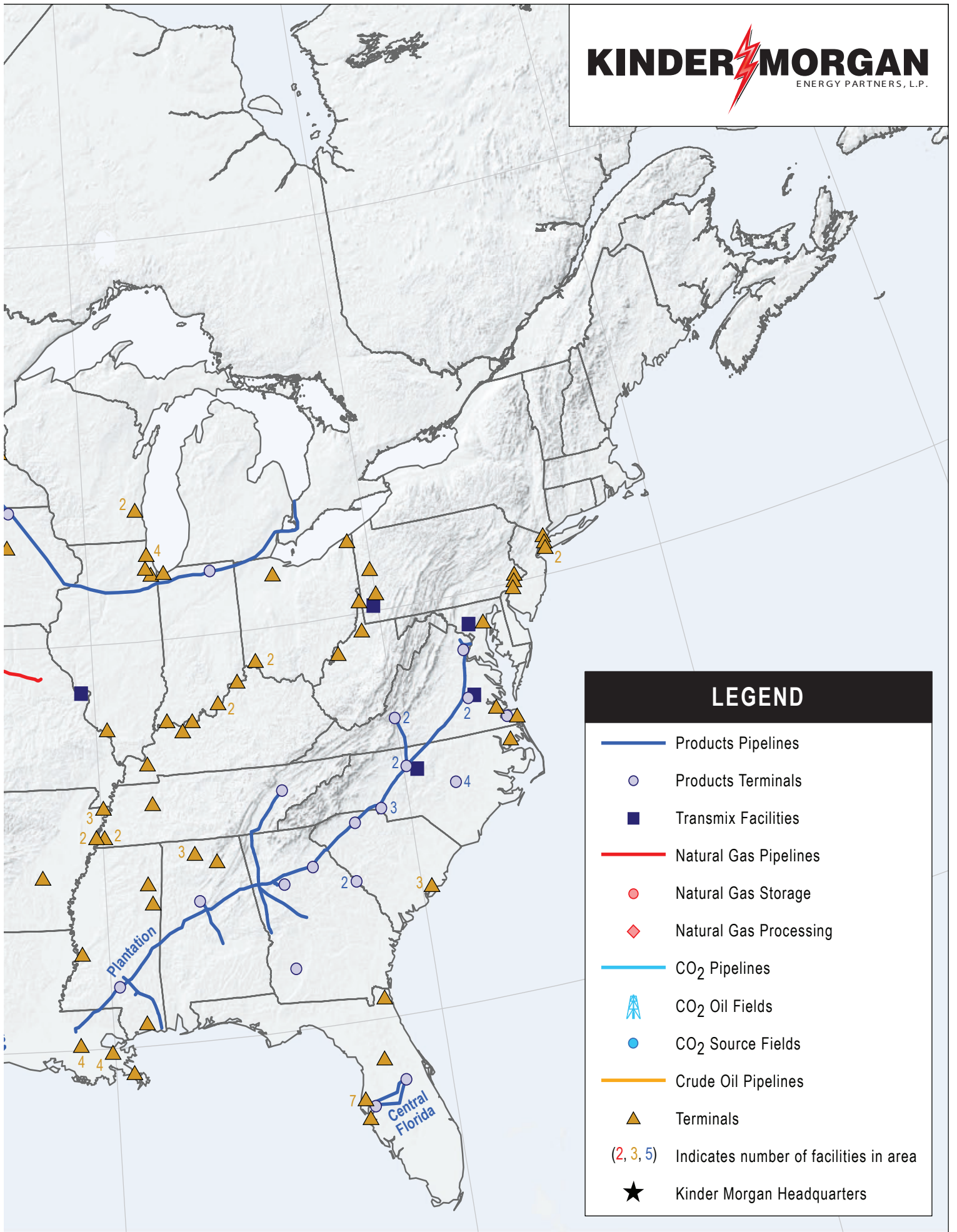




2007 ANNUAL REPORT





**LEGEND**

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

## DEAR UNITHOLDERS

I've always believed that if a business model can't be simply summed up in about a paragraph it's probably not going to work. At Kinder Morgan our business model is to own, operate, expand, build and acquire midstream energy assets that provide a return substantially in excess of our cost of capital – then distribute that excess to our limited partners and general partner.

We've employed this same business model for over 10 years and it's worked pretty well. We focus religiously on our return on investment versus our cost of capital. This results in a highly disciplined capital allocation process across the company.

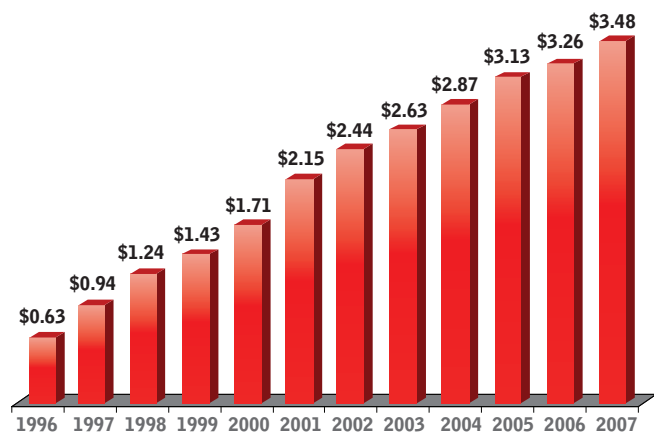
Let me share some numbers with you. In 2007, KMP had a return on investment of 14.1 percent. While there is nothing magical about this particular number, the bottom line is that we won't commit dollars to a project or acquisition unless we can outearn our cost of capital. Last year our cost of capital was about 9 percent. Exceeding our cost of capital (by over 5 percent) allowed us to increase the distribution to our unitholders. We help assure reasonable returns and lower our risk by securing customer commitments before investing capital in most of our projects.

While past accomplishments are no guarantee of future performance, KMP's compound annual return is 29 percent since this management team took over in 1997. Hopefully this gives you some level of confidence that we know a little bit about the midstream energy sector, running a company successfully and delivering value to our unitholders. I also promise to continue to do my best to earn my lofty annual salary of \$1. As I've said many times, if you don't believe in a particular management team you shouldn't invest in the company they run, and that certainly applies to KMP.

The best way to think of KMP is as a giant toll road. We own primarily stable assets with minimal exposure to commodity price volatility (with the exception of the oil production in our CO<sub>2</sub> business), and we receive a fee for transporting, storing and handling energy products that are essential to growing markets across North America.

## DECLARED DISTRIBUTIONS TO UNITHOLDERS

(\$ per unit)



While we all know there are no guarantees in life, our growth outlook over the next five years makes me pretty optimistic about KMP's future. In 2008, growth will be spearheaded by REX-West, the second segment of the huge Rockies Express Pipeline project that began service in January, and by higher hedges that replace lower-priced hedges on oil production in our CO<sub>2</sub> business. Combined, we expect these two items alone to generate over \$200 million in additional cash flow for KMP this year. In addition, we expect substantial growth in our terminals segment primarily due to new storage tank capacity coming on line.

We're about halfway through a major \$7 billion capital investment program that will propel much of our growth in the coming years. In addition to REX-West, we have a number of other large, visible initiatives that are progressing well. The Rockies Express-East, Kinder Morgan Louisiana and Midcontinent Express natural gas pipeline projects – all being built in response to shifting natural gas supply sources across the United States – are projected to be in service in 2009. Additionally, the CALNEV expansion that will significantly boost refined petroleum pipeline capacity into the Las Vegas, Nev., market is slated for service in 2011. We are also in various stages of many smaller expansions that will produce new sources of cash flow for the company.

Long term, KMP appears to be in the right place at the right time. There is a tremendous need for additional energy infrastructure across North America to keep up with demand. In addition to taking advantage of shifting natural gas supply sources, we are also pursuing growth opportunities tied to increased use of renewable fuels and heavy crude, growing production from the Canadian oilsands, high crude oil prices, demographic growth, and coal imports and exports. I believe our large footprint of assets, financial strength and flexibility, and excellent management team with a proven track record will allow us to continue to take advantage of these important trends in our industry.

While I've said many times that we will never grow just to get bigger, let me give you an example of how size does matter when you have a large diversified footprint of strategically located assets. Our natural gas pipelines in the Rockies (TransColorado, KMIGT and Trailblazer) helped us prevail in the competition to build the Rockies Express project.



*Kinder Morgan Energy Partners, L.P. (NYSE: KMP) is one of the premier midstream energy companies in North America, operating more than 25,000 miles of pipelines and 165 terminals. KMP was the first to utilize the master limited partnership structure as a growth vehicle. In 11 years, KMP has grown from a company with an enterprise value of \$325 million to more than \$20 billion and has delivered an average annual return to unitholders of 29 percent.*

## 2007

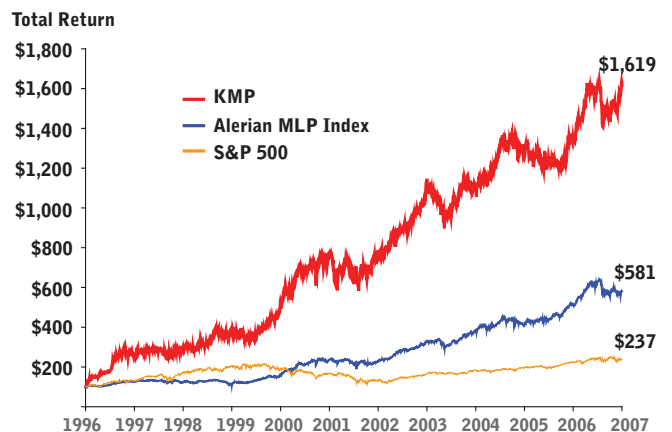
KMP increased its quarterly cash distribution per common unit to \$0.92 (\$3.68 annualized) in January 2008, an 11 percent increase over the fourth quarter 2006 cash distribution per unit of \$0.83. This was the 31st distribution increase in 11 years. In total, KMP declared cash distributions for 2007 of \$3.48 per unit, which exceeded its published annual budget of \$3.44 and was 7 percent higher than declared cash distributions of \$3.26 in 2006.

Total segment earnings before DD&A increased to an all-time high of \$2.2 billion, up 14 percent from 2006. Results were driven by strong performances from the Natural Gas and Products pipelines business segments, along with contributions from Trans Mountain Pipeline, which KMP acquired in the second quarter of 2007.

## BUSINESS SEGMENTS

The **Products Pipelines** business delivered \$585.9 million in segment earnings before DD&A in 2007, up 13 percent from 2006 and exceeding its published annual budget of 14 percent growth. Results were led by the Cochin Pipeline, reflecting both strong performance and the remaining interest that KMP acquired in the asset in the first quarter of 2007. The West Coast terminals, Plantation Pipe Line Company and Transmix also produced higher earnings before DD&A than in 2006.

## KMP: 29% ANNUAL RETURN



Source: Bloomberg. Total returns calculated on a daily basis through Dec. 31, 2007, assuming dividends/distributions reinvested in index/stock/unit.

While other companies realized the need for such a pipeline, our ability to get the gas from the producing fields to the proposed REX pipeline through our existing assets helped make our project more attractive than others. Just how large is our footprint? KMP is:

- the largest independent transporter of petroleum products in the U.S.
- one of the largest natural gas transporters and storage operators in the U.S.
- the largest marketer and transporter of CO<sub>2</sub> in the U.S.
- the second largest oil producer in Texas.
- the largest independent terminal operator in the U.S.

So what can go wrong with this optimistic scenario?

Like other companies, we face various risks such as regulatory matters and rate cases, oil production volumes and pricing in our CO<sub>2</sub> business, escalating construction costs, environmental issues, terrorism and interest rates. We're doing our best to manage these potential challenges, and we think we have a good handle on most of them, but there are risks nonetheless.

One of our primary concerns is to operate our assets safely to protect the public and the environment. We spend millions of dollars every year on integrity management programs and maintenance. In 2007, KMP continued to outperform various environmental, health and safety (EHS) industry averages. In our ongoing effort to be transparent, I invite you to visit our web site, [www.kindermorgan.com](http://www.kindermorgan.com), and review both our EHS performance and our annual budget.

I believe KMP is well positioned for future growth. For 2008, we expect to declare cash distributions of \$4.02, a 16 percent increase over 2007. Our balance sheet remains strong, and we have a good track record of accessing equity and debt markets in both good and bad times. We pledge to do our best to continue focusing on meeting our customers' needs, operating our assets safely and efficiently, and delivering value to you – our unitholders. I truly believe the best is yet to come!

Richard D. Kinder  
Chairman and CEO

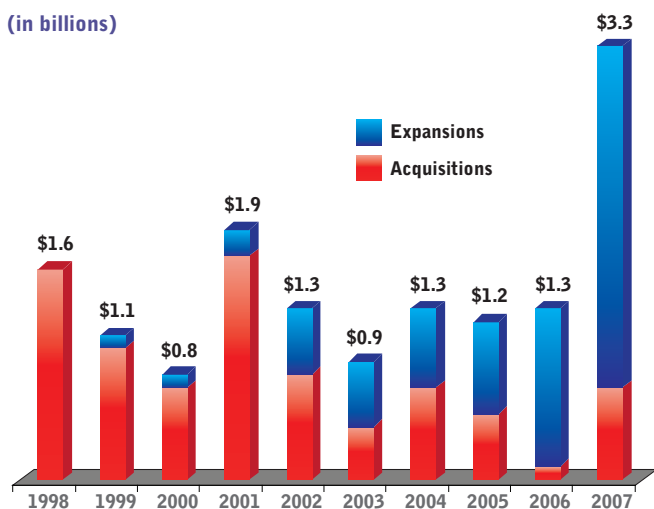
In December 2007, the approximately \$153 million East Line expansion, which increased pipeline capacity to 200,000 barrels per day (bpd) from El Paso, Texas, to Tucson and Phoenix, Ariz., began service. Combined with the first phase of its Arizona expansion which was completed in 2006, KMP is well positioned to meet future consumer demand for motor and jet fuels in one of the nation's fastest growing areas. Looking ahead, KMP will invest approximately \$425 million to expand the CALNEV pipeline system, which transports gasoline, jet fuel and diesel into the Las Vegas, Nev., market. This project is expected to be in service in 2011. This business segment also continues to work with customers to modify and build infrastructure to support the increased use of renewable fuels, such as ethanol.

The **Natural Gas Pipelines** business produced 2007 segment earnings before DD&A of \$600.8 million, up 8 percent from 2006 and exceeding its published annual budget of 1 percent growth. Growth in this segment was driven by the Texas intrastate pipelines, which had higher sales margins and increased transportation revenue from renewal and incremental contracts, as well as greater value from storage activities.

Much of the future growth in this segment will come from large infrastructure projects - the Rockies Express, Midcontinent Express and the Kinder Morgan Louisiana pipelines. All three of these projects are expected to be fully operational in 2009 and will generate substantial cash flow. The company is also pursuing a possible extension of Rockies Express further east, along with numerous smaller projects, including valuable natural gas storage opportunities, a pipeline along the front range of Colorado and connectivity to numerous ethanol plants.

## ABOUT \$15 BILLION IN CAPITAL INVESTED

(in billions)



The CO<sub>2</sub> business delivered \$537.2 million in segment earnings before DD&A in 2007, up 10 percent from 2006, but well below its published annual budget of 24 percent growth. With the exception of the SACROC Unit, which had significantly lower earnings before DD&A than budgeted, this segment had a good year. Results were driven by increased oil production at the Yates Field, higher NGL sales volumes due to increased recoveries from the SACROC gas processing operations, and solid CO<sub>2</sub> sales and transport volumes. While the company is exposed to commodity price risk in this segment, the risk is mitigated by a long-term hedging strategy intended to generate more stable realized prices.

In January 2008, the company's new Doe Canyon Deep Unit began commercial production. The approximately \$87 million project includes six new CO<sub>2</sub> production wells and construction of a new pipeline that will connect the existing Cortez Pipeline to Doe Canyon. Future growth in this segment will come from additional expansions at the SACROC and Yates oil fields and the McElmo Dome CO<sub>2</sub> source field.

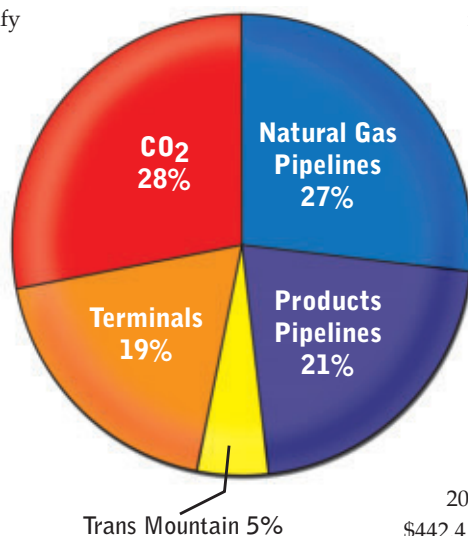
The **Terminals** business delivered 2007 segment earnings before DD&A of \$442.4 million, up 5 percent from 2006 and basically flat with its published annual budget. Growth was driven by both acquisitions and organic opportunities. Acquisitions included Vancouver Wharves in British Columbia, a bulk marine terminal that handles over 3.5 million tons of cargo annually, and Marine Terminals, which primarily handles and stores steel and alloys at five facilities in four states.

Future growth will also come from internal expansions. For example, approximately 4.75 million barrels of new tank capacity will have come on line during the past six months by the end of the first quarter of 2008. These expansions are taking place at terminals in the Houston Ship Channel, in New York Harbor, in Argo, Ill., and near Edmonton, Alberta.

The **Trans Mountain Pipeline**, which KMP acquired April 30, 2007, contributed segment earnings before DD&A of \$56.9 million for the year, about 6 percent higher than its published annual budget. Trans Mountain transports crude oil and refined products from Edmonton, Alberta, to marketing terminals and refineries in British Columbia and Washington state. In 2007, 11 new pump stations were commissioned, boosting capacity on Trans Mountain from 225,000 to approximately 260,000 bpd. The pipeline has been operating at capacity for most of the past two years.

Future growth will come from the approximately C\$467 million Anchor Loop project, the second phase of the Trans Mountain pipeline system expansion that will increase capacity on Trans Mountain to 300,000 bpd and will provide greater access for customers to West Coast and Far East markets. This project is expected to be completed by November 2008.

## 2008 BUDGETED DISTRIBUTABLE CASH FLOW



## OFFICE OF THE CHAIRMAN

Richard D. Kinder  
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C. Park Shaper  
*President*

Steven J. Kean  
*Executive Vice President and Chief Operating Officer*

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*President, Trans Mountain Pipeline*

Jeffrey R. Armstrong  
*President, Terminals*

Thomas A. Bannigan  
*President, Products Pipelines*

R. Tim Bradley  
*President, CO<sub>2</sub>*

Scott Parker  
*President, Natural Gas Pipelines*

## CORPORATE OFFICERS

Kimberly Allen Dang  
*Chief Financial Officer and Vice President, Investor Relations*

W. Garner Dotson  
*Vice President, Internal Audit*

David D. Kinder  
*Vice President, Corporate Development and Treasurer*

Joseph Listengart  
*Vice President, General Counsel and Secretary*

Jordan H. Mintz  
*Vice President and Chief Tax Officer*

Henry W. Neumann  
*Vice President and Chief Information Officer*

Larry S. Pierce  
*Vice President, Corporate Communications*

James E. Street  
*Vice President, Human Resources, Administration and Information Technology*

Debra M. Witges  
*Vice President and Controller*

## BOARD OF DIRECTORS

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*President*  
*Kinder Morgan G.P., Inc.*

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*Gaylord Interests LLC*

Gary Hultquist (2)  
*Managing Director*  
*Hultquist Capital, LLC*

Perry M. Waughtal (1)  
*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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