

Rating: Sell  
S&P 500: 1312

## Kinder Morgan (KMI, KMP, KMR) Debt Exposé

<i>Symbol</i>	KMI	KMP	KMR	KMx
<i>Rating</i>	Sell	Sell	Sell	
<i>Price (US\$/sh)</i>	91.15	48.34	44.17	
<i>Pricing Date</i>	4/5/06	04/05/06	04/05/06	
<i>Publicly Held Shares (mm)</i>	139	145	46	
<i>Market Capitalization (US\$mm)</i>	12,700	7,010	2,020	21,700
<i>Debt (US\$mm)</i>	13,000	2,620	830	16,500
<i>Enterprise Value (EV) (US\$mm)</i>	25,700	9,630	2,850	38,200
<i>Present Value (PV) (US\$mm)</i>	17,600	4,800	1,510	23,900
<i>Net Present Value (US\$/share)</i>	33	15	15	
<i>Debt/Present Value</i>	0.74	0.55	0.55	0.69
<i>McDep Ratio - EV/PV</i>	1.46	2.01	1.88	1.60
<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	2,150	610	191	2,950
<i>North American Natural Gas/Ebitda (%)</i>	0	0	0	
<i>Natural Gas and Oil Production/Ebitda (%)</i>	6	19	19	
<i>Adjusted Reserves/Production NTM</i>	6.3	6.3	6.3	
<i>EV/Ebitda</i>	11.9	15.9	14.9	12.9
<i>PV/Ebitda</i>	8.2	7.9	7.9	8.1
<i>Undeveloped Reserves (%)</i>	42	42	42	
<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	21.91	21.91	21.91	
<i>Present Value Proven Reserves(US\$/boe)</i>	19.39	19.39	19.36	
<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.23	3.23	3.23	
<i>Earnings Next Twelve Months (US\$/sh)</i>	5.01	2.03	2.03	
<i>Price/Earnings Next Twelve Months</i>	18	24	22	20
<i>Indicated Annual Distribution (US\$/sh)</i>	3.50	3.20	3.20	
<i>Distribution Yield (%/yr)</i>	3.8	6.6	7.2	5.1
<i>Ebitda by Function</i>				
<i>Natural Gas Pipelines</i>	1563	170	53	1787
<i>Oil Products Pipelines</i>	224	168	53	444
<i>CO2 Pipelines</i>	211	158	50	419
<i>Terminals</i>	152	114	36	302

Reported results may vary widely from estimates.

Estimated present value per share revised only infrequently.

### Summary and Recommendation

Our rationale for recommending sale of the equity securities of **Kinder Morgan Inc. (KMI)**, **Kinder Morgan Energy Partners (KMP)**, and **Kinder Morgan Management LLC (KMR)** may be more evident to investors when general partner KMI reports its share of partnership debt. Responding to an action last year by the Financial Accounting Standards Board, the company's disclosure may be made when first quarter results are released on April 19. The event would

**Please see disclosures on the final page.**

begin to acknowledge that the tri-headed entity understates debt and overstates earnings. Perhaps starting to anticipate unfavorable accounting news, all three high McDep Ratio stocks are trading below their 200 day average price. The weakness comes at a time when the company wants to raise new capital to fund its multi-billion dollar projects and make the cash distributions it has promised to owners. Should any difficulty in financing become evident, investors could see accelerated stock price impairment toward estimated net present value of \$33 a share for KMI and \$15 a unit for KMP and KMR.

### **Hidden Debt to be Exposed**

Apparently KMx intends to comply partly with a proceeding last year by the Emerging Issues Task Force of the Financial Accounting Standards Board, EITF 04-5, that concludes a general partner who controls a limited partnership should account for the partnership on a consolidated basis. According to the Form 10-K filed by KMI with the Securities and Exchange Commission, had the company complied at year end 2005, liabilities on KMI's balance sheet would have increased by \$9.7 billion, or more than 50%.

Our numbers will not change substantively, we do not expect, because we have been estimating the impact of proportional consolidation. Our measure of debt approximates Total Assets minus a standard amount of Current Assets minus Equity minus Deferred Taxes. On that basis the ratio of debt to present value for the general partner, as we show it, is 0.74. The consolidated number we calculate is 0.69, the composite of 0.74 for the general partner and 0.55 for the limited partners.

In simplest terms, KMx has been running a debt pyramid. Normal debt limits might be 0.5. KMx has been borrowing up to 0.5 in the general partner, fictionalizing the limited partnership as independent and then borrowing up to 0.5 again. The limited partnership, in turn, has further unconsolidated entities that borrow more and increase the size of the pyramid.

### **Earnings Overstated**

Still to come, we believe KMx should take a writedown for the impairment of the balance sheet equity value of limited partners as a result of the escalating general partner "incentive" compensation. Half the limited partners' equity value, about \$2 billion, has effectively been taken by the general partner by its deception.

### **Stock Market Value Exceeds Business Value**

The swashbuckling conglomerateurs of 35 years ago overstated earnings and understated debt with convertible securities and then binged on acquisitions with hyped stock. Aggressive managers during the past decade issued themselves buckets of options, hyped the stock with overstated earnings that did not take account of the options expense and cashed in to the detriment of long-term investors. KMx overstates earnings and understates debt by disguising general partner compensation. Stock prices for the KMx entities exceed business value by up to 101% as indicated by a McDep Ratio of 2.01 for KMP. Inflated stock prices facilitated acquisitions that otherwise would have been difficult to make. Among other factors, accounting changes exposed the historical abuses of convertible securities and stock options. Now, accounting changes may have begun to expose the abuses of exploding general partner compensation.

**Please see disclosures on the final page.**

**Kinder Morgan, Inc.**  
**Next Twelve Months Financial Results**

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>
<b>Ebitda</b>									
Natural Gas Pipelines	139	238	<b>571</b>	334	334	334	334	<b>1,336</b>	<b>1,336</b>
Kinder Morgan Energy Partners	187	210	<b>789</b>	206	198	204	210	<b>818</b>	<b>818</b>
Total Ebitda	326	448	<b>1,360</b>	540	532	538	544	<b>2,154</b>	<b>2,154</b>
Deprec., Deplet., & Amort.	29	42	<b>131</b>	66	66	66	66	<b>264</b>	<b>264</b>
Kinder Morgan Energy Partners	33	85	<b>184</b>	85	85	84	83	<b>337</b>	<b>335</b>
<b>Ebit</b>	264	321	<b>1,045</b>	389	381	388	395	<b>1,553</b>	<b>1,555</b>
Interest	41	69	<b>199</b>	120	120	120	120	<b>480</b>	<b>480</b>
<b>Ebt</b>	223	252	<b>846</b>	269	261	268	275	<b>1,073</b>	<b>1,075</b>
Income Tax	78	88	<b>296</b>	94	91	94	96	<b>376</b>	<b>376</b>
<b>Net Income (\$mm)</b>	145	164	<b>550</b>	175	170	174	179	<b>698</b>	<b>699</b>
<b>Shares (millions)</b>	124	127	<b>124</b>	139	139	139	139	<b>139</b>	<b>139</b>
Per Share (\$)	1.17	1.29	<b>4.42</b>	1.26	1.22	1.25	1.28	<b>5.00</b>	<b>5.01</b>
Tax Rate	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>

**Kinder Morgan Energy Partners, L.P.**  
**Next Twelve Months Financial Results**

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>
<b>Oil Volume</b>									
Oil (mmb)	4.0	3.9	<b>16</b>	3.9	3.9	3.9	3.9	<b>16</b>	<b>16</b>
Oil (mbd)	45	43	<b>43</b>	43	43	43	43	<b>43</b>	<b>43</b>
<b>Oil Price (\$/bbl)</b>									
WTI Cushing	49.65	60.02	<b>56.31</b>	63.20	67.17	69.14	69.65	<b>67.29</b>	<b>68.95</b>
Partnership	29.73	30.22	<b>29.43</b>	30.62	31.10	31.32	31.38	<b>31.11</b>	<b>31.30</b>
<b>Oil Revenue (\$mm)</b>	120	119	<b>465</b>	118	121	124	124	<b>487</b>	<b>490</b>
<b>Ebitda</b>									
Products Pipelines	126	127	<b>503</b>	127	127	127	127	<b>508</b>	<b>508</b>
Natural Gas Pipelines	124	140	<b>501</b>	124	115	122	140	<b>501</b>	<b>501</b>
CO2 Pipelines	123	114	<b>472</b>	123	115	120	114	<b>472</b>	<b>472</b>
Terminals	74	85	<b>319</b>	85	85	85	85	<b>340</b>	<b>340</b>
Overhead	(79)	(52)	<b>(238)</b>	(52)	(52)	(52)	(52)	<b>(207)</b>	<b>(207)</b>
Total Ebitda	368	414	<b>1,557</b>	407	390	402	414	<b>1,614</b>	<b>1,614</b>
Deprec., Deplet., & Amort.	85	91	<b>349</b>	91	91	91	91	<b>364</b>	<b>364</b>
<b>Ebit</b>	283	323	<b>1,208</b>	316	299	311	323	<b>1,250</b>	<b>1,250</b>
Interest	59	68	<b>262</b>	68	68	68	68	<b>272</b>	<b>272</b>
<b>Ebt</b>	224	255	<b>946</b>	248	231	243	255	<b>978</b>	<b>978</b>
General Partner	112	126	<b>478</b>	130	131	131	132	<b>524</b>	<b>527</b>
<b>Net Income (\$mm)</b>	112	129	<b>468</b>	118	100	112	123	<b>453</b>	<b>451</b>
<b>Units (mm)</b>	208	219	<b>213</b>	220	221	222	223	<b>221</b>	<b>222</b>
Net Income Per Unit (\$/un)	0.54	0.59	<b>2.20</b>	0.54	0.45	0.50	0.55	<b>2.05</b>	<b>2.03</b>
Distribution Per L.P. Unit	0.74	0.79	<b>3.07</b>	0.80	0.80	0.80	0.80	<b>3.20</b>	<b>3.20</b>
<b>Distribution (\$mm)</b>	265	301	<b>1,129</b>	306	307	309	310	<b>1,232</b>	<b>1,237</b>
General Partner	111	128	<b>476</b>	130	131	131	132	<b>524</b>	<b>527</b>
Limited Partner	154	173	<b>653</b>	176	177	177	178	<b>708</b>	<b>711</b>
<b>General Partner Share</b>									
Earnings	50%	49%	<b>51%</b>	52%	57%	54%	52%	<b>54%</b>	<b>54%</b>
Distribution	42%	42%	<b>42%</b>	43%	43%	43%	43%	<b>43%</b>	<b>43%</b>

Kurt H. Wulff, CFA

Please see disclosures on the final page.

**Disclaimer:** This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**Research Methodology/Ratings Description:** McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.