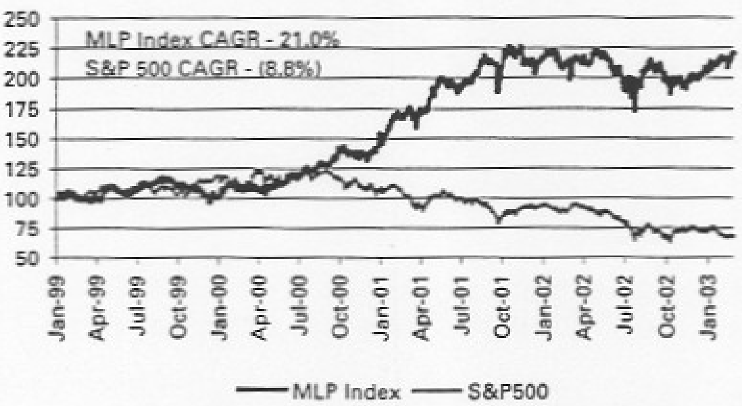
Valuation

While lagging behind the S&P 500 during 1999 and early 2000, the Deutsche Bank MLP Index has now surpassed the S&P 500, outperforming it by 153% since January 1999

Figure 5: Total return – MLP Index vs. S&P 500



Source: FactSet

EPN has just recently begun to underperform the Deutsche Bank MLP Index, but has outperformed since 1999

Figure 6: Total return – EPN vs. MLP Index (excluding EPN)

Source: FactSet

Like its peers, EPN has significantly outperformed the S&P 500 since January 1999

Figure 7: Total return – EPN vs. S&P 500

Source: FactSet

ENTERPRISE PROD. NYSE-EPD

RECENT PRICE 26.62 | P/E RATIO 22.8 (Trailing: 34.6 Median: NMF) | RELATIVE P/E RATIO 1.21 | DIV'D YLD 6.0% | VALUE LINE

TIMELINESS 3 Raised 11/12/04
SAFETY 3 New 12/21/01
TECHNICAL 2 Raised 3/18/05
BETA .65 (1.00 = Market)

2008-10 PROJECTIONS	Price	Gain	Ann'l Total Return
High	45	(+70%)	18%
Low	30	(+15%)	9%

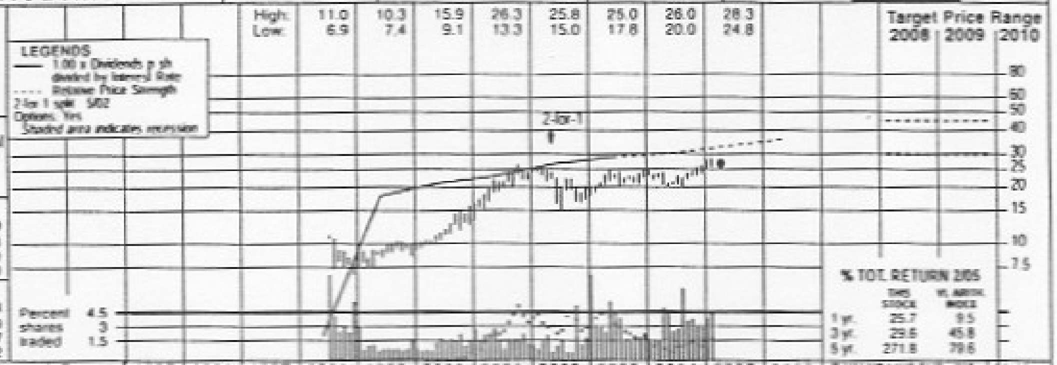
Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	1	6	0	0	4	1	0	0	3
Options	0	0	0	0	0	0	0	1	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2004	3Q2004	4Q2004
to Buy	51	64	159
to Sell	31	97	27
Hld's(000)	15723	30164	44522

	1998	1999	2000	2001	2002	2003	2004	2005
High	11.0	10.3	15.9	26.3	25.8	25.0	26.0	28.3
Low	6.9	7.4	9.1	13.3	15.0	17.8	20.0	24.8



% TOT. RETURN 2/05	THIS STOCK	VL ARITH. INDEX
1 yr.	25.7	9.5
3 yr.	29.6	45.8
5 yr.	271.8	79.6

Enterprise Products Partners, L.P. was formed in 1968. The Partnership offered 22,500,000 limited partnership common units to the public on May 13, 1998 at a price of $11.13 per unit. The deal was underwritten by Lehman Brothers. Subsequent to the offering, the company had 100,444,444 common units and 47,208,888 subordinated units outstanding, adjusted for a stock split.

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
--	--	--	5.52	9.99	18.20	18.25	20.73	24.64	22.90	26.25	25.65	Revenues per Unit	29.50
--	--	--	.42	1.08	1.55	1.69	1.11	1.09	1.20	1.80	1.90	"Cash Flow" per Unit	2.35
--	--	--	.31	.82	1.32	1.39	.54	.58	.87	1.20	1.30	Earnings per Unit A	1.70
--	--	--	.16	.90	1.05	1.16	1.33	1.44	1.51	1.80	1.96	Dist. Decl'd per Unit B	2.30
--	--	--	.06	.16	1.44	.86	.42	.67	.55	.65	.70	Cap'l Spending per Unit	.65
--	--	--	4.16	5.86	5.54	6.58	6.94	7.86	14.95	15.30	15.80	Book Value per Unit	17.80
--	--	--	132.93	133.39	168.87	174.21	172.95	216.98	363.00	380.00	385.00	Units Outst'g C	390.00
--	--	--	28.2	11.1	8.8	14.7	39.2	37.5	25.9	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	22.0
--	--	--	1.47	.63	.57	.75	2.14	2.14	1.38			Relative P/E Ratio	1.55
--	--	--	1.8%	9.9%	9.0%	5.7%	6.3%	6.6%	6.7%			Avg Ann'l Dis'l Yield	5.8%
--	--	--	738.9	1333.0	3073.1	3179.7	3623.8	5346.4	8318.1	9970	9880	Revenues ($mill)	11500
--	--	--	7.3%	10.8%	9.3%	10.7%	7.1%	7.5%	7.5%	10.0%	10.5%	Operating Margin	10.5%
--	--	--	19.2	25.3	41.0	51.9	86.1	115.8	198.9	230	240	Depreciation ($mill)	265
--	--	--	37.3	120.3	220.5	242.2	105.7	140.4	231.2	455	500	Net Profit ($mill)	660
--	--	--	--	--	--	--	1.5%	4.7%	1.4%	Nil	Nil	Income Tax Rate	Nil
--	--	--	5.0%	9.0%	7.2%	7.6%	2.9%	2.6%	2.8%	4.6%	5.1%	Net Profit Margin	5.7%
--	--	--	54.9	d146.6	d5.0	109.6	d83.8	d409.7	800	965	990	Working Cap'l ($mill)	705
--	--	--	90.0	166.0	404.0	855.3	2231.5	1899.5	4300	4300	4000	Long-Term Debt ($mill)	4000
--	--	--	562.5	789.5	936.0	1146.9	1200.9	1706.0	5425	5810	6090	Partners' Capital	6940
--	--	--	6.8%	13.5%	17.8%	13.4%	4.6%	5.8%	3.0%	5.5%	6.0%	Return on Total Cap'l	7.0%
--	--	--	6.6%	15.2%	23.6%	21.1%	8.8%	8.2%	4.5%	8.0%	8.0%	Return on Partners'Cap'l	9.5%
--	--	--	2.8%	1.1%	8.5%	6.6%	NMF	NMF	NMF	NMF	NMF	Retained to Part.'s Cap	NMF
--	--	--	58%	93%	64%	69%	NMF	NMF	NMF	NMF	NMF	All Dist. to Net Prof	NMF

CAPITAL STRUCTURE as of 9/30/04
Total Debt $5579.4 mill. Due in 5 Yrs $2.5 bill.
LT Debt $4972.2 mill. LT Interest $215.0 mill.
(LT interest earned: 2.2x) (49% of Cap'l)

Leases, Uncapitalized: Annual rentals $18.3 mill.

No Defined Benefit Pension Plan

Pfd Stock None

Partners' Capital 361,986,867 units (as of 11/4/04)
MARKET CAP: $9.6 billion (Large Cap)

CURRENT POSITION ($MILL.)	2002	2003	9/30/04
Cash Assets	22.6	44.3	146.6
Receivables	399.4	462.5	828.7
Inventory (Avg Cst)	167.4	150.2	327.0
Other	48.2	30.2	1226.4
Current Assets	637.6	687.2	2528.7
Accts Payable	108.1	106.4	107.7
Debt Due	15.0	240.0	607.2
Other	598.3	750.5	1101.2
Current Liab.	721.4	1096.9	1816.1

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '08-'10
Revenues	--	31.0%	NMF
"Cash Flow"	--	25.0%	22.0%
Earnings	--	22.0%	23.5%
Dividends	--	52.0%	NMF
Book Value	--	11.5%	NMF

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2002	671.3	793.3	949.3	1209.9	3623.8
2003	1481.5	1210.7	1234.8	1419.4	5346.4
2004	1704.9	1713.3	2040.3	2859.6	8318.1
2005	2620	2520	2450	2380	9970
2006	2590	2510	2420	2360	9880

Cal-endar	EARNINGS PER UNIT A D Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2002	.06	.05	.14	.27	.54
2003	.25	.14	.07	.14	.58
2004	.23	.11	.21	.28	.87
2005	.29	.30	.30	.31	1.20
2006	.31	.32	.33	.34	1.30

Cal-endar	QUARTERLY DISTRIBUTIONS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.275	.275	.294	.313	1.16
2002	.313	.335	.335	.345	1.33
2003	.345	.363	.363	.373	1.44
2004	.373	.373	.373	.395	1.51
2005	.40				

BUSINESS: Enterprise Products Partners, L.P., is one of the leading integrated providers of natural gas and natural gas liquids processing, fractionation, transportation, and storage services. Its assets are geographically focused on the U.S. Gulf Coast. Enterprise value is approximately $5 billion. Acquired GulfTerra Energy Partners 9/30/04; Acadian Gas LLC, 4/1/01; Shell's LA and MS NGL business, 8/1/99. 2003 op. income: fractionation, 39%; pipeline, 65%; processing, (4%). 2003 depr. rate: 2.7%. Has about 782 employees. 36,000 unitholders. Mgmt. owns 65% of the units (5/04 prospectus). Chairman: Dan L. Duncan. Pres. & CEO: Robert G. Phillips. Org.: TX. Addr.: 2727 North Loop West, Ste. 700, Houston, TX 77008. Tel.: (713) 880-6500. Web: www.epplp.com.

Business fundamentals continue to improve for Enterprise Products Partners. The company posted record operating margin of $175 million, reflecting improvements across all business segments, thanks in part to a full quarter's contribution from the GulfTerra merger. What's more, EPD has already realized $120 million of the expected $140 million in annual merger savings. NGL pipeline volumes for the quarter increased 9%, as demand remained favorable (despite the ill effects of Hurricane Ivan). EPD's natural gas processing business accounted for half of the 72% increase in operating margin for the NGL Pipelines & Service segment. The integration of GulfTerra was truly felt in the Onshore Natural Gas Pipelines & Services division, where operating margin rose to $72 million in the fourth quarter, versus about $4 million the year prior. Because of the share dilution incurred with the GulfTerra deal, net income describes Enterprise's growth in 2004 better than EPS.

We believe the strength in demand will continue through 2005. As such, we have modeled 38% growth in earnings per unit for this year. Increased drilling in the Rockies, as well as the deepwater Gulf of Mexico, will continue to move more energy through EPD's pipes and platforms. Furthermore, The GulfTerra merger has provided EPD with approximately $2 billion worth of organic growth projects over the next three years, including opportunities to construct new facilities or expand existing assets. For instance, the expansion of some of Enterprise's western NGL assets to add production in the Rocky Mountain and San Juan regions is one possibility.

This stock offers a very solid yield. Enterprise has establishing its position as a premier midstream player. The company recently nudged its annual cash distribution to $1.60 a share. We estimate that the annualized rate will reach $1.80 by year-end, given EPD's strong cash flow generating ability and the strong energy fundamentals and robust petrochemical demand the company is enjoying. Appreciation potential out to 2008-2010 is about average, but given Enterprise's acquisition history, we suspect that the company's value may likely grow well beyond what we currently project.

Edward Plank *March 18, 2005*

(A) Diluted earnings per unit of limited partnership. Next earnings report due mid-April.
(B) Distributions historically paid in mid February, May, August, November.
(C) In millions.
(D) Quarters may not sum due to change in shares outstanding.

Company's Financial Strength	B
Stock's Price Stability	85
Price Growth Persistence	85
Earnings Predictability	45

KINDER MORGAN EN. NYSE-KMP

RECENT PRICE 46.51 | P/E RATIO 20.5 (Trailing: 21.0 Median: 16.0) | RELATIVE P/E RATIO 1.09 | DIV'D YLD 6.7% | VALUE LINE

TIMELINESS 3 Raised 8/6/04
SAFETY 2 Raised 9/11/04
TECHNICAL 3 Lowered 1/14/05
BETA .70 (1.00 = Market)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
High:	8.6	6.7	7.3	20.6	19.1	22.8	28.9	39.7	38.9	49.9	49.1	47.6
Low:	5.8	6.0	6.1	6.8	14.3	16.5	18.2	25.2	23.9	33.5	37.7	42.8

2008-10 PROJECTIONS

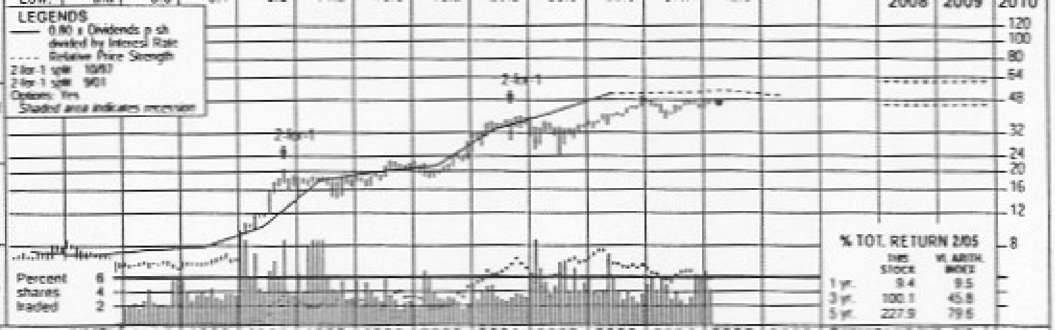
	Price	Gain	Ann'l Total Return
High	60	(+30%)	12%
Low	45	(-5%)	6%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	1	0
Options	0	0	0	0	0	0	0	1	0
to Sell	0	0	1	0	0	0	1	1	0

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	107	112	129
to Sell	108	92	81
Hld's(000)	26157	25540	26842



Kinder Morgan Energy Partners (KMP) was formed in 1992 as Enron Liquids Pipeline, L.P., to own and operate certain Enron Corp. assets. The Partnership offered 22.6 million limited partnership units to the public in 1992 at $5.75 per unit, adjusted for splits, through Lehman Brothers. In February 1997, Richard Kinder and William Morgan formed Kinder Morgan, Inc., which acquired the Partnership's general partner. In October 1999, Kinder Morgan, Inc. was acquired by K N Energy, which simultaneously changed its name to Kinder Morgan, Inc. (KMI), with Mr. Kinder as CEO.

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
2.47	2.74	2.76	3.30	3.63	6.05	17.77	23.42	35.04	38.70	40.00	41.75	Revenues per Unit	47.20
.79	.83	.95	1.30	1.43	2.00	2.38	2.84	3.17	3.55	3.75	4.05	"Cash Flow" per Unit	5.05
.43	.45	.51	1.05	1.22	1.34	1.56	1.96	2.00	2.22	2.25	2.40	Earnings per Unit A	3.25
.63	.63	.81	1.19	1.39	1.60	2.08	2.36	2.58	2.81	3.10	3.22	Dist. Decl'd per Unit B	3.75
.30	.33	.26	.39	.70	.93	1.78	3.00	3.05	2.30	2.80	2.75	Cap'l Spending per Unit	3.25
4.68	4.50	5.47	13.81	14.87	15.43	18.72	18.48	18.13	18.55	19.65	20.50	Book Value per Unit	23.00
26.04	26.04	26.82	97.63	118.27	135.03	165.80	180.91	189.04	205.00	215.00	218.00	Units Outst'g C	230.00
14.9	14.7	27.0	16.8	16.1	16.0	21.8	17.0	20.1	20.0	Bold figures are		Avg Ann'l P/E Ratio	16.5
1.00	.92	1.56	.87	.92	1.04	1.12	.93	1.15	1.04	Value Line		Relative P/E Ratio	1.10
9.9%	9.6%	5.9%	6.8%	7.1%	7.5%	6.1%	7.1%	6.4%	6.3%	estimates		Avg Ann'l Dist'l Yield	7.0%
64.3	71.3	73.9	322.6	428.8	816.4	2946.7	4237.1	6624.3	7932.9	8600	9100	Revenues ($mill)	10850
43.0%	37.9%	50.4%	54.9%	53.6%	48.8%	24.0%	21.2%	15.5%	15.9%	15.5%	15.5%	Operating Margin	18.0%
9.6	9.9	10.1	37.3	46.5	82.6	142.1	172.0	219.0	288.6	335	360	Depreciation ($mill)	425
11.3	11.9	17.7	117.2	175.3	278.3	442.3	608.4	693.9	831.6	850	885	Net Profit ($mill)	1325
11.3%	10.1%	--	1.3%	5.1%	4.8%	3.6%	2.5%	2.3%	2.3%	3.0%	3.0%	Income Tax Rate	3.0%
17.6%	16.7%	24.0%	36.3%	40.9%	34.1%	15.0%	14.4%	10.5%	10.5%	9.9%	9.7%	Net Profit Margin	12.2%
8.4	10.3	10.4	d7.6	d187.3	d587.7	d394.7	d143.9	d98.9	d327.7	d80.0	30.0	Working Cap'l ($mill)	d120
156.9	160.2	146.8	580.1	989.1	1255.5	2231.6	3659.5	4438.1	4850	5250	5650	Long-Term Debt ($mill)	6350
123.1	118.3	150.2	1360.7	1774.8	2117.1	3159.0	3415.9	3510.9	3895	4320	4585	Partners' Capital	5450
6.3%	6.5%	8.1%	7.0%	7.3%	9.6%	9.5%	9.8%	9.8%	10.5%	10.0%	9.5%	Return on Total Cap'l	12.0%
9.2%	10.1%	11.8%	8.6%	9.9%	13.1%	14.0%	17.8%	19.8%	21.5%	19.5%	19.0%	Return on Partners' Cap'l	24.5%
NMF	NMF	NMF	NMF	NMF	NMF	NMF	1.1%	.4%	1.0%	.5%	.1%	Retained to Part.'s Cap	2.5%
NMF	NMF	NMF	103%	108%	103%	104%	94%	98%	95%	99%	99%	All Dist. to Net Prof	90%

CAPITAL STRUCTURE as of 12/31/04
Total Debt $4852.6 mill. Due in 5 Yrs $1170 mill.
LT Debt $4852.6 mill. LT Interest $200 mill.
(LT interest earned: 5.3x) (55% of Cap'l)
Leases, Uncapitalized: Annual rentals $30.5 mill.
Pension Assets-12/04 NMF Oblig. $5.6 mill.
Partners' Capital: 207,008,949 units
147,537,908 publicly held common units
59,471,041 class B and i units
(Class B units are held entirely by KMI
I-Units owned by KMR and are not traded)

MARKET CAP: $9.6 billion (Large Cap)

CURRENT POSITION ($MILL.)	2002	2003	12/31/04
Cash Assets	41.1	23.3	--
Receivables	475.5	590.6	752.3
Inventory (Avg Cst)	11.8	18.0	29.2
Other	141.0	73.6	71.7
Current Assets	669.4	705.5	853.2
Accts Payable	427.1	477.8	731.6
Debt Due	--	2.2	--
Other	386.2	324.4	449.3
Current Liab.	813.3	804.4	1180.9

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '08-'10
Revenues	30.0%	54.0%	9.0%
"Cash Flow"	16.5%	22.0%	9.0%
Earnings	17.5%	22.5%	8.5%
Dividends	27.0%	21.5%	7.0%
Book Value	12.5%	18.5%	3.0%

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2003	1788.0	1664.0	1650.8	1521.5	6624.3
2004	1822.3	1957.2	2014.7	2138.7	7932.9
2005	2100	2125	2175	2200	8600
2006	2200	2275	2300	2325	9100

Calendar	EARNINGS PER UNIT A D Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2003	.50	.48	.49	.51	2.00
2004	.52	.51	.59	.59	2.22
2005	.58	.56	.54	.57	2.25
2006	.62	.60	.58	.60	2.40

Calendar	QUARTERLY DISTRIBUTIONS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.55	.59	.61	.61	2.36
2003	.625	.64	.65	.66	2.58
2004	.68	.69	.71	.73	2.81
2005	.74				

BUSINESS: Kinder Morgan Energy Partners, L.P., is the nation's largest pipeline master limited partnership. It owns about 10,500 miles of petroleum products and CO2 pipelines; 10,000 miles of natural gas pipelines; and 77 liquids terminals and dry bulk transfer facilities. Acquired Santa Fe Pacific Pipeline Part's., '98; GATX pipeline assets, 1Q '01. 2003 op. inc.: products pipelines, 35%; gas pipelines, 30%; CO2, 16%; bulk terminals, 19%. Depr. rate: 2.8%. Has about 1,300 employees, 36,000 unit holders. Kinder Morgan, Inc. owns 19% of the units (2003 form 10K). Chairman & CEO of the general partner: Richard D. Kinder; President: Michael Morgan. Organized: DE. Address: 500 Dallas Street; Houston, TX, 77002. Tel.: 713-369-9000. Internet: www.kindermorgan.com.

Kinder Morgan Energy Partners' earnings per unit expanded 11.0% in 2004, and management looks for slim gains for the current year. All four of its business segments contributed toward the 2004 increase, with most of it coming in the CO2 pipeline segment, which increased profits almost 75%, to around $350 million, thanks to increased oil production at both the SACROC and Yates fields. In 2005, the CO2 segment had a realized weighted average oil price of $25.72, about $2 ahead of the prior year, and is currently 95% hedged in 2005, at a realized price of $28.11. Too, at yearend the SACROC facility was producing 32,200 barrels of oil per day, and the company would like to increase this metric to 36,500 for the current year. KMP expects the Yates field to produce about 20,000 barrels of oil for years to come, but should see production at SACROC begin decline in production within the next 10 years . . . **Therefore, the company will need to develop other sources of revenue such as liquefied natural gas (LNG).** The company has many pipelines along the Texas Gulf Coast, which is where many regasification plants would potentially be located. The company also plans to build a new 77-mile pipeline to connect LNG terminals to its current pipeline grid. This scheduled to be in service in January of 2009, and will most likely be beneficial to earnings at about the same time that oil production tails off at the SACROC field.

KMP appears likely to make further acquisitions and expansions in 2005. Management plans to spend approximately $600 million on capital expenditures, similar to the prior year's figure, and is working on some acquisitions that may be announced as early as the end of the first quarter. The company will most likely continue funding these expansions through the use of both equity and debt financing.

These shares are neutrally ranked for the year ahead and have limited appeal over the 3- to 5-year pull. Cash distributions have increased for the past eight years, and we expect this trend to continue at a good rate over the 3- to 5-year pull. Too, KMP's dividend yield of 6.7%, is above that of the average equity covered by *Value Line*.

Evan I. Blatter *March 18, 2005*

(A) Primary earnings per unit of limited partnership interest. Excl. nonrec. items: '99, 14¢; Q1, '02: 2¢. Next earnings report due late April.
(B) Distribution payment dates: mid-Feb., May, Aug., Nov. Holders are not taxed on cash distributions, but on their proportional shares of KMP's taxable income. In the first year of ownership, a limited partner's taxable income is about 10% of the year's cash distribution.
(C) In millions, adjusted for splits.
(D) 2003 & 2004 Qtly. egs may not sum due to changes in shares outstanding.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	100
Earnings Predictability	85

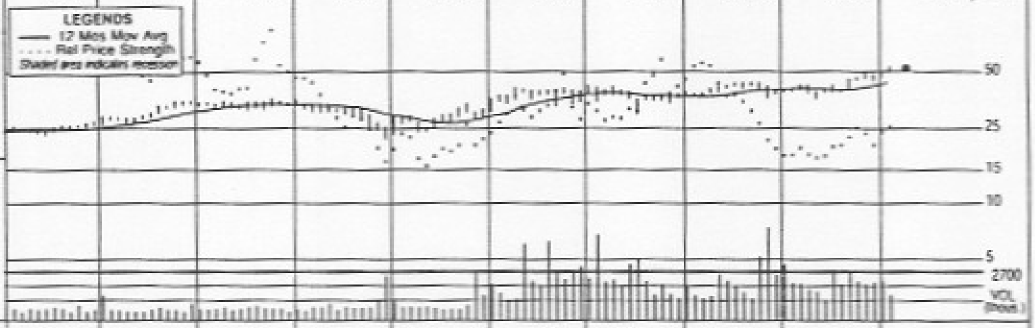
NORTHERN BORDER PART NYSE-NBP

RECENT PRICE 52.06 | TRAILING P/E RATIO 18.0 | RELATIVE P/E RATIO 0.89 | DIV'D YLD 6.1% | VALUE LINE

RANKS											
High	27.37	35.00	36.12	35.50	33.62	41.20	42.50	44.07	49.54	52.99	High
Low	22.88	26.12	31.12	21.63	23.06	30.25	29.30	35.98	35.70	46.70	Low

PERFORMANCE 3 Average
Technical 3 Average
SAFETY 2 Above Average
BETA .55 (1.00 = Market)

LEGENDS
— 12 Mos Mov Avg
.... Rel Price Strength
Shaded area indicates recession



Financial Strength B++
Price Stability 100
Price Growth Persistence 50
Earnings Predictability 5

© VALUE LINE PUBLISHING, INC.	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005/2006
SALES PER SH	7.71	7.52	7.41	10.87	10.78	11.09	11.31	11.98	--	
"CASH FLOW" PER SH	3.67	3.49	3.45	4.56	4.37	3.98	4.34	d.20	--	
EARNINGS PER SH	1.88	1.97	1.97	2.70	2.50	2.15	2.44	d2.16	2.89	2.58 A,B/NA
DIV'DS DECL'D PER SH	2.20	2.20	2.30	2.44	2.65	2.99	3.20	3.20	--	
CAP'L SPENDING PER SH	.71	5.78	22.23	3.48	.63	3.04	1.14	.65	--	
BOOK VALUE PER SH	15.36	18.59	16.95	17.21	18.17	21.98	21.55	17.25	--	
COMMON SHS OUTST'G (MILL)	26.20	26.39	29.35	29.35	31.50	41.62	43.81	46.40	--	
AVG ANN'L P/E RATIO	13.4	15.4	16.9	11.1	11.2	17.5	15.4	--	18.0	20.2/NA
RELATIVE P/E RATIO	.84	.89	.88	.63	.73	.90	.84	--	--	
AVG ANN'L DIV'D YIELD	8.8%	7.3%	6.9%	8.2%	9.5%	8.0%	8.5%	7.9%	--	
SALES ($MILL)	201.9	198.6	217.6	319.0	339.7	461.5	495.6	555.9	--	*Bold figures*
OPERATING MARGIN	86.0%	81.2%	79.4%	83.2%	81.8%	70.6%	67.3%	23.4%	--	*are consensus*
DEPRECIATION ($MILL)	47.0	40.2	43.5	54.5	61.1	76.7	76.2	82.9	--	*earnings*
NET PROFIT ($MILL)	50.3	53.0	59.1	81.0	76.7	89.0	113.7	d92.0	--	*estimates*
INCOME TAX RATE	--	--	--	--	--	--	--	--	--	*and, using the*
NET PROFIT MARGIN	24.9%	26.7%	27.2%	25.4%	22.6%	19.3%	22.9%	NMF	--	*recent prices,*
WORKING CAP'L ($MILL)	d14.0	28.0	d11.8	d177.8	d47.0	d362.2	d71.3	7.3	--	*P/E ratios.*
LONG-TERM DEBT ($MILL)	360.0	478.8	974.0	848.4	1127.5	1070.8	1336.0	1408.2	--	
SHR. EQUITY ($MILL)	410.6	500.7	507.4	515.3	572.3	915.0	944.0	800.6	--	
RETURN ON TOTAL CAP'L	8.6%	7.2%	5.0%	8.4%	6.9%	6.8%	6.8%	NMF	--	
RETURN ON SHR. EQUITY	12.2%	10.6%	11.7%	15.7%	13.4%	9.7%	12.0%	NMF	--	
RETAINED TO COM EQ	NMF	NMF	NMF	1.6%	NMF	NMF	NMF	NMF	--	
ALL DIV'DS TO NET PROF	117%	111%	116%	90%	105%	NMF	NMF	NMF	--	

A No. of analysts changing earn. est. in last 5 days: 0 up, 0 down, consensus 5-year earnings growth not available. B Based upon 9 analysts' estimates.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	8.5%	6.0%
"Cash Flow"	-5.0%	--
Earnings	-16.0%	--
Dividends	7.0%	--
Book Value	3.5%	-20.0%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/02	118.0	123.3	126.2	128.1	495.6
12/31/03	138.2	134.3	138.0	145.4	555.9
12/31/04	145.1	143.2	148.1	156.8	590.4
12/31/05					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/01	.54	.51	.65	.45	2.15
12/31/02	.61	.67	.67	.49	2.44
12/31/03	.70	.56	d3.92	.50	d2.16
12/31/04	.74	.66	.69	.80	2.89
12/31/05	*.68*	*.62*	*.64*		

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2002	.80	.80	.80	.80	3.20
2003	.80	.80	.80	.80	3.20
2004	.80	.80	.80	.80	3.20
2005	.80				

INSTITUTIONAL DECISIONS

	2Q'04	3Q'04	4Q'04
to Buy	33	48	45
to Sell	41	28	35
Hld's(000)	5301	6249	6606

ASSETS ($mill.)	2002	2003	9/30/04
Cash Assets	34.7	35.9	40.3
Receivables	55.4	61.5	72.4
Inventory	5.3	7.8	6.4
Other	9.4	9.0	8.1
Current Assets	104.8	114.2	127.2
Property, Plant & Equip, at cost	2869.4	2912.1	--
Accum Depreciation	854.1	920.0	--
Net Property	2015.3	1992.1	1942.4
Other	605.4	464.3	467.4
Total Assets	2725.5	2570.6	2537.0
LIABILITIES ($mill.)			
Accts Payable	30.6	20.8	49.7
Debt Due	67.8	7.7	17.9
Other	77.8	78.4	55.0
Current Liab	176.2	106.9	122.6

LONG-TERM DEBT AND EQUITY as of 9/30/04

Total Debt $1363.2 mill. Due in 5 Yrs. NA
LT Debt $1345.3 mill.
Including Cap. Leases NA
(63% of Cap'l)

Leases, Uncapitalized Annual rentals NA

Pension Liability None in '03 vs. None in '02

Pfd Stock None Pfd Div'd Paid None

Common Stock 46,397,214 shares
(37% of Cap'l)

INDUSTRY: Natural Gas (Div.)

BUSINESS: Northern Border Partners, L.P., through its subsidiaries, engages in the ownership and management of natural gas pipelines, as well as in the gathering and processing of natural gas. It transports natural gas imported from Canada to the United States. The company operates through three segments: Interstate Natural Gas Pipelines, Natural Gas Gathering and Processing, and Coal Slurry Pipeline. The Interstate Natural Gas Pipelines segment offers natural gas transmission services in the midwestern United States. The Natural Gas Gathering and Processing segment provides services for the gathering, treatment, processing, and compression of natural gas, as well as the fractionation of natural gas liquids for third parties and related field services. The Coal Slurry Pipeline segment operates the 273-mile pipeline in the United States. Has 420 employees. Chairman & C.E.O.: William R. Cordes. Inc.: DE. Address: 13710 FNB Parkway, Omaha, NE 68154. Tel.: (402) 492-7300. Internet: http://www.northernborderpartners.com.

E.B.

March 18, 2005

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 2/28/2005

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
9.25%	30.77%	37.97%	70.65%	156.05%

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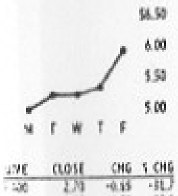
Page 1 of 2

'S SCORECARD Fri., December 31, 2004 4 p.m. ET

tage Gainers...

Applica (N)
$6.05, up 10.6%

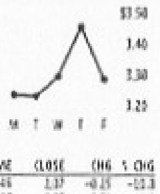


VOLUME	CLOSE	CHG	% CHG
[illegible]	2.70	+0.65	+31.7
[illegible]	2.93	+0.53	+22.1
[illegible]	3.96	+0.69	+21.2
[illegible]	2.95	+0.39	+15.2
[illegible]	26.99	+3.49	+14.9
[illegible]	2.30	+0.29	+14.4
[illegible]	9.80	+1.15	+13.3
[illegible]	4.87	+0.57	+13.3
[illegible]	2.37	+0.28	+12.5
[illegible]	2.59	+0.29	+12.6
[illegible]	16.60	+1.83	+12.4
[illegible]	11.75	+1.25	+11.9
[illegible]	5.77	+0.71	+11.7
[illegible]	3.90	+0.40	+11.4
[illegible]	2.32	+0.24	+11.3
[illegible]	5.47	+0.54	+10.8
[illegible]	5.88	+0.57	+10.7
[illegible]	41.19	+3.98	+10.6
[illegible]	5.29	+0.50	+10.6
[illegible]	7.24	+0.69	+10.5

And Losers

NovAtel (Nq)
$44.39, down 6.2%

Avanex (Nq)
$3.31, down 4.9%



ISSUE (EXCH)	VOLUME	CLOSE	CHG	% CHG
APA Ent (Nq)	18,165	2.37	-0.25	-10.3
[illegible] (Nq)	480,297	7.37	-0.71	-8.8
SelasCp (A)	7,200	2.06	-0.17	-7.5
BarrettBus (Nq)	49,700	13.32	-1.12	-7.5
[illegible] (A)	4,400	2.23	-0.15	-6.7
[illegible] (A)	146,400	21.09	-1.48	-6.6
Schaffer (A)	46,100	4.40	-0.30	-6.4
NovAtel (Nq)	1,276,548	44.39	-2.91	-6.2
[illegible] (A)	16,200	2.53	-0.15	-5.6
Genus Inc (Nq)	240,625	1.91	-0.11	-5.4
EvrgrnSolar (Nq)	551,423	4.37	-0.25	-5.4
PrfrmaLine (Nq)	22,200	28.98	-1.59	-5.2
[illegible] (Nq)	1,125,122	95.43	-5.17	-5.1
[illegible] (Nq)	2,100	19.31	-1.04	-5.1
Carti (Nq)	556,228	3.22	-0.27	-4.9
SLink (Nq)	106,107	51.97	-2.58	-4.9
[illegible] (N)	58,700	13.00	-0.67	-4.9
Avanex (Nq)	1,506,273	3.31	-0.17	-4.9
AltaPerrmo ADS (Nq)	1,900	7.42	-0.38	-4.9
BancCp (Nq)	45,101	3.23	-0.42	-4.9

Diaries

	NYSE	NASDAQ	AMEX
Issues traded	3,377	3,257	1,001
Advances	1,751	1,604	524
Declines	1,466	1,499	332
Unchanged	160	154	95
New highs	265	128	31
New lows	3	2	3
zAdv vol (000s)	387,912	571,334	22,706
zDecl vol (000s)	389,858	523,479	19,309
zTotal vol (000s)	787,253	1,108,703	44,728
Closing Tick	+195	+313	+103
Closing Arms[1] (trin)	1.23	.99	1.15
zBlock trades	9,855	34,433	3,737

Breakdown of Trading

BY MARKET	NYSE	NASDAQ	AMEX
New York	787,252,560	...	2,744,800
Chicago	33,192,333	4,431,708	7,402,250
CBOE	...	...	158,000
Arca/Ex	35,671,700	217,544,390	28,897,250
Nasdaq MktCntr	125,466,670	751,287,552	43,086,640
NASD ADF[1]	...	18,328,700	...
Phila	3,337,500	...	34,900
Amex	...	996,400	44,723,050
Boston	17,968,900	...	1,302,400
National	12,208,100	319,092,552	11,871,100
Composite	992,099,840	1,001,703,302	140,296,870

NYSE First crossing: [illegible] shares, value n.a.
Second (basket) 31,141,414 shares, value 1,748,597,829
[1] A comparison of the number of [illegible] and [illegible] issues with the [illegible]

age Leaders

VOLUME	CLOSE	CHG
[illegible]	59	+0.13
[illegible]	1.16	+0.51
[illegible]	26.72	-0.04
[illegible]	7.62	-0.14
[illegible]	13.72	-0.16
[illegible]	19.92	-0.08
[illegible]	3.75	-0.01
[illegible]	22.39	-0.14
[illegible]	29.32	-0.10
[illegible]	125.37	-0.25
[illegible]	1.17	-1.02
[illegible]	5.39	-0.00

NEW YORK STOCK EXCHANGE COMPOSITE TRANSACTIONS

NYSE Highs & Lows

December 31, 2004 4 p.m. ET

New 52-Week Highs — 265

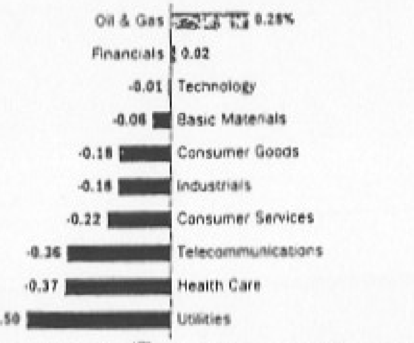
[illegible]

New 52-Week Lows — 3

[illegible]

Market by the Slice

Performance of Dow Jones U.S. Industries, ranked by percentage change



INDUSTRY	INDEX/PRICE	CHG	% CHG	YTD % CHG
Basic Materials	200.33	-0.13	-0.06	+10.62
Monsanto	55.55	-0.65	-1.16	+93.02
DowChem	49.51	-0.39	-0.78	+19.10
Consumer Goods	266.44	-0.49	-0.18	+10.60
Electrnlrts	61.68	-1.23	-1.96	-29.36
ProctGam	55.08	-0.37	-0.67	+10.29
Consumer Services	306.85	-0.68	-0.22	+9.56
eBay	116.28	-1.67	-1.42	+79.97
WalMart	52.82	-0.24	-0.45	-0.43
Financials	492.54	+0.07	+0.02	+13.44
Citigroup	48.18	+0.15	+0.31	-0.74
AmIntlGp	65.67	+0.14	+0.21	-0.92
Health Care	295.22	-1.09	-0.37	-3.21
EliLilly	56.75	-0.75	-1.30	-19.31
Pfizer	26.89	-0.12	-0.44	-23.89
Industrials	272.24	-0.50	-0.18	+15.51
3M	82.07	-0.68	-0.82	-1.48
GenElec	36.50	-0.10	-0.27	+17.82
Oil & Gas	319.76	+0.89	+0.28	+29.94
ValeroEngy	45.40	+0.71	+1.59	+95.94
ExxnMobl	51.26	-0.23	-0.45	+25.02
Technology	299.78	-0.03	-0.01	+1.17
OracleCp	13.72	-0.14	-1.01	+3.70
CiscoSys	19.30	-0.13	-0.67	-20.35
Telecommunications	136.84	-0.50	-0.36	+14.87
BellSouth	27.79	-0.19	-1.58	-1.80
Verizon	40.51	-0.27	-0.66	+15.48
Utilities	126.79	-0.69	-0.50	+19.42
SouthernCo	33.52	-0.40	-1.18	+10.81
DukeEngy	25.33	-0.26	-1.02	+23.86

www.djindexes.com

Continued From Page C3

YTD % CHG	52-WEEK HI	LO	STOCK (SYM)	DIV	YLD %	PE	VOL 100s	CLOSE	NET CHG
[illegible]									

M

YTD % CHG	52-WEEK HI	LO	STOCK (SYM)	DIV	YLD %	PE	VOL 100s	CLOSE	NET CHG
[illegible]									

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K

44.0	107.51	60.27	KB Home KBH	1.50f	1.4	9	6155	104.40	0.80
40.1	15.09	8.68	KCS Engy KCS		...	10	3405	14.78	0.35
28.9	35	23.70	KSeaTrnsp KSP n	1.50e	4.3	...	94	34.91	0.05
14.4	22.90	16.55	KT Crp ADS KTC	.79e	3.6	...	2048	21.81	-0.07
-13.5	28.06	14.64	KV Pharm A KVA		...	25	884	22.05	-0.08
-12.1	29.73	16.25	KV Pharm B KVB		...	25	59	22.78	0.11
4.4	19	12.60	K2 KTO		...	21	2009	15.88	0.30
-5.3	23.49	17.72	KadantInc KAI		...	36	242	20.50	-0.25
19.8	61.40	39	KanPipLP KPP	3.42	5.6	23	371	60.87	-0.03
37.7	43.42	25.51	KanebSer KSL	1.98	4.6	20	189	43.19	-0.01
23.8	18.08	12.60	KSCitySo KSU		...	cc	1618	17.73	-0.02
-9.3	6.50	4.36	KatyInd KT		...	dd	266	5.18	0.03
27.8	34.02	24.65	Kaydon KDN	.48	1.5	23	621	33.02	-0.30
0.0	25.73	24.15	KynAndrsnInv KYN n	.25p	...	...	652	25	0.15
0.4	18.20	12.68	KeaneInc KEA		...	33	1172	14.70	-0.16
7.7	25.74	15.61	KeithlyInstr KEI	.15	.8	29	409	19.70	-0.21
17.3	45.32	37	+Kellogg K	1.01	2.3	21	4707	44.66	0.17
-15.9	45.10	31.32	Kellwood KWD	.64	1.9	13	1139	34.50	0.37
-34.6	16.70	7.44	KemetCp KEM		...	dd	8518	8.95	0.25
25.2	52.71	38.28	+Kennmetl KMT	.68	1.4	21	1341	49.77	-0.55
5.0	37.39	24.66	KenCole A KCP	.56	1.8	17	466	30.86	0.28
24.3	63.24	46.11	KerrMcGee KMG	1.80	3.1	19	8931	57.79	-0.26
54.1	62.75	38.30	KerznerIntl KZL		...	30	445	60.05	-0.59
14.5	13.96	7	KeyEngy KEG If		...	cc	4396	11.80	0.09
15.6	34.50	28.23	KeyCp KEY	1.24	3.7	15	8314	33.90	0.08
7.2	41.53	33.87	KeySpan KSE	1.82f	4.6	16	2801	39.45	-0.23
30.5	44.08	29.97	KilroyRlty KRC	1.98	4.6	42	2390	42.75	0.05
13.3	67.84	55.24	KimbClark KMB	1.60	2.4	18	9081	65.81	-0.23
29.6	59.28	39.53	+KimcoRlty KIM	2.44f	4.2	22	5819	57.99	-0.40
-10.0	49.90	37.65	KindrMrgEgy KMP	2.92f	6.6	21	3366	44.33	-0.19
23.7	73.82	56.85	KindrMorgan KMI	2.25	3.1	21	2687	73.13	0.56
-3.6	43.72	33.65	KindrMrgMg KMR	2.92f	7.2	31	494	40.70	-0.03
15.2	30.65	22.21	Kindred KND s		...	cc	1190	29.95	-0.04
88.9	78.37	37.75	KineticCnpts KCI n		...	cc	3931	76.30	-0.68
-18.7	20.62	10.01	KingPharm KG		...	dd	6601	12.40	0.13
40.0	15.86	9.90	KingswayFin KFS		...	9	76	15.88	0.12
-11.9	8.56	4.79	KinrossGld KGC		...	39	4539	7.04	0.03
27.2	46.48	30.19	KirbyCp KEX		...	23	373	44.38	-0.21
17.5	15.61	12.50	KiteRltyTr KRG nx	.28e	1.8	...	286	15.28	0.15
10.0	11.10	10.25	KMG America KMA n		...	...	1754	11	0.59
45.0	25.78	14.85	KnightTrnsp KNX s	.02p	...	33	2840	24.80	-0.37
-13.5	80	62.24	KnghtRidder KRI	1.38	2.1	17	2461	66.94	-0.15
2.3	18.90	15.80	Knoll KNL n		...	...	531	17.50	-0.13
9.4	54.10	39.59	KohlsCp KSS		...	26	17624	49.17	0.47
-21.9	30.99	20.50	Konami ADS KNM	.49e	2.1	...	32	23.15	0.13
3.3	44.20	27.10	Kookmin ADS KB	.84e	2.2	...	666	39.08	0.42
36.4	10.50	7.05	KoorInd KOR		...	...	324	10.56	0.06
27.4	13.94	8.70	KoreaElecPwr KEP	.50e	3.8	...	3391	13.24	0.01
55.5	21.36	11.70	KornFerry KFY		...	29	2189	20.75	-0.19
10.5	36.06	29.45	KftFoods KFT	.82	2.3	21	8540	35.61	0.09
29.3	23.65	14.40	+Kramont KRT	1.30	5.6	...	738	23.40	0.08
-65.6	39.99	9.30	KrspyKrm KKD		...	dd	16285	12.60	0.20
-5.2	19.67	14.65	Kroger KR		...	63	24841	17.54	0.33
83.6	48.84	21.50	KronosWrldwd KRO	1.00	2.5	7	84	40.75	0.23
17.7	27.90	19.05	Kubota ADS KUB	.28e	1.1	...	11	24.65	0.28
14.9	90.90	66.25	Kyocera KYO	.56e	.7	...	299	76.98	0.43

L

citigroup
Smith Barney

See page 7 for Analyst Certification and Important Disclosures

Industry Note

United States

Master Limited Partnerships

Master Limited Partnership Monthly Update (October 2004)

October 6, 2004

David LaBonte

SUMMARY

- In September, our composite of 19 energy-related MLPs generated a 4.9% total return, its best one-month total return of the year. For comparison, the S&P 500 Index generated a total return of 1.1% last month.
- We attribute much of this strength to the relatively high yields offered by MLPs in a yield-starved market.
- Our investment thesis continues to be that MLP performance will depend more on the direction of interest rates than on underlying business fundamentals.
- Investors should differentiate between which MLPs have good distribution growth prospects since such growth can: 1) lead to higher overall total returns, and 2) help offset the potentially adverse consequences of an eventual rise in interest rates.
- The opportunity to capture a rising income stream is the primary reason we would favor MLPs over bonds or preferred stocks.

OPINION

Figure 1. MLP Composite: Expected Total Return Potential (View Using PDF Format)

Partnership Name	Rating	Price 10/6/04	Target Price	Cur. Dist.	Proj. Dist.	Est. Dist. Yield	Return to Target	Total Return Potential	Est. Tax Deferral
Alliance Resource (ARLP)	2M	$59.50	$51.50	$2.60	$3.10	5.2%	-13.4%	-8.2%	70%
AmeriGas (APU)	2M	$29.83	$26.00	$2.20	$2.20	7.4%	-12.8%	-5.5%	80%
Buckeye (BPL)	2L	$45.00	$40.00	$2.65	$2.80	6.2%	-11.1%	-4.9%	70%
Enbridge Energy (EEP)	2H	$48.07	$46.00	$3.70	$3.70	7.7%	-4.3%	3.4%	90%
Energy Transfer (ETP)	1M	$48.70	$53.00	$3.30	$3.70	7.6%	8.8%	16.4%	95%
Enterprise Products (EPD)	1M	$23.25	$26.00	$1.49	$1.80	7.7%	11.8%	19.6%	90%
Ferrellgas (FGP)	2H	$22.08	$22.00	$2.00	$2.10	9.5%	-0.4%	9.1%	95%
Kaneb Pipe Line (KPP)	2L	$52.77	$47.00	$3.42	$3.50	6.6%	-10.9%	-4.3%	85%
Kinder Morgan (KMP)	2L	$47.65	$43.50	$2.84	$3.05	6.4%	-8.7%	-2.3%	95%
Magellan Midstream (MMP)	1L	$54.65	$56.50	$3.48	$3.95	7.2%	3.4%	10.6%	80%
Natural Resource (NRP)	1M	$42.74	$48.50	$2.40	$2.90	6.8%	13.5%	20.3%	70%
Northern Border (NBP)	2H	$46.28	$40.00	$3.20	$3.20	6.9%	-13.6%	-6.7%	95%
Pacific Energy (PPX)	1M	$28.95	$28.50	$1.95	$2.15	7.4%	-1.6%	5.9%	80%
Plains All American (PAA)	1M	$36.82	$37.00	$2.40	$2.60	7.1%	0.5%	7.6%	70%
Suburban Propane (SPH)	2M	$34.77	$32.50	$2.45	$2.55	7.3%	-6.5%	0.8%	80%
Sunoco Logistics (SXL)	2M	$39.60	$36.00	$2.35	$2.50	6.3%	-9.1%	-2.8%	80%
TC PipeLines (TCLP)	2M	$38.60	$34.00	$2.30	$2.40	6.2%	-11.9%	-5.7%	95%
TEPPCO (TPP)	2L	$42.03	$37.50	$2.65	$2.80	6.7%	-10.8%	-4.1%	90%
Valero (VLI)	2M	$57.25	$48.50	$3.20	$3.40	5.9%	-15.3%	-9.3%	80%

Near-term market volatility and short-term trading patterns may cause the Expected Total Return to become temporarily misaligned relative to the hurdle for these stocks' fundamental rating, as defined under our current system.

Source: Smith Barney

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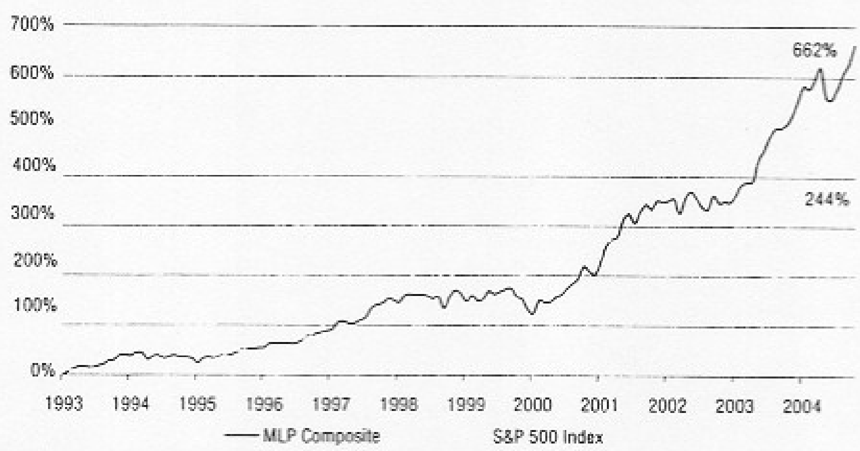
MLP COMPOSITE: PERFORMANCE REVIEW AND INVESTMENT THESIS

In September, our composite of 19 energy-related MLPs generated a 4.9% total return, its best one-month total return of the year. For comparison, the broad equity market, as measured by the S&P 500 Index, generated a total return of 1.1% last month. We attribute much of this strength to the relatively high yields offered by MLPs in a yield-starved market. Another factor that seems to have helped boost performance was an initial public offering of an MLP dedicated closed-end investment company that raised about $750 million in gross proceeds. In this regard, we suspect some investors may have tried to "front-run" some of the investment company's potential purchases.

Since experiencing a sell-off of 8.1% between April and May (compared to a decline of less than 1% for the S&P 500 Index), our composite has generated a 16.2% total return. (The equity benchmark has posted a positive total return of less than 1% during this period.) The selling pressure between April and May was largely related to the sharp upward move in interest rates during that period and concerns among investors that the Federal Reserve would continue raising interest rates to head off inflationary pressures. However, with the yield of the 10-year U.S. Treasury dropping from 4.9% to 4.2% over the past several months, investors have continued to allocate money to this unique asset class. Year to date, our composite is up 11.7% on a total return basis, which compares favorably to the 1.5% total return generated by the S&P 500 Index during the same period.

Our investment thesis continues to be that MLP performance will depend more on monetary policy and the direction of interest rates than on underlying business fundamentals. However, with interest rates seemingly reversing their upward trend in recent months and possibly heading lower, it seems that MLPs may be poised to continue their recent strong performance. Nonetheless, investors who are looking to put money to work in this group should focus on MLPs that have visible distribution growth prospects. Indeed, investors should differentiate between which MLPs have good distribution growth prospects since such growth can: 1) lead to higher overall total returns, and 2) help offset the potentially adverse consequences of an eventual rise in interest rates. The average distribution growth rate for the MLPs in our universe has historically exceeded 5% annually. Our research suggests that annual distribution increases should remain in this range. The opportunity to capture a rising income stream is the primary reason we would favor MLPs over bonds or preferred stocks, which only provide fixed income streams.

Figure 2. MLP Composite vs. S&P 500 Index with Dividend Reinvested (View Using PDF Format)



Source: Smith Barney

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THE IMPACT OF CHANGING INTEREST RATES ON VALUATION

Our research indicates the statistical correlation between changes in the direction of interest rates and MLP performance is relatively low. For example, using monthly data points since the inception of our composite in 1993, we derived a correlation coefficient of 0.38 between the MLP Composite Yield and 10-year U.S. Treasury. (A correlation coefficient close to 1.0 indicates a strong positive correlation between two random variables.) We attribute this low correlation primarily to the ability of most MLPs to increase cash distributions. Not surprisingly, we believe this unique ability for growth will generally have a greater influence on valuation than changing interest rates. (The correlation is tighter today than it has been historically given the amount of capital that poured into the group last year given the unusually low interest rate environment.) Nonetheless, we are not suggesting that investors should completely disregard the prevailing interest rate environment.

We believe that analyzing the term structure of interest rates can provide insight for anticipating whether investors may be more or less likely to allocate capital to this asset class. To illustrate, we think the relative appeal of the yields offered by MLPs is likely to increase during periods of low interest rates. (In our opinion, the period of low interest rates between 2002 and 2004 is a good example of how the demand for MLPs can increase.) Conversely, we think the attractiveness of owning MLPs can become diminished during periods of strong economic growth and rising interest rates. (We believe the final two years of the stock market bubble between 1998 and 1999 highlights how investors may look elsewhere for total return.) As a result, we feel that yield spread analysis can be useful for identifying value.

MLP COMPOSITE YIELD VS. 10-YEAR U.S. TREASURY

To help identify periods of relative under- and over-valuation, we like to examine the historical relationship between the yields of our MLP Composite and 10-year U.S. Treasury. We believe that understanding a change in the historical yield spread can help identify factors that may influence future performance. In our opinion, the narrowing and widening of the yield spread is primarily explained by fluctuations in the term structure of interest rates and changes in both the specific and market-related risks associated with each MLP in our group. Specific risks relate to factors that are unique to a partnership, such as its earnings power or ability to cover its cash distribution. Market-related risks are associated with macro factors affecting the overall industry, such as the adverse consequences of a warm winter for a retail propane distribution company. We believe these risks may, from time to time, exert a greater influence on the risk premium of an MLP than the expectation regarding the general direction of interest rates.

The current spread of our MLP Composite compared to the Treasury benchmark is about 240 basis points (bps), which is 45 bps narrower than its historical average. However, the current spread between our Pipeline MLP Composite and 10-year U.S. Treasury is about 235 bps, which is 20 bps wider than its historical average. This spread suggests that the market is valuing our Pipeline MLP Composite as if the yield of the 10-year U.S. Treasury will increase to 4.4% from 4.2% over the next 12 months. (The historical spread of our Pipeline MLP Composite to the 10-year U.S. Treasury is approximately 215 bps.) Assuming that cash distributions increase as we expect over the next 12 months and the unit prices of the pipeline MLPs in our composite remain flat, the market could be valuing these MLPs as if the yield of the 10-year U.S. Treasury could rise more than 50 bps to 4.75% over the next year. This relatively large spread to the Treasury benchmark may suggest that current valuations are reasonable.

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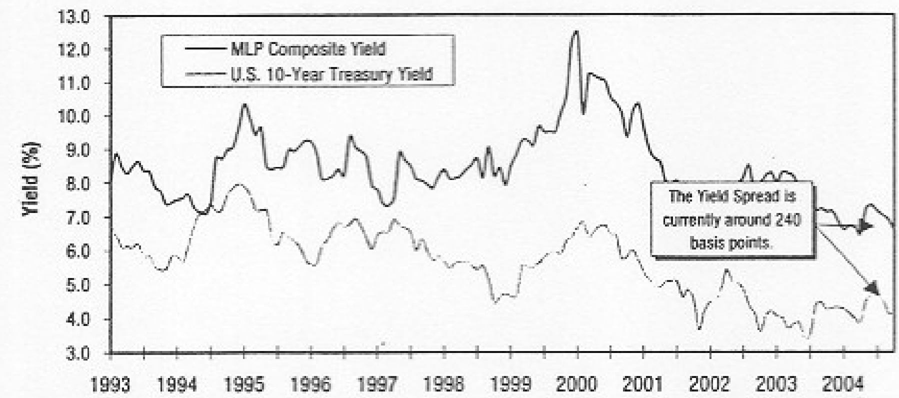
The historical yield spread between our MLP Composite and 10-Year U.S. Treasury has averaged about 285 basis points.

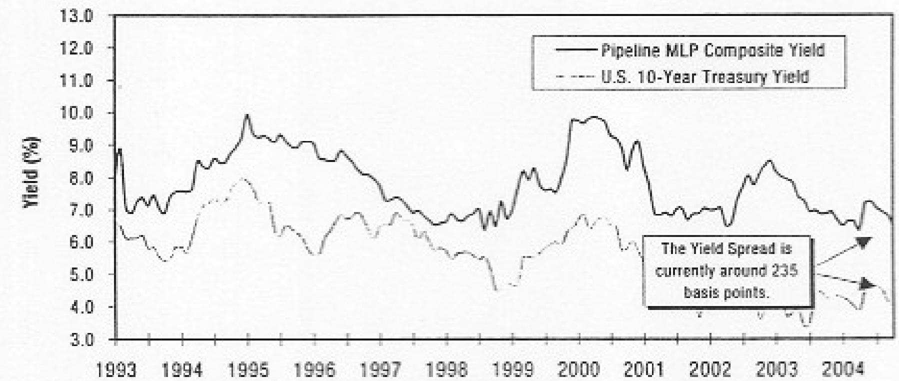
Figure 3. MLP Composite vs. 10-Year U.S. Treasury (View Using PDF Format)



Source: Smith Barney

The historical yield spread between our Pipeline MLP Composite and 10-Year U.S. Treasury has averaged about 215 basis points.

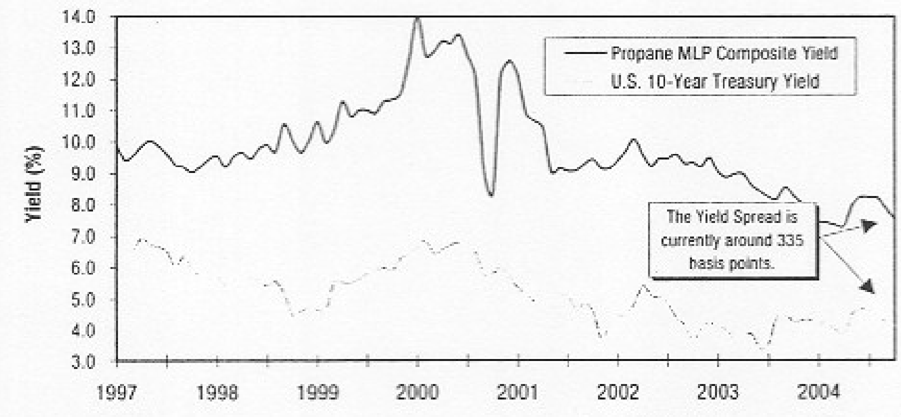
Figure 4. Pipeline MLP Composite vs. 10-Year U.S. Treasury (View Using PDF Format)



Source: Smith Barney

The historical yield spread between our Propane MLP Composite and 10-Year U.S. Treasury has averaged about 480 basis points.

Figure 5. Propane MLP Composite vs. 10-Year U.S. Treasury (View Using PDF Format)



Source: Smith Barney

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Figure 6. MLP Composite Annual Total Returns, 1998A-Present (View Using PDF Format)

Partnership Name	1998	1999	2000	2001	2002	2003	YTD
Alliance Resource		-33.8%	68.8%	64.4%	-2.8%	53.3%	69.2%
AmeriGas	-0.5%	-26.2%	26.0%	48.3%	17.8%	27.9%	11.9%
Buckeye	7.7%	-2.1%	20.9%	38.9%	9.7%	26.0%	1.8%
Enbridge Energy	19.0%	-22.1%	29.9%	10.2%	9.0%	28.2%	1.4%
Energy Transfer	0.4%	-9.7%	33.0%	47.7%	4.4%	57.8%	20.0%
Enterprise Products	-31.1%	36.5%	86.7%	58.6%	-12.3%	35.4%	-0.6%
Ferrellgas	-15.2%	-17.5%	20.4%	60.4%	18.8%	29.1%	-3.2%
Kaneb Pipe Line	-0.4%	-18.2%	41.9%	40.7%	-7.7%	57.6%	7.5%
Kinder Morgan	14.4%	22.6%	46.4%	42.5%	-0.6%	50.2%	-0.3%
Magellan Midstream				102.5%	-16.8%	65.4%	15.4%
Natural Resource					3.5%	114.8%	1.6%
Northern Border	2.5%	-23.5%	50.1%	34.4%	5.7%	12.3%	23.8%
Pacific Energy					3.0%	60.7%	2.7%
Plains All American	-13.4%	-18.3%	63.0%	46.8%	2.1%	43.4%	16.8%
Suburban Propane	13.5%	2.7%	40.2%	30.2%	17.6%	22.0%	14.2%
Sunoco Logistics					24.8%	64.8%	11.6%
TC PipeLines		-28.7%	51.5%	43.6%	10.8%	34.8%	19.1%
TEPPCO	-0.8%	-15.1%	38.8%	31.3%	-0.2%	56.3%	8.6%
Valero				43.9%	6.5%	34.3%	17.2%
MLP Composite	*0.9%*	*-9.8%*	*46.9%*	*37.7%*	*2.8%*	*47.0%*	*11.7%*
S&P 500 Index	*28.6%*	*21.0%*	*-9.1%*	*-11.9%*	*-22.1%*	*28.7%*	*1.5%*

Source: Smith Barney

Figure 7. Annual Cash Distribution Growth Rates, 1998A-2004E (View Using PDF Format)

Partnership Name	1998	1999	2000	2001	2002	2003	YTD	2004[1]
Alliance Resource		0%	0%	0%	0%	5%	24%	24%
AmeriGas	0%	0%	0%	0%	0%	0%	0%	0%
Buckeye	0%	5%	9%	4%	0%	2%	4%	4%
Enbridge Energy	10%	2%	0%	0%	3%	3%	0%	0%
Energy Transfer	0%	13%	0%	9%	4%	2%	27%	27%
Enterprise Products	0%	0%	17%	19%	10%	8%	0%	7%
Ferrellgas	0%	0%	0%	0%	0%	0%	0%	5%
Kaneb Pipe Line	0%	8%	0%	7%	5%	6%	2%	2%
Kinder Morgan	26%	15%	17%	29%	11%	8%	8%	10%
Magellan Midstream				10%	21%	16%	7%	10%
Natural Resource					0%	5%	12%	26%
Northern Border	5%	6%	15%	9%	5%	0%	0%	0%
Pacific Energy					0%	5%	0%	5%
Plains All American		7%	-4%	11%	5%	2%	9%	5%
Suburban Propane	0%	2%	5%	5%	2%	2%	4%	4%
Sunoco Logistics					0%	14%	15%	15%
TC PipeLines		0%	6%	5%	5%	5%	5%	5%
TEPPCO	13%	6%	11%	10%	4%	8%	2%	4%
Valero				0%	17%	7%	7%	7%
MLP Composite	*5.3%*	*4.2%*	*5.3%*	*7.6%*	*5.7%*	*5.2%*	*6.5%*	*8.3%*

1. Reflects our current cash distribution projections, which also factors into our 12-month price targets

Source: Smith Barney

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DOES IT MAKE SENSE TO OWN MLPS IN A RETIREMENT ACCOUNT?

Generally, all the taxable net income received by a tax-exempt investment vehicle such as an IRA, Keogh, or 401(k) plan from an MLP may be considered unrelated business taxable income (UBTI). Such income is usually subject to federal income tax if the total amount of UBTI from all partnership interests exceeds $1,000 in any taxable year. Therefore, a partner may be subject to income taxes in an otherwise tax-exempt retirement account. Investors should consult with their tax advisers regarding any retirement account investing.

ANALYST CERTIFICATION

APPENDIX A-1

I, David L. LaBonte, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Smith Barney Equity Research Ratings Distribution

Data current as of 30 September 2004	Buy	Hold	Sell
Smith Barney Global Equity Research Coverage (2473)	40%	44%	17%
% of companies in each rating category that are investment banking clients	55%	55%	47%

Guide To Investment Ratings:

Smith Barney's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low [L], Medium [M], High [H], and Speculative [S].

Investment ratings are a function of Smith Barney's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy [1] (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold [2] (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell [3] (negative total return).

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy [1] (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold [2] (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell [3] (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk rating, or a change in target price. At other times, the expected total returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

WACHOVIA SECURITIES

November 10, 2003

Master Limited Partnerships: A Primer

Key Points

- This report is a quick reference guide to familiarize investors with publicly traded Master Limited Partnerships (MLPs). We have structured this report as a question and answer guide to make it easy to reference specific issues or concepts.

- MLPs are limited partnerships whose interests (limited partner units) are traded on public exchanges just like corporate stock (shares). MLPs consist of a general partner (GP) and limited partners (LPs). The GP (1) manages the partnership, (2) generally has a 2% ownership stake in the partnership, and (3) is eligible to receive an incentive distribution. The LPs (1) provide capital, (2) have no role in the partnership's operations and management, and (3) receive cash distributions.

- Due to its partnership structure, MLPs generally do not pay income taxes. Thus, unlike corporate investors, MLP investors are not subject to double taxation on dividends. LPs typically receive a tax shield equivalent to (in most cases) 80-90% of their cash distributions in a given year. Thus, an investor is typically paying income taxes roughly equal to 10-20% of his/her distribution. The tax-deferred portion of the distribution is not taxable until the unitholder sells the security.

- During the past one and five years (as of November 7, 2003), our MLP composite has delivered total returns of 45.6% and 17.6%, respectively, versus the S&P 500 Index total returns of 18.8% and negative 0.2% and the Dow Jones 15 Utilities Index returns of 13.7% and negative 4.0%, respectively. Year to date, our MLP composite has appreciated 28.6%.

- In our view, MLPs are appropriate for yield-oriented investors seeking current income and modest price appreciation. Our MLP universe has typically been priced to yield in the 6-9% range. Assuming an MLP raises its distribution in the 3-7% range (the estimated distribution growth range for our coverage universe), the expected total return would be in the low double digits.

- Risks to MLP investments underperforming the overall stock market include rising interest rates, ability to access external capital to fund growth, an adverse regulatory environment, terrorist attacks on energy infrastructure, and an overall economic downturn.

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Please see page 12 for rating definitions, disclosure information, and required analyst certifications.

OILSV111003-165901

Introduction

This goal of this quick reference guide is to familiarize investors with the MLP investment vehicle. We have structured this report in a question and answer format to make it easy to reference specific issues or concepts. As always, feel free to call us with any questions.

What Is An MLP?

Master Limited Partnerships (MLPs) are limited partnerships whose interests (limited partner units) are traded on public exchanges just like corporate stock (shares). MLPs consist of a general partner (GP) and limited partners (LPs). The GP (1) manages the partnership, (2) generally has a 2% ownership stake in the partnership, and (3) is eligible to receive an incentive distribution. The LPs (1) provide capital, (2) have no role in the partnership's operations and management, and (3) receive cash distributions.

What Qualifies As An MLP?

To qualify as an MLP, a partnership must receive at least 90% of its income from qualifying sources such as natural resource activities, interest, dividends, real estate rents, income from sale of real property, gain on sale of assets, and income and gain from commodities or commodity futures. Natural resource activities include income exploration, development, mining or production, processing, refining, transportation, storage and marketing of any mineral or natural resource. Currently, most MLPs are involved in energy, timber, or real-estate-related businesses.

How Have MLPs Performed Relative To Other Investments?

During the past one and five years (as of November 7, 2003), our MLP composite has delivered total returns of 45.6% and 17.6%, respectively, versus the S&P 500 Index total returns of 18.8% and negative 0.2% and the Dow Jones 15 Utilities Index returns of 13.7% and negative 4.0%, respectively. Year to date, our MLP composite has appreciated by 28.6%.

What Are The Advantages Of The MLP Structure?

Due to its partnership structure, MLPs generally do not pay income taxes. Thus, unlike corporate investors, MLP investors are not subject to double taxation on dividends. In addition, the elimination of double taxation effectively lowers the partnership's cost of capital. This, in turn, enhances the partnership's competitive position vis-à-vis corporations in the pursuit of expansion projects and acquisitions. For example, the partnership can derive more value than a corporation from an identical acquisition or effectively pay more for acquisitions and realize the same accretion that a corporation could only achieve at a lower purchase price.

Who Pays Taxes?

Because the MLP is a partnership and not a corporation, the partners in the business--the LPs (unitholders) and the GP--are required to pay tax on their allocable share of the partnership's income, gains, losses, and deductions, including accelerated depreciation and amortization deductions. The amount of taxes allocated to each LP is determined by several factors including the LP's percentage ownership in the partnership when the investment was made and price at that time.

What Are The Tax Advantages For The LP Unitholder (The Investor)?

Due to the MLP structure, LPs typically receive a tax shield equivalent to (in most cases) 80-90% of their cash distributions in a given year. Thus, an investor typically pays income taxes roughly equal to 10-20% of his/her distribution. The tax-deferred portion of the distribution is not taxable until the unitholder sells the security. This is how it works:

(1) LP unitholders receive quarterly cash distributions from the partnership each year. Distributions reduce the unitholder's original basis in his/her units. The unitholder pays capital gains taxes as well as ordinary income tax on deferred income when he/she sells the security.

(2) Net income from the partnership is allocated each year to unitholders, who are then required to pay tax on his/her share of allocated net income regardless of whether they receive distributions. In general, distributions are well in excess of any tax liability. However, the unitholder is also allocated a share of the MLP's deductions (such as depreciation and amortization), losses, and tax credits. These deductions often offset a majority of the allocated income, thereby reducing the amount of current taxable income. Taxes are not paid on the portion of allocated income that is shielded by deductions until the investor sells the security. This is the tax-deferral benefit of owning an MLP. When the investor sells the security, there is a recapture of the deductions (depreciation, etc.), meaning the income that was deferred by the deductions becomes taxable income and is taxed as ordinary income.

An investor's tax basis is adjusted downward by distribution and allocation of deductions (such as depreciation) and losses, and upward by the allocation of income. The net effect (i.e., the difference between cash distributions and allocated taxable income) creates a tax deferral for the investor. When the units are sold, a portion of the gain is paid at the capital gains rate and a portion of the gain (resulting from the tax shield created by allocated deductions) is taxed at the ordinary income tax rate.

While this all may seem a bit confusing, the bottom line is this. In a given year, an investor will typically only pay ordinary income tax equal to 10-20% of cash distributions received. The remaining 80-90% is deferred until the investor sells the security.

Investors should consult with a tax advisor concerning their individual tax status.

Example Of Purchase And Sale Mechanics

We provide an example in order to illustrate the mechanics of a purchase and a sale. Assume an individual had purchased 100 units of MLP XYZ for $20 per unit, held the units for three years, and then sold them for $22 per unit. Over this three-year period, MLP XYZ had a yield of 7% (i.e., it paid a distribution of $1.40 per unit in year 1) and grew its distribution at an annual rate of 5%. Also assume that the stock price appreciates in line with the distribution increases, maintaining a 7% yield. Thus, when the distribution is increased 5% in year 2, to $1.47 per unit, the stock price appreciates to $21 ($1.47/.07), maintaining a 7% yield.

When the individual sells the security after three years, the tax consequences would be as follows. In years 1, 2, and 3, assuming the tax-deferral rate is 90%, the investor would have to pay tax on allocable income equivalent to approximately 10% of his/her cash distributions. In year 1, based on 100 units, the investor would pay taxes of roughly $5 ($0.05 per unit), assuming a 35% tax bracket on 10% of $140 (or $1.40 per unit). The investor's tax basis would be reduced by $1.40 per unit in year 1 based on cash distributions received but would also be increased by $0.14 per unit (i.e., the amount of allocated *taxable* income). Thus, the net effect in year 1 would be a reduction of the investor's basis in the security by roughly $126 (or $1.26 per unit).

Assumptions			Year 1 Per Unit	Year 1 Total	Year 2 Per Unit	Year 2 Total	Year 3 Per Unit	Year 3 Total
Units	100	Initial Investment	$20	($2,000)				
Purchase Price	$20	Distribution	$1.40	$140.0	$1.47	$147.0	$1.54	$154.4
Annual Distribution	$1.40	Tax Deferred Income (Tax Shield)	$1.26	$126.0	$1.32	$132.3	$1.39	$138.9
Yield Assumption	7%	Taxable Income	$0.14	$14	$0.15	$15	$0.15	$15
Distribution Growth Rate	5%	Current Taxes Paid	$0.049	$4.9	$0.051	$5.1	$0.054	$5.4
Personal Tax Rate	35%	Implied Stock Price	$20.00	$2,000.0	$21.00	$2,100.0	$22.05	$2,205.0
Tax Deferral Rate	90%	Cost Basis	$18.74	$1,874	$17.42	$1,742	$16.03	$1,603

Source: Wachovia Capital Markets, LLC estimates

After three years, the investor's tax basis in the units would be $16.03 per unit.

Tax Implications -- Per LP Unit	Year 1	Year 2	Year 3
Original Basis	$20.00	$18.74	$17.42
MINUS: Cash Distributions	$1.40	$1.47	$1.54
PLUS: Taxable Income	$0.14	$0.15	$0.15
Net Reduction In Cost Basis	$1.26	$1.32	$1.39
Adjusted Basis	$18.74	$17.42	$16.03

Source: Wachovia Capital Markets, LLC estimates

Therefore, when the investor sells the security for $22.05 per unit at the end of year 3, he/she would realize a total gain of approximately $6.00 per unit in addition to having received $4.41 per unit in cash distributions over the three year period. This includes a capital gain of $2.05 (the difference between the selling price of $22.05 and the purchase price of $20.00 per unit) and ordinary income of about $4.00 per unit (the difference between the purchase price of $20.00 per unit and the adjusted cost basis of $16.03 per unit), which is the recapture of depreciation and amortization deductions. Thus, taxes would total $1.70 per unit, consisting of $0.31 capital gains tax and $1.39 of ordinary income. On 100 units, this would be roughly $170. Therefore, on a $2,000 investment over three years, an investor would earn a gross profit of $205 from the sale of the security, pay taxes on allocable net income over three years of $15.45, and pay long-term capital gains and ordinary income taxes totaling $170 at the time of sale. This represents an internal rate of return (IRR) of approximately 8.2%.

Year 3 Tax Consequences	Per Unit	Total
Proceeds From Sale	$22.05	$2,205.0
Cost Basis	$16.03	$1,603
Pretax Gain On Sale	$6.02	$602
Pretax IRR		11.2%
After-Tax Gain On Sale	$4.32	$432
After-Tax IRR		8.2%

Gain From Capital Appreciation	Per Unit	Total
Capital Gain	$2.05	$205
Taxes On Capital Gain (15%)	$0.31	$31

Gain From Reduction In Basis	Per Unit	Total
Recapture of Tax Shield	$3.97	$397
Taxes On Ordinary Income (35%)	$1.39	$139

Source: Wachovia Capital Markets, LLC estimates
Note: IRR is internal rate of return.

What Is The K-1 Statement?

The K-1 form is the statement that an MLP investor receives each year from the partnerships that shows his/her share of the partnership's income, gain, loss, deductions, and credits. It is similar to a Form 1099 received from a corporation. The investor pays tax on the portion of net income allocated to him/her (which is shielded by losses, deductions, and credits) at his/her individual tax rate. If the partnership reports a net loss (after deductions), it is considered a "passive loss" under the tax code and may not be used to offset income from other sources. However, the loss can be carried forward and used to offset future income from the same MLP. K-1 forms are usually distributed in February, and some can be retrieved online.

Who Can Own MLPs?

MLPs have traditionally been owned by retail investors. Institutional investors such as mutual funds cannot own MLPs because distributions and allocated income from partnerships are considered nonqualifying income. Under the current tax code, mutual funds are required to receive 90% of their income from qualifying sources such as interest and dividends. Of note, there is potential legislation in the energy bill that would make MLPs a qualifying source of income for mutual funds, but the passage of such legislation is uncertain.

In addition, tax-exempt investment vehicles such as pension funds generally cannot own MLP units because they generate unrelated business taxable income (UBTI). This means MLP income is considered income earned from business activities unrelated to the pension's tax-exempt purpose. If a tax-exempt investor receives annual income from an MLP in excess of $1,000, the investor would be required to pay tax on its share. In addition to private-client money managers, some hedge funds have recently begun to invest in MLPs on behalf of their individual investor clients.

Who Is An Appropriate Investor In MLPs?

In our view, MLPs are appropriate for yield-oriented investors seeking current income and modest price appreciation. Our MLP universe has typically been priced to yield in the 6-9% range. Assuming an MLP raises its distribution in the 3-7% range (the estimated distribution growth range for our coverage universe), the total return would be in the low double digits.

Can MLPs Be Held In An IRA?

Yes, but income from MLPs and other sources of UBTI should not exceed $1,000 per year in an IRA. As previously explained, income from an MLP is considered UBTI for tax-exempt entities such as an IRA. Therefore, income exceeding $1,000 would be subject to tax. We recommend placing MLP units in traditional brokerage accounts to avoid this issue and to ensure that the investor receives the full tax advantages of the security.

What Are Distributions?

MLPs generally distribute all available cash flow (defined as cash flow from operations less maintenance capital expenditures [capex]) to unitholders in the form of quarterly distributions (similar to dividends).

What Is The Incentive Distribution Agreement?

At inception, MLPs establish agreements between the GP and the LPs that outline the percentage of total cash distributions that are allocated between the GP and LP unitholders. As the GP increases the cash distributions to LPs, the GP receives an increasingly higher percentage of the incremental cash distributions. In most partnerships, this agreement can reach a tier where the GP is receiving 50% of every incremental dollar paid to the LP unitholders. This is known as the 50/50 or "high splits" tier. The theory behind this arrangement is that the GP is motivated to grow the partnership, increase the partnership's cash flow, and raise the quarterly cash distribution to reach higher tiers, which benefits the LP unitholders as well. Several pipeline MLPs are already at the "high splits" level, including Kinder Morgan Energy Partners, GulfTerra Energy Partners, and TEPPCO Partners. (A complete list of energy MLPs with split levels is included at the end of this report.)

Hypothetical Incentive Distribution Arrangement

Below we illustrate a hypothetical split arrangement. In our example, the MLP declares a distribution of $4.00 per LP unit. As outlined in the table below, at tier 1, between $0.00 and $1.00, the LP receives $1.00, which represents 98% of the distribution at that tier. The GP receives 2%, or $0.02 per unit, of that distribution at tier 1. This $0.02 is derived by grossing up the $1.00 distribution to LP unitholders by 98% and then multiplying by 2% ([$1.00/.98] X .02). In other words, the $1.00 received by LP unitholders represents 98% of the total cash distribution paid to partners. This same formula is applied at the subsequent tiers.

Distribution Schedule	LP %	GP %	LP Distribution Up to
Tier 1	98%	2%	$ 1.00
Tier 2	85%	15%	$ 2.00
Tier 3	75%	25%	$ 3.00
Tier 4 (High Splits)	50%	50%	above $3.00

Source: Wachovia Capital Markets, LLC estimates

At tier 2, which is the incremental cash flow above $1.00, up to $2.00, the LP receives $1.00, which represents 85% of the distribution at that tier. The GP receives 15% of the incremental cash flow, which equates to $0.18 per unit. At this level, the LP receives $2.00 per unit and the GP receives $0.20 per unit. In other words, the GP receives approximately 9.1% of the total distribution paid.

At tier 3, which is the incremental cash flow above $2.00, up to $3.00, the LP receives $1.00, which represents 75% of the distribution at that tier. The GP receives 25% of the incremental cash flow, which equates to $0.33 per unit.

At tier 4, which is the incremental cash flow above $3.00, the LP receives $1.00, which represents 50% of the distribution at that tier. The GP receives 50% of the incremental cash flow, which equates to $1.00 per unit.

At the declared distribution of $4.00 in our example, the LP unitholders would receive 72% of the net cash distributions while the GP would receive 28%. As the cash distribution is increased beyond $4.00, the GP would receive 50% of the incremental cash. Thus, if the distribution is increased to $5.00 per limited unit, the formulas for tiers 1-4 would apply and for the incremental $1.00 ($4.00→$5.00), the LP would receive $1.00 and the GP would receive an additional $1.00 as well.

Payment Tiers	Incremental Cash Distributions Per LP Unit	
	LP	GP
Tier 1 ($0.00-$1.00)	$1.00	$0.02
Tier 2 ($1.00-$2.00)	$1.00	$0.18
Tier 3 ($2.00-$3.00)	$1.00	$0.33
Tier 4 (High Splits- >$3.00)	$1.00	$1.00
Total	$4.00	$1.53
% of Total Cash Distribution	72%	28%

Source: Wachovia Capital Markets, LLC estimates

What Is Distributable Cash Flow?

In general, distributable cash flow is defined as the cash flow available to the partnership to pay distributions to LP unitholders and the GP, as defined in the partnership agreement. Most MLPs define distributable cash flow as follows:

Net Income + Depreciation and Amortization - Maintenance Capex

Distributable cash flow can also include other noncash items such as equity income received from affiliates. For purposes of determining cash available to pay common unitholders, we calculate distributable cash flow for common unitholders as distributable cash flow less cash paid to the GP.

What Is The Coverage Ratio And Why Is It So Important?

A partnership's coverage ratio is the ratio of distributable cash flow available to common unitholders to what the partnership actually pays to its common unitholders (distributable cash flow available per common unit divided by distributions declared per unit). The average coverage ratio varies depending on the type of MLP and the risk inherent in the underlying assets of the partnership. For example, propane MLPs whose cash flow stream is more sensitive to weather risk typically carry coverage ratios of 1.2-1.3x. In contrast, most pipeline MLPs have coverage ratios in the 1.0-1.1x range, reflecting the stable, fee-based cash flows that underpin their businesses.

The distribution coverage ratio is significant for two reasons:

(1) Traditionally, investors have considered the coverage ratio to be representative of the cushion that a partnership has in paying its cash distribution. In this context, the higher the ratio, the greater the safety of the distribution.

(2) All else being equal, a higher coverage ratio will give management increased flexibility to raise the distribution.

What Is The Difference Between Maintenance Capex And Growth Capex?

Maintenance capex includes investments a partnership must make in order to sustain its current asset base and cash flow stream. Growth capex is the investment a partnership can make to enhance or expand capacity and increase cash flow. Management typically has some discretion in determining what can be designated maintenance capex versus growth capex.

What About Yield?

From 1998-2002, our MLP universe has had an average yield of 8.7%, ranging from a high of 12.1% to a low of 6.9%. The disparity in yield among MLPs can be explained by several factors including risk profile (financial and operational), growth prospects, and interest rate environment.

Risk profile. MLPs with profiles that are perceived to be riskier (e.g., assets subject to commodity price risk, weather risk, or more variability in cash flow) typically trade at a higher yield in the market as investors require greater return to compensate for the increased risk.

Growth prospects. We believe the disparity in yield can also be partially explained by the growth profile of various MLPs. For example, faster-growing MLPs should command a lower yield because it is assumed that the growth in cash flow would generate increases in distributions that, in turn, would translate into greater appreciation of the underlying security, resulting in a higher total return.

Interest rate. According to our analysis, the movement in interest rate can explain roughly 25-30% of MLP price movements, over the past ten years. Over that time period, the spread between the yield for the ten-year treasury (a proxy for interest rates) and MLP yields has averaged roughly 213 basis points. Thus, in periods of rising interest rates (i.e., when "risk free" money is available at higher rates), MLP yields have tended to increase, in kind. An increase in yield for MLPs implies a decrease in the price of MLPs.

Note: For purposes of the yield calculation, our MLP universe includes AmeriGas Partners, L.P., Buckeye Partners, L.P., Enbridge Energy Partners, L.P., Enterprise Products Partners, L.P., Ferrellgas Partners, L.P., GulfTerra Energy Partners, L.P., Heritage Propane Partners, L.P., Kinder Morgan Energy Partners, L.P., Kaneb Pipe Line Partners, L.P., Magellan Midstream Partners, L.P., Northern Border Partners, L.P., Inergy, L.P., Plains All American Pipeline, L.P., Pacific Energy Partners, L.P., Star Gas Partners, L.P., Suburban Propane Partners, L.P., Sunoco Logistics Partners L.P., TEPPCO Partners, L.P., TC PipeLines, LP, and Valero, LP.

What Are I-Units?

In order to expand the universe of potential investors in MLPs to institutional investors and tax-deferred accounts such as IRAs, an investment vehicle similar to LP units was created known as i-units (the I stands for Institutional). Kinder Morgan was the first to offer i-units with the creation and issuance of Kinder Morgan Management, LLC (KMR), a limited liability company, in May 2001. Currently, the only other i-unit security is Enbridge Energy Partners, L.P. (EEQ).

The i-units are equivalent to MLP units in most aspects, except the payment of distributions is in stock instead of cash. Distributions to i-unit holders are treated similar to stock splits. The cost basis of the initial investment does not change, but rather is spread among more units. One year after purchase, all gains (including the most recent share distribution) are treated as long-term capital gains. Unlike MLP securities, i-units do not require the filing of K-1 statements and do not generate UBTI. Thus, i-units can be owned in an IRA account without penalty. In our view, the i-unit structure is analogous to an automatic dividend-reinvestment plan. Thus, for investors who prefer to reinvest dividends, the i-unit security could be an appropriate investment.

What About The MLPs In The 1980s That Went Bust?

In the 1980s, MLPs were formed that were involved in various businesses including exploration and production (E&P) of oil and natural gas, restaurants, sports teams, and other consumer activities. These businesses were more cyclical in nature, or in the case of E&P companies, had assets that depleted and were therefore not well suited to an entity that essentially distributed all of its cash flow. Without reinvestment, these MLPs were essentially self-liquidating partnerships and were unable to sustain their distributions.

The modern MLP got its start with the Tax Reform Act of 1986. This legislation gave companies an incentive to restructure their companies as publicly traded partnerships in order to take advantage of certain tax shelter benefits. In 1987, the Revenue Act was enacted, which required publicly traded partnerships to earn income from specific sources.

In the 1990s, the MLPs were reincarnated as entities that generally own midstream assets that are used to transport, process, and store natural gas, crude oil, and refined petroleum products and have limited exposure to commodity price risk. These assets were typically spun out of larger entities that could realize a higher value from these assets as publicly traded MLPs. The early MLPs consisted primarily of refined-product pipelines that were characterized as mature assets that required modest maintenance capital and generated significant cash flows that were distributed to unitholders.

Beginning in the late 1990s, MLPs began reorienting their focus toward growth, making significant acquisitions, accelerating their internal growth projects, and aggressively raising distributions. This change in focus was partially due to the sudden availability of midstream assets on the market as majors and large diversified energy players sought to rationalize their assets, by monetizing their mature assets with the intent of redeploying those proceeds into faster-growing entities. MLPs were able to take advantage of their unique tax-exempt structure, which affords them a lower cost of capital, to achieve superior returns compared to corporations.

What Are The Risks?

Distribution growth's dependence on ability to access external capital. Because MLPs pay out virtually all of their cash to unitholders, they must continually access the debt and equity markets to finance growth. If MLPs were unable to access these markets or could not access these markets on favorable terms, this could inhibit long-term distribution growth.

An increase in interest rates. As seen in 1998-99, MLPs have underperformed during periods of rising interest rates. With interest rates currently at all-time lows, we believe an increase in interest rates could adversely affect MLPs' performance in the near term.

An adverse regulatory environment. Many pipelines are regulated by the Federal Energy Regulatory Commission (FERC), which sets tariff rates on these systems. The FERC also hears all tariff disputes arising between pipeline operators and shippers. If the FERC rules against pipeline MLPs or lowers tariff rates, MLPs' cash flow performance over the long term could be adversely affected.

Conflicts of interest with the GP. For certain MLPs, the GP of the partnership and the parent company that owns the GP are controlled and run by the same management teams (examples include KMP and EEP). Thus, some investors have rightfully questioned the independence and legitimacy of the MLP structure and have been reluctant to invest in a security with certain inherent conflicts. Some potential areas of conflict include (1) the price at which the MLP is acquiring assets from the GP, (2) the GP aggressively increasing the distribution to achieve the 50%/50% split level rather than assuming a more conservative growth strategy that ensures the long-term sustainability of the cash distribution, and (3) the potential for management to place the interests of the parent corporation or the GP above the interests of the LP unitholders.

Environmental incidents and terrorism. Many MLPs have assets that have been designated by the Department of Homeland Security as potential terrorist targets, such as pipelines and storage assets. A terrorist attack or environmental incident could disrupt the operations of an MLP, which could negatively affect cash flow and earnings in the near term. In addition, the FERC recently mandated certain pipeline integrity and safety requirements, which should increase operation and maintenance expense over the next several years and reduce earnings. Additional required maintenance expense could lead to further reduction in earnings.

A severe economic downturn. Energy demand is closely linked to overall economic growth. A severe economic downturn could reduce the demand for energy and commodity products, which could cause lower earnings and cash flow.

Acquisitions. Many MLPs have been able to grow cash flow and distributions by making accretive acquisitions. Difficulties in locating attractive acquisition targets or integrating future acquisitions could negatively affect future cash flows.

Execution risk. Many MLPs have been able to grow cash flow and distribution by investing in organic expansion projects. If these projects are not kept within budget and on schedule, future cash flow growth could be affected.

Weather risk. Some MLPs, particularly those involved in the propane industry, are dependent on cold weather for their earnings. Because propane is mostly consumed for heating purposes, some MLPs rely on cold weather to stimulate demand. In addition, some MLPs operate pipelines that transport propane. If an MLP's service territories experience unseasonably warm weather, propane demand, and therefore transportation volumes, could be negatively affected.

Energy-Related Publicly Traded Master Limited Partnerships (Energy)

	MLP Type	Ticker	Mkt Cap ($MM)	Yield	Split Level LP	Split Level GP
Pipeline						
	Atlas Pipeline Partners, L.P.	APL	159	6.8%	98.0%	2.0%
	Buckeye Partners, L.P.	BPL	1,260	5.8%	69.0%	31.0%
	Crosstex Energy, L.P.	XTEX	294	7.1%	77.0%	23.0%
	Enbridge Energy Partners, L.P.	EEP	2,285	7.3%	75.0%	25.0%
	Enbridge Energy Management	EEQ	453	7.9%	75.0%	25.0%
	Enterprise Products Partners, L.P.	EPD	4,307	6.9%	75.8%	24.2%
	Genesis Energy, L.P.	GEL	74	2.3%	NM	NM
	GulfTerra Energy Partners, L.P.	GTM	1,997	7.1%	50.0%	50.0%
	Kaneb Pipe Line Partners, L.P.	KPP	1,401	6.8%	70.0%	30.0%
	Kinder Morgan Energy Partners, L.P.	KMP	8,128	6.1%	50.0%	50.0%
	Kinder Morgan Management	KMR	1,837	6.9%	50.0%	50.0%
	Magellan Midstream Partners, L.P.	MMP	1,374	6.4%	75.0%	25.0%
	Mark West Energy Partners, L.P.	MWE	216	6.8%	75.0%	25.0%
	Martin Midstream Partners, L.P.	MMLP	208	6.9%	98.0%	2.0%
	Northern Border Partners, L.P.	NBP	1,834	7.6%	75.0%	25.0%
	Pacific Energy Partners, L.P.	PPX	566	7.2%	98.0%	2.0%
	Plains All American Pipeline, L.P.	PAA	1,619	7.1%	75.0%	25.0%
	Sunoco Logistics Partners, L.P.	SXL	807	5.8%	85.0%	15.0%
	TEPPCO Partners, L.P.	TPP	2,448	6.7%	50.0%	50.0%
	TC Pipe Lines, L.P.	TCLP	552	6.6%	75.0%	25.0%
	Valero, L.P.	VLI	1,023	6.4%	75.0%	25.0%
Propane						
	AmeriGas Partners, L.P.	APU	1,405	8.2%	98.0%	2.0%
	Ferrellgas Partners, L.P.	FGP	923	8.2%	98.0%	2.0%
	Heritage Propane Partners, L.P.	HPG	651	7.2%	75.0%	25.0%
	Inergy, L.P.	NRGY	385	6.8%	85.0%	15.0%
	Star Gas Partners, L.P.	SGU	739	10.1%	98.0%	2.0%
	Suburban Propane Partners, L.P.	SPH	823	7.8%	85.0%	15.0%
Natural Resource						
	Alliance Resource Partners, L.P.	ARLP	551	6.8%	98.0%	2.0%
	Dorchester Minerals, L.P.	DMLP	483	9.5%	96.0%	4.0%
	Natural Resource Partners, L.P.	NRP	364	6.7%	98.0%	2.0%
	Penn Virginia Resource Partners, L.P.	PVR	588	6.4%	98.0%	2.0%
	Phosphate Resource Partners Limited Partnership	PLP	139	NA	NA	NA
	Terra Nitrogen, L.P.	TNH	94	19.7%	98.0%	2.0%

Source: Coalition of Publicly Traded Partnerships, Factset, company reports

Additional Information Available Upon Request

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CIBC World Markets

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Industry Update

Energy MLPs: Emerging As Stronger Force in US Energy Markets

Master Limited Partnerships

- Benefitting from lower costs of capital (multiple advantage) and a significant portfolio shift towards income-oriented investments, master limited partnerships (MLP) are becoming an increasingly improtant force in energy markets.

- The recent roll-over in MLP valuations likely reflects heightened competition for "MLP-qualified" assets, stricter rating agency guidelines (increase cost of debt-financing, impact on distribution growth), and liquidity issues at selected parent companies.

- With payout ratios approximating 100% of distributable cash flow (DCF) project and/or acquisition backlog coupled with capital market access remains critical to future growth prospects. We currently favor El Paso Energy Partners, Kinder Morgan Partners and Heritage Propane.

- Through I-Shares MLPs now have access to institutional investors, a new pool of capital to drive future growth. With portfolios now targeting income as a larger percentage of total return, the MLP vehicle should attract intrerest from income, utility, value and even growth funds.

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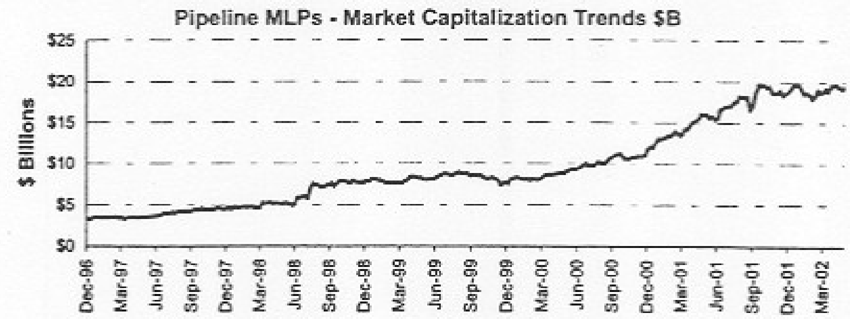
Energy MLPs Emerging As New Force in US Energy Markets

Energy Master Limited Partnerships (MLPs) have emerged as a significan force in U.S. energy markets, controlling an expanding base of long-lived "hard asset" natural gas and petroleum related infrastructure. The trend primarily reflects the cost-of-capital advantage "higher multiple" MLP securities command, the subsequent transfer of significant assets from corporate parents to MLP-created entities, and rising demand for income oriented investments with investors seeking yield and stability. Since 1998, the universe of pipeline/mid-stream MLPs have increased from about $5B to $20B in total market capitalization (see Exhibit 1).

Exhibit 1.



Source: StockVal, , MLP pipeline index (BPL EPN EEP EPD KPP KMP NBP PAA TPP WEG)

MLPs have generally benefit from the following trends in recent years:

- **Investment shift to income vs. growth**. With the sharp decline in growth stock sectors since March 2000, investors have increasingly targeted income as a key component of total return. MLPs are designed to payout approximately 100% of distributable cash flow (defined as cash flow from operations less maintenance capital and reserves). Energy MLPs generally control long-lived fee-based assets that provide stable and predictable cash flows with little to no commodity exposure. While varying by MLP, a high proportion of fixed costs result in significant operating leverage to rising volumes.

- **Multiple, cost-of-capital advantage**. Energy MLPs currently command P/CF and EV/EBITDA multiples significantly higher than th majority of merchant energy, diversified gas/power and utility common stocks. An advantageous cost-of-capital has generally allowed managements to execute accretive acquisitions.

- **Attractive vehicle for parent companies**. MLPs have become an attractive vehicle for parent companies, normally the General Partner and operator to raise capital. They have become a preferred means of raising capital by parent companies seeking to improve balance sheets. El Paso, Williams, Enbridge and Kinder Morgan have been the most active in transferring assets. With rating agencies expected to maintain pressure on the larger energy merchants to strengthen balance sheets, optimization of asset ownership between MLPs and parent companies should continue for the next several years.

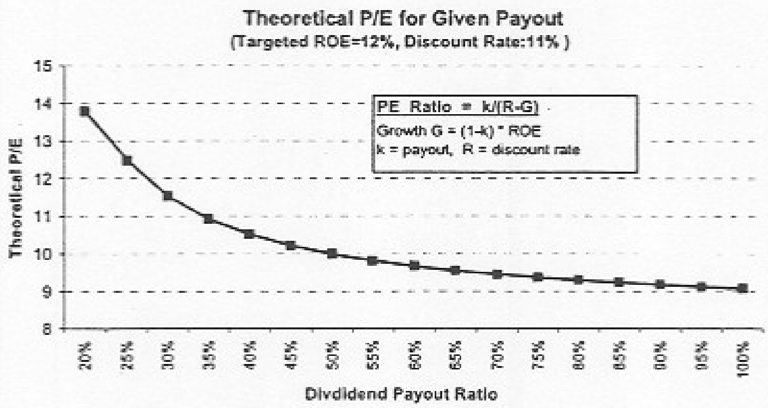
- **Access to new source of capital**. Interestingly, through Institutional I-shares (qualified MLP investments for institutional investors), a new demand force (and source of capital) has emerged. With new rules allowing for the purchase of MLPs by institutional investors, we expect income and utility funds to increasingly target Energy MLPs to round out portfolios. These institutional investors are expected to become an important source for MLPs seeking growth capital. The potential is validated by recent valuation trends in the Electric Utility and Power Sectors, a sector traditionally targeted by income investors.

Recent valuation trends in electric utility sector back up rising investor appetite for income-oriented investments.

Trend suggests institutional demand for MLPs should materialize.

Within the electric utility and power sector, a recent CIBC analysis has shown a significant change in the relationship between payout ratios and P/E ratios. Specifically, in contrast to historical trends, there is now a positive correlation between dividend payout ratios and P/E ratios. Since corporate growth rates (critical P/E driver) are negatively correlated to payout ratios (higher the payout, lower the growth rate), an inverse relationship would be expected given long-term sector cost-of-capital requirements and targeted ROEs. This is illustrated graphically (Exhibit 2 where we plot theoretical P/E's for a company targeting 12% ROEs with an equity discount rate of 11%, inputs we view appropriate for integrated electrics in today's interest rate and market environment.

Exhibit 2. Theoretical P/E Based On Payout Ratios



Source: CIBC, StockVal

Recent valuation trends in the Electric Utility/Power sector back the "high payout" MLP model

As shown Exhibit 3, contrary to expectations, higher dividend payouts no translate into higher P/E's as investors have questioned growth strategies. Obviously investors are wary of future ROE trends or are assuming much higher risk premiums in discounting future growth prospects.

Exhibit 3. Electric Sector, Payouts vs. P/E Ratios (June 2002)

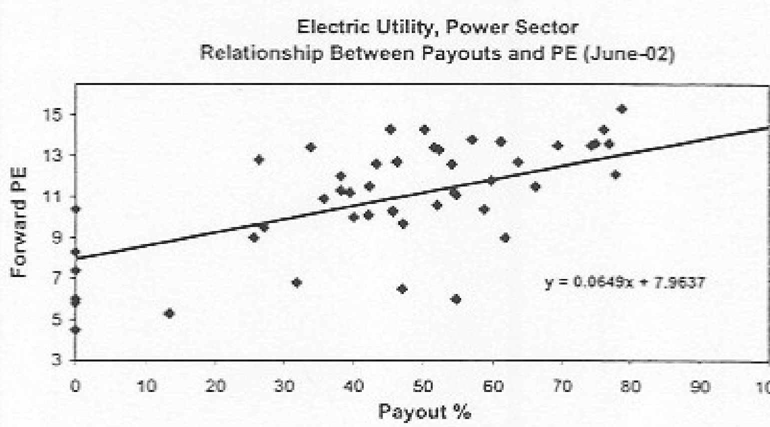
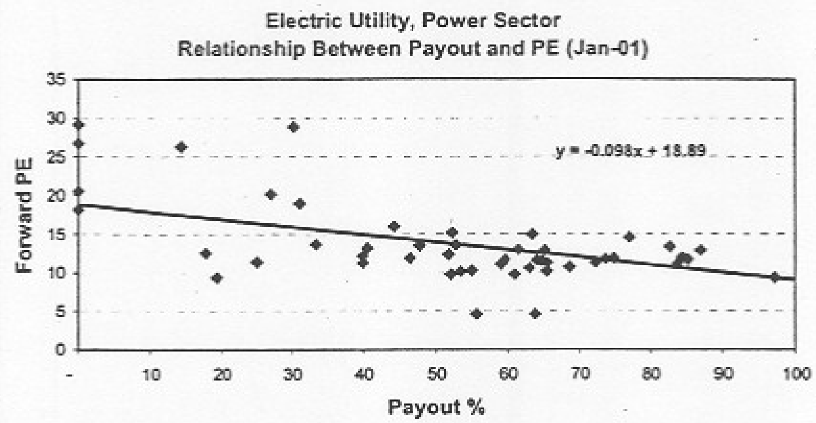


Exhibit 4, which looks at the same relationship 18 months ago (January 2001) shows an entirely different picture. With power prices firm and the return outlook for reinvestment high, investors were willing to pay big premiums for growth strategies. Hence P/E's fell with rising payouts.

Exhibit 4. Electric Sector, Payouts vs. P/E Ratios (January 2001)



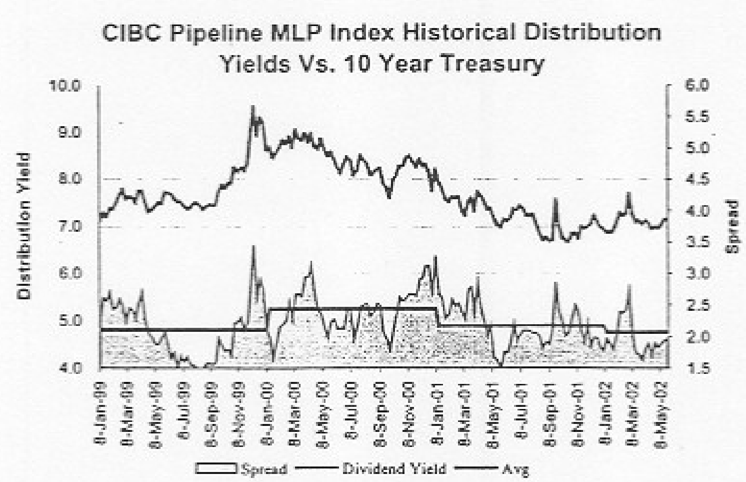
- **Tax-advantaged investment vehicle.** For retail investors, energy MLPs generally offer tax-advantages with as much as 90% of income tax-deferred. A significant portion of income is normally treated as a return of capital.

Valuation of MLPs

MLP's are unique in that they generally payout all of their available cash (cash from operations less maintenance capital and reserves) to limited an general partners. While they lack the "obligation to pay" characteristic of fixed-income securities, with essentially 100% DCF payouts, MLPs draw some comparisons to debt instruments that pay a regular coupon. Accordingly, similar to fixed income instruments MLPs tend to move counter to interest rate trends. In light of the interest rate sensitively, a closely watched valuation metric for MLPs is the relative spread between Treasury bonds and distribution yields.

With increased growth visibility, the spread between Treasuries and MLP Index has been narrowing since 2000.

Exhibit 5.



Source: StockVal, , MLP pipeline index (BPL EPN EEP EPD KPP KMP NBP PAA TPG WEG)
Results presented should not and cannot be viewed as an indicator of future performance.

While interest rate trends remain a valuation driver, growth prospects strongly differentiate Energy MLPs from fixed income investments

While we do not expect valuations to completely de-couple from interest rate trends, unlike debt instruments, organic and acquisition growth prospects allow MLPs to grow distributions. The narrowing in the MLP-to-Treasury yield over the past 18 months reflects this growth element not seen in normal fixed income investments. Energy MLPs perhaps can best be described as hybrid equity/fixed income vehicles drawing characteristics of both security types. While MLPs carry equity risk elements, Energy MLPs have significantly outperformed fixed income benchmarks and the S&P 500 over the last 5 years (Exhibit 6).

Energy MLP performance relative to fixed income and equity indices suggests the MLP growth component is a key valuation factor.

Exhibit 6.

	YTD Total Return	2001 Total Return	5 Yr Annualized
BUCKEYE PARTNERS LP	0.21	38.20	16.99
EL PASO ENERGY PARTNERS	(1.00)	43.78	
ENBRIDGE ENERGY PARTNERS LP	7.13	10.45	10.62
ENTERPRISE PRODUCTS PARTNERS LP	6.73	56.70	
KANEB PIPE LINE PARTNERS LP	(2.58)	42.09	12.47
KINDER MORGAN ENERGY PARTNERS LP	(11.95)	41.16	33.75
NORTHERN BORDER PARTNERS LP	4.49	33.66	13.33
PLAINS ALL AMERICAN PIPELINES LP	0.56	45.84	
TEPPCO	4.53	30.69	14.07
WILLIAMS ENERGY PARTNERS L P	(16.23)	101.00	
Average	(0.81)	44.36	16.87
S&P 500	(2.43)	(7.07)	8.03
PIMCO Total Return Bond Fund	3.53	9.22	8.01
PIMCO Corp High Yield Bond Fund	(0.85)	4.59	3.69

Source: StockVal, Bloomberg

Results presented should not and cannot be viewed as an indicator of future performance.

Key growth drivers which differentiate MLPs include

- Excess capacity of existing asset base
- Backlog of growth projects or acquisitions
- Presence of asset-rich parent company available to sell or "transfer" assets to the partnership

Exhibit 7. Annual Distribution Increases

		Annual Distributions					
		12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	CAG
BPL	BUCKEYE PARTNERS LP	1.72	2.10	2.18	2.40	2.45	7
EPN	EL PASO ENERGY PARTNERS	1.75	2.10	2.10	2.20	2.45	7
EEP	ENBRIDGE ENERGY PARTNERS LP	2.92	3.36	3.45	3.50	3.50	4
EPD	ENTERPRISE PRODUCTS PARTNERS LP*	-	0.39	0.53	1.05	1.20	14
KPP	KANEB PIPE LINE PARTNERS LP	2.50	2.60	2.80	2.80	2.90	3
KMP	KINDER MORGAN ENERGY PARTNERS LP	1.13	1.30	1.38	1.60	2.08	13
NBP	NORTHERN BORDER PARTNERS LP	2.20	2.34	2.48	2.70	3.08	7
PAA	PLAINS ALL AMERICAN PIPELINES LP*	-	0.19	1.84	1.84	2.00	4
TPP	TEPPCO	1.55	1.75	1.85	2.05	2.15	7
WEG	WILLIAMS ENERGY PARTNERS L P	-	-	-	-	[illegible]	

* CAGR for last 2 years.

Source: CIBC, StockVal, Company Reports

Results presented should not and cannot be viewed as an indicator of future performance.

Background on the MLP Structure

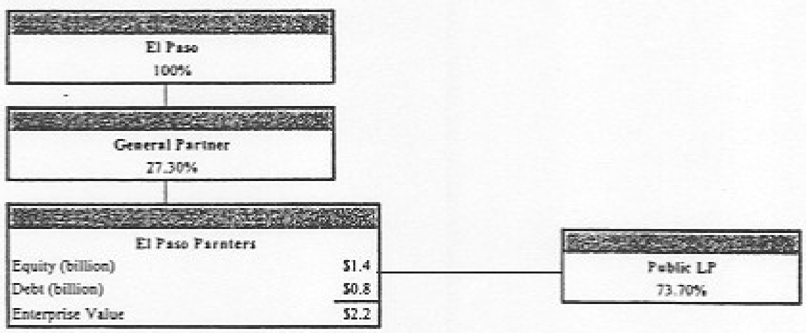
Master limited partnerships are modified forms of the limited partnership designed to trade as securities in secondary markets. Publicly traded MLP provide liquidity not available to traditional private limited partnerships. The motivation to create MLPs is often driven by the need to deleverage o to optimize the valuation of assets that generate high cash flow but low earnings. The surge in new MLPs by Merchant Energy companies is a good example of this motivation to optimize market valuation and de-leverage balance sheets. Assets viewed ideal for the MLP structure tend to be high-cash flow businesses that do not require large amounts of capita spending (low maintenance) to remain competitive.

MLPs in the natural resources sector are primarily involved in the ownership of pipeline/midstream energy assets, propane distributors, the forest/lumber products group, and, to a lesser degree oil and gas exploration and production. In addition to providing exposure to different segments of natural resources they also offer varying risk profiles. Pipeline MLPs generally have the lowest risk asset profile. Retail propane MLPs, which are more weather sensitive, tend to have a higher risk profile Finally, given higher capital requirements to reflect reserve depletion, E&P partnerships tend to have the highest risk profile. Pipeline MLPs tend to be safer investments because their revenues are fee based and they also tend to be regulated by either federal or local authorities.

The pipeline MLPs are common carrier transporters of crude oil, petroleum products, natural gas or natural gas liquids (butane, ethane, natural gasolin and propane). Primary pipeline customers are refiners and marketers of th product being shipped and end users (utility companies, commercial businesses, airports, agricultural enterprises and households).

With regards to corporate governance, MLP's have two key stakeholders, the General Partner (GP) and the Limited Partner (LP). Under the partnership arrangement the GP operates the assets for the benefit of the limited partners and also has an ownership stake in the MLP (See Exhibit 8, illustrative Example of El Paso Partners). In addition to operating the assets, the GP in many cases is also the primary source of assets for acquisition.

Exhibit 8. Partnership Structure



Source: Company Reports

Although the overall partnership structure conforms to traditional partnership norms, it is the close tie between the GP as operator and sourc of acquisitions that has caused some "conflict of interest" concerns among investors. *We believe that these concerns are mitigated by the partnership incentive structure whereby GP payments are directly related to the payou of the LP shares.* As the distributions increase and LP moves into "high splits", the GP receives a greater portion of the incremental distributions. The direct link to LP payments provides the GP with the incentive to increase LP payouts overtime to participate in the upside.

Exhibit 9. Incentive Structure

Split	Min	Max	Locked Amt	GP
1	-	1.30	1.30	1%
2	1.30	1.50	0.20	14%
3	1.50	1.70	0.20	24%
4	1.70	unlimited		49%

Source: EPN Company Reports

By distributing available cash flow directly to unit holders, MLPs avoid the double taxation of dividends seen in the corporate structure. As discussed earlier, high payouts on available cash flows has led investors to value MLPs partly as a tax-advantaged fixed-income instruments. The relative yield variance among different MLPs reflects the expected long-term growth rate in distributions, a function of the growth dimension.

Issues and Risks

- **Diminishing marginal returns to LP.** The majority of MLPs are structured to reward the General Partner with increased incentive payouts as distributions are increased to pre-determined target levels. A each successive target distribution in reached, under the incentive structure the GP is entitled to an increasing share of incremental cash flow. Given the diminishing marginal returns to LP unitholders, as incentive payouts increase MLPs will require larger EBITDA inflows t sustain growth rates. Naturally, the incentive to the GP is a key catalyst however, driving rising distribution streams. Although we believe backlog opportunities remain higher for the sector, MLPs currently in the "high split" incentive levels could find it more difficult to grow in the future.

Exhibit 10.

		2002 Exit Rate Splits	
		GP Split	LP Sp
BPL	BUCKEYE PARTNERS LP	45%	55
EPN	EL PASO ENERGY PARTNERS	49%	51
EEP	ENBRIDGE ENERGY PARTNERS LP	25%	75
EPD	ENTERPRISE PRODUCTS PARTNERS LP	25%	75
KPP	KANEB PIPE LINE PARTNERS LP	30%	70
KMP	KINDER MORGAN ENERGY PARTNERS LP	50%	50
NBP	NORTHERN BORDER PARTNERS LP	25%	75
PAA	PLAINS ALL AMERICAN PIPELINES LP	25%	75
TPP	TEPPCO	50%	50
WEG	WILLIAMS ENERGY PARTNERS L P	25%	75

Source: Company Reports, CIBC

- **Increased Competition for "MLP qualified" assets.** With the growing number of parent companies now sponsoring MLPs, the competition for is likely to increase. Moreover, with parent companies using MLPs as a vehicle to de-leverage their balance sheets without complete EBIT loss—parent companies can "re-capture" portion of so EBIT through its ownership and GP interest—it may be difficult for independent MLPs to compete on price against MLPs of parent companies.

Exhibit 11. Parent Co Relationship

		Parent Co w/ Assets	General Partn
BPL	BUCKEYE PARTNERS LP	NA	Buckeye Pipe Line C
EPN	EL PASO ENERGY PARTNERS	El Paso Corp	El Paso Corp
EEP	ENBRIDGE ENERGY PARTNERS LP	Enbridge	Enbridg
EPD	ENTERPRISE PRODUCTS PARTNERS LP	NA	EPCO
KPP	KANEB PIPE LINE PARTNERS LP	NA	Kaneb Servic
KMP	KINDER MORGAN ENERGY PARTNERS LP	NA	Kinder Morga
NBP	NORTHERN BORDER PARTNERS LP	NA	Enro
PAA	PLAINS ALL AMERICAN PIPELINES LP	NA	Amerigas Propan
TPP	TEPPCO	Duke	Duk
WEG	WILLIAMS ENERGY PARTNERS L P	Williams	William

Source: CIBC, Bloomberg

- **Credit Rating Issues, Availability of Capital** With stricter guidelines from rating agencies MLPs may re-evaluate and adjust distribution growth targets downward in favor of stronger balance sheet strength. In essence keeping free cash reserves to accelerate debt repayment or to build cash reserves and enhance liquidity. This may actually have a favorable impact by lowering cost of debt-financing

Exhibit 12.Credit Ratings

		S&P Rating Credit Rating
BPL	BUCKEYE PARTNERS LP	A
EPN	EL PASO ENERGY PARTNERS	BB+
EEP	ENBRIDGE ENERGY PARTNERS LP	A-
EPD	ENTERPRISE PRODUCTS PARTNERS LP	BBB
KPP	KANEB PIPE LINE PARTNERS LP	NA
KMP	KINDER MORGAN ENERGY PARTNERS LP	A- *-
NBP	NORTHERN BORDER PARTNERS LP	A-
PAA	PLAINS ALL AMERICAN PIPELINES LP	BB+
TPP	TEPPCO	BBB
WEG	WILLIAMS ENERGY PARTNERS L P	BBB

Source: Bloomberg

- **Interest Rates.** The high payout (yield characteristics) of MLPs result in interest rate sensitivity. Although the yields are expected to narrow, MLPs are expected to continue to provide premium yields to US Treasuries. The premium can be volatile since it is affected by the general interest rate trends and growth prospects of the MLP. Moreove most MLPs finance growth with at least 50% debt financing. Accordingly, a significant rise in rates can raise the cost-of-capital. .

El Paso Energy Partners (EPN $31.75, Buy, Yield: 8.2%)

Offering an attractive 8.2% yield (90% tax-deferred) and a strong portfolio of organic and acquisition growth projects, EPN remains a top recommendation within our MLP universe. Issues concerning the energy merchants and EPN's parent, El Paso Corp, have obviously been a factor depressing the valuation and raising uncertainty at the partnership. Nonetheless, we expect EPN to deliver 8-10% annual distribution growth for the next several years, yielding expected annua returns of 15-20%. Our target price is $40.

Stable cash flows, strong backlog of value-added projects, acquisition
El Paso Partners (EPN) offers investors the benefit of stable cash flows an disciplined growth, centered around a diversified and growing portfolio of

midstream natural gas assets. The partnerships strong asset position provides both internal growth opportunities as well as accretive acquisitions financed with the "cost of capital advantage" inherent via the MLP structure. EPN's growth over the next several years will be spearheaded by the transfer of El Paso Corp's (EP) midstream asset portfolio, the General Partner and 27% owner of the partnership. While operating as a separate entity, EPN draws on the extensive operating experience of El Paso Corp's management.

General Partner remains key growth driver. EPN is expected to continue to acquire assets from El Paso, the partnership's GP and owner o about 27% of the outstanding units. EP management currently estimates that up to $2.5 billion of assets could be transferred to the partnership. Access to a sizable inventory of MLP qualified assets is a distinct competitive advantage for EPN, particularly in light of the heightened competition for assets. From EP's perspective, selling assets to EPN represents the best financial option given the GP incentive and its ownership stake, factors allowing the parent to de-leverage but still retain meaningful portion of the earnings power of divested assets. This is highlighted by the recent announcement (5/29/02) by EP to sell its natural gas gathering assets in the San Juan Basin for $800 million, as EP embark on a strategic restructuring. With a number of energy merchants seeking to de-leverage balance sheets we expect EPN to see acquisition opportunities beyond assets now controlled by EP.

Kinder Morgan Partners (KMP $31 Buy, Yield: 7.6%)

While competition for quality assets has heightened, a combination of internal growth and acquisitions should sustain above average distribution growth for the next several years. Our estimated exit rate distribution to limited partners is $2.50 for 2002 and $2.70 for 2003, u from the current rate of $2.36. We are maintaining a price target of $3 implying a target yield of about 7.0% on a projected 2003 distribution of $2.70.

Kinder Morgan (KMP) continues to execute its strategy of operating fee-based natural gas and NGL products midstream assets, which have stable fee based revenues. KMP's operating strategy is focused on improving operating leverage through enhanced asset utilization and economies of scale. Key growth drivers remain greenfield expansions and acquisitions. KMP is also able to take advantage of the operating leverage of its existin assets due to significant excess capacity and strategic position in growth markets.

KMP assets tend to have high fixed costs and low variable costs, factors which allow high operating leverage as incremental revenue (above fixed costs) flows straight to the bottom line. As highlighted below, marginal improvement in the top line can provide large incremental growth for LP and GP distributions. With assets that have significant excess capacity in growing markets this leverage provides growth opportunities and increase return on capital.

Exhibit 13.
Operating Leverage - Impact of Internal Growth and Utilization Improvements

	Year 1	Year 2	YoY	
Gross Margin	100	104	4%	
Operating Expenses	50	50		
Operating Income	50	54	8%	
G&A	6	6		
Net Before Debt	44	48		
Interest Expense	11	11		
Net After Debt	33	37	12%	
LP Dist	20	22	10%	LP 60% of total and 50% of incremets
GP Dist	13	15	15%	GP 40% of total and 50% of incremet

Source: Company Reports

Excess capacity on KMP's products pipeline approximates 25% to 30%. Natural gas pipelines boast excess capacity of about 25%.

Exhibit 14.
KMP Internal Growth Targets

	EBITDA 2001	2002 Change	Internal Growth Target	
Products	347.8	39.6	35.0	
Natural Gas	218.4	113.4	25.0	
CO2	108.4	1.9	25.0	
Terminals	144.6	33.3	5.0	
Total	819.2	188.2	90.0	
Growth		23%	11%	Significant Internal Growth

Source: Company Reports

Heritage Propane Partners (HPG $25, Buy, Yield: 10.2%)

With coverage ratios projected at 0.8-0.9X for fiscal 2002, HPG units hav stalled. Despite 25% customer growth, 20% warmer than normal weathe is expected to push EBITDA down to $80 MM in fiscal 2002, well down from $92 MM a year ago. Weather normalized EBITDA, is estimated at $100 million (based on 400 MM gal., $0.25 margins), $20 million or $1.25/unit higher than 2002E levels. Importantly, an aggressive cost-cutting program is in place. It is designed to save up to $10 million per year, or about $0.60 per unit. Our current estimate for 2003 is $96 million in EBITDA, a number which still assumes warmer than normal weather. Considering the cost-cutting effort, projections could easily prove conservative; for 2003, our estimated DCF rises to $3.18, suggesting a more comfortable 1.25X coverage ratio. Our target price remains at $30-31 range.

Warm weather, weaker economy key culprits in 2002. Fiscal 2002 ha been pressured by unusually warm weather (retail volumes), a slowdown in economic activity and losses on inventories purchased in summer (for winter delivery). The company's NGL marketing also felt pressure from the weaker economy and mild weather which lowered the value of inventories. Exceptionally mild weather (20% warmer than normal) on to of the added costs associated with a 25-30% growth in customers from recent acquisitions pressured margins.

L.T. business model remains intact, although weather patterns important through 2003. Easy weather comparisons coupled with the aggressive cost-cutting program should result in easy DCF comparison in fiscal 2003. While near term upside (through the summer) could be limite as 2002 coverage ratios (<1) negatively impact valuation, the high 9.5% current yield (90% tax-deferred) coupled with prospects for a strong 2003 recovery suggests an attractive risk/reward relationship. Our 12-month target price is $30-$31.

Exhibit 15. Heritage Propane - EBITDA, Coverage Ratios

Heritage Propane (in thousands)	2001	2002	200
EBITD- Retail	$92,750	$80,500	$95,68
EBITD- Wholesale/Other	2,100	0	500
	94,850	80,500	96,180
Coverage Ratio Analysis			
EBITDA	94,850	80,500	96,180
Interest Expense	(35,567)	(36,000)	(35,000
EBIT	59,283	44,500	61,180
GP Interest	(831)	226	(327
Maintenance Capital	(7,500)	(9,000)	(10,000
Available Cash Flow	50,952	35,726	50,853
LP Distributions	(32,397)	(40,290)	(40,800
Surplus Cash Flow	18,555	(4,564)	10,053
DCF Available Per Unit	3.85	2.26	3.18
LP Distribution/Unit	2.45	2.55	2.55
Coverage Ratio	1.6	0.9	1.25

Exhibit 16. Comparable Company Analysis

Rating	Ticker		Latest Price	[redacted]	LTD/ Capital	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	Ent. Value
		Pipeline MLPs									
NR	BPL	BUCKEYE PARTNERS LP	34.50	[redacted]	51.15	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	1,303.57
Buy	EPN	EL PASO ENERGY PARTNERS	31.94	[redacted]	59.15	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	2,380.75
NR	EPD	ENTERPRISE PRODUCTS PARTNERS LP	21.65	[redacted]	42.47	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	3,588.96
NR	KPP	KANEB PIPE LINE PARTNERS LP	36.74	[redacted]	54.36	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	1,179.07
Buy	KMP	KINDER MORGAN ENERGY PARTNERS LP	31.66	[redacted]	40.90	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	8,819.44
Buy	NBP	NORTHERN BORDER PARTNERS LP	38.35	[redacted]	47.89	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	2,923.53
NR	PAA	PLAINS ALL AMERICAN PIPELINES LP	25.45	[redacted]	46.61	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	1,467.68
NR	WEG	WILLIAMS ENERGY PARTNERS L P	30.75	[redacted]	38.05	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	981.12
		Propane MLP									
Buy	HPG	HERITAGE PROPANE PARTNERS LP	27.00	9.4%	67.21	7%	2.55	424.7	447.8	8.6	863.96

Rating	Ticker		[redacted]			Ent. Value/EBITDA		[redacted]			DCF Coverage Ratio
			[redacted]	[redacted]	[redacted]	LTM	2002	[redacted]	[redacted]	[redacted]	
		Pipeline MLPs									
NR	BPL	BUCKEYE PARTNERS LP	[redacted]	[redacted]	[redacted]	11.0	11.1	[redacted]	[redacted]	[redacted]	
Buy	EPN	EL PASO ENERGY PARTNERS	[redacted]	[redacted]	[redacted]	10.2	9.4	[redacted]	[redacted]	[redacted]	1.39x
NR	EPD	ENTERPRISE PRODUCTS PARTNERS LP	[redacted]	[redacted]	[redacted]	8.4	6.8	[redacted]	[redacted]	[redacted]	
NR	KPP	KANEB PIPE LINE PARTNERS LP	[redacted]	[redacted]	[redacted]	10.6	8.2	[redacted]	[redacted]	[redacted]	
Buy	KMP	KINDER MORGAN ENERGY PARTNERS LP	[redacted]	[redacted]	[redacted]	10.7	8.2	[redacted]	[redacted]	[redacted]	1.67x
Buy	NBP	NORTHERN BORDER PARTNERS LP	[redacted]	[redacted]	[redacted]	9.6	8.5	[redacted]	[redacted]	[redacted]	1.08x
NR	PAA	PLAINS ALL AMERICAN PIPELINES LP	[redacted]	[redacted]	[redacted]	13.5	10.2	[redacted]	[redacted]	[redacted]	
NR	WEG	WILLIAMS ENERGY PARTNERS L P	[redacted]	[redacted]	[redacted]	11.9	7.6	[redacted]	[redacted]	[redacted]	
		Propane MLP									
Buy	HPG	HERITAGE PROPANE PARTNERS LP	[redacted]	[redacted]	[redacted]	11.6	10.7	[redacted]	[redacted]	[redacted]	1.25x

Source: CIBC Estimates

Stock prices as of 6/10/02 of other companies mentioned in this report:

Duke Energy, DUK-Hold, $29.09 (4)
El Paso Corp., EP-Buy, $21.00 (4, 6)
El Paso Energy Partners, EPN-Buy, $31.86
idge Energy Partners, EEP-Hold, $43.75
heritage Propane Partners, HPG-Buy, $26.60 (3, 6)
Kinder Morgan Energy Partners,, KMP-Buy, $30.90
Northern Border Partners, NBP-Buy, $37.70
Williams Cos Inc., WMB-Hold, $8.59 (3, 4, 6)

3) CIBC World Markets Corp., or one of its affiliated companies, managed or co-managed a public offering of securities for this company within the last three years.
4) This company has a convertible included in the CIBC World Markets Corp. convertible universe.
6) The CIBC World Markets Corp. analyst(s) who covers this company also has a position in its securities.

Docket No. RP05-____
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Deutsche Bank

4 March 2003

El Paso Energy Partners, LP

Reuters: EPN.N Exchange: NYSE Ticker: EPN

Outlook improving, but many overhangs remain

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Initiated coverage with a Hold rating

We have initiated coverage of El Paso Energy Partners, LP with a Hold rating and a twelve-month price target of $31 per unit.

EPN has exciting growth prospects . . .

Due to its strong competitive position in the growing Gulf of Mexico market, EPN has amongst the best internal growth prospects in the Master Limited Partnership group. The Partnership has committed to internal projects totaling almost $600 million ($350 million after joint venture project finance), with estimated Investment/EBITDA's ranging from 2.0x–4.5x.

. . . But also has many risks/negatives

First and foremost, distressed El Paso Corporation owns EPN's general partner (GP). In our opinion, this has clearly weighed on the units and remains a key issue. Further, at 66%, EPN has the highest debt/capitalization in the MLP group. We also forecast 4%–6% growth in distributions during 2003/2004, as EPN focuses on increasing cash flow coverage and improving its balance sheet.

Relatively high yield reflects overhangs

While EPN is trading at a significantly higher spread relative to its historical yield differential vs. US 10-year Treasuries, we do not foresee many catalysts to reduce this spread in the near-term. As the Partnership's debt continues to trend upward until its next equity offering, and concern over its GP persist, we believe the differential will remain significant. Our $31 price target is based on a yield of 8.7%.

Year End Dec 31	2002	2003E	2004E
1Q EPS (US$)	**0.17**	0.32	0.41
2Q EPS (US$)	**0.33**	0.30	0.37
3Q EPS (US$)	**0.21**	0.32	0.35
4Q EPS (US$)	**0.20**	0.35	0.43
FY EPS (US$)	**0.92**	1.30	1.55
Distributions Per Unit	**2.65**	2.78	2.90
Price/Distributions	***8.3%***	*8.7%*	*9.1%*
CY P/E	**34.8x**	24.7x	20.7x
EV/EBITDA	**15.3x**	9.2x	8.1x
Net debt/total cap	***65.9%***	*55.6%*	*57.4%*

Source: Deutsche Bank Securities Inc. Estimates and Company data

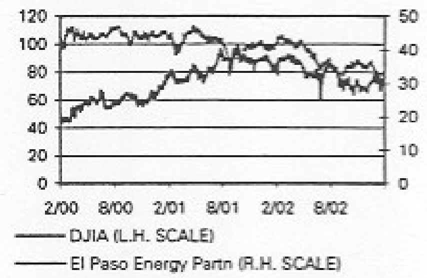
[1] 55 million shares outstanding includes 10.9 million Series C Shares owned by El Paso Corp.

Initiation of Coverage

Hold

Price at 27 February 2003(US$)	32.02
Price target	31
52-week range (US$)	39-20

Price/Price Relative



	1m	3m	12m
Absolute	*2.5%*	*8.5%*	*-8.7%*
DJIA	*-1.3%*	*-11.7%*	*-22.1%*

Stock Data	
Market Cap (US$)	1,761
Shares Outstanding (m)	55.0
Float	59%
Avg. daily volume ('000)	146
Beta	0.72
Est. 5 year EPS growth	6.0%
DJIA	7,884.99

Model updated: 28 February 2003

Equity Research

North America

US

Energy

El Paso Energy Partners

Reuters code	EPN.N
Hold	
Price as at 27-Feb	US$32.02
Target price	US$31.00

Company website

www.elpaso.com/elpasopartners/

Company description

El Paso Energy Partners, LP is one of the top five master limited partnerships as measured by market capitalization. EPN operates platforms, pipelines, storage, and processing assets, with a focus in the GOM, TX and NM.

Research Team

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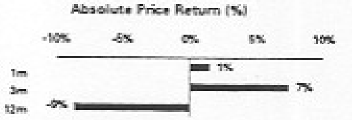
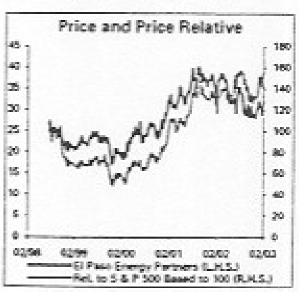


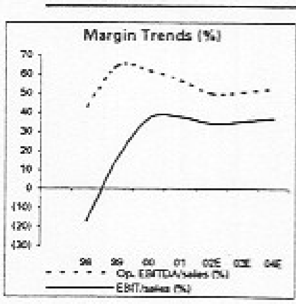
52-week High/Low:	US$38.50-25.43
Market Cap (m)	USD 1,761
	EUR 1639

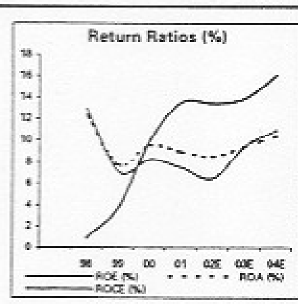
Company identifiers	
Bloomberg	EPN UN
Cusip	28368B102
SEDOL	2513153

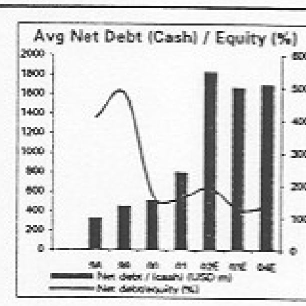
Source: Company data, DB estimates

Y/E 31 December	1998	1999	2000	2001	2002E	2003E	2004E
SUMMARY							
Headline EPS (US$)	0.02	0.26	-0.03	0.38	0.92	1.30	1.55
P/E ratio Headline (x)	974.5	86.4	nm	89.6	34.8	24.7	20.7
Headline EPS growth (%)	nm	940.6	-110.0	nm	143.3	40.9	19.4
EPS FD (US$)	0.02	-0.34	-0.03	0.39	0.92	1.43	1.55
P/E ratio FD (x)	974.5	nm	nm	88.0	34.8	22.4	20.7
Operating CFPS (US$)	1.05	1.96	1.66	2.54	4.23	5.00	4.79
Free CFPS (US$)	-1.32	-0.13	-2.35	-15.12	-35.70	-1.03	3.57
P/CFPS (x)	22.9	11.4	14.0	13.4	7.6	6.4	6.7
DPS (US$)	2.08	2.10	2.13	2.29	2.60	2.74	2.87
Dividend yield (%)	8.6	9.4	9.1	6.7	8.1	8.6	9.0
BV/Share (US$)	3.40	3.57	9.88	12.61	21.84	21.22	18.23
Price/BV (x)	5.92	6.32	2.78	2.96	1.49	1.51	1.76
Weighted average shares (m)	24	26	29	34	43	58	70
Average market cap (USD m)	589	678	678	1,167	1,370	1,370	1,370
Enterprise Value (USD m)	736	863	1,010	1,819	3,032	2,872	2,907
EV/Sales	15.11	13.39	8.99	9.00	6.48	3.76	3.48
EV/EBITDA	34.8	20.7	14.5	15.8	13.0	7.4	6.6
EV/EBIT	nm	80.2	24.0	23.8	18.8	10.6	9.3
EV/Adj capital employed	3.2	2.3	1.6	1.6	1.2	1.0	1.0
PROFIT & LOSS (USD m)							
Sales revenue	49	64	112	202	468	763	835
Operating EBITDA	21	41	70	115	233	388	439
Depreciation	29	31	28	39	72	117	128
Amortisation	0	0	0	0	0	0	0
EBIT	-8	11	42	76	161	271	311
Net interest income (expense)	-20	-35	-47	-43	-83	-127	-117
Associates/affiliates	27	33	23	8	14	13	14
Investment and other income	2	10	2	13	1	2	2
Exceptionals/extraordinaries	0	-15	0	0	5	0	0
Income tax expense	0	0	0	0	0	0	0
Minorities/preference dividends	0	12	21	42	58	80	102
Net profit	1	-9	-1	13	39	80	108
CASH FLOW STATEMENT (USD m)							
Cash flow from operations	26	51	48	87	181	278	333
Capex	-58	-54	-117	-607	-1,709	-335	-85
Free cash flow	-32	-3	-68	-520	-1,528	-57	248
Other investing activities	-8	-13	-9	108	162	0	0
Cash flow from investing	-66	-67	-126	-500	-1,547	-335	-85
Equity raised/(bought back)	0	1	103	240	500	450	0
Dividends paid	-62	-66	-79	-106	-113	0	0
Net inc/(dec) in borrowings	99	83	71	272	1,030	-172	32
Other financing cash flows	0	0	0	0	0	0	0
Cash flow from financing	37	17	94	405	1,417	278	32
Net cash flow	-3	1	16	-7	51	221	281
Movement in net debt/(cash)	102	82	56	279	979	-383	-248
BALANCE SHEET (USD m)							
Cash and other liquid assets	3	4	20	13	22	22	22
Tangible fixed assets	242	374	619	1,103	2,597	2,815	2,772
Goodwill	0	0	0	0	0	0	0
Other intangible assets	0	0	0	0	0	0	0
Associates/investments	186	186	183	154	177	175	173
Other assets	12	20	47	86	132	150	162
Total assets	443	584	869	1,357	2,928	3,162	3,129
Interest bearing debt	338	465	538	820	1,860	1,698	1,730
Other liabilities	23	23	23	37	117	125	130
Total liabilities	361	488	561	857	1,977	1,823	1,861
Shareholders' equity	83	96	311	501	950	1,338	1,267
Minorities	-1	0	-2	0	1	1	1
Total shareholders' equity	82	96	309	501	951	1,339	1,268
Net working capital	-2	-2	14	21	6	16	23
RATIO ANALYSIS							
Sales growth - pcp (%)	nm	30.6	76.6	79.9	131.4	63.1	9.4
Op. EBITDA/sales (%)	43.4	64.8	62.1	56.9	49.9	50.8	52.6
EBIT/sales (%)	-16.6	16.7	37.4	37.8	34.5	35.5	37.2
Payout ratio (%)	nm	nm	nm	593.1	282.2	191.4	185.2
ROA (%)	12.3	7.8	9.6	9.0	8.5	9.5	10.4
ROE (%)	0.9	3.8	10.1	13.6	13.5	13.9	16.1
ROCE (%)	12.9	7.1	8.3	7.5	6.5	9.5	11.0
Return on Adj Capital Employed (%)	-9.2	2.9	6.6	6.6	6.2	9.5	11.1
Capex/sales (%)	118.8	85.2	103.9	300.3	365.2	43.9	10.2
Capex/depreciation (x)	2.0	1.8	4.2	15.7	23.7	2.9	0.7
Net debt/(cash)	335	461	518	807	1,838	1,676	1,706
Net debt/equity (%)	406.9	480.0	167.7	161.1	193.3	125.1	134.7
Net interest cover (x)	nm	0.3	0.9	1.8	1.9	2.1	2.7









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Investment thesis

Outlook

EPN's underlying business has excellent growth opportunities

EPN is one of the largest independent mid-stream players focused on the deepwater Gulf of Mexico, one of the fastest growth areas for oil and gas development in the US. Accordingly, EPN has amongst the best internal growth prospects in the industry. Incremental returns on new projects appear to be very attractive.

Yet, distribution growth may only be 4%–6% in 2003 and 2004

As a result of several factors, however, we expect very slow growth in distributions from EPN over the next few years. EPN has historically paid out about 100% of distributable cash flow. Management, however, now intends to increase its coverage ratio to 1.1x from 1.0x over time. While clearly a positive in the long run, as it will provide more capital for internal growth, in the near-term it is negative for distribution growth. Further, since EPN's leverage is the highest in its peer group and the unit prices are likely below management expectations at the time of their last two acquisitions, EPN may need to issue units at lower prices than originally anticipated. This higher unit count makes distribution growth more difficult.

While management appears focused on the key issues, several overhangs are likely to hold the units back

We note, however, that management appears focused on several of the key issues facing the Partnership, including leverage, corporate governance, and the need to distance itself from El Paso Corporation (EP). EPN has also made strides to minimize the volatility of its cash flow through a greater portion of firm pipeline revenue as well as minimize "keep whole" exposure in gas processing. Nevertheless, we believe the high leverage, lack of expected growth in distributions, and affiliation with distressed El Paso Corporation will continue to hamper the valuation.

Valuation

Our 12-month stock price target on EPN is $31 based on a yield of 8.7%. This yield assumes that EPN continues to trade at a discount (one standard deviation) from its historic yield differentials relative to 10-year US Treasury Notes and that Treasury Note yields increase slightly. We believe EPN will continue to trade at a discount to its peers until it strengthens its balance sheet, reduces its cost of capital, distances itself from El Paso Corporation and distribution growth becomes more apparent.

Risks

Volumetric risk on assets. Given that many of EPN's assets are gathering facilities, these are much closer to the wellhead and carry significant volumetric risk as fields experience natural decline curves. However, new discoveries in nearby fields are typically tied back to these same gathering facilities, somewhat mitigating this risk.

EPN has the highest debt/ capitalization in its peer group

Leverage. Since EPN is truly one of the faster growth MLPs, and since it distributes nearly all of its cash flow, it will need to access the equity markets frequently in order to maintain a balanced capital structure.

Rising interest rates. EPN units are sensitive to changes in interest rates.

Distressed El Paso Corp. owns EPN's general partner. EPN has historically traded down in sympathy with El Paso Corporation, which has consistently disappointed over the last few months.

The bull case

The bull case for EPN units is really quite simple. The Partnership has some of the best organic growth prospects in the industry, and the units are perhaps the most attractively valued they have been in the history of the Partnership. We expand more below:

EPN has the best organic growth prospects in the industry

EPN is well-positioned in a growing market. EPN is a leading player in midstream services in one of the highest growth energy markets in the world, the deepwater Gulf of Mexico. EPN's strong position in this market has provided the Partnership with a first class portfolio of high return expansion projects. EPN may have the best organic growth prospects in the entire MLP group. The Partnership's ability to grow at high rates in this market appears to only be limited by its access to capital.

The units are undervalued

Attractive yield/valuation. EPN is undervalued relative to historical ranges.

1. The units are currently yielding 8.4% vs. 7.5% for the peer group. The differential is now 104 basis points vs. a historic spread of 87 basis points.
2. EPN's yield differential over the 10-year US Treasury Note of 469 basis points is well above its historical average of 310 basis points.

Other key points in the bull case include:

Activity will remain robust

Strong commodity price outlook. The strong natural gas price outlook (12-month strip of $5.78/mcf) bodes well for activity on land and in the shallow water Gulf of Mexico. We believe activity will continue to increase in deepwater somewhat irrespective of short-term commodity prices, as those projects are very long-term in nature.

Corporate governance improving. Over the last several months EPN has taken several steps to improve corporate governance, including removing two El Paso executives from its Board and resolving to add two more outside directors. The new Board will consist of two insiders and five outsiders.

Short-term debt is minimal

Despite high debt, near-term liquidity appears adequate. EPN has only $7 million of debt maturities over the next year. Its next significant maturities are the $600 million revolving credit facility ($491 million outstanding) and the $238 million senior secured facility that matures in May 2004. We expect EPN will negotiate an extension on these facilities within the next three months. The Partnership's $160 million EPN holding acquisition facility matures in April 2005. All other significant maturities are greater than five years out.

Figure 1: Debt maturities

Amount ($MM)	Maturity	Description
$491	May-04	$600MM Revolving Credit Facility
238	May-04	Senior Secured Loan due May 2004
160	Apr-05	EPN Holding Acquisition Facility
160	Oct-07	Senior Secured Term Loan
175	Jun-09	10 3/8% Senior Subordinated Notes issued May 1999, due June 2009
250	Jun-11	8 1/2% Senior Subordinated Notes issued May 2001, due June 2011
235	Jun-11	8 12% Senior Subordinated Notes issued May 2002, due June 2011
28	various	Wilson natural gas storage facilty operating lease
200	Nov-12	10.63% Senior Subordinated Notes due 2012
$1,937	Total Debt	

Source: Deutsche Bank Securities Inc. estimates and company information

The bear case

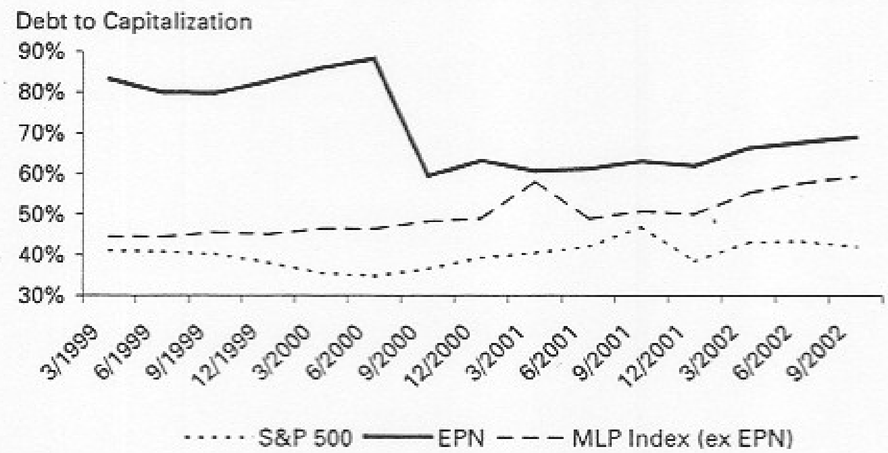
The bear case for EPN units centers around several key issues:

1. Its high debt to capital;
2. Low expected distribution growth;
3. Its relatively high distribution pay out ratio, particularly given the Partnership's level of capital expenditures and asset mix;
4. Association with distressed El Paso Corp. (owner of its GP);
5. Returns lagging its peers; and
6. Corporate governance issues.

EPN has the highest leverage in an overleveraged industry

The highest leverage in the peer group. With a 66% debt to capitalization ratio (projected to increase to 70% by mid-2003 without any equity offerings), EPN has the highest leverage in the MLP group. While high leverage is common in this industry, (average debt to capitalization of 59%), we believe the entire MLP industry is overleveraged and prefer MLP's with below average leverage.

Figure 2: EPN, MLP Index and S&P 500 leverage



Source: FactSet

EPN faces potential ratings downgrades

Standard & Poor's recently placed EPN's BB+ corporate credit rating on CreditWatch with negative implications based on its recent downgrades of general partner, El Paso Corporation. Moody's is also reviewing its long-term senior implied Ba1 rating on EPN for a possible downgrade. Should EPN get downgraded below BB+ by S&P or Ba1 by Moody's, the interest rate on its $160 million senior secured loan would increase by 1% (or about $0.03 per share annually). We are not aware of any other negative trigger mechanisms in any of the Partnership's debt covenants.

Recent acquisition exemplifies importance of a clean balance sheet

In the company's recent $782 million acquisition of El Paso Corporation's San Juan Basin assets, EPN funded the purchase with $200 million in 10.63% senior subordinated notes, $238 million in a senior secured credit facility, and issued El Paso Corporation 10.9 million Series C limited partner units. While, the Partnership ultimately pulled the acquisition off, the financing arrangements were less than ideal. EP's ownership stake of the LP units increased to 41% from 26.5%.

The Series C units are non-voting. After April 30, 2003, however, EP has the right to cause EPN to propose a vote of their common unit holders as to whether the Series C units should be converted into common units. If the common unit holders do not approve the conversion within 120 days after EP requests a vote, then the distribution rate for the Series C units will increase to 105% of the common unit distribution rates. Thereafter, the distribution rate would increase on April 30, each of the two following years, by another 5%.

While a long-term positive, reducing the pay out ratio means slower distribution growth in the near term

Slow distribution growth. Given the combination of EPN's high debt load, and the Partnership's relatively high level of capex in 2003, management will likely keep distributions relatively flat over the coming year in order to limit its leverage and provide more margin for error. While raising equity will reduce EPN's leverage, increasing distributions becomes more difficult given that the higher unit count will result in a greater nominal pay out.

The wild card – El Paso Corporation

Distressed El Paso Corp. owns EPN's general partner. EP was recently downgraded to "junk" status by both Moody's and Standard & Poor's, in November 2002 causing EP to post over $2.0 billion in additional collateral on various contracts. It has since been downgraded to B by S&P and Caa1 by Moody's triggering another $200 million in collateral postings. As of January 31, EP had $2.6 billion in liquidity, however, many challenges remain, including:

1. Decision from the full FERC regarding the case of *The State of California, et al vs. El Paso Corporation* and the pending related litigation;
2. Sale of trading book;
3. Sale of refining and chemical assets; and
4. Refinancing of over $1 billion in debt in 2003.

Returns lagging peers. While not commonly analyzed for MLPs, EPN's return on assets, equity and capital are generally less than its peers that we follow. Further, ROE based on income available to limited partners is also generally below that of its peers. However, we note that there are shortcomings to this type of analysis including the fact that MLPs are managed for cash, not income. When reviewing EPN's EBITDA/assets and return on equity based on LP distributions, rather than income, EPN is much more comparable to its peers, even exceeding them in certain periods.

We do not believe EPN has a corporate governance problem; however, many investors focus in on the potential conflicts

Corporate governance issues. El Paso Corporation owns the general partner of EPN and also owns a 41% interest in the limited partner units. The two key issues where potential conflicts may arise are the question of transfer asset pricing and the management fee that EPN pays EP. The two companies mitigate these potential conflicts by:

1. The EPN board of directors has a Conflicts and Audit Committee with three independent directors to review any transaction over $10 million.
2. Both EP and EPN obtain independent fairness opinions from firms that do work for just one side or the other.
3. EP and EPN's interests are aligned, since EP is by far the largest unit holder in EPN with 41% of the LP units.

In a recent move to further strengthen corporate governance that we applaud, EPN announced that it plans to add two more outside Directors to its Board. EPN's current Board consists of two inside Directors and three outsiders. We obviously prefer to see larger Boards with more outsiders.

Our view

We believe EPN has excellent growth prospects . . .

We agree completely with the first point in the bull case, that EPN has superior growth prospects vs. its peers. It is well positioned as the key midstream player in the deepwater Gulf of Mexico, one of the fastest growing arenas in the US, and one of the world's greatest new oil provinces.

. . . But has very poor access to capital . . .

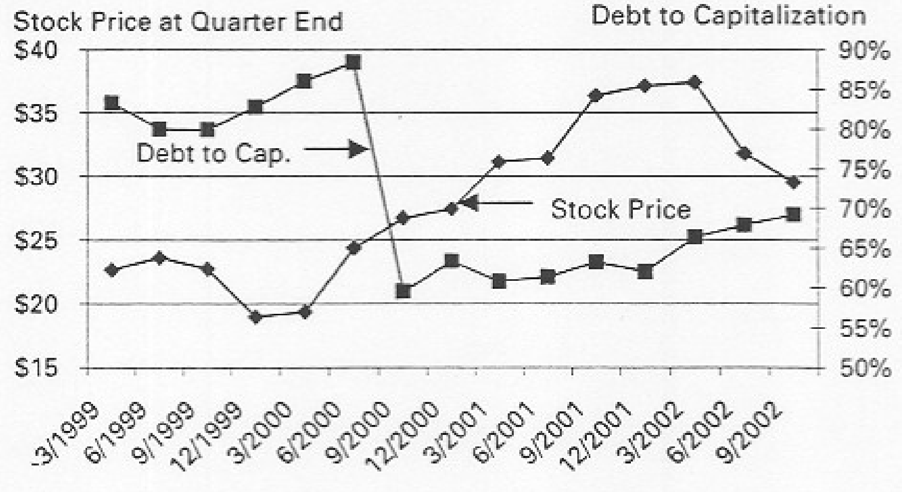
However, all of this potential growth is meaningless unless EPN reduces its cost of capital and gains improved access to capital. In the company's recent $782 million acquisition of EP's San Juan Basin assets, EPN funded the purchase with $200 million in 10.63% senior subordinated notes, $238 million in a senior secured credit facility, and issued EP 10.9 million Series C limited partner units. While, the Partnership ultimately pulled the acquisition off, the financing arrangements were far less than ideal. EP's ownership stake of the LP units increased to 41% from 26.5%. An additional equity infusion from EP and 10.6% debt highlights the capital constraints that face EPN due to its high leverage and perceived risk.

. . . Due to its high level of leverage

EPN's debt to capitalization ratio of 65%, projected to be 70% by mid-2003 (without any equity offerings), is the highest in a peer group that we believe is already over-leveraged. Generally, the only way for MLP's to grow beyond the 3% to 5% range is through internal expansion projects or acquisitions, both of which require capital. Given the fact that MLP's distribute the vast majority of their cash flow, they must raise equity periodically in order to maintain a conservative capital structure. Therefore, maintaining below average leverage is the best way to ensure that a Partnership can continue to grow through internal projects should the equity markets be weak at a given time.

While obviously there are other factors involved, the stock traded up significantly with the Partnership's reduction of debt in mid-2000. However, since the beginning of 2002, as leverage has continued to edge upward and the distress on El Paso Corp. has increased, the units have traded down again.

Figure 3: EPN stock price vs. debt-to-capitalization



Source: FactSet

Yield is attractive, but other negative issues warrant a higher yield

While the first point in the bull case (good organic growth) has merit, we find cause to quarrel with the second point—attractive valuation. It goes without saying that a 8.4% yield is attractive in the current interest rate environment. However, given its high leverage (66% debt/capitalization), slow growth (4%–6%) in distributions for several years, and distress of El Paso Corp. (owner of its GP), we believe an above-average yield is currently warranted.

EPN's problems are not too dire to solve

That said we do not believe all of EPN's problems are impossible to fix. Most importantly, the Partnership's underlying business model appears solid and incremental returns are attractive. While leverage is high, interest coverage is adequate, maturities are manageable, and plans to issue new equity will improve debt/capitalization. Further, we believe decreasing the payout ratio is a long-term positive, as it will provide capital for expansion projects and leverage will not necessarily increase every time EPN takes on a new project. While the situation for El Paso Corporation appears relatively bleak, EPN has stated that EP is exploring its alternatives including the sale of its GP interest to other industry players.

Units will likely remain weak until these overhangs are removed

Nonetheless, in the face of potential credit rating downgrades, slow growth in distributions, coupled with the desire to raise to $350 million to $450 million in equity and association with distressed EP, we believe the units will remain weak until some of these issues are resolved.

Risks

EPN has the highest leverage in its peer group

A reduction in taxes on dividends narrows MLPs advantage vs. C Corps

Pipelines have regulatory risk

Negative headline risk has impacted EPN units in the past

Rising interest rates: As a yield-oriented instrument, EPN units are sensitive to changes in interest rates.

High leverage: Since EPN is truly one of the faster growth MLPs, and since it distributes nearly all of its cash flow, it will need to access the equity markets frequently in order to maintain a balanced capital structure.

Elimination of taxes on dividends could reduce relative advantage: The Bush Administration recently proposed the elimination of taxes on dividend income. The elimination of or a reduction in the tax rate on dividends could adversely effect MLP valuations, as the benefits of tax deferral would be reduced on a relative basis.

Regulatory risk: Most of EPN's pipeline assets are subject to regulation by various federal, state and local authorities.

Distressed general partner/Negative headline risk: EPN units have historically traded down significantly on negative announcements by El Paso Corporation. In the graph below, we exhibit EP vs. EPN recent stock price history. While the stock prices are not on the same axis and are not meant to portray the same magnitude of price changes, the graphs do illustrate that the general trend for EPN has followed EP, in many cases. In fact, EP was down more than 5% during 35 days in 2002. On those same days, EPN was down about 80% of the time. While MLPs will obviously not be impacted to the same extent as a negative announcement by the GP, the negative publicity and sometimes real concerns about the ongoing management of an MLP often causes its stock to decline as well.

Figure 4: EP vs. EPN

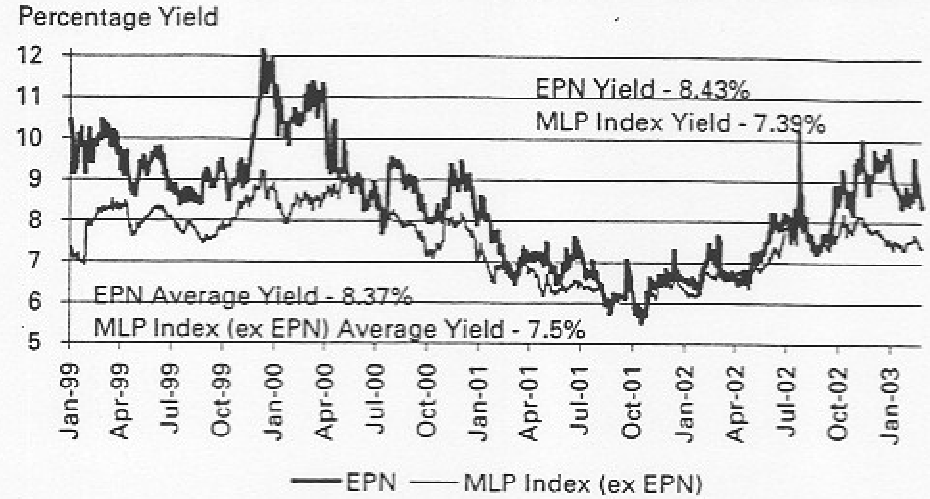
Source: FactSet

EPN's asset mix has more volumetric risk than do some of its MLP peers

Commodity price and volumetric risk: While the Partnership has de-emphasized its commodity based activity, such as E&P, it remains somewhat price sensitive to natural gas and natural liquids prices due to contracts where it is "paid-in-kind". Additionally, in many of EPN's businesses, the Partnership has volumetric risk, where volumes could decline considerably on certain assets due to low commodity prices or declining production on given fields. However, on EPN's San Juan Basin and Texas/New Mexico assets, the reserves in the area are long-lived and volume is relatively steady. Further, EPN typically hedges its commodity price risk.

While EPN has historically traded at a discount (generating a higher yield) than its peers, the spread has widened since mid-2002, reflecting the increased likelihood of slower distribution growth

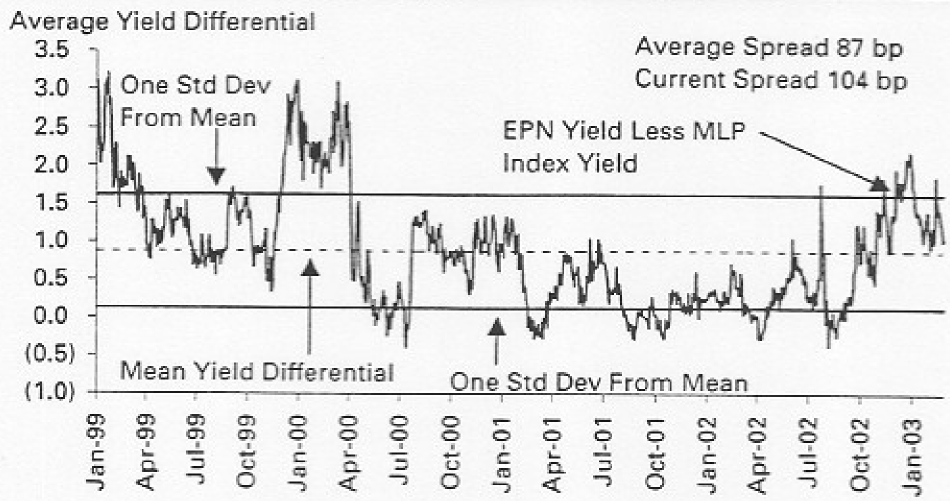
Figure 8: EPN yield vs. MLP Index



Source: FactSet

EPN's yield spread has averaged 87 basis points higher than its peers. However, its current spread is now 104 basis points higher

Figure 9: EPN yield less MLP Index

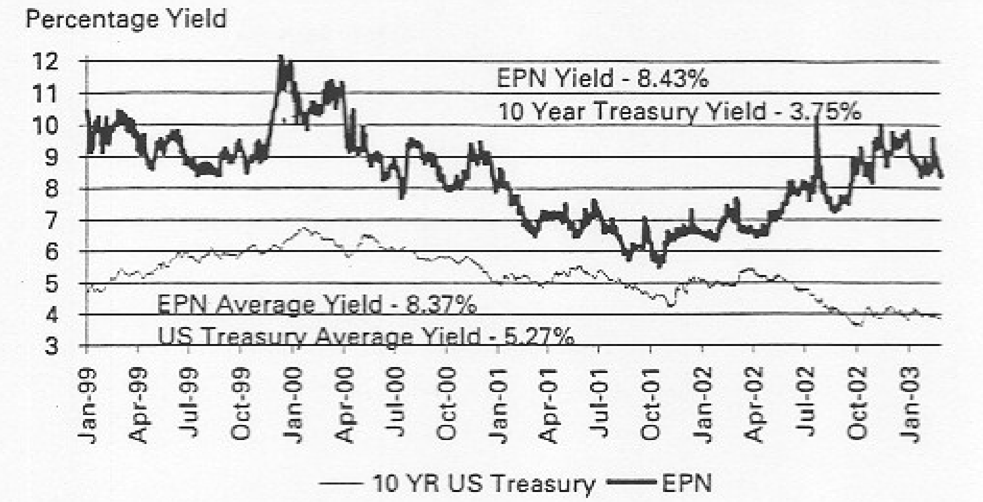


Source: FactSet

During 1999 and the first half of 2000, when EPN's leverage was in the 80% range, EPN's differential averaged 140 basis points over the MLP Index. From mid-2000 to mid-2002, when EPN's leverage was more in-line with the industry average, the differential narrowed significantly to only 46 basis points. Since mid-2002, however, the yield spread has widened to 104 basis points (and the spread was 218 bp less than two months ago), as EPN's leverage has edged up and is now forecast to reach 70% by mid-2003 without any equity offerings. Additionally, concern over distressed El Paso Corporation, owner of EPN's GP, has also acted as an overhang on the stock.

EPN's yield has increased significantly of late while 10-year US Treasury Note yields have declined

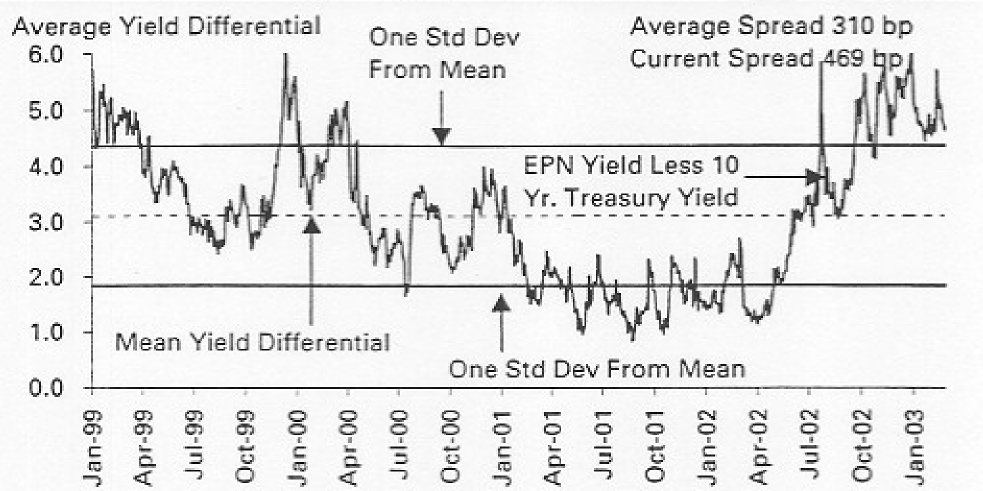
Figure 10: EPN yield vs. 10-year Treasury yield



Source: FactSet

At 469 basis points, EPN's yield differential vs. 10-year US Treasury Notes is greater than one standard deviation from its mean differential

Figure 11: EPN yield less 10-year Treasury yield



Source: FactSet

Since 1999, EPN has traded at an average yield of 310 basis points above the 10-year U.S. Treasury Note yield. Beginning in mid-2002, this differential began to expand, we believe due to three primary factors.

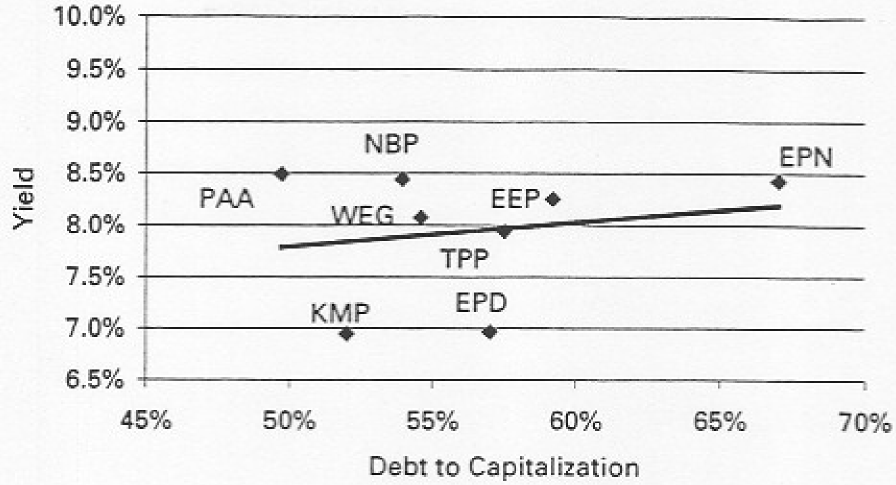
1. **A flight to quality out of the stock market in general**. The market commenced a steep decline in April 2002, with the S&P 500 losing 27% of its value since that time, leading to a sharp bidding down of Treasury yields as capital rotated to bonds;

2. **A flight out of energy stocks**. Energy stocks, particularly natural gas related companies, fell further out of market favor, as several high-profile companies announced substantial write-downs and rating downgrades; and

3. **Concern over EPN's leverage and the financial distress of El Paso Corporation (owner of its GP).**

While EPN generates amongst the highest yield in the group, it also maintains the highest financial leverage

Figure 12: MLP Group–debt to capitalization vs. yield



Source: Deutsche Bank Securities Inc. estimates and company information

Valuation conclusion

Our 12-month stock price target is $31 per unit

While EPN's yield differential vs. Treasury yields is almost two standard deviations from its average differential since January 1999, we do not see many catalysts to reduce this discount in the near-term. As the Partnership's debt continues to trend upward until its next equity offering, and concern over its GP persist, we believe the differential will remain significant. Further, should the US go to war with Iraq and the budget deficit worsen, we believe long-term interest rates could edge up. Assuming a Treasury yield of 4.53%, 78 basis points higher than current levels and a differential of between 4.36% and 4.69%, we calculate EPN units would trade in the $29 to $30 range. Should interest rates remain at current levels, the units could trade in the $32 to $33 range, as shown below. Our 12-month price target of $31 per share is based on the midpoint of these ranges.

Figure 13: Implied EPN unit prices at various Treasury yields and differentials

		10 Year US Treasury Yield				
		Avg.- 3 s	Avg.- 2 s	Current	Avg.- 1 s	Avg.
Differential Vs Treasuries		**3.06%**	**3.80%**	**3.75%**	**4.53%**	**5.27%**
Avg Differential Since 1/99	**3.10%**	$ 43.83	39.14	39.43	35.36	32.24
Avg Diff. Plus 1 Std Dev	**4.36%**	$ 36.40	33.10	33.31	30.36	28.03
Current Differential	**4.69%**	$ 34.87	31.83	32.02	29.28	27.11
Avg Diff. Plus 2 Std Dev	**5.62%**	$ 31.12	28.68	28.83	26.59	24.79
Avg Diff. Plus 3 Std Dev	**6.88%**	$ 27.18	25.30	25.42	23.66	22.22

Source: Deutsche Bank Securities Inc. estimates and company information

This analysis does not take into account the potential growth in 2004 and 2005 from EPN's internal projects. However, it also ignores the fact that distributions are likely to grow slower than their peers in 2003/2004 and the equity-offering overhang. We estimate that the Partnership will likely need to complete two equity offerings during the year in order to reduce debt to capitalization to below 60%.

Peer analysis

Each of the company displays were substantially created by their current management

The table below displays various returns for EPN and for the two others MLPs that we currently cover, Enterprise Product Partners, L.P. (EPD) and Kinder Morgan Energy Partners, L.P. (KMP). While average returns for companies can be skewed by investments made under previous management and ignore incremental returns, each of these companies have been substantially built in the last few years by the current management teams.

There are several shortcomings to this type of analysis

We also recognize that return analysis has additional shortcomings for MLP's, since they are managed for cash, not income. Differences in accounting depreciation and economic depreciation also tend to distort the balance sheet. Further, various securities such as Series B and C shares and I-Units can also complicate the analysis (as shown in the footnotes in Figure 14). Additionally, the historical numbers below are not pro forma for acquisitions. Nonetheless, while the various return measurements in their own right may not have as much meaning as they do for C-Corps, we believe they may be useful for comparing MLPs against each other.

Returns below are measured before adjusting for the GP take

The four returns shown below are what we consider "Enterprise" returns, since they are based on the EBITDA, EBIT, or net income across the entire enterprise before taking into account the GP distributions. As shown, EPN's returns have historically been inferior to EPD's and KMP's on the first three accounting measures. However, none of the figures below are pro forma for acquisitions, and all three partnerships completed significant acquisitions in 2001 or 2002. EPN's results for 2002 are skewed down by the fact that the San Juan Basin acquisition did not close until late November. Since we use a simple average of beginning and ending assets or capital for the denominator in ROA and ROIC, the calculated returns are lower than the actual returns are in reality.

While ROA is commonly calculated with EBIT in the numerator, we also calculate ROA based on EBITDA since these Partnerships are managed for cash. On that basis, the performance of the three Partnerships is much more comparable.

Figure 14: Returns – KMP, EPN and EPD

	2001	2002E	2003E	2004E	4 Yr Simple Average
Return on Avg. Invested Capital					
EPN	9.2%	8.6%	9.9%	10.9%	9.6%
EPD	18.2%	7.2%	10.9%	12.2%	12.1%
KMP	12.9%	12.3%	12.3%	13.2%	12.7%
Return on Avg. Equity					
EPN	13.6%	13.5%	13.9%	16.1%	14.3%
EPD	23.3%	8.0%	16.0%	17.5%	16.2%
KMP	16.8%	18.5%	19.9%	21.6%	19.2%
Retun on Avg. Assets					
EPN	8.8%	8.2%	9.4%	10.4%	9.2%
EPD	13.1%	5.8%	8.9%	10.0%	9.5%
KMP	11.3%	11.0%	11.1%	11.9%	11.3%
EBITDA/ Avg. Assets					
EPN	10.3%	10.9%	12.7%	14.0%	12.0%
EPD	15.5%	8.6%	11.8%	13.0%	12.2%
KMP	12.4%	12.2%	12.6%	13.7%	12.7%

ROIC = EBIT/(Avg. Debt + Avg. Partner's Capital)
ROA = EBIT/(Avg. Assets)
ROE = NI before GP Distributions/Avg. Partner's Capital
Source: Deutsche Bank Securities Inc. estimates and company information

After taking into account the GP distributions, EPD's ROE is far superior to either KMP's or EPN's

However, often overlooked in MLP analysis is that these returns are based on the EBIT (in the case of assets and capital) or net income (in the case of ROE) before the GP distributions. We believe investors should also analyze returns after the GP distributions, since the GP share of the capital contribution is typically only 1% or 2%, whereas they take a much greater proportion of the cash flow.

Below we calculate the return on equity, excluding the income allocated to the GP. While it is difficult to calculate this measure consistently due to differences in their capital structures, we have footnoted our treatment of various differences below. Nonetheless, EPD outperforms by a significant margin on this measure of performance, largely due to its lower GP distributions that are permanently capped at 25%.

Cash distributions/partner's capital may be more meaningful than the other measures

On the second measure of performance, we have replaced the numerator in the previous calculation with the cash distributions to LPs. Once again, EPN's returns are much more favorable on a cash basis. The weakness with the measure is that it ignores cash distribution coverage ratios. We estimate cash distribution coverage in 2003 and 2004 of 1.15x–1.20x for EPD, vs. 1.05x–1.1x for EPN and 1.00x–1.05x for KMP.

Figure 15: Returns – KMP, EPN and EPD (cont'd)

ROE based on LP Income Only					
EPN (excl. Series B Inc. & Equity)(1)	5.4%	7.1%	8.1%	9.6%	7.6%
EPN	7.5%	7.7%	8.3%	9.4%	8.2%
EPD	22.8%	7.2%	14.6%	15.7%	15.1%
KMP(2)	9.1%	10.3%	10.7%	11.3%	10.3%
Cash ROE based on LP Distributions					
EPN (excl. Series B Equity)(1)	33.0%	20.1%	17.3%	18.0%	22.1%
EPD	15.5%	17.5%	19.6%	20.1%	18.2%
KMP(2)	13.9%	13.5%	13.5%	14.4%	13.8%

ROE based on LP Income = Net Income after GP Distributions/Avg. Partner's Capital (did not back out GP interest since it is only 1-2%)
Cash ROE based on LP Distributions = Cash Distributions to LP/Avg. Partner's Capital
(1) Since Series B Units represent a significant portion of EPN's capital structure, they accrue distributions and can be repurchased/called, we excluded them from the denominator in these equations
(2) Partner's Capital includes Series B shares since they only represent 4% of capital structure. Cash LP distributions include value of share distributions on I-Units.
Note: Unless otherwise stated, LP income includes income for other unit classes (B or C) as well.
Source: Deutsche Bank Securities Inc. estimates and company information

Once again, we reiterate that these measures of performance have several flaws; nonetheless, we believe they do provide some insight when attempting a comparison based on projected financial performance.

Background

History

EPN's roots are in Leviathan Gas Pipeline Partners, L.P., a Gulf of Mexico focused MLP

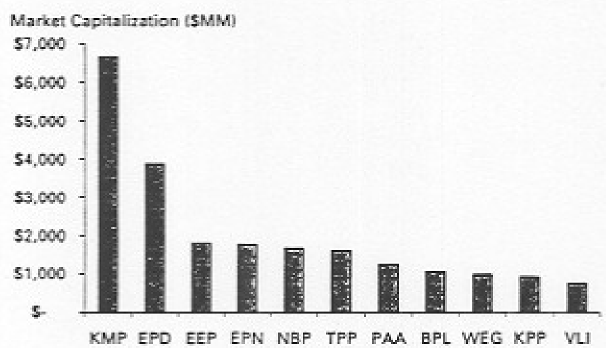
El Paso Energy Partners' predecessor, Leviathan Gas Pipeline Partners, L.P. was formed in 1992 and went public in February 1993. In August 1998, El Paso Corporation acquired DeepTech International Inc., the parent company and general partner of Leviathan. In, December 1999, the Partnership changed its name to El Paso Energy Partners L.P. and announced that while remaining committed to the deepwater Gulf of Mexico, its strategy would incorporate other geographic areas leveraging off El Paso Corporation's competencies. The Gulf of Mexico, Texas, and New Mexico are EPN's most strategic regions.

Summary

EPN is one of the top five MLP's as measured by market capitalization

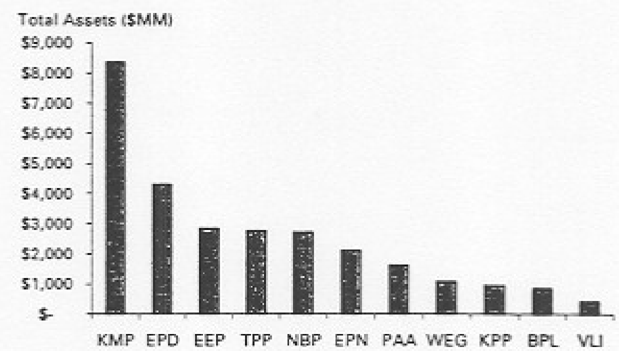
EPN is one of the five largest publicly traded master limited partnerships as measured by total market capitalization. EPN has five distinct business segments, natural gas plants and pipelines: 63% of 2002 Adjusted EBITDA, oil and NGL pipelines: 16%, platform services: 11%, natural gas storage: 6%, and other: 4%.

Figure 16: MLPs by market capitalization



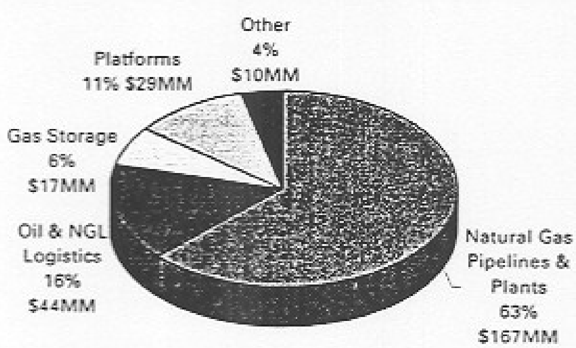
Source: FactSet

Figure 17: MLPs by total assets



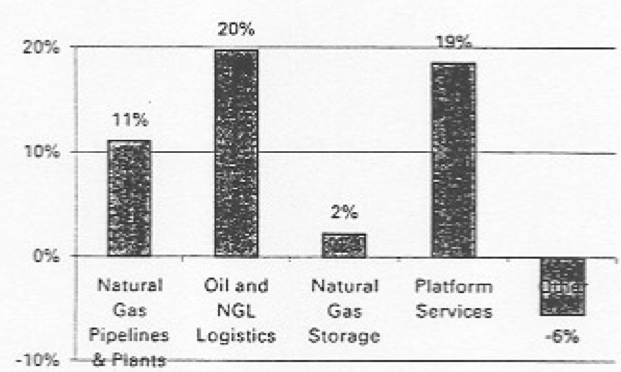
Source: FactSet

Figure 18: 2002 adjusted EBITDA by segment



Source: Deutsche Bank Securities Inc. estimates

Figure 19: ROA by segment LTM ended 9/30/02



Source: Company information. Not pro forma for acquisitions.

Gas pipelines

Gas pipelines is EPN's largest segment

Natural Gas Pipelines and Plants is by far EPN's largest segment, representing over two-thirds of EPN's total assets and 63% of 2002E adjusted EBITDA. This segment consists of several key assets including the following:

Figure 20: Key natural gas pipeline and plant assets

Key Assets	Description
EPGT Texas	Largest intrastate pipeline system in Texas (9,400 miles) with capacity of 5 Bcf/d and 2001 throughput of 3.5 MMDth/d
Carlsbad, NW and Waha, Texas Gathering Systems	1,300 miles of Permian Basin gathering pipeline with a capacity of 465 MMcf/d and 2001 throughput of 341 MDth/d
HIOS Gathering System	204 miles of pipeline in the deepwater GOM with a capacity of 1.8 Bcf/d
East Breaks Gathering System	85 miles of pipeline in the deepwater GOM with capacity of 400 MMcf/d
Viosca Knoll Gathering System	125 miles of pipeline in the deepwater GOM with a capacity of 1 Bcf/d
EPIA Gathering System	450 miles of pipeline in Alabama's Black Warrior Basin coalbed methane pipeline
San Juan Basin Gathering System	5,300 mile natural gas gathering system located in New Mexico's San Juan Basin
Typhoon Gathing System	35 miles of 400 mmcf/d pipeline in the GOM
Chaco Gas Processing Plant	Third largest processing plant in the US. Located in San Juan Basin
Indian Basin Plant	42.3% non-operating interest in this processing plant with capacity of 240 MMcf/d

Source: Deutsche Bank Securities Inc. estimates and company information

As shown in the figure above, the majority of EPN's natural gas pipeline and plant assets are located in the Gulf of Mexico, Texas, and New Mexico. On EPGT Texas, the largest intrastate pipeline system in the state, 58% of the revenue is derived from firm demand charges (renting space on the line) typically from EPN's LDC customers. The remaining 42% of revenue is typically derived from interruptible service with producers of marketers where they pay EPN a fee based on the volume. On its gathering facilities the Partnership is typically paid based on volume as well.

EPN's primary competition in Texas is Kinder Morgan Energy Partners and AEP, through its Houston Pipeline. In the Gulf of Mexico, the company's primary competition is Shell Oil Company. Various federal, state and/or local authorities such as the Texas Railroad Commission typically regulate EPN's pipeline assets. The basis of competition for the gathering facilities is typically location while EPGT Texas' competitive advantage is its scale as well as the fact that it is the only intrastate system in the state with interconnects to all of the major hubs, city-gates and major producing basins in the state.

Gas processing accounts for about 20%–25% of EPN's EBITDA in this segment. Importantly, EPN does not have any "keep-whole" contracts. Keep-whole contracts are common in the gas processing businesses. Under this arrangement, the processor takes title to the gas and the NGLs extracted, and reimburses the producer for the market value of the energy extracted (based upon BTUs) with natural gas of a cash equivalent. Therefore, under a keep-whole contract the processor derives a profit margin to the extent the market value of the NGLs extracted exceeds the costs of extraction, which are largely determined by the price of natural gas. During periods of rapidly rising natural gas prices, the value of NGLs doesn't always keep up, causing processors with keep-whole arrangements to be unprofitable.

Under EPN's contracts, they are paid a "percentage of proceeds" extracted, which is not nearly as risky as keep-whole. Of late, the company has benefited from higher NGL prices.

Outlook and forecast

The significant projected increase in EBITDA in 1Q03 is to take into account the full quarter run rate of the San Juan Basin assets that were acquired from EP in early late November 2002. The slight increase in 3Q03 represents the completion of the Medusa gas pipeline, which should eventually add about $6 million in EBITDA per year.

Figure 21: Natural gas pipelines and plants forecast

($MM)	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
EBITDA	19.9	47.1	43.9	55.2	69.9	70.4	72.1	72.7
DD&A	6.5	12.2	12.3	13.5	18.3	18.5	18.8	18.9
Operating Income	13.4	34.9	31.6	41.7	51.7	51.9	53.3	53.8
Earnings From Uncons. Affiliates	-	-	-	0.2	-	-	-	-
Other Income/(Expense)	0.3	0.0	(0.4)	(0.4)	-	-	-	-
EBIT	13.7	34.9	31.2	41.5	51.7	51.9	53.3	53.8
Plus: DD&A	6.5	12.2	12.3	13.5	18.3	18.5	18.8	18.9
Distributions From Affiliates	-	-	-	2.0	-	-	-	-
Other	-	-	1.0	(1.4)	-	-	-	-
Less: Earnings From Affiliates	-	-	-	(0.2)	-	-	-	-
Adjusted EBITDA	20.2	47.1	44.5	55.4	69.9	70.4	72.1	72.7

	2001	2002E	2003E	2004E
EBITDA	39.0	166.1	285.2	296.1
DD&A	11.7	44.6	74.5	76.6
Operating Income	27.3	121.5	210.7	219.5
Earnings From Uncons. Affiliates	5.8	0.2	-	-
Other Income/(Expense)	0.4	(0.5)	-	-
EBIT	33.5	121.2	210.7	219.5
Plus: DD&A	11.7	44.6	74.5	76.6
Distributions From Affiliates	12.8	2.0	-	-
Other	-	(0.4)	-	-
Less: Earnings From Affiliates	(5.8)	(0.2)	-	-
Adjusted EBITDA	52.2	167.2	285.2	296.1

Source: Deutsche Bank Securities Inc. estimates and company information

Oil and NGL logistics

This segment includes EPN's NGL fractionation facilities and pipelines and its oil pipeline systems. According to EPN, they are the largest supplier of NGLs to the South Texas refinery/petrochemical market. Oil and NGL Logistics contributed 16% of EPN's adjusted EBITDA in 2002 and currently accounts for about 9% of the Partnership's total assets. Key assets in the segment include the following:

Figure 22: Key natural gas pipeline and plant assets

Key Assets	Description
NGL Assets	1248 miles of NGL pipeline, four fractionation plants with a capacity of 131 MBbls/d, and 20 MMbbls of NGL storage capacity
Poseidon Oil Pipeline	36% interest in 288 mile pipeline from the offshore GOM to Louisiana. The pipeline has a capacity of 400 MBbls/d
Allegheny Pipeline	43 miles of pipeline in the deepwater GOM with a capacity of 80 MBbls/d
Typhoon Oil Pipeline	12", 16 mile gathing system with capacity of 100 MBbl/d.
Cameron Highway Oil Pipeline System	50/50 Joint venture with Valero to construct, own and operate this 380 mile pipeline with a capacity of 500 MBbls/d. The pipeline will run from the deepwater GOM to East Texas. Completion is expected in Q3/Q4 2004.

Source: Deutsche Bank Securities Inc. estimates and company information

On these assets, EPN is typically paid a fee based on the volume shipped, rather than a reservation charge. As with the natural gas pipelines, the basis of competition is primarily location and interconnectivity between suppliers/producers and end users/refiners. EPN's NGL assets primary competition is Enterprise Products Partners, while Poseidon, Allegheny, and Cameron upon completion, compete primarily with Shell Oil Company. Various Federal, State and local authorities regulate these assets, but rates are generally negotiated.

Outlook and forecast

As with Natural Gas Pipelines and Plants, part of the San Juan Basin asset acquisition was completed in November, and is also reflected in this segment. This accounts for the increase in 1Q03. The increase in 2004 is related to the commencement of the Cameron Highway Oil Pipeline in 4Q04, which should eventually add about $38 million in annual EBITDA after the joint venture's debt service.

Figure 23: Oil & NGL logistics forecast

($MM)	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
EBITDA	6.2	7.4	7.3	6.7	9.4	10.0	11.1	11.2
DD&A	1.5	1.7	1.4	2.0	3.3	3.3	3.3	3.3
Operating Income	4.7	5.7	5.9	4.7	6.1	6.7	7.9	7.9
Earnings From Uncons. Affiliates	3.4	4.0	3.2	2.9	3.2	3.4	3.4	3.4
EBIT	8.1	9.7	9.1	7.6	9.3	10.1	11.3	11.3
Plus: DD&A	1.5	1.7	1.4	2.0	3.3	3.3	3.3	3.3
Distributions From Affiliates	4.5	4.7	4.0	2.7	3.7	3.9	3.9	3.9
Less: Earnings From Affiliates	(3.4)	(4.0)	(3.2)	(2.9)	(3.2)	(3.4)	(3.4)	(3.4)
Adjusted EBITDA	10.7	12.1	11.3	9.4	13.1	13.9	15.0	15.1

	2001	2002E	2003E	2004E
EBITDA	25.6	27.6	41.7	51.4
DD&A	5.2	6.5	13.0	15.7
Operating Income	20.4	21.1	28.7	35.7
Earnings From Uncons. Affiliates	18.2	13.5	13.4	13.6
EBIT	38.4	34.5	42.1	49.3
Plus: DD&A	5.2	6.5	13.0	15.7
Distributions From Affiliates	22.2	15.8	15.4	15.6
Less: Earnings From Affiliates	(18.2)	(13.5)	(13.4)	(13.6)
Adjusted EBITDA	47.6	43.4	57.1	67.0

Source: Deutsche Bank Securities Inc. estimates and company information

Platform services

Platform Services accounted for about 11% of EPN's 2002 adjusted EBITDA. EPN has ownership interests in and operates six (plus two under construction) offshore Gulf of Mexico platforms that are used to interconnect offshore pipelines, assist in performing pipeline maintenance, and conducting drilling operations during the initial development phase of a property. Currently, most of EPN's revenue in the segment is derived from charges based on volume. However, as new platform projects come on line, they generally have a fixed fee component in their revenue.

The company expects to complete the $53 million Falcon Nest Platform late in 1Q03. This project is expected to ultimately add about $15 million in annual EBITDA. The significant increase in EBITDA in 2004 is related to the expected completion of the $108 million (their portion) Marco Polo Platform in 4Q03. The Marco Polo platform, which is a joint venture with Cal Dive International Anadarko Petroleum, is expected to generate five-year average annual EBITDA of $36 million to EPN after joint venture debt service.

Figure 24: Platforms services outlook

($MM)	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
EBITDA	7.2	7.4	4.1	4.4	4.8	7.5	7.9	8.4
DD&A	1.1	1.0	1.0	1.1	1.2	1.7	1.7	1.7
Operating Income	6.1	6.4	3.1	3.3	3.6	5.8	6.2	6.7
EBIT	6.1	6.4	3.1	3.3	3.6	5.8	6.2	6.7
Plus: DD&A	1.1	1.0	1.0	1.1	1.2	1.7	1.7	1.7
Other	5.6	-	0.5	-	-	-	-	-
Less: Earnings From Affiliates	-	-	-	-	-	-	-	-
Adjusted EBITDA	12.8	7.4	4.6	4.4	4.8	7.5	7.9	8.4

	2001	2002E	2003E	2004E
EBITDA	25.6	23.1	28.5	58.2
DD&A	4.1	4.2	6.2	12.8
Operating Income	21.5	18.9	22.3	45.5
Other Income/(Expense)	(0.6)	-	-	-
EBIT	20.9	18.9	22.3	45.5
Plus: DD&A	4.1	4.2	6.2	12.8
Other	5.8	6.1	-	-
Adjusted EBITDA	30.8	29.2	28.5	58.2

Source: Deutsche Bank Securities Inc. estimates and company information

Natural gas storage

Natural Gas Storage accounted for about 6% of 2002 adjusted EBITDA. This segment primarily consists of the Partnership's Petal and Hattiesburg salt dome storage facilities in Mississippi, the largest in the Southeastern United States. It was expanded in mid-2002 and now has storage capacity of 12.65 BCF, with deliverability in excess of 1.2 Bcf/d. The facilities are strategically situated to serve the Northeast, Mid-Atlantic and Southeast natural gas markets. These storage facilities have a significant portfolio of long-term contracts, providing stability. EPN's storage facilities are generally fully contracted.

The Hattiesburg facility is a regulated utility under the jurisdiction of the Mississippi Public Service Commission. The Petal facility is under the jurisdiction of the FERC. However, it is permitted to charge market based rates.

Expansion projects

EPN currently has about $600 million ($350 million after joint venture project finance) of strategic expansion projects underway, most of which are in the Gulf of Mexico. EPN has little competition in the deepwater GOM. Despite the lack of competition, EPN must still be reasonable in its pricing, or its customers will take on the projects themselves. The following figure displays EPN's key projects.

Figure 25: Expansion projects underway

($MM)	Expected Completion	Total Budget	EPN Equity Portion	Investment/ Expected Avg. EBITDA	Description
Marco Polo Platform & Pipelines	Q403	$ 302.0	$ 108.0	3.0x	50/50 JV with Cal Dive to construct, install and own a TLP and install 100% EPN owned gas pipelines
Falcon Nest Platform	Q103	53.0	53.0	3.5x	Will construct, install and own a platform in the GOM for Mariner and Pioneer
Cameron Oil Highway Pipeline	Q304	450.0	76.0	2.0x	50/50 JV with Valero to own and operate a major 390 mile crude oil pipeline from Western GOM to East Texas
Medusa Gas Pipeline	Q103	28.0	26.0	4.3x	37 mile, 12" pipeline in Deepwater GOM
Red Hawk Pipeline	Q204	57.0	57.0	4.4x	16" Gas gathering pipeline in deepwater GOM that will connect to ANR pipeline
Texas NGL Expansion	Q203	31.0	31.0	NA	Adds 30,000 bpd market access to Mont Belvieu and Northern Mexico LPG market. Adds 12,000 bpd fractionation capacity

Source: Deutsche Bank Securities Inc. estimates and company information

Balance sheet & liquidity

As shown on page 4, EPN has only $7 million of debt maturities over the next year. It's $600 million revolver and $238 million senior secured facility mature in May 2004, but are likely to be extended within the next three months. The Partnership's $160 million EPN holding acquisition facility matures in April 2005. All other significant maturities are greater than five years out. EPN's major covenants on its Bank facilities are summarized below:

Ratio	Required	Current
Max. Total Debt/Pro forma LTM EBITDA	5.25x	4.9x
Max. Senior Debt/Pro forma LTM EBITDA	3.25x	2.7x
Min. Pro forma EBITDA/LTM Interest	2.00x	4.6x

Figure 26: Capitalization and coverage ratios

In Millions of $	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E	12/2004E
Capitalization									
Net Debt/Total Capital	63.0%	67.6%	68.9%	65.9%	59.2%	60.6%	61.2%	55.5%	56.5%
Book Value/share	$12.20	$14.75	$13.99	$21.54	$26.96	$22.54	$18.34	$21.24	$18.34
Debt Coverage									
LTM EBIT	100.2	130.1	153.3	175.9	216.7	237.0	265.2	286.0	326.1
LTM EBITDA	124.1	163.4	199.0	233.4	290.5	322.6	360.1	387.6	439.3
Total Debt/LTM EBITDA	7.8x	8.2x	7.0x	8.0x	6.0x	5.7x	5.1x	4.4x	3.8x
LTM Interest	44.0	56.8	68.8	83.4	105.6	115.9	125.1	126.7	112.9
EBITDA/Interest	2.8x	2.9x	2.9x	2.8x	2.8x	2.8x	2.9x	3.1x	3.9x
Return									
Return on Avg. Invested Capital	9.2%	9.1%	10.6%	8.6%	10.2%	9.6%	10.7%	9.9%	11.0%
Return on Avg. Equity	14.2%	15.7%	18.6%	13.5%	13.3%	13.5%	15.8%	13.9%	16.3%
Return on Avg. Assets	8.1%	8.5%	9.9%	8.2%	9.5%	9.1%	10.0%	9.4%	10.4%

Source: Deutsche Bank Securities Inc. estimates and company information. Not pro forma for acquisitions.

Board of Directors

Member	Position
Robert G. Phillips	CEO and Chairman, El Paso Energy Partners, LP
James H. Lytal	President, El Paso Energy Partners, LP
Michael B. Bracy	Former Director, EVP and CFO of NorAm Energy Corp.
H. Douglas Church	Former SVP, Transmission, Engineering and Environmental for Texas Eastern Transmission Company
Kenneth L. Smalley	Former SVP of Phillips Petroleum Company and President of Phillips 66 Natural Gas Company

Management

Robert G. Phillips, Chairman and Chief Executive Officer
Mr. Phillips has been CEO since November 1999. He served as EVP from August 1998 to October 1999. He served as President of El Paso Field Services Company since June 1997, President of El Paso Energy Resources Company from December 1996 to June 1997, President of El Paso Field Services Company from April 1996 to December 1996 and SVP of El Paso from September 1995 to April 1996. For more than five years prior, Mr. Phillips was CEO of Eastex Energy, Inc.

James H. Lytal, President
Mr. Lytal has served as President since July 1995. He served as SVP from August 1994 to June 1995. Prior to joining EPN, Mr. Lytal served in various capacities in the oil and gas exploration and production and gas pipeline industries with United Gas Pipeline Company, Texas Oil and Gas, Inc. and American Pipeline Company.

D. Mark Leland, Chief Operating Officer
Mr. Leland was named COO in January 2003. He previously served as SVP and Controller since July 2000 and as VP of El Paso Field Services Company since September 1997. He served as VP and Controller from August 1998 to July 2000. Mr. Leland served as Director of Business Development for El Paso Field Services Company from September 1994 to September 1997. For more than five years prior, Mr. Leland served in various capacities in the finance and accounting functions of El Paso Corporation.

Keith B. Forman, Chief Financial Officer
Mr. Forman has served as CFO since January 1992. From 1982 to 1992, Mr. Forman served as VP of the Natural Gas Pipeline Group of Manufacturers Hanover Trust Company.

EPN financial statements

Figure 27: Annual income statement

In Millions of $	1999	2000	2001	2002E	2003E	2004E
	For the fiscal years ending 12/31,					
Operating Revenues:						
Gathering & Transportation Services	20.3	63.5	93.6	357.6	619.9	643.8
Liquid Transportation and Handling	2.0	8.3	39.5	48.3	54.1	66.7
Platform Services	11.4	13.9	23.5	16.7	25.3	58.3
Natural Gas Storage Services	-	6.2	19.4	28.6	46.7	48.6
Oil and Natural Gas Sales, & Other	30.0	20.6	26.3	16.8	17.2	17.2
Net Sales	63.7	112.4	202.2	467.9	763.2	834.6
Operating Costs and Expenses:						
Cost of Natural Gas	-	28.2	51.5	119.3	187.8	197.7
Operations and Maintenance	22.4	14.5	35.5	115.2	187.8	197.7
EBITDA	41.3	69.8	115.1	233.4	387.6	439.3
D&A	30.6	27.7	38.6	72.1	116.6	128.4
Asset Impairment Charge	-	-	3.9	-	-	-
Operating Income	10.6	42.1	72.6	161.3	271.0	310.9
Other Income and Expenses:						
Equity in Earnings	32.8	22.9	8.4	13.6	13.4	13.6
Gain on Sale of Assets	10.1	-	(11.4)	(0.4)	-	-
Other Income and Expenses	0.4	2.4	28.7	1.5	1.6	1.6
EBIT	53.9	67.4	98.4	176.0	286.0	326.1
Interest Expense, Net	35.3	47.1	43.1	83.4	126.7	116.7
Minority Interest	0.2	0.1	0.1	0.0	-	-
Profit Before Taxes	18.4	20.2	55.1	92.6	159.3	209.4
Income Taxes	(0.4)	(0.3)	-	-	-	-
Net Income	18.8	20.5	55.1	92.6	159.3	209.4
Extraordinary Items & Discontinued Ops.	-	-	-	5.1	-	-
Reported Net Income	18.8	20.5	55.1	97.7	159.3	209.4
Net Income Growth (Yr. Over Yr.)		*9%*	*169%*	*77%*	*63%*	*31%*
Net Income Allocated To GP	12.1	15.6	24.7	42.1	64.7	86.7
Net Income Allocated To Series C Unitholders				1.5	7.4	-
Net Income Allocated To Series B Unitholders	-	5.7	17.2	14.7	15.0	15.0
Net Income Allocated to Limited Partners Before Accounting Change	6.7	(0.7)	13.3	39.4	72.2	107.7
Cumulative Effect of Accounting Change	(15.4)	-	-	-	-	-
Net Income Allocated to Limited Partners	(8.7)	(0.7)	13.3	39.4	72.2	107.7
Diluted Limited Partners' Net Income Per Unit:						
Income Before Charge	$ 0.26	$ (0.03)	$ 0.38	$ 0.92	$ 1.30	$ 1.55
Income After Charge	$ (0.34)	$ (0.03)	$ 0.38	$ 0.92	$ 1.30	$ 1.55
Weighted Avg. Units Outstanding	25.9	29.1	34.4	42.8	55.6	69.5
Declared Distribution Per Unit		$ 2.15	$ 2.36	$ 2.65	$ 2.78	$ 2.90
Distribution Per Unit Paid in Period	$ 2.10	$ 2.13	$ 2.29	$ 2.60	$ 2.74	$ 2.87
Distribution Growth			7.6%	13.7%	5.4%	4.7%

Source: Deutsche Bank Securities Inc. estimates and company information

Figure 28: Quarterly income statement

In Millions of $	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
Operating Revenues:								
Gathering & Transportation Services	40.4	95.2	96.3	125.7	152.0	153.1	156.8	158.0
Liquid Transportation and Handling	8.8	9.8	9.5	20.2	12.2	13.0	14.5	14.5
Platform Services	4.5	5.2	3.6	3.5	3.7	6.7	7.2	7.7
Natural Gas Storage Services	4.4	5.5	8.6	10.1	11.5	11.6	11.7	11.8
Oil and Natural Gas Sales, & Other	3.5	4.9	4.3	4.1	4.3	4.3	4.3	4.3
Net Sales	61.5	120.5	122.3	163.6	183.7	188.7	194.5	196.3
Operating Costs and Expenses:								
Cost of Natural Gas	12.2	27.3	27.8	52.1	45.8	46.4	47.6	48.0
Operations and Maintenance	14.4	29.3	32.8	38.6	45.8	46.4	47.6	48.0
EBITDA	34.9	63.9	61.7	72.9	92.0	95.9	99.3	100.4
D&A	12.5	18.1	19.3	22.2	28.4	29.2	29.5	29.6
Asset Impairment Charge	-	-	-	-	-	-	-	-
Operating Income	22.4	45.8	42.4	50.7	63.7	66.7	69.8	70.8
Other Income and Expenses:								
Equity in Earnings	3.4	4.0	3.2	3.1	3.2	3.4	3.4	3.4
Gain on Sale of Assets	0.3	-	-	(0.4)	-	-	-	-
Other Income and Expenses	0.4	0.4	(0.2)	0.4	0.4	0.4	0.4	0.4
EBIT	26.5	50.2	45.4	53.8	67.3	70.5	73.6	74.6
Interest Expense, Net	11.8	21.5	22.1	28.0	34.0	31.9	31.3	29.6
Minority Interest	-	0.0	-	-	-	-	-	-
Profit Before Taxes	14.7	28.7	23.3	25.8	33.3	38.6	42.3	45.0
Income Taxes	-	-	-	-	-	-	-	-
Net Income	14.7	28.7	23.3	25.8	33.3	38.6	42.3	45.0
Extraordinary Items & Discontinued Ops.	4.4	0.1	0.5	0.2	-	-	-	-
Reported Net Income	19.1	28.7	23.8	26.0	33.3	38.6	42.3	45.0
Net Income Growth (Yr. Over Yr.)	*47%*	*143%*	*98%*	*42%*	*74%*	*34%*	*78%*	*73%*
Net Income Allocated To GP	8.7	10.8	10.7	11.8	12.2	15.2	18.3	19.0
Net Income Allocated To Series C Unitholders				1.5	3.5	3.9	-	-
Net Income Allocated To Series B Unitholders	3.6	3.6	3.7	3.8	3.8	3.8	3.8	3.8
Net Income Allocated to Limited Partners Before Accounting Change	6.8	14.3	9.4	8.9	13.9	15.8	20.2	22.2
Cumulative Effect of Accounting Change		-	-	-	-	-	-	-
Net Income Allocated to Limited Partners	6.8	14.3	9.4	8.9	13.9	15.8	20.2	22.2
Diluted Limited Partners' Net Income Per Unit:								
Income Before Charge	$ 0.17	$ 0.33	$ 0.21	$ 0.20	$ 0.32	$ 0.30	$ 0.32	$ 0.35
Income After Charge	$ 0.17	$ 0.33	$ 0.21	$ 0.20	$ 0.32	$ 0.30	$ 0.32	$ 0.35
Weighted Avg. Units Outstanding	39.9	42.8	44.1	44.1	44.1	52.2	63.1	63.1
Declared Distribution Per Unit	$ 0.650	$ 0.650	$ 0.675	$ 0.675	$ 0.675	$ 0.690	$ 0.700	$ 0.710
Distribution Per Unit Paid in Period	$ 0.625	$ 0.650	$ 0.650	$ 0.675	$ 0.675	$ 0.675	$ 0.690	$ 0.700
Distribution Growth	13.6%	18.2%	13.0%	10.2%	8.0%	3.8%	6.2%	3.7%

Source: Deutsche Bank Securities Inc. estimates and company information

Figure 29: Annual balance sheet

In Millions of $	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Assets					
Cash & Equivalents	20.3	13.1	22.3	22.3	22.3
Accounts & Notes Receivable, Net:					
Trade	33.8	33.2	89.4	107.3	119.0
% of Revenue					
Related Parties	1.6	22.9	-	-	-
% of Revenue					
Other	0.6	0.6	9.0	9.0	9.0
% of Revenue					
Total Current Assets	56.3	69.7	120.7	138.6	150.3
Net PP&E	619.2	1,103.4	2,597.0	2,815.4	2,772.1
Investment In Processing Agreement	-	120.0	115.7	115.7	115.7
Investment In Unconsolidated Affiliates	182.7	34.4	61.2	59.1	57.1
Asset Held for Sale	-	-	-	-	-
Other Non Current Assets	11.2	29.8	33.6	33.6	33.6
Total Long-Term Assets	813.2	1,287.6	2,807.5	3,023.8	2,978.4
Total Assets	869.5	1,357.3	2,928.1	3,162.4	3,128.7
Liabilities and Shareholders' Equity					
Current Maturities of Long-term Debt	-	19.0	-	-	-
Accounts Payable:					
Trade	14.7	15.0	39.5	47.4	52.6
% of Revenue					
Affiliates	2.4	9.9	-	-	-
Accrued Interest	3.1	6.4	21.6	21.6	21.6
Other	2.2	4.2	31.2	31.2	31.2
Total Current Liabilities	22.4	54.5	92.4	100.3	105.5
Revolving Credit Facility	318.0	300.0	-	-	-
Long-term Debt	175.0	425.0	1,860.0	1,698.0	1,730.3
Limited-Recourse Financing	45.0	76.0	-	-	-
Other	0.4	1.1	24.9	24.9	24.9
Total Long-Term Liabilities	538.4	802.1	1,884.9	1,722.9	1,755.2
Minority Interest	(2.4)	-	0.9	0.9	0.9
Partners' Capital:					
Series C Units		-	350.3	340.4	340.4
Series B Units		142.9	157.6	172.6	187.6
Common Units		354.0	437.7	820.2	732.9
Accumulated Other Comprehensive Income to LP Interest		(1.3)	(0.7)	(0.7)	(0.7)
General Partner		5.1	5.0	5.8	6.9
Accumulated Other Comprehensive Income to GP Interest		(0.0)	(0.0)	(0.0)	(0.0)
Total Partners' Capital	311.1	500.7	949.9	1,338.3	1,267.1
Total Liabilities and Partners' Capital	869.5	1,357.3	2,928.1	3,162.4	3,128.7

Source: Deutsche Bank Securities Inc. estimates and company information

Figure 30: Quarterly balance sheet

In Millions of $	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
Assets								
Cash & Equivalents	133.4	18.8	22.3	22.3	22.3	22.3	22.3	22.3
Accounts & Notes Receivable, Net:								
Trade	50.4	103.6	88.1	89.4	148.5	160.4	140.0	107.3
% of Revenue	81.8%	86.0%	72.0%	54.6%	80.8%	85.0%	72.0%	54.6%
Related Parties	-	-	-	-	-	-	-	-
% of Revenue	0.0%	0.0%	0.0%	37.4%	-1.0%	-1.0%	0.0%	37.4%
Other	3.3	4.9	9.0	9.0	9.0	9.0	9.0	9.0
% of Revenue	5.4%	4.1%	7.4%	-0.1%	4.4%	3.1%	7.4%	-0.1%
Total Current Assets	187.1	127.3	119.4	120.7	179.8	191.7	171.3	138.6
Net PP&E	936.8	1,750.7	1,798.7	2,597.0	2,683.4	2,738.0	2,776.8	2,815.4
Investment In Processing Agreement	118.5	116.9	115.7	115.7	115.7	115.7	115.7	115.7
Investment In Unconsolidated Affiliates	33.4	46.5	61.6	61.2	60.7	60.2	59.7	59.1
Asset Held for Sale	188.2	-	-	-	-	-	-	-
Other Non Current Assets	28.2	34.5	33.6	33.6	33.6	33.6	33.6	33.6
Total Long-Term Assets	1,305.1	1,948.7	2,009.6	2,807.5	2,893.4	2,947.4	2,985.7	3,023.8
Total Assets	1,492.2	2,076.0	2,128.9	2,928.1	3,073.2	3,139.1	3,157.0	3,162.4
Liabilities and Shareholders' Equity								
Current Maturities of Long-term Debt	19.0	-	-	-	-	-	-	-
Accounts Payable:								
Trade	19.9	36.0	44.9	39.5	57.7	54.4	71.4	47.4
% of Revenue	32.4%	29.9%	36.7%	24.1%	31.4%	28.9%	36.7%	24.1%
Affiliates	-	-	-	-	-	-	-	-
Accrued Interest	14.7	11.7	21.6	21.6	21.6	21.6	21.6	21.6
Other	5.2	29.9	31.2	31.2	31.2	31.2	31.2	31.2
Total Current Liabilities	58.8	77.5	97.8	92.4	110.6	107.3	124.3	100.3
Revolving Credit Facility	444.0	521.0	569.0					
Long-term Debt	425.0	659.6	819.4	1,860.0	1,747.7	1,830.4	1,850.7	1,698.0
Limited-Recourse Financing	76.0	160.0	-					
Other	1.1	24.9	24.9	24.9	24.9	24.9	24.9	24.9
Total Long-Term Liabilities	946.1	1,365.5	1,413.4	1,884.9	1,772.7	1,855.3	1,875.6	1,722.9
Minority Interest	-	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Partners' Capital:								
Series C Units				350.3	351.3	347.9	340.4	340.4
Series B Units	146.4	150.1	153.8	157.6	161.3	165.1	168.8	172.6
Common Units	335.8	476.7	458.5	437.7	671.8	657.8	642.1	820.2
Accumulated Other Comprehensive Income to LP Interest	0.1	(0.1)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
General Partner	4.9	5.4	5.2	5.0	5.2	5.4	5.6	5.8
Accumulated Other Comprehensive Income to GP Interest	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Total Partners' Capital	487.3	632.1	616.9	949.9	1,189.0	1,175.5	1,156.2	1,338.3
Total Liabilities and Partners' Capital	1,492.2	2,076.0	2,128.9	2,928.1	3,073.2	3,139.1	3,157.0	3,162.4

Source: Deutsche Bank Securities Inc. estimates and company information

Figure 31: Annual cash flow statement

In Millions of $	1999	2000	2001	2002E	2003E	2004E
	For the fiscal years ending 12/31,					
Cash From Operations						
Net Income	18.8	20.5	55.1	92.8	159.3	209.4
DD&A	30.6	27.7	38.6	72.1	116.6	128.4
Net Loss (gain) on sale of assets	(10.1)	-	11.4	0.5	-	-
Asset Impairment Charge	-	-	3.9	-	-	-
Earnings from Unconsolidated Affiliates	(32.8)	(22.9)	(8.4)	(13.6)	(13.4)	(13.6)
Distributions from Unconsolidated Affiliates	46.2	34.0	35.1	16.7	15.4	15.6
Litigation Reserve	2.3	(2.3)	-	-	-	-
Other Non-Cash Items (amort of debt costs)	1.8	2.2	4.3	1.2	10.0	-
Changes in Working Capital Items	(6.0)	(10.8)	(42.1)	6.2	(10.0)	(6.6)
Noncurrent receivable from El Paso Corp.	-	-	(10.4)	-	-	-
Other	-	-	(0.2)	-	-	-
Cash Flows Provided by Continuing Operations	50.8	48.4	87.4	175.9	277.9	333.2
Cash Flows Used in Discontinued Operations	-	-	-	5.0	-	-
Net Cash Flows From Operations	**50.8**	**48.4**	**87.4**	**180.9**	**277.9**	**333.2**
Cash Flows From Investing Activities:						
Capital Expenditures	(54.2)	(116.9)	(607.3)	(1,708.9)	(335.0)	(85.0)
Proceeds From Sale of Assets	26.1	-	109.1	5.5		
Additions to Investments in Affiliates	(59.3)	(9.0)	(1.5)	(30.4)	-	-
Distributions related to the formation of Deepwater Holdings	20.0	-	-	-		
Other	0.3	(0.4)	-	-	-	-
Cash Flows Used in Continuing Investing Activities	(67.1)	(126.2)	(499.7)	(1,733.8)	(335.0)	(85.0)
Cash Flows Provided by Discont. Inv. Activities	-	-	-	186.5	-	-
Net Cash Flows From Investing Activities	**(67.1)**	**(126.2)**	**(499.7)**	**(1,547.3)**	**(335.0)**	**(85.0)**
Cash Flows From Financing Activities:						
Issuance (Repayment) of Debt	83.2	70.6	272.0	1,030.4	(172.0)	32.3
Proceeds from issuance of Common Units	-	100.6	286.7	499.2	450.0	-
Redemption of Series B Preference Units	-	-	(50.0)	-	-	-
Redemption of Publicly Held Preference Units	-	(0.8)	-	-	-	-
Contributions From General Partner	0.6	2.8	2.8	0.6	-	-
Distributions to GP				(12.0)	(63.9)	(85.6)
Distributions on Common LP Units				(29.8)	(139.7)	(194.9)
Distributions on C Units				-	(17.3)	-
Distributions To Partners	(66.3)	(79.3)	(106.4)	(112.8)	-	-
Other, Net	-	-	-	-	-	-
Cash Flows Used in Financing Activities	**17.5**	**93.9**	**405.1**	**1,375.6**	**57.1**	**(248.2)**
Cash Flows Provided by Discont. Fin. Activities	-	-	-	(0.0)	-	-
Net Cash Flows From Financing Activities	**17.5**	**93.9**	**405.1**	**1,375.6**	**57.1**	**(248.2)**
Net Decrease in Cash and Cash Equivalents	1.1	16.1	(7.2)	9.2	0.0	-
Cash and Cash Equivalents, Beginning	3.1	4.2	20.3	13.1	22.3	22.3
Cash and Cash Equivalents, Ending	4.2	20.3	13.1	22.3	22.3	22.3

Source: Deutsche Bank Securities Inc. estimates and company information

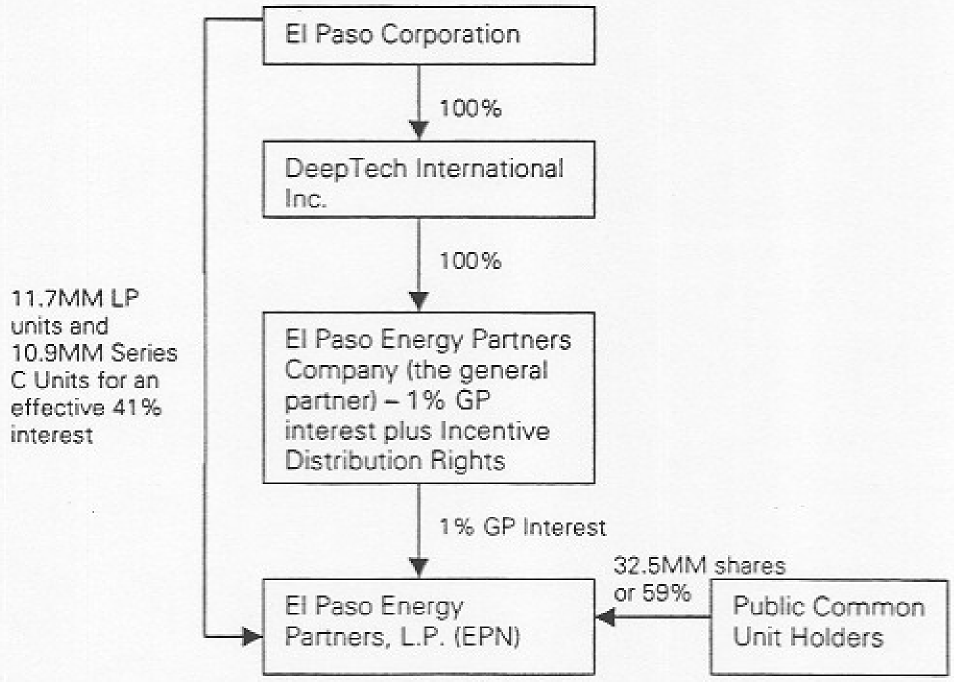
Figure 32: Quarterly cash flow statement

In Millions of $	3/2002	6/2002	9/2002	12/2002	3/2003E	6/2003E	9/2003E	12/2003E
Cash From Operations								
Net Income	14.7	28.7	23.3	26.0	33.3	38.6	42.3	45.0
DD&A	12.5	18.1	19.3	22.2	28.4	29.2	29.5	29.6
Net Loss (gain) on sale of assets	(0.3)	-	0.4	0.4	-	-	-	-
Asset Impairment Charge	-	-	-	-	-	-	-	-
Earnings from Unconsolidated Affiliates	(3.4)	(4.0)	(3.2)	(3.1)	(3.2)	(3.4)	(3.4)	(3.4)
Distributions from Unconsolidated Affiliates	4.5	4.7	4.0	3.6	3.7	3.9	3.9	3.9
Litigation Reserve	-	-	-	-	-	-	-	-
Other Non-Cash Items (amort of debt costs)	1.3	0.2	(0.3)	-	4.0	4.0	2.0	-
Changes in Working Capital Items	8.4	(28.9)	33.4	(6.7)	(40.9)	(15.1)	37.3	8.8
Noncurrent receivable from El Paso Corp.	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Cash Flows Provided by Continuing Operations	37.8	18.8	77.0	42.4	25.2	57.2	111.6	83.9
Cash Flows Used in Discontinued Operations	5.4	(0.4)	(0.0)	-	-	-	-	-
Net Cash Flows From Operations	43.2	18.4	76.9	42.4	25.2	57.2	111.6	83.9
Cash Flows From Investing Activities:								
Capital Expenditures	(35.1)	(786.4)	(66.5)	(820.9)	(114.8)	(83.8)	(68.3)	(68.3)
Proceeds From Sale of Assets	5.5	-	-	-	-	-	-	-
Additions to Investments in Affiliates	-	(14.1)	(16.2)	-	-	-	-	-
Distributions related to the formation of Deepwater Holdings	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Cash Flows Used in Continuing Investing Activities	(29.7)	(800.5)	(82.7)	(820.9)	(114.8)	(83.8)	(68.3)	(68.3)
Cash Flows Provided by Discont. Inv. Activities	(3.5)	190.0	0.0	-	-	-	-	-
Net Cash Flows From Investing Activities	(33.2)	(610.5)	(82.7)	(820.9)	(114.8)	(83.8)	(68.3)	(68.3)
Cash Flows From Financing Activities:								
Issuance (Repayment) of Debt	144.0	367.2	47.7	471.6	(116.3)	78.7	18.3	(152.7)
Proceeds from issuance of Common Units	0.1	149.3	1.1	348.8	250.0	-	-	200.0
Redemption of Series B Preference Units	-	-	-	-	-	-	-	-
Redemption of Publicly Held Preference Units	-	-	-	-	-	-	-	-
Contributions From General Partner	-	0.6	-	-	-	-	-	-
Distributions to GP				(12.0)	(12.0)	(15.0)	(18.1)	(18.8)
Distributions on Common LP Units				(29.8)	(29.8)	(29.8)	(36.0)	(44.1)
Distributions on C Units				-	(2.5)	(7.4)	(7.5)	-
Distributions To Partners	(33.7)	(39.5)	(39.5)					
Other, Net	-	-	-	-	-	-	-	-
Cash Flows Used in Financing Activities	110.3	477.5	9.2	778.6	89.5	26.5	(43.3)	(15.6)
Cash Flows Provided by Discont. Fin. Activities	(0.0)	(0.0)	0.0	-	-	-	-	-
Net Cash Flows From Financing Activities	110.3	477.5	9.2	778.6	89.5	26.5	(43.3)	(15.6)
Net Decrease in Cash and Cash Equivalents	120.3	(114.6)	3.5	-	-	-	-	-
Cash and Cash Equivalents, Beginning	13.1	133.4	18.8	22.3	22.3	22.3	22.3	22.3
Cash and Cash Equivalents, Ending	133.4	18.8	22.3	22.3	22.3	22.3	22.3	22.3

Source: Deutsche Bank Securities Inc. estimates and company information

Corporate structure

Figure 33: Corporate flowchart



Source: Deutsche Bank Securities Inc. estimates and company information

MLP 101

What is a MLP?

MLPs are similar to REITs

Master Limited Partnerships (MLPs) are specialized, publicly-traded, investment vehicles, that are similar to real estate investment trusts (REIT). The key difference between MLPs and traditional corporations is pass-through taxation status, which exempts MLPs from corporate taxes. All gains and deductions, such as depreciation, are passed through directly to the individual investor.

What types of companies can qualify to be a MLP?

MLPs are restricted to natural resources

MLPs must have 90% or more of their income and gains derived from the development, production, transportation, storage and processing of natural resources. Many energy-related assets qualify, with the key exception being power-related assets. However, many other assets, such as refineries, would not be appropriate assets for an MLP, since its cash flow is not steady or very predictable. Most MLPs have pipeline or other fee-based midstream assets that generate relatively predictable cash flow. Different MLPs take on varying degrees of commodity price and other risks. We view KMP as one of the lower risk MLPs.

Why buy a MLP?

1. **Sizeable yields** – Like REITs, MLPs typically pay almost 100% of its cash flow to investors. Cash flow is commonly defined as net income, plus depreciation, less maintenance capital expenditures. Therefore, most MLPs generate sizeable dividends. The current dividend yield on the Deutsche Bank MLP index is 7.48%.

2. **Tax advantages** – It is common for as much as 50%–95% of the cash dividends to be treated as a return of capital, thereby simply reducing an investor's basis in the investment. Therefore, assuming long-term ownership of the units, not only are investors' receiving tax-deferred income, they also avoid high ordinary income tax rates in lieu of lower long-term capital gains rates when they sell the units. We recommend that investors consult a qualified tax advisor regarding tax issues related to investing in a MLP.

What's the catch?

1. **Complicated tax returns** – Investors receive a K-1 form instead of the more simple 1099 dividend form.

2. **Significant GP distributions** – The GP typically receives a substantial percentage of the distributable cash flow (DCF), that can rise over time as limited partner distributions increase. These incentive distributions, which are 49.5% of incremental DCF, or 29% of total DCF, in EPN's case, have been controversial. However, this incentive distribution plan is widely documented. These high distributions are meant to incentivize the GP to grow the

distributions. Further, the incentive distribution cuts both ways should limited partner distributions decline.

Any risk of MLPs' status changing?

In our opinion, the risk of the tax status changing for the MLP is minuscule. Yet we want to highlight a number of reasons why we believe this to be the case.

1. MLPs have been around in its current form since the mid-1980s;
2. The U.S. is still short on energy infrastructure;
3. The primary owners of MLPs are individual investors, not big financial institutions; and
4. In 2001, the U.S. House of Representatives passed one of the most comprehensive energy bills in U.S. history and MLPs were not even an issue.

Disclosures

Additional Information Available upon Request

Disclosure Checklist

Company	Ticker	Recent Price	Disclosure
El Paso Energy Partners, LP	EPN	$32.02	7,9
Enterprise Products Partners L.P.	EPD	$19.80	1,7,9
Kinder Morgan Energy Partners, L.P.	KMP	$35.97	8

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public offering for this company, for which it received fees.
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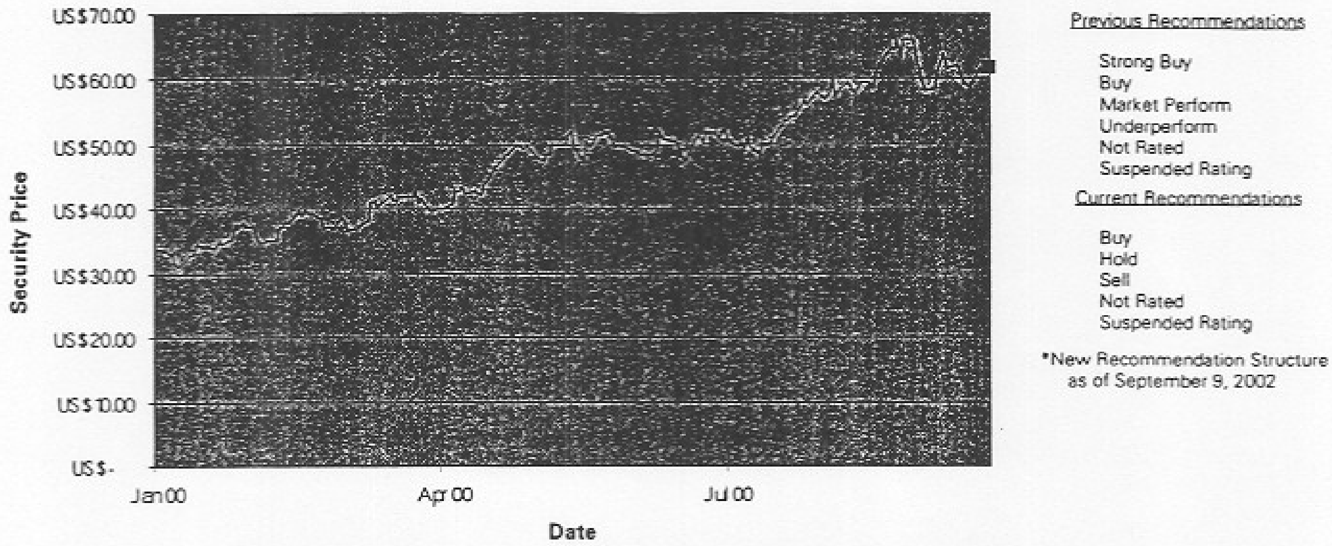
11. Please see special footnote below for other relevant disclosures.

The above-mentioned conflicts of interest may also pertain to other companies cross-referenced in this report. For company specific disclosures relating to cross-referenced recommendations or estimates made in this report, please refer to the most recently published single-company report on that company or visit our global disclosure look-up page on our website at http://equities.research.db.com.

Historical Recommendations and Target Price:



1. 10/12/2000: Suspended Rating
2.

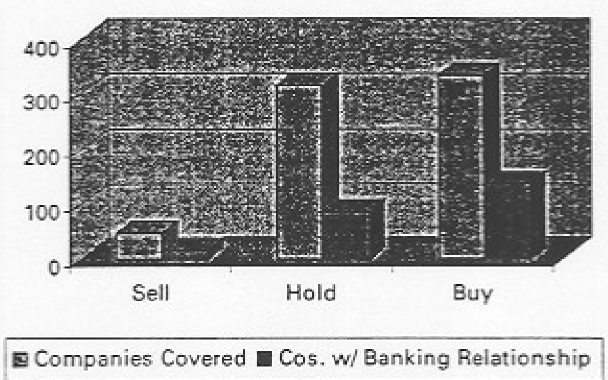
Rating Key

Buy: Total return expected to appreciate 10% or more over a 12-month period

Hold: Total return expected to be between 10% to −10% over a 12-month period

Sell: Total return expected to depreciate 10% or more over a 12-month period

Rating Dispersion and Banking Relationships



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Independent Research Report

ARGUS

NYSE: KMP

KINDER MORGAN EGY PTNS L P

Report created Dec 3, 2004 Page 1

Kinder Morgan Energy Partners, L. P. is the largest publicly traded pipeline limited partnership in the United States in terms of market capitalization and the largest independent refined petroleum products pipeline system in the U.S. in terms of volumes delivered. KMP owns or operates more than 25,000 miles of pipelines and almost 100 terminals. Its pipelines transport more than two million barrels per day of gasoline and other petroleum products and up to 7.8 billion cubic feet per day of natural gas. Its terminals handle over 60 million tons of coal and other dry-bulk materials annually and have a liquids storage capacity of approximately 60 million barrels for petroleum products and chemicals. KMP is also the leading provider of CO2 for enhanced oil recovery projects in the U.S.

Analyst's Notes

Argus Rating: BUY

- We are reiterating our BUY rating on Kinder Morgan Energy Partners, L.P. with a 12-month target of $52 per unit.
- Kinder Morgan Energy Partners is the largest publicly traded pipeline limited partnership in the United States.
- We expect Kinder Morgan Energy Partners to post annual earnings growth of around 9% over the next four-to-five years. Our financial strength rating for the partnership is Medium.
- By way of review, KMP reported record net income of $217.3 million for the third quarter, or $0.59 per limited partner unit, up 25% from $174.2 million, or $0.49 per unit, for the comparable period last year.
- The partnership recently announced an increase in the third quarter cash distribution per common unit to $0.73 ($2.92 annualized).
- We estimate that earnings at Kinder Morgan will advance 7%-8%, to $2.15 per unit, in 2004, and 9%-10%, to $2.35 per unit, in 2005.

Analysis by Gary F. Hovis, 12/3/04

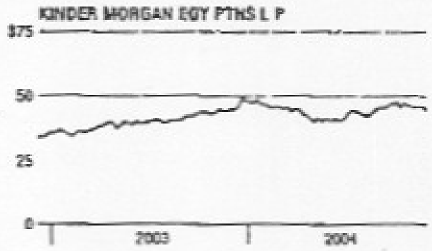
INVESTMENT THESIS

We are reiterating our BUY rating on Kinder Morgan Energy Partners, L.P. (NYSE: KMP) with a 12-month target of $52 per unit. We expect Kinder Morgan Energy Partners to post annual earnings growth of around 9% over the next four-to-five years. Our growth forecast is supported by the partnership's relatively high and expanding operating margin, a long-term debt load that remains in line with partnership capital, dominate and growing U.S. market share, successfully integrated and accretive acquisitions, and what we see as an impressive U.S. distribution system for both refined petroleum products and natural gas. Growth in both volume and earnings has been strong in recent years, reflecting a strong management team and operating assets that are strategically located near energy supply sources with direct connections to areas of growing demand. Overall, we think Kinder Morgan Energy Partners is well positioned to deliver solid long-term growth for KMP unitholders.

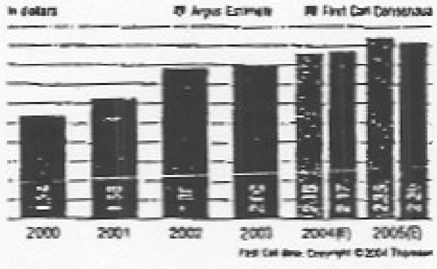
PARTNERSHIP DESCRIPTION

Kinder Morgan Energy Partners, L.P. is the largest publicly traded pipeline limited partnership in the United States in terms of market capitalization and the largest

Market Data



EPS Trend



Argus Recommendations

Twelve Month Rating	BUY
Sector Rating	Under Weight

The distribution of ratings across Argus' entire company universe is: 48% Buy, 43% Hold, and 9% Sell.

Value/Growth Analysis

P/E	Growth/Income
Yield	Value
Beta	Value
Sector	Value

This chart illustrates the way in which KMP fits into and modifies an investor's portfolio. For more specific details, please see the "KMP in Context" graphic on page 2.

Key Statistics

All pricing data reflects previous trading day's closing price.

Market Analysis

Price: $44.01	Target Price: $52.00
52 Week Price Range	$50 to $38
Shares Outstanding	140.05 Million Shares
Dividend	$2.92

Sector Analysis

Sector	Energy
Sector Rating	Underweight
Total % of S&P 500 Market Cap.	7.00%

Financial Strength Analysis

Financial Strength Rating	Medium
Debt/Capital Ratio	55.8%
Return on Equity	19.8%
Net Margin	10.8%
Payout Ratio	1.24
Current Ratio	0.88
Revenue	$7.31 Billion
After-Tax Income	$788.04 Million

Valuation Analysis

Forecast P/E	18.73
Market Capitalization	$6.16 Billion
Book Value/Share	$17.29
Trailing P/E	7.82
Price/Sales	0.84
Price/Book	2.55

Growth Analysis

1 Year EPS Growth Forecast	9.3%
5 Year EPS Growth Forecast	9.0%
1 Year Dividend Growth Forecast	2.1%

Risk Analysis

Beta	0.45
Institutional Ownership	18.2%

ARGUS

NYSE: KMP

KINDER MORGAN EGY PTNS L P

Analyst's Notes...continued

independent refined petroleum products pipeline system in the U.S. in terms of volumes delivered. KMP owns or operates more than 25,000 miles of pipelines and approximately 120 terminals. Its pipelines transport more than two million barrels per day of gasoline and other petroleum products and up to 7.8 billion cubic feet per day of natural gas. Its terminals handle over 60 million tons of coal and other dry-bulk materials annually and have a liquids storage capacity of approximately 60 million barrels for petroleum products and chemicals. KMP is also the leading provider of CO_2 for enhanced oil recovery projects in the United States.

THIRD QUARTER 2004

Kinder Morgan Energy Partners recently announced an increase in the third quarter cash distribution per common unit to $0.73 ($2.92 annualized). Payable on Nov. 12, 2004, to unitholders of record as of Oct. 29, 2004, the distribution represents an 11% increase over the third quarter 2003 cash distribution per unit of $0.66 ($2.64 annualized). In addition, KMP reported record net income of $217.3 million for the third quarter, or $0.59 per limited partner unit, up 25% from $174.2 million, or $0.49 per unit, for the comparable period last year. For the first nine months of the year, net income was $604.3 million compared to $513.6 million for the same period in 2003.

These excellent results were driven by strong internal growth and contributions from acquisitions that closed since the end of the third quarter of 2003. Quarterly net income reached an all-time high, and the partnership increased the distribution for the 21st time in KMP's history. The current distribution of $0.73 ($2.92 annualized) is about 4.6 times higher than the distribution rate of $0.1575 ($0.63) when KMP was formed in February 1997.

All four of KMP's business segments reported increased earnings before DD&A quarter-over-quarter, and total segment earnings before DD&A are up almost 19% through September compared to the same period last year. For the first three quarters, KMP generated distributable cash flow in excess of distributions of approximately $31.6 million, already exceeding our 2004 published annual budget target of $28 million.

Beyond the strong current performance, management continues to position KMP for future growth by investing in infrastructure across the United States to help meet growing energy demand. Year-to-date, KMP has announced approximately $320 million in acquisitions, and its budget calls for more than $600 million in capital expansion projects this year.

An overview of the partnership's business segments follows:

PRODUCTS PIPELINES

The Products Pipelines segment delivered an almost 12% increase in third quarter earnings before DD&A to $120.4 million, compared to $107.9 million for the same period last year. This segment now appears on track to grow its 2004 earnings before DD&A by more than 8% over 2003, slightly short of its published annual budget of 9% growth. Results for the quarter were driven by earnings growth on Pacific, Cochin and Plantation, along with contributions from the recently acquired Southeast terminals. Pacific's earnings before DD&A were up 10% -- positively impacted by very strong terminal revenues, increased pipeline volumes and the annual Producer Price Index increase that became effective July 1. Cochin's earnings before DD&A were up nearly 92% over third quarter 2003. In addition, the 14 terminals KMP purchased in the Southeast in two separate transactions (December 2003 and March 2004) continued to outperform the partnership's acquisition plans.

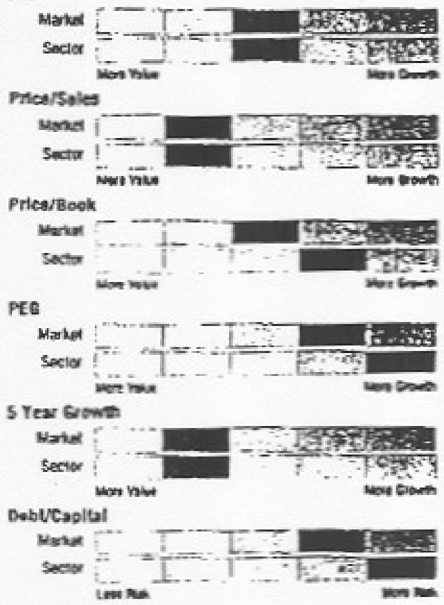
Total refined products volumes grew 2% in the third quarter and were up over 3% for the year through September. Jet fuel volumes, boosted by strong military demand, were up approximately 8% for both the quarter and the first nine months of the year. Gasoline volumes were up 2% for the quarter, led by Plantation's 5% increase in gasoline volumes, and up 2.6% year-to-date. NGL volumes on the North System, including Cypress, were up almost 8% quarter-over-quarter.

Meanwhile, KMP will acquire nine more refined petroleum products terminals in the Southeast that will produce additional fee-based income for this segment. The $77 million acquisition (including $2 million in planned upgrades) is expected to close by the end of this year and will increase Products Pipelines terminal storage capacity in the region by

KMP In Context

The Company

The charts below plot KMP in context of the market and its sector based on key financial metrics. The red (top) bars compare KMP against all Argus rated companies. The green (bottom) bars places KMP in context of its sector. For a sample of peers, please see the Argus Peer list below.



Sector Style Map

Value	Utility
	Basic Materials
	Telecommunications
	Industrials
	Energy
	Consumer Staples
Growth/Income	Financial
	Consumer Discretionary
Growth	Healthcare
	Technology

Argus Peer List

Company	EPS Growth%	P/E
EL PASO CORP COM	-58.8	24.8
DEVON ENERGY CORP NEW	6.0	8.8
UNOCAL CORP	8.5	9.7
NOBLE ENERGY INC COM	8.8	12.1
BURLINGTON RESOURCES	8.9	9.9
KINDER MORGAN EGY PTNS L P	9.3	18.7
KINDER MORGAN INC KANS	10.7	16.3
ENTERPRISE PRODS PARTNERS L	26.7	25.1
WILLIAMS COS INC	45.5	19.6

Analyst's Notes...continued

76% to 7.7 million barrels.

NATURAL GAS PIPELINES

The Natural Gas Pipelines segment produced third-quarter earnings before DD&A of $105.2 million, up 13% from $93.2 million in the same quarter last year, and on track to exceed its published annual budget of 3% growth. Growth in this segment was spearheaded once again by the partnership's Texas Intrastate Pipeline Group, which continued to significantly outperform its 2004 budget, offset by lower revenues on Trailblazer due to lower rates that became effective Jan. 1. The strong performance of the intrastate group was primarily attributable to benefits that KMP continues to realize from the combination of its major intrastate systems, including higher margins, particularly in the sales business. An increase in segment sales volumes of over 7% was somewhat offset by a decrease in transport volumes of about 2%.

CO2

The CO2 segment delivered third quarter earnings before DD&A of $86.1 million, up 62% from $53.1 million in the comparable period of 2003, and on target to achieve its published annual budget of 58% growth. Growth quarter-over-quarter was attributable to increased oil production at SACROC, strong CO2 delivery volumes and an increase in the partnership's interest in the Yates Field to 50%. Average oil production for the quarter increased by 33% at the SACROC Unit in the Permian Basin in Scurry County, Texas, to 27.7 thousand barrels per day (MBbl/d) and increased by more than 2% at the Yates Field located south of Midland, Texas, to 20.2 MBbl/d, compared to the third quarter last year. CO2 pipeline delivery volumes increased by 16% on strong demand. The CO2 segment is one of the only areas where KMP is exposed to commodity price risk, but that risk is mitigated by a long-term hedging strategy intended to generate more stable realized prices. The realized weighted average oil price per barrel, including hedges, was $25.21 for the third quarter compared to $23.50 for the same period last year.

On August 31, KMP announced the purchase of the Kaston Pipeline Company for $100 million, which is expected to produce approximately $18 million per year in distributable cash flow for this segment. KMP will invest an additional $11 million to upgrade the West Texas crude pipeline system and associated storage facilities, which will help the CO2 segment manage deliveries from the SACROC and Yates fields. Renamed the Wink Pipeline, the system is the sole source of crude oil for the Western refinery in El Paso, Texas, and KMP has entered into a long-term transportation contract with Western Refining Company.

TERMINALS

The Terminals segment reported an 11% increase in earnings before DD&A to $67.2 million, up from $60.5 million in the third quarter last year, and on target to meet its published annual budget of 7% growth. Third quarter results were driven by record throughput at the Pasadena/Galena Park liquids terminals complex on the Houston Ship Channel, up 15% from the third quarter in 2003, and strong coal and petcoke volumes at various terminals. Coal and petcoke volumes increased 22% quarter-over-quarter.

On October 7, KMP announced the purchase of 21 river terminals and two transload facilities along the Mississippi River system, which serve as loading, storage and unloading points for various bulk commodity imports and exports. The transaction is expected to produce approximately $12 million a year in distributable cash flow for this segment. KMP will invest over $80 million on this acquisition, including the purchase price, assumed debt and liabilities and planned upgrades.

EARNINGS GROWTH

We look for Kinder Morgan Energy Partners to post earnings increases in 2004 and 2005. Operating revenues should advance by about 7%-8% in 2004 and by 8%-9% in 2005, in both cases reflecting an expanding, energy intensive U.S. economy as well as partnership acquisitions that as a rule turn out to be accretive almost immediately. On the expense side, however, and while it does not affect cash distributions to the KMP unitholders, we are forecasting an increase in depreciation in the partnership's CO2 segment. As an offset, however, strong cost controls at Kinder Morgan are always in place. And as far as organic growth is concerned, we think operating income from the carbon dioxide business is set to expand further given today's growing demand for CO2 in crude oil production. Moreover, we look for growing volumes and continued high natural gas prices to fuel earnings in the Natural Gas Pipeline segment. Putting it all together, we estimate that earnings at Kinder Morgan will advance 7%-8%, to $2.15 per unit, in 2004, and 9%-10%, to $2.35 per unit, in 2005.

FINANCIAL STRENGTH

We think Kinder Morgan's financial and operational results will continue to show strength. Its programs are very much on track, especially in its Gas Pipeline and CO2 segments, and the partnership is constantly on the move in terms of its making accretive acquisitions.The Argus financial strength rating for Kinder Morgan is Medium, the midpoint on our five-point scale. The company's capital structure is sound and its bond ratings by the rating agencies are investment grade: (1) Moody's; outlook negative, Baa1 and (2) S&P; outlook stable, BBB+. Finally, internally generated funds are expected to cover over 85% of capital expenditures and distributions going forward.

UNIT DISTRIBUTIONS

Kinder Morgan Energy Partners recently announced an increase in the third quarter cash distribution per common unit to $0.73 ($2.92 annualized). Payable on November 12, 2004, to unitholders of record as of October 29, 2004, the distribution represents an 11% increase over the third quarter 2003 cash distribution per unit of $0.66 ($2.64 annualized). Even though Kinder Morgan's forward strategy calls for it to finance capital spending for both acquisitions and internal growth through a combination of debt and equity, we believe that not only is the new annual payout of $2.92 per unit solid, we look for regular annual increases in the cash distribution per unit on the order of 6%-to-8% out to 2007-2008.

MANAGEMENT

We think the Kinder Morgan management has performed exceedingly well over the last several years in terms of it strong track record of accretive acquisitions and the management of organic growth as well. All of this work is now making its appearance in the form of growing earnings and cash flow. As well, we are impressed with the fact that management will enter into the outside purchase of energy assets only after thorough due diligence. In all, we are confident that management can generate at least 9% annual earnings growth over the next four to five years. Thus, we

Analyst's Notes...continued

think the partnerships's platform for growth is solid, and are confident in management's ability to provide unitholders with increased value over the long term.

RISK FACTORS

In addition to the normal financial and market risks involving any investment in the energy industry, some of the partnership's operations involve high risks of severe personal injury, property damage and environmental damage, any of which could curtail operations and otherwise expose the partnership to liability and adversely affect its cash flow. For example, Kinder Morgan's natural gas facilities operate at high pressures, sometimes in excess of 1,100 pounds per square inch. It also operates midstream oil and natural gas facilities with a host of complexities. Finally, other risks specific to Kinder Morgan are a slowdown in the U.S. economy, a negative ruling from FERC involving a pending rate case with the partnership's products pipeline, and an across-the-board rise in interest rates.

INDUSTRY

We expect that the majority of publicly traded energy partnerships will generate robust earnings and cash flow in 2004 and on through 2005 given the strong fundamentals now endemic not only to the natural gas and product pipeline industries but to the oil and gas industry in general. In this connection, our analysis shows that most partnerships will produce significant free cash flow that should result in significant debt reduction and in a number of cases, accretive acquisitions.

EVALUATION

At a recent price of $44 per unit, and taking into account our earnings estimate of $2.35 per unit for 2005, the KMP units are trading at a P/E multiple of 18.7-times, a small discount to the multiple currently accorded KMP's peer group of energy-related master limited partnerships. We believe that given Kinder Morgan's earnings growth prospects, strong cost controls, strategically-placed products and pipeline assets, balanced FERC regulation and its well-managed integrated operating structure (as well as other strong fundamentals), the KMP units should in fact trade at a small premium to the units of the partnership's peers. Based on these valuation parameters, our 12-month target price for KMP is $52 per unit. If realized, and adding in a payout distribution yield of 6.63% (on an annual cash distribution of $2.92 per unit), over the next 12 months the KMP units would provide investors with better than a 20% total return from their recent price of $44 per unit.

On Friday at midday, the BUY-rated KMP units traded at $44.40, up $0.39.

Argus Rating: BUY

- We are initiating coverage of Kinder Morgan Energy Partners L.P. with a BUY rating and a 12-month target of $52 per unit.
- Kinder Morgan Energy Partners is the largest publicly traded pipeline limited partnership in the United States.
- We expect Kinder Morgan Energy Partners to post annual earnings growth of around 9% over the next four-to-five years. Our financial strength rating for the partnership is Medium.
- By way of review, KMP reported record net income of $195.2 million, or $0.51 per limited partner unit, up 16% from $169 million, or $0.48 per unit, for the comparable period last year.
- We estimate that earnings at Kinder Morgan will advance 7%-8%, to $2.15 per unit, in 2004, and 9%-10%, to $2.35 per unit, in 2005.

Analysis by Gary F. Hovis, 9/20/04

INITIATION OF COVERAGE

We are initiating coverage of Kinder Morgan Energy Partners L.P. (NYSE: KMP) with a BUY rating and a 12-month target of $52 per unit. Kinder Morgan Energy Partners is the largest publicly traded pipeline limited partnership in the United States in terms of market capitalization and the largest independent refined petroleum products pipeline system in the U.S. in terms of volumes delivered.

INVESTMENT THESIS

We expect Kinder Morgan Energy Partners to post annual earnings growth of around 9% over the next four-to-five years. Our growth forecast is supported by the partnership's relatively high and expanding operating margin, a long-term debt load that remains in line with partnership capital, dominate and growing U.S. market share, successfully integrated and accretive acquisitions, and what we see as an impressive U.S. distribution system for both refined petroleum products and natural gas. Growth in both volume and earnings has been strong in recent years, reflecting a strong management team and operating assets that are strategically located near energy supply sources with direct connections to areas of growing demand. Overall, we think Kinder Morgan Energy Partners is well positioned to deliver solid long-term growth for KMP unitholders.

PARTNERSHIP DESCRIPTION

Kinder Morgan Energy Partners, L. P. is the largest publicly traded pipeline limited partnership in the United States in terms of market capitalization as well as the largest independent refined petroleum products pipeline system in the U.S. in terms of volumes delivered. KMP owns or operates more than 25,000 miles of pipelines and almost 100 terminals. Its pipelines transport more than two million barrels per day of gasoline and other petroleum products and up to 7.8 billion cubic feet per day of natural gas. Its terminals handle over 60 million tons of coal and other dry-bulk materials annually and have a liquids storage capacity of approximately 60 million barrels for petroleum products and chemicals. Kinder Morgan is also the leading provider of CO_2 for enhanced oil recovery projects in the United States.

The general partner of KMP is owned by Kinder Morgan, Inc. (NYSE: KMI), one of the largest energy transportation and storage companies in America. Combined, the two companies have an enterprise value of approximately $23 billion. (Enterprise value is

Analyst's Notes...continued

market value of the equity securities plus net debt, excluding interest rate swaps.)

SECOND QUARTER 2004

KMP reported record net income of $195.2 million, or $0.51 per limited partner unit, up 16% from $169 million, or $0.48 per unit, for the comparable period last year. For the first six months of the year, net income was $387 million compared to $339.4 million for the same period in 2003.

The record net income was attributable to strong internal growth and modest contributions from acquisitions that have closed since the end of the second quarter of 2003. All four of KMP's business segments reported increased earnings before DD&A quarter-over-quarter, and total segment earnings before DD&A are up approximately 18% year to date. Through the first six months of the year, KMP generated distributable cash flow in excess of distributions of approximately $22 million, compared to KMP's 2004 published annual budget target of $28 million.

The following comments address the operating performance of the partnership's major business segments during second-quarter 2004:

PRODUCTS PIPELINES

The Products Pipelines segment delivered an 8% increase in second-quarter earnings before DD&A to $119.3 million, compared to $110.5 million for the comparable period in 2003 and on target to meet its published annual budget of 9% growth. Growth in the segment was driven by the strong performance at KMP's West Coast Terminals and the recently acquired Southeast Terminals. Earnings were also aided by significant second quarter volume growth on the Cochin and Cypress natural gas liquids pipelines and an 11% increase in transmix volumes. KMP's transmix operations set a record in June for monthly volumes processed with over 32,000 barrels per day.

Total refined products volumes grew 1.7% in the second quarter and are up 3.7% year to date, with gasoline volumes up 3% year to date. Volume growth in the quarter was led by Central Florida, up 7.6%, and CalNev, up 3.6%. Mainline Pacific volumes in the second quarter were up 1.8%. Pacific volumes were impacted in the quarter by a general drawdown on terminal gasoline and jet fuel inventories in June, primarily in Arizona. Jet fuel volumes system wide were up over 8% in the quarter, as both military and commercial jet demand continues to rebound from 2003.

In the second quarter, KMP began construction to replace approximately 70 miles of an existing 14-inch products pipeline with new 20-inch pipe between Concord and Sacramento, Calif. The $88 million expansion project, expected to be in service in December this year, will provide increased capacity to serve growing markets in northern California and northern Nevada.

NATURAL GAS PIPELINES

The Natural Gas Pipelines segment produced second-quarter earnings before DD&A of $95.4 million, up 7% from $88.9 million in the same quarter last year and on track to exceed its published annual budget of 3% growth. The Texas Intrastate Pipeline Group has been the superstar at Kinder Morgan this year, with earnings substantially higher than the 2004 budget and the second quarter of 2003. Kinder Morgan is realizing the benefits of combining the former Tejas and KMTP pipelines into one strategic system in the competitive Texas intrastate market. An increase in segment sales volumes of nearly 7% was offset by a decrease in transport volumes of about 11%. The segment was impacted by a decline in earnings at the Red Cedar gathering system in southwest Colorado and lower rates on Trailblazer that became effective Jan. 1, 2004. Service commenced June 1 on Cheyenne Market Center, a $28.4 million project that provides natural gas suppliers in the Rocky Mountain region with 6 billion cubic feet of additional storage capacity.

CO2

The CO2 segment delivered second-quarter earnings before DD&A of $76 million, up 61% from approximately $47.2 million in the comparable period of 2003 and on target to achieve its published annual budget of 58% growth. Growth was attributable to increased oil production at SACROC, strong CO2 delivery volumes and an increase in KMP's interest in the Yates Field to 50%. Oil production at the SACROC Unit in the Permian Basin in Texas increased by 40% for the quarter to an average of 27.4 thousand barrels per day (MBbl/d) and CO2 delivery volumes increased by 32% due to strong demand. Average oil production at the Yates Field located south of Midland, Texas, declined by about 5% compared to the second quarter last year to an average of 18.6 MBbl/d, as KMP is still in the implementation stages of its production strategy since taking over operations last November.

The CO2 segment is one of the only areas where KMP is exposed to commodity price risk, but that risk is mitigated by a long-term hedging strategy intended to generate more stable realized prices. The realized weighted average oil price per barrel, including hedges, was $25.26 for the second quarter compared to $24.21 for the same period last year.

TERMINALS

The Terminals segment reported a 9% increase in earnings before DD&A to $65.7 million, up from $60.1 million in the second quarter last year and on target to meet its published annual budget of 7% growth. Results were driven by increased gasoline volumes at terminals located in New York Harbor and on the Houston ship channel; increased coal throughput at the Pier IX and IMT terminals in Virginia and Louisiana, respectively; new spot business at the Argo Terminal in Chicago; and contributions from the Tampaplex acquisition in Florida. The Carteret Terminal in New York Harbor added 300,000 barrels of capacity this month, with the completion of a $9.5 million project to construct three new 100,000 barrel tanks.

EARNINGS GROWTH

We look for Kinder Morgan Energy Partners to post earnings increases in 2004 and 2005. Operating revenues should advance by about 7%-8% in 2004 and by 8%-9% in 2005, in both cases reflecting an expanding, energy intensive U.S. economy as well as partnership acquisitions that as a rule turn out to be accretive almost immediately. On the expense side, however, and while it does not affect cash distributions to the KMP unitholders, we are forecasting an increase in depreciation in the partnership's CO2 segment. As an offset, however, strong cost controls at Kinder Morgan are always in place. And as far as organic growth is concerned, we think operating income from the carbon dioxide business is set to expand further given today's growing demand for CO2 in crude oil production. Moreover, we look for growing volumes and continued high natural gas prices to fuel earnings in

Analyst's Notes...continued

the Natural Gas Pipeline segment. Putting it all together, we estimate that earnings at Kinder Morgan will advance 7%-8%, to $2.15 per unit, in 2004, and 9%-10%, to $2.35 per unit, in 2005.

FINANCIAL STRENGTH

We think Kinder Morgan's financial and operational results will continue to show strength. Its programs are very much on track, especially in its Gas Pipeline and CO2 segments, and the partnership is constantly on the move in terms of making accretive acquisitions. The Argus financial strength rating for Kinder Morgan is Medium, the mid-point rating on our five-point scale. The company's capital structure is sound and its bond ratings by the rating agencies are investment grade: (1) Moody's; outlook negative, Baa1 and (2) S&P; outlook stable, BBB+. Finally, internally generated funds are expected to cover over 85% of capital expenditures and distributions going forward.

To note, the partnership recently entered into a new five-year senior unsecured revolving credit facility with a capacity of $1.25 billion, which is an increase from $1.05 billion in total commitments from the previous facility. KMP's credit covenants are substantially unchanged as compared to the previous facility, with the only meaningful modification being the removal of any net worth restriction. The facility will primarily serve to backup KMP's commercial paper program, which had $487.5 million outstanding as of June 30, 2004.

UNIT DISTRIBUTIONS

Kinder Morgan earlier announced an increase in the second quarter cash distribution per common unit to $0.71 ($2.84 annualized), the 20th distribution increase since KMP was formed in February 1997. The distribution was payable on August 13, 2004, to unitholders of record as of July 30, 2004. The payout represents a 9% increase over the second quarter 2003 cash distribution per unit of $0.65 ($2.60 annualized). Even though Kinder Morgan's forward strategy calls for it to finance capital spending for both acquisitions and internal growth through a combination of debt and equity, we believe that not only is the current annual payout of $2.84 per unit solid, we look for regular annual increases in the cash distribution per unit on the order of 8%-to-10% out to 2007-2008.

MANAGEMENT

We think the Kinder Morgan management has performed exceedingly well over the last several years in terms of it strong track record of accretive acquisitions and the management of organic growth as well. All of this work is now making its appearance in the form of growing earnings and cash flow. As well, we are impressed with the fact that management will enter into the outside purchase of energy assets only after thorough due diligence. In all, we are confident that management can generate at least 9% annual earnings growth over the next four to five years. Thus, we think the partnership's platform for growth is solid, and are confident in management's ability to provide unitholders with increased value over the long term.

RISK FACTORS

In addition to the normal financial and market risks involving any investment in the energy industry, some of the partnership's operations involve high risks of severe personal injury, property damage and environmental damage, any of which could curtail operations and otherwise expose the partnership to liability and adversely affect its cash flow. For example, Kinder Morgan's natural gas facilities operate at high pressures, sometimes in excess of 1,100 pounds per square inch. It also operates midstream oil and natural gas facilities with a host of complexities. Finally, other risks specific to Kinder Morgan are a slowdown in the U.S. economy, a negative ruling from FERC involving a pending rate case with the partnership's products pipeline, and an across-the-board rise in interest rates.

INDUSTRY

We expect that the majority of publicly traded energy partnerships will generate robust earnings and cash flow in 2004 and on through 2005 given the strong fundamentals now endemic not only to the natural gas and product pipeline industries but to the oil and gas industry in general. In this connection, our analysis shows that most partnerships will produce significant free cash flow that should result in significant debt reduction and in a number of cases, accretive acquisitions.

EVALUATION

At a recent price of $45 per unit, and taking into account our earnings estimate of $2.35 per unit for 2005, the KMP units are trading at a P/E multiple of 19.1-times, a small discount to the multiple currently accorded KMP's peer group of energy-related master limited partnerships. We believe that given Kinder Morgan's earnings growth prospects, strong cost controls, strategically-placed products and pipeline assets, balanced FERC regulation and its well-managed integrated operating structure (as well as other strong fundamentals), the KMP units should in fact trade at a small premium to the units of the partnership's peers. Based on these valuation parameters, our 12-month target price for KMP is $52 per unit. If realized, and adding in a payout distribution yield of 6.3% (on an annual cash distribution of $2.84 per unit), over the next 12 months the KMP units would provide investors with better than a 20% total return from their recent price of $45 per unit.

On Monday, the BUY-rated KMP units closed at $45.55, up 0.21.

METHODOLOGY & DISCLAIMER

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Research Disclaimer

citigroup
Smith Barney

Independent Research Report

MORNINGSTAR

Kinder Morgan Energy Partners

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Business Risk	Economic Moat	Industry	Sector	Ticker
★★★	$44.68	$46.00	$35.50	$57.50	Average	Wide	Pipelines	Energy	KMP

We're boosting our fair value estimate for KMP.

by Paul Larson
Stock Analyst
Analysts covering this company do not own its stock or those of its closest competitors.

Report updated on December 13, 2004.
Data and Rating updated as of December 13, 2004.

Thesis 12-13-04

We would not hesitate to buy Kinder Morgan Energy Partners if it got cheap enough.

It is not just the high, tax-advantaged yield that has attracted our attention. KMP owns stable assets that generate substantial free cash flow largely insulated from swings in commodity prices. We've given KMP a wide-moat rating because pipelines are expensive to duplicate. They are also largely regulated businesses, with the regulators setting rates and keeping competition at levels that maintain industrywide health. No new pipelines are built without regulators' approval. And since rates are regulated, once a well, refinery, or power plant is hooked up to a pipeline, there is little incentive to switch providers. As a result, service contracts tend to be several years long.

KMP is the premier "roll-up" in the energy transportation and storage industry. Beyond acquisitions, significant opportunities for internal growth exist, as demand for moving energy should grow as the economy expands. KMP expects it can increase its partnership distributions 8%-10% per year from internal opportunities alone.

We like Kinder's management. Enron would've been much better off had it not strayed from its core businesses after parting ways with Richard Kinder. CEO Kinder does not receive any compensation beyond his $1 annual salary. He got his stake in KMP the old-fashioned way--he bought it--and makes money purely from increasing per-share cash flow and distributions. We are extremely impressed by how well top management's interests are aligned with public owners' interests.

While there is much to admire about KMP, we'd be careful not to overpay for the shares because of the structure of the partnership agreement. At current cash-flow levels, limited partners split all additional cash flow 50-50 with the general partner, owned by parent Kinder Morgan . Combined with its nearly 20% economic interest in KMP, KMI has a claim on roughly half of KMP's cash flow. We don't think this spread is onerous today, given management's success in expanding and running the company, but this structure makes long-term unit distribution growth harder. The upshot to this cash-flow split with KMI is that it reduces risk. This is because limited partners would only bear half the downside on anything but the most severe cash-flow interruption.

Regardless, KMP's core business is predictable, stable, and generating copious free cash flow. It is also very well managed. Investors looking for handsome yields should keep an eye on KMP.

Valuation

After adjusting our discounted cash-flow model, we're raising our fair value estimate by $2. We now think KMP is worth $46 per unit. The largest change in our model came courtesy of the company's recently announced acquisitions, which we anticipate will be mildly accretive to per-unit cash flow and distributions. Raising our oil price and production assumptions for the firm also helped. We now assume the limited partners' interest in net income goes from $2.00 per unit in 2003 to $2.55 in 2008, a very realistic target, given the firm's history. Before buying KMP, we'd look closely at related company Kinder Morgan Management , which has a more attractive valuation. At the current distribution rate, KMP would yield 6.4% at our fair value estimate, though we think further increases in distributions are all but a given.

Risk

Kinder's primary risks are regulatory, since regulators set the rates it can charge its customers. Making an acquisition with poor returns is also a risk, as are spills and other environmental concerns.

Kinder Morgan Energy Partners

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Business Risk	Economic Moat	Industry	Sector	Ticker
★★★	$44.68	$46.00	$35.50	$57.50	Average	Wide	Pipelines	Energy	KMP

Close Competitors	Market Cap $Mil	TTM Sales $Mil	Oper Income $Mil	Net Income $Mil
Kinder Morgan Energy Partners	6,257	6,950	868	745
Williams Companies	8,311	14,225	854	44
Enterprise Products Parts	8,193	8,072	245	123
Enbridge Energy LP	2,748	3,473	208	114

Morningstar data as of December 13, 2004.

Bulls Say

- Companies in the pipeline industry generally enjoy wide economic moats. Pipes are expensive to duplicate, and new ones are not built without regulatory approval.
- The company's assets--the infrastructure of the energy industry--generate substantial positive free cash flow.
- The master limited partnership structure nearly eliminates corporate income-tax exposure as long as the company pays out a minimum percentage of its cash flow to shareholders each year.
- Kinder Morgan's partnership distributions are large and growing. The current quarterly distribution rate is $0.73 per unit ($2.92 annually), implying an annual yield of 6.4% at our fair value estimate.
- Kinder Morgan is not Enron, and the guilt-by-association accusation does not hold water. The firm has none of the energy-trading operations that have bankrupted others.

Bears Say

- The structure and relationships among the various parts of the Kinder Morgan empire are highly complex. Understanding this firm is no small feat.
- The current partnership agreement calls for the general partner to get 50% of incremental "available cash" at today's distribution rate, which will make completing acquisitions that boost cash flow for both the general partner and unitholders very difficult.
- Debt has risen with each acquisition and is near the company's target level. Any large acquisition would require going back to the well to raise more capital, which the company has done several times during the past few years.
- The recently passed legislation that eases dividend taxes does not benefit owners of partnerships like KMP. On a relative basis, this makes other investments that pay regular dividends more attractive than they once were.
- There are more-attractively priced parts of the Kinder empire, namely Kinder Morgan Management.

Financial Overview

Growth: Growth has been astonishing in the past few years, but nearly all of it came from numerous acquisitions. Though we expect future purchases, growth should slow considerably. We forecast internally generated distribution growth of 6%-8%.

Profitability: Return on invested capital has been lackluster for the past three years; last year it was 6.1%, after general partnership fees paid to parent company KMI. Absent these fees, KMP's ROIC would be closer to 10%.

Financial Health: Thanks to asset purchases, debt has been growing and now stands at $4.6 billion against a capital base of $8.1 billion. The firm aims to keep its debt/capital ratio near 50%, and a recent secondary offering will help here.

Company Overview

Profile: Kinder Morgan Energy Partners (KMP) is a master limited partnership that consolidates fixed assets used to

MORNINGSTAR®

Kinder Morgan Energy Partners

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Business Risk	Economic Moat	Industry	Sector	Ticker
★★★	$44.58	$46.00	$35.50	$57.50	Average	Wide	Pipelines	Energy	KMP

transport energy commodities. It owns and operates more than 25,000 miles of pipelines for oil and gas transport. It also owns nearly 100 processing terminals that can handle and store liquids, gases, and dry bulk materials such as coal. As a partnership, KMP pays no corporate income tax, but its tax burden flows through to individual stockholders.

Strategy: Aiming to leverage its tax-advantaged status, KMP is the leading roll-up in the business of transporting and processing energy commodities. It aims to buy (roll up) cash-flow-generating assets, such as pipelines, from other energy companies at discount prices and then increase their utilization and efficiency. Its ultimate goal is to increase cash flow and partnership distributions.

Management: We think founder Richard Kinder is one of the best CEOs in energy, and he has often been a finalist for Morningstar's CEO of the Year award. This may sound strange, considering that Kinder was president of Enron until 1996, but he left well before the funny business began. We admire that Kinder is the lowest-paid CEO of any major public corporation. Since the firm's founding, his only compensation has been his $1 annual salary. As the largest shareholder, his personal fortune rises and falls with those of the firm's limited partners. All other executives have their base salary capped at $200,000, and cash bonuses in 2003 were all under $1 million. The only major ding on our fiduciary grade comes via the characteristics of the master limited partnership structure that limits limited partners' rights.

Kinder Morgan Energy Partners

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Business Risk	Economic Moat	Industry	Sector	Ticker
★★★ Hold	$44.68	$46.00	$35.50	$57.50	Average	Wide	Pipelines	Energy	KMP

Analyst Notes

... The bottom-line impact was earnings of $0.51 per limited partner unit, up three cents from last year. As a result, KMP raised its quarterly cash distribution

... the three publicly traded firms in the Kinder empire.

Disclaimers & Disclosures

No Morningstar employees are officers or directors of this company. Morningstar Inc. does not own more than 1% of the shares of this company. Analysts covering this company do not own its stock or those of its closest competitors. The information contained herein is not represented or warranted to be accurate, correct, complete, or timely. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security.

Morningstar® Stock Report | All pricing data thru 12-13-04 | Fiscal year-end: December

Kinder Morgan Energy Partners KMP

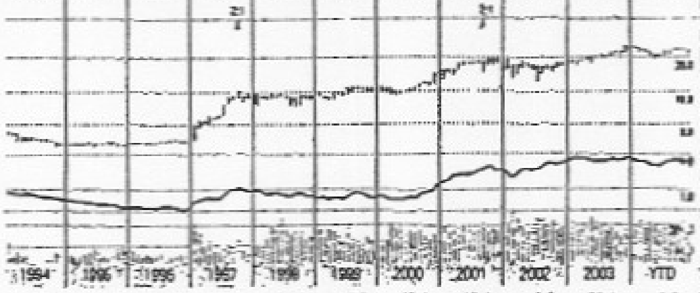
Last Close $	Sales $Mil	Mkt Cap $Mil	Industry
44.58	6,950	6,257	Pipelines

Kinder Morgan Energy Partners (KMP) is a master limited partnership that consolidates fixed assets used to transport energy commodities. It owns and operates more than 25,000 miles of pipelines for oil and gas transport. It also owns nearly 100 processing terminals that can handle and store liquids, gases, and dry bulk materials such as coal. As a partnership, KMP pays no corporate income tax, but its tax burden flows through to individual stockholders.

500 Dallas Street Suite 1000
Houston, TX 77002
Phone: 713 369-9000 Website: http://www.kindermorgan.com

Morningstar Rating	Business Risk	Fair Value	Economic Moat	Style	Sector
★★★ Hold	Average	$46.00	Wide	Medium Value	Energy

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	YTD	
8.83	8.72	7.28	20.63	19.06	22.81	29.88	39.85	38.89	49.95	49.27	Annual Price High
5.75	5.97	6.09	6.84	14.28	16.50	18.19	25.19	24.00	33.51	37.85	Low



Growth Rates Compound Annual

Grade: A	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	56.3	100.9	83.0	62.9
Operating Income %	11.4	38.7	42.0	47.6
Earnings/Share %	1.0	14.0	13.6	18.1
Dividends %	9.3	13.7	15.5	15.3
Book Value/Share %	1.0	-12.0	-5.7	—
Stock Total Return %	7.4	14.2	23.2	30.8
+/- Industry	-18.0	16.2	19.9	29.8
+/- Market	-6.7	11.1	25.2	18.9

Profitability Analysis

Grade: B-	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	21.2	16.3	4.5	18.6
Return on Assets %	8.1	7.5	2.6	6.8
Fixed Asset Turns	1.0	0.6	1.3	6.4
Inventory Turns	86.0	84.6	28.6	12.2
Revenue/Employee $K	1299.5	—*	1992.6	572.7
Gross Margin %	19.6	39.8	51.6	42.7
Operating Margin %	12.5	26.1	11.5	14.6
Net Margin %	10.7	23.3	1.5	10.2
Free Cash Flow/Rev %	3.6	13.1	14.9	12.3
R&D/Rev %	—	—	—	5.4

Financial Position

Grade: C	12-03 $Mil	06-04 $Mil
Cash	23	34
Inventories	26	48
Receivables	591	709
Current Assets	706	831
Fixed Assets	7092	7350
Intangibles	743	741
Total Assets	9139	9482
Payables	478	632
Short-Term Debt	2	367
Current Liabilities	804	1384
Long-Term Debt	4438	3933
Total Liabilities	5628	5680
Total Equity	3511	3812

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	22.0	20.8	22.7	26.1
Forward P/E	20.6	—	22.8	21.3
Price/Cash Flow	9.5	10.4	8.6	15.6
Price/Free Cash Flow	33.7	25.4	22.5	24.4
Dividend Yield %	6.3	—	3.6	1.6
Price/Book	1.7	2.9	2.3	4.4
Price/Sales	1.2	2.8	3.3	3.1
PEG Ratio	2.4	—	3.1	2.1

*3Yr Avg data is displayed in place of 5Yr Avg

Stock Performance

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	YTD	Stock Performance
-16.1	9.2	24.7	160.6	14.4	22.6	46.4	42.4	-0.7	50.1	-3.5	Total Return %
-17.4	-28.3	1.8	127.2	-14.2	1.6	55.5	54.3	21.4	21.4	-12.0	+/- Market
-6.4	-21.8	-20.7	118.3	11.2	26.4	-19.6	54.5	13.2	-15.1	-22.8	+/- Industry
10.2	10.3	9.1	4.8	6.8	6.7	5.7	5.4	6.7	5.2	6.2	Dividend Yield %
139	159	180	478	1770	2044	3815	4908	4548	6636	6257	Market Cap $Mil

Financials

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	TTM	Financials
55	64	71	74	323	429	816	2947	4237	6624	6950	Revenue $Mil
69.6	61.8	55.6	62.4	71.1	66.8	59.3	29.2	25.2	18.7	19.6	Gross Margin %
18	18	17	24	140	187	316	564	724	807	868	Oper Income $Mil
33.0	28.2	24.0	32.8	43.4	43.7	38.7	19.1	17.1	12.2	12.5	Operating Margin %
11	11	12	18	104	182	278	442	608	697	745	Net Income $Mil
0.47	0.43	0.45	0.51	1.05	1.32	1.34	1.56	1.96	1.98	2.03	Earnings Per Share $
0.63	0.63	0.63	0.82	1.19	1.39	1.60	2.06	2.36	2.58	2.71	Dividends $
23	25	26	26	80	97	128	154	172	185	189	Shares Mil
4.85	4.04	3.88	5.20	13.81	16.15	15.09	11.43	10.20	10.29	25.79	Book Value Per Share $
19	23	23	32	134	183	302	581	670	769	895	Oper Cash Flow $Mil
-5	-8	-9	-7	-38	-83	-126	-295	-542	-577	-643	Cap Spending $Mil
14	15	14	25	96	100	176	286	327	192	252	Free Cash Flow $Mil

Profitability

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	TTM	Profitability
3.8	3.8	3.9	5.8	8.4	6.8	7.1	7.8	8.1	8.0	8.1	Return on Assets %
8.8	9.1	10.0	13.5	15.8	11.6	14.3	16.9	18.8	20.3	21.2	Return on Equity %
20.2	17.6	16.7	24.8	32.1	42.5	34.1	15.0	14.4	10.5	10.7	Net Margin %
0.19	0.21	0.23	0.24	0.26	0.16	0.21	0.52	0.56	0.76	0.76	Asset Turnover
2.3	2.4	2.5	2.4	1.9	1.7	2.0	2.2	2.3	2.6	2.6	Financial Leverage

Financial Health

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	06-04	Financial Health
5	8	10	10	24	-187	-588	-395	-144	-39	-553	Working Capital $Mil
150	157	180	147	612	989	1255	2232	3826	4438	3933	Long-Term Debt $Mil
128	123	118	150	1361	1775	2117	3159	3416	3511	3812	Total Equity $Mil
1.41	1.53	1.65	1.00	0.46	0.58	0.98	1.48	2.10	2.28	1.19	Debt/Equity

Valuation

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	TTM	Valuation
13.2	14.3	15.4	33.2	17.2	15.8	21.1	24.2	17.9	24.9	22.0	Price/Earnings
0.7	0.7	0.6	1.2	0.5	0.4	0.7	0.8	0.7	0.9	0.8	P/E vs. Market
2.6	2.5	2.5	6.1	4.5	4.7	4.3	2.0	1.4	1.4	1.2	Price/Sales
1.3	1.5	1.8	3.3	1.3	1.1	1.9	3.3	3.4	4.8	1.7	Price/Book
7.6	7.8	7.9	14.2	10.9	11.1	11.8	10.0	6.9	11.9	9.5	Price/Cash Flow

Quarterly Results

Revenue $Mil	Sep 03	Dec 03	Mar 04	Jun 04
Most Recent Period	1650.8	1520.7	1822.3	1957.2
Prior Year Period	1121.3	1221.7	1788.8	1664.5

Rev Growth %	Sep 03	Dec 03	Mar 04	Jun 04
Most Recent Period	47.2	24.4	1.9	17.6
Prior Year Period	75.6	124.7	122.8	52.6

Earnings Per Share $	Sep 03	Dec 03	Mar 04	Jun 04
Most Recent Period	0.49	0.51	0.52	0.51
Prior Year Period	0.50	0.50	0.50	0.48

Industry Peers by Market Cap

	Mkt Cap $Mil	Rev $Mil	P/E	ROE%
Kinder Morgan Energy	6257	6950	22.0	21.2
Williams Companies	6311	14235	—	1.1
Enterprise Products	6193	6072	54.4	6.6

Major Fund Holders

	% of shares
AXP Dividend Opportunity A	0.13
Gabelli Westwood Balanced AAA	0.03
Flex-funds Total Return Utilities	0.02

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Business Risk
- Margin of Safety
- Consider Buying/Consider Selling

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic values, and allowing those businesses to compound value over long periods of time, is the surest way to create wealth in the stock market.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, we'll often appear to be out of step with the stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. (We rate stocks 1 through 5 stars, with 5 being the best and 1 the worst.) But when the market tumbles, there will likely be many more 5-star stocks. Although you might expect to see more 5-star stocks when the market is rising, we think assets are more attractive when they're cheap than when they're dear. We wait to buy clothes and DVD players when they're on sale, so why not do the same for stocks?

Our star rating is anchored on each analyst's estimate of a company's "fair value," which is what the analyst thinks the business is worth on a per-share basis. Our analysts arrive at this value by forecasting how much excess cash or "free cash flow" the firm will generate in the future, and then adjusting that total for both timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable business is worth more than cash from a cyclical or uncertain business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than we do for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our fair value estimates. The future is inherently uncertain, and that uncertainty is greater for some companies than it is for others. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a poor investment if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is \$50, and the shares decline to \$40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at \$40 than they were at \$50.

We calculate our star ratings each night after the markets close, which is why the rating date on our reports will always be the previous business day. However, we update the text of the reports as market events warrant – usually about once or twice per quarter – which is why you'll see two dates on every Morningstar report. Of course, we monitor all of our stocks every day, so our ratings are always current.

Morningstar Research Methodology for Valuing Companies

Analyst conducts company and industry research.

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews

The depth of the firm's competitive advantage is rated

- None
- Narrow
- Wide

Analyst considers company financial statements and competitive position to forecast future cash flows.

Assumptions are input into a discounted cash flow model.

DCF model leads to the firm's fair value estimate, which anchors the rating framework.

A business-risk analysis establishes the margin of safety required for the stock rating.

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The current stock price relative to fair value, adjusted for risk, determines the rating.

MORNINGSTAR®

Economic Moat
This is our assessment of a firm's ability to earn returns above its cost of capital in the future. Competition tends to drive down excess profits, but companies can earn excess profits for an extended time by creating a competitive advantage (or economic moat) – and these companies are likely to be superior investments.

We're big fans of companies that are low-cost producers, create high switching costs for their customers, or have strong brands or long-lasting patents, because all of these characteristics allow companies to protect their competitive position. For example, Tiffany is far more profitable than a run-of-the-mill jewelry chain because it has a strong brand that creates a moat around its business, allowing it to charge more than competitors.

Discounted Cash Flow
This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate
We use this number to adjust our forecasted cash flows for the risk that those cash flows may not actually come to pass. For a very steady, stable company, we'll use a low discount rate, since we can have a lot of confidence that the firm will generate the amount of cash that we're forecasting. For a firm with a cyclical business and fierce competition, we'll use a much higher discount rate, since there's much uncertainty surrounding the firm's future. The discount rate may also be referred to as the "cost of capital."

Fair Value
This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's economic worth. We adjust our fair values for any hidden liabilities or assets that a firm might have - for example, we deduct from a company's fair value if it issues a lot of stock options or has an underfunded pension plan. Our fair value estimate differs from a "target price" in two ways. One, it's an estimate of what the business is worth, whereas a target price is typically an estimate of what other investors will pay for the stock. Two, it's a long-term estimate, whereas target prices generally focus on the next six to 12 months. This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Business Risk
Based on fundamental factors such as cyclicality, leverage, competitive strength, and profitability, we divide our coverage universe into four broad risk categories: Below Average, Average, Above Average, and Speculative. Unlike some risk ratings, ours is not based on the volatility of the firm's shares, but rather the predictability and strength of the underlying business.

Margin of Safety
This is the discount to fair value we would require before recommending a stock. We think it's prudent to always buy stocks for less than they're worth - the margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for riskier stocks, and smaller margins of safety for lower-risk stocks.

Consider Buying/Consider Selling
The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.