KINDER MORGAN ENERGY PARTNERS L P
Form S-3
March 01, 2012
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As filed with the Securities and Exchange Commission on March 1, 2012

Registration No. 333-

Registration No. 333-

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENTS UNDER THE SECURITIES ACT OF 1933

Kinder Morgan Management, LLC
Kinder Morgan Energy Partners, L.P.
Kinder Morgan, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**76-0669886**
Delaware	**76-0380342**
Delaware	**80-0682103**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Joseph Listengart

500 Dallas Street, Suite 1000
Houston, Texas 77002
(713) 369-9000
(Address, including zip code, and telephone number, including area code, of each registrant s principal executive offices)

500 Dallas Street, Suite 1000
Houston, Texas 77002
(713) 369-9000
(Address, including zip code, and telephone number, including area code, of each registrant s agent for service of process)

Copy to:

Gary W. Orloff

Troy L. Harder

Bracewell & Giuliani LLP

711 Louisiana Street, Suite 2300

Houston, Texas 77002-2770

Phone: (713) 221-1306

Fax: (713) 221-2166

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of these registration statements.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 of the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Kinder Morgan Management, LLC Large accelerated filer
Kinder Morgan Energy Partners, L.P. Large accelerated filer
Kinder Morgan, Inc. Non-accelerated filer

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Shares representing limited liability company interests			
i-Units(3)	$ 750,000,000	$ 750,000,000	$ 85,950
Purchase obligation(4)			

(1) Estimated solely for the purposes of calculating the registration fee pursuant to Rule 457(o) under the Securities Act.

(2) $69,586 of the registration fee is paid herewith. Pursuant to Rule 457(p) under the Securities Act, $16,365 previously paid in connection with registration statement nos. 333-156783, 333-156783-01 and 333-156783-02, withdrawn from registration on December 15, 2009, are to be credited to this registration fee.

(3) To be issued by Kinder Morgan Energy Partners, L.P. The i-units are being registered solely due to the co-registrant status of Kinder Morgan Energy Partners, L.P., for which no separate registration fee is required.

(4) To be issued by Kinder Morgan, Inc., for which no separate registration fee is required.

The Registrants hereby amend these Registration Statements on such date or dates as may be necessary to delay their effective date until the Registrants shall file a further amendment which specifically states that these Registration Statements shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statements shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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EXPLANATORY NOTE

These registration statements contain a prospectus to be used in connection with the offer and sale of Kinder Morgan Management, LLC shares. These registration statements also register:

- the deemed offer and sale by Kinder Morgan Energy Partners, L.P. of i-units to be acquired by Kinder Morgan Management, LLC with the net proceeds of the offering of its shares, pursuant to Rule 140 under the Securities Act of 1933, as amended; and

- the obligation of Kinder Morgan, Inc. to purchase all of the outstanding shares of Kinder Morgan Management, LLC not owned by Kinder Morgan, Inc. or its affiliates under specified circumstances pursuant to the terms of an agreement, which is part of the limited liability company agreement of Kinder Morgan Management, LLC, between Kinder Morgan, Inc. and Kinder Morgan Management, LLC, for itself and for the express benefit of the owners of its shares.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any State where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 1, 2012

PROSPECTUS

$750,000,000

Shares Representing Limited Liability Company Interests

We may offer and sell our shares representing limited liability company interests (referred to as shares) in amounts, at prices and on terms to be determined by market conditions and other factors at the time of our offerings. This prospectus provides you with a general description of the shares we may offer and the manner in which they may be offered. The specific terms on which we may offer the shares will be included in a supplement to this prospectus. The prospectus supplement also may add, update or change information contained in this prospectus. This prospectus may be used to offer and sell shares only if accompanied by a prospectus supplement. We urge you to read this prospectus and the applicable prospectus supplement carefully before you invest in our shares. You should also read the documents we refer to in the section entitled Where You Can Find More Information in this prospectus.

Our shares are traded on the New York Stock Exchange under the symbol KMR.

Investing in our shares involves risks. See the risk factors identified in the documents incorporated by reference herein for information regarding risks you should consider before investing in the shares. Also, please read the section entitled Information Regarding Forward-Looking Statements in this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2012.

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. This prospectus may only be used where it is legal to sell the offered securities. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the respective date on the front cover of those documents. You should not assume that the information incorporated by reference in this prospectus is accurate as of any date other than the date the respective information was filed with the Securities and Exchange Commission. The respective business, financial condition, results of operations and prospects of Kinder Morgan Management, LLC, Kinder Morgan Energy Partners, L.P. and Kinder Morgan, Inc. may have changed since those dates.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 jointly filed by us, Kinder Morgan Energy Partners, L.P. and Kinder Morgan, Inc. with the SEC under the Securities Act using a shelf registration process. Using this shelf registration process, we may offer and sell our shares in one or more offerings up to a total dollar amount of proceeds of $750,000,000. This prospectus does not contain all of the information set forth in the registration statement, or the exhibits that are a part of the registration statement, parts of which are omitted as permitted by the rules and regulations of the SEC. For further information about us, Kinder Morgan Energy Partners, L.P., Kinder Morgan, Inc. and the securities to be sold, please refer to the information below and to the registration statement and the exhibits that are a part of the registration statement.

Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering and the securities offered by us in that offering. The prospectus supplement may also add, update or change information in this prospectus.

As used in this prospectus, the terms we, us, our and KMR refer to Kinder Morgan Management, LLC; the term KMP refers to Kinder Morg Energy Partners, L.P.; and the term KMI refers to Kinder Morgan, Inc. and, unless the context otherwise indicates, all of such terms include their respective consolidated subsidiaries.

WHERE YOU CAN FIND MORE INFORMATION

We, KMP and KMI file annual, quarterly and special reports and other information with the SEC. The SEC allows us, KMP and KMI to incorporate by reference information we and they file with it, which means that important information can be disclosed to you by referring you to those documents. This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by reference to the actual documents. The information incorporated by reference is an important part of this prospectus, and information that we, KMP and KMI file later with the SEC will automatically update and supersede this information as well as the information included in this prospectus. Some documents or information, such as that called for by Items 2.02 and 7.01 of Form 8-K, or the exhibits related thereto under Item 9.01 of Form 8-K, are deemed furnished and not filed in accordance with SEC rules. None of those documents and none of that information is incorporated by reference into this prospectus. We, KMP and KMI incorporate by reference the following documents and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this prospectus and the completion of the sale of securities offered hereby:

Kinder Morgan Management, LLC

SEC Filings (File No. 1-16459)	**Period/File Date**
Annual Report on Form 10-K	Year ended December 31, 2011
Registration Statement on Form 8-A/A	Filed on March 1, 2012

Kinder Morgan Energy Partners, L.P.

SEC Filings (File No. 1-11234)	**Period/File Date**
Annual Report on Form 10-K	Year ended December 31, 2011

Kinder Morgan, Inc.

SEC Filings (File No. 1-35081)	**Period/File Date**
Annual Report on Form 10-K	Year ended December 31, 2011
Current Reports on Form 8-K	Filed on February 16, 2012 and February 28, 2012

The SEC maintains an Internet web site that contains reports, proxy and information statements and other material that are filed through the SEC s Electronic Data Gathering, Analysis and Retrieval (EDGAR) System. This system can be accessed at http://www.sec.gov. You can find information we, KMP and KMI file with the SEC by reference to our

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respective names or to our respective SEC file numbers referenced above. You also may read and copy any document we, KMP and KMI file with the SEC at the SEC s public reference room located at:

100 F Street, N.E., Room 1580

Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information about the public reference room and its copy charges. Our, KMP s and KMI s SEC filings are also available to the public through the New York Stock Exchange, on which our shares, KMP s common units and KMI s common stock are listed, at 20 Broad Street, New York, New York 10005.

In addition, in connection with KMI s proposed acquisition of El Paso Corporation described under Kinder Morgan Kinder Morgan, Inc. below, the following information is incorporated by reference:

- the financial statements and supplementary data and financial statement schedule included under Item 8 and Item 15(c) of El Paso s Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC; and

- the financial statements included under Part I, Item 1 of any Quarterly Reports on Form 10-Q El Paso subsequently files with the SEC.

You may obtain copies of these El Paso documents through the SEC s EDGAR System referred to above by reference to El Paso s corporate name or its SEC file number, 1-14365.

We will provide a copy of any document incorporated by reference in this prospectus and any exhibit specifically incorporated by reference in those documents, without charge, by written or oral request directed to us at the following address and telephone number:

Kinder Morgan Management, LLC

Investor Relations Department

500 Dallas Street, Suite 1000

Houston, Texas 77002

(713) 369-9000

The information concerning KMP, KMI and El Paso contained or incorporated by reference in this prospectus has been provided by KMP, KMI and El Paso, respectively.

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KINDER MORGAN

Kinder Morgan Management, LLC

We are a limited liability company, formed in Delaware in February 2001, that has elected to be treated as a corporation for United States federal income tax purposes. Our shares trade on the NYSE under the symbol KMR. We are a limited partner in KMP and manage and control its business and affairs. The outstanding shares of the class that votes to elect our directors are owned by Kinder Morgan G.P., Inc., the general partner of KMP. Kinder Morgan G.P., Inc. has delegated to us, to the fullest extent permitted under Delaware law and the KMP partnership agreement, all of its rights and powers to manage and control the business and affairs of KMP and its subsidiary operating limited partnerships and their subsidiaries, subject to Kinder Morgan G.P., Inc. s right to approve specified actions.

Kinder Morgan Energy Partners, L.P.

KMP is a limited partnership, formed in Delaware in August 1992, with its common units traded on the NYSE under the symbol KMP. KMP is one of the largest publicly-traded pipeline limited partnerships in the United States in terms of market capitalization. Its operations are conducted through its subsidiary operating limited partnerships and their subsidiaries and are grouped into the following business segments: Products Pipelines, Natural Gas Pipelines, CO_2, Terminals and Kinder Morgan Canada.

Kinder Morgan, Inc.

KMI is a publicly-traded Delaware corporation, with its common stock traded on the NYSE under the symbol KMI. KMI is a leading pipeline transportation and energy storage company in North America and owns an interest in or operates more than 37,000 miles of pipeline and 180 terminals. KMI owns the general partner interest of, and a significant limited partner interest in, KMP. KMI also owns a significant number of our shares. Under the terms of an agreement, which is part of our limited liability company agreement, upon the occurrence of specified mandatory purchase events, KMI will be required to purchase for cash all of our shares that it and its affiliates do not own.

On October 16, 2011, KMI and El Paso Corporation, referred to as El Paso, announced a definitive agreement whereby KMI will acquire all of the outstanding shares of El Paso. El Paso owns North America s largest interstate natural gas pipeline system, one of North America s largest independent exploration and production companies and an emerging midstream business. El Paso also owns a 42 percent limited partner interest and the 2 percent general partner interest in El Paso Pipeline Partners, L.P., referred to as EPB. The combined enterprise, including the associated master limited partnerships, KMP and EPB, will represent the largest natural gas pipeline network in the United States, the largest independent transporter of petroleum products in the United States, the largest transporter of CO_2 in the United States, the second largest oil producer in Texas and the largest independent terminal owner/operator in the United States. Completion of the transaction is subject to the approval of both KMI s and El Paso s shareholders, as well as the receipt of customary regulatory approvals.

Principal Offices

The address of KMR s, KMP s and KMI s principal executive offices is 500 Dallas Street, Suite 1000, Houston, Texas 77002, and the telephone number at this address is (713) 369-9000.

Organizational Structure

The following chart depicts the current organizational structure of KMR, KMP and KMI.

USE OF PROCEEDS

We will use all the net proceeds from the sale of shares we are offering to purchase i-units from KMP. Unless otherwise set forth in a prospectus supplement, KMP intends to use the proceeds it receives from our purchases of i-units for

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general partnership purposes. This may include, among other things, additions to working capital, repayment of existing indebtedness or other partnership obligations, financing of capital expenditures and acquisitions, investment in existing and future projects, and repurchases and redemptions of securities. Pending any specific application, KMP may initially invest funds in short-term marketable securities or apply them to the reduction of indebtedness.

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DESCRIPTION OF OUR SHARES

Number of Shares

Pursuant to our limited liability company agreement, all of our voting shares are held by Kinder Morgan G.P., Inc. The shares offered pursuant to this prospectus are the same class we have previously sold to the public, which we call our listed shares, and do not entitle owners of such shares to vote on the election of our directors. Other than our voting shares, as of January 31, 2012, we had 98,509,387 listed shares outstanding, including approximately 14,055,425 listed shares held by KMI and its controlled affiliates. Our limited liability company agreement does not limit the number of shares we may issue.

Where Shares are Traded

Except for our voting shares, all of which are held by Kinder Morgan G.P., Inc., our outstanding shares are listed on the New York Stock Exchange under the symbol KMR. The shares we will issue in this offering will also be listed on the NYSE.

General

The following is a summary of the principal documents which relate to our shares, as well as documents which relate to the KMP i-units that we own and that will be purchased by us upon completion of an offering of our shares. Copies of those documents are on file with the SEC. See Where You Can Find More Information for information on how to obtain copies. You should refer to the provisions of each of the following agreements because they, and not this summary, will govern your rights as a holder of our shares. These agreements include:

- our limited liability company agreement, which provides for the issuance of our shares, distributions and limited voting rights attributable to our shares and which establishes the rights, obligations and limited circumstances for the mandatory or optional purchase of our shares by KMI as provided in the KMI purchase provisions;

- the KMI purchase provisions, which are part of our limited liability company agreement and which provide for the optional or mandatory purchase of our shares in the limited circumstances set forth in our limited liability company agreement;

- the KMI tax indemnification agreement, which provides that KMI will indemnify us for any tax liability attributable to our formation or our management and control of the business and affairs of KMP and for any taxes arising out of a transaction involving our i-units to the extent the transaction does not generate sufficient cash to pay our taxes;

- the KMP limited partnership agreement, which establishes the i-units as a class of limited partner interest in KMP and specifies the relative rights and preferences of the i-units; and

- the delegation of control agreement among us, Kinder Morgan G.P., Inc. and KMP and its operating partnerships, which delegates to us, to the fullest extent permitted under Delaware law and the KMP partnership agreement, the power and authority to manage and control the business and affairs of KMP and its operating partnerships, subject to Kinder Morgan G.P., Inc. s right to approve specified actions.

Distributions

Under the terms of our limited liability company agreement, except in connection with our liquidation, we do not pay distributions on our shares in cash. Instead, we make distributions on our shares in additional shares or fractions of shares. At the same time that KMP makes any cash distribution on its common units, we distribute on each of our shares that fraction of a share determined by dividing the amount of the cash distribution to be made by KMP on each common unit by the average market price of a share determined for the ten consecutive trading days immediately prior to the ex-dividend date for our shares.

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KMP distributes an amount equal to 100% of its available cash to its unitholders of record on the applicable record date and the general partner within approximately 45 days after the end of each quarter. Available cash is generally, for any calendar quarter, all cash received by KMP from all sources less all of its cash disbursements and net additions to reserves.

The KMP partnership agreement provides for distributions to the extent of available cash to common unitholders, Class B unitholders and the general partner in cash and to us in additional i-units except in the event of a liquidation or dissolution. Therefore, generally, non-liquidating distributions will be made in cash to owners of common units, Class B units and the general partner and in additional i-units to us.

We also will distribute to owners of our shares additional shares if owners of common units receive a cash distribution or other cash payment on their common units other than a regular quarterly distribution. In that event, we will distribute on each share that fraction of a share determined by dividing the cash distribution declared by KMP on each common unit by the average market price of a share determined for a ten consecutive trading day period ending on the trading day immediately prior to the ex-dividend date for the shares.

Our limited liability company agreement provides that a shareholder s right to a distribution that has been declared (or for which a record date has been set) but that has not yet been made ceases on the purchase date if the funds for KMI s optional or mandatory purchase of the shares are deposited with the transfer agent and the notice of purchase has been given.

There is no public market for trading fractional shares. We issue fractional shares in payment of the distribution to owners of our shares. No fraction of a share can be traded on any exchange on which our shares are traded until a holder acquires the remainder of the fraction and has a whole share.

The term average market price is used above in connection with the share distributions and it is used below in connection with the optional and mandatory purchase of our shares. When we refer to the average market price of a share or a common unit, we mean the average closing price of a share or common unit during the ten consecutive trading days prior to the determination date but not including that date, unless a longer or shorter number of trading days is expressly noted.

The closing price of securities on any day means:

- for securities listed on a national securities exchange, the last sale price for that day, regular way, or, if there are no sales on that day, the average of the closing bid and asked prices for that day, regular way, in either case as reported in the principal composite transactions reporting system for the principal national securities exchange on which the securities are listed;

- if the securities are not listed on a national securities exchange

- the last quoted price on that day, or, if no price is quoted, the average of the high bid and low asked prices on that day, each as reported by NASDAQ;

- if on that day the securities are not so quoted, the average of the closing bid and asked prices on that day furnished by a professional market maker in the securities selected by our board of directors in its sole discretion (or, in the cases of mandatory or optional purchases, by the board of directors of KMI); or

- if on that day no market maker is making a market in the securities, the fair value of the securities as determined by our board of directors in its sole discretion (or, in the cases of mandatory or optional purchases, by the board of directors of KMI).

A trading day for securities means a day on which:

- the principal national securities exchange on which the securities are listed is open for business, or

- if the securities are not listed on any national securities exchange, a day on which banking institutions in New York, New York generally are open.

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Distributions are made in accordance with the New York Stock Exchange s distribution standards.

Limited Voting Rights

The shares offered pursuant to this prospectus are the same class we have previously sold to the public, and do not entitle owners of such shares to vote on the election of our directors. Kinder Morgan G.P., Inc. owns all shares eligible to elect our directors and elects all of our directors. Owners of our shares are entitled to vote on the specified matters described under the following caption.

Actions Requiring Vote of Owners of Our Shares. Our limited liability company agreement provides that we will not, without the approval of a majority of the shares owned by persons other than KMI and its affiliates, amend, alter or repeal any of the provisions of our limited liability company agreement, including the KMI purchase provisions, the KMI tax indemnification agreement or the delegation of control agreement, in a manner that materially adversely affects the preferences or rights of the owners of our shares as determined in the sole discretion of our board of directors, or reduces the time for any notice to which the holders of our shares may be entitled, except as provided below under Actions Not Requiring the Vote of Holders.

Under the terms of KMP s partnership agreement, the i-units it issues to us are entitled to vote on all matters on which the common units are entitled to vote. We will submit to a vote of our shareholders any matter submitted to us by KMP for a vote of i-units. We will vote our i-units in the same way that our shareholders vote their shares for or against a matter, including non-votes or abstentions. In general, the i-units, common units and Class B units will vote together as a single class, with each i-unit, common unit and Class B unit having one vote. The i-units vote separately as a class on:

- amendments to the KMP partnership agreement that would have a material adverse effect on the rights or preferences of holders of the i-units in relation to the other outstanding classes of units;

- the approval of the withdrawal of Kinder Morgan G.P., Inc. as the general partner of KMP in some circumstances; and

- the transfer to a non-affiliate by Kinder Morgan G.P., Inc. of all its interest as a general partner of KMP.

Our limited liability company agreement also provides that we will not, without the approval of a majority of our shares owned by persons other than KMI and its affiliates, take an action that we have covenanted not to take without shareholder approval, as summarized below, or issue any shares of classes other than the two classes of shares that are currently outstanding.

Limitations on Voting Rights of KMI and its Affiliates. The shares owned by KMI and its affiliates, generally, are entitled to vote on any matter submitted to us as the owner of i-units. Shares owned by KMI or its affiliates will not, however, be entitled to vote on the matters described

below when submitted to a vote of shareholders to determine how the i-units should be voted as long as KMI or its affiliates owns our voting shares:

- any matters on which the i-units vote as a separate class;

- a proposed removal of the general partner of KMP;

- some proposed transfers of all of the general partner s interest as the general partner of KMP and the admission of any successor transferee as a successor general partner; and

- a proposed withdrawal of the general partner of KMP in some circumstances.

When any shares, including voting shares, owned by KMI and its affiliates are not entitled to vote as described above, they will be treated as not outstanding. Therefore, they will not be included in the numerator of the number of shares voting for approval or the denominator of the number of shares outstanding in determining whether the required percentage has been voted to approve a matter. Similarly, a number of i-units equal to the number of our shares, including voting shares,

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owned by KMI and its affiliates will be treated as not being outstanding and will not be included in the numerator or denominator in determining if the required percentage of i-units or total units has been voted to approve a matter.

Limitations on Voting Rights of 20% or More Holders. A person or group owning 20% or more of the aggregate number of issued and outstanding common units and shares is not entitled to vote its shares. Therefore, such shares will not be included in the numerator of the number of shares voting for approval or the denominator of the numbers of shares outstanding in determining whether the required percentage has been voted to approve a matter. This limitation does not apply to KMI and its affiliates, including Kinder Morgan G.P., Inc., although, as described above, there are a number of matters on which KMI and its affiliates may not vote.

Actions Not Requiring the Vote of Holders. The relevant agreements provide that notwithstanding the voting provisions described above, we may make changes in the terms of our shares, our limited liability company agreement (including the purchase provisions), the tax indemnification agreement and the delegation of control agreement without any approval of holders of our shares, in order to meet the requirements of applicable securities and other laws and regulations and exchange rules, to effect the intent of the provisions of the limited liability company agreement and to make other changes which our board of directors determines in its sole discretion will not have a material adverse effect on the preferences or rights associated with our shares or reduce the time for any notice to which the holders of our shares may be entitled. The agreements provide that we are also permitted, in the good faith discretion of our board of directors, to amend the terms of the shares and these agreements without the approval of holders of shares to accommodate the assumption of the obligations of KMI by a person, other than KMI and its affiliates, who becomes the beneficial owner of more than 50% of the total voting power of all shares of capital stock of the general partner of KMP in a transaction that does not constitute a mandatory purchase event but that requires the vote of the holders of the outstanding common units and shares, or to accommodate changes resulting from a merger, recapitalization, reorganization or similar transaction involving KMP which in each case does not constitute a mandatory purchase event but that requires the vote of the holders of the outstanding common units and shares. We believe that amendments made pursuant to these agreements, except in some cases in the context of a merger, recapitalization, reorganization or similar transaction, would not be significant enough to constitute the issuance of a new security; but, if an amendment constituted the issuance of a new security, we would have to register the issuance of the securities with the SEC or rely on an exemption from registration.

Anti-Dilution Adjustments

The partnership agreement of KMP provides that KMP will adjust proportionately the number of i-units held by us through the payment to us of an i-unit distribution or by causing an i-unit subdivision, split or combination if various events occur, including:

- the payment of a common unit distribution on the common units; and
- a subdivision, split or combination of the common units.

Our limited liability company agreement provides that the number of all of our outstanding shares, including the voting shares, shall at all times equal the number of i-units we own. If there is a change in the number of i-units we own, we will make to all our shareholders a share distribution or effect a share split or combination to provide that at all times the number of shares outstanding equals the number of i-units we own. Through the combined effect of the provisions in the KMP partnership agreement and the provisions of our limited liability company

agreement, the number of outstanding shares and i-units always will be equal.

Covenants

Our limited liability company agreement provides that our activities will be limited to being a limited partner in, and controlling and managing the business and affairs of, KMP and its operating partnerships and engaging in any lawful business, purpose or activity related thereto. It also includes provisions that are intended to maintain a one-to-one relationship between the number of i-units we own and our outstanding shares, including provisions:

- prohibiting our sale, pledge or other transfer of i-units;

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- prohibiting our issuance of options, warrants or other securities entitling the holder to subscribe for or purchase our shares;

- prohibiting us from borrowing money or issuing debt;

- prohibiting a liquidation, merger or recapitalization or similar transactions involving us; and

- prohibiting our purchase of any of our shares, including voting shares.

Under the terms of the KMP partnership agreement, KMP agrees that it will not:

- except in liquidation, make a distribution on an i-unit other than in additional i-units or a security that has in all material respects the same rights and privileges as the i-units;

- make a distribution on a common unit other than in cash, in additional common units or a security that has in all material respects the same rights and privileges as the common units;

- allow an owner of common units to receive any consideration other than cash, common units or a security that has in all material respects the same rights and privileges as the common units, or allow us, as the owner of the i-units, to receive any consideration other than i-units or a security that has in all material respects the same rights and privileges as the i-units in a:

- merger in which KMP is not the survivor, if the unitholders of KMP immediately prior to the transaction own more than 50% of the residual common equity securities of the survivor immediately after the transaction;

- merger in which KMP is the survivor, if the unitholders of KMP immediately prior to the transaction own more than 50% of the limited partner interests in KMP immediately after the transaction; or

- recapitalization, reorganization or similar transaction;

- be a party to a merger in which KMP is not the survivor, sell substantially all of its assets to another person or enter into similar transactions if:

- the survivor of the merger or the other person is to be controlled by KMI or its affiliates after the transaction; and

- the transaction would be a mandatory purchase event;

- make a tender offer for common units unless the consideration:

- is exclusively cash; and

- together with any cash payable in respect of any tender offer by KMP for the common units concluded within the preceding 360 days and the aggregate amount of any cash distributions to all owners of common units made within the preceding 360-day period is less than 12% of the aggregate average market value of all classes of units of KMP determined on the trading day immediately preceding the commencement of the tender offer; or

- issue any of its i-units to any person other than us.

The KMP partnership agreement provides that when any cash is to be received by a common unitholder as a result of a consolidation or merger of KMP with or into another person, other than a consolidation or merger in which KMP is a survivor and which does not result in any reclassification, conversion, exchange or cancellation of outstanding common units, or as a result of the sale or other disposition to another person of all or substantially all of the assets of KMP, that payment

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will require KMP to issue additional i-units or fractions of i-units to us except in liquidation. The distribution of additional i-units or fractions of i-units will be equal to the cash distribution on each common unit divided by the average market price of one of our shares determined for a consecutive ten day trading period ending immediately prior to the effective date of the transaction. This will result in us also issuing an equal number of shares to the holders of our shares.

Optional Purchase

The KMI purchase provisions, which are part of our limited liability company agreement, provide that if at any time KMI and its affiliates own 80% or more of our outstanding shares, then KMI has the right, but not the obligation, to purchase for cash all of our outstanding shares that KMI and its affiliates do not own. KMI can exercise its right to make that purchase by delivering notice to the transfer agent for the shares of its election to make the purchase not less than ten days and not more than 60 days prior to the date which it selects for the purchase. We will use reasonable efforts to cause the transfer agent to mail the notice of the purchase to the record holders of the shares.

The price at which KMI may make the optional purchase is equal to 110% of the higher of:

- the average market price for the shares for the ten consecutive trading days ending on the fifth trading day prior to the date the notice of the purchase is given; and

- the highest price KMI or its affiliates paid for the shares during the 90 day period ending on the day prior to the date the notice of purchase is given.

The KMI purchase provisions, which are a part of our limited liability company agreement, and KMP s partnership agreement each provides that if at any time KMI and its affiliates own 80% or more of the outstanding common units and the outstanding shares on a combined basis, then KMI has the right to purchase all of our shares that KMI and its affiliates do not own, but only if the general partner of KMP, elects to purchase all of the common units that KMI and its affiliates do not own. The price at which KMI and the general partner may make the optional purchase is equal to the highest of:

- the average market price of our shares or the common units, whichever is higher, for the 20 consecutive trading days ending five days prior to the date on which the notice of the purchase is given; and

- the highest price KMI or its affiliates paid for such shares or common units, whichever is higher, during the 90-day period ending on the day prior to the date the notice of purchase is given.

KMI or the general partner, as the case may be, may exercise its right to make the optional purchase by giving notice to the transfer agent for the shares and for the common units of its election to make the optional purchase not less than ten days and not more than 60 days prior to the date which it selects for the purchase. We will use reasonable efforts to cause the transfer agent to mail that notice of the purchase to the record holders of our shares.

If either elects to purchase either our shares or the combination of the common units and our shares, KMI and, if applicable, the general partner, will deposit the aggregate purchase price for the shares and the common units, as the case may be, with the respective transfer agents. On and after the date set for the purchase, the holders of the shares or the common units, as the case may be, will have no rights as holders of shares or common units, except to receive the purchase price, and their shares or common units will be deemed to be transferred to KMI, or the general partner in the case of the common units, for all purposes.

KMI will comply with Rule 13e-3 under the Exchange Act if it makes an optional purchase.

Mandatory Purchase

General. Under the terms of the KMI purchase provisions, upon the occurrence of any of the following mandatory purchase events, KMI will be required to purchase for cash all of our shares that it and its affiliates do not own at a purchase price equal to the higher of the average market price for the shares and the average market price for common units as determined for the ten-day trading period immediately prior to the date of the applicable event.

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A mandatory purchase event means any of the following:

- the first day on which the aggregate distributions or other payments by KMP on the common units, other than distributions or payments made in common units or in securities which have in all material respects the same rights and privileges as common units but including distributions or payments made pursuant to an issuer tender offer by KMP, during the immediately preceding 360-day period exceed 50% of the average market price of a common unit during the ten consecutive trading day period ending on the last trading day prior to the first day of that 360-day period.

- the occurrence of an event resulting in KMI and its affiliates ceasing to be the beneficial owner, as defined in Rules 13d-3 and 13d-5 under the Exchange Act, of more than 50% of the total voting power of all shares of capital stock of the general partner of KMP, unless:

- the event results in another person becoming the beneficial owner of more than 50% of the total voting power of all shares of capital stock of the general partner of KMP;

- that other person is organized under the laws of a state in the United States;

- that other person has long term unsecured debt with an investment grade credit rating, as determined by Moody s Investor Services, Inc. and Standard & Poor s Rating Service, immediately prior to the event; and

- that other person assumes all obligations of KMI to us and to the owners of the shares under the purchase provisions and the tax indemnification agreement.

- the merger of KMP with or into another person in any case where KMP is not the surviving entity, or the sale of all or substantially all of the assets of KMP and its subsidiaries, taken as a whole, to another person, unless in the transaction:

- the owners of common units receive in exchange for their common units a security of such other person that has in all material respects the same rights and privileges as the common units;

- we receive in exchange for all of the i-units a security of such other person that has in all material respects the same rights and privileges as the i-units;

- no consideration is received by an owner of common units other than securities that have in all material respects the same rights and privileges as the common units and/or cash, and the amount of cash received per common unit does not exceed 331/3% of the average market price of a common unit during the ten trading day period ending immediately prior to the date of execution of the definitive agreement for the transaction; and

- no consideration is received by the owners of i-units other than securities of such other person that have in all material respects the same rights and privileges as the i-units.

Procedure. Within three business days following any event requiring a mandatory purchase by KMI, KMI will mail or deliver to the transfer agent for mailing to each holder of record of the shares on the earlier of the date of the purchase event and the most recent practicable date, a notice stating:

- that a mandatory purchase event has occurred and that KMI will purchase such holder s shares for the purchase price described above;

- the circumstances and relevant facts regarding the mandatory purchase event;

- the dollar amount per share of the purchase price;

- the purchase date, which shall be no later than five business days from the date such notice is mailed; and

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- the instructions a holder must follow in order to have the holder s shares purchased.

On or prior to the date of the purchase, KMI will irrevocably deposit with the transfer agent funds sufficient to pay the purchase price. Following the purchase date, a share owned by any person other than KMI and its affiliates will only represent the right to receive the purchase price.

For purposes of the optional and mandatory purchase provisions, including the definitions of the mandatory purchase events, KMI will be deemed to include KMI, its successors by merger, and any entity that succeeds to KMI s obligations under the purchase provisions and the tax indemnification agreement in connection with an acquisition of all or substantially all of the assets of KMI.

KMI will comply with Rule 13e-3 under the Exchange Act in connection with the occurrence of a mandatory purchase event.

Tax Indemnity of KMI

We have a tax indemnification agreement with KMI. Pursuant to this agreement, KMI agreed to indemnify us for any tax liability attributable to our formation or our management and control of KMP, and for any taxes arising out of a transaction involving our i-units to the extent the transaction does not generate sufficient cash to pay our taxes.

Transfer Agent and Registrar

Our transfer agent and registrar for the shares is Computershare Inc. It may be contacted at 525 Washington Blvd., Jersey City, New Jersey 07310.

The transfer agent and registrar may at any time resign, by notice to us, or be removed by us. That resignation or removal would become effective upon the appointment by us of a successor transfer agent and registrar and its acceptance of that appointment. If no successor has been appointed and accepted that appointment within 30 days after notice of that resignation or removal, we are authorized to act as the transfer agent and registrar until a successor is appointed.

Replacement of Share Certificates

We will replace any mutilated certificate at your expense upon surrender of that certificate to the transfer agent. We will replace certificates that become destroyed, lost or stolen at your expense upon delivery to us and the transfer agent of satisfactory evidence that the certificate has been destroyed, lost or stolen, together with any indemnity that may be required by us or by the transfer agent.

Fractional Shares

We will make distributions of additional shares, including fractional shares. Records of fractional interests held by the holders of shares will be maintained by the Depositary Trust Company or the broker or other nominees through whom you hold your shares. You will be able to sell such fractional shares on the New York Stock Exchange only when they equal, in the aggregate, whole shares. Certificates representing fractional shares will not be issued under any circumstances. Fractional shares will receive distributions when distributions are made on our shares. All fractional shares will be rounded down, if necessary, and stated in six decimal places.

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DESCRIPTION OF THE I-UNITS

The i-units are a separate class of limited partner interests in KMP. All the i-units will be owned by us and will not be publicly traded. A number of the covenants in our limited liability company agreement and in KMP s partnership agreement affect us as the holder of i-units. For a description of the material covenants, see Description of Our Shares Covenants.

Voting Rights

Owners of i-units generally vote together with the common units and Class B units as a single class and sometimes vote as a class separate from the holders of common units and Class B units. The i-units have the same voting rights as the common units and Class B units voting together as a single class on the following matters:

- a sale or exchange of all or substantially all of KMP s assets;
- the election of a successor general partner in connection with the removal of the general partner;
- a dissolution or reconstitution of KMP;
- a merger of KMP; and
- some amendments to the partnership agreement, including any amendment that would cause KMP to be treated as a corporation for income tax purposes.

The i-units vote separately as a class on the following:

- Amendments to the KMP partnership agreement that would have a material adverse effect on the rights or preferences of the holders of the i-units in relation to the other classes of units. This kind of an amendment requires the approval of two-thirds of the outstanding i-units other than the number of i-units corresponding to the number of shares owned by KMI and its affiliates.

- The approval of the withdrawal of the general partner in some circumstances or the transfer to a non-affiliate of all of its interest as a general partner. These matters require the approval of a majority of the outstanding i-units other than the number of i-units corresponding to the number of shares owned by KMI and its affiliates.

In all cases, i-units will be voted in proportion to the affirmative and negative votes, abstentions and non-votes of owners of our shares.

For further information regarding the voting rights of i-units and shares of Kinder Morgan Management, LLC, see Description of Our Shares Limited Voting Rights.

Distributions and Payments

The number of i-units distributed to us by KMP is based upon the amount of cash to be distributed by KMP to an owner of a common unit. KMP distributes to us a number of i-units equal to the number of shares distributed by us.

Typically, if cash is paid to the holders of common units, we, as the owner of i-units, receive additional i-units or fractions of i-units instead of cash. The fraction of an i-unit received per i-unit owned by us is determined as if the cash payment on the common unit were a cash distribution.

If additional units are distributed to the owners of common units, as the owner of i-units, we receive an equivalent amount of units based on the number of i-units that we own.

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Merger, Consolidation or Sale of Assets

In the case of any of the following events:

- any consolidation or merger of KMP with or into another person,

- any consolidation or merger of another person into KMP, except a consolidation or merger which does not result in any reclassification, conversion, exchange or cancellation of the outstanding common units of KMP, or

- any sale or other disposition of all or substantially all the properties and assets of KMP,

if the owners of the common units receive cash in the transaction, a distribution on each i-unit will be made in additional i-units or fractions of i-units determined by dividing the cash received on a common unit by the average market price of one of our shares determined for a ten consecutive day trading period ending immediately prior to the effective date of the transaction, except that in the case of a liquidation, as the owner of the i-units, we will receive the distribution provided pursuant to the liquidation provisions in KMP s partnership agreement.

United States Federal Income Tax Characteristics and Distribution Upon Liquidation of KMP

The i-units we own generally will not be allocated income, gain, loss or deduction until such time as there is a liquidation of KMP. Therefore, we do not anticipate that we will have material amounts of taxable income resulting from our ownership of the i-units unless we enter into a sale or exchange of the i-units or KMP is liquidated.

Upon the liquidation of KMP, KMI is generally obligated to purchase all of our outstanding shares at a price equal to the higher of the average market price for the shares and the average market price of the common units. If KMI fails to do so, then, as described below, the value of your shares will depend on the amount of the liquidating distribution received by us as the owner of the i-units and the taxes we incur as a result of that liquidation.

The liquidating distribution per i-unit may be less than the liquidating distribution received per common unit. The liquidating distribution for each i-unit and common unit will depend upon the relative per unit capital accounts of the i-units and the common units at liquidation. It is anticipated that over time the capital account per common unit will exceed the capital account per i-unit because the common units will be allocated income and gain prior to liquidation, but the i-units will not. At liquidation, it is intended that each i-unit will be allocated income and gain in an amount necessary for the capital account attributable to each i-unit to be equal to that of a common unit. However, there may not be sufficient amounts of income and gain at liquidation to cause the capital account of an i-unit to be increased to that of a common unit. In that event, the liquidating distribution per common unit will exceed the liquidating distribution per i-unit.

As a result of the allocation of income and gain to the i-units upon a liquidation, we will be required to pay taxes on that income and gain. Thus, in the event income and gain is allocated to us, then, because of taxes we pay, shareholders will receive less than the holders of the common units.

Because of these factors, and if KMI fails to purchase our shares as described above, the value of our shares likely will be lower than the value of the common units upon the liquidation of KMP.

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MODIFICATION OF FIDUCIARY DUTIES OWED TO

OUR SHAREHOLDERS AND TO THE OWNERS OF UNITS

The fiduciary duties owed to you by our board of directors are prescribed by Delaware law and our limited liability company agreement. Similarly, the fiduciary duties owed to the owners of units of KMP by the general partner of KMP are prescribed by Delaware law and its partnership agreement. The Delaware Limited Liability Company Act and the Delaware Limited Partnership Act provide that Delaware limited liability companies and Delaware limited partnerships, respectively, may, in their limited liability company agreements and partnership agreements, as applicable, restrict the fiduciary duties owed by the board of directors to us and our shareholders and by the general partner to the limited partnership and the limited partners.

Our limited liability company agreement and the KMP partnership agreement contain various provisions restricting the fiduciary duties that might otherwise be owed. The following is a summary of the material restrictions of the fiduciary duties owed by our board of directors to us and our shareholders and by Kinder Morgan G.P., Inc., the general partner of KMP, to the partnership and its limited partners. Any fiduciary duties owed to you by KMI and its affiliates, as the beneficial owner of all our voting shares, are similarly restricted or eliminated.

State-law fiduciary duty standards	Fiduciary duties are generally considered to include an obligation to act with due care and loyalty. The duty of care, unless the limited liability company agreement or partnership agreement provides otherwise, would generally require a manager or general partner to act for the limited liability company or limited partnership, as applicable, in the same manner as a prudent person would act on his own behalf. The duty of loyalty, in the absence of a provision in a limited liability company agreement or partnership agreement providing otherwise, would generally prohibit a manager of a Delaware limited liability company or a general partner of a Delaware limited partnership from taking any action or engaging in any transaction where a conflict of interest is present.
Our limited liability company agreement modifies these standards	Our limited liability company agreement contains provisions that prohibit the shareholders from advancing claims arising from conduct by our board of directors that might otherwise raise issues as to compliance with fiduciary duties or applicable law. For example, our limited liability company agreement permits the board of directors to make a number of decisions in its sole discretion. This entitles the board of directors to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any shareholder. KMI, its affiliates, and their officers and directors who are also our officers or directors are not required to offer to us any business opportunity. Except as set out in our limited liability company agreement, our directors, KMI and their affiliates have no obligations, by virtue of the relationships established pursuant to that agreement, to take or refrain from taking any action that may impact us or our shareholders. In addition to the other more specific provisions limiting the obligations of our board of directors, our limited liability company agreement further provides that our board of directors will not be liable for monetary damages to us, our shareholders or any other person for any acts or omissions if our board of directors acted in good faith.

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KMP s limited partnership agreement modifies these standards	The limited partnership agreement of KMP contains provisions that prohibit its limited partners from advancing claims arising from conduct by KMP s general partner that might otherwise raise issues as to compliance with fiduciary duties or applicable law. For example, the limited partnership agreement of KMP permits the general partner of the partnership to make a number of decisions in its sole discretion. This entitles the general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, the partnership, its affiliates or any limited partner. KMI, its affiliates and their officers and directors who are also our officers or directors or officers or directors of the general partner of KMP are not required to offer to the partnership any business opportunity. The general partner of KMP is permitted to attempt to avoid personal liability in connection with the management of KMP, pursuant to the partnership agreement. The partnership agreement provides that the general partner does not breach its fiduciary duty even if the partnership could have obtained more favorable terms without limitations on the general partner s liability. The partnership agreement of KMP contains provisions that allow the general partner to take into account the interests of parties in addition to KMP in resolving conflicts of interest, thereby limiting its fiduciary duty to the partnership and the limited partners. The partnership agreement also provides that in the absence of bad faith by the general partner, the resolution of a conflict by the general partner will not be a breach of any duty. Also, the partnership agreement contains provisions that may restrict the remedies available to limited partners for actions taken that might, without such limitations, constitute breaches of fiduciary duty. In addition to the other more specific provisions limiting the obligations of the general partner, the partnership agreement provides that the general partner, its affiliates and their respective officers and directors will not be liable for monetary damages to the partnership, its limited partners or any other person for acts or omissions if the general partner, affiliate or officer or director acted in good faith. We or the general partner may request that the conflicts and audit committee of the general partner s board of directors review and approve the resolution of conflicts of interest that may arise between KMI or its subsidiaries, on the one hand, and KMP, on the other hand. All of these provisions in the KMP partnership agreement relating to the general partner apply equally to us as the delegate of the general partner.

By becoming one of our shareholders, a shareholder agrees to be bound by the provisions in our limited liability company agreement, including the provisions discussed above. This is in accordance with the policy of the Delaware Limited Liability Company Act favoring the principle of freedom of contract and the enforceability of limited liability company agreements. It is not necessary for a shareholder to sign our limited liability company agreement in order for the limited liability company agreement to be enforceable against that person.

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MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

This section is a summary of the material U.S. federal income tax consequences that may be relevant to prospective owners of shares and, unless otherwise noted in the following discussion, is the opinion of our counsel, Bracewell & Giuliani LLP, insofar as it relates to legal conclusions with respect to matters of U.S. federal income tax law. This section is based upon current provisions of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), existing and proposed Treasury regulations promulgated under the Internal Revenue Code (Treasury Regulations) and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to us or we are references to Kinder Morgan Management, LLC.

The following discussion does not comment on all U.S. federal income tax matters affecting us, KMP or the owners of shares. Moreover, the discussion focuses on owners of shares who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, nonresident aliens or other shareholders subject to specialized tax treatment, such as financial institutions, insurance companies, real estate investment trusts (REITs), dealers and persons entering into hedging transactions. Accordingly, we urge each prospective owner of shares to consult, and depend on, his own tax advisor in analyzing the U.S. federal, state, local and foreign tax consequences particular to him of the ownership or disposition of shares.

All statements as to matters of law and legal conclusions, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of Bracewell & Giuliani LLP and are based on the accuracy of the representations made by us and, where applicable, KMP and its general partner.

No ruling has been or will be requested from the Internal Revenue Service (the IRS) regarding any matter affecting us or prospective owners of shares. Instead, we will rely on opinions of Bracewell & Giuliani LLP. Unlike a ruling, an opinion of counsel represents only that counsel s best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made herein may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for shares and the prices at which shares trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will be borne directly or indirectly by us and the owners of shares. Furthermore, the tax treatment of us or KMP or of an investment in us or KMP may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

U.S. Federal Income Tax Consequences Associated with the Ownership and Disposition of Shares

Kinder Morgan Management, LLC s Status as a Corporation For U.S. Federal Income Tax Purposes

An election has been made with the IRS to treat us as a corporation for U.S. federal income tax purposes. Thus, we are subject to U.S. federal income tax on our taxable income at tax rates up to 35%. Additionally, in certain instances we could be subject to the alternative minimum tax of 20% on our alternative minimum taxable income to the extent that the alternative minimum tax exceeds our regular tax.

The terms of the i-units provide that the i-units owned by us are not entitled to allocations of income, gain, loss or deduction of KMP until such time as KMP is liquidated. Thus, we do not anticipate that we will have material amounts of either taxable income or alternative minimum taxable income resulting from our ownership of the i-units, unless we dispose of the i-units in a taxable transaction or KMP is liquidated. Please read U.S. Federal Income Tax Consequences Associated with the Ownership of i-units.

Tax Consequences of Share Ownership

No Flow-Through of Our Taxable Income. Because we are treated as a corporation for U.S. federal income tax purposes, an owner of shares will not report on its U.S. federal income tax return any of our items of income, gain, loss and deduction.

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Distributions of Additional Shares. Under the terms of our limited liability company agreement, except in connection with our liquidation, we will not make distributions of cash in respect of shares but rather will make distributions of additional shares. Because these distributions of additional shares will be made proportionately to all owners of shares, the receipt of these additional shares will not be includable in the gross income of an owner of shares for U.S. federal income tax purposes. As each owner of shares receives additional shares, he will be required to allocate his basis in his shares in the manner described below. Please read Basis of Shares.

Basis of Shares. An owner s initial tax basis for his shares will be the amount paid for them. As additional shares are distributed to an owner of shares, he will be required to allocate his tax basis in his shares equally between the old shares and the new shares received. If the old shares were acquired for different prices, and the owner can identify each separate lot, then the basis of each old lot of shares can be used separately in the allocation to the new shares received with respect to the identified old lot. If an owner of shares cannot identify each lot, then he must use the first-in first-out tracing approach. A shareholder cannot use the average cost for all lots for this purpose.

Disposition of Shares. Gain or loss will be recognized on a sale or other disposition of shares, whether to a third party or to KMI pursuant to the KMI purchase provisions or in connection with the liquidation of us, equal to the difference between the amount realized and the owner s tax basis for the shares sold or otherwise disposed of. An owner s amount realized will be measured by the sum of the cash and the fair market value of other property received by him.

Except as noted below, gain or loss recognized by an owner of shares, other than a dealer in shares, on the sale or other disposition of a share generally will be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of shares held more than twelve months generally will be taxed at a maximum U.S. federal income tax rate of 15% through December 31, 2012 and 20% thereafter (absent new legislation extending or adjusting the current rate), subject to the discussion below relating to straddles. In addition, beginning after December 31, 2012, all or a portion of the gain realized by an individual on the sale or other disposition of a share, regardless of whether the share was held for more than twelve months, generally will be subject to a 3.8% Medicare tax. Capital gain recognized by a corporation on the sale of shares generally will be taxed at a maximum rate of 35%. Net capital losses may offset capital gains and no more than $3,000 of ordinary income in the case of individuals, and may be used to offset only capital gains in the case of corporations.

Capital gain treatment may not result from a sale of shares to KMI pursuant to the KMI purchase provisions or otherwise if a single shareholder of us or our shareholders as a group own 50% or more of the stock of KMI. In that case, if either we or KMI has earnings and profits, then the amount received by a seller of shares may be taxed as a dividend to the extent of his portion of those earnings and profits, but only if the seller sells less than all of his shares or is a shareholder of KMI after applying the ownership attribution rules.

For purposes of determining whether capital gains or losses on the disposition of shares are short term or long term, subject to the discussion below relating to straddles, an owner s holding period begins the day after the date he purchases shares. As additional shares are distributed to him, the holding period of each new share received also will include the period for which the owner held the old shares to which the new share relates.

Because the purchase rights in respect of the shares arise as a result of an agreement other than solely with us, these rights do not appear to constitute inherent features of the shares for U.S. federal income tax purposes. Please read Description of Our Shares Optional Purchase, and Mandatory Purchase. As such, it is possible that the IRS would assert that shares and the related purchase rights constitute a straddle for U.S. federal income tax purposes to the extent that those rights are viewed as resulting in a substantial diminution of a share purchaser s risk of loss from owning his shares. In that case, any owner of shares who incurs interest or other carrying charges that are allocable to the shares (as would be the case if the owner finances his acquisition of shares with debt) would have to capitalize those interest or carrying charges to the basis of the

related shares and purchase rights rather than deducting those interest or carrying charges currently. In addition, the holding period of the shares would be suspended, resulting in short-term capital gain or loss (generally taxed at ordinary income rates) upon a taxable disposition, even if the shares were held for more than twelve months. However, we believe that the purchase rights have minimal value and do not result in a substantial diminution of a share purchaser s risk of loss from owning shares. Accordingly, the shares and the related purchase rights should not constitute a straddle for U.S. federal

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income tax purposes and, therefore, should not result in any suspension of an owner s holding period or interest and carrying charge capitalization; although, there can be no assurance that the IRS or the courts would agree with this conclusion.

Investment in Shares by Tax-Exempt Investors, Regulated Investment Companies and Non-U.S. Persons. Employee benefit plans and most other organizations exempt from U.S. federal income tax, including individual retirement accounts (IRAs), and other retirement plans, are subject to U.S. federal income tax on unrelated business taxable income. Because we will be treated as a corporation for U.S. federal income tax purposes, an owner of shares will not report on its U.S. federal income tax return any of our items of income, gain, loss and deduction. Therefore, a tax-exempt investor will not have unrelated business taxable income attributable to its ownership or sale of shares, unless its ownership of the shares is debt financed. In general, a share would be debt financed if the tax-exempt investor incurs debt to acquire a share or otherwise incurs or maintains a debt that would not have been incurred or maintained if that share had not been acquired.

A regulated investment company, or mutual fund, is required to derive at least 90% of its gross income for every taxable year from qualifying income. As stated above, an owner of shares will not report on its U.S. federal income tax return any of our items of income, gain, loss and deduction. Thus, ownership of shares will not result in income which is not qualifying income to a mutual fund. Furthermore, any gain from the sale or other disposition of the shares, and the associated purchase rights, will qualify for purposes of the 90% test. Finally, shares, and the associated purchase rights, will constitute qualifying assets to mutual funds, which also must own qualifying assets representing at least 50% of the value of their totals assets at the end of each quarter.

Because distributions of additional shares will be made proportionately to all owners of shares, the receipt of these additional shares will not be includable in the gross income of an owner of shares for U.S. federal income tax purposes. Therefore, no withholding taxes will be imposed on distributions of additional shares to nonresident alien individuals and foreign corporations, trusts or estates. A non-U.S. owner of shares generally will not be subject to U.S. federal income tax or subject to withholding on any gain recognized on the sale or other disposition of shares unless:

- the gain is effectively connected with the conduct of a U.S. trade or business by the non-U.S. owner and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment of that owner (and, in which case, if the owner is a foreign corporation, it may be subject to an additional branch profits tax equal to 30% or a lower rate as may be specified by an applicable income tax treaty);

- the non-U.S. owner is a nonresident alien individual who holds the shares as a capital asset and is present in the United States for 183 or more days in the taxable year of the sale or other disposition and other conditions are met; or

- we are or have been a United States real property holding corporation (a USRPHC) for U.S. federal income tax purposes.

We believe that we are a USRPHC for U.S. federal income tax purposes. Therefore, any gain on the sale or other disposition of shares by a non-U.S. owner will be subject to U.S. federal income tax, unless the shares are regularly traded on an established securities market and the non-U.S. owner has not actually or constructively held more than 5% of the shares at any time during the shorter of the five-year period preceding the disposition or that owner s holding period. Our shares currently trade on an established securities market.

U.S. Federal Income Tax Consequences Associated with the Ownership of i-units

A partnership is not a taxable entity and incurs no U.S. federal income tax liability. Instead, each partner of a partnership is required to take into account its share of items of income, gain, loss and deduction of the partnership in computing its U.S. federal income tax liability, regardless of whether cash distributions are made to it by the partnership. Distributions of cash by a partnership to a partner generally are not taxable to the partner, unless the amount of cash distributed to the partner is in excess of its adjusted basis in its partnership interest.

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With respect to the i-units owned by us, the KMP partnership agreement provides that no allocations of income, gain, loss or deduction will be made in respect of the i-units until such time as there is a liquidation of KMP. If there is a liquidation of KMP, it is intended that we will receive allocations of income and gain, or deduction and loss, in an amount necessary for the capital account attributable to each i-unit to be equal to that of a common unit. The aggregate capital account of our i-units will not be increased as a result of our ownership of additional i-units.

Thus, each additional i-unit we own after a cash distribution to other unitholders generally will represent the right to receive additional allocations of such income and gain, or deduction and loss, on the liquidation of KMP. As a result, we likely would realize taxable income or loss upon the liquidation of KMP. However, no assurance can be given that there will be sufficient amounts of income and gain to cause the capital account attributable to each i-unit to be equal to that of a common unit. If they are not equal, we will receive less value than would be received by a holder of common units upon such a liquidation. We also would likely realize taxable income or loss upon any sale or other disposition of our i-units.

Section 7704 of the Internal Revenue Code provides that publicly traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the Qualifying Income Exception, exists with respect to publicly traded partnerships of which 90% or more of the gross income for every taxable year consists of qualifying income. Qualifying income includes income and gains derived from the exploration, development, mining or production, processing, refining, transportation, storage and marketing of any mineral or natural resource, including crude oil, natural gas and products thereof. Other types of qualifying income include interest (other than from a financial business), dividends, gains from the sale of real property and gains from the sale or other disposition of capital assets held for the production of income that otherwise constitutes qualifying income. KMP estimates that, as of the date of this prospectus, more than 90% of its current gross income is qualifying income. Based upon and subject to this estimate, the factual representations made by us, KMP and its general partner and a review of the applicable legal authorities, Bracewell & Giuliani LLP is of the opinion that at least 90% of KMP s current gross income constitutes qualifying income. The portion of KMP s income that is qualifying income may change from time to time.

The anticipated benefit of an investment in our shares depends largely on the treatment of KMP as a partnership for U.S. federal income tax purposes. No ruling has been or will be sought from the IRS, and the IRS has made no determination as to KMP s status as a partnership for U.S. federal income tax purposes or whether KMP s operations generate qualifying income under Section 7704 of the Internal Revenue Code. Instead, we will rely on the opinion of Bracewell & Giuliani LLP on such matters. It is the opinion of Bracewell & Giuliani LLP that, based upon the Internal Revenue Code, Treasury Regulations, published revenue rulings and court decisions and the representations described below, KMP has been, is and will continue to be treated as a partnership for U.S. federal income tax purposes.

In rendering its opinion, Bracewell & Giuliani LLP has relied on the following factual representations made by us, KMP and its general partner:

- neither KMP nor any of its operating partnerships has elected or will elect to be treated as a corporation for U.S. federal income tax purposes;

- for each taxable year, more than 90% of KMP s gross income has been and will be income that Bracewell & Giuliani LLP has opined or will opine is qualifying income within the meaning of Section 7704(d) of the Internal Revenue Code; and

- each hedging transaction that KMP treats as resulting in qualifying income has been and will be appropriately identified as a hedging transaction pursuant to applicable Treasury Regulations, and has been and will be associated with oil, gas or products thereof that are held or will be held by KMP in activities that Bracewell & Giuliani LLP has opined or will opine result in qualifying income.

If KMP fails to meet the Qualifying Income Exception, other than a failure that is determined by the IRS to be inadvertent and that is cured within a reasonable time after discovery, in which case the IRS may require KMP to make adjustments with respect to its unitholders or pay other amounts, KMP will be treated as if it had transferred

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all of its assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which it failed to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to its unitholders in liquidation of their interests in KMP. This deemed contribution and liquidation should be tax-free to unitholders and KMP so long as, at that time, KMP does not have liabilities in excess of the tax basis of its assets. Thereafter, KMP would be treated as a corporation for U.S. federal income tax purposes.

If KMP were taxed as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, its items of income, gain, loss and deduction would be reflected only on its tax return rather than being passed through to its unitholders, and its net income would be taxed to it at corporate rates. In addition, any distribution made to a unitholder, including distributions of additional i-units to us, would be treated as either taxable dividend income, to the extent of KMP s current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder s tax basis in his units, or taxable capital gain, after the unitholder s tax basis in his units is reduced to zero. In addition, the cash available for distribution to a common unitholder would be substantially reduced, which would reduce the values of i-units distributed quarterly to us and our shares distributed quarterly to you. Accordingly, KMP s treatment as a corporation would result in a substantial reduction of the value of our shares.

THE PRECEDING SUMMARY OF VARIOUS U.S. FEDERAL INCOME TAX CONSEQUENCES RELATED TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SHARES IS SOLELY FOR GENERAL INFORMATION ONLY, AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE. THIS SUMMARY DOES NOT ADDRESS ALL THE TAX CONSEQUENCES THAT MAY BE IMPORTANT TO A PARTICULAR HOLDER IN LIGHT OF THE HOLDER S INVOLVEMENT WITH THE ISSUER OR OTHER CIRCUMSTANCES. ACCORDINGLY, PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISORS ON THE U.S. FEDERAL, STATE AND LOCAL AND FOREIGN TAX CONSEQUENCES OF THEIR PURCHASE, OWNERSHIP AND DISPOSITION OF THE SHARES, AND ON THE CONSEQUENCES OF ANY CHANGES IN APPLICABLE LAW.

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ERISA CONSIDERATIONS

The following is a summary of material considerations arising under the Employee Retirement Income Security Act of 1974, as amended, commonly known as ERISA, and the prohibited transaction provisions of section 4975 of the Internal Revenue Code that may be relevant to a prospective purchaser of shares. The discussion does not purport to deal with all aspects of ERISA or section 4975 of the Internal Revenue Code or, to the extent not pre-empted by ERISA, state law that may be relevant to particular employee benefit plans (including plans subject to Title I of ERISA, other employee benefit plans and individual retirement accounts subject to the prohibited transaction provisions of section 4975 of the Internal Revenue Code, and governmental plans and church plans that are exempt from ERISA and section 4975 of the Internal Revenue Code 4975 but that may be subject to state law and other Internal Revenue Code requirements) in light of their particular circumstances.

The discussion is based on current provisions of ERISA and the Internal Revenue Code, existing and currently proposed regulations under ERISA and the Internal Revenue Code, the legislative history of ERISA and the Internal Revenue Code, existing administrative rulings of the Department of Labor, referred to as the DOL, and reported judicial decisions. No assurance can be given that legislative, judicial, or administrative changes will not affect the accuracy of any statements herein with respect to transactions entered into or contemplated prior to the effective date of such changes.

A fiduciary making a decision to invest in the shares on behalf of a prospective purchaser that is an employee benefit plan, a tax-qualified retirement plan, or an individual retirement account, commonly called an IRA, is advised to consult its own legal advisor regarding the specific considerations arising under ERISA, section 4975 of the Internal Revenue Code, and state law (to the extent not pre-empted by ERISA) with respect to the purchase, ownership, sale or exchange of the shares by such plan or IRA. A fiduciary should also consider the entire discussion under the preceding section entitled "Material U.S. Federal Income Tax Consequences," as material contained therein is relevant to any decision by a plan to purchase the shares.

Each fiduciary of a pension, profit-sharing, or other employee benefit plan subject to Title I of ERISA, known as an ERISA Plan, should consider carefully whether an investment by the ERISA Plan in the shares is consistent with his fiduciary responsibilities under ERISA. In particular, the fiduciary requirements of Part 4 of Title I of ERISA require an ERISA Plan s investments to be (1) prudent and in the best interests of the ERISA Plan, its participants, and its beneficiaries, (2) for the exclusive purpose of providing benefits to participants and their beneficiaries, (3) diversified in order to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, and (4) authorized under the terms of the ERISA Plan s governing documents (provided the documents are consistent with ERISA). In determining whether an investment in the shares is prudent for purposes of ERISA, the appropriate fiduciary of an ERISA Plan should consider all of the facts and circumstances, including whether the investment is reasonably designed, as a part of the ERISA Plan s portfolio for which the fiduciary has investment responsibility, to meet the objectives of the ERISA Plan, taking into consideration the risk of loss and opportunity for gain (or other return) from the investment, the diversification, cash flow, and funding requirements of the ERISA Plan s portfolio.

The fiduciary of an IRA, or of a qualified retirement plan not subject to Title I of ERISA because it is a governmental or church plan or because it does not cover common law employees, referred to as a Non-ERISA Plan, should consider that such an IRA or Non-ERISA Plan may only make investments that are authorized by the appropriate governing documents and under applicable state law.

Fiduciaries of ERISA Plans and persons making the investment decision for an IRA or other Non-ERISA Plan should consider the application of the prohibited transaction provisions of ERISA and the Internal Revenue Code in making their investment decision. Sales and other transactions between an ERISA Plan, IRA or Non-ERISA Plan, and persons related to it ("parties in interest" or "disqualified persons"), are prohibited transactions. The particular facts concerning the sponsorship, operations and other investments of an ERISA Plan or Non-ERISA Plan may

cause a wide range of other persons to be treated as parties in interest or disqualified persons with respect to it. A prohibited transaction, in addition to imposing potential personal liability upon fiduciaries of ERISA Plans, may also result in the imposition of an excise tax under section 4975 of the Internal Revenue Code or a penalty under ERISA upon the party in interest or disqualified person with respect to the plan. If the disqualified person who engages in a prohibited transaction with respect to an IRA is the individual on behalf of whom the IRA is maintained (or his beneficiary), the IRA will lose its tax-exempt status and its assets will be deemed to have been distributed to such individual in a taxable distribution (and no excise tax will be imposed on account of the prohibited transaction). In addition, a fiduciary who permits an ERISA Plan to engage in a transaction that the fiduciary knows or should know is a prohibited transaction may be liable to the ERISA Plan for any loss the ERISA Plan incurs as a result of the transaction or for any profits earned by the fiduciary in the transaction. Fiduciaries considering an investment in our securities should consult their own legal advisors as to whether the ownership of shares involves a prohibited transaction.

The following section discusses certain principles that apply in determining whether the fiduciary requirements of ERISA and the prohibited transaction provisions of ERISA and the Internal Revenue Code apply to an entity because one or more investors in the equity interests in the entity is an ERISA Plan or is a Non-ERISA Plan or IRA subject to section 4975 of the Internal Revenue Code. An ERISA Plan fiduciary also should consider the relevance of those principles to ERISA s prohibition on improper delegation of control over or responsibility for plan assets and ERISA s imposition of co-fiduciary

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liability on a fiduciary who participates in, permits (by action or inaction) the occurrence of, or fails to remedy a known breach by another fiduciary.

Regulations of the DOL defining plan assets, referred to as the Plan Asset Regulations, generally provide that when an employee benefit plan acquires a security that is an equity interest in an entity and the security is neither a publicly-offered security nor a security issued by an investment company registered under the Investment Company Act of 1940, unless one or more exceptions specified in the Plan Asset Regulations are satisfied, the plan s assets include both the equity interest and an undivided interest in each of the underlying assets of the issuer of such equity interest, and therefore any person who exercises authority or control respecting the management or disposition of such underlying assets, and any person who provides investment advice with respect to such assets for a fee (direct or indirect), is a fiduciary of the investing plan.

The Plan Asset Regulations define a publicly-offered security as a security that is freely transferable, part of a class of securities that is widely held and either part of a class of securities registered under the Exchange Act, or sold pursuant to an effective registration statement under the Securities Act, provided the securities are registered under the Exchange Act within 120 days after the end of the fiscal year of the issuer during which the offering occurred. The Plan Asset Regulations provide that a class of securities is widely held only if it is a class of securities that is owned by 100 or more investors independent of the issuer and of one another. A class of securities will not fail to be widely held solely because the number of independent investors falls below 100 subsequent to the initial public offering as a result of events beyond the issuer s control. The Plan Asset Regulations provide that whether a security is freely transferable is a factual question to be determined on the basis of all relevant facts and circumstances.

We believe that the shares meet the criteria of publicly-offered securities under the Plan Asset Regulations. We believe the shares are held beneficially by more than 100 independent persons. There are no restrictions, within the meaning of the Plan Asset Regulations, imposed on the transfer of shares and the shares are registered under the Exchange Act.

The foregoing discussion of issues arising for employee benefit plan investments under ERISA, the Internal Revenue Code and applicable state laws is general in nature and is not intended to be all inclusive, nor should it be construed as legal advice. In light of the complexity of these rules and the excise taxes, penalties and liabilities that may be imposed on persons involved in non-exempt prohibited transactions or other violations, plan fiduciaries contemplating a purchase of the shares should consult with their own counsel regarding the consequences of such purchases under ERISA, the Internal Revenue Code and state laws.

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PLAN OF DISTRIBUTION

We may sell the shares (1) through agents, (2) through underwriters or dealers, (3) directly to one or more purchasers, or (4) pursuant to delayed delivery contracts or forward contracts.

By Agents

Shares may be sold through agents designated by us. Unless otherwise indicated in a prospectus supplement, the agents will agree to use their reasonable best efforts to solicit purchases for the period of their appointment.

By Underwriters

If underwriters are used in the sale, the shares offered will be acquired by the underwriters for their own account. The underwriters may resell the shares in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters to purchase the shares offered will be subject to certain conditions. The underwriters will be obligated to purchase all the shares offered if any of the securities are purchased. Any initial public offering price and any discounts or concessions allowed or re-allowed or paid to dealers may be changed from time to time.

Direct Sales

Shares may also be sold directly by us. In this case, no underwriters or agents would be involved. We may use electronic media, including the Internet, to sell offered shares directly.

Delayed Delivery Contracts or Forward Contracts

If indicated in the prospectus supplement, we will authorize agents, underwriters or dealers to solicit offers to purchase shares from us at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts or forward contracts providing for payment or delivery on a specified date in the future at prices determined as described in the prospectus supplement. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

General Information

Underwriters, dealers and agents that participate in the distribution of the shares may be underwriters as defined in the Securities Act, and any discounts or commissions received by them from us and any profit on the resale of the shares by them may be treated as underwriting discounts and commissions under the Securities Act. Any underwriters or agents will be identified and their compensation will be described in a prospectus supplement.

We may have agreements with the underwriters, dealers and agents to indemnify them against certain civil liabilities, including liabilities under the Securities Act, or to contribute with respect to payments which the underwriters, dealers or agents may be required to make because of those liabilities.

Underwriters, dealers and agents or their affiliates may engage in transactions with, or perform services for, us or our affiliates in the ordinary course of their businesses.

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VALIDITY OF THE SECURITIES

The validity of the securities being offered hereby will be passed upon for us by Bracewell & Giuliani LLP, Houston, Texas.

EXPERTS

Kinder Morgan Management, LLC

The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control Over Financial Reporting) of Kinder Morgan Management, LLC, incorporated in this prospectus by reference to Kinder Morgan Management, LLC s Annual Report on Form 10-K for the year ended December 31, 2011 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Kinder Morgan Energy Partners, L.P.

The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control Over Financial Reporting) of Kinder Morgan Energy Partners, L.P., incorporated in this prospectus by reference to Kinder Morgan Energy Partners, L.P. s Annual Report on Form 10-K for the year ended December 31, 2011 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The description of the review performed by Netherland, Sewell & Associates, Inc., independent petroleum consultants, included in Kinder Morgan Energy Partners, L.P. s Annual Report on Form 10-K for the year ended December 31, 2011, is incorporated herein by reference on the authority of such firm as experts in petroleum engineering.

Kinder Morgan, Inc.