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August 8, 2008

Oil Pipeline Filing

Via Electronic Filing
Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: ***BP West Coast Products LLC and ExxonMobil Oil Corporation v. SFPP, L.P.,***
Docket No. OR08-_____

Dear Madam Secretary:

In accordance with the requirements of the Interstate Commerce Act ("ICA"), the Rules and Regulations of the Federal Energy Regulatory Commission ("FERC" or "Commission"), and the Commission's Orders in Docket No. OR07-20-000, *BP West Coast Products v. SFPP, L.P.*, 121 FERC ¶ 61,243, at ¶¶ 8-11 (2007), *reh'g denied*, 123 FERC ¶ 61,121, at ¶¶ 6-10 (2008), ExxonMobil Oil Corporation and BP West Coast Products LLC ("Indicated Shippers") hereby tender for filing with the Commission their Sixth Original Complaint against SFPP, L.P.

The Commission recently held that a shipper who seeks to challenge all facets of an index rate increase must file multiple individual complaints, in addition to the protest. As the Commission put it:

> In any event, the relief is to file multiple complaints against the index increase and the cumulative increases as BP West Coast itself suggests. This may be repetitive, but it is intrinsic to the indexing procedure and enables the challenges that BP West Coast claims it cannot make.

BP West Coast Products LLC v. SFPP, L.P., 123 FERC ¶ 61,121, at ¶ 6 (2008).

A general complaint against all of SFPP's rates is now required by the Commission to be filed each year, along with a protest and a separate complaint against the current year index increase, and a complaint seeking data to provide additional support for the allegation of "reasonable grounds to believe," if necessary. A general complaint encompasses all index rate increases prior to the date of the complaint as well as the currently effective rates, plus a two-year retroactive period for reparations. Thus, pursuant to Commission direction, this general Complaint challenges all of the currently effective rates of SFPP, including the rates in the two most recently filed tariffs affecting the West and East lines. This Complaint thus encompasses all of SFPP's rates in effect on the date of this Complaint, August 8, 2008, including those in

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SFPP's June 30, 2008 East Line and West Line tariff filings in Docket No. IS08-389-000 tendering FERC Tariff No. 173 (canceling FERC Tariff No. 162) (East Line), and Docket No. IS08-390-000 tendering FERC Tariff No. 171 (canceling FERC Tariff No. 167) and FERC Tariff No. 172 (canceling FERC No. 166) (West Line), as well as SFPP's currently effective rates for service on its North, Oregon, Sepulveda and Watson lines as reflected on its FERC Tariff Nos. 168, 169, 165, 166 and 167, respectively .

Indicated Shippers are most willing, indeed anxious to:

(1) Settle the aspects of this Complaint dealing with the East Line if the parties, now engaged in settlement discussions in Docket No. IS08-28-000 regarding SFPP's East Line Phase II expansion, reach agreement. No additional consideration for settlement of this Complaint will be sought. In the alternative, if the settlement talks fail, consolidate the East Line aspects of this Complaint with the ongoing East Line cases in Docket Nos. IS08-28-000, OR03-5-000, *et al*., and IS08-389-000. In order to achieve this, the East Line aspects of this Complaint should be severed and consolidated now.

(2) Sever the West Line aspects of this Complaint and consolidate with the new West Line rate increase case in Docket No. IS08-390-000. The new West Line rates went into effect on August 1, 2008, just before the date of this Complaint, so all aspects of the two should be the same, except for one major difference in potential relief. The Complaint will go back two years in time for reparations, thus covering the 2008 index rate increase of July 1, 2008. In contrast, SFPP will claim that relief is limited to August 1, 2008, the date its rate increase became effective, but that rate increase was filed on top of the July 1, 2008 index rate increase. SFPP would thus leave the 2008 index rate increase intact. One hearing should be enough.

(3) Hold the aspects of this Complaint dealing with the North Line and Oregon Line cases in abeyance pending resolution of Docket No. OR03-5-001 involving complaints against SFPP's North Line and Oregon Line. The West Line portions of the Complaint cannot be held in abeyance pending resolution of Docket Nos. OR03-5-000, *et al*., because the West Line complaints are now for a "locked in" period, prior to the 2008 index rate increase and superseded by a rate filing by SFPP. Thus, the West Line portions of the Complaint must be addressed now, and better for all if one hearing covered both the 2008 rate case and the 2008 complaint case, effective virtually contemporaneously.

Thus, there would be no additional hearings required with respect to the East and West Lines, conserving the resources of all, and the outcome of the North and Oregon line complaints, which are not locked in, if not indexed forward, may well obviate the need to try this Complaint at all with respect to these two lines.

Towards this objective, counsel for Indicated Shippers will be contacting counsel for SFPP and the other parties to the referenced cases in an effort to secure a motion with unanimous consent. The report of this effort will be duly presented to the Commission, although unanimous consent is not required for the Commission to act.

Kindly acknowledge receipt of this filing. Thank you for your assistance in this matter.

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Sincerely,

/s/ *R. Gordon Gooch*

R. Gordon Gooch

Attachments
cc: Charles Caldwell, Counsel for SFPP
Thomas Bannigan
Peter Dito

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

BP West Coast Products LLC and ExxonMobil Oil Corporation,	)	
Complainants,	)	
v.	)	Docket No. OR08-_____
SFPP, L.P.,	)	
Respondent.	)	

SIXTH ORIGINAL COMPLAINT OF BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION AGAINST SFPP, L.P.

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August 8, 2008

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

BP West Coast Products LLC and ExxonMobil Oil Corporation,	)	
Complainants,	)	
v.	)	Docket No. OR08-_____
SFPP, L.P.,	)	
Respondent.	)	

SIXTH ORIGINAL COMPLAINT OF
BP WEST COAST PRODUCTS LLC AND
EXXONMOBIL OIL CORPORATION
AGAINST SFPP, L.P.

Pursuant to Rule 206 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission" or "FERC"), 18 C.F.R. § 385.206, Section 343.2 of the Procedural Rules Applicable to Oil Pipeline Proceedings, 18 C.F.R. § 385.343.2, Sections 1(5), 8, 9, 13, 15, and 16 of the Interstate Commerce Act, 49 U.S.C. App. §§ 1(5), 8, 9, 13, 15, and 16 (1988) ("ICA"), and Section 1803 of the Energy Policy Act of 1992 ("EPAct"), BP West Coast Products LLC and ExxonMobil Oil Corporation (together, "Indicated Shippers" or "Complainants") hereby file this Sixth Original Complaint against SFPP, L.P. ("SFPP").

This Complaint encompasses all of SFPP's rates in effect on the date of this complaint, August 8, 2008, including those in SFPP's June 30, 2008 East Line and West Line tariff filings in Docket Nos. IS08-389-000 and IS08-390-000 respectively ("June 30 Filings"), tendering FERC Tariff No. 171 (canceling FERC Tariff No. 167) and FERC Tariff No. 172 (canceling FERC Tariff No. 166) in Docket No. IS08-390 (West Line), and FERC Tariff No. 173 (canceling

FERC Tariff No. 162) in Docket No. IS08-389 (East Line), as well as SFPP's currently effective rates for service on its North, Oregon, Sepulveda, and Watson Lines as reflected on its FERC Tariff Nos. 168, 169, 165, 166 and 167, respectively.

A general complaint against all of SFPP's rates is now required by the Commission to be filed each year, along with a protest and a separate complaint against the current year index increase, and a complaint seeking data to provide additional support for the allegation of "reasonable grounds to believe," if necessary. A general complaint encompasses all index rate increases prior to the date of the complaint as well as the currently effective rates, plus a two-year retroactive period for reparations. Thus, pursuant to Commission direction, this general complaint challenges all of the currently effective rates of SFPP, including the rates in the three most recently filed tariffs affecting the West and East lines, FERC Tariff Nos. 171, 172 and 173, as well as its North, Oregon and Sepulveda Lines, FERC Tariff Nos. 168, 169, and 165.)

Indicated Shippers are most willing, indeed anxious to:

(1) Settle the aspects of this Complaint dealing with the East Line if the parties, now engaged in settlement discussions in Docket No. IS08-28-000 regarding SFPP's East Line Phase II expansion, reach agreement. No additional consideration for settlement of this Complaint will be sought. In the alternative, if the settlement talks fail, consolidate the East Line aspects of this Complaint with the ongoing East Line cases in Docket Nos. IS08-28-000, OR03-5-000, *et al*., and IS08-389-000. In order to achieve this, the East Line aspects of this Complaint should be severed and consolidated now.

(2) Sever the West Line aspects of this Complaint and consolidate with the new West Line rate increase case in Docket No. IS08-390-000. The new West Line rates went into effect on August 1, 2008, just before the date of this Complaint, so all aspects of the two should be the

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same, except for one major difference in potential relief. The Complaint will go back two years in time for reparations, thus covering the 2008 index rate increase of July 1, 2008. In contrast, SFPP will claim that relief is limited to August 1, 2008, the date its rate increase became effective, but that rate increase was filed on top of the July 1, 2008 index rate increase. SFPP would thus leave the 2008 index rate increase intact. One hearing should be enough.

(3) Hold the aspects of this Complaint dealing with the North Line and Oregon Line cases in abeyance pending resolution of Docket No. OR03-5-001 involving complaints against SFPP's North Line and Oregon Line. The West Line portions of the Complaint cannot be held in abeyance pending resolution of Docket Nos. OR03-5-000, *et al*., because the West Line complaints are now for a "locked in" period, prior to the 2008 index rate increase and superseded by a rate filing by SFPP. Thus, the West Line portions of the Complaint must be addressed now, and better for all if one hearing covered both the 2008 rate case and the 2008 complaint case, effective virtually contemporaneously, but with different relief possible.

Thus, there would be no additional hearings required with respect to the East and West Lines, conserving the resources of all, and the outcome of the North and Oregon line complaints, which are not locked in, if not indexed forward, may well obviate the need to try this Complaint at all with respect to these two lines.

In support hereof, Complainants state as follows:

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I.

COMMUNICATIONS AND CORRESPONDENCE

Communications and correspondence regarding this Complaint should be directed to the following persons:

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II.

PARTIES

Complainants are shippers of refined petroleum products on SFPP's common carrier pipeline system.

SFPP is an oil pipeline engaged in the transportation of oil in interstate commerce regulated as a "common carrier" by the Commission under the Interstate Commerce Act ("ICA").

III.

BACKGROUND AND SUMMARY OF COMPLAINT

The Commission's regulations allow oil pipelines to file for an annual rate increase up to (or down to) a percentage promulgated by the Commission each year. 18 C.F.R. § 342.3. All

that is required is an allegation by the pipeline, reflected in the Page 700 of the pipeline's Annual FERC Form 6 Report, that there have been "actual" cost of service increases between the current year and the prior year, after any revisions to the prior year's claimed cost of service.

Pursuant to the Commission's regulations, 18 C.F.R. § 343.2(c)(1), shippers may challenge the index rate increase on one or both of two grounds. The first, not applicable here and thus not discussed, is that the pipeline's rate increase exceeds the allowed percentage. The second, here material, is that the rate increase is so substantially in excess of the actual cost increase that the resulting rate would not be just and reasonable. Under Section 343.2(c)(1) of the regulations, as affirmed by the U.S. Court of Appeals for the D.C. Circuit, *Association of Oil Pipe Lines v. FERC*, 83 F.3d 1424 (D.C. Cir. 1996), the only burden on shippers is to allege reasonable grounds to assert that the rate increase within the ceiling of the annual percentage is substantially in excess of the actual cost increase, *i.e.*, that the rate is unjust and unreasonable 18 C.F.R. § 343.2(c)(1). If the shippers make the requisite pleading, then the burden falls upon the pipeline to prove that the rate then in effect, with the index increase embedded in it, is "just and reasonable," just like in any other ICA Section 15 rate case.

The Commission recently held that a shipper who seeks to challenge all facets of an index rate increase must file multiple individual complaints, in addition to the protest. As the Commission put it:

> In any event, the relief is to file multiple complaints against the index increase and the cumulative increases as BP West Coast itself suggests. This may be repetitive, but it is intrinsic to the indexing procedure and enables the challenges that BP West Coast claims it cannot make.

BP West Coast Products LLC v. SFPP, L.P., 123 FERC ¶ 61,121, at ¶ 6 (2008) ("May 5 Order").

The alternative would be to accept a permanent rate increase that would apply both prospectively, raising current rates, and retroactively, raising past rates above the "just and reasonable" level, the latter if shippers were successful in complaint cases.

The four separate pleadings in four separate dockets to be filed each year are:

1. A protest against the index rate increase

Commission decisions, as we comprehend them, indicate that the protest is factually limited to a comparison of the difference in the total cost of service claimed on Page 700 of the Form 6 (annual cost of service) for the current year less the claimed cost of service for the preceding year, which may be adjusted retroactively, and that the Form 6 must be taken "as is."

As stated by the Commission on rehearing:

> [T]he place to begin is 18 C.F.R. §343.2(c)(1) which provides in part:
>
> A protest or complaint filed against a rate proposed or established under § 342.3 [indexing] of the chapter must allege reasonable grounds for asserting that … the rate increase is so substantially in excess of the actual cost increases incurred by the carrier that the rate is unjust and unreasonable...[1]
>
> The Commission construes this language as comparing the results of the rate increase to cost increases that are actually incurred by the carrier. This is because application of the index results in a rate increase that increases revenues either on a percentage basis or a dollar basis. As the December 14 Order explained, the Commission only applies a percentage test when reviewing a protest and normally applies that test for complaints. The Commission uses a dollar comparison only under the limited circumstances as discussed in the November 9 Orders, and the December 14 Order as well.
>
> [1] 18 C.F.R. §343.2(c)(2).

May 5 Order, 123 FERC ¶ 61,121, at ¶ 6.[1]

[1] To illustrate this point, in Docket No. IS05-327-000 involving SFPP's 2005 index rate increase, the Commission granted SFPP an index rate increase of approximately $4,500,000 to cover a claimed cost increase of less than $500,000, at a time when SFPP was reporting excess profits of $16,980,012 in 2004. *SFPP, L.P.*, 111 FERC ¶ 61,510, *order on reh'g*, 113 FERC ¶ 61,253, at ¶¶ 10, 17 (2005).

If the protest is accepted by the Commission, then the case is referred first to a settlement Judge and consecutively set for hearing, in which the pipeline must prove that the rate currently being collected, with the index increase embedded in it, is "just and reasonable." If the pipeline fails, then the index increase is rolled back with refunds and interest to all shippers.

However, the Commission has discretion to decline to investigate the rate, even if shippers meet their burden of alleging "reasonable grounds to believe" that the resulting rate is not just and reasonable. *ExxonMobil Oil Corporation v. FERC,* Case Nos. 05-1471 and 05-1472, Unpublished Slip Op., 2007 WL 754800 (D.C. Cir. Feb. 27, 2007).

Indicated Shippers filed the protest required under item 1 above on June 16, 2008 in Docket No. IS08-302, SFPP's 2008 index rate increase filing. The Commission issued its order accepting SFPP's 2008 index rates on June 30, 2008, making no mention of Indicated Shippers' protest nor addressing the arguments presented for consideration. Indicated Shippers requested rehearing on July 30, 2008, respectfully suggesting that the Indicated Shippers had the right under the due process clause and the clause protecting the right to petition the government for redress of grievances under the Constitution, and the right under the statute and regulations, to be heard on the protest.

2. A specific complaint against the index rate increase.

Commission decisions, as we comprehend them, indicate that a complaint against an index rate increase also only has the burden of alleging "reasonable grounds." The fact issues that can be raised are also limited:

The orders referred to in the cited text are *BP West Coast Products, LLC v. SFPP, L.P.*, 121 FERC ¶ 61,141 (2007) and *Tesoro Refining and Marketing Company v. Calnev Pipe Line, L.L.C.*, 121 FERC ¶ 61,142 (2007) ("November 9 Orders") and *BP West Coast Products LLC v. SFPP, L.P.,121* FERC ¶ 61,243 (2007) ("December 14 Order").

> The first [type of complaint against index rate increase] is whether there are reasonable grounds to conclude that an index-based increase taken in a single year results in rates that are unjust and unreasonable. This is a narrow test that is based on a comparison of Page 700 of the relevant years, with very narrow exceptions. One of these exceptions includes a review of the percentage or dollar increase in the return under restrictive circumstances. The only technical issue here is whether the pipeline properly performed the requisite calculations using its existing cost-of-service methodology and its accounts. This is consistent with the simplified cost recovery purpose of the Commission's indexing methodology and regulations.

December 14 Order at ¶ 8 (footnote omitted).

The referenced "narrow exception" is:

> The complaint asserts that SFPP's 2006 FERC Form No. 6 demonstrates that SFPP is already over-recovering its cost-of-service and under a Commission order dated June 6, 2007, this provides reasonable grounds to conclude that the resulting rates are unjust and unreasonable.[2] In reply, SFPP asserts that the June 6 Order is inconsistent with the Commission's regulations, but the Commission need not reach that point. On November 9, 2007, the Commission issued related orders[3] limiting the scope of the June 6 Order to cases where: (1) the pipeline is substantially over-recovering its costs, and (2) the index-based increase would substantially exacerbate that increase due to the difference between the dollar amount of the pipeline's actual cost increases and the additional revenue that would be generated by the indexed-based increases. SFPP states that its cost-of-service increased by 15.3 percent and the index only allowed a 4.3186 percent increase in revenue. SFPP's claims are accurate and therefore the complaint fails the modified test announced in the cited October [sic] 2007 SFPP and Calnev Orders.
>
> [2] *SFPP, L.P.*, [sic] 119 FERC ¶ 61,241 (2007) (June 6 Order).
>
> [3] *BP West Coast Products, LLC v. SFPP, L.P.*, 121 FERC ¶ 61,141 (2007) and *Tesoro Refining and Marketing Company v. Calnev Pipe Line, L.L.C.*, 121 FERC ¶ 61,142 (2007).

December 14 Order at ¶ 4.

On rehearing the Commission added:

> Finally, BP West Coast asserts that the Commission erred in failing to apply the standard that permits a complaint to lie if (1) the pipeline is substantially over-recovering its costs and (2) the index-based increase would further exacerbate that over-recovery.

> It asserts that SFPP was over-recovering its 2006 cost-of-service by $15,585,398 at the end of 2006 and that the increased revenues from the July 1, 2007 index-based increase as applied to SFPP's December 31, 2006 revenues would increase this over-recovery by $6,010,323. It concludes that this meets the standard. As already explained, this argument is incorrect. The index methodology works by comparing, in this case, 2005 year end costs (and over-recoveries) to 2006 year end costs (and over-recoveries). Thus, as the second example in BP West Coast's affidavits shows, the over-recovery it posits as of December 31, 2005 was some $29,499,586. This over-recovery was reduced by the cost increases of $16,403,222 and increased by any revenue growth, in this case $2,489,034, for an over-recovery at the end of 2006 of $15,585,398. The projected increase in the over-recovery during the effective period of the next increase is $6,010,323.[2] The resulting projected over-recovery for the full year 2007 is $21,595,721, which is less than the $29,449,586 for the calendar year 2005. Thus, the Commission correctly dismissed the instant complaint.

May 5 Order, 123 FERC ¶ 61,121, at ¶ 11.

While the Commission has discretion to decline to investigate rates as requested in a protest, no such discretion exists when a complaint is filed. A complaint must be considered on its merits. So, as in the case of accepted protests, the complaint case is referred first to a settlement Judge and consecutively set for hearing, in which the pipeline must prove that the rate currently being collected, with the index increase embedded in it, is "just and reasonable." If the pipeline fails, then the index increase is rolled back, with refunds and interest.

3. A specific complaint seeking a Staff audit in order to look behind the summary numbers that the pipeline files in Page 700.

> The second type of proceeding is a complaint that provides reasonable grounds to conclude that the pipeline did not properly apply its existing cost-of-service methodology to develop the underlying cost inputs used to develop the Page 700 in its annual FERC Form No. 6, or the inputs were improperly entered into its accounts or the calculation. These are mechanical costing and

[2] Technically the revenue increase would be for only 6 months in a calendar year. However, since the relevant figures are not necessarily available, the projected revenue increase is assumed effective January 1 to compare the any "over-recovery" existing on the year end Page 700 for the calendar years 2005 and 2006.

> accounting matters that are normally handled as part of the Commission's ongoing audit procedures unless a complainant shows credible grounds to believe that a significant problem is involved. The Commission notes that pipelines submit their FERC Form No. 6 under oath and exposes the pipeline and its employees to civil and criminal sanctions if there are purposeful errors in either regard.[10]
>
> [10] SFPP corrected and refiled its FERC Form No. 6 where necessary to assure an accurate presentation of the accounts. *Cf. SFPP, L.P.*, 102 FERC ¶ 61,334 (2003).

December 14 Order at ¶ 9.

On rehearing the Commission stated:

> The remaining assertions are equally off the mark. BP West Coast asserts that the Commission accepts the index calculations provided by the pipeline without an opportunity for challenge by shippers. However the December 14 Order expressly stated that parties with standing could file complaints asserting that the calculations were preformed incorrectly using the pipeline's existing cost of service factors and, by extension, its accounting procedures. The December 14 Order also stated that the Commission would normally conduct an audit if it has any concern that the mechanical annual determination of the pipeline costs, including annual adjustments to such factors as the cost of capital. BP West Coast asserts that all the underlying work papers are in the control of the pipeline. This is true, but many of the important source numbers are reflected in the detailed numbers in the pipeline's FERC Form No. 6. The second point in this regard is that any complaint must clearly state its purposes and reasons.

May 5 Order at ¶ 9.

Indicated Shippers respectfully suggest that it is impossible for shippers to know whether SFPP's "calculations were performed incorrectly using the pipeline's existing cost of service and, by extension, its accounting procedures" without access to the underlying workpapers that are in control of the pipeline and available only to the Commission. The Commission acknowledges that shippers are not allowed to see the underlying workpapers. Thus, shippers do not have access to the on-the-shelf documents that could demonstrate additional "reasonable grounds to believe" that the resulting rates are not just and reasonable.

However, the Commission went on to say that "many of the important source numbers are reflected in the detailed numbers in the pipeline's FERC Form No. 6," May 5 Order at ¶ 9, *supra*. Until this holding was made, Indicated Shippers were of the view that challenges were limited to data shown on page 700, and, underlying that, the workpapers of the Page 700, if shippers could get access. There is, of course, a substantial difference between the financial accounting under the Uniform System of Accounts and the FERC accounting for ratemaking purposes, the differences being a main reason why the Commission required page 700, the "Annual Cost of Service Based Analysis Schedule."

In the case of SFPP's 2008 index rate increase, it turns out that the necessary data to confirm the "reasonable grounds to believe" alleged by Indicated Shippers, confirming what is shown on the face of page 700, is found in the Form 6, as will be further elucidated in the complaint against the index rate increase.

Therefore, it does not appear necessary for Indicated Shippers to file an "Audit" complaint this year. If Indicated Shippers are mistaken in this view, then an Audit Complaint may be filed.

4. A general complaint against all current rates which would include all of the increments of indexed rates up until the time of the complaint.

As stated by the Commission:

> The third proceeding is a complaint against the level of the base rate, which in this context can mean two different things, which are not mutually exclusive. One is that the cumulative increases from the index-based increases over the years now exceed the cumulative increases in the pipeline's actual costs to the point that the resulting rates are unjust and unreasonable. The second is that the cost components embedded in the pipeline's cost-of-service are improperly defined or no longer accurately measure the pipeline's costs. These can include the specifics of income tax allowances, return, rate base, operating and maintenance expenses, capital structure, and overhead costs, which are the type of factors listed in

> the complaint. A complainant must pursue these issues in a complaint against the base rates and not one that attempts to conflate this more complicated proceeding with the more simplified procedures and limited relief involved in the two previous examples.

December 14 Order at ¶ 10 (footnote omitted).

Once the Commission has determined the just and reasonable rates that can be legally and lawfully charged, SFPP will try to induce the Commission to raise the "just and reasonable" rates up again automatically by "indexing forward," but Indicated Shippers will object. This is a complaint case, and Indicated Shippers assert that there is no statutory basis for a pipeline to obtain a rate increase above the just and reasonable level in a complaint case. Any rate increase would have to be applied for separately, subject to challenge by shippers.

The Commission has addressed this subject:

> BP West Coast also asserts that the Commission permits pipelines to make permanent index-based increases without any possibility of review. While not an issue in this case, the essence of this charge is that if a rate is set in response to a complaint, it is then indexed forward and some of these index-increases may be beyond review by the time a final rate is in effect. The short answer is that BP West Coast has no standing to raise the issue here because it has not complained against the base rate and as such has suffered no injury relevant to its complaint.

May 5 Order at ¶ 10.

This issue is raised in the general complaint.

The Commission should thereupon proceed to set this matter for hearing and determine whether all the rates then currently being collected, including the "base rate," any pending rate increase cases, and all index rate increases, are "just and reasonable." If not, then the rates will be rolled back to just and reasonable levels, with reparations going back two years from the date of the complaint for all complainants. (Any indexing forward of the "just and reasonable" rate will be contested.)

The instant Complaint constitutes the document required by item number 4 above. The Commission already has decided that all index rate increases up to the date of complaint are covered in a general complaint against the currently effective rate, December 14 Order at ¶ 10.

Accordingly, this Complaint challenges all of SFPP's rates in effect on the date of this Complaint, August 8, 2008, stating that, for the reasons given below, the rates currently in effect for SFPP are not "just and reasonable."

IV.

ISSUES RAISED BY COMPLAINT

Indicated Shippers challenge each of the following components of SFPP's rates and will make specific dollar issues after being afforded discovery, other than as stated below.

A. Income Tax Allowance for claimed current income tax liability. This item should be zero even under the Policy Statement on Income Taxes Allowances, 111 FERC ¶ 61,139 (2005).

B. Income Tax Allowance for claimed future income tax liability, a subset issue being "Accumulated Deferred Income Tax (ADIT) accounts." Because SFPP and KMEP "flow through" all tax deductions and credits to the partners each year, there is no legitimate basis to force shippers to pay even more income taxes for "future" tax liability when the flow through of the tax deductions and credits already perform this function; collection of an income tax allowance for "future" income taxes is a double dip and pure hidden return on equity. All amounts collected from shippers, which are supposed to be reflected in the ADIT account, must be refunded to shippers in credits against rates.

C. Calculation of taxable income of SFPP. This item should be zero, thus mooting item A. Whatever "tax rate" may be determined under item A, it will be multiplied by the

"taxable income," and, after elimination of the additional "deferred" income tax allowance and the amortization of the ADIT account under item B, this amount will be zero.

D. Return, including but not limited to rate of return on equity, rate of return on debt, capital structure, rate base and additions and credits to rate base, including Starting Rate Base, Accumulated Deferred Income Taxes, Amortization of Deferred Earnings. *Inter alia*, any claim for using return *of* capital as a substitute for return *on* capital for purposes of determining return *on* capital must be rejected, leading to a substantial decrease in return; the capital structure needs to be adjusted to take out "good will" and purchase accounting adjustments ("PAA") and to correct the cost of debt so that shippers do not subsidize the leveraged buyout of Kinder Morgan.

E. Increases in rates due to "forward indexing" above rates filed for or adjudicated as being just and reasonable without full cost of service support and the right of shippers to be heard on the record before any such rate increases are granted. No increase in rates after just and reasonable rates have been set in a complaint case would be lawful. Any increase in a pipeline's rates would require a separate, full ICA Section 15 tariff filing.

F. Operation, maintenance, and administrative costs, including the allocation thereof from other Kinder Morgan entities as well as between the interstate (including all separate systems), intrastate, and terminal operations of SFPP.

G. Volumes. SFPP is understating projected volumes on the West Line, trying to get a rate increase before the substantial increase in volumes going to Las Vegas can take effect.

H. Cost Allocation and Rate Design; Massachusetts formula and Kansas-Nebraska formula. "Black box" costs allocated to SFPP from affiliates should be excluded from SFPP's cost of service.

I. SFPP's rates should be set at just and reasonable levels as of the date of this complaint, August 8, 2008, whether equal to or less than the superseded rates, and extended back two years, with full reparations, and interest, awarded, but without forward indexing.

J. SFPP must prove that there is, in fact, a "substantial divergence" between two sets of just and reasonable rates, one past, one present, just as shippers in some cases are required to show "substantially changed circumstances" under the Energy Policy Act of 1992.

Indicated Shippers raised the same basic issues in their protest to the West Line rate increase in Docket No. IS08-390-000. This complaint applies to all rates being collected as of the date of the complaint.

V.

COMPLAINT

(**Preface**: One of the requirements for filing a complaint is:

"8. 18 C.F.R. § 385.206(b)(8), "include all documents that support the facts in the complaint in possession of, or otherwise attainable by, the complainant, including, but not limited to, contracts and affidavits."

In compliance with this requirement, Indicated Shippers have included recent testimony, exhibits, and transcripts of cross examination in the hearing before Presiding Administrative Law Judge Silverstein in Docket No. OR03-5-001. All were admitted into public evidence and are contained in the public record of the Commission.

This testimony, exhibits, and cross-examinations include that of Christopher P. Sintetos, an expert Tax Certified Public Accountant, and Kellye Jennings, an expert Audit Certified Public Accountant, which SFPP did not contest with any expert witnesses, either CPA or legal.

Also included is the expert testimony of Elizabeth H. Crowe, a regulatory expert.

Finally, and perhaps most important, are the transcripts from the recently concluded hearing in Docket No. OR03-5-001, of the cross examination of Kinder Morgan's witness Bullock, who, among other things, is the Chief Tax Officer of Kinder Morgan and is, himself, a CPA, and Kinder Morgan witness Ganz, the cost of service and income tax witness, attached herein as Attachments CCC and GGG, respectively.

The purpose of this preface is to bring to the attention of the Commission that this virtually uncontested and, in the case of Mr. Bullock and Mr. Ganz, uncontestable evidence, provide the full and complete support for outside counsel's drafting of items A, B, and C below, for which outside counsel is solely responsible. The remaining sections will require discovery, since the numbers are all in the hands of the pipeline, except G, which presents legal issues).

* * *

Indicated Shippers challenge the justness and reasonableness of all rates in effect on the date of this Complaint, August 8, 2008, on SFPP's West Line, Sepulveda Line, North Line, Oregon Line, and East Line, and, conditionally, the rates for SFPP's Watson vapor recovery facilities.[3]

A. SFPP Is Not Entitled to an Income Tax Allowance for Claimed Current Income Tax Liability Under the Policy Statement on Income Tax Allowances.

SFPP is not entitled to an income tax allowance for any current income tax liability under the Policy Statement. The Commission's Policy Statement on Income Tax Allowances requires that "any pass-through entity desiring an income tax allowance on utility operating income must be prepared to establish the tax status of its owners, or if there is more than one level of pass-

[3] As long as SFPP lives up to its settlement agreement with respect to the Watson vapor recovery rate in Docket Nos. OR92-8-026, *et al.*, *see* Letter Order Approving Settlement, *SFPP, L.P.*, 116 FERC ¶ 61,116 (2006), Complainants will not challenge the Watson vapor recovery rate.

through entities, where the ultimate tax liability lies and the character of the tax incurred." Policy Statement on Income Tax Allowances, 111 FERC ¶ 61,139, at ¶ 42 (2005). The U.S. Court of Appeals affirmed the placement of the burden on the pipeline. *ExxonMobil Oil Corporation v. FERC*, 487 F.3d 945, 954 (2007) (*citing SFPP, L.P., et al.*, Order on Remand and Rehearing, 111 FERC ¶ 61,334 at 62,456 (2005)). Thus, the burden is on SFPP to show actual or potential income taxes of the partners in its master limited partnership owner, Kinder Morgan Energy Partners, L.P., which includes the income tax rates to be applied.

However, as Indicated Shippers have demonstrated in prior cases, KMEP flows through massive losses to the limited partners each year,[4] and there is no current nor future income tax liability on negative income flowed through to partners. Indeed, those losses in income can be carried forward to mitigate future positive income allocated to the limited partners from that same partnership and, upon sale, to reduce capital gains taxes or even to offset ordinary income from wholly unrelated sources.

Instead, the general partner in KMEP is allocated income as an "incentive" to manage the MLP (that is, a "management fee").[5] The general partner is paid on a guaranteed basis: whatever amount is the general partner's share of cash distributions (up to 50%), the general partner receives an equal amount of taxable income. The calculation has nothing to do at all with the amount of taxable income received by the partnership or any "share" of that income by the General Partner. Rather, it results from what is called an incentive distribution to manage the master limited partnership, clearly a management fee. The general partner is entitled to taxable income whether the partnership has any income or not. In fact, the general partner takes almost

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[4] *See* Attachment W (Exh. No. BPX-23, Docket No. OR03-5-001: data response from Kinder Morgan witness Bullock showing losses flowed through to limited partners for the years 2003 – 2006).

[5] *See* Attachment CCC (Transcript Excerpt, Docket No. OR03-5-001) at pg. 932, lines 1 – 15.

all, all, or more than all the income of the entire partnership, while the limited partners, as a class, who own 99% of the units, are allocated hundreds of millions of dollars in *losses* in income each year.

The limited partners have more losses in income than is necessary to offset the "income" that the general partner takes as an "incentive" to manage the MLP (that is, a "management fee"). That is because of the additional depreciation to which the limited partners are entitled on their investment, called 743(b) depreciation, arranged for and maintained by KMEP. This depreciation is result of the "write up to market" of the investment in KMEP units bought on the NYSE and allowed by the IRS. Depreciation begins anew at the write up, thus sheltering even more income, if any, from KMEP from taxation, or, if negative income is provided by KMEP, the depreciation rolls forward as a further offset to future taxes. This special depreciation, established by KMEP and maintained by KMEP, must be factored into any determination of whether there is any taxable income.

All of the above may be succinctly and conclusively established by reviewing the cross examination of Kinder Morgan's chief tax officer in the official transcript of the hearing before Judge Silverstein on May 7, 2008, in Docket No. OR03-5-001, attached herein as Attachment CCC.

Independently, Indicated Shippers understand that the Commission views the opinion of the U.S. Court of Appeals in *BP West Coast Products LLC v. FERC*, 374 F.3d 1263 (D.C. Cir. 2004), as having been overruled by *ExxonMobil Oil Corporation v. FERC*, 487 F.3d 945 (D.C. Cir. May 29, 2007) and does not permit shippers to raise the issue of whether SFPP is not entitled to an income tax allowance as a matter of law. In deference thereto, Indicated Shippers forbear raising that issue, but without waiver.

Next, a policy statement is not "law," as the Commission so recently recognized in its order on rehearing in Docket No. PL07-2. Order Dismissing Request For Rehearing Or Reconsideration, *Composition of Proxy Groups for Determining Gas and Oil Pipeline Return on Equity*, 123 FERC ¶ 61,259, at ¶ 5 (2008). The fact that a Court of Appeals allowed the Policy Statement on Income Tax Allowances to be tested at the Commission, if the Court's standards were met, does not change the fact that the Policy Statement itself can be challenged whenever implemented, as well as whether the implementation of the Policy Statement yields just and reasonable results. Indicated Shippers raise both issues here.

In sum, this section of the complaint raises the following issues:

1. What income tax allowance, if any, can SFPP legitimately claim under the terms and conditions of the Policy Statement on Income Tax Allowances (as approved by the Court), an issue that the Commission itself held in the Policy Statement is a factual issue peculiar to each case. Policy Statement on Income Tax Allowances at ¶ 32 ("any pass-through entity seeking an income tax allowance in a specific rate proceeding must establish that its partners or members have an actual or potential income tax obligation on the entity's public utility income").

2. Whether the Policy Statement on Income Tax Allowances, as implemented, yields just and reasonable results, being a product of reasoned decision-making based on substantial evidence in the record.

B. SFPP Is Not Entitled to an Income Tax Allowance for Any Deferred Income Tax Liability.

1. Terminate the income tax allowance now charged to shippers each year under the guise of current pre-payment of "deferred income taxes," to be paid in the future.

SFPP has collected, and continues to collect, millions of dollars from shippers to cover claimed "deferred income tax liability." Neither SFPP nor any of its partners, up to and

including the partners in KMEP have any "deferred income tax liability" covered by SFPP since all tax deductions and credits are flowed through each year. Nothing is held back to pay "future" taxes; if the partners do not need these deductions to offset any income received from KMEP, the partners themselves can use the flow through of tax deductions and credits into the future to offset future income taxes. Again, this point is conclusively established by the cross-examination of the Kinder Morgan chief tax officer, Attachment CCC. The collection of an additional amount from shippers to pay a "deferred" tax is a double dip and pure extra return on equity in the case of SFPP and KMEP.

To illustrate this point: say an accelerated tax deduction will save $1 in income taxes in the current year. Shippers are charged that $1. The partners get (a) a deduction that will save $1 and, to boot, (b) $1 from the shippers. That makes $2. While the $1 from the shippers can be spent, the deduction that will save the same $1 can be used currently, if there is any income, or saved for use in the future to offset future income taxes, if any. This goes on year after year, until millions of dollars are collected from shippers.

These dollars putatively collected as an advance on the payment of future taxes are not retained in cash but are flowed through, like any other cash. SFPP makes no pretense of retaining the cash collected from shippers, not for a current, but for a claimed future expense, in the Accumulated Deferred Income Tax ("ADIT") account. That is correctly reported in its 2007 Form 6, page 230 as being zero, since the cash is long gone and there is no "reserve" to pay future taxes of the partners. In rate and complaint cases, SFPP will create an ADIT account for regulatory purposes, on the theory that it has been collecting money to put aside to pay for future taxes of the partners, while in fact the "future" taxes of the partners have already been covered

by the flow through of all deductions and credits each year and double covered by the charge to shippers, also flowing through.

Taxpaying corporate public utilities can collect in rates a "deferred income tax" component because a corporation is allowed to "defer" income taxes, in the sense that it is allowed to "normalize" income taxes. That means the effect of the full income tax deductions and credits are not recognized in the year received, but are spread out, or "deferred" over a period of time. Partnerships taxed as partnerships, such as SFPP and KMEP, cannot "defer" income taxes, even if they had any to pay. A partnership "flows through" to the partners all income, deductions and credits *each year*, holding nothing back either for nonexistent income taxes on itself or for future income taxes that a partner might be called upon to pay. This is easily proven by looking at the SFPP Annual Reports where the ADIT account says "zero." 2007 FERC Form 6, page 230.

What this means is, of course, that the dollars that the shippers pay each year to cover future income taxes really are additional income, since there is no correlating expense. The partners receive the deductions and credits each year, so any future taxes are already covered. The result is an unconscionable double dip.

Recapping, if, as historically has happened at the KMEP level, the limited partners as a class are allocated hundreds of millions of dollars of losses in income each year, because the general partner takes more than all, all, or almost all of the entire income of KMEP as a management fee, the limited partners as a class are not going to pay income taxes. The additional depreciation, called 743(b), that KMEP arranged for its public unit holders and accounts to them on their K-1 tax statements, shelters even more " actual or potential" taxes. Thus, the credits and deductions that are flowed through each year from KMEP are carried

forward and can be used to offset any income from the partnership in the future, and, if there is no income, can be used to offset capital gains taxes on the sale of the units, or else use the deductions to set off ordinary income taxes from any source. *A redundant collection of cash from ratepayers is a double dip.*

In sum, shippers should not be called upon to pay cash to cover a "deferred tax" due to withholding of credits and deductions when the credits and deductions are not withheld but are sent to the partners every year.

2. The millions of dollars of ratepayers' money that has been collected over the years must be returned to ratepayers in the form of lower rates, by amortization under standard Commission precedent.

In addition, the pipeline must repay to shippers, through amortization lowering the rates, the millions of dollars that have been collected under the false premise of "deferred income taxes" and theoretically placed in an account called "Accumulated Deferred Income Taxes." Under the Commission's settled "*South Georgia*" doctrine,[6] when an ADIT account is "overfunded," that is, it has more cash in it than will be paid out in deferred income taxes, the public utility is obliged to flow the overfunded amount back to shippers and consumers.[7] Partners received the benefit of all deductions and credits each year, and, if there is no income, then these deductions and credits are carried forward to be, in themselves, coverage for future income taxes. A double dip is not justified. SFPP should be required to credit to its cost of service the amounts in the ADIT account on a 5-year amortization schedule. Shippers have

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[6] *South Georgia Natural Gas Co.*, Docket No. RP77-32 (letter order issued May 5, 1978).

[7] *Columbia Gas Transmission Corp. and Columbia Gulf Transmission Co., 40 FERC ¶ 61,030, at ¶ 61,088 (1987). See also Ozark Gas Transmission System, 39 FERC ¶ 61,142, at ¶ 61,513 (1987); Memphis Light, Gas & Water Div. v. FERC, 707 F.2d 565, at 572-73 (D.C. Cir. 1983).*

already "prepaid" taxes by millions of dollars which have already been covered by the flow through of deductions and credits.

Therefore, the practice of charging shippers for "deferred" income taxes has to be terminated prospectively and the millions that have been collected as a double dip, reflected in the ADIT accounts, must be refunded to shippers, in conformity with "*South Georgia.*"

Anticipating SFPP's response: SFPP will claim that shippers who paid those millions of dollars were "compensated" by the deduction of the ADIT account, as adjusted by SFPP, from rate base. This, it will be said, lowers return. In response, allow Indicated Shippers to point out that, once the rate was set, such as here over 20 years ago for the West Line to Phoenix, the ADIT account grows and grows each year, but *the rate of return is not adjusted until there is a subsequent rate or complaint case.* It is pure sophistry to claim that the occasional adjustment in return is compensation for the millions collected annually, but not reflected in any lowering of the return until this century, when the Commission ordered two interim rate reductions affecting the West Line. Then the ADIT account was built up again, to date, by annual charges to shippers for "deferred income taxes." According to the workpapers that were provided by SFPP in its June, 2008, West Line rate increase filing in Docket No. IS08-390, effective one month after its index rate increase filing in Docket No. IS08-302 became effective, over protest, SFPP has more than $25 million dollars of shipper money in an ADIT account. That account is said to have been $4 million in 1983, now grown to more than $25 million dollars, all taken from ratepayers. *See* SFPP, L.P. West Line Interstate Rate Base for the years 1983 through test period, Statement E1, pages 1 and 2, filed June 30, 2008 in Docket No. IS08-390-000 and appended hereto as Attachment HHH. And that is just for the West Line! Only the workpapers underlying the page 700 of the Form 6 might offer some information about the entire amount of ratepayer dollars

collected, but shippers are not allowed access to these. Are these 25 million dollars collected from ratepayers in some cash reserve at SFPP? According to the 2007 Annual Report, Form 6, SFPP had only $8,350 on hand at the beginning of the year. SFPP 2007 Form 6 at Page 110.

Are these hard dollars collected from ratepayers recognized in some account? No, on the Balance Sheet, pages 110 and 111 of SFPP's 2007 FERC Form 6, the amounts collected for "deferred" income taxes are said to be zero. This is confirmed on page 230, where assets/liabilities for future taxes are required to be reported. SFPP correctly reports none; there are no deferred tax liabilities. The over $25,000,000 collected from West Line shippers alone has long since been appropriated by SFPP for the benefit of its partners. It is time for ratepayers to get their money back, with interest.

C. Indicated Shippers Challenge SFPP's Claims with Respect to Return.

This challenge covers all aspects of SFPP's claims with respect to return. This includes but is not limited to rate of return on equity, rate of return on debt, capital structure, rate base and additions and credits to rate base, including Starting Rate Base, Accumulated Deferred Income Taxes, and Amortization of Deferred Earnings.

The basic problem with the determination of the "rate of return on equity" is whether return on capital (income) or return of capital (a recovery of investment -- such as depreciation -- called a "cash distribution" when given to partners) can be used in the "dividend yield formula" when master limited partnerships are included in a Proxy Group.

There does not appear to be any dispute that the proper place to begin to measure "return on equity" is the unit prices of the limited partners in master limited partnerships who buy and sell their units on the New York Stock Exchange. In the settled methodology of the Commission, the first step is to calculate the "dividend yield." For a corporation, it is simply the

income that goes to a stockholder (a dividend) divided by the stock market price, averaged. That is, as it clearly says, a "dividend yield." If the corporation does not send any income to the stockholders, then the dividend yield is, of course, zero. This is a true "return on equity."

Applying that methodology to master limited partnerships, such as KMEP, whose limited partners, the investors buying on Wall Street, are allocated hundreds of millions of dollars in income *losses* each year, *renders the "dividend yield" zero.* The amount of income that is allocated to the limited partners buying on Wall Street is not public information; only access to the income tax returns can yield this information. The tax returns of KMEP now being public information as a result of litigation at the Commission establish this fact for SFPP proxy group purposes. Again, for a succinct and conclusive proof of this, please refer to the cross-examination of the Kinder Morgan chief tax officer, Attachment CCC.

What is public information regarding MLPs commonly claimed for proxy groups is that the amount of "cash distribution" to partners exceeds, often substantially, the "Income" reported in financial statements. But there is no necessary correlation that any or all of the partners actually receive "income" without the proof available in tax returns. There is no claim that the financial accounting for "income" is the same as the tax accounting for "income." Indeed SFPP itself in its annual report to the Commission makes the very point that the two can vary substantially.

As SFPP puts it:

> ***Income Tax***
> For federal and state income tax purposes, SFPP is not a taxable entity. As such, it does not directly pay federal or state income tax. SFPP's taxable income or loss, which may vary substantially from the net income or net loss it reports in its statement of income, is includable in the tax returns for each partner.

SFPP, L.P., FERC Form 6, page 123.1 (2007).

So, absent proof to the contrary, it cannot be presumed that the public limited partners are allocated any income at all, nor can it be guessed what the income might be, if there were any. In fact, in the Policy Statement, *Composition of Proxy Groups for Determining Gas and Oil Pipeline Return on Equity*, 123 FERC ¶ 61,048 (2008), the Commission does presume that the limited partners get *losses*, the exact opposite. Therefore there would be a "zero" return on equity, or even a negative number.

To avoid this result of a zero rate of return on equity, and to secure a higher rate of return on equity, the pipelines have persuaded the Commission tentatively, subject to litigation, that the "return on equity" should be measured by the "return of capital"— the "cash distributions," even though no one claims that cash distributions are ordinary income such as are dividends. "Cash distributions" are not "income" at all. In addition, and independently, no one claims that "income" from a partnership flowed through to partners will always equal the "cash distribution," assuming that any positive income is flowed through to the relevant partners. Rather, it seems generally conceded that the amount of income, if any, allocated is substantially less than the amount of cash distributions in MLPs organized along the model of KMEP. *High Island Offshore System, L.L.C.*, 100 FERC ¶ 61,043 (2005); *Kern River Transmission Company*, Opinion No. 486, 117 FERC ¶ 61,077 (2006).

As previously stated, MLPs do not report publicly what income, positive or negative, that is actually flowed through to the limited partners who buy and sell on Wall Street. "Cash distributions" are reported and sometimes reflected in a column labeled "dividend" by financial services. The label does not change the actual character. Indicated Shippers object to the use of "cash distributions" in calculating the "rate of return on equity."

Indicated Shippers also respectfully challenge any application of the Commission's Policy Statement regarding the determination of return on equity to SFPP. Policy Statement, *Composition of Proxy Groups for Determining Gas and Oil Pipeline Return on Equity*, 123 FERC ¶ 61,048 (2008) ("Policy Statement on Return On Equity"). There is a fundamental factual conflict between the Commission's Policy Statement on Income Tax Allowances and the Commission's Policy Statement on Return On Equity. The Commission's Policy Statement on Income Tax Allowances, as interpreted in an *interim* (not final) order on December 26, 2007, *Order on Rehearing, Remand, Compliance, and Tariff Filings*, 121 FERC ¶ 61,240 (2007), presumes that all limited partners *receive taxable income* from the partnership because they receive a K-1 from the partnership, even if the K-1 shows a loss in taxable income and thus no income tax liability. Therefore, shippers are called upon to subsidize an annual income tax liability whether there is any income tax liability or not, and at marginal rates, even if those rates are never applicable.

Conversely, the Policy Statement on Return on Equity presumes that the limited partners *do not* receive any taxable income from the partnership and thus use return of capital (cash distributions" as if the cash distributions were a "return on equity" (income)). Here there does not appear to be any suggestion that the cash distributions are taxed as income in the year received, which makes further inconsistencies with the Policy Statement on Income Taxes. Instead, the suggestion is that the cash distributions become "income" at some indefinite time in the future. That is because the cash distributions, being a non-taxable return of capital, operate to reduce the tax basis of the investment. Thus, when a sale is made to a third party at a presumed profit that includes all cash distributions received, the capital gains tax will be higher because the early recovery of the investment makes the investment basis lower. So the net result,

it is said, is the conclusion that limited partners *do* receive income from third persons sometime in the future equal to the amount of the cash distributions received. Policy Statement on Return on Equity, 123 FERC ¶ 61,048, at ¶ 15. This, of course, is not income received from either the public utility or the owning partnership; it is "income," in the form of capital gains, from the purchaser to the former unit holder. That cash cannot possibly be attributed to SFPP or KMEP.

SFPP sometimes uses sophistry to try to avoid the obvious conclusion. SFPP points out, correctly, that there is a range of potential capital gains tax rates, one of them being the "ordinary income" tax rate. (This point is demonstrated by the K-1 introduced in evidence in Docket No. OR03-5-001 as Exh. No. BPX-26 and attached hereto as Attachment Z, and the calculation of the capital gains tax effect of the range of applicable rates by SFPP's expert tax lawyer). Here is the sophistic syllogism:

Premise: Ordinary income is taxed at ordinary income rates.

Second premise: Some capital gains are taxed at ordinary income rates.

Conclusion: Therefore, capital gains are ordinary income.

The obvious and fatal flaws to this SFPP sophistry are: (a) the second premise must disclose that only some capital gains are taxed at the ordinary income rate, and (b) the tax rate does not convert the capital gain into ordinary income. To illustrate:

Premise: A duck can be shot with an arrow.

Second premise: A chicken can be shot with an arrow.

Conclusion: Therefore, a chicken is a duck.

The result of the inconsistencies between the two Policy Statements is that the Commission under the Policy Statement on Income Tax Allowances calls upon shippers to pay a current income tax allowance, as if there were taxable income allocated to each and every

partner, enough to trigger the marginal tax rate, however applied. At the same time under the Policy Statement on Return on Equity, the Commission calls for shippers to subsidize any capital gains taxes as well by paying a higher rate of return on equity, even though the cash distributions will not be taxed at all!

There is also a yet-to-be-articulated deduction for the time value of money to be reflected in the return on equity,[8] apparently on the theory that a portion of the "return on equity" is prepayment of capital gains taxes, due sometime in the future, if the unit is sold at a profit; this should be "refunded" to shippers, because the partner can invest the yet to be determined extra cash. Objection to paying capital gains taxes on the sale of investments, subsidizing investors, is hereby raised. Not only is there no basis for shippers to have to pay the capital gains taxes of partners or of shareholders in corporations, but there is another bias against shippers. If "cash distributions" are used as if they are a "return on equity," thus increasing the equity return in dollars substantially, the Commission then calculates now both a current and a prospective income tax allowance that shippers have to pay that is unquestionably too high, if there is one at all.

While the Commission was persuaded to issue a Policy Statement approving the use of cash distributions instead of income, as the Commission recognized, this is only a tentative decision to be tested in litigation. Allow us to point out that, if "cash distributions," which are not ordinary income nor taxable in the year received, are transformed into income some time in the future because cash distributions reduce the tax basis of the investment and therefore may

[8] If the Commission is of the view that cash distributions become taxable income upon the sale of units to a third-party purchaser, it follows that the Commission is anticipating a capital gains tax *that would be subsidized by shippers* because a capital gains tax, at varying rates, is the tax that would apply at the time of sale. There is, however, neither precedent nor justification for calling upon shippers to subsidize the capital gains taxes of either a shareholder in a corporation or a partner in a partnership.

generate a higher capital gains tax some time in the future, then, it follows, that the hundreds of millions of dollars in losses in ordinary income flowed through by KMEP also become positive "income" in the future, upon a sale. Losses in income, like cash distributions, operate to reduce the tax basis of the investment. So the ultimate irony would be to force shippers to make up to the partners for the losses in income flowed through.

The combination of the two inconsistent presumptions (that there both is and is not ordinary income each year) yields a high rate of return on equity that is not measured by a *return on equity*, but rather on a return of capital -- virtually indistinguishable from depreciation -- and, in turn, precipitates a higher claim for an income tax allowance, as if, in fact, income taxes would be due each year based on the return of capital, when, in fact, cash distributions are never taxed as ordinary income from a trade or business. "Cash distributions" are never a factor in income taxes and are only a factor in capital gains taxes where there is an actual or a constructive sale.

This illustrates another fatal flaw in using "cash distributions" as if these were a return on equity. Who would say that a public utility should earn a return or receive an income tax allowance on the dollars paid in by shippers to cover the "depreciation" costs, embedded in the rates? According to the Statement of Cash Flow for SFPP for 2007, in the Form 6 at page 120, the cash generated by depreciation was $55,137,324. That same statement reflects a Cash Distribution of $80,000,000. If rates of return on equity are to be set on the basis of cash distributions, at least the depreciation should be deducted, which would leave $24,862,676 for SFPP. The same should be done for any MLPs in proxy groups. While, without access to the workpapers that underlie the page 700 cost of service, now denied to shippers until after discovery commences, it is not possible to calculate precisely, it should be noted that the

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depreciation charge shown on page 700 is about half of the total return claimed (depreciation: $17,161.048 vs. total return: $36,166,248). Depreciation is also more than the entire income tax allowance claimed of $11,973,316.

On this very subject it is very important to consider the testimony of two of SFPP's witnesses in the recently tried case before Judge Silverstein in Docket No. OR03-5-001. The transcript of the cross examination of SFPP cost of service and tax witness Ganz, which includes quotations from the Presiding Judge's question to witness Williamson, confirms the impropriety of using depreciation dollars, embedded in cash distribution dollars, as income or the basis for an income tax allowance. *See* Attachment GGG.

Not reflected in the Policy Statement on Income Tax Allowances nor in the other Policy Statement is the fact that shippers also presently are required to pay hard dollars each year to cover "deferred" income taxes of partners, even though "deferred taxes" do not exist because the partners get the full benefit of deductions and credits each year, with the ability to carry over losses to future years. This is both a hidden return on equity and a hidden income tax allowance. Over $25,000,000 on the West Line alone has been collected without any pretense that these sums have been "reserved" to pay future taxes, since SFPP correctly reports that there is no provision for funds to pay future taxes of the partners, and further reports that there is no future income tax liability in their annual reports; *see* SFPP FERC Form 6, at page 110, line 13; page 111, line 42; and page 230 (the last being a specific report on deferred income tax liabilities, reporting none).

This situation cannot be allowed to continue. The situation can perhaps be summarized as follows:

1. It is presumed that all partners in KMEP *do have income* from the partnership and thus have actual or potential income taxes to pay each year, at certain disputed marginal tax rates, even when the uncontradicted income tax returns show hundreds of millions of dollars in losses in income each year for the limited partners. The facts, based on solid evidence and law show no income tax liability when there is no income. Further, the cross examination of the KMEP chief tax officer, Attachment CCC, succinctly and conclusively establishes that the general partner gets income each year whether or not the partnership has any income at all, even when the income exceeds the total income of the partnership itself. SFPP calls this an "incentive" for good management; we call it a "management fee," but the label does not matter; what matters is that the General Partner is not getting a "share" of the income divided up among the partners. The General Partner is getting its incentive/management fee off the top before the partnership income, if any, is distributed to partners—including to the general partner for its 1% interest. Shippers cannot be called upon to underwrite income tax liability for persons being compensated for providing services, even to the point of taking more than all of the income of the partnership as a fee.

2. It is presumed that all partners in MLPs, including KMEP, *do not have income* from the partnership and thus receive a zero rate of return on equity. With no "return on capital" to use in setting a reasonable "return on capital," the Commission intends to use return of capital -- cash distributions -- instead. "Cash distributions" are never ordinary income for partners; cash distributions are not taxed as income. The only time cash distributions affect the calculation of a tax is on the actual or constructive sale of a unit or part thereof, and that is only because the partner has already got some or all of his investment dollars back. It has nothing to do with the

operation of a public utility and its return on equity. This, too, is conclusively proven by the cross examination of the Kinder Morgan chief tax officer, Attachment CCC.

3. Using cash distributions, a return *of* capital, as if they were a return *on* capital, has two effects. First, it drives the return on equity substantially higher. Second, it drives the income tax allowance, if any, substantially higher, since the pretense is that the cash distributions are current taxable "income" and thus are subject to current ordinary income taxes. No one claims that cash distributions are taxed as ordinary income each year. And no one claims that a ratepayer should pay an income tax allowance on the depreciation dollars that the ratepayer pays each year, depreciation dollars being a source for cash distributions.

4. Thus, in addition to using cash distributions for purposes of calculating a current income tax allowance substantially higher than if "return on equity" was used, the shippers are supposed to underwrite the eventual capital gains that a unit holder might owe-- if the unit is sold at a profit over the owner's tax basis, a speculative assumption at best. Indicated Shippers object to being called upon to subsidize capital gains taxes, whether for partners or shareholders.

5. Part of the high rate of return generated by using return of capital is said to be a prepayment of the eventual capital gains taxes. It remains to calculate a time value of money for the period before the capital gains tax is due on the presumed sale at a profit which also must be presumed to be high enough to cover all cash distributions that have not already been covered by the allocation of income, which offsets cash distributions, raising the tax basis of the investment.

These points are well illustrated by Attachment RR, reviewed now by footnote.[9]

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[9] Attachment RR is Exh. No. BPX-44 from the Docket No. OR03-5-001 proceeding. It shows a hypothetical study of a K-1 for an individual public limited partner in an MLP (comparable to Kinder Morgan Energy Partners, L.P). It consists of three pages covering three points, A, B, and C:

A depicts what happens to the tax basis of an individual partner in a three year period, here assumed to be 2002, 2003, and 2004.

The parameters of the variables here are legion: how many years before the sale will take place, what will be the purchase price on the NYSE; what will be the tax basis of the owner at that time, what with the potential of both cash distributions and losses in income reducing the tax basis and allocation of income increasing the tax basis, thus reducing capital gains; what loss carry forwards, resulting from losses in income and deductions and credits that have been flowed through over the years and not used to offset income taxes, if there are none; what capital gains tax rates will apply at the time, there being a whole range of rates now; etc, starting and ending with the inquiry of "how much of the return on equity is a prepayment for eventual capital gains taxes each year, and at what rate of return on the investment should be assessed?" Surely the rate of return for ratepayers should be no less than the nominal rate of return that the pipelines are charging ratepayers in two bites, one current, one deferred. Attachment RR shows that 40% of the cash distribution can be attributed to an income tax allowance on top of the "return on

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In the first year, the partner is allocated only a cash distribution and no income. The tax basis goes down by the amount of the cash distribution. In the second year, 2003, the partner is allocated both a cash distribution and income. The tax basis goes down by the amount of the cash distribution and then is raised back up again by the amount of the income. In the third year, 2004, the partner is allocated a cash distribution and a *loss* in income. The tax basis goes down by both the cash distribution and the loss in income. ("cash distributions" depicted are analyzed for the amount that is a cash distribution and the amount that ratepayers pay for the income tax allowance on the cash distribution — in this case 60% of the cash distribution comes from the return of capital (shown as return on equity, a misnomer) and 40% comes from the income tax allowance on that cash distribution claimed by SFPP in the North Line rate case in Docket No. IS05-230).

B depicts the federal income tax consequences each year. In the first year, 2002, when only a cash distribution was allocated, there is no income tax on the $2 cash distribution, but ratepayers have paid $ .80 to cover the zero tax. In the second year, 2003, again there is no tax on the cash distribution, but there is a tax of $.28 on the $1 in income (using, without waiver, the Commission's disputed claim that there is a 28% marginal tax rate applied to all individual income, when no individual pays any marginal tax rate). Ratepayers have paid $1.60 now to cover a $ .28 income tax. In the third year, 2004, there is the cash distribution, again not taxed, and a loss in income, also not taxed, but this loss in income carries forward to offset any taxes on future income, if any, from the MLP. But ratepayers provide another $ .80 in cash to cover the non existent taxes. In the three year period, ratepayers have paid $2.40 in income tax subsidies, only $ .28 has been used. That leaves an excess profit of $2.12, an overpayment by ratepayers.

C, other considerations, shows that the return on investment (return on equity) as zero in 2002, since there was only a cash distribution and not income. In 2003, there was income and thus an income yield. In 2004, with a loss in income, the income yield was negative. Thus, in two out of three years, the rate of return on equity was zero.

Also shown is the recovery of investment, the return of capital. That is the $2 in cash distributions allocated each year.

equity" measured by "return of capital," using SFPP's numbers in the North Line rate case in Docket No. IS05-230. That is 40% per year, a growing fund of ratepayer dollars flowed through.

6. What about the millions of dollars that shippers have paid in hard cash to fund "future" income tax liability, a double dip since the deductions and credits that are claimed to be held back at the utility level for future use are in fact, and must be, flowed through to the partners each year to use in the current or future years. This is shipper money collected without any offsetting expense and long ago flowed through to the partners. The ADIT account is overfunded. Applying Commission precedent, the dollars have to be amortized back to the shippers.

Accordingly, Indicated Shippers challenge the use of cash distributions in determining SFPP's rate of return on equity. There is no objection to using Master Limited Partnerships in proxy groups, so long as the actual return on equity is ascertained by securing access to the income tax returns, something well within the subpoena power of the Commission. Since Price Waterhouse seems to provide the K-1 service for many, if not all, MLPs, and since all of the K-1 data for each company can be provided conveniently on one CD, the task of calculating the return on equity is a short and ministerial one for a qualified tax CPA, like Mr. Sintetos. For KMEP, where the income tax returns, including the K-1 data on one CD, are public information as the result of litigation, we know that the rate of return on equity is less than zero.

D. Volumes.

SFPP should not be permitted to understate its projected volumes on the West Line in order to justify a rate increase. SFPP's sister pipeline, Calnev Pipe Line LLC, has announced an expansion of its system, projecting increased volumes into Las Vegas. SFPP is the only origin point for these expanded volumes to be transported over Calnev. Accordingly, it appears that

SFPP is merely attempting to avail itself of a rate increase before the substantial increase in volumes going to Las Vegas can take effect. Accordingly, Indicated Shippers challenge SFPP's claims with respect to volumes and the issues should be set for hearing.

E. Cost Allocation and Rate Design.

Indicated Shippers challenge SFPP's claims with respect to cost allocation and rate design, allocation of overhead costs using the Massachusetts formula and Kansas-Nebraska formula. Indicated Shippers challenge any "black box" costs that are allocated to SFPP from its affiliates. Such costs should be excluded from SFPP's cost of service. Accordingly, the Commission should set these issues for hearing.

F. Operations and Maintenance Costs.

Indicated Shippers challenge SFPP's claims regarding operations, maintenance, and administrative costs, including the allocation of costs from other Kinder Morgan entities as well as allocations between the interstate (including all separate systems), intrastate, and terminal operations of SFPP. These issues should be set for hearing.

G. SFPP's Rates Should Not Be "Indexed Forward" Automatically.

This is a complaint case. There is no basis in law for the Commission to increase a pipeline's rates in a complaint case. The Commission will determine what the just and reasonable rates are for 2008, which can only be equal to or less than the rates on file. If the Commission then purports to increase the just and reasonable rate, by indexing or otherwise, it cannot do so in a complaint case. A pipeline must file for a rate increase and meet the burden of proving that the new rate is just and reasonable.

In response, SFPP is very likely to claim that it is entitled to an automatic rate increase even in complaint cases, a claim which Indicated Shippers deny. To illustrate, assume that the

Commission sets a just and reasonable rate in Docket No. OR96-2, et al. based on a 1999 test year. SFPP will then claim that it is entitled to raise the just and reasonable rate by the index percentages of 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008 -- and reduce reparations accordingly -- thereby eviscerating shippers' efforts, now validated by the Commission, to stop SFPP from collecting illegal rates.

Not only do Indicated Shippers assert that any such rate increases would be illegal under the Interstate Commerce Act, it is also unlawful to allow automatic rate increases under the indexing regulations. The Commission's regulations do not permit automatic indexing of rates. In order to qualify for an index rate increase, the pipeline must show that its costs increased from year to year. *Calnev Pipe Line LLC*, 95 FERC ¶ 61,491 (2001); *Calnev Pipe Line LLC*, 96 FERC ¶ 61,350 (2001). Shippers are guaranteed the right to protest such rate increases, including protesting increases within the index cap. Shippers do not have the burden of proof. Rather, a pipeline must establish its right to a full index increase. Shippers have only the burden of articulating "reasonable grounds." Shippers' allegation of "reasonable grounds" is merely a burden of production to assert that the "rate increase is so substantially in excess of the actual cost increases incurred by the carrier that the rate is unjust and unreasonable." 18 C.F.R. § 343.2(c)(1).

In *Association of Oil Pipelines v. FERC*, 83 F.3d 1424, 1444 (D.C. Cir. 1996), based on the Commission's representation to the Court, the Court of Appeals concluded that under the indexing regulations, "[t]here is no shifting of the ultimate burden on the pipeline to justify a rate change." The Court continued:

> The Commission's assurance that the rules under review respect the burden of proof allocation in Section 15(7) protests satisfies us at this juncture. Of course, judicial review remains available to

> any protestant who believes that the Commission has improperly shifted the burden of proof in a specific 15(7) protest.

Id.

If SFPP does assert that it wishes to index the just and reasonable rate back up to or higher than the rate complained about, the burden will be on SFPP to file for an ICA Section 15 rate increase, provide costs of service, adjusted in accordance with the holding of the Commission, before SFPP can even make the claim.

In sum, the Commission may not grant an automatic index rate increase to SFPP. A pipeline's rate cannot be increased in a complaint case as a matter of law. In addition, an automatic, unchallengeable, index rate increase is unlawful. Accordingly, Indicated Shippers oppose any automatic "indexing forward" of SFPP's rates.

VI.

THE COMMISSION SHOULD SET THIS COMPLAINT PROCEEDING FOR HEARING TO INVESTIGATE AND DETERMINE THE JUSTNESS AND REASONABLENESS OF SFPP'S RATES IN EFFECT AS OF DATE OF COMPLAINT, AUGUST 8, 2008, AND INITIATE SETTLEMENT PROCEDURES BEFORE A SETTLEMENT JUDGE.

SFPP's rates should be set at just and reasonable levels as of August 8, 2008, whether equal to or less than the superseded rates. Any increase in rates above the rates filed for or adjudicated as being just and reasonable without a separate tariff filing by the pipeline under ICA Section 15 with a full cost of service support and the right of shippers to protest and, if necessary, to file a complaint, is unjust and unreasonable. Accordingly, Indicated Shippers respectfully request that the Commission set this proceeding for investigation and hearing, affording Complainants full rights of discovery, and establish just and reasonable rates for SFPP. In accordance with the Commission's policy regarding oil pipeline proceedings, Indicated Shippers request that a Settlement Judge be appointed to allow the parties to explore the

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possibility of settlement.

VII.

COMPLAINT IN COMPLIANCE WITH RULE 206(b)

In accordance with the Commission's regulations, 18 C.F.R. § 385.206, the complainant must satisfy the following:

1. 18 C.F.R. § 385.206(b)(1), "a complaint must clearly identify the action or inaction which is alleged to violate application statutory standards or regulations."

SFPP is charging unjust and unreasonable rates, in violation of the ICA, made even more so as a result of SFPP's 2008 West Line rate increase effective August 1, 2008. SFPP cannot qualify for the 2008 West Line rate increase without first meeting the substantial divergence test and second carrying its burden of proof to show that the resulting rates, now in effect, are "just and reasonable." The "action" of SFPP is: charging ratepayers unjust and unreasonable rates.

2. 18 C.F.R. § 385.206(b)(2), "explain how the action or inaction violates applicable statutory standards or regulatory requirements."

The Interstate Commerce Act mandates that all rates be just and reasonable, a principle reaffirmed by the Energy Policy Act of 1992 and acknowledged by the Commission. SFPP's current rates are not "just and reasonable." As the Court of Appeals held in *Farmers Union II*, "not even a little unlawfulness is permitted." *Farmers Union Cent. Exch. v. FERC*, 734 F.2d 1486, 1508 (D.C. Cir. 1984). Here there is a whole lot of unlawfulness.

3. 18 C.F.R. § 385.206(b)(3), "set forth the business, commercial, economic or other issues presented by the action or inaction as such relate to or affect the complainant."

The business, commercial, economic, or other issues presented by this action that affect Complainants is that Complainants are in the business of supplying the needs of the public,

including both private and military consumers, for refined petroleum products, such as motor gasoline, jet fuel for civil and military aircraft, and diesel fuels for various modes of transportation. This pipeline has the only common carrier pipeline system which, either by itself or through interconnection with an affiliate provides access to the interstate markets in Arizona, Nevada, and Oregon. There is no other viable substitute for the SFPP pipeline system.

It should suffice to show the relevant standards of aggrievement to say that Complainants wish to use a public utility to gain access to the interstate market. Access to the interstate market is regulated by FERC, whether the access facility is an electrified wire or a pipeline carrying oil or gas. The interstate shipper has the right to expect FERC to see that only just and reasonable rates are being charged. In the Commission's own words:

> The Commission concludes that the Act of 1992 does not deregulate oil pipeline rates and that the Commission must continue to ensure that oil pipeline rates are just and reasonable.

Order No. 561, [Regs. Preambles 1991-1996] FERC Stats. & Regs. ¶ 30,985, at 30,945 (1993), *order on reh'g*, Order No. 561-A, [Regs. Preambles, 1991-1996] FERC Stats. & Regs. ¶ 31,000 (1994), *aff'd*, *Association of Oil Pipe Lines v. FERC*, 83 F.3d 1424 (D.C. Cir. 1996).

4. 18 C.F.R. § 385.206(b)(4), "make a good faith effort to quantify the financial impact or burden (if any) created for the complainant as a result of the action or inaction."

With SFPP's increased rates that went into effect on August 1, 2008, Complainants' transportation costs on the West Line have increased by approximately 12.3%, based on SFPP's claims -- in one month. SFPP, L.P., June 30, 2008 filing in Docket No. IS08-390-000, COS Summary, page 1 of 2. That increase was on top of a 5% increase on July 1, 2008. The last time the Commission set an interim "just and reasonable" rate filing for SFPP, the rate was below

$0.97. Now it is $ 1.20. That is a 24% jump when, in fact, the $0.97 rate is still too high, that being only an interim rate. And that is only one of four major systems!

In addition, SFPP continues to report excess profits on Page 700 of its FERC Form 6 for 2007, making a total of more than $239,000,000 in excess profits over the past few years from overcharging interstate ratepayers. This manifests that the rates are not and have not been just and reasonable on all systems. Therefore, shippers and consumers continue to pay excessive rates. The damages are calculated in the millions of dollars, even by SFPP in its reports to the Commission. The dollar impact on each of the Indicated Shippers cannot be calculated precisely until discovery is completed, but for each the damages will be measured in the millions of dollars.

5. 18 C.F.R. § 385.206(b)(5), "indicate the practical, operational, or other nonfinancial impacts imposed as a result of the action or inaction, including, where applicable, the environmental, safety or reliability impacts of the action or inaction."

No comment is necessary.

6. 18 C.F.R. § 385.206(b)(6), "state whether the issues presented are pending in an existing Commission proceeding or a proceeding in any other forum in which the complainant is a party, and if so, provide an explanation why timely resolution cannot be achieved in that forum."

This Complaint, as of the present time, is the only complaint challenging SFPP's rates in effect as of the date of this complaint, August 8, 2008. The Commission requires both a protest and two, sometimes three complaints, including this one, to be filed each year in order to challenge an index rate increase. The instant general Complaint also covers the 2008 index rate

increase embedded in the rates currently in effect. Indicated Shippers are fully complying with the Commission's orders. December 14 Order at ¶¶ 8-11; May 5 Order at ¶ 6.

7. 18 C.F.R. § 385.206(b)(7), "state the specific relief or remedy requested, including any request for stay or extension of time, and the basis for that relief."

The specific relief or remedy requested is that the Commission review and investigate in an evidentiary hearing all of SFPP's rates in effect on the date of complaint, August 8, 2008; reduce SFPP's rates to the just and reasonable level; and require the payment of reparations with interest to Complainants, without any indexing forward of the just and reasonable rate. No request for stay or extension of time is requested.

8. 18 C.F.R. § 385.206(b)(8), "include all documents that support the facts in the complaint in possession of, or otherwise attainable by, the complainant, including, but not limited to, contracts and affidavits."

Indicated Shippers submit the following documents and the documents listed below this index.

Attachment No.	Description
A	Docket No. OR03-05-001 Exhibit No. BPX-1 Prepared Direct Testimony of Kellye Jennings December 14, 2007
B	Docket No. OR03-05-001 Exhibit No. BPX-2 Curriculum Vitae of Kellye Jennings
C	Docket No. OR03-05-001 Exhibit No. BPX-3 SFPP, L.P. Cost of Equity December 2006 & September 2007, Version using SSA, Schedule 10, pages 1 and 2
D	Docket No. OR03-05-001 Exhibit No. BPX-4 Kinder Morgan Energy Partners, L.P. SEC Form 10-K for 2006 Consolidated Statements of Partners' Capital, Page 141

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E	Docket No. OR03-05-001 Exhibit No. BPX-5 Prepared Direct Testimony of Christopher P. Sintetos December 14, 2007
F	Docket No. OR03-05-001 Exhibit No. BPX-6 Curriculum Vitae of Christopher P. Sintetos
G	Docket No. OR03-05-001 Exhibit No. BPX-7 2006 KMEP K-1 to public unit holder
H	Docket No. OR03-05-001 Exhibit No. BPX-8 Kinder Morgan Energy Partners, L.P. SEC Form 10-K for 2003 Consolidated Statements of Partners' Capital for 2003, p. 97
I	Docket No. OR03-05-001 Exhibit No. BPX-9 KMEP 2003 Form 1065
J	Docket No. OR03-05-001 Exhibit No. BPX-10 Kinder Morgan Energy Partners, L.P. SEC Form 10-K for 2006, Consolidated Statements of Partners' Capital for 2006, p. 141
K	Docket No. OR03-05-001 Exhibit No. BPX-11 SFPP 2003 FERC Form 6, Page 123.1
L	Docket No. OR03-05-001 Exhibit No. BPX-12 KMEP 2006 Form 1065
M	Docket No. OR03-05-001 Exhibit No. BPX-13 IRS Publication *"Individual Income Tax Rates and Shares, 1999"*
N	Docket No. OR03-05-001 Exhibit No. BPX-14 Transcript excerpt of testimony of Richard Bullock, Docket No. IS05-23, Pgs 01720-01732
O	Docket No. OR03-05-001 Exhibit No. BPX-15 Prepared Direct Testimony of Elizabeth H. Crowe December 14, 2007
P	Docket No. OR03-05-001 Exhibit No. BPX-16 Curriculum Vitae of Elizabeth H. Crowe
Q	Docket No. OR03-05-001 Exhibit No. BPX-17 KMEP Capital Structure & Cost of Debt Tables

R	Docket No. OR03-05-001 Exhibit No. BPX-18 Oil & Gas Partnership Per-Unit Income & Distributions
S	Docket No. OR03-05-001 Exhibit No. BPX-19 Corporate Group DCF Calculation
T	Docket No. OR03-05-001 Exhibit No. BPX-20 North Line & Oregon Line 2004 Cost-of-Service Calculations
U	Docket No. OR03-05-001 Exhibit No. BPX-21 Prepared Rebuttal Testimony of Christopher P. Sintetos April 7, 2008
V	Docket No. OR03-05-001 Exhibit No. BPX-22 SFPP FERC Form 6 for 2003, Page 700
W	Docket No. OR03-05-001 Exhibit No. BPX-23 Response of SFPP Witness Richard Bullock to Data Request BPX-1-29 – Losses to Public Limited Partners Reported by KMEP in 2003-2006
X	Docket No. OR03-05-001 Exhibit No. BPX-24 Summary of K-1s to Partners in KMEP (2003)
Y	Docket No. OR03-05-001 Exhibit No. BPX-25 Summary of K-1s to Partners in KMEP (2004)
Z	Docket No. OR03-05-001 Exhibit No. BPX-26 KMEP 2007 K-1 issued to Gordon Gooch
AA	Docket No. OR03-05-001 Exhibit No. BPX-27 Nustar Energy L.P. 2007 K-1 issued to Gordon Gooch
BB	Docket No. OR03-05-001 Exhibit No. BPX-28 Teppco Partners, L.P. 2007 K-1 issued to Gordon Gooch
CC	Docket No. OR03-05-001 Exhibit No. BPX-29 Enterprise Products Partners, L.P. 2007 K-1 issued to Gordon Gooch
DD	Docket No. OR03-05-001 Exhibit No. BPX-30 Buckeye Partners L.P. 2007 K-1 issued to Gordon Gooch
EE	Docket No. OR03-05-001 Exhibit No. BPX-31 Prepared Rebuttal Testimony of Kellye Jennings April 7, 2008

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FF	Docket No. OR03-05-001 Exhibit No. BPX-32 Prepared Rebuttal Testimony of Elizabeth H. Crowe April 7, 2008
GG	Docket No. OR03-05-001 Exhibit No. BPX-33 KMEP 2003 & 2004 Capital Structure
HH	Docket No. OR03-05-001 Exhibit No. BPX-34 Excerpt from KMEP 2007 Form 10K
II	Docket No. OR03-05-001 Exhibit No. BPX-35 Summaries of Operations of Each Company in SFPP's Proxy Group
JJ	Docket No. OR03-05-001 Exhibit No. BPX-36 Maps of crude oil and products pipeline operations
KK	Docket No. OR03-05-001 Exhibit No. BPX-37 2007 EBIT/Operating Income for Oil MLPs by Business Segment
LL	Docket No. OR03-05-001 Exhibit No. BPX-38 Excerpts from Teppco and Buckeye 2007 Forms 10K
MM	Docket No. OR03-05-001 Exhibit No. BPX-39 SFPP Adjusted Taxable Income Calculation for 2003
NN	Docket No. OR03-05-001 Exhibit No. BPX-40 SFPP Recalculation of Weighted Income Tax Rate for 2003
OO	Docket No. OR03-05-001 Exhibit No. BPX-41 SFPP FERC Form 6 for 2003, Page 700
PP	Docket No. OR03-05-001 Exhibit No. BPX-42 SFPP FERC Form 6 for 2004, Page 700
QQ	Docket No. OR03-05-001 Exhibit No. BPX-43 Post-Technical Conference Affidavit of J. Peter Williamson, PL07-2 February 11, 2008
RR	Docket No. OR03-05-001 Exhibit No. BPX-44 Hypothetical Study of K-1 for and Individual Public Limited Partner in an MLP (three-page A, B, C exhibit)

SS	Docket No. OR03-05-001 Exhibit No. BPX-45 Comparison of Taxable Income & Cash Distributions for KMEP (using 2003 KMEP Income Tax Return)
TT	Docket No. OR03-05-001 Exhibit No. BPX-46 Morgan Stanley Study MLP Capital Intensity (Ex. 10) August 13, 2007
UU	Docket No. OR03-05-001 Exhibit No. BPX-47 Hypothetical Balance Sheets to Highlight "Goodwill"
VV	Docket No. OR03-05-001 Exhibit No. BPX-48 The Theory of Investment Value, John Burr Williams
WW	Docket No. OR03-05-001 Exhibit No. BPX-49 Chart – SFPP Chain of Ownership
XX	Docket No. OR03-05-001 Exhibit No. BPX-50 SFPP FERC Form 6 for 2003
YY	Docket No. OR03-05-001 Exhibit No. BPX-51 Analysis of KMEP Schedules K-1 for 2000 and 2001 reflecting sale of units
ZZ	Docket No. OR03-05-001 Exhibit No. BPX-52 Gooch Substitute K-1 from KMEP 2000
AAA	Docket No. OR03-05-001 Exhibit No. BPX-53 Gooch Substitute K-1 from KMEP 2001
BBB	Docket No. OR03-05-001 Exhibit No. BPX-54 Comparison of 2003 Costs of Service NL, OR, EL, and WL
CCC	Transcript Excerpt of Cross-Examination of Richard Bullock Pgs. 00260-00296
DDD	Transcript Excerpt of Cross-Examination of Kellye Jennings Pgs. 00914-00946
EEE	Transcript Excerpt of Cross-Examination and Redirect of Christopher P. Sintetos Pgs. 00313-00357
FFF	Transcript Excerpt of Cross-Examination and Redirect of Elizabeth H. Crowe Pgs. 00359-00388
GGG	Transcript Excerpt of Cross-Examination of George Ganz Pgs. 00997-01002

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Counsel also submits his attestation that BP and ExxonMobil are shippers on the SFPP system who are affected by the rates, terms and conditions charged and that he has read the Complaint and affirms that all is true and correct, to the best of his knowledge and belief. Counsel is solely responsible for the text of this pleading.

9. 18 C.F.R. § 385.206(b)(9), "state (i) whether the Enforcement Hotline, Dispute Resolution Service, tariff-based dispute resolution mechanisms, or other informal dispute resolution procedures were used, or why these procedures were not used; (ii) whether the complainant believes that alternative dispute resolution (ADR) under the Commission's supervision could successfully resolve the complaint; (iii) what types of ADR procedures could be used; and (iv) any process that has been agreed on for resolving the complaint."

Complainants have not contacted the enforcement hotline, being of the belief that it would be fruitless to do so, since it does not appear that that office addresses rate and complaint case issues.

10. 18 C.F.R. § 385.206(b)(10), "include a form of notice of the complaint suitable for publication in the Federal Register in accordance with the specifications in Sec. 385.203(d) of this part. The form of notice shall be on electronic media as specified by the Secretary."

A Form of Notice is included.

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11. 18 C.F.R. § 385.206(b)(11), "explain with respect to requests for Fast Track processing pursuant to section 385.206(h), why the standard processes will not be adequate for expeditiously resolving the complaint."

Fast track procedures are not requested.

VIII.

CONCLUSION AND REQUEST FOR RELIEF

Complainants respectfully request that the Commission (a) set this proceeding for hearing and investigation; (b) appoint a settlement judge to supervise settlement negotiations; (c) terminate SFPP's collection of excess profits from shippers and consumers; (d) establish just and reasonable rates; require the payment of reparations, with interest, compounded quarterly, starting two years before the date of complaint for all rates; (e) not permit automatic "indexing forward" of the resulting rates and (f) award such other relief as is necessary and appropriate under the Interstate Commerce Act.

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Respectfully submitted,

BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

By: /s/ *R. Gordon Gooch*

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Counsel for BP West Coast Products LLC and ExxonMobil Oil Corporation

Dated: August 8, 2008

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

BP West Coast Products LLC and ExxonMobil Oil Corporation,	)	
Complainants,	)	
v.	)	Docket No. OR08-_____
SFPP, L.P.,	)	
Respondent.	)	

NOTICE OF COMPLAINT

(_____, 2008)

Take notice that on August 8, 2008, BP West Coast Products LLC and ExxonMobil Oil Corporation ("Complainants") tendered for filing a Complaint against the rates of SFPP, L.P. ("SFPP") in effect as of the date of complaint. Complainants request that the Commission set the proceeding for hearing and investigation; appoint a settlement judge to supervise settlement negotiations; terminate SFPP's collection of excess profits from shippers and consumers; establish just and reasonable rates; require the payment of reparations, with interest, compounded quarterly, starting two years before the date of complaint for all rates; not permit "indexing forward" of the resulting rates; and award such other relief as is necessary and appropriate under the Interstate Commerce Act.

Complainants state that copies of the Complaint were served on SFPP, L.P.

Any person desiring to intervene or to protest this filing must file in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a notice of intervention or motion to intervene, as appropriate. The Respondent's answer and all interventions, or protests must be filed on or before the comment date. The Respondent's answer, motions to intervene, and protests must be served on the Complainants.

The Commission encourages electronic submission of protests and interventions in lieu of paper using the "eFiling" link at http://www.ferc.gov. Persons unable to file electronically should submit original and 14 copies of the protest or intervention to the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426.

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The public version of this filing is accessible on-line at http://www.ferc.gov, using the "eLibrary" link and is available for review in the Commission's Public Reference Room in Washington, D.C. There is an "eSubscription" link on the web site that enables subscribers to receive email notification when a document is added to a subscribed docket(s). For assistance with any FERC Online service, please email FERCOnlineSupport@ferc.gov, or call (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date: _____

Kimberly D. Bose
Secretary

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

BP West Coast Products LLC and ExxonMobil Oil Corporation,	)	
Complainants,	)	
v.	)	Docket No. OR08-_____
SFPP, L.P.,	)	
Respondent.	)	

AFFIDAVIT OF COUNSEL
FOR BP WEST COAST PRODUCTS LLC
AND EXXONMOBIL OIL CORPORATION
UIN SUPPORT OF COMPLAINT AGAINST SFPP, L.P.

1. I, R. Gordon Gooch, am counsel for BP West Coast Products LLC ("BP") and ExxonMobil Oil Corporation ("ExxonMobil") (together "Indicated Shippers") regarding the above-captioned complaint proceeding against SFPP, L.P. (SFPP"). As counsel, I provide this Affidavit in support of Indicated Shippers' Sixth Original Complaint against SFPP challenging the justness and reasonableness of all of SFPP's jurisdictional rates and charges, as described in the complaint.

2. I hereby verify that BP and ExxonMobil are past, current and future shippers of petroleum products on all of the interstate lines owned by SFPP. Accordingly, BP and ExxonMobil have paid and will continue to pay SFPP's charges for transportation over all of its lines, and are and will continue to be economically impacted by SFPP's unjust and unreasonable transportation rates.

3. I have selected and included in Indicated Shippers' Complaint herein as exhibits

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the direct and answering testimonies of Kellye Jennings, Christopher P. Sintetos, both Certified Public Accountants, and Elizabeth H. Crowe, a regulatory expert, that were filed December 14, 2007 and April 1, 2008, respectively, in the complaint proceeding in Docket No. OR03-5-001, as well as the other exhibits admitted into evidence in the public record and selected transcript excerpts from that proceeding.

It is my belief that I have complied with the following regulation: 18 C.F.R. § 385.206(b)(8), "include all documents that support the facts in the complaint in possession of, or otherwise attainable by, the complainant, including, but not limited to, contracts and affidavits." Substantially the same evidence, adjusted by earlier chronology, is found in several cases pending before the Commission, but, in my view, it would be redundant and unnecessary to submit these as well, and thus ask waiver of the requirement of including "all" documents.

3. I am responsible for the good faith quantification of the financial impact and burden borne by Indicated Shippers as a result of SFPP's unjust and unreasonable rates counted in the millions of dollars, similar to the millions of dollars in damages due to these shippers now recorded on SFPP's books. I can and will refine that number upon completion of the discovery process.

4. I hereby declare that I have read the relevant salient Commission orders and regulations applicable to oil pipeline proceedings of this nature and, to the best of my knowledge, have complied with all applicable Commission directives. If I have overlooked or misinterpreted anything, please accept my apologies in advance and allow me to make amends.

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5. I hereby declare that, to the best of my knowledge, all the facts set forth in the complaint are true and accurate. I take full and personal responsibility for every word in the text of this complaint, other than the quotations.

Executed this 8th day of August, 2008.

/s/ *R. Gordon Gooch*

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document by E-Mail or by first-class U.S. Mail, postage prepaid, upon counsel for the Respondent in this proceeding.

Dated at Washington, D.C., this 8th day of August, 2008.

/s/ *Nancilee Holland*
Nancilee Holland

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ATTACHMENT A

Docket No. OR03-5-001
Exhibit No. BPX-1
Prepared Direct Testimony of Kellye Jennings
December 14, 2007

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Exhibit No. BPX-1

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company, BP West Coast Products LLC, ExxonMobil Oil Corporation, and ConocoPhillips Company, Complainants, v. SFPP, L.P., Respondent.	))))))))))))	Docket Nos. OR03-5-001, *et al.*

PREPARED DIRECT TESTIMONY
OF KELLYE JENNINGS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

December 14, 2007

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PREPARED DIRECT TESTIMONY
OF KELLYE JENNINGS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

DECEMBER 14, 2007

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AUTHENTICATION OF TESTIMONY

EXHIBITS

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PREPARED DIRECT TESTIMONY
OF KELLYE JENNINGS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

DECEMBER 14, 2007

INDEX OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
BPX-1	Prepared Direct Testimony of Kellye Jennings
BPX-2	Curriculum Vitae of Kellye Jennings
BPX-3	SFPP, L.P. Cost of Equity December 2006 & September 2007, Version using SSA, Schedule 10, pages 1 and 2
BPX-4	Kinder Morgan Energy Partners, SEC Form 10-K for 2006, Page 141

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PREPARED DIRECT TESTIMONY
OF KELLYE JENNINGS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

DECEMBER 14, 2007

List of Acronyms in Jennings' Testimony

AWR -	Argy, Wiltse & Robinson PC
CPA -	Certified Public Accountant
AICPA -	American Institute of Certified Public Accountants
CMA -	Certified Management Accountant
FERC -	Federal Energy Regulatory Commission
NYSE	New York Stock Exchange
MLP -	Master Limited Partnership
IRS -	U.S. Internal Revenue Service
SEC -	U.S. Securities & Exchange Commission
GAAP -	Generally Accepted Accounting Principles
KMEP -	Kinder Morgan Energy Partners, L.P.
PAA -	Purchase Accounting Adjustment

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company, BP West Coast Products LLC, ExxonMobil Oil Corporation, and ConocoPhillips Company, Complainants, v. SFPP, L.P., Respondent.	))))))))))))	Docket Nos. OR03-5-001, *et al.*

PREPARED DIRECT TESTIMONY
OF KELLYE JENNINGS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

I. Identification and Qualifications

Q. Please state your name, business affiliation, and the latter's address.

A. Kellye Jennings, Audit Partner with Argy, Wiltse & Robinson, P.C. 8405 Greensboro Drive, Suite 700, McLean, VA 22102. I have attached my C.V. as Exhibit No. BPX-2.

Q. I will call "Argy, Wiltse & Robinson PC" by the initials "AWR." Is AWR a professional organization that provides accounting and tax services to clients, perhaps among other things?

A. Yes.

Q. Are you a Certified Public Accountant? If so, please give me some brief idea of what it means to be a "CPA," including whether there are any examinations involved and whether there is any government licensing involved.

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1 A. Yes, I am a Certified Public Accountant, or CPA. In general, this certification requires
2 an accounting degree and/or a specified number of hours in accounting courses as well as the
3 passing of an examination. In order to practice as a CPA and sign financial statements, I am
4 required to be certified by the American Institute of Certified Public Accountants ("AICPA") as
5 well as by the state(s) in which I practice. Currently, I am licensed in the Commonwealth of
6 Virginia.

7 Q. Are you a "CMA"? If so, what does "CMA" stand for and give me some brief idea of
8 what it means to be a "CMA."

9 A. Yes, I am also a Certified Management Accountant, or CMA. In general, this
10 certification has educational requirements, experience requirements as well as the passing of an
11 examination. The CMA program focuses on management accounting and topics that are key to
12 management performance and evaluation.

13 Q. Do you hold yourself out as an expert in the Uniform System of Accounts of the Federal
14 Energy Regulatory Commission?

15 A. No.

16 Q. Do you hold yourself out as an expert in public utility ratemaking methodology for oil
17 pipelines at the Federal Energy Regulation Commission?

18 A. No.

19 Q. Has AWR provided professional accounting and tax services to R. Gordon Gooch and
20 members of his family as well as to Travis & Gooch for some years now?

21 A. Yes.

22 Q. Among partners in AWR are there some who are designated as "audit partner" and some
23 who are designated as "tax partner."

24 A. Yes.

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1 Q. You are, I believe, an "audit partner." If so, give me a very, very brief description of
2 what "audit partner" means.
3 A. An audit partner is responsible for the administrative and technical aspects of all
4 engagements surrounding financial statements and attestations under the standards set by the
5 AICPA.
6 Q. Ms. Jennings, can financial statements include balance sheets, income statements,
7 statements of cash flows, and undoubtedly other items?
8 A. Yes.

9 **II. Questions Regarding "Return On Equity" From Investor Standpoint:**
10 **Distinguishing "Income" From "Cash Distributions."**

11 Q. Now, Ms. Jennings, in answering the questions that I am about to put to you, I want to
12 make clear that I am asking these questions from the standpoint of an investor. Would you
13 please answer these questions from the standpoint of an investor?
14 A. Yes.
15 Q. Ms. Jennings, I am going to give you some assumptions to make in order to focus on two
16 issues that I think are most significant and material to the FERC, those being the concept of net
17 income (return on equity) and the concept of cash distributions as a return of capital as to limited
18 partners who have no role whatsoever in the management of the enterprise.
19 First, please assume that the capital account for all limited partners is positive.
20 Second, we focus in the FERC practice on one year at a time, so therefore I ask you to
21 answer the questions in the context of the year in which the question is phrased. Third, I want
22 you to measure "return on equity" from the current stock market price, which I will provide to
23 you. Will you accept these assumptions?
24 A. Yes.

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1 Q. Let's take a second and calibrate here. Let us assume that there is a corporation which, in
2 2004, paid no dividends that year. What is the "return on equity" to the shareholder in 2004?
3 A. Zero.
4 Q. How can you possibly answer my hypothetical question without first calling upon me to
5 give you some form of "stock price" so that the "return on equity" can be calculated?
6 A. Because the numerator of the equation, the dividend, is zero.
7 Q. Let's continue calibrating. Let us assume that there is a limited partnership which, in
8 2004, flowed through no income to the limited partners that year. What is the "return on equity"
9 to the limited partner in 2004?
10 A. Zero.
11 Q. One more calibration. Let us assume, as in the preceding question, that there is a limited
12 partnership which, in 2004, flowed through no income to the limited partners -- and here comes
13 the change in the hypo -- but did make "cash distributions" of $10 to each limited partnership
14 unit in 2004. Now what is the "return on equity" to the limited partner in 2004?
15 A. Zero.
16 Q. Again, do you need for me to give you an assumption as to the basis for making the
17 calculation, like, say, the stock market price for a publicly traded partnership?
18 A. No, the numerator of the equation is zero.
19 Q. Leaving aside income tax issues, which will be tendered to Mr. Sintetos, one of your tax
20 partners, and focusing on matters within your audit province, please explain why the "cash
21 distribution" in the last hypo is not a "return on equity" to the limited partner.
22 A. Because you stated that the partnership flowed through no income to the limited partners
23 in that year. Cash distributions are a return of capital, not income.

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1 Q. Now, Ms. Jennings, I do want to tender one more hypo. Let us again assume a limited
2 partnership in 2004. Let us assume that the limited partnership is a "publicly traded partnership"
3 on the NYSE and that, for all purposes in this hypo, the stock market price to use for calculations
4 pertaining to a limited partnership unit is $50. Again, assume that the partnership made cash
5 distributions of $10 to each limited partnership unit, and -- here comes the change -- also flowed
6 through income of $4 to each unit. Now please tell me what the equity "yield" to the investor is,
7 based on the stock market price given to you to use, and show the calculation.
8 A. The yield for that year would be 8% which is calculated by dividing the $4 of income by
9 the unit price of $50.
10 Q. Did the $10 "cash distribution" in this hypo have any bearing at all on the calculation of
11 the equity yield to the investor based on the stock market price?
12 A. No.
13 Q. Now, Ms. Jennings, I hand to you two pages of documents taken from SFPP's most
14 recent cost of service filing in its Phase II East Line expansion case in Docket No. IS08-28-000,
15 that purports to calculate a "distribution yield" for 2006 for master limited partnerships listed on
16 the New York Stock exchange, that I ask you to attach as an exhibit. You may assume the
17 provenance and accuracy of my statement.
18 A. I have attached the "SFPP, L.P. Cost of Equity December 2006 & September 2007,
19 Version using SSA, Schedule 10, pages 1 and 2," as Exhibit No. BPX-3.
20 Q. Please examine the Page 1 schedule, top half of the page. I direct your attention to the
21 list of Master Limited Partnerships in rows and then to the last three columns, labeled "Avg.
22 price," "Divd," and "yield." You may assume for purposes of my question that "Avg. price" is
23 the stock market price per unit to use for the calculation, that "Divd" is the amount of the "cash
24 distribution" per unit, and "yield" is the product of dividing "divd" by "avg. price." Tell me, if

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1 you can, what is the equity yield to an investor in those MLPs at the claimed stock market
2 prices?
3 A. I cannot tell from knowing the cash distribution amount whether any income at all was
4 flowed through to the limited partner or, if income were flowed through, what the amount of it
5 was. All I can say is that, on the facts you have given me, there is zero return on equity shown.
6 Cash distributions are not income and do not figure into the calculation of a return on equity.
7 Q. Have I got a deal for you, Ms. Jennings. I am going to make you an offer to invest $500
8 with me as general partner and you as limited partner, and I guarantee you that you will get $100
9 a year for five years, tax free, and that you will get a "yield" of 20% or more each year, and, to
10 boot, at the end of the five years you will have recovered your entire investment, but you will
11 receive no taxable income at all in each year! What a deal! Are you interested?
12 A. I need to know if by "yield," you mean "income" or you mean "distribution yield."
13 Q. Come now, Ms Jennings, this is a really good deal. You see, I will take your $500 and
14 put it in a money market account at my bank. All interest paid by the bank will be kept by me as
15 operating costs, so the revenues and expenses will match perfectly. I will give you $100, which I
16 withdraw from the money market account, at the end of the first year -- and you get a whopping
17 20% "yield."
18 The next year is even better. Your basis is now $400 rather than $500, so the next year
19 your cash distribution of $100 is a 25% yield! It keeps getting better each year until the "yield"
20 of the last $100 in year five is a 100% yield. Now that I have explained it better, would you like
21 to invest?
22 A. No, I am not getting any income; I am only getting my money back.
23 Q. Well, if someone did invest in this deal, what would be their "return on equity" each
24 year?

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1 A. Zero.

2 Q. Is it correct to deduce from your testimony that, for purposes of calculating a "return on
3 equity" each year for an investor, you need to know the amount of the dividend per share, if the
4 investment is in a corporation, or you need to know the amount of income flowed through to a
5 limited partnership unit, if the investment is a partnership?

6 A. Yes.

7 Q. I want to ask you about the "metaphor" that you and your colleague, Mr. Sintetos, used in
8 SFPP's earlier Sepulveda case in Docket Nos. OR96-2, *et al.* (Sepulveda Phase) to illustrate the
9 difference between "income" and "cash distributions." Here is an extract from Mr. Sintetos'
10 testimony in that case:

> 11 Q. Mr. Sintetos, you and your fellow CPA Kellye Jennings
> 12 used an analogy in the Sepulveda case to explain the distinction
> 13 between Partnership "income" and "cash distributions" using a
> 14 savings account at a bank. Would you please do that again?
>
> 15 A. Yes, assume that one puts $1,000 in a savings account at a
> 16 bank. Say the bank pays 2% interest on deposits annually. At the
> 17 end of a year, the bank would have added $20 in interest (income)
> 18 to that account, so now the account would have $1,020 in it. Then
> 19 say the person wishes to buy a TV set or something else, and
> 20 withdraws $600 in cash. Now I will cover the federal income tax
> 21 consequences.
>
> 22 First, the $20 in interest is taxable as "ordinary income",
> 23 whether the customer draws the $20 out of the bank or not. Please
> 24 notice that I said "taxable"; I did not say "taxed." One cannot tell
> 25 simply from knowing the amount of "ordinary income" what the
> 26 tax amount is, if any at all. The tax rate for individuals could be
> 27 anything between zero and 35%, but on a progressive scale, where
> 28 some income is taxed, if at all, at different rates leading up to the
> 29 maximum marginal rate.
>
> 30 Second, the $600 withdrawn from the bank account is not
> 31 taxable at all. That is simply a reduction from the balance in the
> 32 savings account, which now goes from $1,020 to $420.
>
> 33 In my view, by analogy, one should look at the "taxable
> 34 income", if any, flowed through by a partnership to its partners as
> 35 the same as the interest paid by the bank on a savings account and

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> credited to the partner's account, whether the partner gets any cash that year or not. This is the return on their capital.
>
> By the same analogy, the "cash distribution" made to a partner is the same as withdrawing cash from the savings account. The withdrawal of cash in both instances operates to reduce the amount of the investment, or stated another way, is a return of capital.

Would you please comment on this hypo from an audit perspective, leaving to Mr. Sintetos to handle the tax perspective?

A. Yes. From an accounting perspective, the "interest" is "income," but the "cash distribution" is not. A cash distribution is simply a withdrawal of cash. The "cash" account will be reduced by the amount of the withdrawal, thus reducing the level of the investment. I believe that the hypo presented does capture the essence of the distinction. A partner getting a "cash distribution" from the partnership merely reduces the "asset" of his partnership interest.

III. Distinguishing "Income" to Investors by IRS Standards and SEC Standards

Q. Ms. Jennings, do financial statements including balance sheets, income statements, statements of cash flows, and other items, as reflected in SEC Form 10-Ks come within your province as an Audit CPA?

A. Yes.

Q. Focusing on the words "net income" found in SEC Form 10-Ks filed by Master Limited Partnerships taxed as partnerships, let me ask first: does the word "net income" used in financial reporting such as a 10-K have exactly the same meaning as the word "net income" in the IRS tax reporting?

A. No, the "net income" in the financial statements using "GAAP" can materially differ from tax basis "net income."

Q. Well, let me ask this: would you expect to see "allocations of net income" to various classes of partners in SEC Form 10-Ks filed by MLPs taxed as partnerships?

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1 A. Yes.

2 Q. Would you expect the "allocations of net income" to various classes of partners in SEC
3 Form 10-Ks to be exactly the same as "allocations of net income" to various classes of partners
4 for purposes of IRS reporting?

5 A. No, quite often there are major differences. The 10-K shows allocations performed for
6 financial reporting purposes and not allocations performed for tax purposes.

7 Q. Let me ask you to examine page 141 from the SEC Form 10-K of Kinder Morgan Energy
8 Partners for 2006, which I ask you to make Exhibit No. BPX-4 to your testimony. What does the
9 financial statement say the net income allocated to the common unit holders in 2006 was?

10 A. $325,390,000.

11 Q. How much, if any, of that amount was actually flowed through to the common unit
12 holders in 2006 as "net income" on the K-1s?

13 A. I have no idea.

14 Q. How does one find out what net income, if any, was actually flowed through to partners
15 in the common unit holder class in KMEP?

16 A. One would have to look at the relevant IRS forms prepared by KMEP.

17 Q. Is all that kind of tax information reported in the SEC Form 10-K filed by partnerships
18 taxed as partnerships?

19 A. No. The 10-K is generally for financial accounting, not for tax accounting.

20 Q. Let me put it to you this way. If a corporation reports to the SEC in its Form 10-K that its
21 income was, say, $1 a share, does it necessarily follow that each shareholder will actually receive
22 $1 per share?

23 A. No.

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1 Q. Well, if a corporation reports to the SEC in its 10-K that its income was $1,000, does it
2 necessarily follow that the $1,000 will all go to shareholders as a class?
3 A. No.
4 Q. Switching to partnerships now, if a partnership reports to the SEC in its 10-K that its
5 income was $1 per limited partnership unit, does it necessarily follow that each limited partner
6 will get $1 per unit?
7 A. No.
8 Q. If a partnership reports to the SEC in its 10-K that its income was $1,000 for the limited
9 partners, does it necessarily follow that $1,000 in income will go to the limited partners as a
10 class?
11 A. No.
12 Q. Where would you suggest that we look in order to find out the amount of "income" that
13 actually was flowed through to the partners in a partnership.
14 A. I suggest that you look at the income tax returns of the partnership and the K-1s given to
15 the individual partners, if necessary. Basically, the IRS requires an accounting of the amount of
16 income flowed through to the partners so that income tax liability, if any, can be assessed.
17 **IV. Goodwill**
18 Q. Now I have a question about the "goodwill" listed as an "asset" in the balance sheet.
19 What does "goodwill" represent?
20 A. I would generally expect "goodwill" to be the "premium" paid by new purchasers of
21 businesses. I would expect that the new purchasers would "write up" certain of the assets to
22 "market value" and perhaps make other adjustments. Whatever amount of the purchase price
23 that is not otherwise accounted for on the asset side is basically called "goodwill."

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1 Q. Thank you, but now please tell me where the "offset" entry is on the balance sheet, since
2 it is my understanding that it is crucial to your profession that assets equal liabilities and net
3 worth, or words to that effect.
4 A. Yes, the balance sheet would show the "goodwill" as additional equity for the owners.
5 Q. Does "goodwill" on the balance sheet imply an equal amount of cash that can be spent?
6 A. No.
7 Q. I can understand that the AICPA would want to have a basically standard set of
8 conventions for this country, so that persons can compare one balance sheet to another as well as
9 having some idea of how to interpret any CPA generated balance sheet, but I am having
10 difficulty understanding why people would put much reliance on "goodwill" as an asset. Can
11 you help me out here?
12 A. One thing that comes to mind is when we CPAs are called upon to analyze financial
13 statements in order to assist a bank or other lending institution in deciding whether to make a
14 loan, we are sometimes asked to conduct the study based on tangible assets alone.
15 Q. Will you please provide a short layman's explanation of what a "purchase accounting
16 adjustment" is?
17 A. Yes, let me do so by illustration with a hypothetical. When one entity buys another
18 entity, the purchaser often "writes up" the booked depreciated hard assets to "market." Say the
19 "book" value in the hands of the seller was $500. The purchaser, hopefully after objective
20 valuation, concludes that the asset's market value is $800, so the book entry for the purchaser is
21 "written up" from $500 to $800.
22 Q. Does that $300 write up flow through to the amount of the owner's equity?
23 A. Yes, it does, for accounting purposes.

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1 Q. Now please relate the two concepts of "purchase accounting adjustment" and "goodwill,"
2 in laymen's terms.
3 A. All right. Using the same simplistic example, say the purchaser paid $1,000. The
4 purchaser would attribute $800 to the $500 book asset via the PAA and would book $200 as
5 "goodwill." $500 is the underlying hard asset value, $300 is the PAA write up, and $200 is the
6 "goodwill."
7 Q. So "equity" would be written up by $500?
8 A. Yes, for financial reporting purposes.
9 **V. Prior Testimony**
10 Q. Are you the same Kellye Jennings who provided testimony in SFPP's Sepulveda
11 proceeding in Docket Nos. OR96-2, *et al.* (Sepulveda Phase), in SFPP's North Line case in
12 Docket No. IS05-230, in the Commission's Policy Proceeding regarding return on equity for
13 master limited partnerships in Docket No. PL07-2-000, and before the California Public Utility
14 Commission in Docket Nos. A.06-09-016, *et al.*?
15 A. Yes.
16 Q. Thank you, Ms. Jennings.

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company, BP West Coast Products LLC, ExxonMobil Oil Corporation, and ConocoPhillips Company, Complainants, v. SFPP, L.P., Respondent.	))))))))))))	Docket Nos. OR03-5-001, *et al.*

AUTHENTICATION OF TESTIMONY

I, Kellye Jennings, hereby declare under penalty of perjury that I have reviewed the foregoing testimony and it is true and accurate to the best of my knowledge, information, and belief.

Executed this 14 day of December, 2007.

Kellye Jennings
KELLYE JENNINGS

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ATTACHMENT B

Docket No. OR03-5-001
Exhibit No. BPX-2
Curriculum Vitae of Kellye Jennings

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KELLYE JENNINGS

Professional and Business History

Argy, Wiltse & Robinson, P.C.: Audit Partner, 1998 to present; Audit Manager, 1993 to 1998.

Price Waterhouse: Audit Manager, 1990 to 1993; Audit Senior, 1987 to 1990; Audit Staff, 1984 to 1987.

Professional and Business Experience

Kellye has conducted and managed audits and special projects for both public and private companies in a wide variety of industries, especially in government contracting and not-for-profit areas. Kellye's audit experience includes governmental audits, including OMB circular A-133 audits.

In addition to conducting audits, Kellye has been responsible for projects such as DCAA audits and related issues, preparation and design of indirect rates, preparation and review of disclosure statements, and preparation and review of indirect cost submissions. Additionally, she has performed such special projects as due diligence reviews (including preparation of pro forma information), new accounting standards implementation projects, and consultations on general business matters.

Education

Bachelor of Science in Commerce (Accounting): University of Virginia

Professional Affiliations

American Institute of Certified Public Accountants

Virginia Society of Certified Public Accountants

Institute of Management Accountants

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ATTACHMENT C

Docket No. OR03-5-001
Exhibit No. BPX-3
SFPP, L.P. Cost of Equity December 2006 & September 2007, Version using SSA, Scheudle 10, pages 1 and 2

Distribution Yields for Nine Oil Pipelines

		Monthly High and Low Prices														
		Jul 2006		Aug 2006		Sep 2006		Oct 2006		Nov 2006		Dec 2006				
Company	Tkr	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	Avg. Price	Divd	Yield
Buckeye Partners LP	BPL	$43.25	$40.40	$43.96	$42.00	$43.80	$42.32	$45.89	$43.30	$45.90	$44.50	$46.99	$45.56	$43.99	$3.10	7.05%
Enbridge Energy Partners	EEP	$48.27	$43.26	$49.51	$46.55	$48.72	$46.00	$50.69	$46.10	$50.50	$49.16	$50.75	$49.30	$48.23	$3.70	7.67%
Enterprise Products Prtnrs	EPD	$27.06	$25.00	$27.06	$26.15	$27.05	$25.30	$28.49	$26.07	$28.55	$27.18	$29.98	$28.09	$27.17	$1.84	6.77%
Kinder Morgan Energy Partners LP	KMP	$46.49	$45.05	$46.53	$44.45	$44.90	$42.80	$46.08	$43.01	$48.93	$44.01	$48.98	$47.42	$45.72	$3.24	7.09%
Magellan Midstream Partners	MMP	$35.60	$33.60	$36.93	$35.00	$37.29	$35.92	$39.40	$36.69	$38.96	$36.62	$39.35	$37.89	$36.94	$2.36	6.39%
Plains All American Pipeline	PAA	$46.57	$43.21	$47.35	$45.51	$46.40	$44.17	$48.57	$45.23	$50.56	$46.08	$53.23	$50.15	$47.25	$3.00	6.35%
Sunoco Logistics	SXL	$43.04	$40.45	$45.60	$42.20	$45.30	$43.50	$47.75	$43.71	$49.05	$45.59	$50.90	$48.10	$45.43	$3.15	6.93%
Teppco Partners LP	TPP	$36.45	$35.05	$37.56	$35.73	$37.65	$36.05	$39.95	$36.90	$40.45	$37.75	$41.85	$39.10	$37.87	$2.70	7.13%
Valero L.P.	VLI	$52.50	$48.76	$51.81	$49.05	$51.91	$49.21	$53.68	$49.05	$56.24	$53.62	$57.75	$54.50	$52.34	$3.66	6.99%

		Yield Plus Growth using IBES Earnings Growth and GDP Growth Forecasts						Alternative Calculation using Continuous and Discrete Yields			
		Yield	IBES Median 1/	GDP Growth F'cast 2/	Weighted Average Growth	Adjusted Dividend Yield	Yield Plus Growth	Contns Yield	Discrete Yield	Average Yield	Yield Plus Growth
Buckeye Partners LP	BPL	7.05%	4.00%	5.15%	4.38%	7.20%	11.58%	7.05%	7.36%	7.20%	11.58%
Enbridge Energy Partners	EEP	7.67%	4.00%	5.15%	4.38%	7.84%	12.22%	7.67%	8.01%	7.84%	12.22%
Enterprise Products Prtnrs	EPD	6.77%	8.00%	5.15%	7.05%	7.01%	14.06%	6.77%	7.25%	7.01%	14.06%
Kinder Morgan Energy Partners LP	KMP	7.09%	7.00%	5.15%	6.38%	7.31%	13.70%	7.09%	7.54%	7.31%	13.70%
Magellan Midstream Partners	MMP	6.39%	7.00%	5.15%	6.38%	6.59%	12.98%	6.39%	6.80%	6.59%	12.98%
Plains All American Pipeline	PAA	6.35%	6.00%	5.15%	5.72%	6.53%	12.25%	6.35%	6.71%	6.53%	12.25%
Sunoco Logistics	SXL	6.93%	5.00%	5.15%	5.05%	7.11%	12.16%	6.93%	7.28%	7.11%	12.16%
Teppco Partners LP	TPP	7.13%	5.00%	5.15%	5.05%	7.31%	12.36%	7.13%	7.49%	7.31%	12.36%
Valero L.P.	VLI	6.99%	5.00%	5.15%	5.05%	7.17%	12.22%	6.99%	7.35%	7.17%	12.22%
Average		6.93%	5.67%		5.49%		12.61%				12.61%
Median							12.25%				12.25%
High							14.06%				14.06%
Low							11.58%				11.58%
2006 Inflation							2.54%				2.54%
Real Median Yield Plus Growth							9.71%				9.71%

1/ Source: IBES Reports of 12/14/06
2/ GDP Growth Forecast from EIA of 1/2006 (5.54%), Global Insight (formerly DRI -WEFA) of 10/11/05 (5.41%) and SSA 1/06 (4.51%)

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Distribution Yields for Nine Oil Pipelines

		Monthly High and Low Prices														
		Apr 2007		May 2007		Jun 2007		Jul 2007		Aug 2007		Sep 2007				
Company	Tkr	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	Avg. Price	Divd	Yield
Buckeye Partners LP	BPL	$54.75	$49.41	$54.80	$49.89	$53.49	$48.79	$55.19	$51.80	$54.47	$44.40	$51.60	$48.78	$51.45	$3.25	6.32%
Enbridge Energy Partners	EEP	$61.82	$55.45	$60.83	$53.69	$56.92	$52.30	$58.47	$54.90	$56.08	$48.27	$52.00	$48.38	$54.93	$3.70	6.74%
Enterprise Products Prtnrs	EPD	$33.35	$31.65	$33.35	$30.22	$32.08	$30.24	$33.70	$30.00	$31.24	$26.25	$32.18	$29.45	$31.14	$1.93	6.20%
Kinder Morgan Energy Partners LP	KMP	$57.00	$52.68	$56.99	$53.28	$55.87	$52.11	$56.70	$52.55	$53.29	$46.61	$51.16	$49.40	$53.14	$3.40	6.40%
Magellan Midstream Partners	MMP	$53.39	$44.09	$50.54	$44.46	$47.45	$43.21	$48.00	$44.75	$46.65	$38.51	$43.79	$39.90	$45.40	$2.52	5.55%
NuStar Energy	NS	$71.50	$65.75	$68.67	$62.29	$69.17	$64.00	$70.09	$64.63	$66.50	$52.85	$64.70	$59.00	$64.93	$3.80	5.85%
Plains All American Pipeline	PAA	$59.74	$56.32	$62.42	$57.25	$64.82	$60.70	$65.24	$60.45	$61.80	$53.01	$57.75	$52.76	$59.36	$3.32	5.59%
Sunoco Logistics	SXL	$61.19	$58.35	$63.75	$58.87	$62.00	$54.56	$63.25	$58.01	$59.56	$45.80	$55.29	$50.31	$57.58	$3.35	5.82%
Teppco Partners LP	TPP	$46.20	$43.59	$46.20	$42.37	$44.99	$42.56	$46.01	$42.69	$43.54	$37.04	$40.49	$38.01	$42.81	$2.74	6.40%

		Yield Plus Growth using IBES Earnings Growth and GDP Growth Forecasts						Alternative Calculation using Continuous and Discrete Yields			
		Yield	IBES Median 1/	GDP Growth F'cast 2/	Weighted Average Growth	Adjusted Dividend Yield	Yield Plus Growth	Contns Yield	Discrete Yield	Average Yield	Yield Plus Growth
Buckeye Partners LP	BPL	6.32%	5.00%	4.75%	4.92%	6.47%	11.39%	6.32%	6.63%	6.47%	11.39%
Enbridge Energy Partners	EEP	6.74%	5.00%	4.75%	4.92%	6.90%	11.82%	6.74%	7.07%	6.90%	11.82%
Enterprise Products Prtnrs	EPD	6.20%	8.00%	4.75%	6.92%	6.41%	13.33%	6.20%	6.63%	6.41%	13.33%
Kinder Morgan Energy Partners LP	KMP	6.40%	8.00%	4.75%	6.92%	6.62%	13.54%	6.40%	6.84%	6.62%	13.54%
Magellan Midstream Partners	MMP	5.55%	7.00%	4.75%	6.25%	5.72%	11.97%	5.55%	5.90%	5.72%	11.97%
NuStar Energy	NS	5.85%	6.00%	4.75%	5.58%	6.02%	11.60%	5.85%	6.18%	6.02%	11.60%
Plains All American Pipeline	PAA	5.59%	7.00%	4.75%	6.25%	5.77%	12.02%	5.59%	5.94%	5.77%	12.02%
Sunoco Logistics	SXL	5.82%	3.00%	4.75%	3.58%	5.92%	9.51%	5.82%	6.03%	5.92%	9.51%
Teppco Partners LP	TPP	6.40%	5.00%	4.75%	4.92%	6.56%	11.47%	6.40%	6.72%	6.56%	11.47%
Average		6.10%	6.00%		5.58%		11.85%				11.85%
Median							11.82%				11.82%
High							13.54%				13.54%
Low							9.51%				9.51%
Inflation 12 months to 9/07, latest from BLS							2.76%				2.76%
Real Median Yield Plus Growth							9.06%				9.06%

1/ Source: IBES Reports of 9/20/07
2/ GDP Growth Forecast from EIA of 1/2007, Global Insight (formerly DRI -WEFA) of 10/11/05, and SSA 1/07

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ATTACHMENT D

Docket No. OR03-5-001
Exhibit No. BPX-4
Kinder Morgan Energy Partners, L.P. SEC Form 10-K for 2006
Consolidated Statements of Partners' Capital, page 141

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KINDER MORGAN ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	2006		2005		2004	
	Units	Amount	Units	Amount	Units	Amount
	(Dollars in thousands)					
Common Units:						
Beginning Balance	157,005,326	$ 2,680,352	147,537,908	$ 2,438,011	134,729,258	$1,946,116
Net income	--	325,390	--	237,779	--	311,237
Units issued as consideration pursuant to common unit compensation plan for non-employee directors	5,250	263	5,250	239	--	--
Units issued as consideration in the acquisition of assets	34,627	1,650	1,022,068	49,635	1,400,000	64,050
Units issued for cash	5,771,100	248,228	8,440,100	415,308	11,408,650	506,520
Distributions	--	(512,097)	--	(460,620)	--	(389,912)
Ending Balance	162,816,303	2,743,786	157,005,326	2,680,352	147,537,908	2,438,011
Class B Units:						
Beginning Balance	5,313,400	109,594	5,313,400	117,414	5,313,400	120,582
Net income	--	10,873	--	8,492	--	11,763
Distributions	--	(17,162)	--	(16,312)	--	(14,931)
Ending Balance	5,313,400	103,305	5,313,400	109,594	5,313,400	117,414
i-Units:						
Beginning Balance	57,918,373	1,783,570	54,157,641	1,694,971	48,996,465	1,515,659
Net income	--	122,913	--	88,656	--	113,486
Units issued for cash	--	(34)	--	(57)	1,660,664	65,826
Distributions	4,383,303	--	3,760,732	--	3,500,512	--
Ending Balance	62,301,676	1,906,449	57,918,373	1,783,570	54,157,641	1,694,971
General Partner:						
Beginning Balance	--	119,898	--	103,467	--	84,380
Net income	--	512,967	--	477,300	--	395,092
Distributions	--	(523,198)	--	(460,869)	--	(376,005)
Ending Balance	--	109,667	--	119,898	--	103,467
Accum. other comprehensive income (loss):						
Beginning Balance	--	(1,079,674)	--	(457,343)	--	(155,810)
Change in fair value of derivatives used for hedging purposes	--	(187,525)	--	(1,045,615)	--	(494,212)
Reclassification of change in fair value of derivatives to net income	--	428,137	--	423,983	--	192,304
Foreign currency translation adjustments	--	722	--	(699)	--	375
Adj. to initially apply SFAS No. 158 -other post-retirement benefit acctg. changes	--	(3,214)	--	--	--	--
Ending Balance	--	(841,554)	--	(1,079,674)	--	(457,343)
Total Partners' Capital	230,431,379	$ 4,021,653	220,237,099	$ 3,613,740	207,008,949	$3,896,520

The accompanying notes are an integral part of these consolidated financial statements.

Source: KINDER MORGAN ENERGY, 10-K, March 01, 2007

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ATTACHMENT E

Docket No. OR03-5-001
Exhibit No. BPX-5
Prepared Direct Testimony of Christopher P. Sintetos
December 14, 2007

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Exhibit No. BPX-5

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
ExxonMobil Oil Corporation, and	)	
ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al*.
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

PREPARED DIRECT TESTIMONY
OF CHRISTOPHER P. SINTETOS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

DECEMBER 14, 2007
(Revised April 30, 2008)

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Exhibit No. BPX-5

PREPARED DIRECT TESTIMONY
OF CHRISTOPHER P. SINTETOS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

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AUTHENTICATION OF TESTIMONY

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Exhibit No. BPX-5

PREPARED DIRECT TESTIMONY
OF CHRISTOPHER P. SINTETOS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

DECEMBER 14, 2007

INDEX OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
BPX-5	Prepared Direct Testimony of Christopher P. Sintetos
BPX-6	Curriculum Vitae of Christopher P. Sintetos
BPX-7	2006 KMEP K-1 to public unit holder
BPX-8	Consolidated Statements of Partners' Capital for 2003, p. 97
BPX-9	KMEP 2003 Form 1065
BPX-10	Consolidated Statements of Partners' Capital for 2006, p. 141
BPX-11	SFPP 2003 FERC Form 6, Page 123.1 "Income Tax"
BPX-12	KMEP 2006 Form 1065
BPX-13	IRS Publication *"Individual Income Tax Rates and Shares, 1999"*
BPX-14	Transcript excerpt of testimony of Richard Bullock, Docket No. IS05-23, Pgs 01720-01732

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Exhibit No. BPX-5

PREPARED DIRECT TESTIMONY
OF CHRISTOPHER P. SINTETOS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

LIST OF ACRONYMS IN SINTETOS' TESTIMONY

AWR - Argy, Wiltse & Robinson PC

CFP - Certified Financial Planner

CPA - Certified Public Accountant

FERC - Federal Energy Regulatory Commission

IRC - Internal Revenue Code

IRS - U.S. Internal Revenue Service

LP - Limited Partner

KMEP - Kinder Morgan Energy Partners, L.P.

MLP - Master Limited Partnership

NYSE - New York Stock Exchange

SEC - U.S. Securities & Exchange Commission

USA - Uniform System of Accounts

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
ExxonMobil Oil Corporation, and	)	
ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al*.
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

PREPARED DIRECT TESTIMONY
OF CHRISTOPHER P. SINTETOS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

I. Identification And Qualifications

Q. Please state your name, business affiliation, and the latter's address.

A. My name is Christopher P. Sintetos. I am a partner in the CPA firm of Argy, Wiltse and Robinson, P.C., 8405 Greensboro Drive, Suite 700, McLean, VA 22102. I have attached my C.V. as Exhibit No. BPX- 6.

Q. What is your specialty?

A. Taxation.

II. Prior Testimony

Q. Are you the same Chris Sintetos, CPA specializing in taxation and a CFP, who provided testimony in SFPP's Sepulveda proceeding in Docket Nos. OR96-2, *et al.* (Sepulveda Phase), in SFPP's North Line case in Docket No. IS05-230, in the Commission's Policy Proceeding

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1 regarding return on equity for master limited partnerships in Docket No. PL07-2-000, and before
2 the California Public Utility Commission in Docket Nos. A.06-09-016, *et al.*?
3 A. Yes, I am.
4 Q. Do you hold yourself out as an expert on the FERC's Uniform System of Accounts
5 ("USA")?
6 A. No.
7 Q. Do you hold yourself out as an expert on the FERC's ratemaking methodologies?
8 A. No.
9 **III. Introductory Point: Focusing On Federal Income Taxes**
10 Q. Before we begin, I need to make a point clear. The questions that I direct to you are with
11 regard to federal income taxes only, unless the question specifically refers to state income taxes.
12 Please acknowledge this instruction.
13 A. I acknowledge.
14 **IV. Distinguishing Ordinary "Income Taxes" From "Capital Gains Taxes."**
15 Q. I want, from the outset, to dispel any ambiguity between:
16 (a) taxes which may be due with regard to "income" flowed through to a partner by
17 the partnership as the result of the operation of the partnership's trade or business, which I
18 believe is called "ordinary" income (relevant to this case, the "income" from the transportation
19 of refined petroleum products in interstate commerce); and
20 (b) taxes which may be due with regard to a profit on the sale of a partnership interest
21 (an asset) to a third person, where the "income" comes from the cash paid by the new owner
22 rather than the partnership itself.
23 Please explain the difference.

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A. Very well. There is a traceable difference between the two sources of income and the taxes associated with them, as a general statement.

(a) Ordinary income from a trade or business, or that amount, if any, that is reportable after consideration of all deductions and credits, flowed through from the partnership (as well as any other income, deductions, and credits which the taxpayer may have) is generally reportable as ordinary income and may be subject to tax at an "ordinary" income tax. There may be further adjustments to these amounts at the partner's level. An example of this would be the additional depreciation that is specific to a single partner as a result of the amount that partner paid for his interest (IRC Sec. 743). This net income is basically the taxable income from the trade or business activity of the partnership.

The income tax rate applied to this income is applied on a progressive scale, the percentage getting higher with the amounts of taxable income. There is not one single ordinary income tax rate.

There are other classifications of "income" that may also be flowed through to partners, such as net income from rental real estate, interest income and dividend income. These income items may or may not be related to the ordinary trade or business activities of the partnership. The income taxes associated with rental real estate, interest and nonqualifying dividends are calculated using the same graduated rate schedule used for "ordinary income" above. For individual income tax purposes, the income taxes currently imposed on qualifying dividends is a 0% to 15% rate depending on the taxpayer's regular tax bracket and tax year.

(b) Capital gains associated with a partnership interest can come from the partnership itself or from a sale of the partnership interest to a third party. Capital gains flowing *from* a partnership can result from the sale of property used by the partnership in its trade or business or

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1. the taxpayer's ordinary tax bracket -- in the case of net short term gains,
2. the more favorable capital gain rates currently 0-15%, or
3. in the case of depreciated real estate, at the unrecaptured 1250 depreciation rate of 25%.

The second source of capital gain associated with a partnership interest comes from the sale of the partnership unit to someone, rather than from the partnership's operations. The rate applied to this gain can also vary depending upon the existence of partnership recapture items.

That is, there is the potential of a "taxable gain" upon the sale of an asset. Potential confusion arises because the tax on the "taxable gain" is also called an "income tax" and, further, since the tax rate for this income tax on the taxable gain, if there is any at all, can range between all taxation at capital gains rates (more than one) and all taxation at ordinary income tax rates (several), or anywhere in between. Nonetheless, the Internal Revenue Code views the disposition of a partnership unit as the sale of capital asset.

One exception perhaps relevant here is found in partnership law for taxation of a "gain" prior to any sale. That is when the partner's interest in the partnership falls below zero. Let me illustrate. Say a partner starts with $1,000. Each year, for ten years, the only thing that partner gets from the partnership is cash distributions of $100 a year. Cash distributions are not "income," they are a return *of* capital, *i.e.,* the partner recovering some of its investment. So there is no income tax of any kind for the partner to pay.

However, in year 11 the situation changes. Now the partner has received all of its investment dollars back through cash distributions, and his basis is zero. Then the partner gets

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1 another $100 in cash distributions. This last distribution would generate a capital gain so long as
2 the partner has no remaining basis to offset against this distribution.

3 **V. The Relationship Of "Income" To "Cash Distributions:" Are Cash Distributions**
4 **The Same As Income?**

5 Q. When a partner in a partnership taxed as a partnership receives a "cash distribution" from
6 the partnership that does not take his investment basis below zero, does the partner have to pay
7 any income taxes or capital gains on all or any part of the cash distribution?

8 A. The distribution is not taxable.

9 Q. What then are "cash distributions?"

10 A. "Cash distributions" are distributions and reductions of the partner's capital account for
11 book purposes and a reduction of a partner's tax basis for income tax purposes. Think of it as if
12 a person is withdrawing cash from a savings account. The withdrawal does not create taxable
13 income.

14 Q. If these decreases in the capital account go on long enough, the capital account will fall
15 below zero. What happens, tax wise, when a cash distribution drives the capital account into
16 negative territory?

17 A. The "cash distribution" is still not "taxable operating income" from the partnership. The
18 IRS deems that these distributions in excess of the partner's basis create taxable capital gains at
19 the partner's level.

20 Q. In layman's terms, then, please define "taxable income" in the context of a partnership
21 taxed as a partnership, which is to say, no income tax liability at all.

22 A. A partnership's taxable income or loss is determined at the partnership level. The
23 partnership then reports to each partner his or her share of the partnership's taxable income or
24 loss and, if applicable, the additional depreciation that a partner gets when "writing up" his

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investment in the partnership to the purchase price. The partner then reports income on his individual return and is subject to income tax, net of all deductions and credits, on positive income flowed through. Cash distributions play no role in this.

Q. Does the total amount of cash distributions always result in a reduction of the investment basis of the partner, down to zero, for tax purposes?

A. Yes.

Q. Can the reduction in the investment basis of the partner caused by a cash distribution be offset by an increase in the investment basis because of positive income flowed through?

A. Yes. If positive income is flowed through to the partner, then the taxable income operates to increase the partner's capital account and tax basis of the investment. Think of the partnership's positive income flowed through to a partner the same as the bank's posting of interest income to the account. "Income" is interest earned as a return on the investment, and it causes the basis of the investment to go up. To illustrate, say there has been a $1,000 deposit with an annual interest payment of $20. At the end of the year, if no money has been withdrawn, then the asset is now $1,020—but the $20 is taxable income whether drawn out in cash or not.

Conversely, if a loss in income is flowed through to the partner then the tax basis of the investment is reduced. Think of this as if the bank has deducted a maintenance fee from the account. There is no income tax on the loss, in fact; there may be a reduction of tax to the partner as a result of a loss.

Q. Some people I know think that one can divide the cash distribution into two components, income and not income. What do you say?

A. Taxable income and distributions are two separate components; they are separately stated on an IRS Schedule K-1. Income or loss is based on the activity of the entity.

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1 Distributions of cash are based on the partnership agreement and management's determination of
2 the partnership's need for and other sources of cash. While both items affect a partner's capital
3 account, there is no specific determination that a cash distribution is from income or if it is from
4 capital originally contributed. Quite often distributions to partners may even come from
5 borrowing at the partnership level.

6 Q. Let's look at a concrete example, please sir. I hand you a genuine K-1 furnished by
7 KMEP to a public unit holder, with only the social security number redacted. Please attach this
8 as Exhibit No. BPX-7. Please walk me through the process.

9 A. Very well, let's start with Part III, "Partner's Share of Current Year Income, Deductions,
10 Credits, and Other Items." You will see that in line 1 this partner suffered a $3 loss in ordinary
11 business income and had no other income, deductions, or credits allocated to him. Line 19,
12 "distributions," shows that the partner received a cash distribution of $3.

13 Now go to Part II, section N, "Partner's capital account." You see:

Beginning capital account	37
Capital Contributed during the year	0
Current year increase (decrease)	-3
Withdrawals & Distributions	-3
Ending capital account	31

14 Here the income was negative, so it operated to decrease the capital account, or "tax
15 basis," which the K-1 shows as "current year increase (decrease)." The distributions also
16 decrease the capital account. These are shown under "withdrawals & distributions." The
17 investor received $3 in cash as a return of his investment (capital account), but that $3 is not
18 income, and it is not subject to income tax. Indeed, the investor had *an income tax loss* of $3.

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1 Q. Mr. Sintetos, you and your fellow CPA Kellye Jennings use an analogy to explain the
2 distinction between partnership "income" and "cash distributions" using a savings account at a
3 bank, which you just did in part above. Would you please relate the analogy?
4 A. Yes, assume that one puts $1,000 in a savings account at a bank. Say the bank pays 2%
5 interest on deposits annually. At the end of a year, the bank would have added $20 in interest
6 (income) to that account, so now the account would have $1,020 in it. Then say the person
7 wishes to buy a TV set or something else, and withdraws $600 in cash. Now I will cover the
8 federal income tax consequences.
9 First, the $20 in interest is taxable as "ordinary income," whether the customer draws the
10 $20 out of the bank or not. Please notice that I said "taxable;" I did not say "taxed." One cannot
11 tell simply from knowing the amount of "ordinary income" what the tax amount is, if any at all.
12 The tax rate for individuals could be anything between zero and 35%, but on a progressive scale,
13 where some income is taxed, if at all, at different rates leading up to the maximum marginal rate.
14 Second, the $600 withdrawn from the bank account is not taxable at all. That is simply a
15 reduction from the balance in the savings account, which now goes from $1,020 to $420. This is
16 the equivalent of the "cash distribution" to a partner.
17 In my view, by analogy, one should look at the "taxable income," if any, flowed through
18 by a partnership to its partners as the same as the interest paid by the bank on a savings account
19 and credited to the partner's account, whether the partner gets any cash that year or not. This is
20 the return on their capital.
21 By the same analogy, the "cash distribution" made to a partner is the same as
22 withdrawing cash from the savings account. The withdrawal of cash in both instances operates
23 to reduce the amount of the investment, or stated another way, is a return of capital.

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If, sometime in the future, the partner is able to sell his partnership interest to someone at a price greater than the then investment basis, after deducting all cash distributions and losses in income flowed through, that gain on the disposition of a partnership interest is the result of the sale of a capital asset, not "ordinary income" from, say, a trade or business. The sale of the asset (partnership interest) is between an outside buyer and seller. It is not the result of a transaction at partnership level. The income tax rules on gains or losses from the sales of assets may tax this gain, if at all, at several different rates depending upon the underlying partnership expenses and tax basis of its assets, but this is not to be confused with "ordinary" income flowed through to partners by the partnership. The sale of the asset is between the buyer and the seller and is presumably based on market conditions at the time and the perceived value of the interest being sold. For this reason the sale is deemed to be the sale of a capital asset. This income is not operational income from the entity's activity. The income tax rules on gains or losses from the sales of a partnership interest may tax the gain, if any, at several different rates depending upon tax method of the partnership and the nature of its assets. This tax treatment is the result of recapture rules imposed by the Internal Revenue Code it is not the result of the current operating income of the partnership**.**

VI. Is "Book" Net Income The Same As "Tax" Net Income?

Q. Now, Mr. Sintetos, I have looked at a U.S. Securities and Exchange Commission ("SEC") Form 10-K page entitled "Consolidated Statements of Partners' Capital" and seen the words "net income" used. I have also looked at IRS Forms 1065, income tax returns for partnerships, and I see a section entitled "Analysis of Net Income (Loss)." My question is, do the words "net income" have the same meaning in both documents?

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A. No. The 10-K provides financial information. This reporting is done using the accounting rules set forth by the SEC. The basic purpose of showing "net income" here is to provide readers of the statements with an accounting that is consistent with other SEC reports so that an investor, lender or other reader can compare the entity's activity with other investment activities. The partnership income tax Form 1065 reflects the taxable income of the entity. The numbers presented on Form 1065 are determined based on the rules set forth under the Internal Revenue Code, not the SEC. One cannot expect both number sets to be the same, even though they have the same name, except perhaps by coincidence.

Q. Let's test this thesis with an actual case study. I hand you the "Consolidated Statements of Partners' Capital" for 2003, from the 10-K of KMEP, and ask you to attach it to your testimony as Exhibit No. BPX-8. You may assume the accuracy of the provenance. What is the amount of net income reported as going to the Common Units for 2003?

A. $265,423,000.

Q. Now I hand you the Analysis of Net Income (Loss) as well as schedule M-1 and M-2 from Kinder Morgan Energy Partners' 2003 IRS Form 1065 income tax return page 4 (Bates No. SF03 09674), provided in discovery, which I ask you please to attach as Exhibit No. BPX-9. Again you may assume the accuracy of the provenance.

So let me ask you this: is the number reported there for net income to all the limited partners a positive or a negative number?

A. It is a negative number, meaning the limited partners had a net loss for income tax purposes. The total number reflected for all limited partners is ($379,740,538). (Sum of entries on Line 2(b) under Analysis of Net Income (Loss)).

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Q. Now please look at the same tax form and tell me whether it shows that the general partner got more than or less than the total net income of the partnership.

A. The general partner got more than the total net taxable income reported for the entire partnership. I feel it is necessary to point out that the tax form provided me has some inconsistent reporting so that two numbers for total taxable income can be derived. In either case the amount reported to the general partner exceeds the total taxable income reported on the tax form.

Q. Comparing the "net income" number in the SEC Form 10-K for the general partner with the "net income" number in the IRS Form 1065 for the general partner, are the two numbers the same?

A. No.

Q. Which is larger?

A. The net income number for financial reporting is larger than the net income number for the net income actually flowed through to the partners. (See my comment above regarding the inconsistent reporting on the tax form.) In either case the amount reported to the SEC was greater than the total taxable income reported on the income tax form.

Q. Please state the two numbers referenced in the preceding question.

A. The net income number for the general partner from the 10-K is $326,524,000. The number from the tax return is -$316,295,160.

Q. Would you say, in your opinion, that the financial reporting "net income" was larger than the actual "net income" flowed through by a wide margin?

A. In my opinion, yes.

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Q. Cutting to the chase, sir, if one wants to know what net income actually was flowed through to partners, if any, where must one look?

A. One must look at the IRS forms, including the Forms 1065, and the Schedule K-1s.

Q. Just in case someone thinks the example used above was anomalous, let us review together some more K-1s and 10-Ks.

In the "Consolidated Statements of Partners' Capital" from the 2006 SEC Form 10-K of Kinder Morgan Energy Partners, L.P. (which I ask you to attach hereto as Exhibit No. BPX-10), let me focus on three numbers under "Common units," the ones owned by the public limited partners who buy and sell on the New York Stock Exchange ("NYSE").

Beginning balance in units:	157,005,326
Net Income:	$325,390,000
Ending balance in units:	162,816,303

Here is the question: if I divide the "net income" by the "beginning balance in units," getting $2.07 per unit, will I get the "net taxable income" that actually was flowed through to each of the public limited partners' units?

A. Not unless it is an extreme coincidence.

Q. Well, if I divide the "net income" by the "ending balance in units," getting $2.00, will I get the "net income" that actually was flowed through to the public limited partners' units?

A. It would be a coincidence.

Q. Well can we at least agree that the amount of dollars in net taxable income flowed through to each unit owned by a public limited partner would be somewhere between $2.00 and $2.07?

A. I can't say for sure without reviewing the Schedule K-1s for each of the partners, but the K-1 provided me for the 2006 year indicates that at least one of the partners received a (loss) of

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($3). A negative $3 does not fall within a positive range of $2.00 to $2.07 and thus your proposition fails.

Q. Well, SFPP reports the following in a response to a data request, BPX-1-29:

DATA REQUEST BPX-1-29
For IRS year 2003 and each year thereafter, what is the total amount of taxable income reported by KMEP to the IRS for the class of limited partners whose units trade on the NYSE?

RESPONSE:

	2003	**2004**	**2005**	**2006**
Total taxable income reported by KMEP to the IRS for the class of limited partners whose units trade on the NYSE	-429,537,099	-225,602,769	-405,767,214	-355,008,090

Response prepared by Richard L. Bullock.

Dated: November 19, 2007.

Now, based on that, Mr. Sintetos, can you provide your opinion as to whether the book income of $325,390,000 said to be for the public limited partners was actually flowed through to these partners?

A. I can say that the book income was not flowed through; according to the exhibit you have shown me, the limited partners in 2006 were allocated $355,008,090 in net losses in income.

Q. Now I read to you a statement contained in the SFPP annual report to FERC, SFPP Form 6 for 2003, page 123.1 under the heading "Income Tax," which I ask you to attach as Exhibit No. BPX-11: "For federal and state income tax, SFPP's taxable income or loss, which may vary substantially from the net income or net loss it reports in its statement of income, is includable in the tax returns for each partner." Would you say that the representation made by SFPP is true?

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1 A. Yes, I would say a difference between "book" income, as reported to the FERC, and the
2 "tax" income, can "vary substantially," even going from positive to negative, as we have just
3 seen.
4 Q. Will you please attach KMEP's Form 1065 tax return for 2006 as an exhibit to your
5 testimony so that the comparable numbers for 2006 will be in this record?
6 A. Yes, I have attached it as Exhibit No. BPX-12.
7 **VII. Rate Of Return On Equity**
8 Q. Since you do not hold yourself out as an expert on the ratemaking methodology of the
9 FERC, allow me to ask you to accept, as a hypothetical, that the FERC wants to measure the
10 "rate of return on equity." The major element of this inquiry is called the "dividend yield,"
11 obtained basically for corporations by dividing the per share "dividend" paid to the stockholders
12 who buy and sell their shares on the stock exchange by the current stock market price, usually
13 averaged, yielding an element of the "rate of return on equity." For example, if the appropriate
14 stock market price to use for one share is $50 and the dividend is $1 per share, then the "dividend
15 yield" is (1/50) or 2%. Will you accept this hypothetical?
16 A. Yes.
17 Q. Is the $1 received by the shareholder subject to taxation?
18 A. Yes, generally speaking. There are exceptions, such as when the shareholder is exempt
19 from taxation of that type.
20 Q. Now let us consider the case of a limited partner in a Master Limited Partnership who
21 buys and sells his unit on the NYSE. Assume a stock market price of $50 and $1 in taxable
22 income flowed through. Measured against the stock market price, as the FERC does, what was
23 the limited partner's "return on equity"?

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A. It would be 1/50, or 2%.

Q. Is the $1 in taxable income flowed through to the limited partner taxable?

A. Yes, generally speaking, the same as a dividend, although the tax rates can vary.

Q. Now let us say that the limited partner received no taxable income at all from the partnership. Again, stock market price is $50. What is the return on equity, using the stock market price as the denominator?

A. Zero.

Q. Is there any income tax consequence?

A. No income tax would be due because there is no taxable income flowed through.

Q. Now let us change the hypothetical above: the limited partner received no taxable income at all but did receive $10 as a cash distribution. What is his return on equity under the same conventions?

A. Zero.

Q. Is there any income tax consequence?

A. No. Since there is no taxable income flowed through there is no income tax due. The cash distribution is not taxable as income, since it is a return of capital. The only time the cash distribution from a partnership can trigger a tax -- a capital gains tax -- is when the cash distribution reduces the tax basis below zero. Then it is considered a constructive sale of the asset, but it is not income from the partnership.

Q. Assume with me that the entire class of limited partners who buy and sell on the NYSE were allocated losses in taxable income, what would the dividend yield be?

A. Something less than zero, a negative return on equity.

Q. Even if the limited partners did receive cash distributions?

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A. Yes, even if the limited partners did receive cash distributions.

Q. Is there any income tax consequence of being allocated losses in income?

A. Yes. Basically there are two. First, the losses in income operate to reduce the tax basis of the investment, just like a cash distribution does. Second, the loss in income can be "carried forward" to offset any taxable income from that partnership that might flow through in the future. Any unused passive loss carryover can be used upon a sale of the partnership unit to offset other income the partner may have. The unused ordinary losses would first offset the partner's income that is taxed at ordinary rates. To the extent it exceeds the investors other ordinary income it would then offset capital gains.

VIII. Taxation Of Ordinary Income Of Individuals From A Trade Or Business

Q. Let us first clear out some underbrush here. I want first to identify and then set aside the taxation of corporate dividends to a taxpaying individual. What is the general rule here?

A. The general rule is that dividends received by such an individual are subject to income taxes at the partner's level as a dividend to the extent they are paid out of a corporation's cumulative or current earnings and profits. The amount of the tax depends on whether the dividend is a "qualifying" dividend or a "non-qualifying" dividend. If the latter, the tax rate is the same as for ordinary income. If the partner is an individual, then the tax rate is between 0 and 15% depending on the taxpayer's tax bracket and the tax year of receipt.

Q. Next, what is the general rule about taxable income that a partner in a partnership has flowed through to him/her by the partnership?

A. The general rule is that taxable operating income received by a partner is taxed as ordinary income, with some possible exceptions not applicable to income from a trade or business.

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Q. Let us not focus on ordinary income taxes for individuals, sticking with the general rule instead. Please explain how this aspect of the federal tax system works.

A. Individual income taxes are "progressive." That means there are "layers," or "brackets" of tax rates. Income that falls within each bracket is taxed at the tax rate for that bracket. The first bracket has a tax rate of zero and the last bracket has a tax rate of 35% of the income that falls within that bracket. As taxable income rises through the brackets, the tax rate increases for the income falling into that bracket up to the maximum marginal rate of 35%.

Q. I believe that there is considerable confusion about the facts at the Commission level, and I would like your help in dispelling that confusion. In sum, the Commission seems to be under the belief that if an individual has any income high enough to reach the top bracket of 35%, then the individual pays a flat 35% on all income. Is this proposition true or is it false?

A. It is false. The 35%, or indeed the rate for any of the brackets, is applied only to the income that falls within that bracket. That is a marginal rate, not to be confused with the actual or effective tax rate which is a blend of all of the tax rates in the brackets reached by the taxable income.

Q. I have tried to come up with a metaphor that might be of assistance in illustrating this point. Here is what I suggest: assume that an individual is a fire safety technician whose trade or business is checking fire equipment on each floor of a building. He is paid $100 for each floor that he inspects, and he does this once a year. His only client is one ten-story office building. Now, the city imposes an income tax on the individual's income. The higher that the technician goes up in the building, the higher the tax rate is. Here it is in tabular form:

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TABLE 1				
Ten Story Office Building				
Progressive Tax				
Floor	Fee	Tax%	Tax $	Net after tax fee
10	$100	50%	$50	$50
9	$100	40%	$40	$60
8	$100	35%	$35	$65
7	$100	30%	$30	$70
6	$100	25%	$25	$75
5	$100	20%	$20	$80
4	$100	15%	$15	$85
3	$100	10%	$10	$90
2	$100	5%	$5	$95
1	$100	0%	$0	$100
Total	$1,000		$230	$770
Effective tax rate: (230/1000)			23%	

1 As you can see, when he gets to the tenth floor, he is now in the 50% bracket, but the
2 50% applies only to the increment of his fee in the tenth floor, or bracket. His effective tax rate
3 is 23%, a blend.

4 Now, just to calibrate, say the technician stopped at the eighth floor, never reaching the
5 ninth or tenth floor. Here, I think, is the analogy:

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TABLE 2				
Ten Story Office Building				
Progressive Tax				
Floor	Fee	Tax%	Tax $	Net after tax fee
10	$0	50%	$0	$50
9	$0	40%	$0	$60
8	$100	35%	$35	$65
7	$100	30%	$30	$70
6	$100	25%	$25	$75
5	$100	20%	$20	$80
4	$100	15%	$15	$85
3	$100	10%	$10	$90
2	$100	5%	$5	$95
1	$100	0%	$0	$100
Total	$800		$140	$660
Effective tax rate: (140/800)			18%	

In this case, the technician reached the 35% bracket, but, again, that 35% applied only to the fee for the 8th floor, or bracket. His effective tax rate is 18%.

Q. Do you think this exercise correctly illustrates how the progressive income tax on ordinary income from a trade or business works?

A. Yes, I do.

Q. You may take it from me that in a December 2005 order in *SFPP, L.P.,* Order on Initial Decision and on Certain Remanded Cost Issues, Docket Nos. OR92-8-024 *et al.,* 113 FERC ¶ 61,377, at ¶ 32 (Dec. 16, 2005), the Commission decided to impute a flat 28% income tax rate for individuals, based on documents that were not in the record. No party was given the opportunity to be heard, although the law requires the opportunity to be heard when the Commission goes outside of the record. The seminal factual basis for that imputation was a

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1 schedule in a publication of the IRS, entitled "IRS Publication -- Individual Tax Rates Shares
2 1999," which I ask you to attach hereto as Exhibit No. BPX-13. The particular part of that
3 publication relied upon was "Figure C." I have put that Figure C into the format used for the
4 analogy above, and here it is:

TABLE 3				
Figure C from IRS Publication				
Progressive Tax				
Bracket	Taxable Income		Tax %	Tax $
10				
9			39.6%	
8			35%	
7			31%	
6	X		28%	X
5	X		25%	X
4	X		20%	X
3	X		15%	X
2	X		10%	X
1	X		0%	X
Total		$1,442,198,308		$276,780,570
Effective tax rate: (276,780,570/1,442,198,308)				19%
Taxes if income taxed at 28% marginal rate				$403,815,526

5 Q. Here is my first question: does Figure C show that persons in the 28% tax bracket paid a
6 flat 28% income tax on the taxable income?
7 A. As a point of clarification I would note that this schedule does not appear to be a current
8 individual rate schedule. The current maximum rate is 35%. Because of these higher rates I
9 would expect the overall effective tax rate to be much lower given the same taxable income

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1 parameters. In any event, the document does not show that persons in the 28% bracket paid a
2 flat 28% in income taxes.
3 Q. In your view, is it even arguable that persons in the 28% tax bracket paid a flat 28% of
4 their taxable income in income taxes.
5 A. No, that would be the taxpayer's marginal bracket. If an individual's taxable income
6 reaches the 28% bracket he still gets the advantages of the lower brackets on the lower levels of
7 his income.
8 Q. Please calculate for me the amount of taxable income that an individual would have to
9 have in order to pay an effective tax rate of 28%.
10 A. I calculate that taxable income would have to be just over $295,000 using the 2006 rates
11 standard deduction and personal exemption for a individual taxpayer filing single.
12 Q. You having looked at the Form 1065 income tax return of KMEP for 2006 and the
13 allocation of net income to individuals, and taking that statement at face value, would you say it
14 is reasonable to assume that each and every one of the individual limited partners received
15 $295,000 in taxable income from KMEP?
16 A. The Schedule on page 4 "Analysis of Net Income (Loss), of that tax return, BPX-9 at
17 page10, lines 14-17 (Bates No. SF03 09844), would suggest that as a group the limited partners
18 had a tax loss allocated to them, not taxable income**.** This would indicate that every limited
19 partner could not have received taxable income as the combination of their incomes totals, which
20 was a (loss) of ($344,704,433)**.**
21 Q. Well, is it even theoretically possible that some of the individual limited partners received
22 so much taxable income from KMEP in 2006 that the class would "average" $295,000 in taxable
23 income?

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A. Again, the schedule mentioned above would indicate that is not possible for 2006.

Q. Well, how reasonable would it be, if at all, in your view to assume that each and every individual among the thousands who own LP units in KMEP or who owned even one share of a mutual fund that owned KMEP LP units had taxable income from outside sources of $295,000?

A. In my view, this is not a reasonable assumption.

Q. Please put below a table showing the range of tax rates for the categories of limited partners shown below:

A. Very well. The following shows the ranges:

TABLE 4	
Trust	0-35%
Mutual Fund	generally not taxed
Subchapter C Corporation	0-35% with a 38% intervening bracket that erodes the lower corporate brackets for corporations with taxable income in excess of $15,000,000
Partnerships	generally not subjected to tax
Tax exempt entities (*e.g.*, municipalities)	generally taxed at trust or corporate rates
UBTI Entities	same as exempt organization, applied to unrelated business income
Pension Funds/IRAs/etc.	same as exempt organization
Individuals	0-35%

Q. Now, sir, please walk me through what happens, tax-wise, when a garden variety "C" corporation receives a cash distribution from a partnership in which that corporation is a limited partner.

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A. Just as with an individual. The cash distribution is a return of capital and is not taxable as income. Again, the only caveat is that a capital gains tax will be triggered if a cash distribution exceeds the tax basis, thus generating a constructive sale.

Q. What happened, tax-wise, when a garden variety C corporation is allocated taxable income as a limited partner?

A. Corporations generally pick up all the income/loss of a partnership as other income on its corporate return. Unless the corporation is closely held the passive activity rules that apply to an individual generally don't apply. The corporation's tax or savings would be based on its overall taxable income including the partnership gain or loss.

IX. Stand Alone Taxation Of Taxable Income Flowed Through To Partners

Q. Now please help me understand what the income tax bite would be if the partnership taxable income was calculated on a "stand alone" basis, without any assumption that the partner had outside income from other sources in any amount whatsoever.

A. Very well. I have made calculations based on the 2006 tax rates, exemptions and standard deductions. The tax rates have actually been reduced and the exemptions and standard deductions have increased. In short each of the calculations below produces a number that is slightly lower than the amounts that would be produced by the 2007 rates and the like.

Q. All right, Mr. Sintetos, let us focus on the taxable income from the partnership, on a stand alone basis, as if the only taxable income the limited partner receives is from a partnership. His allocation of income is $20. What is his actual or potential income tax?

A. Zero, using his standard deduction and personal exemption allowed all taxpayers other than dependents of other taxpayers.

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1 Q. Same hypo, but this time the limited partner gets $2,000 in taxable income from the
2 partnership. Again, what is the income tax rate applicable?
3 A. If this were the sole source of taxable income to the limited partner, he would pay no
4 federal income tax on this income, unless, he was a dependent child of another taxpayer in which
5 case the maximum federal tax would be about $116 or 6% of the total income.
6 Q. Same hypo, but this time the limited partner gets $20,000 in taxable income from the
7 partnership. Again, what is the income tax rate applicable?
8 A. If this were the sole source of taxable income and he was a single adult his federal tax
9 would be about $1,359 or approximately 7% of the $20,000.
10 Q. Same hypo, but this time the limited partner gets $50,000 in taxable income from the
11 partnership. Again, what is the income tax rate applicable?
12 A. If this were the sole source of taxable income and he was a single adult his federal tax
13 would be about $6,951 or approximately 13.9% of the $50,000.
14 Q. Same hypo, but this time the limited partner gets $100,000 in taxable income from the
15 partnership. What is the income tax rate applicable?
16 A. If this were the sole source of taxable income and he was a single adult his federal tax
17 would be about $19,973 or approximately 20% of the $100,000.
18 Q. Changing the form of the question, what would the taxable income from a partnership
19 have to be for an individual to pay 28% in federal income taxes.
20 A. About $295,000.
21 Q. Cutting to the chase, Mr. Sintetos, how much taxable income from the partnership must
22 an individual get in order to reach the marginal tax rate of 35%?

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A. According to the 2006 tax rates, as a single taxpayer it is estimated that taxable income needs to exceed $326,550 before the next dollar of taxable income is taxed at a federal rate of 35%.

Q. Do even individual billionaires pay the IRS 35% of their millions in taxable ordinary income?

A. No. The 35% tax rate is a marginal rate. I cannot think of any way that an individual would have a flat 35% effective ordinary income tax rate, because individual income tax rates are "progressive," starting lower and then getting higher as taxable income increases, as we have discussed.

Q. Now for the bottom line question here: what is the income tax rate to be applied to the limited partners in KMEP in 2006 who were allocated losses in income?

A. Zero, from KMEP. There may be outside income that would generate a tax liability.

Q. As a person virtually ignorant on income tax laws, let me ask this: is there some rule or regulation that you can think of that would require the taxable income, if any, from the partnership to be considered last, thus at the applicable marginal rate for that level of income?

A. There is no income tax rule, that I know of, that stipulates which income source is considered to be taxed first.

X. Determining Taxable Income At First Partnership Level

Q. Please help me now understand how "taxable income" is calculated.

A. I will be pleased to do so.

Q. Let us start with a basic partnership, like SFPP, LP, that is "taxed" as a partnership and then work up the ladder through holding company partnerships and then to the partners in KMEP, a master limited partnership, please.

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1 A. All right.

2 Q. What is the income tax rate for the partnership itself?

3 A. Zero. All of the income, deductions, and credits flow through each year from the
4 partnership to the partners.

5 Q. Hold it right there for a minute. Can a partnership "defer" taxes on the taxable income
6 flowed through to the partners each year?

7 A. Remember that there are no income taxes on the partnership described here, whether
8 "current" or "deferred." The essence of the flow through of partnerships is that all income and
9 all deductions and credits for that year flow through to the partners in the partnership's reporting
10 year.

11 Q. Thank you, now resuming, let me ask you if you would accept a simplified model as a
12 framework for my questions: assume that the partnership has the following categories of costs
13 and revenues.

14 a. Operations, Maintenance, and General & Administrative Overhead;

15 b. Straight line book depreciation;

16 c. IRS tax depreciation, including accelerated depreciation and tax credits;

17 d. interest expense; and

18 e. revenues from the trade or business of transporting refined petroleum products
19 which are in excess of items a, b, and d (which in our trade are made up of two components—the
20 authorized "profits," or return on equity, and excess profits, over and above the authorized
21 profits.

22 A. I will accept the hypo.

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1 Q. First question: does the book depreciation play any role at all in calculating the amount
2 of taxable income, if any, that will be flowed through to partners?
3 A. No. Only the IRS deductions and credits are used.
4 Q. Second question: please give me a simplified, very simplified, explanation of the IRS
5 deductions and credits.
6 A. Very well. In an over simplified explanation, let me cover the basic points.
7 First, the legitimate costs of doing business are deducted from revenues.
8 Second, the IRS allows the deduction of depreciation, and this comes in multiple
9 categories. For simplicity, let me say that there are two sets, speaking generally. One is
10 "accelerated" depreciation and the other is "straight line" depreciation.
11 The remainder is "taxable income" to the partners, but subject to tax credits.
12 Third, sometimes the Congress allows "tax credits." These are not "deductions" from
13 income but instead operate directly to offset taxes.
14 In the partnership hypo that we are using here, the net income, the accelerated
15 depreciation, the straight line depreciation, and the tax credits will all be flowed through to the
16 partners, since the partnership pays no taxes.
17 Q. What is the theory behind "accelerated" depreciation and "tax credits?"
18 A. Speaking generally, these result from a determination by the Congress to encourage
19 investment in certain types of properties. Accelerated depreciation results in a quicker recovery
20 of the investment and less income taxes; tax credits are even better, because the income tax itself
21 is reduced.
22 Q. Let us pause for a moment to compare "book" depreciation with "tax" depreciation.
23 Take it from me as a hypothetical that the FERC has a Uniform System of Accounts which

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1 includes depreciation. While I am no expert and as you cheerfully acknowledge that you are not
2 either, let us assume together that the USA prescribes book depreciation over a long period of
3 time, perhaps best described as "useful life" for hard assets, down to salvage value.
4 A. I will make this assumption.
5 Q. Speaking generally, would you expect the straight line depreciation under this hypo to be
6 longer in time than IRS straight line depreciation?
7 A. Speaking generally, yes.
8 Q. And I take it as a safe assumption, again speaking generally, that accelerated IRS
9 depreciation allows the recovery of capital over an even shorter period of time than either IRS or
10 book depreciation.
11 A. Speaking generally, yes.
12 Q. Let's use hypothetical numbers in order to be sure we are calibrating. Assume that for a
13 hard asset the book depreciation is 20 years and the tax depreciation is 10 years, ignoring for the
14 moment accelerated depreciation and tax credits. With these assumptions a $1,000 hard asset,
15 the only asset in the partnership, would depreciate at the rate of $50 a year for 20 years and
16 would depreciate at the rate of $100 a year for 10 years for tax purposes.
17 A. That is correct, under this hypo. I should mention that the tax depreciation methods are a
18 lot more sophisticated then the straight doubling that you have asked me to assume.
19 Q. I have no illusions about my ability to understand the tax laws, but what I am trying for is
20 a way to illustrate a principle. Assume now that the net taxable income, before depreciation, of
21 this partnership was $100. What amount of taxable income would be flowed through to
22 partners?
23 A. Zero. The IRS tax depreciation of $100 would reduce the taxable income to zero.

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1 Q. Now assume with me that all of the revenues of the partnership come from public utility
2 ratepayers. What comment, if any, would you have if the partnership claimed to ratepayers that
3 they had a depreciation deduction against net income of only $50, so there was $50 of taxable
4 income flowed through?
5 A. I would say that is not the correct amount of depreciation to use in determining the
6 amount of tax that the partner would be liable for in the year mentioned.
7 Q. Now let me change the hypo. First, I eliminate any "straight line" IRS depreciation and
8 substitute that the only asset of $1,000 in the partnership qualified for accelerated depreciation
9 under IRS standards, with the net result that the full $1,000 was recovered in 5 years rather than
10 in 10, in equal installments each year. Under this hypo, what is the amount of depreciation that
11 can be deducted in each of the five years?
12 A. I will assume $200 but the IRS methods really don't produce such a simplified straight
13 line accelerated depreciation.
14 Q. Again, I am no tax expert and am trying to find a way to display the principles, so, using
15 the hypo, warts and all: With net income of $100, what happens?
16 A. First, the $200 deduction means that there is no taxable income in that year; in fact, there
17 would be a tax loss of $100.
18 Q. What? You mean the taxpayer would report a $100 loss in income?
19 A. Yes.
20 Q. So, assuming $100 in income in each year of a ten year period, what happens?
21 A. In years one through five, the taxable income is offset, rendering a $100 loss in income.
22 In years six through 10, when there is no depreciation for tax purposes, the previously unused

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1 $500 loss carryover would be used to the extent there is taxable income from the activity. Under
2 this hypo, there would not be any taxable income in years 6 through 10.
3 Q. What happens in year 11, if the net income before taxes is again $100 and there is no
4 more tax depreciation?
5 A. The $100 in net income becomes the taxable income.
6 Q. Just to be sure that I comprehend this, in years one through five the partners get $100 in
7 net income flowed through and $200 in tax depreciation flowed through?
8 A. Yes.
9 Q. Does the partnership hold back $100 of the tax depreciation and then give it to the
10 partners in years 6 to 10?
11 A. No, there is no carryover of depreciation *per se*. The loss in income generated by the tax
12 depreciation in years one through five would offset taxable income from the same entity in later
13 years. Using your example the losses accumulated in years one through five would offset the
14 income caused by the lack of tax depreciation in years 6 to10.
15 Q. Now assume with me that the partnership acquires a new $1,000 hard asset in each of the
16 ten years, the IRS accelerated tax depreciation is $200 a year for each, and the net income for the
17 next 20 years is $100 a year. Assuming no changes in the partners in a twenty year period,
18 would there ever be taxable income in the twenty year period for any of the partners?
19 A. Not under your fact pattern.
20 **XI. Determining Taxable Income For Owners Of An MLP Like KMEP**
21 Q. Let us now skip the intermediates and go right to the Master Limited Partnership. I want
22 to do this hypothetically in order to get to the principles. Here is what I want you to assume.
23 There is one General Partner who owns 1%. There is one entity, which I will call "KMR" that

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owns a substantial piece of the MLP through i-shares but does not get any income. For my purposes, there are two classes of Limited Partners. One is made up of the owner of the General Partner, the General Partner, subsidiaries of the owner, and apparently related insiders. Then about 90% of the limited partner units are "public" or "common", meaning that the units are bought and sold on the NYSE. Together these two sets of limited partners own 99%, ignoring for the moment about a 25% ownership interest through i-shares.

Are you willing to accept these hypos so far?

A. Yes.

Q. Then here are two more critical assumptions.

First, that the General Partner, owning a 1% interest, is by contract entitled to income each year whether the partnership has any income or not as an "incentive" to manage the partnership better and that this qualifies under IRS regulation as a "guaranteed payment to partners." I call this a "management fee" by definition.

Second, that the MLP made the necessary election with the IRS that allows persons who buy limited partnership units on the NYSE to "write up" their tax basis to the amount paid for the unit, rather than step into the shoes of the seller. As a result of the write ups, the new purchaser can start depreciation from the purchase price, thus sheltering more income, if any, from taxation.

Are you willing to accept these assumptions?

A. Yes.

Q. Very well, then. Please walk me through what happens if the "taxable income" of the MLP is $1,000,000.

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A. First, $500,000 of the income comes off the top and is given to the General Partner for its services. This payment is credited to the taxable income of the partnership, thereby reducing the taxable income. The General Partner pays the income taxes on the fee for its services; this is not the responsibility of the partnership or its partners.

Second, that leaves $500,000 of taxable income to be flowed through to the general partner and to all of the limited partners. This is the first step in the return on capital to the investor/owners.

Third, say that $400,000 is earmarked for the public limited partners, just to pick a number. For each of the public limited partners, the MLP will calculate the additional depreciation that each limited partner is entitled to as a result of the "write up" of the investment to the purchase price and will report to the unit holder his/her share of the taxable income, after all depreciation and deductions are taken into consideration, including the additional depreciation resulting from the write up and the starting over of depreciation.

Q. In order to calculate the amount of taxable income that actually reaches the owner/investors, would all of these factors have to be known?

A. Yes.

Q. Where can such information be found?

A. It is supposed to be in the income tax returns of the MLP and in the K-1s provided to each partner. The appropriate treatment of the items may also get their origins in the partnership agreement.

Q. Is only the taxable income that actually reaches the partners subject to an actual or potential income tax?

A. Yes.

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Q. If losses in income are actually flowed through to partners, is there any actual or potential income tax resulting?

A. No.

Q. And once the amount of taxable income from the partnership, net of the subtraction for the guaranteed payment for partners and after taking the additional depreciation resulting from write ups is determined, then will the actual or potential income tax rate vary depending on (a) the nature of the taxpayer, if a tax payer at all, such as individual, partnership, corporation, etc., and (b) what rate applies, there being a range of possible rates?

A. That is true, bearing in mind one more variable.

Q. What is that?

A. The effective income tax rate is determined by the total amount of taxable income that falls within a tax category, such as ordinary income, from all sources throughout the tax year, and not all taxes are paid on a calendar year basis.

Q. How can that information be obtained, if at all.

A. One would have to look at the income tax returns of all investors who paid income taxes.

Q. Can't you just assume a constant total amount of taxable income for sixty or seventy thousand investors?

A. Not with any validity.

Q. Well, armed with the K-1 information is it possible, within reasonable limits, to calculate the tax rate that would apply to the taxable income flowed through on a stand alone basis?

A. Yes, within reasonable limits, but the problem here is that even the stand alone income might be offset by losses from other sources or other offsets. So the most one can say is that the stand alone calculation is the "potential" taxable income.

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1 Q. Thank you. Now I want to turn to a couple of the assumptions that I gave you above and
2 see if we can make them factual.

3 **XII. Guaranteed Payments To Partners**

4 Q. Allow me to ask a hypothetical question. Assume that the general partner of a Master
5 Limited Partnership taxed as a partnership takes more than all, all, or almost all of the net income
6 of the partnership before the partners get any income, if any, as an "incentive" to manage the
7 partnership. How would the IRS handle this situation?

8 A. I can only speak generally, but generally the IRS would allow the partnership to do this.
9 The amount of income taken off the top by the general partner would be deducted from the
10 income of the partnership, so that only what is left over is the taxable income of the partnership,
11 to be allocated among the partners. If this distribution is for services and it is not limited to or
12 defined by the taxable income of the partnership it could meet the definition of a guarantee
13 payment to partner.

14 Q. What if the general partner is guaranteed an amount of income not based on the taxable
15 income of the partnership and is guaranteed that amount whether the partnership has net income
16 or not as part of its compensation for managing the partnership.

17 A. Again speaking generally, that probably would meet the test for a guaranteed payment to
18 partners and thus be taken out of the net income of the partnership for tax purposes. Stated
19 another way, the taxable income of the partnership would be reduced by the amount of the
20 guaranteed payment.

21 Q. What if the "priority allocation of income" to the general partner is greater than the total
22 income of the partnership itself?

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1 A. The IRS allows the general partner to have income in excess of the total income of the
2 partnership thereby generating losses that are allocated to the other partners.
3 Q. Now let me call to your attention the sworn testimony of Richard Bullock, the Chief Tax
4 Officer of Kinder Morgan and ask that you attach pages from the transcript in Docket
5 No. IS05-230-000 involving SFPP's North Line.
6 A. I have done so, and they are attached as Exhibit No. BPX-14.
7 Q. You will note, among other things, that Mr. Bullock says that the General Partner is
8 guaranteed income equal to the amount of the General Partner's cash distributions whether
9 KMEP has any income or not. If you accept Mr. Bullock's testimony as true, can you form an
10 opinion as to whether the income allocated to the general partner as an "incentive" is a
11 guaranteed payment to partners?
12 A. In my opinion, the answer is "yes." The income to the particular partner does not depend
13 on whether the partnership has any income, and the income is for the service of managing the
14 partnership.
15 Q. Very well. Thank you, Mr. Sintetos.
16 **XIII. The "Write Up" Of Limited Partner Units Purchased On The NYSE (743(b))**
17 Q. Please give me the 101 course on what Section 743(b) is all about.
18 A. Section 743(b) is basically a depreciation deduction, over and above any depreciation
19 deduction that is flowed through by the partnership using the partnership's cost of its assets,
20 743(b) depreciation is specific to a particular partner. This depreciation adjustment is made
21 possible by virtue of a partnership election under IRS Code Section 754. Once a 754 election is
22 made, any partner purchasing an interest in the electing partnership is required to adjust his/her
23 basis in partnership assets. To the extent this basis "step-up" (or step-down) relates to

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1 depreciable or amortizable assets, that partner will receive an annual depreciation or amortization
2 adjustment associated with the basis adjustment.
3 As a general example, say that I was a partner whose capital account was zero, because
4 of, let's say, the results of cash distributions -- a return of capital -- lowering my tax basis to
5 zero. Say I sell my partnership interest to Gordon Gooch for $8,000. The KMEP partnership
6 having made the election, (see Exhibit No. BPX-12, KMEP Form 1065 for 2006, page 18 of 64
7 (Bates No. SF03 09857)), the partnership must adjust Mr. Gooch's tax basis in its underlying
8 assets to account for his basis differential. This "step-up" is done under Code Sec 743(b) and it
9 should result in a step-up of $8,000 in the partner's assets as they relate to Mr. Gooch. This
10 allows Gordon Gooch to begin taking additional depreciation and amortization to the extent this
11 step-up is related to either depreciable or amortizable assets. This additional
12 depreciation/amortization belongs exclusively to Gordon Gooch. It will offset the taxable
13 ordinary income otherwise assigned to Mr. Gooch under the partnership agreement. This
14 depreciation is above the historical tax basis the partnership is depreciation.
15 Q. Who is supposed to keep track of this "write up" and the special depreciation that is
16 associated with it?
17 A. The bottom line is that the partnership is supposed to do this and report it to the IRS, as
18 KMEP acknowledges on page 18 of 64 of Exhibit No. BPX-12, KMEP Form 1065 for 2006,
19 (Bates No. SF03 09857)).
20 Q. Interesting. Do these 743(b) "write ups" operate to reduce the taxable income of the new
21 partner?
22 A. They should, because the special depreciation is above the historical depreciation
23 otherwise used in calculating taxable ordinary income.

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Q. In your opinion, Mr. Sintetos, if one were to wish to calculate the taxable income of a partner in KMEP, would it be necessary to know both the amount of depreciation that was flowed through the partnership itself and the amount of the 743(b) depreciation of each partner?

A. Yes.

XIV. State Income Taxes

Q. Now Mr. Sintetos, I would like to ask some questions about state income taxes. Let me first ask if you will accept the following proposition: income tax laws and regulations vary significantly from state to state, there being no single system.

A. I think that proposition is basically correct.

Q. If a K-1 from KMEP to any partner shows taxable income in one or more states that have income taxes, is that partner supposed to report and pay any state income taxes due in each of those states?

A. Yes, in addition to their own state of residence if there is a state income tax in that state.

Q. Is it possible that a partner would have no federal income tax liability but would have state income tax liability in one or more states for their "slice" of the income pie?

A. It is possible.

Q. How many of the over 160,000 partners in KMEP who are not owned by Knight Holdco, Inc., f/k/a Kinder Morgan, Inc., actually filed multiple state tax returns and also paid any state income taxes that might have been applicable for tax year 2003 or 2004?

A. I have no idea.

Q. Changing gears here, I would like for you to explain the interrelationship between state income taxes and federal income taxes, at the 101 level.

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A. As a general statement, income taxes paid by a taxpayer to a State (or any subdivision thereof, like city or county) are a deduction from taxable income before calculating the federal income taxes, if any. This can affect the calculation of the actual tax of the individual as this deduction does impact the calculation of alternative minimum tax.

Q. Does this conclude your testimony at this time?

A. Yes.

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company, BP West Coast Products LLC, ExxonMobil Oil Corporation, and ConocoPhillips Company, Complainants, v. SFPP, L.P., Respondent.	))))))))))))	Docket Nos. OR03-5-001, *et al.*

AUTHENTICATION OF TESTIMONY

I, Christopher P. Sintetos, hereby declare under penalty of perjury that I have reviewed the foregoing testimony and it is true and accurate to the best of my knowledge, information, and belief.

Executed this 14 day of December, 2007.

CHRISTOPHER P. SINTETOS

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ATTACHMENT F

Docket No. OR03-5-001
Exhibit No. BPX-6
Curriculum Vitae of Christopher P. Sintetos

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Christopher P. Sintetos, CPA, CFP, Tax Partner
Argy, Wiltse & Robinson, P.C

Chris has over 28 years of experience advising businesses, individuals, and families on financial matters. He started his career with Stoy, Malone and Company's tax department in 1976 where he gained extensive experience in individual and closely held business tax strategies. In 1980 Chris joined the accounting department of Psychiatric Institutes of America PIA as Director of Taxation. It was here that Chris gained experience with medical practices and their interfacing with the hospitals where they practice. Chris also gained invaluable experience in multi-state corporate filing requirements as well as consolidated return compliance. In 1983 Chris became an officer in National Medical Enterprises, Inc, (NME –NYSE) where he was responsible for the tax aspects of the merger of PIA into NME. In 1984 Chris rejoined Stoy, Malone and Company as a tax manager where he specialized in the tax and financial aspects of medical practices and closely held businesses. Upon his return Chris' practice greatly expanded in the closely held real estate area. As part of the closely held business practice, Chris has developed a specialty in dealing with family financial matters. Along with the other members of the Bethesda office of Stoy, Malone and Company, Chris joined the McLean, Virginia firm of Argy, Wiltse & Robinson, P.C. in January 2001. Chris is an active member in the Bethesda-Chevy Chase Rotary Club where he has held several officer positions. He has also served on the tax committee of the Maryland Association of CPAs. Chris is a member of the DC Estate Planning Council. He has served as Treasurer for the American Diabetes Association –Washington Chapter. He also served on the financial advisory board for the DC chapter of the YMCA and the parish council of Holy Cross Catholic Church in Kensington, MD. Chris is married, has 2 boys, and resides in Bethesda, MD.

Graduated University of Maryland 1976, member Beta Alpha Psi
Certified Public Accountant, State of Maryland 1978
Certified Financial Planner (CFP) 1987
Member of: American Institute of Certified Public Accountants, Maryland Association of CPA's,

Stoy, Malone & Company 1976- 1980 Tax staff – Tax Supervisor
Psychiatric Institutes of America 1980-1984– Director of Taxation
National Medical Enterprises 1983-1984
Stoy, Malone & Company 1984 – 2000 Tax Manager – Tax Partner
Argy, Wiltse & Robinson, P.C Tax Partner 2001- present

Recognized expert accounting witness by Montgomery County, MD Courts
Recognized accounting expert by arbitration resolution organization, JAMS
Expert witness testimony -- Federal Energy Regulatory Commission
Expert witness support services for many settled cases over the past 20 years

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ATTACHMENT G

Docket No. OR03-5-001
Exhibit No. BPX-7
2006 KMEP K-1 to public unit holder

651105

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
Ogden, UT

D [X] Check if this is a publicly traded partnership (PTP)

E [X] Tax shelter registration number, if any 92289000496

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number

H Partner's name, address, city, state, and ZIP code
R GORDON GOOCH
851 NORTH GLEBE ROAD
SUITE 1911
ARLINGTON VA 22203

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? Individual

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.000000 %	0.000000 %
Loss	0.000000 %	0.000000 %
Capital	0.000000 %	0.000000 %

M Partner's share of liabilities at year end:
Nonrecourse $
Qualified nonrecourse financing $
Recourse $

N Partner's capital account analysis:
Beginning capital account $ 37
Capital contributed during the year $ 0
Current year increase (decrease) $ -3
Withdrawals & distributions $ (3)
Ending capital account $ 31

[X] Tax basis [ ] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss)	-3	15 Credits	
2 Net rental real estate income (loss)			
3 Other net rental income (loss)		16 Foreign transactions	A CANADA/MEXICO
4 Guaranteed payments			F 0
5 Interest income	0		K 0
6a Ordinary dividends	0		M 0
6b Qualified dividends	0		
7 Royalties			
8 Net short-term capital gain (loss)			
9a Net long-term capital gain (loss)		17 Alternative minimum tax (AMT) items	A 0
9b Collectibles (28%) gain (loss)			B 0
9c Unrecaptured section 1250 gain			
10 Net section 1231 gain (loss)	0	18 Tax-exempt income and nondeductible expenses	C 0
11 Other income (loss)			
12 Section 179 deduction		19 Distributions	A 3
13 Other deductions	G 0	20 Other information	
	I 0		A 0
	* STMT		V -3
14 Self-employment earnings (loss)			W* STMT

*See attached statement for additional information.

For IRS Use Only

For Privacy Act and Paperwork Reduction Act Notice, see Instructions for Form 1065.

Cat. No. 11394R Schedule K-1 (Form 1065) 2006

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ATTACHMENT H

Docket No. OR03-5-001
Exhibit No. BPX-8
Kinder Morgan Energy Partners, L.P. SEC Form 10-K for 2003
Consolidated Statements of Partners' Capital, p. 97

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KINDER MORGAN ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	2003		2002		2001	
	Units	Amount	Units	Amount	Units	Amount
			(Dollars in thousands)			
Common Units:						
Beginning Balance	129,943,218	$ 1,844,553	129,855,018	$ 1,894,677	129,716,218	$ 1,957,357
Net income	--	265,423	--	254,934	--	203,559
Units issued as consideration in the acquisition of assets	51,490	2,000	--	--	--	--
Units issued for cash	4,734,550	175,067	88,200	1,532	138,800	2,405
Distributions	--	(340,927)	--	(306,590)	--	(268,644)
Ending Balance	134,729,258	1,946,116	129,943,218	1,844,553	129,855,018	1,894,677
Class B Units:						
Beginning Balance	5,313,400	123,635	5,313,400	125,750	5,313,400	125,961
Net income	--	10,629	--	10,427	--	8,335
Units issued for cash	--	--	--	(2)	--	(44)
Distributions	--	(13,682)	--	(12,540)	--	(8,502)
Ending Balance	5,313,400	120,582	5,313,400	123,635	5,313,400	125,750
i-Units:						
Beginning Balance	45,654,048	1,420,898	30,636,363	1,020,153	--	--
Net income	--	94,761	--	72,200	--	28,354
Units issued for cash	--	--	12,478,900	328,545	29,750,000	991,799
Distributions	3,342,417	--	2,538,785	--	886,363	--
Ending Balance	48,996,465	1,515,659	45,654,048	1,420,898	30,636,363	1,020,153
General Partner:						
Beginning Balance	--	72,100	--	54,628	--	33,749
Net income	--	326,524	--	270,816	--	202,095
Units issued for cash	--	--	--	--	--	(18)
Distributions	--	(314,244)	--	(253,344)	--	(181,198)
Ending Balance	--	84,380	--	72,100	--	54,628
Accumulated other comprehensive income:						
Beginning Balance	--	(45,257)	--	63,826	--	--
Cumulative effect transition adj	--	--	--	--	--	(22,797)
Change in fair value of derivatives used for hedging purposes	--	(192,618)	--	(116,560)	--	35,162
Reclassification of change in fair value of derivatives to net Income	--	82,065	--	7,477	--	51,461
Ending Balance	--	(155,810)	--	(45,257)	--	63,826
Total Partners' Capital	189,039,123	$ 3,510,927	180,910,666	$ 3,415,929	165,804,781	$ 3,159,034

The accompanying notes are an integral part of these consolidated financial statements.

Source: KINDER MORGAN ENERGY, 10-K, March 05, 2004

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ATTACHMENT I

Docket No. OR03-5-001
Exhibit No. BPX-9
KMEP 2003 Form 1065

Form **1065**

Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year 2003, or tax year beginning _____, 2003, and ending _____.
▶ See separate instructions.

OMB No. 1545-0099

2003

A Principal business activity: TRANSPORTATION

B Principal product or service: TRANSPORTATION

C Business code number: 486000

Use the IRS label. Otherwise, print or type.

Name of partnership: KINDER MORGAN ENERGY PARTNERS, L.P.

Number, street, and room or suite no. If a P.O. box, see page 14 of the instructions.: 500 DALLAS STREET, SUITE 1000

City or town, state, and ZIP code: HOUSTON, TX 77002

D Employer identification number: 76-0380342

E Date business started: 03/07/1998

F Total assets (see page 14 of the instructions): $8,117,886,455.

G Check applicable boxes: (1) [ ] Initial return (2) [ ] Final return (3) [ ] Name change (4) [ ] Address change (5) [ ] Amended return

H Check accounting method: (1) [ ] Cash (2) [X] Accrual (3) [ ] Other (specify) ▶

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ 168791

Caution: *Include only trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.*

Income	1 a Gross receipts or sales	1a		
	b Less returns and allowances	1b	1c	
	2 Cost of goods sold (Schedule A, line 8)		2	
	3 Gross profit. Subtract line 2 from line 1c		3	
	4 Ordinary income (loss) from other partnerships, estates, and trusts *(attach schedule)* STMT 1		4	228,803,043.
	5 Net farm profit (loss) *(attach Schedule F (Form 1040))*		5	
	6 Net gain (loss) from Form 4797, Part II, line 18		6	
	7 Other income (loss) *(attach schedule)*		7	
	8 **Total income (loss).** Combine lines 3 through 7		8	228,803,043.
Deductions (see page 15 of the instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)		9	
	10 Guaranteed payments to partners		10	
	11 Repairs and maintenance		11	
	12 Bad debts		12	
	13 Rent		13	
	14 Taxes and licenses		14	
	15 Interest		15	
	16 a Depreciation (if required, attach Form 4562)	16a		
	b Less depreciation reported on Schedule A and elsewhere on return	16b	16c	
	17 Depletion **(Do not deduct oil and gas depletion.)**		17	
	18 Retirement plans, etc.		18	
	19 Employee benefit programs		19	
	20 Other deductions *(attach schedule)*		20	
	21 **Total deductions.** Add the amounts shown in the far right column for lines 9 through 20		21	
	22 **Ordinary income (loss)** from trade or business activities. Subtract line 21 from line 8		22	228,803,043.

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member) is based on all information of which preparer has any knowledge.

▶ Signature of general partner or limited liability company member ▶ Date 10/15/04

May the IRS discuss this return with the preparer shown below (see instructions)? [X] Yes [ ] No

Paid Preparer's Use Only

Preparer's signature ▶ | Date | Check if self-employed ▶ [ ] | Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ PRICEWATERHOUSECOOPERS LLP, 2001 ROSS AVENUE, SUITE 1800, DALLAS, TX 75201-2997

EIN ▶ 13-4008324

Phone no.

For Paperwork Reduction Act Notice, see separate instructions.

Form **1065** (2003)

3P1010 1.000

SF03 09669

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Form **8736**
(Rev. October 2003)
Department of the Treasury
Internal Revenue Service

Application for Automatic Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts

▶ File a separate application for each return.

OMB No 1545-1054

Type or print.

File by the due date for filing the return for which an extension is requested. See instructions.

Name: KINDER MORGAN ENERGY PARTNERS, L.P.

Employer identification number: 76-0380342

Number, street, and room or suite no. If a P.O. box, see instructions.: 500 DALLAS STREET, SUITE 1000

City or town, state, and ZIP code. If a foreign address, enter city, province or state, and country. Follow the country's practice for entering the postal code.: HOUSTON, TX 77002

1 I request an automatic 3-month extension of time to file (check only one):
☐ Form 1041 ☐ Form 1041-N ☐ Form 1041-QFT ☒ Form 1065 ☐ Form 1065-B ☐ Form 1066

2 If the entity does not have an office or place of business in the United States, check this box ▶ ☐

3a For calendar year 2003, or other tax year beginning _____, and ending _____

b If this tax year is for less than 12 months, check reason:
☐ Initial return ☐ Final return ☐ Change in accounting period

4 If this extension is requested for Form 1041, 1041-N, 1041-QFT, 1065-B, or 1066, enter the following amounts:

a Tentative total tax from Form 1041, 1041-N, 1041-QFT, 1065-B, or 1066 (see instructions) _____

b Refundable credits and estimated tax payments, including any prior year overpayment allowed as a credit, from Form 1041, 1041-N, 1041-QFT, or 1065-B (see instructions). REMICs, enter -0- _____

c Balance due. Subtract line 4b from line 4a. If zero or less, enter -0-. Enclose payment, if any, with Form 8736 (see instructions) ▶ NONE

Caution: *Interest will be charged on any tax not paid by the regular due date of Forms 1041, 1041-N, 1041-QFT, 1065-B, and 1066 from the due date until the tax is paid.*

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Use Form 8736 to request an automatic 3-month extension of time to file a return for:

- Trusts filing Form 1041, U.S. Income Tax Return for Estates and Trusts, Form 1041-N, U.S. Income Tax Return for Electing Alaska Native Settlement Trusts, or Form 1041-QFT, U.S. Income Tax Return for Qualified Funeral Trusts.
- Partnerships filing Form 1065, U.S. Return of Partnership Income, or Form 1065-B, U.S. Return of Income for Electing Large Partnerships.
- Real estate mortgage investment conduits filing Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return.

If allowed, the automatic extension will extend the due date of the return to the 15th day of the 3rd month following the month in which the regular due date falls. The automatic 3-month extension period includes any 2-month extension granted under Regulations section 1.6081-5 to certain foreign partnerships.

Note: *An estate filing Form 1041 should not file this form. Instead, it should request an extension using Form 2758, Application for Extension of Time To File Certain Excise, Income, Information, and Other Returns.*

The extension will be allowed if you complete Form 8736 properly, make a proper estimate of the tax on line 4a (if applicable), and file the form on time. We will notify you only if your request for an extension is not allowed.

For most partnerships, trusts, and REMICs, an automatic extension will extend the due date of the return to July 15th of the year following the close of the calendar year.

When To File

File Form 8736 by the regular due date of the return for which an extension is requested (or, in the case of certain foreign partnerships, by the expiration date of any extension of time to file granted under Regulations section 1.6081-5). The regular due date is generally the 15th day of the 4th month following the close of the entity's tax year.

Additional Extension of Time To File

If Form 8736 has already been filed but more time is needed, file Form 8800, Application for Additional Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts. Except in cases of undue hardship, do not file Form 8800 unless Form 8736 has already been filed. Before an additional extension can be granted, the entity must show reasonable cause for the additional time needed to file.

Ask for the additional extension early so that if it is denied the return can still be filed on time.

Where To File

File Form 8736 with the Internal Revenue Service Center where the entity will file its return.

No Blanket Requests

File a separate Form 8736 for each return for which you are requesting an extension of time to file. This extension will apply only to the specific return checked on line 1. It does not extend the time for filing any related returns. For example, an automatic extension of time to file Form 1065 will not apply to the income tax returns of the partners of the partnership.

SF03 09670

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Form 8800 (Rev. September 2003) Department of the Treasury Internal Revenue Service

Application for Additional Extension of Time to File U.S. Return for a Partnership, REMIC, or for Certain Trusts

▶ File a separate application for each return.

OMB No. 1545-1057

Type or print. File the original and one copy by the due date for filing the return for which an extension is requested. See instructions.

Name: KINDER MORGAN ENERGY PARTNERS, L.P.

Employer identification number: 76-0380342

Number, street, and room or suite no. (If a P.O. box, see instructions.): 500 DALLAS STREET, SUITE 1000

City or town, state, and ZIP code. If a foreign address, enter city, province or state, and country. Follow the country's practice for entering the postal code.: HOUSTON, TX 77002

1 I request an additional extension of time until 10/15/2004, to file (check only one):
[ ] Form 1041 [ ] Form 1041-N [ ] Form 1041-QFT [X] Form 1065 [ ] Form 1065-B [ ] Form 1066

2 If the entity does not have an office or place of business in the United States, check this box ▶ [ ]

3 a For calendar year 2003, or other tax year beginning _____, _____, and ending _____, _____

b If this tax year is for less than 12 months, check reason: [ ] Initial return [ ] Final return [ ] Change in accounting period

4 Explain why the entity needs an extension. All entities filing this form must give an adequate explanation.
TAXPAYER RESPECTFULLY REQUESTS AN ADDITIONAL EXTENSION OF TIME TO FILE IN ORDER TO GATHER THE INFORMATION NECESSARY TO FILE A COMPLETE AND ACCURATE RETURN.

5 Has the entity filed Form 8736 to request an extension of time to file for this tax year? [X] Yes [ ] No
If you checked "No," we will grant an extension only for undue hardship. Fully explain the hardship on line 4.

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that I am authorized to prepare this form.

Signature ▶ [signature] Title ▶ VP/CHIEF TAX OFFICER Date ▶ 7/8/04

File original and one copy. The IRS will show below whether or not your application is approved and will return the copy.

Notice to Applicant - To Be Completed by the IRS.

[ ] We have approved this application. Please attach this form to the entity's return.

[ ] We have not approved this application.
However, we have granted a 10-day grace period to _____. This grace period is considered a valid extension of time for elections otherwise required to be made on a timely return. Please attach this form to the entity's return.

[ ] We have not approved this application. After considering the reasons stated on line 4 above, we cannot grant this request for an extension of time to file. We are not granting a 10-day grace period.

[ ] We cannot consider this application because it was filed after the due date of the return for which an extension was requested.

[ ] Other: _____

By: _____
Director

EXTENSION APPROVED
JUL 27 2004
LINDA WEISKOFF, FIELD DIRECTOR, SUBMISSION PROCESSING, OGDEN

If you want a copy of this form to be returned to an address other than that shown above, please enter the address to which the copy should be sent.

Type or Print
Name
Number, street, and room or suite no. (If a P.O. box, see instructions.)
City or town, state, and ZIP code. If a foreign address, enter city, province or state, and country. Follow the country's practice for entering the postal code.

For Paperwork Reduction Act Notice, see page 2.

Form 8800 (Rev. 9-2003)

JSA
3X0652 3.000

SF03 09671

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Schedule A Cost of Goods Sold (see page 19 of the instructions)

1	Inventory at beginning of year	1	
2	Purchases less cost of items withdrawn for personal use	2	
3	Cost of labor	3	
4	Additional section 263A costs *(attach schedule)*	4	
5	Other costs *(attach schedule)*	5	
6	**Total.** Add lines 1 through 5	6	
7	Inventory at end of year	7	
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	

9a Check all methods used for valuing closing inventory:

(i) [ ] Cost as described in Regulations section 1.471-3

(ii) [ ] Lower of cost or market as described in Regulations section 1.471-4

(iii) [ ] Other (specify method used and attach explanation) ▶

b Check this box if there was a writedown of "subnormal" goods as described in Regulations section 1.471-2(c) ▶ [ ]

c Check this box if the LIFO inventory method was adopted this tax year for any goods *(if checked, attach Form 970)* ▶ [ ]

d Do the rules of section 263A (for property produced or acquired for resale) apply to the partnership? [ ] Yes [ ] No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? [ ] Yes [ ] No

If "Yes," attach explanation.

Schedule B Other Information

		Yes	No
1	What type of entity is filing this return? Check the applicable box:		
	a [ ] Domestic general partnership b [X] Domestic limited partnership		
	c [ ] Domestic limited liability company d [ ] Domestic limited liability partnership		
	e [ ] Foreign partnership f [ ] Other ▶		
2	Are any partners in this partnership also partnerships?	X	
3	During the partnership's tax year, did the partnership own any interest in another partnership or in any foreign entity that was disregarded as an entity separate from its owner under Regulations sections 301.7701-2 and 301.7701-3? If yes, see instructions for required attachment . . . SEE STATEMENT 1.	X	
4	Is this partnership subject to the consolidated audit procedures of sections 6221 through 6233? If "Yes," see **Designation of Tax Matters Partner** below	X	
5	Does this partnership meet **all three** of the following requirements?		
	a The partnership's total receipts for the tax year were less than $250,000;		
	b The partnership's total assets at the end of the tax year were less than $600,000; and		
	c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.		
	If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item J on Schedule K-1		X
6	Does this partnership have any foreign partners? If "Yes," the partnership may have to file Forms 8804, 8805 and 8813. See page 20 of the instructions	X	
7	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?	X	
8	Has this partnership filed, or is it required to file, **Form 8264**, Application for Registration of a Tax Shelter?	X	
9	At any time during calendar year 2003, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See page 20 of the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country. ▶		X
10	During the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520. See page 20 of the instructions		X
11	Was there a distribution of property or a transfer (e.g., by sale or death) of a partnership interest during the tax year? If "Yes," you may elect to adjust the basis of the partnership's assets under section 754 by attaching the statement described under **Elections Made By the Partnership** on page 8 of the instructions	X	
12	Enter the number of **Forms 8865**, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return ▶ NONE		

Designation of Tax Matters Partner (see page 21 of the instructions)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ KINDER MORGAN GP, INC. Identifying number of TMP ▶ 47-0495888

Address of designated TMP ▶ ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000 HOUSTON TX
77002

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Schedule K Partners' Shares .come, Credits, Deductions, etc.

	(a) Distributive share items		(b) Total amount
Income (Loss)	1 Ordinary income (loss) from trade or business activities (page 1, line 22)	1	228,803,043.
	2 Net income (loss) from rental real estate activities *(attach Form 8825)*	2	
	3a Gross income from other rental activities 3a 3,870,170.		
	b Expenses from other rental activities *(attach schedule)* 3b		
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c	3,870,170.
	4 Portfolio income (loss) *(attach Schedule D (Form 1065) for lines 4d and 4e)*:		
	a Interest income SEE STATEMENT 1	4a	16,797,660.
	b Dividends: (1) Qualified dividends ▶ 11,710,802. (2) Total ordinary dividends ▶	4b	15,020,410.
	c Royalty income	4c	
	d Net short-term capital gain (loss): (1) post-May 5, 2003 ▶ (2) Entire year ▶	4d(2)	
	e Net long-term capital gain (loss): (1) post-May 5, 2003 ▶ (2) Entire year ▶	4e(2)	
	f Other portfolio income (loss) *(attach schedule)*	4f	
	5 Guaranteed payments to partners	5	
	6a Net section 1231 gain (loss) *(attach Form 4797)* (post-May 5,2003)	6a	-3,615,374.
	b Net section 1231 gain (loss) *(attach Form 4797)* (entire year) SEE STATEMENT 2	6b	-3,965,620.
	7 Other income (loss) *(attach schedule)*	7	
Deductions	8 Charitable contributions *(attach schedule)*	8	
	9 Section 179 expense deduction *(attach Form 4562)*	9	
	10 Deductions related to portfolio income (itemize)	10	
	11 Other deductions *(attach schedule)*	11	
Credits	12a Low-income housing credit: (1) From partnerships to which section 42(j)(5) applies	12a(1)	
	(2) Other than on line 12a(1)	12a(2)	
	b Qualified rehabilitation expenditures related to rental real estate activities *(attach Form 3468)*	12b	
	c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c	
	d Credits related to other rental activities	12d	
	13 Other credits SEE STATEMENT 2	13	43,231,980.
Investment Interest	14a Interest expense on investment debts SEE STATEMENT 2	14a	9,122,162.
	b (1) Investment income included on lines 4a, 4b, 4c, and 4f above	14b(1)	31,818,070.
	(2) Investment expenses included on line 10 above	14b(2)	
Self-Employment	15a Net earnings (loss) from self-employment	15a	
	b Gross farming or fishing income	15b	
	c Gross nonfarm income	15c	
Adjustments and Tax Preference Items	16a Depreciation adjustment on property placed in service after 1986 STMT 2	16a	34,300,845.
	b Adjusted gain or loss	16b	
	c Depletion (other than oil and gas)	16c	
	d (1) Gross income from oil, gas, and geothermal properties	16d(1)	
	(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)	
	e Other adjustments and tax preference items *(attach schedule)*	16e	
Foreign Taxes	17a Name of foreign country or U.S. possession ▶		
	b Gross income from all sources	17b	
	c Gross income sourced at partner level	17c	
	d Foreign gross income sourced at partnership level: SEE STATEMENT 2		
	(1) Passive ▶ (2) Listed categories *(attach schedule)* ▶ (3) General limitation ▶	17d(3)	20,566,127.
	e Deductions allocated and apportioned at partner level:		
	(1) Interest expense ▶ (2) Other ▶	17e(2)	
	f Deductions allocated and apportioned at partnership level to foreign source income:		
	(1) Passive ▶ (2) Listed categories *(attach schedule)* ▶ (3) General limitation ▶	17f(3)	21,539,162.
	g Total foreign taxes (check one): ▶ Paid [ ] Accrued [X] SEE STATEMENT 3	17g	1,459,439.
	h Reduction in taxes available for credit *(attach schedule)*	17h	
Other	18 Section 59(e)(2) expenditures: a Type ▶ IDC b Amount ▶	18b	44,305,832.
	19 Tax-exempt interest income	19	
	20 Other tax-exempt income	20	
	21 Nondeductible expenses SEE STATEMENT 3	21	434,243.
	22 Distributions of money (cash and marketable securities)	22	668,853,474.
	23 Distributions of property other than money	23	
	24 Other items and amounts required to be reported separately to partners *(attach schedule)*		

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Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 7 in column (b). From the result, subtract the sum of Schedule K, lines 8 through 11, 14a, 17g, and 18b	1	205,638,230.

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other
a General partners	316295160.					
b Limited partners	-80739836.		-265106510	-10087081.	-48862723.	-23807111.

Note: Schedules L, M-1 and M-2 are not required if Question 5 of Schedule B is answered "Yes."

Schedule L Balance Sheets per Books

	Beginning of tax year		End of tax year	
Assets	(a)	(b)	(c)	(d)
1 Cash		1,540,027.		45,873.
2a Trade notes and accounts receivable	4058963636.		157,347,600.	
b Less allowance for bad debts		4058963636.		157,347,600.
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets (attach schedule)	STMT 4	-75,000.		27,949,374.
7 Mortgage and real estate loans				
8 Other investments (attach schedule)				
9a Buildings and other depreciable assets				
b Less accumulated depreciation				
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets (attach schedule)	STMT 4	7134718240.		7932543608.
14 Total assets		11195146903.		8117886455.
Liabilities and Capital				
15 Accounts payable		4107571922.		142,167,647.
16 Mortgages, notes, bonds payable in less than 1 year		NONE		2,248,136.
17 Other current liabilities (attach schedule)	STMT 4	48,353,277.		47,284,349.
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more		3578035746.		4251030600.
20 Other liabilities (attach schedule)	STMT 4	NONE		8,418,946.
21 Partners' capital accounts		3461185958.		3666736777.
22 Total liabilities and capital		11195146903.		8117886455.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

1 Net income (loss) per books	697,337,369.	5 Income recorded on books this year not included on Schedule K, lines 1 through 7 (itemize): a Tax-exempt interest $	
2 Income included on Schedule K, lines 1 through 4, 6, and 7, not recorded on books this year (itemize): STMT 4	205,203,987.	SEE STATEMENT 5	697,337,369.
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, lines 1 through 11, 14a, 17g, and 18b, not charged against book income this year (itemize): a Depreciation $	
4 Expenses recorded on books this year not included on Schedule K, lines 1 through 11, 14a, 17g, and 18b (itemize): a Depreciation $			
b Travel and entertainment $ SEE STATEMENT 5	434,243.	8 Add lines 6 and 7	697,337,369.
5 Add lines 1 through 4	902,975,599.	9 Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	205,638,230.

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year	3,461,185,958.	6 Distributions: a Cash STMT 5	668,853,474.
2 Capital contributed: a Cash	175,566,924.	b Property	
b Property	2,000,000.	7 Other decreases (itemize):	
3 Net income (loss) per books	697,337,369.	SEE STATEMENT 5	500,000.
4 Other increases (itemize):		8 Add lines 6 and 7	669,353,474.
5 Add lines 1 through 4	4,336,090,251.	9 Balance at end of year. Subtract line 8 from line 5	3,666,736,777.

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Form **4797**

Department of the Treasury
Internal Revenue Service (99)

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return. ▶ See separate instructions.

OMB No. 1545-0184

2003

Attachment Sequence No. 27

Name(s) shown on return: KINDER MORGAN ENERGY PARTNERS, L.P.

Identifying number: 76-0380342

1 Enter the gross proceeds from sales or exchanges reported to you for 2003 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) . . . 1

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft – Most Property Held More Than 1 Year (See instructions.)

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) for entire year Subtract (f) from the sum of (c) and (e)	(h) Post-May 5, 2003, gain or (loss)* (see below)
2 SEE STATEMENT 6						-3,965,620-	3,615,374.

3 Gain, if any, from Form 4684, line 39	3		
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37	4		
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5		
6 Gain, if any, from line 32, from other than casualty or theft	6		
7 Combine lines 2 through 6 in columns (g) and (h). Enter the gain or (loss) here and on the appropriate line as follows.	7	-3,965,620-	3,615,374.
Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 6, or Form 1120S, Schedule K, line 5. Skip lines 8, 9, 11, and 12 below.			
All others. If line 7, column (g) is zero or a loss, enter that amount on line 11 below and skip lines 8, 9 and 12. If line 7, column (g), is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain or (loss) in each column as a long-term capital gain or (loss) on Schedule D and skip lines 8, 9, 11, and 12 below.			
8 Nonrecaptured net section 1231 losses from prior years (see instructions)	8		
9 Subtract line 8 from line 7. If line 9, column (g), is zero or less, enter -0- in column (g). If line 9, column (g), is zero, enter the gain from line 7, column (g), on line 12 below. If line 9, column (g), is more than zero, enter the amount from line 8, column (g), on line 12 below and include the gain or (loss) in each column of line 9 as a long-term capital gain or (loss) on Schedule D (see instructions)	9		

*Corporations (other than S corporations) should not complete column (h). Partnerships and S corporations must complete column (h). All others must complete column (h) only if line 7, column (g), is a gain and the amount, if any, on line 8, column (g), does not exceed the gain on line 7, column (g). Include in column (h) all gains and losses from column (g) from sales, exchanges, or conversions (including installment payments received) after May 5, 2003. However, do not include gain attributable to unrecaptured section 1250 gain.

Part II Ordinary Gains and Losses

10 Ordinary gains and losses not included on lines 11 through 17 (include property held 1 year or less):

11 Loss, if any, from line 7, column (g)	11	( )
12 Gain, if any, from line 7, column (g), or amount from line 8, column (g), if applicable	12	
13 Gain, if any, from line 31	13	
14 Net gain or (loss) from Form 4684, lines 31 and 38a	14	
15 Ordinary gain from installment sales from Form 6252, line 25 or 36	15	
16 Ordinary gain or (loss) from like-kind exchanges from Form 8824	16	
17 Recapture of section 179 expense deduction for partners and S corporation shareholders (or property dispositions from 2002-2003 fiscal year partnerships and S corporations (see instructions)	17	
18 Combine lines 10 through 17. Enter the gain or (loss) here and on the appropriate line as follows:	18	
a For all except individual returns. Enter the gain or (loss) from line 18 on the return being filed.		
b For individual returns:		
(1) If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 27, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 22. Identify as from "Form 4797, line 18b(1)." See instructions	18b(1)	
(2) Redetermine the gain or (loss) on line 18 excluding the loss, if any, on line 18b(1). Enter here and on Form 1040, line 14	18b(2)	

For Paperwork Reduction Act Notice, see page 7 of the instructions.

Form **4797** (2003)

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Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A		
B		
C		
D		

These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20 Gross sales price (Note: See line 1 before completing.)	20				
21 Cost or other basis plus expense of sale	21				
22 Depreciation (or depletion) allowed or allowable	22				
23 Adjusted basis. Subtract line 22 from line 21	23				
24 Total gain. Subtract line 23 from line 20	24				
25 If section 1245 property:					
a Depreciation allowed or allowable from line 22	25a				
b Enter the smaller of line 24 or 25a	25b				
26 If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
a Additional depreciation after 1975 (see instructions)	26a				
b Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions)	26b				
c Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e	26c				
d Additional depreciation after 1969 and before 1976	26d				
e Enter the smaller of line 26c or 26d	26e				
f Section 291 amount (corporations only)	26f				
g Add lines 26b, 26e, and 26f	26g				
27 If section 1252 property: Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).					
a Soil, water, and land clearing expenses	27a				
b Line 27a multiplied by applicable percentage (see instructions)	27b				
c Enter the smaller of line 24 or 27b	27c				
28 If section 1254 property:					
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, and mining exploration costs (see instructions)	28a				
b Enter the smaller of line 24 or 28a	28b				
29 If section 1255 property:					
a Applicable percentage of payments excluded from income under section 126 (see instructions)	29a				
b Enter the smaller of line 24 or 29a (see instructions)	29b				

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30 Total gains for all properties. Add property columns A through D, line 24	30	
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	
32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6, column (g), and if applicable, column (h)	32	

Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less (See instructions.)

		(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years	33		
34 Recomputed depreciation. See instructions	34		
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35		

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Form **8886**
(Rev. June 2004)
Department of the Treasury
Internal Revenue Service

Reportable Transaction Disclosure Statement

▶ Attach to your tax return.
▶ See separate instructions.

OMB No. 1545-1800
Attachment Sequence No. 137

Name(s) shown on return: KINDER MORGAN ENERGY PARTNERS, L.P.
Identifying number: 76-0380342

Number, street, and room or suite no.: 500 DALLAS STREET, SUITE 1000

City or town, state, and ZIP code: HOUSTON, TX 77002

1a Name of reportable transaction: KINDER MORGAN O.L.P. 'A' K-1 INCOME

1b Tax shelter registration number (11-digits) (if any)

2 Identify the type of reportable transaction. Check the box(es) that apply (see instructions).

- (a) [ ] Listed transaction
- (b) [ ] Confidential transaction
- (c) [ ] Transaction with contractual protection
- (d) [ ] Loss transaction
- (e) [X] Transaction with significant book-tax difference
- (f) [ ] Transaction with brief asset holding period

3 If the transaction is a "listed transaction" or substantially similar to a listed transaction, identify the listed transaction (see instructions) ▶

4 Enter the number of transactions reported on this form ▶ 1

5 If you invested in the transaction through another entity, such as a partnership, an S corporation, or a foreign corporation, identify the name and employer identification number (EIN) (if any) of that entity ▶

6 Enter in columns (a) and (b) below, the name and address of each person to whom you paid a fee with regard to the transaction if that person promoted, solicited, or recommended your participation in the transaction, or provided tax advice related to the transaction.

(a) Name	(b) Address

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7 **Facts.** Describe the facts of the transaction that relate to the expected tax benefits, including your participation in the transaction. For listed transactions identified in item 2a, also provide the complete name, address, and nature of involvement of all parties to the transaction (see instructions).

KINDER MORGAN ENERGY PARTNERS, LP OWNS A PARTNERSHIP INTEREST IN KINDER MORGAN O.L.P.'A' THE PARTNERSHIP INVESTMENT GENERATES INCOME OR LOSSES ANNUALLY BASED ON THE EARNINGS OF THE PARTNERSHIP. THE EXPECTED TAX BENEFITS TO THE KINDER MORGAN ENERGY PARTNERS, LPS' PARTNERS WOULD DERIVE FROM KINDER MORGAN ENERGY PARTNERS, LPS' SHARE OF PARTNERSHIP GAAP INCOME IN EXCESS OF TAXABLE INCOME. IN 2003 THE PARTNERSHIP'S GAAP PROFITS WERE IN EXCESS OF FEDERAL TAXABLE PROFITS LARGELY DUE TO DIFFERENCES BETWEEN ALLOWABLE FEDERAL AND GAAP DEPRECIATION.

8 **Expected tax benefits.** Describe the expected tax benefits, including deductions, exclusions from gross income, nonrecognition of gain, tax credits, adjustments (or the absence of adjustments) to the basis of property, etc. (see instructions for more details).

THE PARTNERSHIP INVESTMENT GENERATES INCOME OR LOSSES ANNUALLY BASED ON THE EARNINGS OF THE PARTNERSHIP. KINDER MORGAN ENERGY PARTNERS, LP RECEIVES K-1 INFORMATION FROM KINDER MORGAN O.L.P. 'A' ANNUALLY. THE EXPECTED TAX BENEFITS TO THE KINDER MORGAN ENERGY PARTNERS, LPS' PARTNERS WOULD DERIVE FROM KINDER MORGAN ENERGY PARTNERS, LPS' SHARE OF PARTNERSHIP GAAP PROFITS IN EXCESS OF FEDERAL TAXABLE PROFITS IN ANY SINGLE YEAR.

9 **Estimated tax benefits.** Provide a separate estimate of the amount of each of the expected tax benefits described above for each affected tax year (including prior and future years).

2003 - NIL

SF03 09678

Form **8886**
(Rev. June 2004)
Department of the Treasury
Internal Revenue Service

Reportable Transaction Disclosure Statement

▶ Attach to your tax return.
▶ See separate instructions.

OMB No. 1545-1800
Attachment Sequence No. 137

Name(s) shown on return: KINDER MORGAN ENERGY PARTNERS, L.P.
Identifying number: 76-0380342
Number, street, and room or suite no.: 500 DALLAS STREET, SUITE 1000
City or town, state, and ZIP code: HOUSTON, TX 77002

1a Name of reportable transaction: KINDER MORGAN O.L.P. 'C' K-1 INCOME

1b Tax shelter registration number (11-digits) (if any)

2 Identify the type of reportable transaction. Check the box(es) that apply (see instructions).

(a) [ ] Listed transaction
(b) [ ] Confidential transaction
(c) [ ] Transaction with contractual protection
(d) [ ] Loss transaction
(e) [X] Transaction with significant book-tax difference
(f) [ ] Transaction with brief asset holding period

3 If the transaction is a "listed transaction" or substantially similar to a listed transaction, identify the listed transaction (see instructions) ▶

4 Enter the number of transactions reported on this form ▶ 1

5 If you invested in the transaction through another entity, such as a partnership, an S corporation, or a foreign corporation, identify the name and employer identification number (EIN) (if any) of that entity ▶

6 Enter in columns (a) and (b) below, the name and address of each person to whom you paid a fee with regard to the transaction if that person promoted, solicited, or recommended your participation in the transaction, or provided tax advice related to the transaction.

(a) Name	(b) Address

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7 **Facts.** Describe the facts of the transaction that relate to the expected tax benefits, including your participation in the transaction. For listed transactions identified in item 2a, also provide the complete name, address, and nature of involvement of all parties to the transaction (see instructions).

KINDER MORGAN ENERGY PARTNERS, LP OWNS A PARTNERSHIP INTEREST IN KINDER MORGAN O.L.P.'C' THE PARTNERSHIP INVESTMENT GENERATES INCOME OR LOSSES ANNUALLY BASED ON THE EARNINGS OF THE PARTNERSHIP. THE EXPECTED TAX BENEFITS TO THE KINDER MORGAN ENERGY PARTNERS, LPS' PARTNERS WOULD DERIVE FROM KINDER MORGAN ENERGY PARTNERS, LPS' SHARE OF PARTNERSHIP GAAP INCOME IN EXCESS OF TAXABLE INCOME. IN 2003 THE PARTNERSHIP'S GAAP PROFITS WERE IN EXCESS OF FEDERAL TAXABLE PROFITS LARGELY DUE TO DIFFERENCES BETWEEN ALLOWABLE FEDERAL AND GAAP DEPRECIATION.

8 **Expected tax benefits.** Describe the expected tax benefits, including deductions, exclusions from gross income, nonrecognition of gain, tax credits, adjustments (or the absence of adjustments) to the basis of property, etc. (see instructions for more details).

THE PARTNERSHIP INVESTMENT GENERATES INCOME OR LOSSES ANNUALLY BASED ON THE EARNINGS OF THE PARTNERSHIP. KINDER MORGAN ENERGY PARTNERS, LP RECEIVES K-1 INFORMATION FROM KINDER MORGAN O.L.P. 'C' ANNUALLY. THE EXPECTED TAX BENEFITS TO THE KINDER MORGAN ENERGY PARTNERS, LPS' PARTNERS WOULD DERIVE FROM KINDER MORGAN ENERGY PARTNERS, LPS' SHARE OF PARTNERSHIP GAAP PROFITS IN EXCESS OF FEDERAL TAXABLE PROFITS IN ANY SINGLE YEAR.

9 **Estimated tax benefits.** Provide a separate estimate of the amount of each of the expected tax benefits described above for each affected tax year (including prior and future years).

2003 - NIL

SF03 09680

Form **8886**
(Rev. June 2004)
Department of the Treasury
Internal Revenue Service

Reportable Transaction Disclosure Statement

▶ Attach to your tax return.
▶ See separate instructions.

OMB No. 1545-1800
Attachment Sequence No. 137

Name(s) shown on return: KINDER MORGAN ENERGY PARTNERS, L.P.
Identifying number: 76-0380342
Number, street, and room or suite no.: 500 DALLAS STREET, SUITE 1000
City or town, state, and ZIP code: HOUSTON, TX 77002

1a Name of reportable transaction: KINDER MORGAN O.L.P. 'D' K-1 INCOME

1b Tax shelter registration number (11-digits) (if any)

2 Identify the type of reportable transaction. Check the box(es) that apply (see instructions).

- (a) [ ] Listed transaction
- (b) [ ] Confidential transaction
- (c) [ ] Transaction with contractual protection
- (d) [ ] Loss transaction
- (e) [X] Transaction with significant book-tax difference
- (f) [ ] Transaction with brief asset holding period

3 If the transaction is a "listed transaction" or substantially similar to a listed transaction, identify the listed transaction (see instructions) ▶

4 Enter the number of transactions reported on this form ▶ 1

5 If you invested in the transaction through another entity, such as a partnership, an S corporation, or a foreign corporation, identify the name and employer identification number (EIN) (if any) of that entity ▶

6 Enter in columns (a) and (b) below, the name and address of each person to whom you paid a fee with regard to the transaction if that person promoted, solicited, or recommended your participation in the transaction, or provided tax advice related to the transaction.

(a) Name	(b) Address

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7 **Facts.** Describe the facts of the transaction that relate to the expected tax benefits, including your participation in the transaction. For listed transactions identified in item 2a, also provide the complete name, address, and nature of involvement of all parties to the transaction (see instructions).

KINDER MORGAN ENERGY PARTNERS, LP OWNS A PARTNERSHIP INTEREST IN KINDER MORGAN O.L.P.'D' THE PARTNERSHIP INVESTMENT GENERATES INCOME OR LOSSES ANNUALLY BASED ON THE EARNINGS OF THE PARTNERSHIP. THE EXPECTED TAX BENEFITS TO THE KINDER MORGAN ENERGY PARTNERS, LPS' PARTNERS WOULD DERIVE FROM KINDER MORGAN ENERGY PARTNERS, LPS' SHARE OF PARTNERSHIP GAAP INCOME IN EXCESS OF TAXABLE INCOME. IN 2003 THE PARTNERSHIP'S GAAP PROFITS WERE IN EXCESS OF FEDERAL TAXABLE PROFITS LARGELY DUE TO DIFFERENCES BETWEEN ALLOWABLE FEDERAL AND GAAP DEPRECIATION.

8 **Expected tax benefits.** Describe the expected tax benefits, including deductions, exclusions from gross income, nonrecognition of gain, tax credits, adjustments (or the absence of adjustments) to the basis of property, etc. (see instructions for more details).

THE PARTNERSHIP INVESTMENT GENERATES INCOME OR LOSSES ANNUALLY BASED ON THE EARNINGS OF THE PARTNERSHIP. KINDER MORGAN ENERGY PARTNERS, LP RECEIVES K-1 INFORMATION FROM KINDER MORGAN O.L.P. 'D' ANNUALLY. THE EXPECTED TAX BENEFITS TO THE KINDER MORGAN ENERGY PARTNERS, LPS' PARTNERS WOULD DERIVE FROM KINDER MORGAN ENERGY PARTNERS, LPS' SHARE OF PARTNERSHIP GAAP PROFITS IN EXCESS OF FEDERAL TAXABLE PROFITS IN ANY SINGLE YEAR.

9 **Estimated tax benefits.** Provide a separate estimate of the amount of each of the expected tax benefits described above for each affected tax year (including prior and future years).

2003 - NIL

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Form **8886**
(Rev. June 2004)
Department of the Treasury
Internal Revenue Service

Reportable Transaction Disclosure Statement

▶ Attach to your tax return.
▶ See separate instructions.

OMB No. 1545-1800
Attachment Sequence No. 137

Name(s) shown on return: KINDER MORGAN ENERGY PARTNERS, L.P.
Identifying number: 76-0380342
Number, street, and room or suite no.: 500 DALLAS STREET, SUITE 1000
City or town, state, and ZIP code: HOUSTON, TX 77002

1a Name of reportable transaction: KINDER MORGAN CO2 COMPANY LP K-1 INCOME

1b Tax shelter registration number (11-digits) (if any)

2 Identify the type of reportable transaction. Check the box(es) that apply (see instructions).

(a) [ ] Listed transaction
(b) [ ] Confidential transaction
(c) [ ] Transaction with contractual protection
(d) [ ] Loss transaction
(e) [X] Transaction with significant book-tax difference
(f) [ ] Transaction with brief asset holding period

3 If the transaction is a "listed transaction" or substantially similar to a listed transaction, identify the listed transaction (see instructions) ▶

4 Enter the number of transactions reported on this form ▶ 1

5 If you invested in the transaction through another entity, such as a partnership, an S corporation, or a foreign corporation, identify the name and employer identification number (EIN) (if any) of that entity ▶

6 Enter in columns (a) and (b) below, the name and address of each person to whom you paid a fee with regard to the transaction if that person promoted, solicited, or recommended your participation in the transaction, or provided tax advice related to the transaction.

(a) Name	(b) Address

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7 **Facts.** Describe the facts of the transaction that relate to the expected tax benefits, including your participation in the transaction. For listed transactions identified in item 2a, also provide the complete name, address, and nature of involvement of all parties to the transaction (see instructions).

KINDER MORGAN ENERGY PARTNERS, LP OWNS A PARTNERSHIP INTEREST IN KINDER MORGAN CO2 COMPANY LP. THE PARTNERSHIP INVESTMENT GENERATES INCOME OR LOSSES ANNUALLY BASED ON THE EARNINGS OF THE PARTNERSHIP. THE EXPECTED TAX BENEFITS TO THE KINDER MORGAN ENERGY PARTNER, LPS' PARTNERS WOULD DERIVE FROM KINDER MORGAN ENERGY PARTNERS, LPS' SHARE OF PARTNERSHIP GAAP INCOME IN EXCESS OF TAXABLE INCOME. IN 2003 THE PARTNERSHIP'S GAAP PROFITS WERE IN EXCESS OF FEDERAL TAXABLE PROFITS LARGELY DUE TO DIFFERENCES BETWEEN ALLOWABLE FEDERAL AND GAAP DEPRECIATION.

8 **Expected tax benefits.** Describe the expected tax benefits, including deductions, exclusions from gross income, nonrecognition of gain, tax credits, adjustments (or the absence of adjustments) to the basis of property, etc. (see instructions for more details).

THE PARTNERSHIP INVESTMENT GENERATES INCOME OR LOSSES ANNUALLY BASED ON THE EARNINGS OF THE PARTNERSHIP. KINDER MORGAN ENERGY PARTNERS, LP RECEIVES K-1 INFORMATION FROM KINDER MORGAN CO2 COMPANY, LP ANNUALLY. THE EXPECTED TAX BENEFITS TO THE KINDER MORGAN ENERGY PARTNERS, LPS' PARTNERS WOULD DERIVE FROM KINDER MORGAN ENERGY PARTNERS, LPS' SHARE OF PARTNERSHIP GAAP PROFITS IN EXCESS OF FEDERAL TAXABLE PROFITS IN ANY SINGLE YEAR.

9 **Estimated tax benefits.** Provide a separate estimate of the amount of each of the expected tax benefits described above for each affected tax year (including prior and future years).

2003 - NIL

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KINDER MORGAN ENERGY PARTNERS, L.P.
EIN: 76-0380342
FORM 1065
FYE: December 31, 2003

ELECTION OUT OF BONUS DEPRECIATION

Pursuant to Internal Revenue Code Section 168(k)(2)(C)(iii), the taxpayer hereby elects to have Internal Revenue Section 168(k) not apply to all property placed in service during the taxable year described above.

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Kinder Morgan Energy Partners, L.P.
Federal ID # 76-0380342
Tax Year Ended December 31, 2003

PARTNERSHIP RETURN OF INCOME DISCLOSURES

Explanation for the difference between the amount on Form 1065, Page 4, Analysis of Net Income (Loss), Line 2, columns (i) through (vi) and Line 1, page 4:

> "The sum of the tax amounts on Page 4, line 2, columns (i) through (vi) are larger than the Partnership's tax amounts as reported on page 4 line 1. This difference is a result of receiving incomplete information on beneficial owners from the nominees. Nominees are required by Internal Revenue Code Section 6031(c) to provide information on beneficial owners to the Partnership. The amounts reported on page 4, line 2 represent the sum of the Schedule K-1 amounts and therefore include all over allocations. The Schedule K-1 amounts also include the effects of Section 743(b) basis adjustments in the capital balances and therefore do not sum to the total capital balance as shown on Schedule M-2 for Form 1065."

Due to incomplete nominee reporting, all public limited partner capital analyses are reported based on outside tax basis while the general partner's capital analysis is in accordance with financial book reporting.

This partnership is a publicly-traded partnership exempt from treatment as a corporation under Code Section 7704 because more than 90% of its gross income is qualifying income under such code section. This income qualifies under Section 7704 since it is derived from the exploration, development, processing, refining, and transportation of any mineral or natural resource.

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KINDER MORGAN ENERGY PARTNERS, L.P.
Federal ID # 76-0380342
Disclosures under Reg. Sect. 1.743-1(k)
Tax Year Ending December 31, 2003

This partnership has elected to adjust the bases of partnership properties under section 743(b) and therefore must attach a statement to the partnership return for the year of the transfer of a partnership interest setting forth the name and taxpayer identification number of the transferee as well as the computation of the adjustment and the partnership properties to which the adjustment has been allocated. The partnership submits the following three reports to fulfill the disclosure requirements under Reg. Sect. 1.743-1(k):

(1) **Transferee Partner Information** report documents the transferee partner name, address, taxpayer identification number, number of units purchased, group date, and group price. The number of units purchased, group date, and group price are information that serves as a link to the following two reports and allows for a simplified manner of reporting the required information.
(2) **Basis Adjustment Group Calculations** report sets out the calculation of the adjustment for each group date/group price combination. Given the extremely large number of transferee partners, this partnership has adopted a convention of calculating the adjustment for all transferee partners during a particular month based on a convention price or group price. The last column of this schedule shows the adjustment on a per unit basis.
(3) **Monthly Basis Adjustment Allocation to Assets** report details the partnership properties to which the adjustment has been allocated. The last column of this schedule shows the adjustment on a per unit basis.

To determine a particular transferee partners' adjustment and partnership properties to which the adjustment has been allocated, the number of units for the transferee partner from the **Transferee Partner Information** report should be multiplied by the respective per unit amounts from the **Basis Adjustment Group Calculation** report and the **Monthly Basis Adjustment Allocation to Assets** report.

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INCOME OM OTHER PASS-THROUGH ITITIES

Activity Name and Address	ID Number and Type of Income	Disregard Activity	Qualified low-income housing	Publicly traded private
KINDER MORGAN, O.L.P. 'A'	76-0380015			
500 DALLAS, SUITE 1000, HOUSTON, TX 77002	GENERAL TRADE/BUSINESS	NO	NO	NO

Income (Loss)	1	Ordinary Income (Loss)		70,558,270.
	2	Rental Real Estate Income (Loss)		
	3	Other Rental Income (Loss)		3,870,170.
	4a	Interest Income		3,103,223.
	4b(1)	Qualified Dividends		5,417,068.
	4b(2)	Total Ordinary Dividends	SEE STATEMENT 7	7,038,285.
	4c	Royalty Income		
	4d(1)	Net Short-Term Capital Gain (Loss) (post-May 5, 2003)		
	4d(2)	Net-Short-Term Capital Gain (Loss) (entire year)		
	4e(1)	Net Long-Term Capital Gain (Loss) (post-May 5, 2003)		
	4e(2)	Net Long-Term Capital Gain (Loss) (entire year)		
	4f	Other Portfolio Income		
	5	Guaranteed Payments		
	6a	Net Section 1231 Gain (Loss) (post - May 5, 2003)		-5,053,305.
	6b	Net Section 1231 Gain (Loss) (entire year)		-2,966,797.
	7	Other Income (Loss)		
Deductions	8	Charitable Contributions		
	9	Section 179 Expense Deduction		
	10	Deductions Related to Portfolio Income		
	11	Other Deductions		
Credits	12a(1)	Election Low-Income Housing Credit		
	12a(2)	Low-Income Housing Credit From Section 42(j)(5) Partnerships		
	12b	Qualified Rehabilitation Expenditures		
	12c	Credit Related to Rental Real Estate Activities		
	12d	Credit Related to Other Rental Activities		
	13	Other Credits		
Investment Interest	14a	Interest Expense on Investment Debts		2,336,021.
	14b(1)	Investment Income		10,141,508.
	14b(2)	Investment Expense		
Adjustments and Tax Preference Items	16a	Depreciation Adjustment Property after 1986		2,283,103.
	16b	Adjusted Gain or Loss		
	16c	Depletion		
	16d(1)	Gross Income from Oil/Gas/and Geothermal Properties		
	16d(2)	Deductions Allocable to Oil/Gas, and Geothermal Properties		
	16e	Other Adjustments and Tax Preference Items		
Foreign Taxes	17b	Total Gross Income From All Sources		
	17c	Total Gross Income Sourced at Partner Level		
	17d(1)	Passive	SEE STATEMENT 7	
	17d(2)	Listed Categories		
	17d(3)	General Limitation		20,566,127.
	17e(1)	Interest Expense Allocated & Apportioned		
	17e(2)	Other Deductions Allocated & Apportioned		
	17f(1)	Passive Deductions	SEE STATEMENT 7	
	17f(2)	Listed Categories		
	17f(3)	General Limitation		21,539,162.
	17g	Total Foreign Taxes	SEE STATEMENT 7	1,459,439.
	17h	Reduction in Taxes Available for Credit		
	18b	Section 59(e)(2) Expenditures		
Other	19	Tax-Exempt Interest Income		
	20	Other Tax-Exempt Income		
	21	Nondeductible Expenses	SEE STATEMENT 8	112,713.
	24a	Recapture of low-income - From Section 42(j)(5) Partnerships		
	24b	Recapture of low-income - Other		
	25	Supplemental Information		

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INCOME OM OTHER PASS-THROUGH ITITIES

Activity Name and Address	ID Number and Type of Income	Passive Activity	Qualified Passive Income	Publicly Traded Entity
KINDER MORGAN, O.L.P. 'B'	76-0414819			
500 DALLAS, SUITE 1000,HOUSTON, TX 77002	GENERAL TRADE/BUSINESS	NO	NO	NO

Income (Loss)	1	Ordinary Income (Loss)	1,025,708.
	2	Rental Real Estate Income (Loss)	
	3	Other Rental Income (Loss)	
	4a	Interest Income	17,761.
	4b(1)	Qualified Dividends	
	4b(2)	Total Ordinary Dividends	
	4c	Royalty Income	
	4d(1)	Net Short-Term Capital Gain (Loss) (post-May 5, 2003)	
	4d(2)	Net-Short-Term Capital Gain (Loss) (entire year)	
	4e(1)	Net Long-Term Capital Gain (Loss) (post-May 5, 2003)	
	4e(2)	Net Long-Term Capital Gain (Loss) (entire year)	
	4f	Other Portfolio Income	
	5	Guaranteed Payments	
	6a	Net Section 1231 Gain (Loss) (post - May 5, 2003)	
	6b	Net Section 1231 Gain (Loss) (entire year)	
	7	Other Income (Loss)	
Deductions	8	Charitable Contributions	
	9	Section 179 Expense Deduction	
	10	Deductions Related to Portfolio Income	
	11	Other Deductions	
Credits	12a(1)	Election Low-Income Housing Credit	
	12a(2)	Low-Income Housing Credit From Section 42(j)(5) Partnerships	
	12b	Qualified Rehabilitation Expenditures	
	12c	Credit Related to Rental Real Estate Activities	
	12d	Credit Related to Other Rental Activities	
	13	Other Credits	
Investment Interest	14a	Interest Expense on Investment Debts	
	14b(1)	Investment Income	17,761.
	14b(2)	Investment Expense.	
Adjustments and Tax Preference Items	16a	Depreciation Adjustment Property after 1986	-71,595.
	16b	Adjusted Gain or Loss	
	16c	Depletion	
	16d(1)	Gross Income from Oil,/Gas,/and Geothermal Properties	
	16d(2)	Deductions Allocable to Oil,/Gas, and Geothermal Properties	
	16e	Other Adjustments and Tax Preference Items	
Foreign Taxes	17b	Total Gross Income From All Sources	
	17c	Total Gross Income Sourced at Partner Level	
	17d(1)	Passive	
	17d(2)	Listed Categories	
	17d(3)	General Limitation	
	17e(1)	Interest Expense Allocated & Apportioned	
	17e(2)	Other Deductions Allocated & Apportioned	
	17f(1)	Passive Deductions	
	17f(2)	Listed Categories	
	17f(3)	General Limitation	
	17g	Total Foreign Taxes	
	17h	Reduction in Taxes Available for Credit	
	18b	Section 59(a)(2) Expenditures	
Other	19	Tax-Exempt Interest Income	
	20	Other Tax-Exempt Income	
	21	Nondeductible Expenses SEE STATEMENT 8	2,572.
	24a	Recapture of low-income - From Section 42(j)(5) Partnerships	
	24b	Recapture of low-income - Other	
	25	Supplemental information	

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INCOME OM OTHER PASS-THROUGH ITITIES

Activity Name and Address	ID Number and Type of Income	Disposed Activity	Qualified Low-Income Housing	Publicly Traded Partnership
KINDER MORGAN, O.L.P. 'C'	76-0547319			
500 DALLAS, SUITE 1000,HOUSTON, TX 77002	GENERAL TRADE/BUSINESS	NO	NO	NO

Income (Loss)	1	Ordinary Income (Loss)		-7,425,553.
	2	Rental Real Estate Income (Loss)		
	3	Other Rental Income (Loss)		
	4a	Interest Income		12,149,567.
	4b(1)	Qualified Dividends		37,616.
	4b(2)	Total Ordinary Dividends	SEE STATEMENT 8	37,616.
	4c	Royalty Income		
	4d(1)	Net Short-Term Capital Gain (Loss) (post-May 5, 2003)		
	4d(2)	Net-Short-Term Capital Gain (Loss) (entire year)		
	4e(1)	Net Long-Term Capital Gain (Loss) (post-May 5, 2003)		
	4e(2)	Net Long-Term Capital Gain (Loss) (entire year)		
	4f	Other Portfolio Income		
	5	Guaranteed Payments		
	6a	Net Section 1231 Gain (Loss) (post - May 5, 2003)		-57,103.
	6b	Net Section 1231 Gain (Loss) (entire year)		-192,488.
	7	Other Income (Loss)		
Deductions	8	Charitable Contributions		
	9	Section 179 Expense Deduction		
	10	Deductions Related to Portfolio Income		
	11	Other Deductions		
Credits	12a(1)	Election Low-Income Housing Credit		
	12a(2)	Low-Income Housing Credit From Section 42(j)(5) Partnerships		
	12b	Qualified Rehabilitation Expenditures		
	12c	Credit Related to Rental Real Estate Activities		
	12d	Credit Related to Other Rental Activities		
	13	Other Credits		
Investment Interest	14a	Interest Expense on Investment Debts		4,800,523.
	14b(1)	Investment Income		12,187,183.
	14b(2)	Investment Expense		
Adjustments and Tax Preference Items	16a	Depreciation Adjustment Property after 1986		2,902,291.
	16b	Adjusted Gain or Loss		
	16c	Depletion		
	16d(1)	Gross Income from Oil/Gas,/and Geothermal Properties		
	16d(2)	Deductions Allocable to Oil,/Gas, and Geothermal Properties		
	16e	Other Adjustments and Tax Preference Items		
Foreign Taxes	17b	Total Gross Income From All Sources		
	17e	Total Gross Income Sourced at Partner Level		
	17d(1)	Passive		
	17d(2)	Listed Categories		
	17d(3)	General Limitation		
	17e(1)	Interest Expense Allocated & Apportioned		
	17e(2)	Other Deductions Allocated & Apportioned		
	17f(1)	Passive Deductions		
	17f(2)	Listed Categories		
	17f(3)	General Limitation		
	17g	Total Foreign Taxes		
	17h	Reduction in Taxes Available for Credit		
	18b	Section 59(e)(2) Expenditures		
Other	19	Tax-Exempt Interest Income		
	20	Other Tax-Exempt Income		
	21	Nondeductible Expenses	SEE STATEMENT 8	54,300.
	24a	Recapture of low-income - From Section 42(j)(5) Partnerships		
	24b	Recapture of low-income - Other		
	25	Supplemental information		

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INCOME : OM OTHER PASS-THROUGH ITITIES

Activity Name and Address	ID Number and Type of Income	Passive Activity	Qualified Dividend Income Reporting	Publicly traded partnership
KINDER MORGAN O.L.P. 'D'	76-0561780			
500 DALLAS, SUITE 1000, HOUSTON, TX 77002	GENERAL TRADE/BUSINESS	NO	NO	NO

Income (Loss)	1	Ordinary Income (Loss)		88,271,204.
	2	Rental Real Estate Income (Loss)		
	3	Other Rental Income (Loss)		
	4a	Interest Income		1,398,587.
	4b(1)	Qualified Dividends		6,256,118.
	4b(2)	Total Ordinary Dividends	SEE STATEMENT 8	7,944,509.
	4c	Royalty Income		
	4d(1)	Net Short-Term Capital Gain (Loss) (post-May 5, 2003)		
	4d(2)	Net Short-Term Capital Gain (Loss) (entire year)		
	4e(1)	Net Long-Term Capital Gain (Loss) (post-May 5, 2003)		
	4e(2)	Net Long-Term Capital Gain (Loss) (entire year)		
	4f	Other Portfolio Income		
	5	Guaranteed Payments		
	6a	Net Section 1231 Gain (Loss) (post - May 5, 2003)		2,922,414.
	6b	Net Section 1231 Gain (Loss) (entire year)		621,045.
	7	Other Income (Loss)		
Deductions	8	Charitable Contributions		
	9	Section 179 Expense Deduction		
	10	Deductions Related to Portfolio Income		
	11	Other Deductions		
Credits	12a(1)	Election Low-Income Housing Credit		
	12a(2)	Low-Income Housing Credit From Section 42(j)(5) Partnerships		
	12b	Qualified Rehabilitation Expenditures		
	12c	Credit Related to Rental Real Estate Activities		
	12d	Credit Related to Other Rental Activities		
	13	Other Credits		
Investment Interest	14a	Interest Expense on Investment Debts		1,985,618.
	14b(1)	Investment Income		9,343,096.
	14b(2)	Investment Expense		
Adjustments and Tax Preference Items	16a	Depreciation Adjustment Property after 1986		18,373,143.
	16b	Adjusted Gain or Loss		
	16c	Depletion		
	16d(1)	Gross Income from Oil,/Gas,/and Geothermal Properties		
	16d(2)	Deductions Allocable to Oil,/Gas, and Geothermal Properties		
	16e	Other Adjustments and Tax Preference Items		
Foreign Taxes	17b	Total Gross Income From All Sources		
	17c	Total Gross Income Sourced at Partner Level		
	17d(1)	Passive		
	17d(2)	Listed Categories		
	17d(3)	General Limitation		
	17e(1)	Interest Expense Allocated & Apportioned		
	17e(2)	Other Deductions Allocated & Apportioned		
	17f(1)	Passive Deductions		
	17f(2)	Listed Categories		
	17f(3)	General Limitation		
	17g	Total Foreign Taxes		
	17h	Reduction in Taxes Available for Credit		
	18b	Section 59(e)(2) Expenditures		
Other	19	Tax-Exempt Interest Income		
	20	Other Tax-Exempt Income		
	21	Nondeductible Expenses	SEE STATEMENT 9	202,979.
	24a	Recapture of low-income - From Section 42(j)(5) Partnerships		
	24b	Recapture of low-income - Other		
	25	Supplemental Information		

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INCOME OM OTHER PASS-THROUGH ITITIES

Activity Name and Address	ID Number and Type of Income	Passive Activity	Qualified Income Revenue	Publicly traded partnership
KINDER MORGAN CO2 COMPANY, L.P.	76-0554627			
500 DALLAS, SUITE 1000, HOUSTON, TX 77002	GENERAL TRADE/BUSINESS	NO	NO	NO

Income (Loss)	1	Ordinary Income (Loss)		76,373,414.
	2	Rental Real Estate Income (Loss)		
	3	Other Rental Income (Loss)		
	4a	Interest Income		128,522.
	4b(1)	Qualified Dividends		
	4b(2)	Total Ordinary Dividends		
	4c	Royalty Income		
	4d(1)	Net Short-Term Capital Gain (Loss) (post-May 5, 2003)		
	4d(2)	Net-Short-Term Capital Gain (Loss) (entire year)		
	4e(1)	Net Long-Term Capital Gain (Loss) (post-May 5, 2003)		
	4e(2)	Net Long-Term Capital Gain (Loss) (entire year)		
	4f	Other Portfolio Income		
	5	Guaranteed Payments		
	6a	Net Section 1231 Gain (Loss) (post - May 5, 2003)		-1,427,380.
	6b	Net Section 1231 Gain (Loss) (entire year)		-1,427,380.
	7	Other Income (Loss)		
Deductions	8	Charitable Contributions		
	9	Section 179 Expense Deduction		
	10	Deductions Related to Portfolio Income		
	11	Other Deductions		
Credits	12a(1)	Election Low-Income Housing Credit		
	12a(2)	Low-Income Housing Credit From Section 42(j)(5) Partnerships		
	12b	Qualified Rehabilitation Expenditures		
	12c	Credit Related to Rental Real Estate Activities		
	12d	Credit Related to Other Rental Activities		
	13	Other Credits	SEE STATEMENT 9	43,231,980.
Investment Interest	14a	Interest Expense on Investment Debts		
	14b(1)	Investment Income		128,522.
	14b(2)	Investment Expense		
Adjustments and Tax Preference Items	16a	Depreciation Adjustment Property after 1986		10,813,903.
	16b	Adjusted Gain or Loss		
	16c	Depletion		
	16d(1)	Gross Income from Oil,/Gas,/and Geothermal Properties		
	16d(2)	Deductions Allocable to Oil,/Gas, and Geothermal Properties		
	16e	Other Adjustments and Tax Preference Items		
Foreign Taxes	17b	Total Gross Income From All Sources		
	17c	Total Gross Income Sourced at Partner Level		
	17d(1)	Passive		
	17d(2)	Listed Categories		
	17d(3)	General Limitation		
	17e(1)	Interest Expense Allocated & Apportioned		
	17e(2)	Other Deductions Allocated & Apportioned		
	17f(1)	Passive Deductions		
	17f(2)	Listed Categories		
	17f(3)	General Limitation		
	17g	Total Foreign Taxes		
	17h	Reduction in Taxes Available for Credit		
	18b	Section 59(e)(2) Expenditures	SEE STATEMENT 9	44,305,832.
Other	19	Tax-Exempt Interest Income		
	20	Other Tax-Exempt Income		
	21	Nondeductible Expenses	SEE STATEMENT 9	61,679.
	24a	Recapture of low-income - From Section 42(j)(5) Partnerships		
	24b	Recapture of low-income - Other		
	25	Supplemental information		

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FORM 1065 SUPPORTING SCHED\ .S

'NE 4 - PAGE 1 - ORDINARY INCOME FROM OTHER PTNRSHPS AND FIDUCIARIES

FROM KINDER MORGAN, O.L.P. 'A'	70,558,270.
FROM KINDER MORGAN, O.L.P. 'B'	1,025,708.
FROM KINDER MORGAN, O.L.P. 'C'	-7,425,553.
FROM KINDER MORGAN O.L.P. 'D'	88,271,204.
FROM KINDER MORGAN CO2 COMPANY, L.P.	76,373,414.
TOTAL ORDINARY INCOME FROM OTHER PTNRSHPS AND FIDUCIARIES	228,803,043.

SCHEDULE B, QUESTION 3 DETAIL

KINDER MORGAN, O.L.P. 'A'	76-0380015	USA
KINDER MORGAN, O.L.P. 'B'	76-0414819	USA
KINDER MORGAN, O.L.P. 'C'	76-0547319	USA
KINDER MORGAN, O.L.P. 'D'	76-0561780	USA
KINDER MORGAN, CO2 COMPANY, LP	76-0554627	USA

SCHEDULE K - LINE 4A - INTEREST INCOME

INTEREST INCOME FROM PASS-THROUGH ENTITIES	16,797,660.
TOTAL INTEREST INCOME	16,797,660.

SCHEDULE K - LINE 4B - DIVIDEND INCOME

QUALIFIED DIVIDEND INCOME	
FROM KINDER MORGAN, O.L.P. 'A'	5,417,068.
FROM KINDER MORGAN, O.L.P. 'C'	37,616.
FROM KINDER MORGAN O.L.P. 'D'	6,256,118.
OTHER DIVIDEND INCOME	
FROM KINDER MORGAN, O.L.P. 'A'	1,621,217.
FROM KINDER MORGAN O.L.P. 'D'	1,688,391.
TOTAL DIVIDEND INCOME	15,020,410.

SF03 09693

STATEMENT #1

3XX063 1.000

FORM 1065 SUPPORTING SCHED ES

CHEDULE K LINE 6 - NET GAIN(LOSS) UNDER SECTION 1231

	LINE 6A POST-MAY 5, 2003	LINE 6B ENTIRE YEAR
FROM KINDER MORGAN, O.L.P. 'A'	-5,053,305.	-2,966,797.
FROM KINDER MORGAN, O.L.P. 'C'	-57,103.	-192,488.
FROM KINDER MORGAN O.L.P. 'D'	2,922,414.	621,045.
FROM KINDER MORGAN CO2 COMPANY, L.P.	-1,427,380.	-1,427,380.
TOTAL NET GAIN(LOSS) UNDER SECTION 1231	-3,615,374.	-3,965,620.

SCHEDULE K - LINE 13 - OTHER CREDITS

FROM KINDER MORGAN CO2 COMPANY, L.P.	43,231,980.
TOTAL OTHER CREDITS	43,231,980.

SCHEDULE K - LINE 14A - INTEREST EXPENSE ON INVESTMENT DEBTS

FROM KINDER MORGAN, O.L.P. 'A'	2,336,021.
FROM KINDER MORGAN, O.L.P. 'C'	4,800,523.
FROM KINDER MORGAN O.L.P. 'D'	1,985,618.
TOTAL INTEREST EXPENSE ON INVESTMENT DEBTS	9,122,162.

SCHEDULE K - LINE 16A - DEPRECIATION ADJUSTMENT ON PROPERTY

FROM KINDER MORGAN, O.L.P. 'A'	2,283,103.
FROM KINDER MORGAN, O.L.P. 'B'	-71,595.
FROM KINDER MORGAN, O.L.P. 'C'	2,902,291.
FROM KINDER MORGAN O.L.P. 'D'	18,373,143.
FROM KINDER MORGAN CO2 COMPANY, L.P.	10,813,903.
TOTAL DEPRECIATION ADJUSTMENT ON PROPERTY	34,300,845.

SCHEDULE K - LINE 17D - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 17D1	LINE 17D2	LINE 17D3
FROM PASS-THROUGH ENTITIES			20,566,127.
TOTAL FOREIGN GI/PARTNERSHIP LEVEL			20,566,127.

SF03 09694

STATEMENT #2

FORM 1065 SUPPORTING SCHEDU S

SCHEDULE K - LINE 17F - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 17F1	LINE 17F2	LINE 17F3
FROM PASS-THROUGH ENTITIES			21,539,162.
TOTAL DEDUCTION/PARTNERSHIP LEVEL			21,539,162.

SCHEDULE K - LINE 17G - TOTAL FOREIGN TAXES

FROM KINDER MORGAN, O.L.P. 'A'	1,459,439.
TOTAL FOREIGN TAXES	1,459,439.

SCHEDULE K - LINE 18A - SECTION 59(E) ELECTION EXPENDITURES

FROM KINDER MORGAN CO2 COMPANY, L.P.	44,305,832.
TOTAL SECTION 59(E) ELECTION EXPENDITURES	44,305,832.

SCHEDULE K - LINE 21 - NONDEDUCTIBLE EXPENSES

OM KINDER MORGAN, O.L.P. 'A'	112,713.
FROM KINDER MORGAN, O.L.P. 'B'	2,572.
FROM KINDER MORGAN, O.L.P. 'C'	54,300.
FROM KINDER MORGAN O.L.P. 'D'	202,979.
FROM KINDER MORGAN CO2 COMPANY, L.P.	61,679.
TOTAL NONDEDUCTIBLE EXPENSES	434,243.

SF03 09695

STATEMENT #3

3XX063 1.000

FORM 1065, SUPPORTING SCHE. ES

SCHEDULE L - LINE 6 - OTHER CURRENT ASSETS	BEGINNING	ENDING
OTHER CURRENT ASSETS	-75,000.	-75,000.
INTEREST/ DIVIDENDS RECEIVABLE	NONE	28,024,374.
TOTAL OTHER CURRENT ASSETS	-75,000.	27,949,374.

SCHEDULE L - LINE 13 - OTHER ASSETS	BEGINNING	ENDING
UNAMORTIZED DEBT ISSUANCE COST	27,222,439.	29,118,970.
DEFERRED CHARGES	167,002,930.	129,752,379.
NOTES RECEIVABLES	3,443,579,899.	4,073,447,392.
INVESTMENT IN PARTNERSHIPS	3,496,912,972.	3,700,224,867.
TOTAL OTHER ASSETS	7,134,718,240.	7,932,543,608.

SCHEDULE L - LINE 17 - OTHER CURRENT LIABILITIES	BEGINNING	ENDING
ACCRUED INTEREST	47,846,839.	47,046,666.
OTHER CURRENT LIABILITIES	506,438.	535,046.
OTHER NOTES PAYABLES	NONE	-297,363.
TOTAL OTHER CURRENT LIABILITIES	48,353,277.	47,284,349.

SCHEDULE L - LINE 20 - OTHER LIABILITIES	BEGINNING	ENDING
DEFERRED CREDITS	NONE	8,418,946.
TOTAL OTHER LIABILITIES	NONE	8,418,946.

SCHEDULE M-1 - LINE 2 - INCOME SUBJ. TO TAX NOT RECORDED ON BOOKS	
INCOME FROM PARTNERSHIPS	205,203,987.
TOTAL INCOME SUBJECT TO TAX NOT RECORDED ON BOOKS	205,203,987.

STATEMENT #4

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FORM 1065, SCHEDULE M-1, SU ORTING SCHEDULES

SCHEDULE M-1 - LINE 4B - EXPENSES RECORDED ON BOOKS BUT NOT DEDUCTED

NONDEDUCTIBLE EXPENSES	434,243.
TOTAL OTHER EXPENSES RECORDED ON BOOKS BUT NOT DEDUCTED	434,243.

SCHEDULE M-1 - LINE 6 - INCOME RECORDED ON BOOKS NOT INCLUDED ON SCHEDULE K

EQUITY INCOME IN SUBSIDIARIES	697,337,369.
TOTAL INCOME RECORDED ON BOOKS BUT NOT INCLUDED ON SCHEDULE K	697,337,369.

SCHEDULE M-2 - LINE 2A - CASH CONTRIBUTED DURING YEAR

CASH CONTRIBUTED DURING THE YEAR	175,566,924.
TOTAL CASH CONTRIBUTED DURING THE YEAR	175,566,924.

SCHEDULE M-2 - LINE 6A - CASH DISTRIBUTIONS

CASH DISTRIBUTIONS	668,853,474.
TOTAL CASH DISTRIBUTIONS	668,853,474.

SCHEDULE M-2 - LINE 7 - OTHER DECREASES

UNIT ISSUANCE COST	500,000.
TOTAL OTHER DECREASES	500,000.

FORM 4797 PAGE 1 SUPPORTING SCHEDULES

SECTION 1231 GAINS AND LOSSES

DESCRIP. OF PROPERTY	DATE ACQUIRED	DATE SOLD	GROSS SALES PRICE	ALLOWABLE DEPRECIATION	COST/BASIS	GAIN/LOSS	POST MAY 5, 2003
PASS-THROUGH SECTION 1231 GAIN OR LOSS						-3,965,620.	
TOTAL SECTION 1231 GAINS AND LOSSES							

STATEMENT #6

SF03 09698

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PASS-THROUGH ENTITIES SUP. TING SCHEDULES

KINDER MORGAN, O.L.P. 'A'

PASS-THROUGH ENTITIES - LINE 4B(2) - DIVIDEND INCOME

QUALIFIED DIVIDENDS	
	5,417,068.
OTHER DIVIDENDS	
	1,621,217.
TOTAL DIVIDEND INCOME	7,038,285.

PASS-THROUGH - LINE 17D - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

COUNTRY	TYPE OF INCOME	LINE 17D1	LINE 17D2	LINE 17D3
CANADA	PARTNERSHIP			20,566,127.
TOTAL FOREIGN GI/PARTNERSHIP LEVEL				20,566,127.

PASS THROUGH - LINE 17F - DEDUCTIONS ALLOC AND APPORT PSHP LEVEL

COUNTRY	TYPE OF INCOME	LINE 17F1	LINE 17F2	LINE 17F3
CANADA	PARTNERSHIP			21,539,162.
TOTAL DEDUCTIONS/PARTNERSHIP LEVEL				21,539,162.

PASS-THROUGH - LINE 17G - TOTAL FOREIGN TAXES

COUNTRY	TYPE OF INCOME	LINE 17G
CANADA	PARTNERSHIP	1,459,439.
TOTAL FOREIGN TAXES		1,459,439.

STATEMENT #7

PASS-THROUGH ENTITIES SUP. RTING SCHEDULES

PASS-THROUGH ENTITIES - LINE 21 - NONDEDUCTIBLE EXPENSES

NONDEDUCTIBLES	112,713.
TOTAL NONDEDUCTIBLE EXPENSES	112,713.

KINDER MORGAN, O.L.P. 'B'

PASS-THROUGH ENTITIES - LINE 21 - NONDEDUCTIBLE EXPENSES

NONDEDUCTIBLES	2,572.
TOTAL NONDEDUCTIBLE EXPENSES	2,572.

KINDER MORGAN, O.L.P. 'C'

PASS-THROUGH ENTITIES - LINE 4B(2) - DIVIDEND INCOME

QUALIFIED DIVIDENDS	
	37,616.
TOTAL DIVIDEND INCOME	37,616.

PASS-THROUGH ENTITIES - LINE 21 - NONDEDUCTIBLE EXPENSES

NONDEDUCTIBLES	54,300.
TOTAL NONDEDUCTIBLE EXPENSES	54,300.

KINDER MORGAN O.L.P. 'D'

PASS-THROUGH ENTITIES - LINE 4B(2) - DIVIDEND INCOME

QUALIFIED DIVIDENDS	
	6,256,118.
OTHER DIVIDENDS	
	1,688,391.
TOTAL DIVIDEND INCOME	7,944,509.

STATEMENT #8

PASS-THROUGH ENTITIES SUP. TING SCHEDULES

PASS-THROUGH ENTITIES - LINE 21 - NONDEDUCTIBLE EXPENSES

NONDEDUCTIBLES	202,979.
TOTAL NONDEDUCTIBLE EXPENSES	202,979.

KINDER MORGAN CO2 COMPANY, L.P.

PASS-THROUGH ENTITIES - LINE 13 - OTHER CREDITS

ENHANCED OIL RECOVERY CREDIT	42,852,356.
OTHER CREDITS	379,624.
TOTAL OTHER CREDITS	43,231,980.

PASS-THROUGH ENTITIES - LINE 18B - SECTION 59(E) EXPENDITURES

INTANGIBLE DRILLING COSTS	44,016,992.
SPECIAL ALLOCATION TO KMEP	-473,695.
FROM PASS-THROUGH ENTITIES	762,535.
TOTAL SECTION 59(E) ELECTION EXPENDITURES	44,305,832.

PASS-THROUGH ENTITIES - LINE 21 - NONDEDUCTIBLE EXPENSES

NONDEDUCTIBLES	61,679.
TOTAL NONDEDUCTIBLE EXPENSES	61,679.

6511

SCHEDULE K-1 (Form 1065)
Department of the Treasury Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.

▶ See separate instructions.

For calendar year 2003 or tax year beginning , 2003, and ending

OMB No. 1545-0099

2003

Partner's identifying number ▶ APPLD FOR

Partnership's identifying number ▶ 76-0380342

Partner's name, address, and ZIP code PARTNER # 2
LIMITED PARTNERS
2001 ROSS AVENUE
DALLAS, TX 75238

Partnership's name, address, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

A This partner is a [ ] general partner [X] limited partner
[ ] limited liability company member

B What type of entity is this partner? ▶ CORPORATION

C Is this partner a [X] domestic or a [ ] foreign partner?

D Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	84.253700 %	86.085047 %
Loss sharing	84.253700 %	86.085047 %
Ownership of capital	84.253700 %	86.085047 %

E IRS Center where partnership filed return: OGDEN

F Partner's share of liabilities (see instructions):
Nonrecourse
Qualified nonrecourse financing
Other

G Tax shelter registration number ▶ 92289000496

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) [X]

I Check applicable boxes: (1) [ ] Final K-1 (2) [ ] Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
3,081,543,858.	177,566,924.	323,089,854.	(307,566,144.)	3,274,634,492.

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on
Income (Loss)	1	Ordinary income (loss) from trade or business activities	1	-75,209,324.	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	2	Net income (loss) from rental real estate activities	2		
	3	Net income (loss) from other rental activities STMT. 1	3	1,418,539.	
	4	Portfolio income (loss):			
	a	Interest income STMT. 1	4a	9,816,116.	Form 1040, line 8a
	b	(1) Qualified dividends	4b(1)	6,529,979.	Form 1040, line 9b
		(2) Total ordinary dividends	4b(2)	7,872,435.	Form 1040, line 9a
	c	Royalty income	4c		Sch. E, Part I, line 4
	d	(1) Net short-term capital gain (loss) (post-May 5, 2003)	4d(1)		Sch. D, line 5, col. (g)
		(2) Net short-term capital gain (loss) (entire year)	4d(2)		Sch. D, line 5, col. (f)
	e	(1) Net long-term capital gain (loss) (post-May 5, 2003)	4e(1)		Sch. D, line 12, col. (g)
		(2) Net long-term capital gain (loss) (entire year)	4e(2)		Sch. D, line 12, col. (f)
	f	Other portfolio income (loss) *(attach schedule)*	4f		See pages 6 and 7 of Partner's Instructions for Schedule K-1 (Form 1065)
	5	Guaranteed payments to partner	5		
	6a	Net section 1231 gain (loss) (post-May 5, 2003)	6a	-3,722,642.	
	b	Net section 1231 gain (loss) (entire year)	6b	-3,690,615.	
	7	Other income (loss) *(attach schedule)*	7		
Deductions	8	Charitable contributions (see instructions) *(attach schedule)*	8		Sch. A, line 15 or 16
	9	Section 179 expense deduction	9		See pages 7 and 8 of Partner's Instructions for Schedule K-1 (Form 1065)
	10	Deductions related to portfolio income *(attach schedule)*	10		
	11	Other deductions *(attach schedule)*	11		
Credits	12a	Low-income housing credit: (1) From section 42(j)(5) partnerships	12a(1)		Form 8586, line 5
		(2) Other than on line 12a(1)	12a(2)		
	b	Qualified rehabilitation expenditures related to rental real estate activities	12b		See page 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d	Credits related to other rental activities	12d		
	13	Other credits	13	37,120,657.	

For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Schedule K-1 (Form 1065) 2003

JSA
3P1200 1.000

SF03 09702

6512

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a	Interest expense on investment debts STMT. 1.	14a	7,832,639.	Form 4952, line 1
	b	(1) Investment income included on lines 4a, 4b(2), 4c, and 4f	14b(1)	17,688,551.	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
		(2) Investment expenses included on line 10	14b(2)		
Self-Employment	15a	Net earnings (loss) from self-employment	15a		Sch. SE, Section A or B
	b	Gross farming or fishing income	15b		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a	Depreciation adjustment on property placed in service after 1986	16a	20,771,351.	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b	Adjusted gain or loss	16b		
	c	Depletion (other than oil and gas)	16c		
	d	(1) Gross income from oil, gas, and geothermal properties	16d(1)		
		(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)		
	e	Other adjustments and tax preference items *(attach schedule)*	16e		
Foreign Taxes	17a	Name of foreign country or U.S. possession ▶			Form 1116, Part I
	b	Gross income from all sources	17b		
	c	Gross income sourced at partner level	17c		
	d	Foreign gross income sourced at partnership level:			
		(1) Passive STMT. 1.	17d(1)		
		(2) Listed categories *(attach schedule)*	17d(2)		
		(3) General limitation	17d(3)	17,658,875.	
	e	Deductions allocated and apportioned at partner level:			
		(1) Interest expense	17e(1)		
		(2) Other	17e(2)		
	f	Deductions allocated and apportioned at partnership level to foreign source income:			
		(1) Passive STMT. 1.	17f(1)		
		(2) Listed categories *(attach schedule)*	17f(2)		
		(3) General limitation	17f(3)	18,494,362.	
	g	Total foreign taxes (check one): ▶ [ ] Paid [X] Accrued	17g	1,253,129.	Form 1116, Part II
	h	Reduction in taxes available for credit *(attach schedule)*	17h		Form 1116, line 12
Other	18	Section 59(e)(2) expenditures: a Type ▶IDC			See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b	Amount STMT. 2.	18b	38,042,709.	
	19	Tax-exempt interest income	19		Form 1040, line 8b
	20	Other tax-exempt income	20		See pages 9 and 10 of Partner's Instructions for Schedule K-1 (Form 1065).
	21	Nondeductible expenses STMT. 2.	21	382,358.	
	22	Distributions of money (cash and marketable securities)	22	307,566,144.	
	23	Distributions of property other than money	23		
	24	Recapture of low-income housing credit:			
	a	From section 42(j)(5) partnerships	24a		Form 8611, line 8
	b	Other than on line 24a	24b		

Supplemental Information

25 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*:

SEE PARTNER FOOTNOTES SCHEDULE

JSA
3P1300 1.000

SF03 09703

SCH K-1 SUPPORTING SCHEDULE PARTNER # 2 LIMITED PARTNERS

LINE 3 - NET INCOME FROM OTHER RENTAL ACTIVITITES

FROM PASS-THROUGH ENTITIES	1,418,539.
TOTAL NET INCOME FROM OTHER RENTAL ACTIVITIES	1,418,539.

LINE 4A - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	9,816,116.
TOTAL INTEREST INCOME	9,816,116.

LINE 14A - INTEREST EXPENSE ON INVESTMENT DEBTS

FROM PASS-THROUGH ENTITIES	7,832,639.
TOTAL INTEREST EXPENSE ON INVESTMENT DEBTS	7,832,639.

LINE 16A - DEPRECIATION ADJUSTMENT ON POST-86 PROPERTY

FROM PASS-THROUGH ENTITIES	20,771,351.
TOTAL DEPRECIATION ADJUSTMENT ON POST-86 PROPERTY	20,771,351.

LINE 17D - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 17D1	LINE 17D2	LINE 17D3
FROM PASS-THROUGH ENTITIES			17,658,875.
TOTAL FOREIGN GI/PARTNERSHIP LEVEL			17,658,875.

LINE 17F - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 17F1	LINE 17F2	LINE 17F3
FROM PASS-THROUGH ENTITIES			18,494,362.
TOTAL DEDUCTION/PARTNERSHIP LEVEL			18,494,362.

SF03 09704

STATEMENT #1

SCH K-1 SUPPORTING SCHEDUL , PARTNER # 2 LIMITED PA NERS

LINE 17G - TOTAL FOREIGN TAXES

FROM PASS-THROUGH ENTITIES	1,253,129.
TOTAL FOREIGN TAXES	1,253,129.

LINE 18B - SECTION 59(E)(2) EXPENDITURES

LINE 18A - TYPE:

IDC

FROM PASS-THROUGH ENTITIES	38,042,709.
TOTAL SECTION 59(E)(2) EXPENDITURES	38,042,709.

LINE 21 - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	382,358.
TOTAL NONDEDUCTIBLE EXPENSES	382,358.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED ON LINE 14B(1) MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

STATEMENT #2

6511

SCHEDULE K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.

▶ See separate instructions.

For calendar year 2003 or tax year beginning , 2003, and ending

OMB No. 1545-0099

2003

Partner's identifying number ▶ 47-0495888

Partnership's identifying number ▶ 76-0380342

Partner's name, address, and ZIP code PARTNER # 4
KINDER MORGAN GP, INC.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

Partnership's name, address, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

A This partner is a [X] general partner [ ] limited partner
[ ] limited liability company member

B What type of entity is this partner? ▶ CORPORATION

C Is this partner a [X] domestic or a [ ] foreign partner?

D Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	1.000000 %
Loss sharing	%	1.000000 %
Ownership of capital	%	1.000000 %

E IRS Center where partnership filed return: OGDEN

F Partner's share of liabilities (see instructions):
Nonrecourse
Qualified nonrecourse financing
Other 4,451,149,678.

G Tax shelter registration number ▶ 92289000496

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) [X]

I Check applicable boxes: (1) [ ] Final K-1 (2) [ ] Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
72,099,968.		326,524,118.	314,244,307.)	84,379,779.

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss) from trade or business activities	1	303,056,177.	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	2	Net income (loss) from rental real estate activities	2		
	3	Net income (loss) from other rental activities STMT 1	3	2,040,612.	
	4	Portfolio income (loss):			
	a	Interest income STMT 1	4a	5,801,358.	Form 1040, line 8a
	b (1)	Qualified dividends	4b(1)	4,581,563.	Form 1040, line 9b
	(2)	Total ordinary dividends	4b(2)	5,943,319.	Form 1040, line 9a
	c	Royalty income	4c		Sch. E, Part I, line 4
	d (1)	Net short-term capital gain (loss) (post-May 5, 2003)	4d(1)		Sch. D, line 5, col. (g)
	(2)	Net short-term capital gain (loss) (entire year)	4d(2)		Sch. D, line 5, col. (f)
	e (1)	Net long-term capital gain (loss) (post-May 5, 2003)	4e(1)		Sch. D, line 12, col. (g)
	(2)	Net long-term capital gain (loss) (entire year)	4e(2)		Sch. D, line 12, col. (f)
	f	Other portfolio income (loss) *(attach schedule)*	4f		See pages 6 and 7 of Partner's Instructions for Schedule K-1 (Form 1065).
	5	Guaranteed payments to partner	5		
	6a	Net section 1231 gain (loss) (post-May 5, 2003)	6a	48,808.	
	b	Net section 1231 gain (loss) (entire year)	6b	962.	
	7	Other income (loss) *(attach schedule)*	7		
Deductions	8	Charitable contributions (see instructions) *(attach schedule)*	8		Sch. A, line 15 or 16
	9	Section 179 expense deduction	9		See pages 7 and 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	10	Deductions related to portfolio income *(attach schedule)*	10		
	11	Other deductions *(attach schedule)*	11		
Credits	12a	Low-income housing credit: (1) From section 42(j)(5) partnerships	12a(1)		Form 8586, line 5
	(2)	Other than on line 12a(1)	12a(2)		
	b	Qualified rehabilitation expenditures related to rental real estate activities	12b		See page 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d	Credits related to other rental activities	12d		
	13	Other credits STMT 1	13	431,050.	

For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Schedule K-1 (Form 1065) 2003

JSA
3P1200 1.000

SF03 09706

6512

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a	Interest expense on investment debts STMT. 2.	14a	90,957.	Form 4952, line 1
	b	(1) Investment income included on lines 4a, 4b(2), 4c, and 4f	14b(1)	11,744,677.	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
		(2) Investment expenses included on line 10	14b(2)		
Self-employment	15a	Net earnings (loss) from self-employment	15a		Sch. SE, Section A or B
	b	Gross farming or fishing income	15b		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a	Depreciation adjustment on property placed in service after 1986	16a	1,490,843.	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b	Adjusted gain or loss	16b		
	c	Depletion (other than oil and gas)	16c		
	d	(1) Gross income from oil, gas, and geothermal properties	16d(1)		
		(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)		
	e	Other adjustments and tax preference items *(attach schedule)*	16e		
Foreign Taxes	17a	Name of foreign country or U.S. possession ▶			Form 1116, Part I
	b	Gross income from all sources	17b		
	c	Gross income sourced at partner level	17c		
	d	Foreign gross income sourced at partnership level:			
		(1) Passive STMT. 2.	17d(1)		
		(2) Listed categories *(attach schedule)*	17d(2)		
		(3) General limitation	17d(3)	205,058.	
	e	Deductions allocated and apportioned at partner level:			
		(1) Interest expense	17e(1)		
		(2) Other	17e(2)		
	f	Deductions allocated and apportioned at partnership level to foreign source income:			
		(1) Passive STMT. 2.	17f(1)		
		(2) Listed categories *(attach schedule)*	17f(2)		
		(3) General limitation	17f(3)	214,759.	
	g	Total foreign taxes (check one): ▶ [ ] Paid [X] Accrued	17g	14,553.	Form 1116, Part II
	h	Reduction in taxes available for credit *(attach schedule)*	17h		Form 1116, line 12
Other	18	Section 59(e)(2) expenditures: a Type ▶IDC			See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b	Amount STMT. 2.	18b	441,758.	
	19	Tax-exempt interest income	19		Form 1040, line 8b
	20	Other tax-exempt income	20		See pages 9 and 10 of Partner's Instructions for Schedule K-1 (Form 1065).
	21	Nondeductible expenses STMT. 3.	21	3,065.	
	22	Distributions of money (cash and marketable securities)	22	314,244,307.	
	23	Distributions of property other than money	23		
	24	Recapture of low-income housing credit:			
	a	From section 42(j)(5) partnerships	24a		Form 8611, line 8
	b	Other than on line 24a	24b		
Supplemental Information	25	Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*: SEE PARTNER FOOTNOTES SCHEDULE			

JSA
3P1300 1.000

SF03 09707

SCH K-1 SUPPORTING SCHEDULI PARTNER # 4 KINDER MORGA GP, INC.

M F, PARTNER'S SHARE OF LIABILITITES

OTHER LIABILITIES:	
ACCOUNTS PAYABLE	142,167,647.
SHORT-TERM MORTGAGES, NOTES AND BONDS PAYABLE	2,248,136.
LONG-TERM MORTGAGES, NOTES AND BONDS PAYABLE	4,251,030,600.
OTHER CURRENT LIABILITIES:	
ACCRUED INTEREST	47,046,666.
OTHER CURRENT LIABILITIES	535,046.
OTHER NOTES PAYABLES	-297,363.
TOTAL OTHER CURRENT LIABILITIES	47,284,349.
OTHER LIABILITIES:	
DEFERRED CREDITS	8,418,946.
TOTAL OTHER LIABILITIES	8,418,946.
TOTAL OTHER LIABILITIES	4,451,149,678.

LINE 3 - NET INCOME FROM OTHER RENTAL ACTIVITITES

M PASS-THROUGH ENTITIES	2,040,612.
TOTAL NET INCOME FROM OTHER RENTAL ACTIVITIES	2,040,612.

LINE 4A - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	5,801,358.
TOTAL INTEREST INCOME	5,801,358.

LINE 13 - OTHER CREDITS

FROM PASS-THROUGH ENTITIES	431,050.
TOTAL OTHER CREDITS	431,050.

SF03 09708

STATEMENT #1

3P9000 1.000

SCH K-1 SUPPORTING SCHEDUL PARTNER # 4 KINDER MORG GP, INC.

LINE 14A - INTEREST EXPENSE ON INVESTMENT DEBTS

FROM PASS-THROUGH ENTITIES	90,957.
TOTAL INTEREST EXPENSE ON INVESTMENT DEBTS	90,957.

LINE 16A - DEPRECIATION ADJUSTMENT ON POST-86 PROPERTY

FROM PASS-THROUGH ENTITIES	1,490,843.
TOTAL DEPRECIATION ADJUSTMENT ON POST-86 PROPERTY	1,490,843.

LINE 17D - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 17D1	LINE 17D2	LINE 17D3
FROM PASS-THROUGH ENTITIES			205,058.
TOTAL FOREIGN GI/PARTNERSHIP LEVEL			205,058.

LINE 17F - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 17F1	LINE 17F2	LINE 17F3
FROM PASS-THROUGH ENTITIES			214,759.
TOTAL DEDUCTION/PARTNERSHIP LEVEL			214,759.

LINE 17G - TOTAL FOREIGN TAXES

FROM PASS-THROUGH ENTITIES	14,553.
TOTAL FOREIGN TAXES	14,553.

LINE 18B - SECTION 59(E)(2) EXPENDITURES

LINE 18A - TYPE:
IDC

FROM PASS-THROUGH ENTITIES	441,758.

SCH K-1 SUPPORTING SCHEDULE PARTNER # 4 KINDER MORGA 3P, INC.

TOTAL SECTION 59(E)(2) EXPENDITURES	441,758.

LINE 21 - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	3,065.
TOTAL NONDEDUCTIBLE EXPENSES	3,065.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED ON LINE 14B(1) MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

743(B) DEPRECIATION EXPENSE: 2,592,119 743(B)
ALTERNATIVE MINIMUM DEPREC. ADJMT.: 91,608

SF03 09710

STATEMENT #3

6511

SCHEDULE K-1 (Form 1065)
Department of the Treasury Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.

▶ See separate instructions.

For calendar year 2003 or tax year beginning , 2003, and ending

OMB No. 1545-0099

2003

Partner's identifying number ▶ 47-0495888

Partnership's identifying number ▶ 76-0380342

Partner's name, address, and ZIP code PARTNER # 5
KINDER MORGAN GP, INC.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

Partnership's name, address, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

A This partner is a [ ] general partner [X] limited partner
[ ] limited liability company member

B What type of entity is this partner? ▶ CORPORATION

C Is this partner a [X] domestic or a [ ] foreign partner?

D Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	1.275000 %	1.218743 %
Loss sharing	1.275000 %	1.218743 %
Ownership of capital	1.275000 %	1.218743 %

E IRS Center where partnership filed return: OGDEN

F Partner's share of liabilities (see instructions):
Nonrecourse
Qualified nonrecourse financing
Other

G Tax shelter registration number ▶ 92289000496

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) [X]

I Check applicable boxes: (1) [ ] Final K-1 (2) [ ] Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
24,472,299.		4,869,566.	(4,439,300.)	24,902,565.

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss) from trade or business activities	1	-411,000.	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	2	Net income (loss) from rental real estate activities	2		
	3	Net income (loss) from other rental activities STMT 1	3	38,705.	
	4	Portfolio income (loss):			
	a	Interest income STMT 1	4a	111,136.	Form 1040, line 8a
	b	(1) Qualified dividends	4b(1)	56,431.	Form 1040, line 9b
		(2) Total ordinary dividends	4b(2)	113,441.	Form 1040, line 9a
	c	Royalty income	4c		Sch. E, Part I, line 4
	d	(1) Net short-term capital gain (loss) (post-May 5, 2003)	4d(1)		Sch. D, line 5, col. (g)
		(2) Net short-term capital gain (loss) (entire year)	4d(2)		Sch. D, line 5, col. (f)
	e	(1) Net long-term capital gain (loss) (post-May 5, 2003)	4e(1)		Sch. D, line 12, col. (g)
		(2) Net long-term capital gain (loss) (entire year)	4e(2)		Sch. D, line 12, col. (f)
	f	Other portfolio income (loss) *(attach schedule)*	4f		See pages 6 and 7 of Partner's Instructions for Schedule K-1 (Form 1065).
	5	Guaranteed payments to partner	5		
	6a	Net section 1231 gain (loss) (post-May 5, 2003)	6a	13,492.	
	b	Net section 1231 gain (loss) (entire year)	6b	-18,000.	
	7	Other income (loss) *(attach schedule)*	7		
Deductions	8	Charitable contributions (see instructions) *(attach schedule)*	8		Sch. A, line 15 or 16
	9	Section 179 expense deduction	9		See pages 7 and 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	10	Deductions related to portfolio income *(attach schedule)*	10		
	11	Other deductions *(attach schedule)*	11		
Credits	12a	Low-income housing credit: (1) From section 42(j)(5) partnerships	12a(1)		Form 8586, line 5
		(2) Other than on line 12a(1)	12a(2)		
	b	Qualified rehabilitation expenditures related to rental real estate activities	12b		See page 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d	Credits related to other rental activities	12d		
	13	Other credits STMT 1	13	534,903.	

For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Schedule K-1 (Form 1065) 2003

JSA
3P1200 1.000

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6512

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a Interest expense on investment debts STMT 1.	14a	112,867.	Form 4952, line 1
	b (1) Investment income included on lines 4a, 4b(2), 4c, and 4f	14b(1)	224,577.	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	(2) Investment expenses included on line 10	14b(2)		
Self-employment	15a Net earnings (loss) from self-employment	15a		Sch. SE, Section A or B
	b Gross farming or fishing income	15b		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	c Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a Depreciation adjustment on property placed in service after 1986	16a	813,758.	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b Adjusted gain or loss	16b		
	c Depletion (other than oil and gas)	16c		
	d (1) Gross income from oil, gas, and geothermal properties	16d(1)		
	(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)		
	e Other adjustments and tax preference items *(attach schedule)*	16e		
Foreign Taxes	17a Name of foreign country or U.S. possession ▶			Form 1116, Part I
	b Gross income from all sources	17b		
	c Gross income sourced at partner level	17c		
	d Foreign gross income sourced at partnership level:			
	(1) Passive STMT 1.	17d(1)		
	(2) Listed categories *(attach schedule)*	17d(2)		
	(3) General limitation	17d(3)	254,461.	
	e Deductions allocated and apportioned at partner level:			
	(1) Interest expense	17e(1)		
	(2) Other	17e(2)		
	f Deductions allocated and apportioned at partnership level to foreign source income:			
	(1) Passive STMT 2.	17f(1)		
	(2) Listed categories *(attach schedule)*	17f(2)		
	(3) General limitation	17f(3)	266,501.	
	g Total foreign taxes (check one): ▶ [ ] Paid [X] Accrued	17g	18,057.	Form 1116, Part II
	h Reduction in taxes available for credit *(attach schedule)*	17h		Form 1116, line 12
Other	18 Section 59(e)(2) expenditures: a Type ▶IDC			See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b Amount STMT 2.	18b	548,189.	
	19 Tax-exempt interest income	19		Form 1040, line 8b
	20 Other tax-exempt income	20		See pages 9 and 10 of Partner's Instructions for Schedule K-1 (Form 1065).
	21 Nondeductible expenses STMT 2.	21	4,597.	
	22 Distributions of money (cash and marketable securities)	22	4,439,300.	
	23 Distributions of property other than money	23		
	24 Recapture of low-income housing credit:			
	a From section 42(j)(5) partnerships	24a		Form 8611, line 8
	b Other than on line 24a	24b		

Supplemental Information

25 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*:

SEE PARTNER FOOTNOTES SCHEDULE

JSA
3P1300 1.000

SF03 09712

SCH K-1 SUPPORTING SCHEDULE PARTNER # 5 KINDER MORGA GP, INC.

LINE 3 - NET INCOME FROM OTHER RENTAL ACTIVITITES

FROM PASS-THROUGH ENTITIES	38,705.
TOTAL NET INCOME FROM OTHER RENTAL ACTIVITIES	38,705.

LINE 4A - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	111,136.
TOTAL INTEREST INCOME	111,136.

LINE 13 - OTHER CREDITS

FROM PASS-THROUGH ENTITIES	534,903.
TOTAL OTHER CREDITS	534,903.

LINE 14A - INTEREST EXPENSE ON INVESTMENT DEBTS

FROM PASS-THROUGH ENTITIES	112,867.
TOTAL INTEREST EXPENSE ON INVESTMENT DEBTS	112,867.

LINE 16A - DEPRECIATION ADJUSTMENT ON POST-86 PROPERTY

FROM PASS-THROUGH ENTITIES	813,758.
TOTAL DEPRECIATION ADJUSTMENT ON POST-86 PROPERTY	813,758.

LINE 17D - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 17D1	LINE 17D2	LINE 17D3
FROM PASS-THROUGH ENTITIES			254,461.
TOTAL FOREIGN GI/PARTNERSHIP LEVEL			254,461.

SF03 09713

STATEMENT #1

SCH K-1 SUPPORTING SCHEDU PARTNER # 5 KINDER MO N GP, INC.

NE 17F - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 17F1	LINE 17F2	LINE 17F3
FROM PASS-THROUGH ENTITIES			266,501.
TOTAL DEDUCTION/PARTNERSHIP LEVEL			266,501.

LINE 17G - TOTAL FOREIGN TAXES

FROM PASS-THROUGH ENTITIES	18,057.
TOTAL FOREIGN TAXES	18,057.

LINE 18B - SECTION 59(E)(2) EXPENDITURES

LINE 18A - TYPE:
IDC

FROM PASS-THROUGH ENTITIES	548,189.
TOTAL SECTION 59(E)(2) EXPENDITURES	548,189.

LINE 21 - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	4,597.
TOTAL NONDEDUCTIBLE EXPENSES	4,597.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED ON LINE 14B(1) MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

743(B) DEPRECIATION EXPENSE: 1,235,057 743(B)
ALTERNATIVE MINIMUM DEPREC. ADJMT.: 73,789

SF03 09714

STATEMENT #2

3K9000 1.000

6511

SCHEDULE K-1 (Form 1065)
Department of the Treasury Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.

▶ See separate instructions.

For calendar year 2003 or tax year beginning , 2003, and ending

OMB No. 1545-0099

2003

Partner's identifying number ▶ 48-0290000

Partnership's identifying number ▶ 76-0380342

Partner's name, address, and ZIP code PARTNER # 6
KINDER MORGAN, INC.
370 VAN GORDON STREET
LAKEWOOD, CO 80228

Partnership's name, address, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

A This partner is a [ ] general partner [X] limited partner
[ ] limited liability company member

B What type of entity is this partner? ▶ CORPORATION

C Is this partner a [X] domestic or a [ ] foreign partner?

D Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	6.534300 %	6.247892 %
Loss sharing	6.534300 %	6.247892 %
Ownership of capital	6.534300 %	6.247892 %

E IRS Center where partnership filed return: OGDEN

F Partner's share of liabilities (see instructions):
Nonrecourse
Qualified nonrecourse financing
Other

G Tax shelter registration number ▶ 92289000496

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) [X]

I Check applicable boxes: (1) [ ] Final K-1 (2) [ ] Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
125,457,371.		24,963,856.	(22,758,095.)	127,663,132.

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss) from trade or business activities	1	-1,977,114.	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	2	Net income (loss) from rental real estate activities	2		
	3	Net income (loss) from other rental activities STMT. 1.	3	198,883.	
	4	Portfolio income (loss):			
	a	Interest income STMT. 1.	4a	571,066.	Form 1040, line 8a
	b	(1) Qualified dividends	4b(1)	289,969.	Form 1040, line 9b
		(2) Total ordinary dividends	4b(2)	582,906.	Form 1040, line 9a
	c	Royalty income	4c		Sch. E, Part I, line 4
	d	(1) Net short-term capital gain (loss) (post-May 5, 2003)	4d(1)		Sch. D, line 5, col. (g)
		(2) Net short-term capital gain (loss) (entire year)	4d(2)		Sch. D, line 5, col. (f)
	e	(1) Net long-term capital gain (loss) (post-May 5, 2003)	4e(1)		Sch. D, line 12, col. (g)
		(2) Net long-term capital gain (loss) (entire year)	4e(2)		Sch. D, line 12, col. (f)
	f	Other portfolio income (loss) *(attach schedule)*	4f		See pages 6 and 7 of Partner's Instructions for Schedule K-1 (Form 1065).
	5	Guaranteed payments to partner	5		
	6a	Net section 1231 gain (loss) (post-May 5, 2003)	6a	31,495.	
	b	Net section 1231 gain (loss) (entire year)	6b	-130,326.	
	7	Other income (loss) *(attach schedule)*	7		
Deductions	8	Charitable contributions (see instructions) *(attach schedule)*	8		Sch. A, line 15 or 16
	9	Section 179 expense deduction	9		See pages 7 and 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	10	Deductions related to portfolio income *(attach schedule)*	10		
	11	Other deductions *(attach schedule)*	11		
Credits	12a	Low-income housing credit: (1) From section 42(j)(5) partnerships	12a(1)		Form 8586, line 5
		(2) Other than on line 12a(1)	12a(2)		
	b	Qualified rehabilitation expenditures related to rental real estate activities	12b		See page 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d	Credits related to other rental activities	12d		
	13	Other credits STMT. 1.	13	2,748,558.	

For Paperwork Reduction Act Notice, see Instructions for

Schedule K-1 (Form 1065) 2003

JSA
3P1200 1.000

SF03 09715

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6512

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a Interest expense on investment debts STMT 1.	14a	579,960.	Form 4952, line 1
	b (1) Investment income included on lines 4a, 4b(2), 4c, and 4f	14b(1)	1,153,972.	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	(2) Investment expenses included on line 10	14b(2)		
Self-employment	15a Net earnings (loss) from self-employment	15a		Sch. SE, Section A or B
	b Gross farming or fishing income	15b		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	c Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a Depreciation adjustment on property placed in service after 1986	16a	6,766,595.	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b Adjusted gain or loss	16b		
	c Depletion (other than oil and gas)	16c		
	d (1) Gross income from oil, gas, and geothermal properties	16d(1)		
	(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)		
	e Other adjustments and tax preference items *(attach schedule)*	16e		
Foreign Taxes	17a Name of foreign country or U.S. possession ▶			Form 1116, Part I
	b Gross income from all sources	17b		
	c Gross income sourced at partner level	17c		
	d Foreign gross income sourced at partnership level:			
	(1) Passive STMT 1.	17d(1)		
	(2) Listed categories *(attach schedule)*	17d(2)		
	(3) General limitation	17d(3)	1,307,532.	
	e Deductions allocated and apportioned at partner level:			
	(1) Interest expense	17e(1)		
	(2) Other	17e(2)		
	f Deductions allocated and apportioned at partnership level to foreign source income:			
	(1) Passive STMT 2.	17f(1)		
	(2) Listed categories *(attach schedule)*	17f(2)		
	(3) General limitation	17f(3)	1,369,394.	
	g Total foreign taxes (check one): ▶ [ ] Paid [X] Accrued	17g	92,787.	Form 1116, Part II
	h Reduction in taxes available for credit *(attach schedule)*	17h		Form 1116, line 12
Other	18 Section 59(e)(2) expenditures: a Type ▶IDC			See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b Amount STMT 2.	18b	2,816,830.	
	19 Tax-exempt interest income	19		Form 1040, line 8b
	20 Other tax-exempt income	20		See pages 9 and 10 of Partner's Instructions for Schedule K-1 (Form 1065).
	21 Nondeductible expenses STMT 2.	21	23,623.	
	22 Distributions of money (cash and marketable securities)	22	22,758,095.	
	23 Distributions of property other than money	23		
	24 Recapture of low-income housing credit:			
	a From section 42(j)(5) partnerships	24a		Form 8611, line 8
	b Other than on line 24a	24b		

Supplemental Information

25 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*:

SEE PARTNER FOOTNOTES SCHEDULE

JSA
3P1300 1.000

SF03 09716

SCH K-1 SUPPORTING SCHEDULE PARTNER # 6 KINDER MORGA INC.

LINE 3 - NET INCOME FROM OTHER RENTAL ACTIVITITES

FROM PASS-THROUGH ENTITIES	198,883.
TOTAL NET INCOME FROM OTHER RENTAL ACTIVITIES	198,883.

LINE 4A - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	571,066.
TOTAL INTEREST INCOME	571,066.

LINE 13 - OTHER CREDITS

FROM PASS-THROUGH ENTITIES	2,748,558.
TOTAL OTHER CREDITS	2,748,558.

LINE 14A - INTEREST EXPENSE ON INVESTMENT DEBTS

FROM PASS-THROUGH ENTITIES	579,960.
TOTAL INTEREST EXPENSE ON INVESTMENT DEBTS	579,960.

LINE 16A - DEPRECIATION ADJUSTMENT ON POST-86 PROPERTY

FROM PASS-THROUGH ENTITIES	6,766,595.
TOTAL DEPRECIATION ADJUSTMENT ON POST-86 PROPERTY	6,766,595.

LINE 17D - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 17D1	LINE 17D2	LINE 17D3
FROM PASS-THROUGH ENTITIES			1,307,532.
TOTAL FOREIGN GI/PARTNERSHIP LEVEL			1,307,532.

SF03 09717

STATEMENT #1

SCH K-1 SUPPORTING SCHEDUL PARTNER # 6 KINDER MOR N, INC.

LINE 17F - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 17F1	LINE 17F2	LINE 17F3
FROM PASS-THROUGH ENTITIES			1,369,394.
TOTAL DEDUCTION/PARTNERSHIP LEVEL			1,369,394.

LINE 17G - TOTAL FOREIGN TAXES

FROM PASS-THROUGH ENTITIES	92,787.
TOTAL FOREIGN TAXES	92,787.

LINE 18B - SECTION 59(E)(2) EXPENDITURES

LINE 18A - TYPE:
IDC

FROM PASS-THROUGH ENTITIES	2,816,830.
TOTAL SECTION 59(E)(2) EXPENDITURES	2,816,830.

LINE 21 - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	23,623.
TOTAL NONDEDUCTIBLE EXPENSES	23,623.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED ON LINE 14B(1) MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

SF03 09718

STATEMENT #2

3K9000 1.000

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SCHEDULE K-1 (Form 1065)
Department of the Treasury Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.

▶ See separate instructions.

For calendar year 2003 or tax year beginning , 2003, and ending

OMB No. 1545-0099

2003

Partner's identifying number ▶ 84-1130428

Partnership's identifying number ▶ 76-0380342

Partner's name, address, and ZIP code PARTNER # 8
KN GAS GATHERING, INC.
370 VAN GORDON STREET
LAKEWOOD, CO 80228

Partnership's name, address, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

A This partner is a [ ] general partner [X] limited partner
[ ] limited liability company member

B What type of entity is this partner? ▶ CORPORATION

C Is this partner a [X] domestic or a [ ] foreign partner?

D Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	5.698000 %	5.448318 %
Loss sharing	5.698000 %	5.448318 %
Ownership of capital	5.698000 %	5.448318 %

E IRS Center where partnership filed return: OGDEN

F Partner's share of liabilities (see instructions):
Nonrecourse
Qualified nonrecourse financing
Other

G Tax shelter registration number ▶ 92289000496

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) [X]

I Check applicable boxes: (1) [ ] Final K-1 (2) [ ] Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
157,612,462.		17,389,975.	(19,845,628.)	155,156,809.

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1 Ordinary income (loss) from trade or business activities	1	3,344,304.	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	2 Net income (loss) from rental real estate activities	2		
	3 Net income (loss) from other rental activities STMT. 1	3	173,431.	
	4 Portfolio income (loss):			
	a Interest income STMT. 1	4a	497,984.	Form 1040, line 8a
	b (1) Qualified dividends	4b(1)	252,860.	Form 1040, line 9b
	(2) Total ordinary dividends	4b(2)	508,309.	Form 1040, line 9a
	c Royalty income	4c		Sch. E, Part I, line 4
	d (1) Net short-term capital gain (loss) (post-May 5, 2003)	4d(1)		Sch. D, line 5, col. (g)
	(2) Net short-term capital gain (loss) (entire year)	4d(2)		Sch. D, line 5, col. (f)
	e (1) Net long-term capital gain (loss) (post-May 5, 2003)	4e(1)		Sch. D, line 12, col. (g)
	(2) Net long-term capital gain (loss) (entire year)	4e(2)		Sch. D, line 12, col. (f)
	f Other portfolio income (loss) *(attach schedule)*	4f		See pages 6 and 7 of Partner's Instructions for Schedule K-1 (Form 1065).
	5 Guaranteed payments to partner	5		
	6a Net section 1231 gain (loss) (post-May 5, 2003)	6a	13,473.	
	b Net section 1231 gain (loss) (entire year)	6b	-127,641.	
	7 Other income (loss) *(attach schedule)*	7		
Deductions	8 Charitable contributions (see instructions) *(attach schedule)*	8		Sch. A, line 15 or 16
	9 Section 179 expense deduction	9		See pages 7 and 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	10 Deductions related to portfolio income *(attach schedule)*	10		
	11 Other deductions *(attach schedule)*	11		
Credits	12a Low-income housing credit: (1) From section 42(j)(5) partnerships	12a(1)		Form 8586, line 5
	(2) Other than on line 12a(1)	12a(2)		
	b Qualified rehabilitation expenditures related to rental real estate activities	12b		See page 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d Credits related to other rental activities	12d		
	13 Other credits STMT. 1	13	2,396,812.	

For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Schedule K-1 (Form 1065) 2003

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		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a	Interest expense on investment debts STMT. 1.	14a	505,739.	Form 4952, line 1
	b	(1) Investment income included on lines 4a, 4b(2), 4c, and 4f	14b(1)	1,006,293.	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
		(2) Investment expenses included on line 10	14b(2)		
Self-employment	15a	Net earnings (loss) from self-employment	15a		Sch. SE, Section A or B
	b	Gross farming or fishing income	15b		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a	Depreciation adjustment on property placed in service after 1986	16a	4,458,298.	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b	Adjusted gain or loss	16b		
	c	Depletion (other than oil and gas)	16c		
	d	(1) Gross income from oil, gas, and geothermal properties	16d(1)		
		(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)		
	e	Other adjustments and tax preference items *(attach schedule)*	16e		
Foreign Taxes	17a	Name of foreign country or U.S. possession ▶			Form 1116, Part I
	b	Gross income from all sources	17b		
	c	Gross income sourced at partner level	17c		
	d	Foreign gross income sourced at partnership level:			
		(1) Passive STMT. 1.	17d(1)		
		(2) Listed categories *(attach schedule)*	17d(2)		
		(3) General limitation	17d(3)	1,140,201.	
	e	Deductions allocated and apportioned at partner level:			
		(1) Interest expense	17e(1)		
		(2) Other	17e(2)		
	f	Deductions allocated and apportioned at partnership level to foreign source income:			
		(1) Passive STMT. 2.	17f(1)		
		(2) Listed categories *(attach schedule)*	17f(2)		
		(3) General limitation	17f(3)	1,194,146.	
	g	Total foreign taxes (check one): ▶ [ ] Paid [X] Accrued	17g	80,913.	Form 1116, Part II
	h	Reduction in taxes available for credit *(attach schedule)*	17h		Form 1116, line 12
Other	18	Section 59(e)(2) expenditures: a Type ▶IDC			See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b	Amount STMT. 2.	18b	2,456,346.	
	19	Tax-exempt interest income	19		Form 1040, line 8b
	20	Other tax-exempt income	20		See pages 9 and 10 of Partner's Instructions for Schedule K-1 (Form 1065).
	21	Nondeductible expenses STMT. 2.	21	20,600.	
	22	Distributions of money (cash and marketable securities)	22	19,845,628.	
	23	Distributions of property other than money	23		
	24	Recapture of low-income housing credit:			
	a	From section 42(j)(5) partnerships	24a		Form 8611, line 8
	b	Other than on line 24a	24b		

Supplemental Information

25 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*:

SEE PARTNER FOOTNOTES SCHEDULE

SCH K-1 SUPPORTING SCHEDUL. PARTNER # 8 KN GAS GATH. ING, INC.

LINE 3 - NET INCOME FROM OTHER RENTAL ACTIVITITES

FROM PASS-THROUGH ENTITIES	173,431.
TOTAL NET INCOME FROM OTHER RENTAL ACTIVITIES	173,431.

LINE 4A - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	497,984.
TOTAL INTEREST INCOME	497,984.

LINE 13 - OTHER CREDITS

FROM PASS-THROUGH ENTITIES	2,396,812.
TOTAL OTHER CREDITS	2,396,812.

LINE 14A - INTEREST EXPENSE ON INVESTMENT DEBTS

FROM PASS-THROUGH ENTITIES	505,739.
TOTAL INTEREST EXPENSE ON INVESTMENT DEBTS	505,739.

LINE 16A - DEPRECIATION ADJUSTMENT ON POST-86 PROPERTY

FROM PASS-THROUGH ENTITIES	4,458,298.
TOTAL DEPRECIATION ADJUSTMENT ON POST-86 PROPERTY	4,458,298.

LINE 17D - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 17D1	LINE 17D2	LINE 17D3
FROM PASS-THROUGH ENTITIES			1,140,201.
TOTAL FOREIGN GI/PARTNERSHIP LEVEL			1,140,201.

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STATEMENT #1

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SCH K-1 SUPPORTING SCHEDU , PARTNER # 8 KN GAS GA1 .RING, INC.

NE 17F - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 17F1	LINE 17F2	LINE 17F3
FROM PASS-THROUGH ENTITIES			1,194,146.
TOTAL DEDUCTION/PARTNERSHIP LEVEL			1,194,146.

LINE 17G - TOTAL FOREIGN TAXES

FROM PASS-THROUGH ENTITIES	80,913.
TOTAL FOREIGN TAXES	80,913.

LINE 18B - SECTION 59(E)(2) EXPENDITURES

LINE 18A - TYPE:
IDC

FROM PASS-THROUGH ENTITIES	2,456,346.
TOTAL SECTION 59(E)(2) EXPENDITURES	2,456,346.

LINE 21 - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	20,600.
TOTAL NONDEDUCTIBLE EXPENSES	20,600.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED ON LINE 14B(1) MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

SF03 09722

STATEMENT #2

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ATTACHMENT J

Docket No. OR03-5-001
Exhibit No. BPX-10
Kinder Morgan Energy Partners, L.P. SEC Form 10-K for 2006
Consolidated Statements of Partners' Capital, p. 141

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KINDER MORGAN ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	2006		2005		2004	
	Units	Amount	Units	Amount	Units	Amount
	(Dollars in thousands)					
Common Units:						
Beginning Balance	157,005,326	$ 2,680,352	147,537,908	$ 2,438,011	134,729,258	$1,946,116
Net income	--	325,390	--	237,779	--	311,237
Units issued as consideration pursuant to common unit compensation plan for non-employee directors	5,250	263	5,250	239	--	--
Units issued as consideration in the acquisition of assets	34,627	1,650	1,022,068	49,635	1,400,000	64,050
Units issued for cash	5,771,100	248,228	8,440,100	415,308	11,408,650	506,520
Distributions	--	(512,097)	--	(460,620)	--	(389,912)
Ending Balance	162,816,303	2,743,786	157,005,326	2,680,352	147,537,908	2,438,011
Class B Units:						
Beginning Balance	5,313,400	109,594	5,313,400	117,414	5,313,400	120,582
Net income	--	10,873	--	8,492	--	11,763
Distributions	--	(17,162)	--	(16,312)	--	(14,931)
Ending Balance	5,313,400	103,305	5,313,400	109,594	5,313,400	117,414
i-Units:						
Beginning Balance	57,918,373	1,783,570	54,157,641	1,694,971	48,996,465	1,515,659
Net income	--	122,913	--	88,656	--	113,486
Units issued for cash	--	(34)	--	(57)	1,660,664	65,826
Distributions	4,383,303	--	3,760,732	--	3,500,512	--
Ending Balance	62,301,676	1,906,449	57,918,373	1,783,570	54,157,641	1,694,971
General Partner:						
Beginning Balance	--	119,898	--	103,467	--	84,380
Net income	--	512,967	--	477,300	--	395,092
Distributions	--	(523,198)	--	(460,869)	--	(376,005)
Ending Balance	--	109,667	--	119,898	--	103,467
Accum. other comprehensive income (loss):						
Beginning Balance	--	(1,079,674)	--	(457,343)	--	(155,810)
Change in fair value of derivatives used for hedging purposes	--	(187,525)	--	(1,045,615)	--	(494,212)
Reclassification of change in fair value of derivatives to net income	--	428,137	--	423,983	--	192,304
Foreign currency translation adjustments	--	722	--	(699)	--	375
Adj. to initially apply SFAS No. 158 -other post-retirement benefit acctg. changes	--	(3,214)	--	--	--	--
Ending Balance	--	(841,554)	--	(1,079,674)	--	(457,343)
Total Partners' Capital	230,431,379	$ 4,021,653	220,237,099	$ 3,613,740	207,008,949	$3,896,520

The accompanying notes are an integral part of these consolidated financial statements.

Source: KINDER MORGAN ENERGY, 10-K, March 01, 2007

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ATTACHMENT K

Docket No. OR03-5-001
Exhibit No. BPX-11
SFPP 2003 FERC Form 6, Page 123.1

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) X An Original (2) _ A Resubmission	03/31/2004	Dec 31, 2003

Notes to Financial Statements (continued)

Note 1 – General

Organization

SFPP, L.P. (SFPP) owns and operates approximately 2,800 miles of pipeline that transport refined petroleum products and 13 truck-loading. It is owned (99.5%) by its general partner Kinder Morgan Energy Partners, L.P. (KMEP) and (0.5%) by its special limited partner Santa Fe Pacific Pipelines, Inc. KMEP holds the general partnership interest in SFPP through one of its operating partnerships, Kinder Morgan Operating L.P. "D" (OLP-D).

Kinder Morgan, Inc. (KMI) is the sole stockholder of Kinder Morgan GP, Inc. (KMGP), which holds the general partner interest in KMEP (1%) as well as an interest (1.0101%) in each of the operating limited partnerships held by KMEP, including OLP D.

On February 14, 2001, Kinder Morgan Management LLC (KMR), a limited liability company, was formed under the Delaware Limited Liability Company Act. KMR is a public entity that trades on the New York Stock Exchange under the symbol "KMR". KMGP owns each of the two KMR voting securities and is its sole managing member. During fiscal year 2001, KMGP delegated to KMR the right to manage and control KMEP, the parent company and general partner of SFPP.

Pensions and Postretirement Benefits

SFPP, L.P. has no officers, directors or employees. All management services for the Partnership were provided by KMR. Salaries and wages, and associated pension and benefit costs, related to the management of the Partnership are included in Accounts 320 and 520, *Outside Services* on page 303.

Income Tax

For federal and state income tax purposes, SFPP is not a taxable entity. As such, it does not directly pay Federal or State income tax. SFPP's taxable income or loss, which may vary substantially from the net income or net loss it reports in its statement of income, is includable in the tax returns for each partner.

Compliance

SFPP maintains its chart of accounts to comply with the Uniform System of Accounts for oil pipelines. Therefore, the amounts contained in this Form 6 may not necessarily reflect or capture all the costs required for analysis using the regulatory methodology set forth in Opinion Nos. 154-B and 154-C, revisions thereof and successors thereto.

Note 2 – Litigation and Other Contingencies

The tariffs SFPP charges for transportation on its interstate common carrier pipelines are subject to rate regulation by the Federal Energy Regulatory Commission (FERC), under the Interstate Commerce Act. The Interstate Commerce Act requires, among other things, that interstate petroleum products pipeline rates be just and reasonable and non-discriminatory. Pursuant to FERC Order No. 561, effective January 1, 1995, interstate petroleum products pipelines are able to change their rates within prescribed ceiling levels that are tied to an inflation index. FERC Order No. 561-A, affirming and clarifying Order No. 561, expands the circumstances under which interstate petroleum products pipelines may employ cost-of-service ratemaking in lieu of the indexing methodology, effective January 1, 1995.

Federal Energy Regulatory Commission Proceedings

Tariffs charged by SFPP are subject to certain proceedings at the FERC involving shippers' complaints regarding the interstate rates, as well as practices and the jurisdictional nature of certain facilities and services, SFPP's pipeline systems. Generally, the interstate rates on SFPP's pipeline systems are "grandfathered" under the Energy Policy Act of 1992 unless "substantially changed circumstances" are found to exist. To the extent "substantially changed circumstances" are found to exist, SFPP may be subject to substantial exposure under these FERC complaints.

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ATTACHMENT L

Docket No. OR03-5-001
Exhibit No. BPX-12
KMEP 2006 Form 1065

Form **1065**

Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year 2006, or tax year beginning _____, ending _____
▶ See separate instructions.

OMB No. 1545-0099

2006

A Principal business activity: TRANSPORTATION

B Principal product or service: TRANSPORTATION

C Business code number: 486000

Use the IRS label. Otherwise, print or type.

Name of partnership: KINDER MORGAN ENERGY PARTNERS, L.P.

Number, street, and room or suite no. If a P.O. box, see the instructions.: ONE ALLEN CENTER 500 DALLAS STREET, SUITE 1000

City or town, state, and ZIP code: HOUSTON, TX 77002

D Employer identification number: 76-0380342

E Date business started: 03/07/1998

F Total assets (see the instructions): $13,512,599,873.

G Check applicable boxes: (1) [ ] Initial return (2) [ ] Final return (3) [ ] Name change (4) [ ] Address change (5) [ ] Amended return

H Check accounting method: (1) [ ] Cash (2) [X] Accrual (3) [ ] Other (specify) ▶

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ 251157

J Check if Schedule M-3 required (attach Schedule M-3) [X]

Caution. *Include only trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.*

Income	1a	Gross receipts or sales	1a		
	b	Less returns and allowances	1b	1c	
	2	Cost of goods sold (Schedule A, line 8)		2	
	3	Gross profit. Subtract line 2 from line 1c		3	
	4	Ordinary income (loss) from other partnerships, estates, and trusts *(attach statement)* STMT 1		4	603,300,248.
	5	Net farm profit (loss) *(attach Schedule F (Form 1040))*		5	
	6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)		6	
	7	Other income (loss) *(attach statement)*		7	
	8	**Total income (loss).** Combine lines 3 through 7		8	603,300,248.
Deductions (see the instructions for limitations)	9	Salaries and wages (other than to partners) (less employment credits)		9	
	10	Guaranteed payments to partners		10	
	11	Repairs and maintenance		11	
	12	Bad debts		12	
	13	Rent		13	
	14	Taxes and licenses		14	
	15	Interest		15	
	16a	Depreciation *(if required, attach Form 4562)*	16a		
	b	Less depreciation reported on Schedule A and elsewhere on return	16b	16c	
	17	Depletion **(Do not deduct oil and gas depletion.)**		17	
	18	Retirement plans, etc.		18	
	19	Employee benefit programs		19	
	20	Other deductions *(attach statement)*		20	
	21	**Total deductions.** Add the amounts shown in the far right column for lines 9 through 20		21	
	22	**Ordinary business income (loss).** Subtract line 21 from line 8		22	603,300,248.
	23	Credit for federal telephone excise tax paid (attach Form 8913)		23	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

▶ Signature of general partner or limited liability company member manager — Date: September 19, 2007

May the IRS discuss this return with the preparer shown below (see instructions)? [X] Yes [ ] No

Paid Preparer's Use Only

Preparer's signature ▶ — Date: 9-18-07 — Check if self-employed ▶ [ ] — Preparer's SSN or PTIN: 460-55-2038

Firm's name (or yours if self-employed), address, and ZIP code ▶ PRICEWATERHOUSECOOPERS LLP, 1201 LOUISIANA, SUITE 2900, HOUSTON, TX 77002

EIN ▶ 13-4008324

Phone no. 713-356-4000

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Form **1065** (2006)

JSA
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Form **7004** (Rev. December 2006) Department of the Treasury Internal Revenue Service

Application for Automatic 6-Month Extension of Time To File Certain Business Income Tax, Information, and Other Returns

▶ File a separate application for each return.

OMB No. 1545-0233

Type or Print	Name	Identifying number
	KINDER MORGAN ENERGY PARTNERS, L.P.	76-0380342
File by the due date for the return for which an extension is requested. See instructions.	Number, street, and room or suite no. (If P.O. box, see instructions.) 500 DALLAS STREET, SUITE 1000	
	City, town, state, and ZIP code (If a foreign address, enter city, province or state, and country (follow the country's practice for entering postal code)). HOUSTON, TX 77002	

Note: See instructions before completing this form.

1 Enter the form code for the return that this application is for (see below) 0 9

2 If the foreign corporation does not have an office or place of business in the United States, check here . . . . . ▶ ☐

3 If the organization is a corporation or partnership that qualifies under Regulations section 1.6081-5, check here . . . . ▶ ☐

4 a The application is for calendar year 2006, or tax year beginning _____, 20____, and ending _____, 20____

b **Short tax year.** If this tax year is less than 12 months, check the reason:

☐ Initial return ☐ Final return ☐ Change in accounting period ☐ Consolidated return to be filed

5 If the organization is a corporation and is the common parent of a group that intends to file a consolidated return, check here ▶ . . . . . ☐

If checked, attach a schedule, listing the name, address, and Employer Identification Number (EIN) for each member covered by this application.

6 Tentative total tax	6	NONE
7 Total payments and credits (see instructions)	7	NONE
8 **Balance due.** Subtract line 7 from line 6. **Generally, you must deposit this amount using the Electronic Federal Tax Payment System (EFTPS), a Federal Tax Deposit (FTD) Coupon, or Electronic Funds Withdrawal (EFW)** (see instructions for exceptions)	8	NONE

Application Is For:	Form Code	Application Is For:	Form Code
Form 706-GS(D)	01	Form 1120-H	17
Form 706-GS(T)	02	Form 1120-I	18
Form 990-C (2005 fiscal year filers only)	03	Form 1120-ND	19
Form 1041 (estate)	04	Form 1120-No Section 245 Taxes	20
Form 1041-QFT	05	Form 1120-PC	21
Form 1041-N	06	Form 1120-POL	22
Form 1041-QFT	07	Form 1120-REIT	23
Form 1042	08	Form 1120-RIC	24
Form 1065	09	Form 1120-S	25
Form 1065-B	10	Form 1120-SF	26
Form 1066	11	Form 3520-A	27
Form 1120	12	Form 8612	28
Form 1120 (sub D) (2005 fiscal year filers only)	13	Form 8613	29
Form 1120-A	14	Form 8725	30
Form 1120-C	34	Form 8804	31
Form 1120-F	15	Form 8831	32
Form 1120-FSC	16	Form 8876	33

For Paperwork Reduction Act Notice, see instructions.

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6X0916 3.000

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Schedule A **Cost of Goods Sold** (see the instructions)

1	Inventory at beginning of year	1	
2	Purchases less cost of items withdrawn for personal use	2	
3	Cost of labor	3	
4	Additional section 263A costs *(attach statement)*	4	
5	Other costs *(attach statement)*	5	
6	**Total.** Add lines 1 through 5	6	
7	Inventory at end of year	7	
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	

9a Check all methods used for valuing closing inventory:
- (i) ☐ Cost as described in Regulations section 1.471-3
- (ii) ☐ Lower of cost or market as described in Regulations section 1.471-4
- (iii) ☐ Other (specify method used and attach explanation) ▶

b Check this box if there was a writedown of "subnormal" goods as described in Regulations section 1.471-2(c) ▶ ☐

c Check this box if the LIFO inventory method was adopted this tax year for any goods *(if checked, attach Form 970)* ▶ ☐

d Do the rules of section 263A (for property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule B **Other Information**

		Yes	No
1	What type of entity is filing this return? Check the applicable box:		
	a ☐ Domestic general partnership; b ☒ Domestic limited partnership; c ☐ Domestic limited liability company; d ☐ Domestic limited liability partnership; e ☐ Foreign partnership; f ☐ Other ▶		
2	Are any partners in this partnership also partnerships?	X	
3	During the partnership's tax year, did the partnership own any interest in another partnership or in any foreign entity that was disregarded as an entity separate from its owner under Regulations sections 301.7701-2 and 301.7701-3? If yes, see instructions for required attachment SEE STATEMENT 1	X	
4	Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details		X
5	Does this partnership meet all three of the following requirements?		
	a The partnership's total receipts for the tax year were less than $250,000;		
	b The partnership's total assets at the end of the tax year were less than $600,000; and		
	c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.		
	If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item N on Schedule K-1		X
6	Does this partnership have any foreign partners? If "Yes," the partnership may have to file Forms 8804, 8805 and 8813. See the instructions	X	
7	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?	X	
8	Has this partnership filed, or is it required to file, a return under section 6111 to provide information on any reportable transaction?		X
9	At any time during calendar year 2006, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country ▶		X
10	During the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520. See the instructions		X
11	Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during the tax year? If "Yes," you may elect to adjust the basis of the partnership's assets under section 754 by attaching the statement described under *Elections Made By the Partnership* in the instructions	X	
12	Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return ▶		

Designation of Tax Matters Partner (see the instructions)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ KINDER MORGAN GP, INC. Identifying number of TMP ▶ 47-0495888

Address of designated TMP ▶ ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000 HOUSTON TX 77002

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Schedule K	Partners' Distributive Share Items			Total amount
Income (Loss)	1 Ordinary business income (loss) (page 1, line 22)		1	603,300,248.
	2 Net rental real estate income (loss) *(attach Form 8825)*		2	
	3a Other gross rental income (loss)	3a		
	b Expenses from other rental activities *(attach statement)*	3b		
	c Other net rental income (loss). Subtract line 3b from line 3a		3c	
	4 Guaranteed payments		4	
	5 Interest income SEE STATEMENT 1		5	24,693,765.
	6 Dividends: a Ordinary dividends SEE STATEMENT 1		6a	8,912,180.
	b Qualified dividends	6b 8,912,180.		
	7 Royalties		7	
	8 Net short-term capital gain (loss) *(attach Schedule D (Form 1065))*		8	
	9a Net long-term capital gain (loss) *(attach Schedule D (Form 1065))*		9a	
	b Collectibles (28%) gain (loss)	9b		
	c Unrecaptured section 1250 gain *(attach statement)* STMT 1	9c 5,048.		
	10 Net section 1231 gain (loss) *(attach Form 4797)* SEE STATEMENT 2		10	2,104,098.
	11 Other income (loss) *(see instructions)* Type ▶		11	
Deductions	12 Section 179 deduction *(attach Form 4562)*		12	
	13a Contributions		13a	
	b Investment interest expense SEE STATEMENT 2		13b	15,004,368.
	c Section 59(e)(2) expenditures: (1) Type ▶ IDC (2) Amount ▶		13c(2)	71,195,383.
	d Other deductions *(see instructions)* Type ▶		13d	
Self-Employment	14a Net earnings (loss) from self-employment		14a	
	b Gross farming or fishing income		14b	
	c Gross nonfarm income		14c	
Credits	15a Low-income housing credit (section 42(j)(5))		15a	
	b Low-income housing credit (other)		15b	
	c Qualified rehabilitation expenditures (rental real estate) *(attach Form 3468)*		15c	
	d Other rental real estate credits *(see instructions)* Type ▶		15d	
	e Other rental credits *(see instructions)* Type ▶		15e	
	f Other credits *(see instructions)* Type ▶		15f	
Foreign Transactions	16a Name of country or U.S. possession ▶ VARIOUS			
	b Gross income from all sources		16b	
	c Gross income sourced at partner level		16c	
	Foreign gross income sourced at partnership level SEE STATEMENT 2			
	d Passive ▶ e Listed categories *(attach statement)* ▶ f General limitation ▶		16f	34,546,739.
	Deductions allocated and apportioned at partner level			
	g Interest expense ▶ h Other ▶		16h	
	Deductions allocated and apportioned at partnership level to foreign source income			
	i Passive ▶ j Listed categories *(attach statement)* ▶ k General limitation ▶		16k	34,908,079.
	l Total foreign taxes (check one): ▶ Paid ☐ Accrued ☐		16l	
	m Reduction in taxes available for credit *(attach statement)*		16m	
	n Other foreign tax information *(attach statement)*			
Alternative Minimum Tax (AMT) Items	17a Post-1986 depreciation adjustment SEE STATEMENT 3		17a	-4,932,435.
	b Adjusted gain or loss SEE STATEMENT 3		17b	-1,712,868.
	c Depletion (other than oil and gas)		17c	
	d Oil, gas, and geothermal properties - gross income		17d	
	e Oil, gas, and geothermal properties - deductions		17e	
	f Other AMT items *(attach statement)*		17f	
Other Information	18a Tax-exempt interest income		18a	
	b Other tax-exempt income		18b	
	c Nondeductible expenses SEE STATEMENT 3		18c	3,413,802.
	19a Distributions of cash and marketable securities		19a	1052456672.
	b Distributions of other property		19b	
	20a Investment income		20a	33,605,945.
	b Investment expenses		20b	
	c Other items and amounts *(attach statement)* SEE STATEMENT 3			

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Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l	1 552,810,540.

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other
a General partners	500949123.					
b Limited partners	-7018794.		-248342944	-12155718.	-72663915.	-4523062.

Schedule L Balance Sheets per Books

Assets	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1 Cash		11,353,690.		21,683,286.
2a Trade notes and accounts receivable	1358387679.		2905159525.	
b Less allowance for bad debts		1358387679.		2905159525.
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets (attach statement)	STMT 4	50,153,194.		68,886,199.
7 Mortgage and real estate loans				
8 Other investments (attach statement)	STMT 4	4704456305.		4873796594.
9a Buildings and other depreciable assets				
b Less accumulated depreciation				
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets (attach statement)	STMT 4	5158393740.		5643074269.
14 Total assets		11282744608.		13512599873.
Liabilities and Capital				
15 Accounts payable		1333126767.		2897492586.
16 Mortgages, notes, bonds payable in less than 1 year		NONE		1359069263.
17 Other current liabilities (attach statement)	STMT 4	72,854,475.		97,558,457.
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more		5154200422.		4272485699.
20 Other liabilities (attach statement)	STMT 4	29,149,181.		22,787,400.
21 Partners' capital accounts		4693413763.		4863206468.
22 Total liabilities and capital		11282744608.		13512599873.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Note. Schedule M-3 may be required instead of Schedule M-1 (see instructions).

1	Net income (loss) per books	6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize): a Tax-exempt interest $
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):	7	Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize): a Depreciation $
3	Guaranteed payments (other than health insurance)	8	Add lines 6 and 7
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize): a Depreciation $ b Travel and entertainment $	9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5
5	Add lines 1 through 4		

Schedule M-2 Analysis of Partners' Capital Accounts

1	Balance at beginning of year	4,693,413,763.	6 Distributions: a Cash STMT 5	1,052,456,672.
2	Capital contributed: a Cash STMT 5	248,419,535.	b Property	
	b Property	1,913,340.	7 Other decreases (itemize): SEE STATEMENT 5	226,060.
3	Net income (loss) per books	972,142,562.		
4	Other increases (itemize):		8 Add lines 6 and 7	1,052,682,732.
5	Add lines 1 through 4	5,915,889,200.	9 Balance at end of year. Subtract line 8 from line 5	4,863,206,468.

SCHEDULE M-3 (Form 1065)

Department of the Treasury Internal Revenue Service

Net Income (Loss) Reconciliation for Certain Partnerships

▶ Attach to Form 1065 or Form 1065-B.
▶ See separate instructions.

OMB No. 1545-0099

2006

Name of partnership: KINDER MORGAN ENERGY PARTNERS, L.P.

Employer identification number: 76-0380342

This Schedule M-3 is being filed because (check all that apply):

A [X] The amount of the partnership's total assets at the end of the tax year is equal to $10 million or more.

B [X] The amount of the partnership's adjusted total assets for the year is equal to $10 million or more. If box B is checked, enter the amount of adjusted total assets for the tax year 14,565,282,605.

C [X] The amount of total receipts for the taxable year is equal to $35 million or more. If box C is checked, enter the total receipts for the tax year 639,010,291.

D [ ] An entity that is a reportable entity partner with respect to the partnership owns or is deemed to own an interest of 50 percent or more in the partnership's capital, profit, or loss, on any day during the tax year of the partnership.

Name of Reportable Entity Partner	Identifying Number	Maximum Percentage of Deemed Ownership

E [ ] Voluntary Filer

Part I Financial Information and Net Income (Loss) Reconciliation

1a Did the partnership file SEC Form 10-K for its income statement period ending with or within this tax year?
[X] **Yes.** Skip lines 1b and 1c and complete lines 2 through 11 with respect to that SEC Form 10-K.
[ ] **No.** Go to line 1b.

b Did the partnership prepare a certified audited income statement for that period?
[ ] **Yes.** Skip line 1c and complete lines 2 through 11 with respect to that income statement.
[ ] **No.** Go to line 1c.

c Did the partnership prepare an income statement for that period?
[ ] **Yes.** Complete lines 2 through 11 with respect to that income statement.
[ ] **No.** Skip lines 2 through 3b and enter the partnership's net income (loss) per its books and records on line 4.

2 Enter the income statement period: Beginning 01/01/2006 Ending 12/31/2006

3a Has the partnership's income statement been restated for the income statement period on line 2?
[ ] **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
[X] **No.**

b Has the partnership's income statement been restated for any of the five income statement periods preceding the period on line 2?
[ ] **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
[X] **No.**

4	Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1	4	972,142,562.
5a	Net income from nonincludible foreign entities (attach schedule)	5a	( )
b	Net loss from nonincludible foreign entities (attach schedule and enter as a positive amount)	5b	
6a	Net income from nonincludible U.S. entities (attach schedule)	6a	( )
b	Net loss from nonincludible U.S. entities (attach schedule and enter as a positive amount)	6b	
7a	Net income of other includible entities (attach schedule)	7a	
b	Net loss of other includible entities (attach schedule)	7b	( )
8	Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach schedule)	8	
9	Adjustment to reconcile income statement period to tax year (attach schedule)	9	
10	Other adjustments to reconcile to amount on line 11 (attach schedule)	10	
11	**Net income (loss) per income statement of the partnership.** Combine lines 4 through 10	11	972,142,562.

For Privacy Act and Paperwork Reduction Act Notice, see the Instructions for your return.

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Name of partnership: KINDER MORGAN ENERGY PARTNERS, L.P.

Employer identification number: 76-0380342

Part II Reconciliation of Net Income (Loss) per Income Statement of Partnership with Income (Loss) per Return

Income (Loss) Items	(a) Income (Loss) per Income Statement (optional)	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return (optional)
1 Income (loss) from equity method foreign corporations				
2 Gross foreign dividends not previously taxed				
3 Subpart F, QEF, and similar income inclusions				
4 Gross foreign distributions previously taxed				
5 Income (loss) from equity method U.S. corporations				
6 U.S. dividends				
7 Income (loss) from U.S. partnerships (attach schedule) STMT 6	972,142,562.	-419,332,022.		552,810,540.
8 Income (loss) from foreign partnerships (attach schedule)				
9 Income (loss) from other pass-through entities (attach schedule)				
10 Items relating to reportable transactions (attach details)				
11 Interest income				
12 Total accrual to cash adjustment				
13 Hedging transactions				
14 Mark-to-market income (loss)				
15 Cost of goods sold (attach Form 8916-A)				
16 Sale versus lease (for sellers and/or lessors)				
17 Section 481(a) adjustments				
18 Unearned/deferred revenue				
19 Income recognition from long-term contracts				
20 Original issue discount and other imputed interest				
21a Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities				
b Gross capital gains from Schedule D, excluding amounts from pass-through entities				
c Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
d Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
e Abandonment losses				
f Worthless stock losses (attach details)				
g Other gain/loss disposition of assets other than inventory				
22 Other income (loss) items with differences (attach schedule)				
23 Total income (loss) items. Combine lines 1 through 22	972,142,562.	-419,332,022.		552,810,540.
24 Total expense/deduction items (from Part III, line 30)				
25 Other items with no differences				
26 Reconciliation totals. Combine lines 23 through 25	972,142,562.	-419,332,022.		552,810,540.

Note. Line 26, column (a), must equal the amount on Part I, line 11, and column (d) must equal Form 1065, page 4, Analysis of Net Income (Loss), line 1.

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Name of partnership: KINDER MORGAN ENERGY PARTNERS, L.P.

Employer identification number: 76-0380342

Part III Reconciliation of Net Income (Loss) per Income Statement of Partnership with Income (Loss) per Return - Expense/Deduction Items

	Expense/Deduction Items	(a) Expense per Income Statement (optional)	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return (optional)
1	State and local current income tax expense				
2	State and local deferred income tax expense				
3	Foreign current income tax expense (other than foreign withholding taxes)				
4	Foreign deferred income tax expense				
5	Equity-based compensation				
6	Meals and entertainment				
7	Fines and penalties				
8	Judgments, damages, awards, and similar costs				
9	Guaranteed payments				
10	Pension and profit-sharing				
11	Other post-retirement benefits				
12	Deferred compensation				
13	Charitable contribution of cash and tangible property				
14	Charitable contribution of intangible property				
15	Organizational expenses as per 1.709-2(a)				
16	Syndication expenses as per 1.709-2(b)				
17	Current year acquisition/reorganization investment banking fees				
18	Current year acquisition/reorganization legal and accounting fees				
19	Amortization/impairment of goodwill				
20	Amortization of acquisition, reorganization, and start-up costs				
21	Other amortization or impairment write-offs				
22	Section 198 environmental remediation costs				
23 a	Depletion - Oil & Gas				
b	Depletion - Other than Oil & Gas				
24	Intangible drilling & development costs				
25	Depreciation				
26	Bad debt expense				
27	Interest expense				
28	Purchase versus lease (for purchasers and/or lessees)				
29	Other expense/deduction items with differences (attach schedule)				
30	Total expense/deduction items. Combine lines 1 through 29. Enter here and on Part II, line 24				

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Form **4797**

Department of the Treasury
Internal Revenue Service (99)

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return. ▶ See separate instructions.

OMB No. 1545-0184

2006

Attachment Sequence No. 27

Name(s) shown on return: KINDER MORGAN ENERGY PARTNERS, L.P.

Identifying number: 76-0380342

1 Enter the gross proceeds from sales or exchanges reported to you for 2006 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) . . . 1

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft - Most Property Held More Than 1 Year (see instructions)

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
2 SEE STATEMENT 7						2,104,098.

3 Gain, if any, from Form 4684, line 42 . . . 3

4 Section 1231 gain from installment sales from Form 6252, line 26 or 37 . . . 4

5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824 . . . 5

6 Gain, if any, from line 32, from other than casualty or theft . . . 6

7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: . . . 7 2,104,098.

Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.

Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

8 Nonrecaptured net section 1231 losses from prior years (see instructions) . . . 8

9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions) . . . 9

Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

11 Loss, if any, from line 7 . . . 11 ( )

12 Gain, if any, from line 7 or amount from line 8, if applicable . . . 12

13 Gain, if any, from line 31 . . . 13

14 Net gain or (loss) from Form 4684, lines 34 and 41a . . . 14

15 Ordinary gain from installment sales from Form 6252, line 25 or 36 . . . 15

16 Ordinary gain or (loss) from like-kind exchanges from Form 8824 . . . 16

17 Combine lines 10 through 16 . . . 17

18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:

a If the loss on line 11 includes a loss from Form 4684, line 38, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 27, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 22. Identify as from "Form 4797, line 18a." See instructions . . . 18a

b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14 . . . 18b

For Paperwork Reduction Act Notice, see separate instructions.

Form 4797 (2006)

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Part III **Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255** (see instructions)

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A		
B		
C		
D		

These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20 Gross sales price (Note: *See line 1 before completing.*)	20				
21 Cost or other basis plus expense of sale	21				
22 Depreciation (or depletion) allowed or allowable	22				
23 Adjusted basis. Subtract line 22 from line 21	23				
24 Total gain. Subtract line 23 from line 20	24				
25 **If section 1245 property:**					
a Depreciation allowed or allowable from line 22	25a				
b Enter the smaller of line 24 or 25a	25b				
26 **If section 1250 property:** If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
a Additional depreciation after 1975 (see instructions)	26a				
b Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions)	26b				
c Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e	26c				
d Additional depreciation after 1969 and before 1976	26d				
e Enter the smaller of line 26c or 26d	26e				
f Section 291 amount (corporations only)	26f				
g Add lines 26b, 26e, and 26f	26g				
27 **If section 1252 property:** Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).					
a Soil, water, and land clearing expenses	27a				
b Line 27a multiplied by applicable percentage (see instructions)	27b				
c Enter the smaller of line 24 or 27b	27c				
28 **If section 1254 property:**					
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, and mining exploration costs (see instructions)	28a				
b Enter the smaller of line 24 or 28a	28b				
29 **If section 1255 property:**					
a Applicable percentage of payments excluded from income under section 126 (see instructions)	29a				
b Enter the smaller of line 24 or 29a (see instructions)	29b				

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30 Total gains for all properties. Add property columns A through D, line 24	30	
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	
32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 36. Enter the portion from other than casualty or theft on Form 4797, line 6	32	

Part IV **Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less** (see instructions)

		(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years	33		
34 Recomputed depreciation (see instructions)	34		
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35		

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INCOME FROM OTHER PASS-THROUGH ENTITIES

Activity Name and Address	ID Number and Type of Income	Disposed Activity	Qualified low-income housing	Publicly traded entity
KINDER MORGAN O.L.P. 'A'	76-0380015			
500 DALLAS, SUITE 1000,HOUSTON, TX 77002	GENERAL TRADE/BUSINESS	NO	NO	NO

1	Ordinary income (loss) from trade or business activities		213,818,971.
2	Rental real estate income (loss)		
3	Other rental income (loss)		
4	Guaranteed payments		
5	Interest income (loss)		5,844,659.
6a	Total ordinary dividends	SEE STATEMENT 8	4,186,566.
6b	Qualified dividends	SEE STATEMENT 8	4,186,566.
7	Royalty income (loss)		
8	Net short-term capital gain (loss) (entire year)		
9a	Net long-term capital gain (loss) (entire year)		
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		5,048.
10	Net section 1231 gain (loss) (entire year)		5,487,855.
11	Other income (loss)		
12	Section 179 expense deduction		
13a-f	Charitable contributions		
13g	Interest expense on investment debts		3,289,658.
13h, j, k	Deductions related to portfolio income		
13l	Section 59(e)(2) expenditures		
13l-v	Other deductions		
15a	Low-income housing credit from section 42(j)(5) partnerships		
15b	Low-income housing credit (other)		
15c	Qualified rehabilitation expenditures related to rental real estate activities		
15d	Credits related to rental real estate activities		
15e	Credits related to other rental activities		
15f-p	Other credits		
16b	Gross income from all sources		
16c	Gross income sourced at partner level		
16d	Foreign gross income (partnership level): Passive	SEE STATEMENT 8	
16e	Foreign gross income (partnership level): Listed categories		
16f	Foreign gross income (partnership level): General limitation		34,546,739.
16g	Deductions allocated and apportioned (partner level): Interest expense		
16h	Deductions allocated and apportioned (partner level): Other		
16i	Deductions allocated and apportioned (partnership level): Passive	SEE STATEMENT 8	
16j	Deductions allocated and apportioned (partnership level): Listed categories		
16k	Deductions allocated and apportioned (partnership level): General limitation		34,908,079.
16l	Total foreign taxes paid		
16m	Total foreign taxes accrued		
16n	Reduction in taxes available for credit		
16o	Foreign trading gross receipts		
16p	Extraterritorial income exclusion		
16q	Other foreign transactions		
17a	Depreciation adjustment on property placed in service after 1986		966,214.
17b	Adjusted gain or loss		-524,315.
17c	Depletion (other than oil and gas)		
17d	Gross income from oil, gas, and geothermal properties		
17e	Deductions allocable		
17f	Other adjustments and tax preference items		
18a	Tax-exempt interest income		
18b	Other tax-exempt income		
18c	Nondeductible expenses	SEE STATEMENT 8	222,590.
20a	Investment income		10,031,225.
20b	Investment expenses		
20c-w	Other information		

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INCOME FROM OTHER PASS-THROUGH ENTITIES

Activity Name and Address	ID Number and Type of Income	Disposed Activity	Qualified low-income housing	Publicly traded partnership
KINDER MORGAN O.L.P. 'B'	76-0414819			
500 DALLAS, SUITE 1000,HOUSTON, TX 77002	GENERAL TRADE/BUSINESS	NO	NO	NO

1	Ordinary income (loss) from trade or business activities		-3,585,021.
2	Rental real estate income (loss)		
3	Other rental income (loss)		
4	Guaranteed payments		
5	Interest income (loss)		
6a	Total ordinary dividends		
6b	Qualified dividends		
7	Royalty income (loss)		
8	Net short-term capital gain (loss) (entire year)		
9a	Net long-term capital gain (loss) (entire year)		
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss) (entire year)		-1,447,721.
11	Other income (loss)		
12	Section 179 expense deduction		
13a-f	Charitable contributions		
13g	Interest expense on investment debts		
13h, j, k	Deductions related to portfolio income		
13i	Section 59(e)(2) expenditures		
13l-v	Other deductions		
15a	Low-income housing credit from section 42(j)(5) partnerships		
15b	Low-income housing credit (other)		
15c	Qualified rehabilitation expenditures related to rental real estate activities		
15d	Credits related to rental real estate activities		
15e	Credits related to other rental activities		
15f-p	Other credits		
16b	Gross income from all sources		
16c	Gross income sourced at partner level		
16d	Foreign gross income (partnership level): Passive		
16e	Foreign gross income (partnership level): Listed categories		
16f	Foreign gross income (partnership level): General limitation		
16g	Deductions allocated and apportioned (partner level): Interest expense		
16h	Deductions allocated and apportioned (partner level): Other		
16i	Deductions allocated and apportioned (partnership level): Passive		
16j	Deductions allocated and apportioned (partnership level): Listed categories		
16k	Deductions allocated and apportioned (partnership level): General limitation		
16l	Total foreign taxes paid		
16m	Total foreign taxes accrued		
16n	Reduction in taxes available for credit		
16o	Foreign trading gross receipts		
16p	Extraterritorial income exclusion		
16q	Other foreign transactions		
17a	Depreciation adjustment on property placed in service after 1986		-354,300.
17b	Adjusted gain or loss		-728,914.
17c	Depletion (other than oil and gas)		
17d	Gross income from oil, gas, and geothermal properties		
17e	Deductions allocable		
17f	Other adjustments and tax preference items		
18a	Tax-exempt interest income		
18b	Other tax-exempt income		
18c	Nondeductible expenses	SEE STATEMENT 9	5,480.
20a	Investment income		
20b	Investment expenses		
20c-w	Other information		

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INCOME FROM OTHER PASS-THROUGH ENTITIES

Activity Name and Address	ID Number and Type of Income	Disposed Activity	Qualified low-income housing	Publicly traded ptnrship
KINDER MORGAN O.L.P. 'C'	76-0547319			
500 DALLAS, SUITE 1000,HOUSTON, TX 77002	GENERAL TRADE/BUSINESS	NO	NO	NO

1	Ordinary income (loss) from trade or business activities	22,480,964.
2	Rental real estate income (loss)	
3	Other rental income (loss)	
4	Guaranteed payments	
5	Interest income (loss)	18,120,357.
6a	Total ordinary dividends	
6b	Qualified dividends	
7	Royalty income (loss)	
8	Net short-term capital gain (loss) (entire year)	
9a	Net long-term capital gain (loss) (entire year)	
9b	Collectibles (28%) gain (loss)	
9c	Unrecaptured section 1250 gain	
10	Net section 1231 gain (loss) (entire year)	-927,494.
11	Other income (loss)	
12	Section 179 expense deduction	
13a-f	Charitable contributions	
13g	Interest expense on investment debts	8,918,501.
13h, j, k	Deductions related to portfolio income	
13i	Section 59(e)(2) expenditures	
13l-v	Other deductions	
15a	Low-income housing credit from section 42(j)(5) partnerships	
15b	Low-income housing credit (other)	
15c	Qualified rehabilitation expenditures related to rental real estate activities	
15d	Credits related to rental real estate activities	
15e	Credits related to other rental activities	
15f-p	Other credits	
16b	Gross income from all sources	
16c	Gross income sourced at partner level	
16d	Foreign gross income (partnership level): Passive	
16e	Foreign gross income (partnership level): Listed categories	
16f	Foreign gross income (partnership level): General limitation	
16g	Deductions allocated and apportioned (partner level): Interest expense	
16h	Deductions allocated and apportioned (partner level): Other	
16i	Deductions allocated and apportioned (partnership level): Passive	
16j	Deductions allocated and apportioned (partnership level): Listed categories	
16k	Deductions allocated and apportioned (partnership level): General limitation	
16l	Total foreign taxes paid	
16m	Total foreign taxes accrued	
16n	Reduction in taxes available for credit	
16o	Foreign trading gross receipts	
16p	Extraterritorial income exclusion	
16q	Other foreign transactions	
17a	Depreciation adjustment on property placed in service after 1986	-1,017,933.
17b	Adjusted gain or loss	-229,420.
17c	Depletion (other than oil and gas)	
17d	Gross income from oil, gas, and geothermal properties	
17e	Deductions allocable	
17f	Other adjustments and tax preference items	
18a	Tax-exempt interest income	
18b	Other tax-exempt income	
18c	Nondeductible expenses SEE STATEMENT 9	85,655.
20a	Investment income	18,120,357.
20b	Investment expenses	
20c-w	Other information	

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INCOME FROM OTHER PASS-THROUGH ENTITIES

Activity Name and Address	ID Number and Type of Income	Disposed Activity	Qualified low-income housing	Publicly traded partnership
KINDER MORGAN O.L.P. 'D'	76-0561780			
500 DALLAS, SUITE 1000, HOUSTON,TX 77002	GENERAL TRADE/BUSINESS	NO	NO	NO

1	Ordinary income (loss) from trade or business activities		144,381,517.
2	Rental real estate income (loss)		
3	Other rental income (loss)		
4	Guaranteed payments		
5	Interest income (loss)		655,741.
6a	Total ordinary dividends	SEE STATEMENT 9	4,725,614.
6b	Qualified dividends	SEE STATEMENT 9	4,725,614.
7	Royalty income (loss)		
8	Net short-term capital gain (loss) (entire year)		
9a	Net long-term capital gain (loss) (entire year)		
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss) (entire year)		-1,008,542.
11	Other income (loss)		
12	Section 179 expense deduction		
13a-f	Charitable contributions		
13g	Interest expense on investment debts		2,796,209.
13h, j, k	Deductions related to portfolio income		
13i	Section 59(e)(2) expenditures		
13l-v	Other deductions		
15a	Low-income housing credit from section 42(j)(5) partnerships		
15b	Low-income housing credit (other)		
15c	Qualified rehabilitation expenditures related to rental real estate activities		
15d	Credits related to rental real estate activities		
15e	Credits related to other rental activities		
15f-p	Other credits		
16b	Gross income from all sources		
16c	Gross income sourced at partner level		
16d	Foreign gross income (partnership level): Passive		
16e	Foreign gross income (partnership level): Listed categories		
16f	Foreign gross income (partnership level): General limitation		
16g	Deductions allocated and apportioned (partner level): Interest expense		
16h	Deductions allocated and apportioned (partner level): Other		
16i	Deductions allocated and apportioned (partnership level): Passive		
16j	Deductions allocated and apportioned (partnership level): Listed categories		
16k	Deductions allocated and apportioned (partnership level): General limitation		
16l	Total foreign taxes paid		
16m	Total foreign taxes accrued		
16n	Reduction in taxes available for credit		
16o	Foreign trading gross receipts		
16p	Extraterritorial income exclusion		
16q	Other foreign transactions		
17a	Depreciation adjustment on property placed in service after 1986		-9,267,656.
17b	Adjusted gain or loss		-230,219.
17c	Depletion (other than oil and gas)		
17d	Gross income from oil, gas, and geothermal properties		
17e	Deductions allocable		
17f	Other adjustments and tax preference items		
18a	Tax-exempt interest income		
18b	Other tax-exempt income		
18c	Nondeductible expenses	SEE STATEMENT 9	3,020,123.
20a	Investment income		5,381,355.
20b	Investment expenses		
20c-w	Other information		

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INCOME FROM OTHER PASS-THROUGH ENTITIES

Activity Name and Address	ID Number and Type of Income	Disposed Activity	Qualified low-income housing	Publicly traded partnership
KINDER MORGAN CO2 COMPANY, L.P.	76-0554627			
500 DALLAS, SUITE 1000, HOUSTON,TX 77002	GENERAL TRADE/BUSINESS	NO	NO	NO

1	Ordinary income (loss) from trade or business activities		226,203,817.
2	Rental real estate income (loss)		
3	Other rental income (loss)		
4	Guaranteed payments		
5	Interest income (loss)		73,008.
6a	Total ordinary dividends		
6b	Qualified dividends		
7	Royalty income (loss)		
8	Net short-term capital gain (loss) (entire year)		
9a	Net long-term capital gain (loss) (entire year)		
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss) (entire year)		
11	Other income (loss)		
12	Section 179 expense deduction		
13a-f	Charitable contributions		
13g	Interest expense on investment debts		
13h, j, k	Deductions related to portfolio income		
13i	Section 59(e)(2) expenditures	SEE STATEMENT 10	71,195,383.
13i-v	Other deductions		
15a	Low-income housing credit from section 42(j)(5) partnerships		
15b	Low-income housing credit (other)		
15c	Qualified rehabilitation expenditures related to rental real estate activities		
15d	Credits related to rental real estate activities		
15e	Credits related to other rental activities		
15f-p	Other credits		
16b	Gross income from all sources		
16c	Gross income sourced at partner level		
16d	Foreign gross income (partnership level): Passive		
16e	Foreign gross income (partnership level): Listed categories		
16f	Foreign gross income (partnership level): General limitation		
16g	Deductions allocated and apportioned (partner level): Interest expense		
16h	Deductions allocated and apportioned (partner level): Other		
16i	Deductions allocated and apportioned (partnership level): Passive		
16j	Deductions allocated and apportioned (partnership level): Listed categories		
16k	Deductions allocated and apportioned (partnership level): General limitation		
16l	Total foreign taxes paid		
16m	Total foreign taxes accrued		
16n	Reduction in taxes available for credit		
16o	Foreign trading gross receipts		
16p	Extraterritorial income exclusion		
16q	Other foreign transactions		
17a	Depreciation adjustment on property placed in service after 1986		4,741,240.
17b	Adjusted gain or loss		
17c	Depletion (other than oil and gas)		
17d	Gross income from oil, gas, and geothermal properties		
17e	Deductions allocable		
17f	Other adjustments and tax preference items		
18a	Tax-exempt interest income		
18b	Other tax-exempt income		
18c	Nondeductible expenses	SEE STATEMENT 10	79,954.
20a	Investment income		73,008.
20b	Investment expenses		
20c-w	Other information		

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KINDER MORGAN ENERGY PARTNERS, L.P.
EIN: 76-0380342
FORM 1065
TAXABLE YEAR 12/31/2006

ELECTION OUT OF SPECIAL DEPRECIATION FOR GO ZONE PROPERTY

Pursuant to Internal Revenue Code Section 1400N(d)(2)(B)(iv), the taxpayer hereby elects to have Internal Revenue Section 1400N(d) not apply to all property placed in service during the taxable year described above.

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Kinder Morgan Energy Partners, L.P.
Federal ID # 76-0380342
Tax Year Ended December 31, 2006

PARTNERSHIP RETURN OF INCOME DISCLOSURES

Explanation for the difference between the amount on Form 1065, Page 4, Analysis of Net Income (Loss), Line 2, columns (i) through (vi) and Line 1, page 4:

> "The sum of the tax amounts on Page 4, line 2, columns (i) through (vi) are different from the Partnership's tax amounts as reported on page 4 line 1. This difference is a result of receiving incomplete information on beneficial owners from the nominees. Nominees are required by Internal Revenue Code Section 6031(c) to provide information on beneficial owners to the Partnership. The amounts reported on page 4, line 2 represent the sum of the Schedule K-1 amounts and therefore include all over allocations. The Schedule K-1 amounts also include the effects of Section 743(b) basis adjustments in the capital balances and therefore do not sum to the total capital balance as shown on Schedule M-2 for Form 1065."

Due to incomplete nominee reporting, all public limited partner capital analysis are reported based on outside tax basis while the general partner's capital analysis is in accordance with financial book reporting.

This partnership is a publicly-traded partnership exempt from treatment as a corporation under Code Section 7704 because more than 90% of its gross income is qualifying income under such code section. This income qualifies under Section 7704 since it is derived from the exploration, development, processing, refining, and transportation of any mineral or natural resource.

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Kinder Morgan
Federal ID # 76-0380342
Disclosures under Reg. Sect. 1.743-1(k)
Tax Year Ending December 31, 2006

This partnership has elected to adjust the basis of partnership properties under section 743(b) and therefore must attach a statement to the partnership return for the year of the transfer of a partnership interest setting forth the name and taxpayer identification number of the transferee as well as the computation of the adjustment and the partnership properties to which the adjustment has been allocated. The partnership submits the following three reports to fulfill the disclosure requirements under Reg. Sect. 1.743-1(k):

(1) **Transferee Partner Information** report documents the transferee partner name, address, taxpayer identification number, number of units purchased, group date, and group price. The number of units purchased, group date, and group price are information that serves as a link to the following two reports and allows for a simplified manner of reporting the required information.
(2) **Basis Adjustment Group Calculations** report sets out the calculation of the adjustment for each group date/group price combination. Given the extremely large number of transferee partners, this partnership has adopted a convention of calculating the adjustment for all transferee partners during a particular month based on a convention price or group price. The last column of this schedule shows the adjustment on a per unit basis.
(3) **Monthly Basis Adjustment Allocation to Assets** report details the partnership properties to which the adjustment has been allocated. The last column of this schedule shows the adjustment on a per unit basis.

To determine a particular transferee partners' adjustment and partnership properties to which the adjustment has been allocated, the number of units for the transferee partner from the **Transferee Partner Information** report should be multiplied by the respective per unit amounts from the **Basis Adjustment Group Calculation** report and the **Monthly Basis Adjustment Allocation to Assets** report.

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Kinder Morgan Energy Partners L.P.
76-0380342

Disclosure Statement Regarding Issuance of Additional Units

When we issue additional units or engage in certain other transactions, we determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unit holders. Our methodology appears to understate the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unit holders, which may be unfavorable to some unit holders. Moreover, under our current valuation methods, subsequent purchasers of common units may have a greater Internal Revenue Code Section 743 (b) adjustment than included in the current year calculations. We are currently working with the Internal Revenue Service to resolve these matters.

FORM 1065 SUPPORTING SCHEDULES

LINE 4 - PAGE 1 - ORDINARY INCOME FROM OTHER PTNRSHPS AND FIDUCIARIES

FROM KINDER MORGAN O.L.P. 'A'	213,818,971.
FROM KINDER MORGAN O.L.P. 'B'	-3,585,021.
FROM KINDER MORGAN O.L.P. 'C'	22,480,964.
FROM KINDER MORGAN O.L.P. 'D'	144,381,517.
FROM KINDER MORGAN CO2 COMPANY, L.P.	226,203,817.
TOTAL ORDINARY INCOME FROM OTHER PTNRSHPS AND FIDUCIARIES	603,300,248.

SCHEDULE B - QUESTION 3 DETAIL

TYPE OF ENTITY	NAME OF ENTITY	ID NUMBER	COUNTRY
PARTNERSHIP	KINDER MORGAN OLP A	76-0380015	US
PARTNERSHIP	KINDER MORGAN OLP B	76-0414819	US
PARTNERSHIP	KINDER MORGAN OLP C	76-0547319	US
PARTNERSHIP	KINDER MORGAN OLP D	76-0561780	US
PARTNERSHIP	KINDER MORGAN CO2	76-0554627	US

SCHEDULE K - LINE 5 - INTEREST INCOME

INTEREST INCOME FROM PASS-THROUGH ENTITIES	24,693,765.
TOTAL INTEREST INCOME	24,693,765.

SCHEDULE K - LINE 6A - DIVIDEND INCOME

QUALIFIED DIVIDEND INCOME INCLUDED IN INVESTMENT INCOME

FROM KINDER MORGAN O.L.P. 'A'	4,186,566.
FROM KINDER MORGAN O.L.P. 'D'	4,725,614.
TOTAL ORDINARY DIVIDENDS	8,912,180.

SCHEDULE K - LINE 9C - UNRECAPTURED SECTION 1250 GAIN

UNRECAPTURED SECTION 1250 GAIN:	
FROM KINDER MORGAN O.L.P. 'A'	5,048.
TOTAL UNRECAPTURED SECTION 1250 GAIN	5,048.

STATEMENT #1

FORM 1065 SUPPORTING SCHEDULES

SCHEDULE K LINE 10 - NET GAIN(LOSS) UNDER SECTION 1231

FROM KINDER MORGAN O.L.P. 'A'	5,487,855.
FROM KINDER MORGAN O.L.P. 'B'	-1,447,721.
FROM KINDER MORGAN O.L.P. 'C'	-927,494.
FROM KINDER MORGAN O.L.P. 'D'	-1,008,542.
TOTAL NET GAIN(LOSS) UNDER SECTION 1231	2,104,098.

SCHEDULE K - LINE 13B - INTEREST EXPENSE ON INVESTMENT DEBTS

FROM KINDER MORGAN O.L.P. 'A'	3,289,658.
FROM KINDER MORGAN O.L.P. 'C'	8,918,501.
FROM KINDER MORGAN O.L.P. 'D'	2,796,209.
TOTAL INTEREST EXPENSE ON INVESTMENT DEBTS	15,004,368.

SCHEDULE K - LINE 13C - SECTION 59(E) ELECTION EXPENDITURES

FROM KINDER MORGAN CO2 COMPANY, L.P.	71,195,383.
TOTAL SECTION 59(E) ELECTION EXPENDITURES	71,195,383.

SCHEDULE K - LINE 16 - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 16D	LINE 16E	LINE 16F
FROM PASS-THROUGH ENTITIES			34,546,739.
TOTAL FOREIGN GI/PARTNERSHIP LEVEL			34,546,739.

SCHEDULE K - LINE 16 - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 16I	LINE 16J	LINE 16K
FROM PASS-THROUGH ENTITIES			34,908,079.
TOTAL DEDUCTION/PARTNERSHIP LEVEL			34,908,079.

STATEMENT #2

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FORM 1065 SUPPORTING SCHEDULES

SCHEDULE K - LINE 17A - DEPRECIATION ADJUSTMENT ON PROPERTY

FROM KINDER MORGAN O.L.P. 'A'	966,214.
FROM KINDER MORGAN O.L.P. 'B'	-354,300.
FROM KINDER MORGAN O.L.P. 'C'	-1,017,933.
FROM KINDER MORGAN O.L.P. 'D'	-9,267,656.
FROM KINDER MORGAN CO2 COMPANY, L.P.	4,741,240.
TOTAL DEPRECIATION ADJUSTMENT ON PROPERTY	-4,932,435.

SCHEDULE K - LINE 17B - AMT ADJUSTED GAIN OR LOSS

FROM KINDER MORGAN O.L.P. 'A'	-524,315.
FROM KINDER MORGAN O.L.P. 'B'	-728,914.
FROM KINDER MORGAN O.L.P. 'C'	-229,420.
FROM KINDER MORGAN O.L.P. 'D'	-230,219.
TOTAL BASIS ADJUSTMENT IN DETERMINING GAIN(LOSS)	-1,712,868.

SCHEDULE K - LINE 18C - NONDEDUCTIBLE EXPENSES

FROM KINDER MORGAN O.L.P. 'A'	222,590.
FROM KINDER MORGAN O.L.P. 'B'	5,480.
FROM KINDER MORGAN O.L.P. 'C'	85,655.
FROM KINDER MORGAN O.L.P. 'D'	3,020,123.
FROM KINDER MORGAN CO2 COMPANY, L.P.	79,954.
TOTAL NONDEDUCTIBLE EXPENSES	3,413,802.

SCHEDULE K - LINE 20C - OTHER

UNRELATED BUSINESS TAXABLE INCOME	504,873,703.
OTHER ITEMS NOT CARRYING TO SCHEDULE M-1:	
DEPLETION INCLUDED IN BOX 1	65,120,367.

STATEMENT #3

FORM 1065, SUPPORTING SCHEDULES

SCHEDULE L - LINE 6 - OTHER CURRENT ASSETS	BEGINNING	ENDING
INTEREST/DIVIDENDS RECEIVABLE	48,582,052.	68,495,741.
EXCHANGE GAS RECEIVABLES	1,646,142.	NONE
OTHER CURRENT ASSETS	-75,000.	390,458.
TOTAL OTHER CURRENT ASSETS	50,153,194.	68,886,199.

SCHEDULE L - LINE 8 - OTHER INVESTMENTS	BEGINNING	ENDING
INVESTMENT IN PARTNERSHIPS	4,704,456,305.	4,873,796,594.
TOTAL OTHER INVESTMENTS	4,704,456,305.	4,873,796,594.

SCHEDULE L - LINE 13 - OTHER ASSETS	BEGINNING	ENDING
NOTES RECEIVABLE	5,014,067,816.	5,547,425,896.
UNAMORTIZED DEBT ISSUANCE COST	31,719,028.	28,681,472.
DEFERRED CHARGES	112,606,896.	66,966,901.
TOTAL OTHER ASSETS	5,158,393,740.	5,643,074,269.

SCHEDULE L - LINE 17 - OTHER CURRENT LIABILITIES	BEGINNING	ENDING
ACCRUED INTEREST	71,208,333.	80,260,742.
EXCHANGE GAS PAYABLES	1,646,142.	NONE
OTHER CURRENT LIABILITIES	NONE	17,297,715.
TOTAL OTHER CURRENT LIABILITIES	72,854,475.	97,558,457.

SCHEDULE L - LINE 20 - OTHER LIABILITIES	BEGINNING	ENDING
DEFERRED CREDITS	29,149,181.	22,787,400.
TOTAL OTHER LIABILITIES	29,149,181.	22,787,400.

STATEMENT #4

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FORM 1065, SCHEDULE M-2, SUPPORTING SCHEDULES

SCHEDULE M-2 - LINE 2A - CASH CONTRIBUTED DURING YEAR

CASH CONTRIBUTED DURING THE YEAR	248,419,535.
TOTAL CASH CONTRIBUTED DURING THE YEAR	248,419,535.

SCHEDULE M-2 - LINE 6A - CASH DISTRIBUTIONS

CASH DISTRIBUTIONS	1,052,456,672.
TOTAL CASH DISTRIBUTIONS	1,052,456,672.

SCHEDULE M-2 - LINE 7 - OTHER DECREASES

UNIT ISSUANCE COST	226,060.
TOTAL OTHER DECREASES	226,060.

STATEMENT #5

SCHEDULE M-3, PART II DETAIL

LINE 7 - INCOME (LOSS) FROM U.S. PARTNERSHIPS

NAME	EIN	EOY PROFIT-SHARING PERCENTAGE	EOY LOSS-SHARING PERCENTAGE	INCOME (LOSS) PER INCOME STMT	TEMPORARY DIFFERENCE	PERMANENT DIFFERENCE	INCOME (LOSS) PER TAX RETURN
KINDER MORGAN O.L.P. 'A'	76-0380015	98.989900	98.989900	466,287,434.	-240,239,041.		226,048,393.
KINDER MORGAN O.L.P. 'B'	76-0414819	98.989900	98.989900	-192,158.	-4,840,584.		-5,032,742.
KINDER MORGAN O.L.P. 'C'	76-0547319	98.989900	98.989900	54,740,675.	-23,985,349.		30,755,326.
KINDER MORGAN O.L.P. 'D'	76-0561780	98.989900	98.989900	265,717,578.	-119,759,457.		145,958,121.
KINDER MORGAN CO2	76-0554627	98.989900	98.989900	185,589,033.	-30,507,591.		155,081,442.
TOTAL				972,142,562.	-419,332,022.		552,810,540.

STATEMENT #6

SF03 09864

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SECTION 1231 GAINS AND LOSSES

DESCRIP. OF PROPERTY	DATE ACQUIRED	DATE SOLD	GROSS SALES PRICE	ALLOWABLE DEPRECIATION	COST/BASIS	GAIN/LOSS
PASS-THROUGH SECTION 1231 GAIN OR LOSS						2,104,098.
TOTAL SECTION 1231 GAINS AND LOSSES						2,104,098.

SF03 09865

STATEMENT #7

20080808-5110 FERC PDF (Unofficial) 8/8/2008 3:48:23 PM

PASS-THROUGH ENTITIES SUPPORTING SCHEDULES

KINDER MORGAN O.L.P. 'A'

PASS-THROUGH ENTITIES - LINE 6A - DIVIDEND INCOME

QUALIFIED DIVIDENDS - INCLUDED IN INVESTMENT INCOME

QUALIFIED DIVIDENDS INCL. IN INVESTMENT	4,186,566.
TOTAL DIVIDEND INCOME	4,186,566.

PASS-THROUGH ENTITIES - LINE 6B - DIVIDEND INCOME

QUALIFIED DIVIDENDS - INCLUDED IN INVESTMENT INCOME

QUALIFIED DIVIDENDS INCL. IN INVESTMENT	4,186,566.

PASS-THROUGH - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

COUNTRY	TYPE OF INCOME	LINE 16D	LINE 16E	LINE 16F
CA	PARTNERSHIP			11,637,481.
MX	PARTNERSHIP			22,909,258.
TOTAL FOREIGN GI/PARTNERSHIP LEVEL				34,546,739.

PASS THROUGH - DEDUCTIONS ALLOC AND APPORT PSHP LEVEL

COUNTRY	TYPE OF INCOME	LINE 16I	LINE 16J	LINE 16K
CA	PARTNERSHIP			12,961,391.
MX	PARTNERSHIP			21,946,688.
TOTAL DEDUCTIONS/PARTNERSHIP LEVEL				34,908,079.

PASS-THROUGH ENTITIES - LINE 18C - NONDEDUCTIBLE EXPENSES

NONDEDUCTIBLES	222,590.
TOTAL NONDEDUCTIBLE EXPENSES	222,590.

STATEMENT #8

6XX063 1.000

PASS-THROUGH ENTITIES SUPPORTING SCHEDULES

KINDER MORGAN O.L.P. 'B'

PASS-THROUGH ENTITIES - LINE 18C - NONDEDUCTIBLE EXPENSES

NONDEDUCTIBLES	5,480.
TOTAL NONDEDUCTIBLE EXPENSES	5,480.

KINDER MORGAN O.L.P. 'C'

PASS-THROUGH ENTITIES - LINE 18C - NONDEDUCTIBLE EXPENSES

NONDEDUCTIBLES	85,655.
TOTAL NONDEDUCTIBLE EXPENSES	85,655.

KINDER MORGAN O.L.P. 'D'

PASS-THROUGH ENTITIES - LINE 6A - DIVIDEND INCOME

QUALIFIED DIVIDENDS - INCLUDED IN INVESTMENT INCOME

QUALIFIED DIVIDENDS INCL. IN INVESTMENT	4,725,614.
TOTAL DIVIDEND INCOME	4,725,614.

PASS-THROUGH ENTITIES - LINE 6B - DIVIDEND INCOME

QUALIFIED DIVIDENDS - INCLUDED IN INVESTMENT INCOME

QUALIFIED DIVIDENDS INCL. IN INVESTMENT	4,725,614.

PASS-THROUGH ENTITIES - LINE 18C - NONDEDUCTIBLE EXPENSES

NONDEDUCTIBLES	3,020,123.
TOTAL NONDEDUCTIBLE EXPENSES	3,020,123.

STATEMENT #9

20080808-5110 FERC PDF (Unofficial) 8/8/2008 3:48:23 PM

PASS-THROUGH ENTITIES SUPPORTING SCHEDULES

KINDER MORGAN CO2 COMPANY, L.P.

PASS-THROUGH ENTITIES - LINE 13I - SECTION 59(E) EXPENDITURES

INTANGIBLE DRILLING COSTS SPECIAL ALLOCATION TO KMEP FROM PASS-THROUGH ENTITIES	71,195,383.
TOTAL SECTION 59(E) ELECTION EXPENDITURES	71,195,383.

PASS-THROUGH ENTITIES - LINE 18C - NONDEDUCTIBLE EXPENSES

NONDEDUCTIBLES	79,954.
TOTAL NONDEDUCTIBLE EXPENSES	79,954.

STATEMENT #10

6XX063 1.000

SF03 09868

651106

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)

E [X] Tax shelter registration number, if any 92289000496

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 1
APPLIED FOR

H Partner's name, address, city, state, and ZIP code
LIMITED PARTNERS
2001 ROSS AVENUE
DALLAS, TX 75238

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? CORPORATION

L Partner's share of profit, loss, and capital:

	Beginning		Ending	
Profit	86.425383	%	86.859885	%
Loss	86.425383	%	86.859885	%
Capital	86.425383	%	86.859885	%

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $
Qualified nonrecourse financing . . . $
Recourse . . . . . $

N Partner's capital account analysis:

Beginning capital account . . . . . $	4,214,370,869.
Capital contributed during the year . . $	250,332,875.
Current year increase (decrease) . . . $	396,644,237.
Withdrawals & distributions . . . . $	(462,634,427.)
Ending capital account . . . . . $	4,398,713,554.

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)		
		19	Distributions
12	Section 179 deduction		
13	Other deductions	20	Other information
S*	STMT		
14	Self-employment earnings (loss)		

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

JSA
6P1200 2.000

SF03 09869

SCH K-1 SUPPORTING SCHEDULES PARTNER # 1 LIMITED PARTNERS

LINE 13 - OTHER DEDUCTIONS

S DOMESTIC PRODUCTION ACTIVITIES INFORMATION

DOMESTIC PRODUCTION GROSS RECEIPTS:	
FROM PASS-THROUGH ENTITIES	422,697,726.
COST OF GOODS SOLD ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	4,531,473.
TOTAL DEDUCTIONS, EXPENSES, AND LOSSES DIRECTLY ALLOCABLE TO DPGR	
FROM PASS-THROUGH ENTITIES	413,239,683.
TOTAL DED, EXP, AND LOSS NOT DIRECTLY ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	68,666,957.

LINE 16 - FOREIGN TRANSACTIONS

LINE 16D-F - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 16D	LINE 16E	LINE 16F
FROM PASS-THROUGH ENTITIES			29,906,706.
TOTAL			29,906,706.

LINE 16I-K - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 16I	LINE 16J	LINE 16K
FROM PASS-THROUGH ENTITIES			30,915,604.
TOTAL			30,915,604.

W OTHER INFORMATION:

OTHER ITEMS NOT INCLUDED IN ITEM N, CURRENT YR INCR (DECR): FROM OTHER (GENERAL BUSINESS)	NONE

STATEMENT #1

651106

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)
E [X] Tax shelter registration number, if any 92289000496
F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 2
47-0495888

H Partner's name, address, city, state, and ZIP code
KINDER MORGAN GP, INC.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

I [X] General partner or LLC member-manager [ ] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? CORPORATION

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	1.000000 %	1.000000 %
Loss	1.000000 %	1.000000 %
Capital	1.000000 %	1.000000 %

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $
Qualified nonrecourse financing . . . $
Recourse . . . . . $ 7,865,040,502.

N Partner's capital account analysis:
Beginning capital account . . . . . $ 119,897,714.
Capital contributed during the year . . $
Current year increase (decrease) . . . $ 512,966,544.
Withdrawals & distributions . . . . $ (523,197,711.)
Ending capital account . . . . . $ 109,666,547.

☐ Tax basis [X] GAAP ☐ Section 704(b) book
☐ Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) 488,231,837.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16 A	Foreign transactions VARIOUS
4	Guaranteed payments	F	344,440.
5 *	Interest income 9,719,614.	K	-348,045.
6a *	Ordinary dividends 3,510,632.		
6b *	Qualified dividends 3,510,632.		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17 A*	Alternative minimum tax (AMT) items 877,266.
9b	Collectibles (28%) gain (loss)	B*	-100,228.
9c *	Unrecaptured section 1250 gain -52.		
10 *	Net section 1231 gain (loss) 346,476.	18 C*	Tax-exempt income and nondeductible expenses 33,814.
11	Other income (loss)		
		19 A	Distributions 523,197,711.
12	Section 179 deduction		
13 G*	Other deductions 149,597.	20	Other information
I*	709,839.	A	13,230,246.
S*	STMT	V	-423,672.
14	Self-employment earnings (loss)	W*	STMT

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

JSA
6P1200 2.000

SF03 09871

SCH K-1 SUPPORTING SCHEDULES PARTNER # 2 KINDER MORGAN GP, INC.

LINE 5 - INTEREST INCOME	
FROM PASS-THROUGH ENTITIES	9,719,614.
TOTAL INTEREST INCOME	9,719,614.
LINE 6A - DIVIDEND INCOME	
FROM PASS-THROUGH ENTITIES (QUALIFIED AND NON-QUALIFIED)	3,510,632.
TOTAL ORDINARY DIVIDENDS	3,510,632.
LINE 9C - UNRECAPTURED SECTION 1250 GAIN	
FROM PASS-THROUGH ENTITIES	-52.
TOTAL UNRECAPTURED SECTION 1250 GAIN	-52.
LINE 10 - NET SECTION 1231 GAIN (LOSS)	
FROM PASS-THROUGH ENTITIES	346,476.
TOTAL NET SECTION 1231 GAIN (LOSS)	346,476.
LINE 13 - OTHER DEDUCTIONS	
G - INVESTMENT INTEREST EXPENSE	
FROM PASS-THROUGH ENTITIES	149,597.
TOTAL BOX G	149,597.
I SECTION 59(E)(2) EXPENDITURES	
LINE 13I - TYPE: IDC	
FROM PASS-THROUGH ENTITIES	709,839.
TOTAL BOX I	709,839.

STATEMENT #1

SCH K-1 SUPPORTING SCHEDULES PARTNER # 2 KINDER MORGAN GP, INC.

DOMESTIC PRODUCTION ACTIVITIES INFORMATION

DOMESTIC PRODUCTION GROSS RECEIPTS:	
FROM PASS-THROUGH ENTITIES	137,185,121.
COST OF GOODS SOLD ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	52,190.
TOTAL DEDUCTIONS, EXPENSES, AND LOSSES DIRECTLY ALLOCABLE TO DPGR	
FROM PASS-THROUGH ENTITIES	4,945,457.
TOTAL DED, EXP, AND LOSS NOT DIRECTLY ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	754,674.

LINE 16 - FOREIGN TRANSACTIONS

LINE 16D-F - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 16D	LINE 16E	LINE 16F
FROM PASS-THROUGH ENTITIES			344,440.
TOTAL			344,440.

LINE 16I-K - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 16I	LINE 16J	LINE 16K
FROM PASS-THROUGH ENTITIES			-348,045.
TOTAL			-348,045.

LINE 17 - ALTERNATIVE MINIMUM TAX (AMT) ITEMS

A POST-1986 DEPRECIATION ADJUSTMENT

FROM PASS-THROUGH ENTITIES	877,266.
TOTAL BOX A	877,266.

STATEMENT #2

SCH K-1 SUPPORTING SCHEDULES PARTNER # 2 KINDER MORGAN GP, INC.

ADJUSTED GAIN OR LOSS	
FROM PASS-THROUGH ENTITIES	-100,228.
TOTAL BOX B	-100,228.
LINE 18C - NONDEDUCTIBLE EXPENSES	
FROM PASS-THROUGH ENTITIES	33,814.
TOTAL NONDEDUCTIBLE EXPENSES	33,814.
LINE 20 - OTHER INFORMATION	
V UNRELATED BUSINESS TAXABLE INCOME	
FROM TRADE\BUSINESS	-423,672.
TOTAL BOX V	-423,672.
W OTHER INFORMATION:	
OTHER ITEMS NOT INCLUDED IN ITEM N, CURRENT YR INCR (DECR):	
DEPLETION INCLUDED IN BOX 1	650,516.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED ON LINE 20A MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

743(B) DEPRECIATION EXPENSE: 2,374,544
743(B) ALTERNATIVE MINIMUM DEPREC. ADJMT.: 112,369

STATEMENT #3

651106

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code

KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)
E [X] Tax shelter registration number, if any 92289000496
F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 3
47-0495888

H Partner's name, address, city, state, and ZIP code

KINDER MORGAN GP, INC.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? CORPORATION

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	1.051487 %	1.015145 %
Loss	1.051487 %	1.015145 %
Capital	1.051487 %	1.015145 %

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $
Qualified nonrecourse financing . . . $
Recourse . . . . . $

N Partner's capital account analysis:
Beginning capital account . . . . . $ 29,431,655.
Capital contributed during the year . . $
Current year increase (decrease) . . . $ 5,189,768.
Withdrawals & distributions . . . . $ (5,568,520.)
Ending capital account . . . . . $ 29,052,903.

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) 2,758,556.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16 A	Foreign transactions VARIOUS
4	Guaranteed payments	F	358,265.
5 *	Interest income 156,653.	K	362,012.
6a *	Ordinary dividends 56,581.		
6b *	Qualified dividends 56,581.		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17 A*	Alternative minimum tax (AMT) items 116,081.
9b	Collectibles (28%) gain (loss)	B*	72,010.
9c	Unrecaptured section 1250 gain		
10 *	Net section 1231 gain (loss) 460,230.	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)	C*	35,288.
		19 A	Distributions 5,568,520.
12	Section 179 deduction		
13 G*	Other deductions 155,602.	20	Other information
I*	738,327.	A	213,234.
S*	STMT	V	2,074,756.
14	Self-employment earnings (loss)	W*	STMT

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

JSA
6P1200 2.000

SF03 09875

SCH K-1 SUPPORTING SCHEDULES PARTNER # 3 KINDER MORGAN GP, INC.

LINE 5 - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	156,653.
TOTAL INTEREST INCOME	156,653.

LINE 6A - DIVIDEND INCOME

FROM PASS-THROUGH ENTITIES (QUALIFIED AND NON-QUALIFIED)	56,581.
TOTAL ORDINARY DIVIDENDS	56,581.

LINE 10 - NET SECTION 1231 GAIN (LOSS)

FROM PASS-THROUGH ENTITIES	460,230.
TOTAL NET SECTION 1231 GAIN (LOSS)	460,230.

LINE 13 - OTHER DEDUCTIONS

G - INVESTMENT INTEREST EXPENSE

FROM PASS-THROUGH ENTITIES	155,602.
TOTAL BOX G	155,602.

I SECTION 59(E)(2) EXPENDITURES

LINE 13I - TYPE: IDC

FROM PASS-THROUGH ENTITIES	738,327.
TOTAL BOX I	738,327.

S DOMESTIC PRODUCTION ACTIVITIES INFORMATION

DOMESTIC PRODUCTION GROSS RECEIPTS:

FROM PASS-THROUGH ENTITIES	5,088,854.

STATEMENT #1

SCH K-1 SUPPORTING SCHEDULES PARTNER # 3 KINDER MORGAN GP, INC.

COST OF GOODS SOLD ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	54,284.
TOTAL DEDUCTIONS, EXPENSES, AND LOSSES DIRECTLY ALLOCABLE TO DPGR	
FROM PASS-THROUGH ENTITIES	4,890,812.
TOTAL DED, EXP, AND LOSS NOT DIRECTLY ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	846,702.

LINE 16 - FOREIGN TRANSACTIONS

LINE 16D-F - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 16D	LINE 16E	LINE 16F
FROM PASS-THROUGH ENTITIES			358,265.
TOTAL			358,265.

INE 16I-K - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 16I	LINE 16J	LINE 16K
FROM PASS-THROUGH ENTITIES			362,012.
TOTAL			362,012.

LINE 17 - ALTERNATIVE MINIMUM TAX (AMT) ITEMS

A POST-1986 DEPRECIATION ADJUSTMENT

FROM PASS-THROUGH ENTITIES	116,081.
TOTAL BOX A	116,081.

B ADJUSTED GAIN OR LOSS

FROM PASS-THROUGH ENTITIES	72,010.
TOTAL BOX B	72,010.

STATEMENT #2

SCH K-1 SUPPORTING SCHEDULES PARTNER # 3 KINDER MORGAN GP, INC.

LINE 18C - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	35,288.
TOTAL NONDEDUCTIBLE EXPENSES	35,288.

LINE 20 - OTHER INFORMATION

V UNRELATED BUSINESS TAXABLE INCOME

FROM TRADE\BUSINESS	2,074,756.
TOTAL BOX V	2,074,756.

W OTHER INFORMATION:

OTHER ITEMS NOT INCLUDED IN ITEM N, CURRENT YR INCR (DECR):

DEPLETION INCLUDED IN BOX 1	659,337.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED IN LINE 20A MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

743(B)	DEPRECIATION EXPENSE:	1,124,226
743(B)	ALTERNATIVE MINIMUM DEPREC. ADJMT.:	74,710

STATEMENT #3

651106

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)
E [X] Tax shelter registration number, if any 92289000496
F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 4
48-0290000

H Partner's name, address, city, state, and ZIP code
KINDER MORGAN, INC.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? CORPORATION

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	5.390453 %	5.204145 %
Loss	5.390453 %	5.204145 %
Capital	5.390453 %	5.204145 %

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $
Qualified nonrecourse financing . . . $
Recourse . . . . . $ 522,676,903.

N Partner's capital account analysis:
Beginning capital account . . . . . $ 150,881,531.
Capital contributed during the year . . $
Current year increase (decrease) . . . $ 26,605,374.
Withdrawals & distributions . . . . $ (28,547,047.)
Ending capital account . . . . . $ 148,939,858.

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) 10,821,374.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
		A	VARIOUS
4	Guaranteed payments	F	1,840,918.
5	Interest income * 804,951.	K	1,860,172.
6a	Ordinary dividends * 290,735.		
6b	Qualified dividends * 290,735.		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
		A*	1,861,401.
9b	Collectibles (28%) gain (loss)	B*	-360,724.
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss) * 744,328.	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)	C*	181,324.
		19	Distributions
12	Section 179 deduction	A	28,547,047.
13	Other deductions		
G*	799,548.	20	Other information
I*	3,793,841.	A	1,095,686.
S*	STMT	V	5,438,058.
14	Self-employment earnings (loss)	W*	STMT

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

JSA
6P1200 2.000

SF03 09879

SCH K-1 SUPPORTING SCHEDULES PARTNER # 4 KINDER MORGAN, INC.

LINE 5 - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	804,951.
TOTAL INTEREST INCOME	804,951.

LINE 6A - DIVIDEND INCOME

FROM PASS-THROUGH ENTITIES (QUALIFIED AND NON-QUALIFIED)	290,735.
TOTAL ORDINARY DIVIDENDS	290,735.

LINE 10 - NET SECTION 1231 GAIN (LOSS)

FROM PASS-THROUGH ENTITIES	744,328.
TOTAL NET SECTION 1231 GAIN (LOSS)	744,328.

LINE 13 - OTHER DEDUCTIONS

G - INVESTMENT INTEREST EXPENSE

FROM PASS-THROUGH ENTITIES	799,548.
TOTAL BOX G	799,548.

I SECTION 59(E)(2) EXPENDITURES

LINE 13I - TYPE: IDC

FROM PASS-THROUGH ENTITIES	3,793,841.
TOTAL BOX I	3,793,841.

S DOMESTIC PRODUCTION ACTIVITIES INFORMATION

DOMESTIC PRODUCTION GROSS RECEIPTS:

FROM PASS-THROUGH ENTITIES	26,148,708.

STATEMENT #1

SCH K-1 SUPPORTING SCHEDULES PARTNER # 4 KINDER MORGAN, INC.

COST OF GOODS SOLD ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	278,936.
TOTAL DEDUCTIONS, EXPENSES, AND LOSSES DIRECTLY ALLOCABLE TO DPGR	
FROM PASS-THROUGH ENTITIES	25,131,090.
TOTAL DED, EXP, AND LOSS NOT DIRECTLY ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	4,350,715.

LINE 16 - FOREIGN TRANSACTIONS

LINE 16D-F - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 16D	LINE 16E	LINE 16F
FROM PASS-THROUGH ENTITIES			1,840,918.
TOTAL			1,840,918.

INE 16I-K - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 16I	LINE 16J	LINE 16K
FROM PASS-THROUGH ENTITIES			1,860,172.
TOTAL			1,860,172.

LINE 17 - ALTERNATIVE MINIMUM TAX (AMT) ITEMS

A POST-1986 DEPRECIATION ADJUSTMENT

FROM PASS-THROUGH ENTITIES	1,861,401.
TOTAL BOX A	1,861,401.

B ADJUSTED GAIN OR LOSS

FROM PASS-THROUGH ENTITIES	-360,724.
TOTAL BOX B	-360,724.

STATEMENT #2

SCH K-1 SUPPORTING SCHEDULES PARTNER # 4 KINDER MORGAN, INC.

LINE 18C - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	181,324.
TOTAL NONDEDUCTIBLE EXPENSES	181,324.

LINE 20 - OTHER INFORMATION

V UNRELATED BUSINESS TAXABLE INCOME

FROM TRADE\BUSINESS	5,438,058.
TOTAL BOX V	5,438,058.

W OTHER INFORMATION:

OTHER ITEMS NOT INCLUDED IN ITEM N, CURRENT YR INCR (DECR):

DEPLETION INCLUDED IN BOX 1	3,387,962.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED N LINE 20A MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

IRC SECTION 743(B) ADJUSTMENTS HAVE BEEN INCLUDED IN BOX 1 IF APPLICABLE.

STATEMENT #3

651106

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)

E [X] Tax shelter registration number, if any 92289000496

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 5
84-1130428

H Partner's name, address, city, state, and ZIP code
KN GAS GATHERING, INC.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? CORPORATION

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	4.700610 %	4.538145 %
Loss	4.700610 %	4.538145 %
Capital	4.700610 %	4.538145 %

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $
Qualified nonrecourse financing . . . $
Recourse . . . . . $

N Partner's capital account analysis:
Beginning capital account . . . . . $ 150,458,000.
Capital contributed during the year . . $
Current year increase (decrease) . . . $ 18,078,937.
Withdrawals & distributions . . . . $ (24,893,739.)
Ending capital account . . . . . $ 143,643,198.

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) 9,465,544.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
		A	VARIOUS
4	Guaranteed payments	F	1,605,326.
5	Interest income		
*	701,938.	K	1,622,116.
6a	Ordinary dividends		
*	253,528.		
6b	Qualified dividends		
*	253,528.		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
		A*	44,063.
9b	Collectibles (28%) gain (loss)	B*	394,093.
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
*	5,938,795.		
11	Other income (loss)	C*	158,119.
		19	Distributions
12	Section 179 deduction	A	24,893,739.
13	Other deductions		
G*	697,226.	20	Other information
I*	3,308,324.	A	955,466.
S*	STMT	V	9,867,001.
14	Self-employment earnings (loss)		
		W*	STMT

*See attached statement for additional information.

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For Privacy Act and Paperwork Reduction Act Notice, see Instructions for Form 1065.

Schedule K-1 (Form 1065) 2006

JSA
8P1200 2.000

SF03 09883

SCH K-1 SUPPORTING SCHEDULES PARTNER # 5 KN GAS GATHERING, INC.

LINE 5 - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	701,938.
TOTAL INTEREST INCOME	701,938.

LINE 6A - DIVIDEND INCOME

FROM PASS-THROUGH ENTITIES (QUALIFIED AND NON-QUALIFIED)	253,528.
TOTAL ORDINARY DIVIDENDS	253,528.

LINE 10 - NET SECTION 1231 GAIN (LOSS)

FROM PASS-THROUGH ENTITIES	5,938,795.
TOTAL NET SECTION 1231 GAIN (LOSS)	5,938,795.

LINE 13 - OTHER DEDUCTIONS

G - INVESTMENT INTEREST EXPENSE

FROM PASS-THROUGH ENTITIES	697,226.
TOTAL BOX G	697,226.

I SECTION 59(E)(2) EXPENDITURES

LINE 13I - TYPE: IDC

FROM PASS-THROUGH ENTITIES	3,308,324.
TOTAL BOX I	3,308,324.

S DOMESTIC PRODUCTION ACTIVITIES INFORMATION

DOMESTIC PRODUCTION GROSS RECEIPTS:

FROM PASS-THROUGH ENTITIES	22,802,327.

STATEMENT #1

SCH K-1 SUPPORTING SCHEDULES PARTNER # 5 KN GAS GATHERING, INC.

COST OF GOODS SOLD ALLOCABLE TO DPGR:

FROM PASS-THROUGH ENTITIES	243,240.

TOTAL DEDUCTIONS, EXPENSES, AND LOSSES DIRECTLY ALLOCABLE TO DPGR

FROM PASS-THROUGH ENTITIES	22,034,307.

TOTAL DED, EXP, AND LOSS NOT DIRECTLY ALLOCABLE TO DPGR:

FROM PASS-THROUGH ENTITIES	3,793,932.

LINE 16 - FOREIGN TRANSACTIONS

LINE 16D-F - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 16D	LINE 16E	LINE 16F
FROM PASS-THROUGH ENTITIES			1,605,326.
TOTAL			1,605,326.

LINE 16I-K - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 16I	LINE 16J	LINE 16K
FROM PASS-THROUGH ENTITIES			1,622,116.
TOTAL			1,622,116.

LINE 17 - ALTERNATIVE MINIMUM TAX (AMT) ITEMS

A POST-1986 DEPRECIATION ADJUSTMENT

FROM PASS-THROUGH ENTITIES	44,063.
TOTAL BOX A	44,063.

B ADJUSTED GAIN OR LOSS

FROM PASS-THROUGH ENTITIES	394,093.
TOTAL BOX B	394,093.

STATEMENT #2

SCH K-1 SUPPORTING SCHEDULES PARTNER # 5 KN GAS GATHERING, INC.

LINE 18C - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	158,119.
TOTAL NONDEDUCTIBLE EXPENSES	158,119.

LINE 20 - OTHER INFORMATION

V UNRELATED BUSINESS TAXABLE INCOME

FROM TRADE\BUSINESS	9,867,001.
TOTAL BOX V	9,867,001.

W OTHER INFORMATION:

OTHER ITEMS NOT INCLUDED IN ITEM N, CURRENT YR INCR (DECR):

DEPLETION INCLUDED IN BOX 1	2,996,445.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED N LINE 20A MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

IRC SECTION 743(B) ADJUSTMENTS HAVE BEEN INCLUDED IN BOX 1 IF APPLICABLE.

STATEMENT #3

651106

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code.

KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)

E [X] Tax shelter registration number, if any 92289000496

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 6
74-1974273

H Partner's name, address, city, state, and ZIP code

TRANS-GLOBAL SOLUTIONS, INC.
11811 I-10 EAST STE 630
HOUSTON, TX 77029

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? CORPORATION

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.578192 %	0.558316 %
Loss	0.578192 %	0.558316 %
Capital	0.578192 %	0.558316 %

M Partner's share of liabilities at year end:

Nonrecourse . . . . . $ _____
Qualified nonrecourse financing . . . $ _____
Recourse . . . . . $ 50,852,000.

N Partner's capital account analysis:

Beginning capital account . . . . . $ -29,719,804.
Capital contributed during the year . . $ _____
Current year increase (decrease) . . . $ 7,023,658.
Withdrawals & distributions . . . . $ (3,093,228.)
Ending capital account . . . . . $ -25,789,374.

[X] Tax basis [ ] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) 7,570,628.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
		A	VARIOUS
4	Guaranteed payments	F	199,474.
5	Interest income		
*	87,220.	K	201,560.
6a	Ordinary dividends		
*	31,502.		
6b	Qualified dividends		
*	31,502.		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
		A*	-1,447,910.
9b	Collectibles (28%) gain (loss)	B*	-13,668.
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
*	-147,198.		
11	Other income (loss)	C*	19,648.
		19	Distributions
12	Section 179 deduction	A	3,093,228.
13	Other deductions		
G*	86,636.	20	Other information
I*	411,084.	A	118,722.
S*	STMT	V	7,089,782.
14	Self-employment earnings (loss)		
		W*	STMT

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

JSA
6P1200 2.000

SF03 09887

SCH K-1 SUPPORTING SCHEDULES PARTNER # 6 TRANS-GLOBAL SOLUTIONS, INC.

LINE 5 - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	87,220.
TOTAL INTEREST INCOME	87,220.

LINE 6A - DIVIDEND INCOME

FROM PASS-THROUGH ENTITIES (QUALIFIED AND NON-QUALIFIED)	31,502.
TOTAL ORDINARY DIVIDENDS	31,502.

LINE 10 - NET SECTION 1231 GAIN (LOSS)

FROM PASS-THROUGH ENTITIES	-147,198.
TOTAL NET SECTION 1231 GAIN (LOSS)	-147,198.

LINE 13 - OTHER DEDUCTIONS

G - INVESTMENT INTEREST EXPENSE

FROM PASS-THROUGH ENTITIES	86,636.
TOTAL BOX G	86,636.

I SECTION 59(E)(2) EXPENDITURES

LINE 13I - TYPE: IDC

FROM PASS-THROUGH ENTITIES	411,084.
TOTAL BOX I	411,084.

S DOMESTIC PRODUCTION ACTIVITIES INFORMATION

DOMESTIC PRODUCTION GROSS RECEIPTS:

FROM PASS-THROUGH ENTITIES	2,833,356.

STATEMENT #1

SCH K-1 SUPPORTING SCHEDULES PARTNER # 6 TRANS-GLOBAL SOLUTIONS, INC.

COST OF GOODS SOLD ALLOCABLE TO DPGR:

FROM PASS-THROUGH ENTITIES	30,224.

TOTAL DEDUCTIONS, EXPENSES, AND LOSSES DIRECTLY ALLOCABLE TO DPGR

FROM PASS-THROUGH ENTITIES	3,279,392.

TOTAL DED, EXP, AND LOSS NOT DIRECTLY ALLOCABLE TO DPGR:

FROM PASS-THROUGH ENTITIES	471,424.

LINE 16 - FOREIGN TRANSACTIONS

LINE 16D-F - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 16D	LINE 16E	LINE 16F
FROM PASS-THROUGH ENTITIES			199,474.
TOTAL			199,474.

LINE 16I-K - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 16I	LINE 16J	LINE 16K
FROM PASS-THROUGH ENTITIES			201,560.
TOTAL			201,560.

LINE 17 - ALTERNATIVE MINIMUM TAX (AMT) ITEMS

A POST-1986 DEPRECIATION ADJUSTMENT

FROM PASS-THROUGH ENTITIES	-1,447,910.
TOTAL BOX A	-1,447,910.

B ADJUSTED GAIN OR LOSS

FROM PASS-THROUGH ENTITIES	-13,668.
TOTAL BOX B	-13,668.

STATEMENT #2

SCH K-1 SUPPORTING SCHEDULES PARTNER # 6 TRANS-GLOBAL SOLUTIONS, INC.

LINE 18C - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	19,648.
TOTAL NONDEDUCTIBLE EXPENSES	19,648.

LINE 20 - OTHER INFORMATION

V UNRELATED BUSINESS TAXABLE INCOME

FROM TRADE\BUSINESS	7,089,782.
TOTAL BOX V	7,089,782.

W OTHER INFORMATION:

OTHER ITEMS NOT INCLUDED IN ITEM N, CURRENT YR INCR (DECR):

DEPLETION INCLUDED IN BOX 1	412,294.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED N LINE 20A MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

IRC SECTION 743(B) ADJUSTMENTS HAVE BEEN INCLUDED IN BOX 1 IF APPLICABLE.

STATEMENT #3

651106

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)

E [X] Tax shelter registration number, if any 92289000496

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 7
87-0479051

H Partner's name, address, city, state, and ZIP code
KINDER MORGAN TRANSCOLORADO, INC.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? CORPORATION

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.426938 %	0.412182 %
Loss	0.426938 %	0.412182 %
Capital	0.426938 %	0.412182 %

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $ _____
Qualified nonrecourse financing . . . $ _____
Recourse . . . . . $ 105,412,000.

N Partner's capital account analysis:
Beginning capital account . . . . . $ 28,017,220.
Capital contributed during the year . . $ _____
Current year increase (decrease) . . . $ 2,703,992.
Withdrawals & distributions . . . . $ (2,261,000.)
Ending capital account . . . . . $ 28,460,212.

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) 1,690,263.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16 A	Foreign transactions VARIOUS
4	Guaranteed payments	F	145,805.
5 *	Interest income 63,754.	K	147,330.
6a *	Ordinary dividends 23,027.		
6b *	Qualified dividends 23,027.		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17 A*	Alternative minimum tax (AMT) items 913,425.
9b	Collectibles (28%) gain (loss)	B*	-85,635.
9c	Unrecaptured section 1250 gain		
10 *	Net section 1231 gain (loss) 4,950.	18 C*	Tax-exempt income and nondeductible expenses 14,361.
11	Other income (loss)		
		19 A	Distributions 2,261,000.
12	Section 179 deduction		
13 G*	Other deductions 63,326.	20	Other information
I*	300,482.	A	86,781.
S*	STMT	V	1,166,171.
14	Self-employment earnings (loss)	W*	STMT

*See attached statement for additional information.

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For Privacy Act and Paperwork Reduction Act Notice, see Instructions for Form 1065.

Schedule K-1 (Form 1065) 2006

JSA
6P1200 2.000

SF03 09891

SCH K-1 SUPPORTING SCHEDULES PARTNER # 7 KINDER MORGAN TRANSCOLORADO, INC.

LINE 5 - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	63,754.
TOTAL INTEREST INCOME	63,754.

LINE 6A - DIVIDEND INCOME

FROM PASS-THROUGH ENTITIES (QUALIFIED AND NON-QUALIFIED)	23,027.
TOTAL ORDINARY DIVIDENDS	23,027.

LINE 10 - NET SECTION 1231 GAIN (LOSS)

FROM PASS-THROUGH ENTITIES	4,950.
TOTAL NET SECTION 1231 GAIN (LOSS)	4,950.

LINE 13 - OTHER DEDUCTIONS

G - INVESTMENT INTEREST EXPENSE

FROM PASS-THROUGH ENTITIES	63,326.
TOTAL BOX G	63,326.

I SECTION 59(E)(2) EXPENDITURES

LINE 13I - TYPE: IDC

FROM PASS-THROUGH ENTITIES	300,482.
TOTAL BOX I	300,482.

S DOMESTIC PRODUCTION ACTIVITIES INFORMATION

DOMESTIC PRODUCTION GROSS RECEIPTS:

FROM PASS-THROUGH ENTITIES	2,071,045.

STATEMENT #1

SCH K-1 SUPPORTING SCHEDULES PARTNER # 7 KINDER MORGAN TRANSCOLORADO, INC.

COST OF GOODS SOLD ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	22,092.
TOTAL DEDUCTIONS, EXPENSES, AND LOSSES DIRECTLY ALLOCABLE TO DPGR	
FROM PASS-THROUGH ENTITIES	2,313,149.
TOTAL DED, EXP, AND LOSS NOT DIRECTLY ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	344,588.

LINE 16 - FOREIGN TRANSACTIONS

LINE 16D-F - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 16D	LINE 16E	LINE 16F
FROM PASS-THROUGH ENTITIES			145,805.
TOTAL			145,805.

INE 16I-K - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 16I	LINE 16J	LINE 16K
FROM PASS-THROUGH ENTITIES			147,330.
TOTAL			147,330.

LINE 17 - ALTERNATIVE MINIMUM TAX (AMT) ITEMS

A POST-1986 DEPRECIATION ADJUSTMENT

FROM PASS-THROUGH ENTITIES	913,425.
TOTAL BOX A	913,425.

B ADJUSTED GAIN OR LOSS

FROM PASS-THROUGH ENTITIES	-85,635.
TOTAL BOX B	-85,635.

STATEMENT #2

SCH K-1 SUPPORTING SCHEDULES PARTNER # 7 KINDER MORGAN TRANSCOLORADO, INC.

LINE 18C - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	14,361.
TOTAL NONDEDUCTIBLE EXPENSES	14,361.

LINE 20 - OTHER INFORMATION

V UNRELATED BUSINESS TAXABLE INCOME

FROM TRADE\BUSINESS	1,166,171.
TOTAL BOX V	1,166,171.

W OTHER INFORMATION:

OTHER ITEMS NOT INCLUDED IN ITEM N, CURRENT YR INCR (DECR):	
DEPLETION INCLUDED IN BOX 1	293,697.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED N LINE 20A MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

IRC SECTION 743(B) ADJUSTMENTS HAVE BEEN INCLUDED IN BOX 1 IF APPLICABLE.

STATEMENT #3

651106

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)
E [X] Tax shelter registration number, if any 92289000496
F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 8
84-1140369

H Partner's name, address, city, state, and ZIP code
KN TRANSCOLORADO, INC.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? CORPORATION

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.426938 %	0.412182 %
Loss	0.426938 %	0.412182 %
Capital	0.426938 %	0.412182 %

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $ _____
Qualified nonrecourse financing . . . $ _____
Recourse . . . . . $ 105,412,000.

N Partner's capital account analysis:
Beginning capital account . . . . . $ 30,076,578.
Capital contributed during the year . . $ _____
Current year increase (decrease) . . . $ 2,703,992.
Withdrawals & distributions . . . . $ (2,261,000.)
Ending capital account . . . . . $ 30,519,570.

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) 1,690,263.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
		A	VARIOUS
4	Guaranteed payments	F	145,805.
5 *	Interest income 63,754.	K	147,330.
6a *	Ordinary dividends 23,027.		
6b *	Qualified dividends 23,027.		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
		A*	913,425.
9b	Collectibles (28%) gain (loss)	B*	-85,635.
9c	Unrecaptured section 1250 gain		
10 *	Net section 1231 gain (loss) 4,950.	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)	C*	14,361.
		19	Distributions
12	Section 179 deduction	A	2,261,000.
13	Other deductions		
G*	63,326.	20	Other information
I*	300,482.	A	86,781.
S*	STMT	V	1,166,171.
14	Self-employment earnings (loss)	W*	STMT

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

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SF03 09895

SCH K-1 SUPPORTING SCHEDULES PARTNER # 8 KN TRANSCOLORADO, INC.

LINE 5 - INTEREST INCOME

FROM PASS-THROUGH ENTITIES	63,754.
TOTAL INTEREST INCOME	63,754.

LINE 6A - DIVIDEND INCOME

FROM PASS-THROUGH ENTITIES (QUALIFIED AND NON-QUALIFIED)	23,027.
TOTAL ORDINARY DIVIDENDS	23,027.

LINE 10 - NET SECTION 1231 GAIN (LOSS)

FROM PASS-THROUGH ENTITIES	4,950.
TOTAL NET SECTION 1231 GAIN (LOSS)	4,950.

LINE 13 - OTHER DEDUCTIONS

G - INVESTMENT INTEREST EXPENSE

FROM PASS-THROUGH ENTITIES	63,326.
TOTAL BOX G	63,326.

I SECTION 59(E)(2) EXPENDITURES

LINE 13I - TYPE: IDC

FROM PASS-THROUGH ENTITIES	300,482.
TOTAL BOX I	300,482.

S DOMESTIC PRODUCTION ACTIVITIES INFORMATION

DOMESTIC PRODUCTION GROSS RECEIPTS:

FROM PASS-THROUGH ENTITIES	2,071,045.

STATEMENT #1

SCH K-1 SUPPORTING SCHEDULES PARTNER # 8 KN TRANSCOLORADO, INC.

COST OF GOODS SOLD ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	22,092.
TOTAL DEDUCTIONS, EXPENSES, AND LOSSES DIRECTLY ALLOCABLE TO DPGR	
FROM PASS-THROUGH ENTITIES	2,313,149.
TOTAL DED, EXP, AND LOSS NOT DIRECTLY ALLOCABLE TO DPGR:	
FROM PASS-THROUGH ENTITIES	344,588.

LINE 16 - FOREIGN TRANSACTIONS

LINE 16D-F - FOREIGN GI SOURCED AT PARTNERSHIP LEVEL

	LINE 16D	LINE 16E	LINE 16F
FROM PASS-THROUGH ENTITIES			145,805.
TOTAL			145,805.

INE 16I-K - DEDUCTIONS ALLOC AND APPORT AT PSHP LEVEL

	LINE 16I	LINE 16J	LINE 16K
FROM PASS-THROUGH ENTITIES			147,330.
TOTAL			147,330.

LINE 17 - ALTERNATIVE MINIMUM TAX (AMT) ITEMS

A POST-1986 DEPRECIATION ADJUSTMENT

FROM PASS-THROUGH ENTITIES	913,425.
TOTAL BOX A	913,425.

B ADJUSTED GAIN OR LOSS

FROM PASS-THROUGH ENTITIES	-85,635.
TOTAL BOX B	-85,635.

STATEMENT #2

6P9000 1.000

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SCH K-1 SUPPORTING SCHEDULES PARTNER # 8 KN TRANSCOLORADO, INC.

LINE 18C - NONDEDUCTIBLE EXPENSES

FROM PASS-THROUGH ENTITIES	14,361.
TOTAL NONDEDUCTIBLE EXPENSES	14,361.

LINE 20 - OTHER INFORMATION

V UNRELATED BUSINESS TAXABLE INCOME

FROM TRADE\BUSINESS	1,166,171.
TOTAL BOX V	1,166,171.

W OTHER INFORMATION:

OTHER ITEMS NOT INCLUDED IN ITEM N, CURRENT YR INCR (DECR):

DEPLETION INCLUDED IN BOX 1	293,697.

PARTNER FOOTNOTES

IN ACCORDANCE WITH IRS NOTICE 88-75, NET PASSIVE INCOME NOT REPORTED N LINE 20A MAY BE CONSIDERED INVESTMENT INCOME FOR PURPOSES OF FILING FORM 4952.

IRC SECTION 743(B) ADJUSTMENTS HAVE BEEN INCLUDED IN BOX 1 IF APPLICABLE.

STATEMENT #3

651106

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)

E [X] Tax shelter registration number, if any 92289000496

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 9
APPLIED FOR

H Partner's name, address, city, state, and ZIP code
LP - CORPORATE
2001 ROSS AVENUE
DALLAS, TX 75238

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? CORPORATION

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $
Qualified nonrecourse financing . . . $
Recourse . . . . . $

N Partner's capital account analysis:
Beginning capital account . . . . . $
Capital contributed during the year . . $
Current year increase (decrease) . . . $
Withdrawals & distributions . . . . $ ( )
Ending capital account . . . . . $

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) -39,859,943.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
	[illegible] income (loss)		
		19	Distributions
12	Section 179 deduction		
13	Other deductions	20	Other information
14	Self-employment earnings (loss)		

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

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☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)

E [X] Tax shelter registration number, if any 92289000496

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 10
APPLIED FOR

H Partner's name, address, city, state, and ZIP code
LP - INDIVIDUAL
2001 ROSS AVENUE
DALLAS, TX 75238

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? INDIVIDUAL

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $
Qualified nonrecourse financing . . . $
Recourse . . . . . $

N Partner's capital account analysis:
Beginning capital account . . . . . $
Capital contributed during the year . . $
Current year increase (decrease) . . . $
Withdrawals & distributions . . . . $ ( )
Ending capital account . . . . . $

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) -248,342,944.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)		
		19	Distributions
12	Section 179 deduction		
13	Other deductions		
		20	Other information
14	Self-employment earnings (loss)		

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

JSA
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☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)

E [X] Tax shelter registration number, if any 92289000496

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 11
APPLIED FOR

H Partner's name, address, city, state, and ZIP code
LP - PARTNERSHIP
2001 ROSS AVENUE
DALLAS, TX 75238

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? PARTNERSHIP

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $
Qualified nonrecourse financing . . . $
Recourse . . . . . $

N Partner's capital account analysis:
Beginning capital account . . . . . $
Capital contributed during the year . . $
Current year increase (decrease) . . . $
Withdrawals & distributions . . . . $ ( )
Ending capital account . . . . . $

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) -12,155,718.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
	Other income (loss)		
		19	Distributions
12	Section 179 deduction		
13	Other deductions		
		20	Other information
14	Self-employment earnings (loss)		

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

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☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)

E [X] Tax shelter registration number, if any 92289000496

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 12
APPLIED FOR

H Partner's name, address, city, state, and ZIP code
LP - EXEMPT ORGANIZATION
2001 ROSS AVENUE
DALLAS, TX 75238

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? EXEMPT ORG.

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $
Qualified nonrecourse financing . . . $
Recourse . . . . . $

N Partner's capital account analysis:
Beginning capital account . . . . . $
Capital contributed during the year . . $
Current year increase (decrease) . . . $
Withdrawals & distributions . . . . $ ( )
Ending capital account . . . . . $

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) -72,663,915.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
[illegible]	[illegible] 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
[illegible]	Other income (loss)		
		19	Distributions
12	Section 179 deduction		
13	Other deductions	20	Other information
14	Self-employment earnings (loss)		

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

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Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2006

For calendar year 2006, or tax year beginning _____, 2006
ending _____, 20__

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
OGDEN

D [X] Check if this is a publicly traded partnership (PTP)

E [X] Tax shelter registration number, if any 92289000496

F [ ] Check if Form 8271 is attached

Part II Information About the Partner

G Partner's identifying number 13
APPLIED FOR

H Partner's name, address, city, state, and ZIP code
LP - NOMINEE/OTHER
2001 ROSS AVENUE
DALLAS, TX 75238

I [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

J [X] Domestic partner [ ] Foreign partner

K What type of entity is this partner? NOMINEE

L Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

M Partner's share of liabilities at year end:
Nonrecourse . . . . . $ _____
Qualified nonrecourse financing . . . $ _____
Recourse . . . . . $ _____

N Partner's capital account analysis:
Beginning capital account . . . . . $ _____
Capital contributed during the year . . $ _____
Current year increase (decrease) . . . $ _____
Withdrawals & distributions . . . . $ ( )
Ending capital account . . . . . $ _____

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) -4,523,062.	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)		
		19	Distributions
12	Section 179 deduction		
13	Other deductions	20	Other information
14	Self-employment earnings (loss)		

*See attached statement for additional information.

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Schedule K-1 (Form 1065) 2006

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ATTACHMENT M

Docket No. OR03-5-001
Exhibit No. BPX-13
IRS Publication *"Individual Income Tax Rates and Shares, 1999"*

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Individual Income Tax Rates and Shares, 1999

by Michael Parisi and Dave Campbell

Taxpayers filed 127.1 million individual income tax returns for Tax Year 1999, of which more than 94.5 million, or 74.4 percent, showed some income tax liability. The average tax rate on all taxable returns increased approximately 0.4 percentage points from 1998 to 15.7 percent in 1999. On these taxable returns, the average adjusted gross income (less deficit) (AGI) rose 6.4 percent to $59,028, while average total income tax increased to $9,280, a 9.5-percent increase. Total AGI reported on taxable returns increased 8.2 percent to $5,581 billion, while total income tax increased 11.3 percent to $877 billion.

For the sixth consecutive year, the percent of AGI reported by the top 5 percent of taxpayers increased, reaching 34.0 percent for 1999. The top 5 percent of taxpayers also paid 55.5 percent of the total income tax for 1999, an increase of 1.7 percentage points from 1998. To be included in the top 5 percent, a taxpayer had to have an AGI of at least $120,846. Taxpayers with AGI of at least $293,415 were in the top 1 percent of taxpayers. The percent of AGI reported by the top 1 percent of taxpayers for 1999 increased for the sixth consecutive year to 19.5 percent, while the same group accounted for 36.2 percent of the total income tax, up from 34.8 percent of the total income tax they accounted for in 1998.

This article discusses the individual income tax rates and tax shares and the computation of "total income tax" for 1999. To put this discussion into perspective, the appendices to the article provide explanations of selected terms used in the article and describe the income tax structure, certain tax law changes, income and tax concepts (the "1979 Income Tax Concept," "modified" taxable income, and marginal tax rates), the computation of "alternative minimum taxable income," and the data sources and limitations.

Income Tax Rates

Discussions of income tax rates generally center on measuring two distinct tax rates: average tax rates and marginal tax rates. Average tax rates are calculated by dividing some measure of tax by some measure of income. For the statistics in this article, the average tax rate is "total income tax" (the sum of "income tax after credits" and the "alternative minimum tax") divided by AGI reported on returns showing some income tax liability. Measures of marginal tax rates, on the other hand, focus on determining the tax rate imposed on the last (or next) dollar of income received by a taxpayer. For this article, the marginal tax rate is the statutory rate at which the last dollar of taxable income is taxed. (See Appendix D for a more detailed explanation of marginal tax rates.) The following sections describe the measurement of the average and marginal tax rates in more detail, and discuss the statistics based on these rates for 1999.

Average Tax Rates

Figure A presents statistics for 1986 through 1999 on income (based on each year's definition of AGI and on the common 1979 Income Concept) and taxes reported. (See Appendix D for an explanation of the 1979 Income Concept.) These tax years can be partitioned into six distinct subperiods:

(1) Tax Year 1986 was the last year under the Economic Recovery Tax Act of 1981 (ERTA81). The tax bracket boundaries, personal exemptions, and standard deductions were indexed for inflation, and the maximum tax rate was 50 percent.

(2) Tax Year 1987 was the first year under the Tax Reform Act of 1986 (TRA86). For 1987, a 1-year, transitional, five-rate tax bracket structure was established with a partial phase-in of new provisions that broadened the definition of AGI. The maximum tax rate was 38.5 percent.

(3) During Tax Years 1988 through 1990, there was effectively a three-rate tax bracket structure [1]. The phase-in of the provisions of TRA86 continued with a maximum tax rate of 33 percent.

(4) Tax Years 1991 and 1992 brought a three-rate tax bracket structure (with a maximum tax rate of 31 percent), a limitation on some itemized deductions, and a phaseout of personal exemptions.

(5) Tax Years 1993 through 1996 had a five-rate

Michael Parisi and Dave Campbell are economists with the Individual Returns Analysis Section. This article was prepared under the direction of Jeff Hartzok, Chief.

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Individual Income Tax Rates and Shares, 1999

Figure A

Adjusted Gross Income, Total Income Tax, Average Tax Rate, and Average Total Income Tax, Tax Years 1986-1999

[Money amounts are in billions of dollars, except where indicated]

Tax year	Total number of returns	Taxable returns								
		Number of returns	As a percentage of total returns [1]	Adjusted gross income (less deficit)	Total income tax	Average tax rate (percent)[2,3]	Average per return (whole dollars) [3]			
							Current dollars		Constant dollars[4]	
							Adjusted gross income (less deficit)	Total income tax	Adjusted gross income (less deficit)	Total income tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Using each tax year's adjusted gross income									
1986	103,045,170	83,967,413	81.5	2,440	367	15.1	29,062	4,374	26,516	3,991
1987	106,996,270	86,723,796	81.1	2,701	369	13.7	31,142	4,257	27,414	3,747
1988	109,708,280	87,135,332	79.4	2,990	413	13.8	34,313	4,738	29,005	4,005
1989	112,135,673	89,178,355	79.5	3,158	433	13.7	35,415	4,855	28,560	3,915
1990	113,717,138	89,862,434	79.0	3,299	447	13.6	36,711	4,976	28,088	3,807
1991	114,730,123	88,733,587	77.3	3,337	448	13.4	37,603	5,054	27,609	3,711
1992	113,604,503	86,731,946	76.3	3,484	476	13.7	40,168	5,491	28,630	3,914
1993	114,601,819	86,435,367	75.4	3,564	503	14.1	41,233	5,817	28,535	4,026
1994	115,943,131	87,619,446	75.6	3,737	535	14.3	42,646	6,104	28,776	4,119
1995	118,218,327	89,252,989	75.5	4,008	588	14.7	44,901	6,593	29,463	4,326
1996	120,351,208	90,929,350	75.6	4,342	658	15.2	47,750	7,239	30,433	4,614
1997	122,421,991	93,471,200	76.4	4,765	731	15.3	50,980	7,824	31,763	4,875
1998	124,770,662	93,047,898	74.6	5,160	789	15.3	55,458	8,475	33,836	5,171
1999	127,075,145	94,546,080	74.4	5,581	877	15.7	59,028	9,280	35,431	5,570
	Using 1979 Income Concept [5]									
1986	103,045,170	83,967,413	81.5	2,703	367	13.6	32,194	4,374	29,374	3,991
1987	106,996,270	86,723,796	81.1	2,736	369	13.5	31,551	4,257	27,774	3,747
1988	109,708,280	87,135,332	79.4	3,011	413	13.7	34,556	4,738	29,210	4,005
1989	112,135,673	89,178,355	79.5	3,188	433	13.6	35,752	4,855	28,832	3,915
1990	113,717,138	89,862,434	79.0	3,335	447	13.4	37,108	4,976	28,392	3,807
1991	114,730,123	88,733,587	77.3	3,387	448	13.2	38,169	5,054	28,024	3,711
1992	113,604,503	86,731,946	76.3	3,553	476	13.4	40,964	5,491	29,198	3,914
1993	114,601,819	86,435,367	75.4	3,625	503	13.9	41,938	5,817	29,023	4,026
1994	115,943,131	87,619,446	75.6	3,796	535	14.1	43,322	6,104	29,232	4,119
1995	118,218,327	89,252,989	75.5	4,075	588	14.4	45,655	6,593	29,957	4,326
1996	120,351,208	90,929,350	75.6	4,418	658	14.9	48,582	7,239	30,964	4,614
1997	122,421,991	93,471,200	76.4	4,849	731	15.1	51,875	7,824	32,321	4,875
1998	124,770,662	93,047,898	74.6	5,299	789	14.9	56,947	8,475	34,745	5,171
1999	127,075,145	94,546,080	74.4	5,736	877	15.3	60,666	9,280	36,414	5,570

[1] Number of taxable returns (column 2) divided by total number of returns (column 1).

[2] Average tax rate is "total income tax" (column 5) as a percentage of adjusted gross income (less deficit) (AGI) (column 4).

[3] The average adjusted gross income (less deficit), average total income tax, and average tax rate were calculated from unrounded data.

[4] Constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). See footnote 2 of this article for further details.

[5] These statistics are based on adjusted gross income (AGI) recomputed to reflect the 1979 Income Concept, thus enabling more valid comparisons to be made of the average tax rates among years. Changes in the definition of AGI among years render direct comparison of the unadjusted figures misleading. For additional information, see Statistics of Income--Individual Income Tax Returns, for 1986-1999.

tax bracket structure (with a maximum statutory tax rate of 39.6 percent), a limitation on some itemized deductions, and a phaseout of personal exemptions.

(6) Tax Years 1997 through 1999 were subject to the Taxpayer Relief Act of 1997 (TRA97). TRA97 added three new capital gain tax rates to the previous rate structure to form a new eight-rate tax bracket structure (with a maximum statutory tax rate of 39.6 percent). (See Appendix C for a more detailed description of the capital gain rates.)

More than 94.5 million, or 74.4 percent, of the 127.1 million individual returns filed for 1999 were "taxable returns." Total AGI for these returns in-

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creased 8.2 percent to $5,581 billion. Using the 1979 Income Concept, taxable returns showed total income of $5,736 billion, an increase of 8.2 percent from 1998. Taxpayers reported $877 billion in total income tax for 1999, approximately $88 billion (11.3 percent) more than for 1998. This represents an increase over the 7.8 percent for 1998 and is the highest percentage increase in total income tax since 1996 (11.9 percent).

Average AGI and average total income tax increased from 1998 to 1999, in both current and constant 1982-1984 dollars [2]. Average tax increased 9.5 percent to $9,280, some 3.1 percentage points more than growth in average AGI, which increased 6.4 percent to $59,028. After adjusting for inflation as measured in 1982-1984 dollars, average AGI rose to $35,431, and average total income tax increased to $5,570.

Because TRA86 reduced statutory tax rates and broadened the definition of AGI (by eliminating or limiting the preferential treatment of various tax items, such as restricting the use of "passive losses" to offset "non-passive income" and finally including net long-term capital gains), comparisons of average tax rates before and after 1986, based on current-year definitions of AGI, become less meaningful [3]. The 1979 Income Concept provides a more consistent basis for such comparisons. Based on the 1979 Income Concept, average tax rates declined 0.1 percentage point from 13.6 percent for 1986 to 13.5 percent for 1987, increased to 13.7 percent for 1988, and declined again for the next 3 years, until reaching 13.2 percent for 1991. The average tax rate rose to 13.4 percent for 1992, increased to 13.9 percent for 1993, and continued to increase to 15.1 percent for 1997 before tapering off to 14.9 percent for 1998, the first decline since 1991. In 1999, the average tax rate increased to 15.3 percent.

As shown in Figure B, the average tax rate (as a percentage of AGI) on all taxable returns increased approximately 0.4 percentage points for 1999 to 15.7 percent. Most of this increase was due to higher

Figure B

Taxable Returns: Number of Returns, Adjusted Gross Income, and Total Income Tax, by Size of Adjusted Gross Income, Tax Years 1998 and 1999

[Number of returns is in thousands--money amounts are in millions of dollars]

Tax year, income tax, and average tax rate	Total	Size of adjusted gross income									
		Under $1 [1]	$1 under $10,000	$10,000 under $20,000	$20,000 under $30,000	$30,000 under $50,000	$50,000 under $100,000	$100,000 under $200,000	$200,000 under $500,000	$500,000 under $1,000,000	$1,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Tax Year 1999:											
Number of taxable returns	94,546	5	8,047	14,770	15,175	22,544	24,480	7,098	1,875	348	205
Adjusted gross income (less deficit)	5,580,849	-6,400	51,208	222,963	378,381	881,156	1,689,529	933,899	542,108	235,524	652,480
Total income tax	877,401	109	2,220	14,741	30,392	83,160	205,023	162,225	130,274	66,965	182,293
Average tax rate (percent)	15.7	([2])	4.3	6.6	8.0	9.4	12.1	17.4	24.0	28.4	27.9
Tax Year 1998:											
Number of taxable returns	93,048	4	8,258	15,365	15,365	22,655	23,055	6,263	1,605	307	172
Adjusted gross income (less deficit)	5,160,224	-5,474	52,786	232,203	382,997	886,802	1,585,000	822,169	463,262	207,460	533,022
Total income tax	788,542	94	2,208	15,567	30,864	85,162	194,130	143,721	111,545	58,483	146,767
Average tax rate (percent)	15.3	([2])	4.2	6.7	8.1	9.6	12.2	17.5	24.1	28.2	27.5
Increase in average tax rates, 1999 over 1998	0.4	([3])	0.2	-0.1	--	-0.2	-0.1	-0.1	--	0.2	0.4

[1] Includes returns with adjusted gross deficit. Tax in these returns represents some combination of alternative minimum tax, Form 4972 tax on lump-sum distributions from qualified retirement plans, and Form 8814 tax on a child's interest and dividends not reflected in adjusted gross income or taxable income.

[2] Percentage not computed.

[3] Increase not computed.

NOTE: Detail may not add to totals because of rounding.

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average tax rates in the top two AGI-size classes of "$500,000 under $1,000,000" and "$1,000,000 or more," where the average tax rate increased 0.2 and 0.4 percent, respectively. The average tax rate for the "$1 under $10,000" AGI-size class increased as well, by 0.2 percentage points. However, since total income tax in this bracket was much smaller than the larger AGI-size classes, it did not have a significant effect on the percentage increase in the total average tax rate. Tax rates in all of the AGI-size classes between the top two and bottom one either remained unchanged or declined between 1998 and 1999. These AGI classes contain taxpayers who were most likely to have taken advantage of child and education tax credits that were increased for 1999. The child tax credit increased to $500 in 1999, up from $400 in 1998. Specifically, this can be seen in the "$30,000 under $50,000" AGI-size class, which had the largest reduction in average tax rate for 1999 (0.2 percentage points), and also had increases of 0.2 and 0.4 percentage points in the number of returns with the child tax credit and education credits, respectively [4].

Marginal Tax Rate Classifications

A return's marginal tax rate is the highest statutory tax rate bracket applicable to that tax return. Marginal tax rate statistics are presented in Figures C and D, and in Table 1. These statistics were based on individual income tax returns showing an amount for "tax generated" on taxable income and items of income that were subject to the regular income tax, generally those included in AGI [5]. Tables 2 and 3 contain additional data based on marginal tax rates. These tables present statistics on the income and tax generated at each marginal tax rate by size of AGI (Table 2) and by filing status (Table 3). Appendix D explains the details of the determination of the marginal tax rate bracket into which a return is assumed to fall.

For 1999, the 102.8 million individual returns with modified taxable income totaling $4,136.3 billion generated $906.4 billion in income taxes. Figure C presents the amounts and percentages of modified taxable income and income tax generated (before reduction by tax credits, including the earned income credit) by the marginal rate categories (defined in

Figure C

Returns with Modified Taxable Income: Tax Generated at All Rates on Returns with the Indicated Marginal Tax Rate, Tax Year 1999

[Money amounts are in thousands of dollars]

Marginal tax rate classes	Number of returns		Modified taxable income		Tax generated	
	Number	Percentage	Amount	Percentage	Amount	Percentage
	(1)	(2)	(3)	(4)	(5)	(6)
All rates	**102,831,402**	**100.0**	**4,136,344,070**	**100.0**	**906,396,888**	**100.0**
10 percent	1,120,497	1.1	4,374,762	0.1	437,566	(2)
15 percent (Form 8814) [1]	12,571	(2)	13,778	(2)	2,066	(2)
15 percent	68,117,909	66.2	996,492,153	24.1	148,584,761	16.4
20 percent	1,240,705	1.2	132,403,115	3.2	23,545,821	2.6
25 percent	56,361	0.1	8,374,445	0.2	1,660,773	0.2
28 percent (capital gains) [3]	72,526	0.1	5,524,495	0.1	1,120,135	0.1
28 percent	25,912,056	25.2	1,442,198,308	34.9	276,780,570	30.5
31 percent	3,451,039	3.4	409,159,931	9.9	97,612,203	10.8
36 percent	1,408,684	1.4	322,090,723	7.8	87,105,776	9.6
39.6 percent	864,129	0.8	811,694,117	19.6	268,552,002	29.6
Form 8615 [4]	574,924	0.6	4,018,242	0.1	995,214	0.1

[1] Form 8814 was filed for a dependent child under age 14 for whom the parents made an election to report the child's investment income (if it was from interest or dividends totaling between $700 and $7,000) on the parents' income tax return.

[2] Less than 0.05 percent.

[3] Returns with net long-term capital gains in excess of net short-term capital losses taxed at the 28-percent rate, which otherwise (based on ordinary income) would be taxed at a higher rate than 28 percent.

[4] Form 8615 was filed for a child under age 14 to report the child's investment income in excess of $1,400. The returns in this rate classification are not distributed by tax rate.

NOTE: Detail may not add to totals because of rounding.

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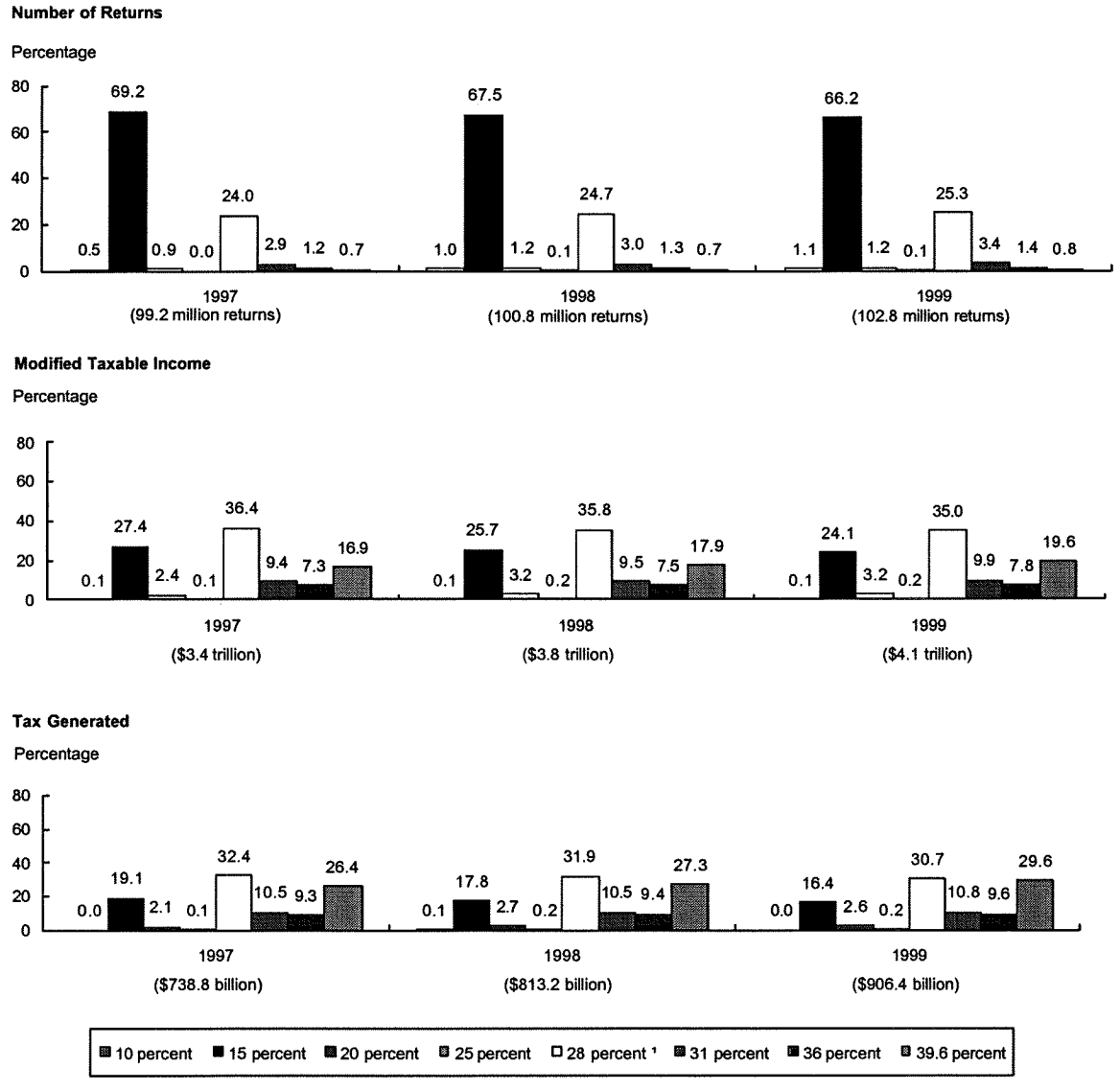
Individual Income Tax Rates and Shares, 1999

Figure D

Returns with Modified Taxable Income: Percentages of Returns, Modified Taxable Income, and Tax Generated by Marginal Tax Rate Classification, Tax Years 1997-1999



[1] Includes 28 percent for returns with net long-term capital gains in excess of net short-term capital losses.
NOTE: Returns in the "Form 8615" and "Form 8814" categories were included in the calculation of the percentages, but are not shown separately. Detail may not add to 100 percent because of rounding.

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The percentage share of income tax generated for the "39.6-percent" category increased 3.2 percentage points.

Appendix D). Although 66.2 percent of the returns with modified taxable income were in the "15 percent" and "15 percent (Form 8814)" marginal rate categories, they reported only 24.1 percent of the modified taxable income and generated only 16.4 percent of the tax. Conversely, the 0.8 percent of the returns in the "39.6-percent" classification reported 19.6 percent of the modified taxable income and generated 29.6 percent of the tax. The 25.3 percent of returns in the "28-percent" and "28-percent (capital gain)" categories reported 35.0 percent of the modified taxable income and 30.6 percent of the tax. Returns in the "31-percent" classification reported 9.9 percent of the modified taxable income and 10.8 percent of the income tax, while returns in the "36-percent" classification showed 7.8 percent of the modified taxable income and 9.6 percent of the income tax. Other than capital gains, the remaining returns--those in the "Form 8615" category--reported 0.1 percent of the modified taxable income and 0.1 percent of the income tax generated.

The three rate classifications that were new for 1997, "10 percent," "20 percent," and "25 percent," reported for 1999 just 3.5 percent of the modified taxable income and 2.8 percent of the income tax. As shown in Table 2, some 10.2 percent of returns had modified taxable income taxed at "20 percent," which accounted for 9.6 percent of the modified taxable income and 8.8 percent of the income tax. Also, 9.1 percent of returns had modified taxable income taxed at the "10-percent" rate, which accounted for only 0.9 percent of modified taxable income and 0.4 percent of income tax. The returns with income taxed at the "25-percent" rate classification accounted for only 0.5 percent of the total, while the modified taxable income and income tax reported at this rate were 0.2 and 0.3 percent of the aggregates, respectively.

Figure D illustrates changes in the distribution of percentages of tax returns, modified taxable income, and income tax generated among various marginal tax rate classifications over Tax Years 1997, 1998, and 1999. Over the 3-year period, the percentage of returns in the "15-percent" marginal tax rate category decreased 3.0 percentage points, while the remaining seven marginal tax rate categories either increased or remained the same. During this 3-year period, the largest changes in the percentage shares of modified taxable income and income tax generated occurred in the "15-percent," "28-percent," and "39.6-percent" categories. The percentage shares of modified taxable income declined in both the "15-percent" and "28-percent" categories by 3.3 and 1.5 percentage points, respectively, and increased by 2.7 percentage points in the "39.6-percent" category. Similar to the changes in the percentage shares of modified taxable income, the percentage shares of income tax generated for the "15-percent" categories decreased by 2.7 percentage points, and the "28-percent" categories decreased by 1.9 percentage points. The percentage share of income tax generated for the "39.6-percent" category increased 3.2 percentage points. The three newest marginal tax rate categories, "10 percent," "20 percent," and "25 percent," did not have a significant impact on the distribution of returns, modified taxable income, or tax generated.

Components of Total Income Tax

Regular Tax

Regular tax is generally tax determined from a taxpayer's taxable income based on statutory tax rates less any applicable tax credits. It does not include the "alternative minimum tax" (AMT). Figure E illustrates the derivation of aggregate total income tax for 1999 returns with modified taxable income. Table 1 includes two tax amounts: "tax generated" and "income tax after credits." Tables 5 through 8 and Figures A and B include an additional measure of tax, "total income tax."

As shown (Figure E and column 5 of Table 1), the tax generated by applying statutory income tax rates to modified taxable income was $906.4 billion. For most taxpayers, tax generated was equal to income tax before credits. However, for others, income tax before credits included special taxes on lump-sum distributions from qualified retirement plans (when a 10-year averaging method was used) [6]. The earned income credit (EIC) is included in this

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Figure E

Derivation of 1999 Total Income Tax as Shown in Statistics of Income

[Money amounts are in billions of dollars]

Tax generated from tax rate schedules or tax table	**906.4**
PLUS:	
Tax on lump-sum distributions from qualified retirement plans	0.5
EQUALS:	
Income tax before credits	**906.8**
LESS: Tax credits, total	35.9
Child-care credit	2.7
Child tax credit [1]	19.4
Education credit	4.8
Foreign tax credit	4.9
General business credit	0.8
Earned income credit (limited to the amount needed to reduce total income tax to zero)	1.9
Credit for prior-year minimum tax	1.0
Other credits [2]	0.4
EQUALS:	
Income tax after credits	**870.9**
PLUS: Alternative minimum tax	6.5
EQUALS:	
Total income tax	**877.4**

[1] Does not include the additional child tax credit which for 1999 was $812.4 million.

[2] Includes the elderly or disabled credit, empowerment zone employment credit, mortgage interest credit, adoption credit, nonconventional source fuel credit, and other credits.

NOTE: Detail may not add to totals because of rounding.

computation to the extent that its application did not reduce income tax before credits below zero. Any portion of the EIC that is refundable to the taxpayer because it exceeds the taxpayer's liability and any portion of the EIC used to reduce taxes other than regular income taxes are excluded from the computation of income tax after credits [7]. Income tax after credits (Figure E) totaled $870.9 billion. Total income tax of $877.4 billion (Figure A) is the sum of income tax after credits and the alternative minimum tax [8].

Table 4 provides estimates on the type of tax computation for returns with modified taxable income. For 1999, the number of children under age 14 who had investment income over $1,400 increased 23.6 percent to almost 575,000. Using Form 8615 to compute their tax (as if their income were treated as the marginal income of their parents or guardians), these children showed $933.3 million in tax generated (column 7). If these same children had had all their income taxed as ordinary income, income tax before credits (regular tax computation) would have totaled $783.2 million (column 6). Thus, the difference resulting from the special tax computation was $150.2 million (column 8) in additional tax, up 142.1 percent from the $62.0 million calculated for 1997 (column 4) [9]. This large increase may be related to both the increase in the number of children's returns, as well as to a movement on these returns from long-term capital gains to investment income other than capital gains.

For 1999, the 16.9 million returns using the Schedule D capital gain tax computation generated $405.8 billion in tax (column 7). However, if long-term capital gains had been taxed the same as ordinary income, the amount of income tax before credits (regular tax computation) for these same taxpayers would have been $464.7 billion (column 6). Therefore, the reduction in tax generation resulting from use of the Schedule D tax computation was $58.9 billion (column 8), an increase of 14.5 percent over the $51.4-billion reduction shown for 1998 (column 4), when almost 16 million taxpayers received some benefit from lower capital gain taxes (column 1). Most of these tax savings (60.2 percent) were reported by taxpayers in the "$1,000,000 or more" income-size class. For 1999, some 6.3 million taxpayers with an AGI of less than $50,000 were able to take advantage of lower capital gain tax rates and saved $961.9 million in taxes, an increase of 5.5 percent over the previous year's tax savings.

Alternative Minimum Tax

The Revenue Act of 1978 established the alternative minimum tax to ensure that a minimum amount of income tax was paid by taxpayers who might otherwise use certain provisions of the tax code meant to stimulate economic activity and generate "economic income" to reduce, or even eliminate, their regular tax liabilities. The AMT provisions may recapture some of these tax reductions by recomputing income to achieve "alternative minimum taxable income," or AMTI, the tax base for AMT. Form 6251, *Alternative Minimum Tax--Individuals*, is used to calculate AMT. (See Appendix E for an explanation of the computation of AMTI.)

Figure F presents statistics, by size of AGI, on AMT reported by taxpayers filing Form 6251 with their returns. For 1999, an AMT liability of $6.5

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Figure F

Returns with Alternative Minimum Tax Computation Reported on Form 6251: Total Adjustments and Preferences, and Alternative Minimum Taxable Income and Tax, by Size of Adjusted Gross Income, Tax Years 1998 and 1999

[Money amounts are in thousands of dollars]

Size of adjusted gross income	Total adjustments and preferences [1]		Alternative minimum taxable income		Alternative minimum tax	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
	Tax Year 1999					
All returns	**4,208,973**	**91,126,166**	**4,212,275**	**890,836,550**	**1,018,063**	**6,477,697**
No adjusted gross income [2]	72,210	1,492,006	71,372	-4,091,048	4,829	109,076
$1 under $10,000	363,667	1,140,156	364,622	1,338,833	2,034	9,482
$10,000 under $20,000	234,326	1,280,267	234,326	3,180,511	5,219	10,981
$20,000 under $30,000	199,112	1,240,407	199,120	4,495,258	5,859	31,214
$30,000 under $40,000	197,364	1,214,558	198,351	6,231,667	11,688	12,857
$40,000 under $50,000	209,137	1,476,528	209,137	8,426,268	22,447	19,781
$50,000 under $75,000	548,940	4,933,423	549,284	30,372,792	83,050	148,447
$75,000 under $100,000	451,415	5,504,769	451,758	35,348,980	143,729	248,555
$100,000 under $200,000	942,677	16,207,352	943,035	120,174,901	334,533	1,138,963
$200,000 under $500,000	714,132	19,785,761	715,014	198,681,460	322,600	2,042,634
$500,000 under $1,000,000	162,253	9,357,527	162,379	103,285,019	53,912	976,542
$1,000,000 or more	113,741	27,493,414	113,876	383,391,908	28,163	1,729,163
	Tax Year 1998					
All returns	**4,477,046**	**80,543,187**	**4,483,228**	**815,273,468**	**853,433**	**5,014,549**
No adjusted gross income [2]	79,633	1,350,930	78,744	-4,317,698	3,671	90,068
$1 under $10,000	388,676	1,198,905	388,682	1,347,719	2,124	11,367
$10,000 under $20,000	293,401	1,453,780	293,401	3,767,704	3,211	8,094
$20,000 under $30,000	248,753	1,386,125	249,722	5,599,213	7,000	16,566
$30,000 under $40,000	237,061	1,334,753	237,061	7,318,007	11,036	14,491
$40,000 under $50,000	262,554	1,630,540	262,602	10,277,558	14,839	9,008
$50,000 under $75,000	643,875	5,126,300	645,712	35,595,744	80,148	72,993
$75,000 under $100,000	504,958	5,252,667	507,664	39,272,886	110,260	160,435
$100,000 under $200,000	941,529	14,259,329	942,308	118,685,541	274,217	789,731
$200,000 under $500,000	627,095	17,461,963	627,358	173,506,785	270,103	1,743,386
$500,000 under $1,000,000	149,457	8,292,459	149,789	96,216,186	51,136	782,441
$1,000,000 or more	100,053	21,795,436	100,184	328,003,820	25,689	1,315,968

[1] See Figures K-1 and K-2 for the calculation of alternative minimum taxable income and the list of alternative minimum tax adjustments and preferences.

[2] Includes returns with adjusted gross deficit.

NOTE: Detail may not add to totals because of rounding.

billion was reported based on AMTI of $890.8 billion. Generally, AMTI is only shown on filed tax returns if the taxpayer's liability is affected by the AMT. The AMT amount for 1999 represents a 29.2-percent increase from the $5.0 billion in AMT for 1998 based on $815.3 billion of AMTI. Over the past few years, net long-term capital gain (less loss) has shown a significant increase. Since net long-term capital gain (less loss) is taxed at 28 percent (the same as the maximum rate for AMT) or lower rates, this increase is one of the reasons for the large percentage increase in the AMT amount. Another reason for the increase in the AMT amount is that the size of the AMT exemptions and the AMT income level at which the rate increases from 26 percent to 28 percent are not indexed for inflation, whereas the widths of regular income tax rate brackets and the sizes of personal exemptions are inflation-adjusted annually. Thus, year-to-year inflation may cause more taxpayers to be affected by AMT and increase the amount of AMT liability. Also, even though this inflation may not cause AMT liability, it may increase tentative minimum tax. For certain taxpayers, this would reduce or eliminate their ability to take certain tax credits. These credits include all general business credits, prior-year minimum tax credit, empowerment zone credit, mortgage interest credit, and the nonconventional source fuel credit.

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Individual Income Tax Rates and Shares, 1999

Figure G shows the highest marginal tax rates on ordinary income, capital gains, and AMTI for each of the years 1986 through 1999. The amount of AMT reported for each of the 14 years is also shown. For 1986, after TRA86 was introduced but before it became effective, when the highest marginal tax rate on ordinary income was 50 percent, and the highest capital gain rate and highest AMT rate were both 20 percent, the AMT reported was $6.7 billion. After 1986, both the highest capital gain rate and the highest AMT rate increased, while the highest marginal ordinary tax rate declined. In addition, capital gains were fully included in AGI. For 1987, AMT decreased dramatically to $1.7 billion. From 1988 to 1990, AMT revenue continued to decrease to a low of $830.3 million for 1990. For 1991, when the AMT rate increased to 24 percent, AMT increased 46.1 percent to $1.2 billion. From 1992 to 1993, when the highest marginal tax rate on ordinary income and the highest AMT rate increased again (while the highest capital gain rate remained the same), the AMT liability increased 51.3 percent to nearly $2.1 billion. From 1994 through 1996, the amount of AMT increased gradually every year. But for 1997, AMT spiked 42.4 percent to $4.0 billion, the highest level reported since 1986. This also coincides with the large increases in long-term capital gains receiving favorable tax rates, cited previously. In 1999, the amount of AMT increased 29.2 percent to $6.5 billion, following the 25.2 increase in 1998. Of all returns filed, 0.8 percent of taxpayers paid AMT in 1999, the highest percentage since the imposition of AMT.

Figure G

Marginal Tax Rate, Capital Gain Tax Rate, Alternative Minimum Tax Rate, and Alternative Minimum Tax, Tax Years 1986-1999

[Tax rates are in percentages--money amounts are in thousands of dollars]

Tax year	Highest marginal statutory tax rate on ordinary income	Highest capital gain tax rate	Highest statutory alternative minimum tax rate	Alternative minimum tax	
				Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)
1986	50.0	20[1]	20	608,907	6,713,149
1987	38.5	28	21	139,779	1,674,898
1988	28.0[2]	28[2]	21	113,562	1,027,884
1989	28.0[2]	28[2]	21	117,483	831,012
1990	28.0[2]	28[2]	21	132,103	830,313
1991	31.0	28	24	243,672	1,213,426
1992	31.0	28	24	287,183	1,357,063
1993	39.6	28	28	334,615	2,052,790
1994	39.6	28	28	368,964	2,212,094
1995	39.6	28	28	414,106	2,290,576
1996	39.6	28	28	477,898	2,812,746
1997	39.6	28	28	618,072	4,005,101
1998	39.6	28	28	853,433	5,014,549
1999	39.6	28	28	1,018,063	6,477,697

[1] This tax rate was based on 60 percent of long-term capital gains (in excess of short-term capital losses) being excluded from income. The remaining 40 percent of capital gains were taxed at the maximum rate of 50 percent, creating a top capital gain rate of 20 percent.

[2] The tax rate schedule provided only two basic rates: 15 percent and 28 percent. However, taxable income between certain amounts was subject to an additional 5 percent tax, creating an "effective" 33-percent tax rate.

Income and Tax Shares

Historical statistics on income and tax by cumulative percentiles (based on numbers of returns) are presented in Tables 5 through 8. Distributions of AGI, as defined for each year and tax, by descending and ascending cumulative percentiles of returns, are presented in Tables 5 and 6. These tables can be used to make comparisons across cumulative percentile classes within each year, among years within the ERTA81 period (i.e., Tax Years 1982 through 1986), and among years within the post-TRA86 period (i.e., Tax Years 1987 through 1999). Since TRA86 redefined AGI, Tables 5 and 6 are not as useful for comparisons between pre- and post-TRA86 years. Thus, Tables 7 and 8, which are based on a consistent definition of income (i.e., using the 1979 Income Concept), are included to facilitate such comparisons.

Tables 5 and 7 are based on percentiles of returns cumulated downward from the highest income returns. The data are shown for the top 1, 5, 10, 25, and 50 percent of returns. Tables 6 and 8 are based on returns cumulated upward for the lowest income returns. Data are shown for the bottom 50, 75, 90, 95, and 99 percent of all returns.

For example, consider the data in Table 5 for the 126.0 million returns filed for 1999 with positive AGI [10]. The average tax rate for these returns was 14.9 percent, an increase from the 1998 average tax rate of 14.4 percent. The average tax rate on the top 1, 5, 10, 25 and 50 percentiles increased from 1998 (mostly due to the decrease in capital gains which are taxed at the reduced capital gain rates). For 1999, the returns in the top 1 percentile reported 19.5 percent of total AGI and 36.2 percent of total income

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tax. The amount of AGI needed for inclusion in this percentile group (i.e., the AGI floor) was $293,415. For 1998, the returns in this percentile group (i.e., those with at least $269,496 in AGI) reported 18.5 percent of total AGI and 34.8 percent of total income tax. For 1999, the returns in the top 5 percentile group (returns reporting AGI of $120,846 or more) reported 34.0 percent of total AGI and 55.5 percent of total income tax, higher than the 32.9 percent and 53.8 percent, respectively, for 1998 (when the AGI floor was $114,729). For 1999, returns in the top 10 percentile group (returns with AGI of at least $87,682) showed 44.9 percent of AGI and 66.5 percent of total income tax. For 1998, the returns in this percentile group (with AGI of $83,220 or more) reported 43.8 percent of total AGI and 65.0 percent of total income tax.

The statistics by percentile in Tables 5 and 6 (for years prior to 1991) and Tables 7 and 8 (for years prior to 1994) were estimated, using a mathematical technique called "osculatory interpolation," applied to aggregated data tabulated by income-size classes, in order to distribute the tax returns within each class [11]. For 1991 and later years, the statistics by percentiles in Tables 5 and 6 (and Tables 7 and 8 for 1994 through 1999) were computed based on an actual ranking of the returns in the statistical sample that served as the basis for Individual Statistics of Income estimates. The differences under the two methods were judged to be minor enough so that the pre-1991 and post-1990 data are believed to be comparable.

Figure H presents percentage shares of income and total income tax for various percentile groups, using the 1979 Income Concept, for 1986 through 1999. While shares of income for the top 1 percent and bottom 50 percent of taxpayers have been close over the years, 1999 marks the fifth consecutive year that that the income shares of the top 1 percent of taxpayers were higher than the corresponding shares of the bottom 50 percentile. The income share for the top 1 percent of taxpayers grew to the largest it has been in the previous 13 years, reaching 20.3 percent for 1999, while the bottom 50 percent of taxpayers reported the lowest share of income over the corresponding period at 13.0 percent. This constitutes the largest difference in income shares between the two percentile groups over the previous 14 years, 7.3 percentage points. Similar to this recent trend in shares of income, the shares of total income tax for the top 1 percent and bottom 50 percent of taxpayers have diverged over time. The total income tax shares for the top 1 percent have, despite fluctuations, risen from 25.4 percent for 1986 to a high of 35.0 percent for 1999. Shares of total income tax for the bottom 50 percent of taxpayers have decreased from 6.7 percent for 1986 to just over 4.1 percent for 1999. The difference between shares of income for the top 5 percent and bottom 75 percent of taxpayers, which has converged over time, continued this trend for 1999. Income shares increased from 28.4 percent for 1986 to 35.6 percent for 1999 for the top 5 percent of taxpayers and decreased from 38.2 percent for 1986 to 32.6 percent for 1999 for the bottom 75 percent of taxpayers. Shares of total income tax for the top 5 percent and bottom 75 percent of taxpayers have also diverged over the past 14 years. Percentage shares of total income tax for taxpayers in the top 5 percentile rose from 42.4 percent for 1986 to a high of 54.7 percent for 1999, while shares of total income tax for the bottom 75 percent of taxpayers have decreased from 24.3 percent for 1986 to a low of 16.8 percent for 1999.

Notes and References

[1] For Tax Years 1988 through 1990, the tax rate schedules provided only two basic rates: 15 percent and 28 percent. However, taxable income over certain levels was subject to a 33-percent tax rate to phase out the benefit of the 15-percent tax bracket (as compared to the 28-percent rate) and the deduction for personal exemptions. At the taxable income level where these benefits were completely phased out, the tax rate returned to 28 percent.

[2] U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*. The consumer price index (CPI-U) represents annual averages of monthly figures and reflects the buying of typical urban consumers (1982-84=100):

Year	CPI-U	Year	CPI-U
1999	166.6	1991	136.2
1998	163.9	1990	130.7
1997	160.5	1989	124.0
1996	156.9	1988	118.3

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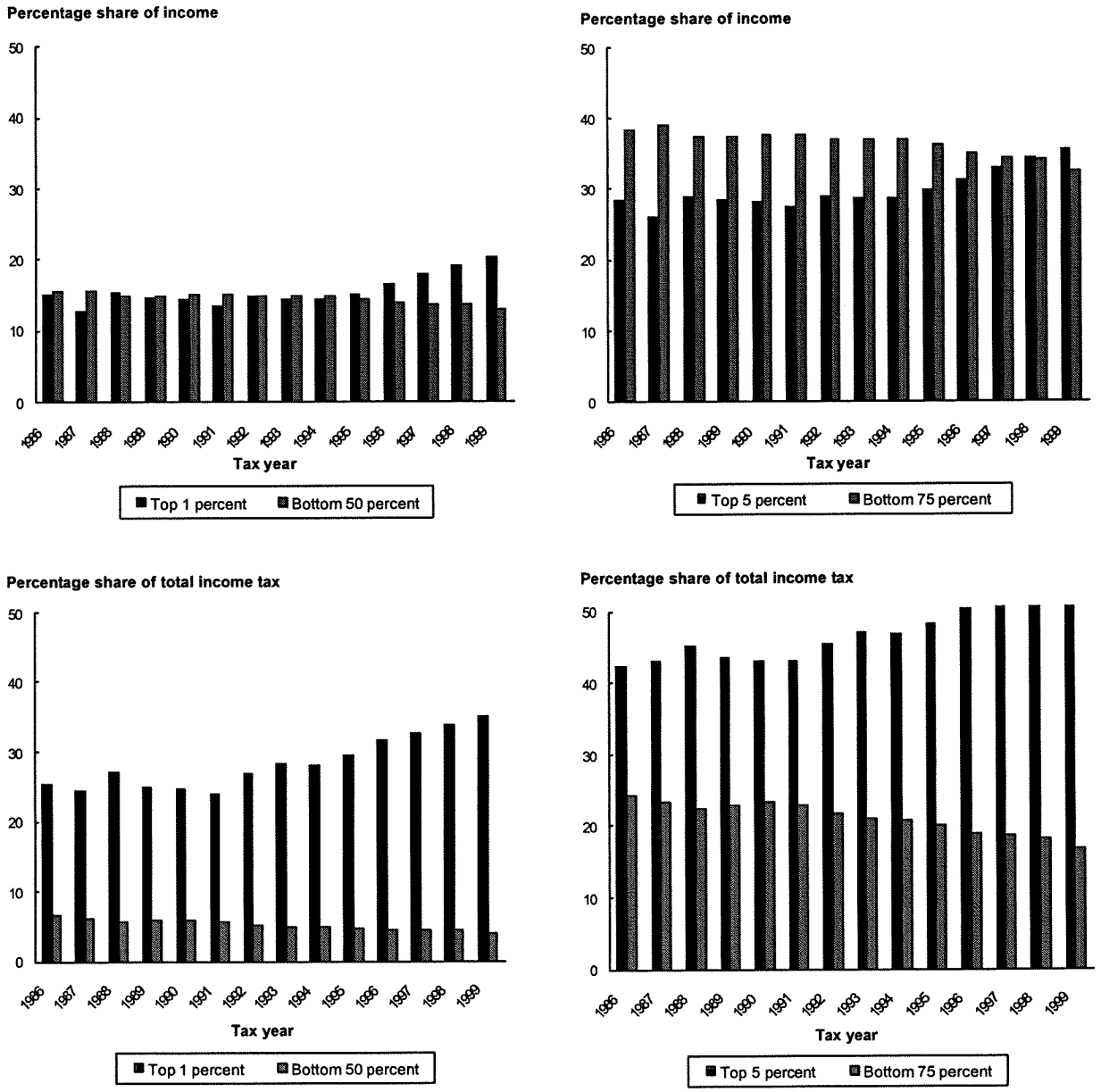
Individual Income Tax Rates and Shares, 1999

Figure H

Shares of Income and Total Income Tax Based on the 1979 Income Concept, by Cumulative Percentiles, Tax Years 1986-1999 [1]



[1] Percentile groupings of tax filers exclude returns with zero or negative income.
NOTE: See Figure I for the components of the 1979 Income Concept.

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Year	CPI-U	Year	CPI-U
1995	152.4	1987	113.6
1994	148.2	1986	109.6
1993	144.5	1985	107.6
1992	140.5		

[3] For further information about the Tax Reform Act of 1986, see U.S. Congress, Joint Committee on Taxation, General Explanation of the Tax Reform Act of 1986 (H.R. 3838, 99th Congress, Public Law 99-514), May 4, 1987.

[4] Table 3.3 in *Statistics of Income--1998* and *Statistics of Income--1999* shows the number of returns for the child tax credit and education credit by size of AGI.

[5] Nontaxable (i.e., tax-exempt) forms of income, such as interest on State and local government obligations, were not included in AGI and generally did not affect the marginal tax rate. However, the receipt of some forms of tax-exempt income, such as Social Security benefits, could have influenced the taxability of other income. When this situation occurred, the income made taxable by the receipt of other forms of nontaxable income was included in AGI.

[6] The income amounts on which these special computations were based were not reflected in current-year AGI or current-year taxable income.

[7] For 1999, the total earned income credit was $31.9 billion. This amount includes the amount used to reduce the regular income tax ($1.9 billion), the amount used to reduce other taxes reported on individual income tax returns ($2.4 billion), and the amount refunded to taxpayers ($27.6 billion). Table 2.5 *in Statistics of Income--1999, Individual Income Tax Returns*, shows these amounts.

[8] Total income tax does not include certain other taxes reported on the individual income tax return, such as self-employment tax (the Social Security tax on income from self-employment), the Social Security tax on certain tip income, tax from the recapture of prior-year investment or low-income housing credits, tax applicable to early withdrawals from an Individual Retirement Arrangement (IRA) or other qualified retirement plans, tax on trusts, accumulation and distributions, and household employment taxes. The statistics for "total tax liability," shown in *Statistics of Income--1999, Individual Income Tax Returns*, include these taxes. For Tax Year 1999, total tax liability reported on 97.1 million returns was $912.5 billion.

[9] The difference resulting from the special tax computation does not reflect the provisions of TRA86, which lowered standard deductions for dependents (compared to other taxpayers) and prevented these children from claiming their own personal exemptions.

[10] The percentile groupings of tax filers exclude returns with zero or negative AGI.

[11] For an explanation of the osculatory interpolation technique, see Oh, H. Lock, "Osculatory Interpolation with a Monotonicity Constraint," *1977 Proceedings of the American Statistical Association, Section on Statistical Computing,* 1978.

Appendix A: Explanation of Selected Terms

This appendix provides brief explanations of the major tax concepts discussed. For more extensive definitions, see Section 4 in *Statistics of Income--1999, Individual Income Tax Returns*.

Adjusted Gross Income.--Adjusted gross income is "total income," as defined by the tax code, less "statutory adjustments" (primarily business, investment, or certain other deductions, such as payments to a Keogh self-employed retirement plan, certain deductible contributions to an Individual Retirement Arrangement (IRA), and self-employed health insurance deductions). Total income includes, for example, salaries and wages, taxable interest, dividends, alimony, and net amounts from such sources as business income, rents and royalties, and sales of capital assets.

Difference Due to Special Tax Computation.--For this article, the tax difference is the amount of tax resulting from using provisions of one of the special tax computations (Form 8615 or Schedule D)

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less the amount of tax that would have resulted from not having used any of these provisions (regular tax computation).

Form 8615 Tax Computation.--Form 8615 was used to compute the tax on investment income of children under age 14 who had investment income of more than $1,400. Generally, such income was taxed at the marginal tax rate of the parents.

Income Tax Before Credits (Regular Tax Computation).--This amount consisted of the tax liability on ordinary income, computed by using the tax table or applying the rates from one of the four tax rate schedules, plus any additional tax (tax on lump-sum distributions from qualified retirement plans). When Form 8615 tax was payable on investment income of children, for this concept, all the income was taxed at the child's rate rather than at the rate of the parents. When the Schedule D tax was payable on net long-term capital gains, the tax was based on the regular tax rates rather than the 10, 20, 25, or 28-percent tax rate for capital gains.

Marginal Tax Rate.--See Appendix D.

Marginal Taxable Income.--See Appendix D.

Regular Tax Computation.--Depending on marital status and size of taxable income, the taxpayer used one of the four tax rate schedules or used an approximation from the tax table to determine tax. Returns of taxpayers who had taxes computed by the Internal Revenue Service were classified under the regular tax computation method.

Schedule D Tax Computation.--Schedule D was used to compute the 10-percent, 20-percent, 25-percent, and 28-percent tax on net long-term capital gains (in excess of net short-term capital losses), if such a computation was beneficial to the taxpayer. Any investment interest allocated to long-term capital gains (on Form 4952) was excluded from this computation.

Taxable Income.--Taxable income is AGI less the sum of personal exemption amounts and either the standard deduction for non-itemizers or total itemized deductions. The amounts for personal exemptions and total itemized deductions are net of any reductions because of taxpayers' incomes exceeding certain income thresholds.

Taxable Returns.--A return is classified as "taxable" based on the presence of "total income tax" (the sum of income tax after credits and the alternative minimum tax). The following additional taxes were not taken into account for this purpose: self-employment, household employment, Social Security, Railroad Retirement Tax Act (RRTA) taxes, tax from recomputing prior-year investment or low-income housing credits, penalty taxes on Individual Retirement Arrangements, section 72 penalty taxes, advance earned income credit payments, or "golden parachute" payments (made to key employees as compensation under certain circumstances).

Tax Generated.--This is the amount of tax computed on modified taxable income either from the tax rate schedules or the tax table. Tax generated does not take into account the alternative minimum tax or the effect of tax credits. For most returns (those without the special tax on lump-sum distributions from qualified retirement plans), tax generated equals "income tax before credits."

Total Income Tax.--Total income tax is the sum of income tax after credits and the alternative minimum tax.

Appendix B: Income Tax Structure

Each year, taxpayers must file an income tax return if they meet certain minimum filing requirements. The filing requirements for 1999 were based on the amount of "gross income," filing status, age, and, to a lesser extent, dependency and blindness [B1]. Generally, the minimum level of income for which a return was required to be filed equaled the sum of the standard deduction for the particular filing status and the amount of the personal exemption deduction allowed for the taxpayer or taxpayers (but not for any dependents). In addition to the general filing requirements, individuals were required to file a return for Tax Year 1999 if they had net earnings from self-employment of at least $400; liability for Social Security or Medicare tax on unreported tip income; Social Security, Medicare, or Railroad Retirement tax on reported tip income or group-term life insurance; "alternative minimum tax"; tax on qualified retirement plan distributions, including an Individual Retirement Arrangement (IRA) or a Medical Savings Account (MSA); tax on the recapture of investment credit or low-income housing credit; recapture tax on the disposition of a home purchased with a Federally-subsidized mortgage; any advance earned income credit payments; or wages of $108.28 or more from a church or qualified church-controlled organization that was exempt from Social Security taxes.

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Individual Income Tax Rates and Shares, 1999

Gross income includes all income received as money, goods, property, or services that was not expressly exempt from tax [B2]. Adjusted gross income (AGI) is equal to gross income less deductions for certain expenses [B3]. "Taxable income," the base on which income tax before credits is computed, equals AGI less the amount for personal exemptions and less either total allowable itemized deductions for taxpayers who itemize deductions, or the standard deduction (including the additional amounts for age and blindness) for all other taxpayers.

Income tax before credits is calculated from taxable income using: The tax table or tax rate schedules, both of which vary with taxpayer filing status (single, married filing jointly, surviving spouse, married filing separately, and head of household); Form 8615 or Form 8814 for children's investment income; Schedule D worksheet for net long-term capital gains; or some combination of the above [B4]. For 1999, the tax rates for each filing status were 10, 15, 20, 25, 28, 31, 36, and 39.6 percent. The tax rates of 10, 20, and 25 percent were only for net long-term capital gains (in excess of net short-term capital losses). (See Appendix C for further details on these rates)

To calculate their Federal income tax liability for 1999, taxpayers used either the tax table or the tax rate schedules. Taxpayers with taxable income less than $100,000 were required to use the tax table, while those with taxable income of $100,000 or more were required to use the tax rate schedules. The tax table was based on income tax "brackets" up to $50 wide [B5]. The tax within each bracket was based on the tax calculated at the midpoint of the bracket and then rounded to the nearest whole dollar. As a result, the tax table and the tax rate schedules could produce different amounts of tax for the same amount of taxable income. Use of the tax table could have produced either a slightly higher or lower amount of tax than that produced by the tax rate schedules. For taxpayers using the tax table with taxable income that was subject to the 36-percent marginal rate, the maximum difference in tax between the tax rate schedules and the tax table was $9.00 [B6]. However, the actual difference in tax was smaller for most taxpayers.

Notes to Appendix B

[B1] Taxpayers fall into one of five filing statuses: single; married filing jointly; married filing separately; head of household; or surviving spouse. Being age 65 or older or being legally blind affects the amount of the standard deduction and, hence, the filing requirements. Those taxpayers who are (or could be) dependents of other taxpayers have different filing requirements. For more information on the general filing requirements for 1999, see *Statistics of Income--1999, Individual Income Tax Returns* or Publication 17, *Your Federal Income Tax*.

[B2] As defined under section 61 of the Internal Revenue Code, gross income includes amounts from wages and salaries, interest and dividends, alimony, bartering income, canceled debt income, gambling winnings, rents and royalties, and gains from property sales or exchanges, as well as gross profits from sole proprietorships and farming, income from partnerships and S corporations, and distributions from estates and trusts. This definition of gross income is slightly different from the Form 1040, *U.S. Individual Income Tax Return*, concept of "total income," which is a component of the adjusted gross income (AGI) calculation on Form 1040. Total income includes net amounts rather than gross amounts (income prior to deductions) from such items as business income and rents and royalties.

[B3] As defined under Internal Revenue Code section 62, deductible expenses are those incurred in the course of a trade or business or in connection with rents and royalties; losses from property sales or exchanges; and certain statutory adjustments, such as deductible contributions to an IRA or Keogh plan, moving expenses, or the health insurance deduction for certain self-employed taxpayers.

[B4] Income tax before credits includes tax on lump-sum distributions from qualified retirement plans.

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[B5] For taxable income between $0 and $5 and between $5 and $25, the tax brackets were $5 and $10 wide, respectively. For taxable income between $25 and $3,000, the brackets were $25 wide. All brackets for taxable income above $3,000 were $50 wide.

[B6] For example, assume a taxpayer filing as "married filing separately" reported taxable income of $85,000. Using the tax table, the tax would be $22,286, but using the tax rate schedules, the tax would be $22,277, a difference of $9.

Appendix C: Changes in Law for 1999

Capital Gain Distributions.--For Tax Year 1999, taxpayers who had capital gains only from capital gain distributions did not have to report these gains on Schedule D. Instead, the capital gain distributions could have been reported directly on Form 1040.

Child Tax Credits.--Modifications were made to the child tax credit for 1999. In 1999, taxpayers were allowed a maximum tax credit of $500 for each of their qualifying children under the age of 17, whereas for 1998, the maximum credit was $400 per child.

Earned Income Credit.--The maximum amount of the earned income credit increased, as did the amounts of earned income and investment income an individual could have and still claim the credit. The maximum credit for taxpayers with no qualifying children increased 1.8 percent to $347. For these taxpayers, earned income and AGI had to be less than $10,200 (up from $10,030 for 1998). For taxpayers with one qualifying child, the maximum credit increased 1.8 percent to $2,312, and, for taxpayers with two or more qualifying children, the maximum credit increased 1.6 percent to $3,816. To be eligible for the credit, a taxpayer's earned income and AGI had to be less than $26,928 for one qualifying child, or less than $30,580 for two or more qualifying children. The maximum amount of investment income (interest, dividends, and capital gain income) a taxpayer could have and still claim the credit increased to $2,350 from $2,300.

Exemption Amount.--Indexing for inflation allowed most taxpayers to claim a $2,750 deduction for each exemption to which he or she was entitled for 1999, a $50 increase over the amount allowed for 1998. The AGI threshold for the reduction of exemption amounts was also indexed for inflation, from $124,500 to $126,600 for single filers; $186,800 to $189,950 for married persons filing jointly and surviving spouses; $155,650 to $158,300 for heads of household; and $93,400 to $94,975 for married persons filing separately.

Itemized Deductions.--If a taxpayer's AGI was greater than $126,600 ($63,300 if married filing separately), some types of his or her itemized deductions were limited; this threshold increased from $124,500 ($62,250) for 1998 as a result of indexing for inflation. The limitation did not apply to deductions for medical and dental expenses, investment interest expenses, casualty or theft losses, and gambling losses; all other deductions were subject to the limitation. To arrive at allowable itemized deductions, total itemized deductions were reduced by the smaller of: (1) 80 percent of the "non-limited" deductions or (2) 3 percent of AGI in excess of the limitation threshold.

Self-Employed Health Insurance Deduction.--Included in the Health Insurance and Portability and Accountability Act of 1996 was a provision to increase the maximum percentage of self-employed health insurance premiums that a taxpayer could deduct as an adjustment, from 45 percent in 1998 to 60 percent for 1999.

Self-Employment Tax.--The ceiling on taxable "self-employment income" was increased for 1998. The maximum amount of net earnings applied to the Social Security portion of self-employment tax increased to $72,600 from $68,400 for 1998.

Standard Deduction.--The basic standard deduction and additional standard deduction for age or blindness increased for 1999 as a result of inflation indexing. For single filers, the basic standard deduction rose from $4,250 to $4,300; for married persons filing jointly or surviving spouses, from $7,100 to $7,200; for married persons filing separately, from $3,550 to $3,600; and for heads of household, from $6,250 to $6,350. The amount of the standard deduction for dependents was the larger of $700 or the dependent's earned income plus $250 (but not more than the regular standard deduction amount).

Student Loan Interest Deduction.--The limit on the deduction for interest paid on qualified higher educational loans rose to $1,500 for 1999, up from $1,000 for 1998. These loans must have gone toward qualified expenses of either the taxpayer, taxpayer's spouse, or any dependent of the taxpayer at the time the debt was incurred. The phaseout for a taxpayer

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claiming the educational interest deduction was over a modified AGI range of $40,000- $50,000 ($60,000 - $75,000, joint returns) These income ranges will be indexed for inflation in 2003.

Tax Brackets.--To counterbalance the effects of inflation, the boundaries for the tax brackets were widened. The 15-percent bracket applied to taxable income equal to or below $25,750 ($25,350 for 1998) for single filers; $43,050 ($42,350 for 1998) for joint filers or surviving spouses; $21,525 ($21,175 for 1998) for married persons filing separately; and $34,550 ($33,950 for 1998) for heads of household. The 28-percent tax bracket applied to taxable income in excess of the 15-percent bracket ceiling and equal to or below $62,450 ($61,400 for 1998) for single filers; $104,050 ($102,300 for 1998) for joint filers or surviving spouses; $52,025 ($51,150 for 1998) for married persons filing separately; and $89,150 ($87,700 for 1998) for heads of household. The 31-percent tax bracket applied to taxable income in excess of the 28-percent bracket ceiling and equal to or below $130,250 ($128,100 for 1998) for single filers; $158,550 ($155,950 for 1998) for joint filers or surviving spouses; $79,275 ($77,975 for 1998) for married persons filing separately; and $144,400 ($142,000 for 1998) for heads of households. The 36-percent tax bracket applied to taxable income in excess of the 31-percent bracket ceiling and equal to or below $283,150 ($278,450 for 1998) for single filers, joint filers or surviving spouses, and heads of households and $141,575 ($139,225 for 1998) for married persons filing separately. The 39.6-percent tax rate applied to taxable income in excess of the upper boundary for the 36-percent tax bracket.

Appendix D: Income and Tax Concepts

As discussed in Appendix B, gross income is all income received that is not exempt from tax. Total income is the net amount of gross income after certain expenses (i.e., business or rent and royalty expenses) have been deducted. Adjusted gross income (AGI) is the result of total income less statutory adjustments to income (i.e., deductible contributions to an IRA or Keogh plan).

1979 Income Concept

To analyze changes in income and taxes over a period of years, a consistent definition of income should be used. Because the components of AGI may vary from year to year as the law changes, the "1979 Income Concept" was developed to provide a more uniform measure of income across tax years. By including the same income and deduction items in each year's income calculation and using only items available on Federal individual income tax returns, the definition of the 1979 Income Concept is consistent throughout the base years and can be used for future years to compare income by including only income components common to all years. Tax Years 1979 through 1986 were used as base years in identifying the income and deduction items included in this concept. The 1979 Income Concept applied to 1999 includes many income and deduction items that are also components of AGI (Figure I). However, unlike

Figure I

Components of the 1979 Income Concept, Tax Year 1999

Income or Loss:
Salaries and wages [1]
Interest [1]
Dividends [1]
Taxable refunds [1]
Alimony received [1]
Capital gain distributions not reported on Schedule D [1]
Capital gains reported on Schedule D minus allowable losses [1]
Other gains and losses (Form 4797) [1]
Business net income or loss [1]
Farm net income or loss [1]
Rent net income or loss [1]
Royalty net income or loss [1]
Partnership net income or loss [1]
S corporation net income or loss [1]
Farm rental net income or loss [1]
Estate or trust net income or loss [1]
Unemployment compensation [1]
Depreciation in excess of straight-line depreciation [2]
Total pension income [3,4]
Other net income or loss [5]
Net operating loss [1]
Deductions:
Disallowed passive losses (Form 8582) [6]
Moving expenses [1]
Alimony paid [1]
Unreimbursed business expenses [6]

[1] Included in adjusted gross income (less deficit) (AGI) for Tax Year 1999.
[2] Adjustment to add back excess depreciation (accelerated over straight-line depreciation) deducted in the course of a trade or business and included in net income (loss) amounts shown above.
[3] Includes taxable and tax-exempt pension and retirement distributions, including IRA distributions.
[4] Not fully included in AGI for Tax Year 1999.
[5] Includes an adjustment to add back amounts reported for the "foreign-earned income exclusion."
[6] Not included in AGI for Tax Year 1999.

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AGI, the 1979 Income Concept also includes nontaxable (i.e., tax-exempt) amounts of income reported on individual income tax returns and disallowed passive loss deductions. In addition, only straight-line deductions for depreciation are included in the 1979 Income Concept [D1].

Modified Taxable Income

This concept is relevant only for "prior-year returns." For current-year returns, modified taxable income is identical to taxable income.

This is the term used for the statistics to describe "income subject to tax," the actual base on which tax is computed. Each year, a small number of returns for prior tax years are filed during the same calendar year in which the tax returns for the current tax year are being selected for the *Statistics of Income* sample. Some of these returns are selected for the sample and act as proxies for returns for the current tax year that will be filed during a later calendar year. The tax on these returns is based on a previous year's tax law (which may reflect different tax rates and income concepts). For the statistics in this article, the taxable income reported on these prior-year returns is modified to equal an amount necessary to generate the tax actually shown on these returns using current-year rates.

Marginal Tax Rates

Under the progressive U.S. income tax rate structure, different portions of taxable income are taxed at different rates. Figure J illustrates how income tax is determined for a single taxpayer with AGI of $310,000 using the standard deduction. As shown in the example, five different tax rates are applied to the taxable income to arrive at total tax. The first $25,750 of taxable income were taxed at the 15-percent rate; the next $36,700 were taxed at the 28-percent rate; the next $67,800 were taxed at the 31-percent rate; the next $152,900 were taxed at the 36-percent rate; and the remaining $22,550 were taxed at the 39.6-percent rate. For purposes of this article, the tax rate applied to the last dollar of income (given certain assumptions about which source of income provided the last dollar of income subject to tax) is the marginal tax rate for that return. The example shown has a marginal tax rate of 39.6 percent.

Since the individual income tax structure includes various types of income, deductions, exclusions, credits, and taxes which are not subject to the same treatment under tax laws, determining marginal tax rate can be difficult. For instance, investment income of a dependent under age 14 in excess of a specific amount is treated differently than salaries and wages of the same dependent. The investment income in excess of $1,400 was taxed at the marginal tax rate of the parents, whereas the salaries and wages were taxed at the dependent's own rate.

Calculating marginal tax rates for a specific individual income tax return generally depends on the types and amounts of income reported and the assumptions made about the order in which the income is taxed, in particular, which type of income is assumed to be received "last." This determination is complicated by the presence of such items as the alternative minimum tax and various tax credits.

For this article, it is assumed that the income taxed at the marginal rate was the "last" income received. The alternative minimum tax and income tax credits, such as the earned income credit, are excluded in determining the marginal tax rates. The marginal tax rate is defined as follows:

(1) If a return showed taxable income, the marginal tax rate of the return was the highest rate at which any amount of taxable income reported on the return was taxed.

(2) If the return had no taxable income except for net long-term capital gains and that amount was

Figure J

Income Tax Calculation for a Single Taxpayer With One Exemption Who Used the Standard Deduction, Tax Year 1999

[Money amounts are in whole dollars]

Item	1999
Adjusted gross income	310,000
Less: Exemption amount	0[1]
Standard deduction amount	4,300
Equals: Taxable income	305,700
Tax based on tax rates for single taxpayers:	
First $25,750 taxed at 15 percent	3,863
Next $36,700 taxed at 28 percent	10,276
Next $67,800 taxed at 31 percent	21,018
Next $152,900 taxed at 36 percent	55,044
Next $22,550 taxed at 39.6 percent	8,930
Total tax from tax rate schedule	99,131

[1] The exemption amount was phased out completely because AGI exceeded $249,100.

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less than or equal to the 15-percent tax bracket limit, the return was defined as having a "10-percent rate" marginal tax rate. If the return had taxable income (from other than net long-term capital gains) to which only the 15-percent tax rate applied, as well as net long-term capital gains to which the 20-percent or 25-percent rate on the net gain applied, the return was defined as having a marginal tax rate equal to the maximum rate at which the net gains were taxed. If the return had taxable income (from other than net long-term capital gains) to which the 28-percent tax rate applied as the highest rate, as well as net long-term capital gains to which the maximum 28-percent rate on net gain applied, the return was defined as having a "28-percent (capital gains)" marginal tax rate. However, if the return had taxable income (from other than net long-term capital gains) above the maximum amount to which the 28-percent applied, as well as net long-term capital gains to which the 28-percent rate on the net gain applied, the return was classified as having the highest rate at which any amount of taxable income reported on the return was taxed.

(3) For returns of dependents with a Form 8615 attached when the use of this form resulted in the taxation of some of the dependent's income as if it were that of the parents, the return was classified as having a "Form 8615" marginal tax rate (the returns in the Form 8615 classification are not distributed by tax rate).

(4) For returns of parents choosing to report interest and dividend income of their dependents under age 14 on their own (i.e., the parents') return using Form 8814, when the dependent's income generated the only tax liability on the parent's return, the return was classified with a "Form 8814" marginal tax rate.

The classification of returns into marginal tax rate categories for Statistics of Income purposes was essentially a function of filing status, size of taxable income, presence of net long-term capital gains (in excess of net short-term capital losses), and presence of Form 8615 or Form 8814. Returns were classified into one of the following eleven mutually exclusive marginal tax rate categories: (1) 10-percent rate; (2) Form 8814 (15-percent rate with no tax liability other than that generated by the dependent's income); (3) 15-percent rate; (4) 20-percent rate; (5) 25-percent rate; (6) 28-percent rate with net long-term capital gains [D2]; (7) 28-percent rate; (8) 31-percent rate; (9) 36-percent rate; (10) 39.6-percent rate; and (11) Form 8615 (with income taxed at any rate) [D3].

Table 1 presents statistics by marginal tax rate classification and filing status for returns with modified taxable income. For each marginal rate classification, modified taxable income and "income tax generated" were computed "at all rates" and "at marginal rate." The "at all rates" computations (columns 3 and 5) show the total amount of modified taxable income or tax generated, tabulated by the marginal tax rate specified; each tax rate classification is mutually exclusive. The "at marginal rate" computations (columns 4 and 6) report the specific amounts of modified taxable income taxed and the tax generated at the marginal tax rate shown, for all returns in each of the marginal rate classifications. For example, consider returns in the "joint returns and returns of surviving spouses" filing status that were included in the "39.6-percent" marginal tax rate classification. The total modified taxable income for the 723,143 returns in this classification "at all rates" was $678.4 billion (column 3), and the total tax generated was $224.1 billion (column 5). Approximately $344.8 billion (column 4) of the modified taxable income for 1999 were subject to tax at the marginal tax rate of 39.6 percent. This modified taxable income generated $136.5 billion (column 6) in tax at the 39.6-percent tax rate with the remainder generated at the lower seven tax rates. The alternative minimum tax was not included in the statistics by marginal tax rate.

Table 2 provides statistics on the tax generated, in total and at each marginal tax rate bracket, for returns with modified taxable income. Returns in this table are classified by size of AGI rather than by the marginal tax rate classifications used in Table 1. The tax generated at each marginal tax rate was computed based on the modified taxable income for each individual return. For example, the approximately 1.87 million returns included in the "$200,000 under $500,000" income-size classification showed total modified taxable income of $463.5 billion and generated total tax of $129.5 billion. Of the $463.6 billion

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of modified taxable income, $1.2 billion were taxed at the 10-percent rate, $75.1 billion were taxed at 15 percent, $57.1 billion were taxed at 20 percent, $2.6 billion were taxed at 25 percent, $0.1 billion were taxed at the 28-percent rate with net long-term capital gains, $102.7 billion were taxed at the 28-percent rate (ordinary income), $90.9 billion were taxed at the 31-percent rate, $108.1 billion were taxed at the 36-percent rate, and $25.6 billion were taxed at the 39.6-percent rate, with the remainder consisting of income related to Forms 8814 and 8615. Approximately $0.1 billion of the total tax generated were from the 10-percent rate, $11.3 billion of the total tax generated were from the 15-percent rate, $11.4 billion were from the 20-percent rate, $0.6 billion were from the 25-percent rate, $0.03 billion were from the 28-percent rate with net long-term capital gains, $28.8 billion were from the 28-percent rate (ordinary income), $28.2 billion were from the 31-percent rate, $38.9 billion were from the 36-percent rate, and $10.1 billion were generated at the 39.6-percent rate, with the remainder from tax related to Forms 8814 and 8615.

Table 3 presents statistics on the income and tax generated at each marginal tax rate (as in Table 2, columns 5 through 37) by filing status, instead of size of AGI, for returns with modified taxable income. Over 0.7 million of the more than 44.6 million returns with modified taxable income filed jointly had some income taxed at the 39.6-percent tax rate. For these returns, the taxable income subject to this rate was $344.8 billion, and the tax generated was $136.5 billion.

Notes to Appendix D

[D1] For more details on the income computation under the 1979 Income Concept for 1999, see *Statistics of Income--1999, Individual Income Tax Returns*.

[D2] The "28-percent (capital gains)" marginal tax rate category consists of returns that have a top tax rate of 28 percent, but have net long-term capital gains (in excess of net short-term capital losses), which would have been taxed at a higher rate if they had been some other form of income.

[D3] For some taxpayers, the statutory marginal tax rate may differ from the actual marginal tax rate. For example, extra income received by certain taxpayers may result in the phaseout of their personal exemptions, as well as some of their itemized deductions. Therefore, an extra dollar of income could add more than $1 of taxable income. While this taxpayer could face a statutory marginal tax rate of 31 percent, the actual marginal rate faced by the taxpayer would be somewhat higher.

Appendix E: Computation of Alternative Minimum Taxable Income (AMTI)

AMTI was computed by adding certain "tax preferences" (i.e., deduction or exclusion amounts identified as potential sources of tax savings disallowed for AMT purposes) and "adjustments" (i.e., regular tax deduction amounts recomputed or excluded for AMT purposes) to taxable income before any deductions for personal exemptions (Figures K-1 and K-2). Although itemized deductions for some taxpayers were limited for regular tax purposes, the full amounts of such itemized deductions were included as adjustments. To compensate for this, the overall limitation on itemized deductions was subtracted from taxable income for AMT purposes. The "net operating loss deduction" was recomputed to allow for the exclusion of the "tax preference items" and "adjustments" used to reduce regular tax liability. The recomputed net operating loss deduction, termed the "alternative net operating loss deduction," was

Figure K-1

Calculation of Alternative Minimum Taxable Income (AMTI), Tax Year 1999

	Taxable income before deduction for personal exemptions
PLUS:	Adjustments and preferences
PLUS:	Net operating loss deduction
MINUS:	Overall itemized deductions limitation
MINUS:	Alternative tax net operating loss deduction[1]
EQUALS:	Alternative minimum taxable income

[1] Limited to 90 percent of AMTI, except when depletion is present on Form 6251. In this case, AMTI is recalculated, and the alternative tax net operating loss deduction is limited to 90 percent of the recomputed amount.

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Individual Income Tax Rates and Shares, 1999

Figure K-2

Alternative Minimum Tax Adjustments and Preferences, Tax Year 1999

- Standard deduction
- Medical and dental expenses from Schedule A (the lesser of deductible medical and dental expenses or 2.5 percent of AGI)
- Deductions for State and local income, real estate, personal property, and foreign taxes
- Deductions for interest on certain home mortgages not used to buy, build, or improve the taxpayer's main home or second home
- Miscellaneous itemized deductions subject to the 2-percent-of-AGI limitation
- Refunds of State and local income, real estate, personal property, and foreign taxes previously deducted (negative)
- Investment interest expense (the result could be negative)
- Excess of depreciation on property placed in service after 1986 over less liberal methods allowed for alternative minimum tax (AMT) purposes (straight-line or 150-percent declining balance method, depending on the type of property; the result could be negative)
- Adjustment of gain or loss on property, the basis of which was affected by accelerated depreciation or rapid amortization and which was reduced for AMT purposes (the result could be negative)
- Incentive stock options which were exercised after 1987 (the amount by which the value of the option when exercised exceeded the price paid by the taxpayer; the result could be negative)
- Passive activity gains and losses allowed for regular tax purposes for activities acquired before October 23, 1986, taking into account AMT adjustments and preference items and any AMT prior-year unallowed losses (the result could be negative)
- Difference between income distributions to beneficiaries of estates and trusts for regular tax purposes and the amounts refigured for AMT purposes (the result could be negative)
- Tax-exempt interest from private activity bonds issued after August 7, 1986
- Excess of circulation expenditures paid or incurred after 1986 over allowable amortization if the expenditures were capitalized (the result could be negative)
- Excess of percentage depletion deduction for sections 611 and 613 property over the adjusted basis (the result could be negative)
- Excess of accelerated depreciation on property placed in service before 1987 over straight-line depreciation as refigured for AMT purposes
- Adjustment from disallowing the installment sales method of accounting for sales of inventory and stock in trade after March 1, 1986, with certain exceptions (the result could be negative)
- Amount by which excess intangible drilling costs deducted currently over allowable amortization (if these costs were capitalized) was more than 65 percent of the taxpayer's "net income" from oil, gas, and geothermal wells, with exceptions for independent oil producers and royalty owners
- Amount of net section 1231 gain or loss other than due to casualty or theft from large partnerships
- Deferred income from long-term contracts entered into after February 28, 1986, with certain exceptions and limitations (the result could be negative)
- Adjustment for refigured loss from activities in which allowable losses from partnerships or S corporations were limited by "at-risk" and other rules, taking into account AMT adjustments and preference items (the result could be negative)
- Excess of mining exploration and development costs paid or incurred after 1986 over allowable amortization if the expenditures were capitalized (the result could be negative)
- Adjustment for taxable distributions received from a cooperative (total AMT patronage dividend and per-unit retain allocation adjustment)
- Excess of rapid amortization of pollution control facilities placed in service after 1986 over otherwise allowable depreciation (the result could be negative)
- Excess of research and experimental expenditures paid or incurred after 1986 over allowable amortization if the expenditures were capitalized (the result could be negative)
- Excluded gain, under the section 1202 gain on qualified small business stock held more than 5 years, multiplied by 42 percent
- Adjustment for refigured tax shelter farm losses, taking into account AMT adjustments and preference items (the result could be negative)
- Related adjustments, refigured for AMT purposes, including section 179 expense deduction, expenses for business or rental use of the home, conservation expenses, taxable IRA distributions, self-employed health insurance deduction, Keogh retirement plan or self-employed SEP deduction, and IRA deductions (the result could be negative)

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limited to 90 percent of AMTI (with certain minor exceptions for 1999).

AMTI was reduced by an exemption amount dependent on the filing status of the individual and subject to phaseout at higher AMTI levels. For 1999, the AMTI exemption for single filers (and heads of households) was $33,750; for joint filers and surviving spouses, $45,000; and for married persons filing separately, $22,500. The exemption was reduced (but not below zero) by 25 percent of the amount by which the AMTI exceeded threshold levels of $112,500 for single filers (and heads of households), $150,000 for joint filers, and $75,000 for married persons filing separately. The exemptions was phased out completely for individuals whose filing status was single (or head of household), married filing jointly, and married filing separately, at $247,500, $330,000, and $165,000, of AMTI, respectively.

After reduction by the exemption, the first $175,000 ($87,500 if married filing separately) of the remaining AMTI was subject to tax at a 26-percent rate, with any excess taxed at a 28-percent rate. However, capital gains (recalculated for AMT purposes) that were taxed at lower rates (10, 20, and 25 percent) were taxed at these same rates for AMT. The rest of AMTI was taxed at the rates mentioned above (26 or 28 percent). The resulting tax was reduced by the "alternative minimum tax foreign tax credit," which produced a "tentative minimum tax." Tentative minimum tax was further reduced by the individual's regular tax before credits (excluding tax on lump-sum distributions from qualified retirement plans) less the foreign tax credit (for regular tax purposes) to yield the alternative minimum tax.

Dependents under the age of 14 with investment income over a certain amount who filed their own returns were subject to special rules for AMT purposes. These rules required that the dependents pay the same amount of AMT as their parents would have paid if the parents included the dependents' incomes on their own tax returns. (Dependents filing their own returns were limited to an AMT exemption of $5,100 plus their "earned incomes." The dependent's AMT could be reduced if the parents had regular tax greater than the child's own tentative minimum tax, or if any other dependent under age 14 of the same parents had regular tax greater than this dependent's own tentative minimum tax.)

Appendix F: Data Sources and Limitations

These statistics are based on a sample of individual income tax returns (Forms 1040, 1040A, 1040EZ, and 1040PC, including electronically-filed returns) filed during Calendar Year 1999. Returns in the sample were stratified based on: (1) the larger of positive income or negative income; (2) the size of business and farm receipts; (3) the presence or absence of specific forms or schedules; and (4) the usefulness of returns for tax policy modeling purposes [F1]. Returns were then selected at rates ranging from 0.05 percent to 100 percent. The 1999 data are based on a sample of 176,966 returns and an estimated final population of 127,321,626 returns. The corresponding sample and population for the 1998 data were 164,340 and 125,037,636 returns, respectively.

Since the data presented here are estimates based on a sample of returns filed, they are subject to sampling error. To properly use the statistical data provided, the magnitude of the potential sampling error must be known; coefficients of variation (CV's) are used to measure that magnitude. Figure L shows estimated CV's for the numbers of returns and money amounts for selected income items. The reliability of estimates based on samples, and the use of coefficients of variation for evaluating the precision of estimates based on samples, are discussed in the appendix to this issue of the *Bulletin*.

Notes to Appendix F

[F1] Returns in the sample were stratified based on the presence or absence of one or more of the following forms or schedules: Form 2555, *Foreign Earned Income*; Form 1116, *Foreign Tax Credit (Individual, Fiduciary, or Nonresident Alien Individual)*; Schedule C, *Profit or Loss from Business (Sole Proprietorship)*; and Schedule F, *Profit or Loss from Farming*.

SOURCE: IRS, Statistics of Income Bulletin, Winter 2001-2002, Publication 1136 (Rev. 3-2002).

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Individual Income Tax Rates and Shares, 1999

Figure L

Coefficients of Variation for Selected Items, by Size of Adjusted Gross Income, Tax Year 1999

[Coefficients of variation are percentages]

Size of adjusted gross income	Modified taxable income		Tax generated	Income tax after credits	Total income tax
	Number of returns	Amount	Amount	Amount	Amount
	(1)	(2)	(3)	(4)	(5)
Total	**0.17**	**0.16**	**0.19**	**0.18**	**0.17**
Under $2,000 [1]	6.49	8.01	8.00	5.68	3.93
$2,000 under $4,000	5.72	7.64	7.63	5.49	4.86
$4,000 under $6,000	3.37	4.33	4.33	4.49	3.57
$6,000 under $8,000	2.90	3.66	3.66	3.72	3.06
$8,000 under $10,000	2.40	2.84	2.84	2.90	2.65
$10,000 under $12,000	2.47	2.70	2.70	2.79	2.61
$12,000 under $14,000	2.20	2.50	2.50	2.64	2.52
$14,000 under $16,000	2.04	2.38	2.38	2.54	2.42
$16,000 under $18,000	2.02	2.30	2.30	2.49	2.41
$18,000 under $20,000	2.05	2.31	2.31	2.49	2.42
$20,000 under $25,000	1.28	1.42	1.42	1.52	1.48
$25,000 under $30,000	1.40	1.50	1.50	1.59	1.56
$30,000 under $40,000	1.05	1.11	1.12	1.17	1.15
$40,000 under $50,000	1.12	1.17	1.21	1.25	1.24
$50,000 under $75,000	0.82	0.86	0.90	0.93	0.91
$75,000 under $100,000	1.11	1.15	1.20	1.20	1.18
$100,000 under $200,000	1.08	1.02	1.01	0.98	0.96
$200,000 under $500,000	1.09	1.00	0.99	0.93	0.92
$500,000 under $1,000,000	1.03	1.02	1.03	0.94	0.93
$1,000,000 or more	0.52	0.31	0.30	0.23	0.22

[1] Includes returns with adjusted gross deficit.

Individual Income Tax Rates and Shares, 1999

Table 1.--Returns with Modified Taxable Income: Tax Classified by Marginal Tax Rate, Tax Year 1999

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Highest marginal rate at which tax was computed	Number of returns	Adjusted gross income (less deficit)	Modified taxable income		Tax generated		Income tax after credits		
			Taxed at all rates	Taxed at marginal rate	At all rates	At marginal rate	Total	As a percentage of-- Adjusted gross income (less deficit)	As a percentage of-- Modified taxable income
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All returns									
Total	**102,831,402**	**5,747,279,314**	**4,136,344,070**	**1,930,732,034**	**906,396,888**	**460,855,417**	**870,912,952**	**15.2**	**21.1**
10 percent	1,120,497	14,312,428	4,374,762	4,374,110	437,566	437,411	372,950	2.6	8.5
15 percent (Form 8814) [1]	12,571	10,669	13,778	13,778	2,066	2,066	13	0.1	0.1
15 percent	68,117,909	1,855,062,752	996,492,153	978,609,551	148,584,761	146,791,433	127,157,803	6.9	12.8
20 percent	1,240,705	170,817,162	132,403,115	87,969,487	23,545,821	17,593,897	23,135,154	13.5	17.5
25 percent	56,361	9,893,890	8,374,445	1,818,957	1,660,773	454,739	1,649,721	16.7	19.7
28 percent (capital gains) [2]	72,526	7,014,510	5,524,495	475,892	1,120,135	133,250	1,114,938	15.9	20.2
28 percent	25,912,056	1,917,425,519	1,442,198,308	303,460,351	276,780,570	84,968,898	268,931,581	14.0	18.6
31 percent	3,451,039	499,666,715	409,159,931	71,168,473	97,612,203	22,062,227	97,119,022	19.4	23.7
36 percent	1,408,684	374,065,701	322,090,723	64,954,368	87,105,776	23,383,572	86,279,042	23.1	26.8
39.6 percent	864,129	894,589,334	811,694,117	414,494,152	268,552,002	164,139,684	264,227,693	29.5	32.6
Form 8615 [3]	574,924	4,420,634	4,018,242	3,392,914	995,214	888,240	925,035	20.9	23.0
Joint returns and returns of surviving spouses									
Total	**44,630,790**	**3,885,330,257**	**2,854,657,499**	**1,235,487,530**	**649,882,807**	**316,992,875**	**625,130,103**	**16.1**	**21.9**
10 percent	252,848	7,279,369	1,992,865	1,992,224	199,333	199,222	158,832	2.2	8.0
15 percent (Form 8814) [1]	6,851	-33,759	6,246	6,246	937	937	13	(X)	0.2
15 percent	24,884,637	1,007,913,897	540,641,342	530,667,146	80,600,621	79,600,072	67,504,626	6.7	12.5
20 percent	709,660	118,036,803	91,545,756	60,998,759	16,333,515	12,199,752	15,992,169	13.5	17.5
25 percent	36,993	7,375,980	6,219,320	1,280,705	1,228,586	320,176	1,218,327	16.5	19.6
28 percent (capital gains) [2]	42,313	4,833,363	3,709,627	317,274	745,759	88,837	741,614	15.3	20.0
28 percent	14,892,353	1,349,555,536	998,150,629	202,558,961	191,975,989	56,716,509	185,051,922	13.7	18.5
31 percent	1,982,312	340,318,388	274,806,036	42,111,787	65,050,096	13,054,654	64,695,101	19.0	23.5
36 percent	1,099,679	302,400,819	259,223,050	50,745,494	69,613,957	18,268,378	68,933,508	22.8	26.6
39.6 percent	723,143	747,649,861	678,362,628	344,808,934	224,134,015	136,544,338	220,833,991	29.5	32.6
Form 8615 [3]	--	--	--	--	--	--	--	(X)	(X)
Returns of married persons filing separately									
Total	**2,108,319**	**101,325,309**	**75,947,118**	**38,544,159**	**17,861,423**	**10,322,148**	**17,276,753**	**17.1**	**22.7**
10 percent	*5,096	*114,502	*15,959	*15,959	*1,596	*1,596	*1,557	*1.4	*9.8
15 percent (Form 8814) [1]	*899	*-2,962	*2,129	*2,129	*319	*319	--	(X)	(X)
15 percent	1,231,972	25,483,263	14,289,351	14,178,839	2,137,966	2,126,826	1,939,855	7.6	13.6
20 percent	28,008	5,002,285	3,952,623	3,349,963	748,970	669,993	735,949	14.7	18.6
25 percent	*21	*58,430	*51,137	*23,138	*11,361	*5,785	*11,270	*19.3	*22
28 percent (capital gains) [2]	*3	*66,402	*50,667	*11,438	*12,346	*3,203	*12,125	*18.3	*23.9
28 percent	683,933	30,714,237	22,774,385	5,897,018	4,383,794	1,651,165	4,278,948	13.9	18.8
31 percent	89,942	7,313,227	5,924,845	891,457	1,408,437	276,352	1,402,452	19.2	23.7
36 percent	35,836	4,851,579	4,161,902	724,462	1,104,756	260,806	1,073,139	22.1	25.8
39.6 percent	32,608	27,724,345	24,724,120	13,449,755	8,051,879	5,326,103	7,821,458	28.2	31.6
Form 8615 [3]	--	--	--	--	--	--	--	(X)	(X)

Footnotes at end of table.

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Table 1.--Returns with Modified Taxable Income: Tax Classified by Marginal Tax Rate, Tax Year 1999 --Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Highest marginal rate at which tax was computed	Number of returns	Adjusted gross income (less deficit)	Modified taxable income		Tax generated		Income tax after credits		
			Taxed at all rates	Taxed at marginal rate	At all rates	At marginal rate	Total	As a percentage of-- Adjusted gross income (less deficit)	As a percentage of-- Modified taxable income
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Returns of heads of households									
Total	**11,973,216**	**388,840,679**	**214,439,567**	**146,403,476**	**38,459,826**	**25,928,314**	**31,300,427**	**8.0**	**14.6**
10 percent	33,671	721,170	226,771	226,771	22,680	22,677	17,424	2.4	7.7
15 percent (Form 8814) [1]	*3,866	*38,579	*4,734	*4,734	*710	*710	--	(X)	(X)
15 percent	10,580,163	269,982,878	122,566,988	121,668,297	18,340,967	18,250,245	11,774,967	4.4	9.6
20 percent	38,004	4,372,207	3,393,850	2,081,549	585,799	416,310	573,546	13.1	16.9
25 percent	2,196	388,373	343,074	98,579	69,766	24,645	69,667	17.9	20.3
28 percent (capital gains) [2]	*944	*79,867	*67,960	*333	*12,454	*93	*12,453	*15.6	*18.3
28 percent	1,196,825	79,438,127	58,504,820	12,407,794	10,872,703	3,474,182	10,450,009	13.2	17.9
31 percent	71,925	10,650,481	8,641,238	1,550,821	2,089,300	480,755	2,080,849	19.5	24.1
36 percent	30,253	7,762,563	6,784,151	1,491,217	1,860,313	536,838	1,828,033	23.5	26.9
39.6 percent	15,368	15,406,433	13,905,982	6,873,381	4,605,133	2,721,859	4,493,478	29.2	32.3
Form 8615 [3]	--	--	--	--	--	--	--	(X)	(X)
Returns of single persons									
Total	**44,119,077**	**1,371,783,070**	**991,299,886**	**510,296,869**	**200,192,832**	**107,612,082**	**197,205,668**	**14.4**	**19.9**
10 percent	828,880	6,197,387	2,139,167	2,139,156	213,958	213,916	195,136	3.1	9.1
15 percent (Form 8814) [1]	*956	*8,810	*669	*669	*100	*100	--	(X)	(X)
15 percent	31,421,136	551,682,714	318,994,472	312,095,268	47,505,208	46,814,290	45,938,356	8.3	14.4
20 percent	465,034	43,405,867	33,510,886	21,539,217	5,877,537	4,307,843	5,833,491	13.4	17.4
25 percent	17,150	2,071,108	1,760,914	416,535	351,060	104,134	350,457	16.9	19.9
28 percent (capital gains) [2]	29,267	2,034,877	1,696,242	146,847	349,576	41,117	348,745	17.1	20.6
28 percent	9,138,945	457,717,618	362,768,474	82,596,579	69,548,084	23,127,042	69,150,701	15.1	19.1
31 percent	1,306,860	141,384,618	119,787,812	26,614,408	29,064,370	8,250,466	28,940,620	20.5	24.2
36 percent	242,915	59,050,740	51,921,621	11,993,195	14,526,751	4,317,550	14,444,362	24.5	27.8
39.6 percent	93,010	103,808,695	94,701,387	49,362,081	31,760,976	19,547,384	31,078,766	29.9	32.8
Form 8615 [3]	574,924	4,420,634	4,018,242	3,392,914	995,214	888,240	925,035	20.9	23.0

* Estimate should be used with caution due to the small number of sample returns on which it is based.

[1] Form 8814 was filed for a dependent child under age 14 for whom the parents made the election to report the child's investment income (if it was from interest or dividends totaling between $700 and $7,000) on the parents' income tax return. This rate classification is comprised of those returns with a tax liability only from the dependents' income.

[2] Returns with net long-term capital gains in excess of short-term capital losses taxed at the 28-percent rate.

[3] Form 8615 was filed for a child under age 14 to report the child's investment income in excess of $1,400. The returns in this rate classification are not distributed by tax rate.

(X) Percentage not computed.

NOTE: Detail may not add to totals because of rounding.

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Individual Income Tax Rates and Shares, 1999

Table 2.--Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 1999

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of adjusted gross income	Number of returns	Taxable income	Modified taxable income	Tax generated at all rates	Tax generated at specified rate: 10 percent			15 percent (from Form 8814) [1]		
					Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total	**102,831,402**	**4,136,119,648**	**4,136,344,070**	**906,396,888**	**9,308,031**	**36,755,463**	**3,675,993**	**293,426**	**237,011**	**35,556**
Under $2,000 [2]	817,976	454,042	460,299	59,862	523,760	249,969	25,021	2,559	4,620	693
$2,000 under $4,000	751,744	1,153,732	1,162,230	177,426	462,492	450,235	45,028	*956	*669	*100
$4,000 under $6,000	1,728,146	2,102,481	2,111,687	320,742	291,215	391,761	39,192	*956	*1,338	*201
$6,000 under $8,000	2,203,558	4,047,221	4,055,119	604,216	215,209	346,675	34,680	*956	*669	*100
$8,000 under $10,000	3,128,860	7,862,311	7,863,007	1,174,397	244,545	425,003	42,510	**957	**669	**100
$10,000 under $12,000	2,953,753	11,915,519	11,938,389	1,785,850	255,985	492,746	49,294	**	**	**
$12,000 under $14,000	3,635,610	17,260,961	17,260,871	2,568,455	250,892	504,256	50,435	--	--	--
$14,000 under $16,000	4,178,813	23,465,046	23,467,807	3,493,385	332,631	760,224	76,046	*2,878	*2,839	*425
$16,000 under $18,000	4,294,103	29,739,567	29,741,993	4,431,137	310,775	756,765	75,695	*1,912	*2,007	*301
$18,000 under $20,000	4,117,111	34,280,105	34,282,951	5,103,289	342,830	885,879	88,604	*1,935	*2,709	*406
$20,000 under $25,000	9,659,573	109,880,452	109,877,198	16,387,198	796,697	2,273,586	227,401	*2,509	*2,415	*362
$25,000 under $30,000	8,268,020	130,116,151	130,118,463	19,423,544	767,647	2,354,068	235,466	*2,806	*2,385	*358
$30,000 under $40,000	13,203,325	284,989,844	285,017,826	43,791,880	1,270,395	5,007,175	500,767	16,961	12,530	1,878
$40,000 under $50,000	9,837,453	290,993,509	291,085,131	47,302,087	999,639	4,136,318	413,663	22,672	16,074	2,412
$50,000 under $75,000	16,721,867	711,037,056	711,086,624	121,088,117	1,660,684	8,704,725	870,545	44,804	28,968	4,345
$75,000 under $100,000	7,807,557	491,122,090	491,134,013	95,519,461	321,609	3,768,958	376,919	53,935	45,424	6,816
$100,000 under $200,000	7,096,691	721,988,211	721,988,296	163,017,878	187,913	3,286,687	328,680	85,734	69,826	10,477
$200,000 under $500,000	1,874,756	463,540,868	463,617,683	129,540,267	49,978	1,205,187	120,521	36,486	30,788	4,618
$500,000 under $1,000,000	347,735	209,906,906	209,896,512	66,895,951	11,755	355,822	35,582	8,915	7,823	1,173
$1,000,000 or more	204,751	590,263,576	590,177,972	183,711,745	11,380	399,422	39,942	5,495	5,255	788

Size of adjusted gross income	Tax generated at specified rate--continued: 15 percent			20 percent			25 percent		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
Total	**101,226,284**	**2,159,776,648**	**323,966,497**	**10,444,816**	**399,034,837**	**79,806,966**	**471,976**	**9,283,219**	**2,320,866**
Under $2,000 [2]	403,512	163,749	24,562	--	--	--	--	--	--
$2,000 under $4,000	484,060	399,265	59,890	--	--	--	--	--	--
$4,000 under $6,000	1,620,218	1,413,261	211,989	--	--	--	--	--	--
$6,000 under $8,000	2,139,757	3,524,974	528,746	--	--	--	--	--	--
$8,000 under $10,000	3,034,038	7,224,201	1,083,630	--	--	--	--	--	--
$10,000 under $12,000	2,886,316	11,220,213	1,683,032	--	--	--	--	--	--
$12,000 under $14,000	3,589,544	16,691,247	2,503,687	--	--	--	--	--	--
$14,000 under $16,000	4,103,078	22,602,003	3,390,300	--	--	--	--	--	--
$16,000 under $18,000	4,231,180	28,879,064	4,331,860	--	--	--	--	--	--
$18,000 under $20,000	4,069,720	33,294,944	4,994,242	--	--	--	--	--	--
$20,000 under $25,000	9,583,150	107,427,810	16,114,172	--	--	--	--	--	--
$25,000 under $30,000	8,219,518	127,579,912	19,136,987	*6,865	*4,370	*875	--	--	--
$30,000 under $40,000	13,142,348	269,678,925	40,451,839	401,377	609,268	121,862	*3,907	*5,708	*1,426
$40,000 under $50,000	9,804,917	256,128,627	38,419,294	634,068	2,082,980	416,604	21,310	47,257	11,817
$50,000 under $75,000	16,683,518	581,768,881	87,265,332	2,291,218	10,361,131	2,072,231	54,659	199,598	49,908
$75,000 under $100,000	7,782,774	309,315,319	46,397,298	2,370,845	16,511,960	3,302,396	74,473	314,043	78,520
$100,000 under $200,000	7,060,617	285,887,796	42,883,169	3,189,461	47,964,815	9,592,940	160,286	1,818,367	454,612
$200,000 under $500,000	1,852,378	75,054,503	11,258,175	1,147,907	57,131,406	11,426,278	105,725	2,562,464	640,630
$500,000 under $1,000,000	340,480	13,705,139	2,055,771	245,056	37,809,201	7,561,839	28,726	1,439,887	359,976
$1,000,000 or more	195,161	7,816,817	1,172,523	158,019	226,559,706	45,311,941	22,890	2,895,894	723,976

Footnotes at end of table.

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Individual Income Tax Rates and Shares, 1999

Table 2.--Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 1999--Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of adjusted gross income	Tax generated at specified rate--continued								
	28 percent (capital gains) [3]			28 percent			31 percent		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
Total	**119,866**	**1,522,077**	**426,178**	**31,705,814**	**740,632,089**	**207,376,985**	**5,724,932**	**197,691,438**	**61,284,346**
Under $2,000 [2]	--	--	--	--	--	--	--	--	--
$2,000 under $4,000	--	--	--	--	--	--	--	--	--
$4,000 under $6,000	--	--	--	--	--	--	--	--	--
$6,000 under $8,000	--	--	--	--	--	--	--	--	--
$8,000 under $10,000	--	--	--	--	--	--	--	--	--
$10,000 under $12,000	--	--	--	--	--	--	--	--	--
$12,000 under $14,000	--	--	--	--	--	--	--	--	--
$14,000 under $16,000	--	--	--	--	--	--	--	--	--
$16,000 under $18,000	--	--	--	--	--	--	--	--	--
$18,000 under $20,000	--	--	--	--	--	--	--	--	--
$20,000 under $25,000	--	--	--	--	--	--	--	--	--
$25,000 under $30,000	--	--	--	46,663	44,431	12,441	--	--	--
$30,000 under $40,000	--	--	--	2,958,592	9,477,613	2,653,732	--	--	--
$40,000 under $50,000	*8,364	*2,442	*684	3,186,050	28,511,203	7,983,137	*903	*5,735	*1,778
$50,000 under $75,000	21,849	81,893	22,929	9,019,946	109,450,599	30,646,168	156,405	445,849	138,213
$75,000 under $100,000	35,024	82,922	23,215	7,281,635	153,551,726	42,994,483	685,183	7,497,495	2,324,223
$100,000 under $200,000	33,153	131,830	36,912	6,869,520	307,032,312	85,969,047	2,649,936	70,844,957	21,961,937
$200,000 under $500,000	15,329	102,837	28,794	1,816,806	102,735,975	28,766,073	1,721,228	90,934,396	28,189,663
$500,000 under $1,000,000	3,437	188,745	52,849	334,337	18,948,410	5,305,555	323,134	17,655,063	5,473,070
$1,000,000 or more	2,711	931,408	260,794	192,264	10,879,820	3,046,350	188,144	10,307,942	3,195,462

Size of adjusted gross income	Tax generated at specified rate--continued								
	36 percent			39.6 percent			Form 8615[4]		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)
Total	**2,272,990**	**173,470,143**	**62,449,251**	**864,306**	**414,548,220**	**164,161,095**	**574,924**	**3,392,914**	**888,240**
Under $2,000 [2]	--	--	--	--	--	--	132,093	41,959	9,508
$2,000 under $4,000	--	--	--	--	--	--	211,846	312,057	72,324
$4,000 under $6,000	--	--	--	--	--	--	86,427	305,325	69,313
$6,000 under $8,000	--	--	--	--	--	--	35,889	182,801	40,645
$8,000 under $10,000	--	--	--	--	--	--	**53,614	**438,561	**101,498
$10,000 under $12,000	--	--	--	--	--	--	**	**	**
$12,000 under $14,000	--	--	--	--	--	--	*5,735	*65,368	*14,290
$14,000 under $16,000	--	--	--	--	--	--	*7,690	*102,742	*26,536
$16,000 under $18,000	--	--	--	--	--	--	*6,691	*104,157	*23,163
$18,000 under $20,000	--	--	--	--	--	--	*5,735	*99,419	*19,953
$20,000 under $25,000	--	--	--	--	--	--	*8,483	*173,387	*44,976
$25,000 under $30,000	--	--	--	--	--	--	*5,615	*133,297	*37,056
$30,000 under $40,000	--	--	--	--	--	--	*7,095	*226,607	*59,998
$40,000 under $50,000	--	--	--	--	--	--	*3,611	*154,495	*52,442
$50,000 under $75,000	--	--	--	--	--	--	*903	*44,979	*17,830
$75,000 under $100,000	*8,414	*25,012	*9,004	--	--	--	*495	*21,154	*5,337
$100,000 under $200,000	277,048	4,578,672	1,648,322	8,593	165,084	65,373	*2,035	*207,949	*65,554
$200,000 under $500,000	1,492,410	108,108,410	38,919,028	393,311	25,622,468	10,146,497	*502	*129,248	*39,861
$500,000 under $1,000,000	311,935	38,175,421	13,743,152	288,918	81,531,548	32,286,493	*166	*79,452	*20,473
$1,000,000 or more	183,183	22,582,629	8,129,746	173,485	307,229,120	121,662,732	300	569,958	167,483

* Estimate should be used with caution because of the small number of sample returns on which it is based.

** Data combined to avoid disclosure of information for specific taxpayers.

[1] Form 8814 was filed for a dependent child under age 14 for whom the parents made the election to report the child's investment income (if it was from interest or dividends totaling between $700 and $7,000) on the parents' income tax return. This rate classification is comprised of those returns with a tax liability only from the dependents' income.

[2] Includes returns with adjusted gross deficit.

[3] Returns with net long-term capital gains in excess of short-term capital losses taxed at the 28 percent rate.

[4] Form 8615 was filed for a child under age 14 to report the child's investment income in excess of $1,400. The returns in this rate classification are not distributed by tax rate.

NOTE: Detail may not add to totals because of rounding.

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Individual Income Tax Rates and Shares, 1999

Table 3.--Returns with Modified Taxable Income: Taxable Income and Tax Classified by Marginal Tax Rate and by Filing Status, Tax Year 1999

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Marginal tax rate classes	All returns			Joint returns and returns of surviving spouses			Returns of married persons filing separately		
	Number of returns	Income taxed at rate	Income tax generated at rate	Number of returns	Income taxed at rate	Income tax generated at rate	Number of returns	Income taxed at rate	Income tax generated at rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All tax rates	**102,831,402**	**4,136,344,059**	**906,391,470**	**44,630,790**	**2,854,657,499**	**649,879,470**	**2,108,319**	**75,947,119**	**17,861,403**
10 percent	9,308,031	36,755,463	3,675,546	4,173,134	20,886,630	2,088,663	85,518	353,473	35,347
15 percent (Form 8814) [1]	293,426	237,011	35,556	268,009	211,037	31,658	1,822	3,813	572
15 percent	101,226,284	2,159,776,648	323,966,497	44,317,511	1,360,582,089	204,087,313	2,097,941	32,684,323	4,902,648
20 percent	10,444,816	399,034,837	79,806,967	6,973,112	300,625,171	60,125,034	165,544	11,878,484	2,375,697
25 percent	471,976	9,283,219	2,320,805	323,895	7,378,392	1,844,598	3,428	125,676	31,419
28 percent (capital gains) [2]	119,866	1,522,077	426,182	75,954	1,080,030	302,408	129	57,324	16,051
28 percent	31,705,814	740,632,089	207,376,985	18,736,775	536,780,504	150,298,541	842,319	11,881,800	3,326,904
31 percent	5,724,932	197,691,438	61,284,346	3,805,134	141,455,572	43,851,227	158,386	2,756,555	854,532
36 percent	2,272,990	173,470,143	62,449,251	1,822,822	140,849,140	50,705,690	68,444	2,755,916	992,130
39.6 percent	864,306	414,548,220	164,161,095	723,143	344,808,934	136,544,338	32,608	13,449,755	5,326,103
Form 8615 [3]	574,924	3,392,914	888,240	--	--	--	--	--	--

Marginal tax rate classes	Returns of heads of households			Returns of single persons		
	Number of returns	Income taxed at rate	Income tax generated at rate	Number of returns	Income taxed at rate	Income tax generated at rate
	(10)	(11)	(12)	(13)	(14)	(15)
All tax rates	**11,973,216**	**214,439,565**	**38,459,529**	**44,119,077**	**991,299,876**	**200,191,067**
10 percent	437,449	1,660,976	166,098	4,611,930	13,854,384	1,385,438
15 percent (Form 8814) [1]	22,563	21,440	3,217	1,031	721	108
15 percent	11,931,871	167,953,752	25,193,063	42,878,960	598,556,484	89,783,473
20 percent	262,825	8,148,315	1,629,663	3,043,335	78,382,868	15,676,574
25 percent	12,037	175,796	43,949	132,616	1,603,356	400,839
28 percent (capital gains) [2]	1,298	5,986	1,676	42,485	378,737	106,046
28 percent	1,315,316	21,904,961	6,133,389	10,811,404	170,064,824	47,618,151
31 percent	117,547	4,071,406	1,262,136	1,643,865	49,407,904	15,316,450
36 percent	45,621	3,623,552	1,304,479	336,103	26,241,535	9,446,953
39.6 percent	15,368	6,873,381	2,721,859	93,187	49,416,149	19,568,795
Form 8615 [3]	--	--	--	574,924	3,392,914	888,240

[1] Form 8814 was filed for a dependent child under age 14 for whom the parents made an election to report the child's investment income (if it was from interest or dividends totaling between $700 and $7,000) on the parents' income tax return. This rate classification is comprised of those returns with a tax liability only from the dependents' income.

[2] Returns with net long-term capital gains in excess of short-term capital losses taxed at the 28-percent rate.

[3] Form 8615 was filed for a child under age 14 to report the child's investment income in excess of $1,400. The returns in this rate classification are not distributed by tax rate.

NOTE: Detail may not add to totals because of rounding.

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Individual Income Tax Rates and Shares, 1999

Table 4.--Returns with Modified Taxable Income: Tax Classified by Type of Tax Computation and by Size of Adjusted Gross Income, Tax Years 1998 and 1999

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Type of tax computation by size of adjusted gross income	Tax Year 1998				Tax Year 1999			
	Income tax before credits (regular tax computation)[1]		Tax generated	Difference due to special tax computation[2]	Income tax before credits (regular tax computation)[1]		Tax generated	Difference due to special tax computation[2]
	Number of returns	Amount	Amount		Number of returns	Amount	Amount	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Returns with regular tax computation only								
Total	**83,348,385**	**456,664,501**	**456,548,375**	**--**	**84,117,372**	**487,596,499**	**487,448,545**	**--**
Under $5,000 [3]	1,388,226	117,280	117,280	--	1,240,612	106,742	106,742	--
$5,000 under $10,000	5,758,616	1,710,206	1,709,976	--	5,552,709	1,656,010	1,656,012	--
$10,000 under $15,000	8,312,262	5,652,330	5,649,934	--	7,822,748	5,337,754	5,337,754	--
$15,000 under $20,000	9,927,978	11,059,824	11,059,759	--	9,850,125	10,644,024	10,644,021	--
$20,000 under $25,000	8,963,000	15,280,448	15,279,301	--	8,860,009	15,121,307	15,120,404	--
$25,000 under $30,000	7,359,438	17,428,699	17,427,180	--	7,494,517	17,673,473	17,673,437	--
$30,000 under $40,000	11,468,309	38,319,377	38,319,065	--	11,676,541	38,785,497	38,785,119	--
$40,000 under $50,000	8,435,395	40,751,541	40,750,606	--	8,306,213	39,813,102	39,812,766	--
$50,000 under $75,000	12,473,904	89,496,124	89,483,572	--	13,231,473	94,799,981	94,790,013	--
$75,000 under $100,000	5,041,669	61,240,358	61,228,189	--	5,346,995	64,925,546	64,899,761	--
$100,000 under $200,000	3,441,757	77,789,965	77,770,621	--	3,873,863	86,621,811	86,589,360	--
$200,000 under $500,000	649,064	46,221,003	46,202,334	--	715,331	50,548,866	50,535,030	--
$500,000 under $1,000,000	89,856	18,813,550	18,801,617	--	100,671	21,075,754	21,066,494	--
$1,000,000 or more	38,910	32,783,796	32,748,943	--	45,567	40,486,630	40,431,632	--
Returns with Form 8615 tax computation								
Total	**465,254**	**741,292**	**803,320**	**62,028**	**574,924**	**783,166**	**933,335**	**150,170**
Under $5,000 [3]	329,937	91,995	117,540	25,545	392,164	116,615	145,473	28,858
$5,000 under $10,000	72,834	66,888	100,121	33,232	103,215	94,475	134,238	39,763
$10,000 under $15,000	24,539	42,000	61,159	19,158	33,092	52,355	79,883	27,529
$15,000 under $20,000	10,402	24,636	34,039	9,403	17,248	42,355	61,326	18,971
$20,000 under $25,000	9,430	30,244	55,821	25,576	*8,483	*26,577	*45,395	*18,818
$25,000 under $30,000	*3,791	*11,810	*23,470	*11,659	*5,615	*20,779	*37,405	*16,626
$30,000 under $40,000	*1,797	*9,527	*14,016	*4,489	*7,095	*40,738	*60,300	*19,563
$40,000 under $50,000	*4,475	*30,560	*41,519	*10,960	*3,611	*31,586	*52,604	*21,018
$50,000 under $75,000	*2,810	*32,089	*30,307	*-1,782	*903	*9,749	*17,926	*8,177
$75,000 under $100,000	*346	*6,965	*5,617	*-1,348	*495	*4,292	*5,337	*1,046
$100,000 under $200,000	*3,659	*118,570	*118,590	*20	*2,035	*54,816	*65,614	*10,798
$200,000 under $500,000	*935	*85,752	*62,793	*-22,959	*502	*41,165	*39,861	*-1,304
$500,000 under $1,000,000	*122	*25,504	*21,175	*-4,329	*166	*28,509	*20,480	*-8,030
$1,000,000 or more	177	164,751	117,152	-47,599	300	219,155	167,492	-51,662
Returns with Schedule D tax computation								
Total	**15,835,783**	**396,647,844**	**345,199,240**	**-51,448,604**	**16,913,104**	**464,675,975**	**405,764,485**	**-58,911,490**
Under $5,000 [3]	336,629	77,738	62,106	-15,632	344,434	81,189	64,329	-16,861
$5,000 under $10,000	362,713	183,681	154,064	-29,617	377,758	200,723	166,815	-33,908
$10,000 under $15,000	510,432	438,352	390,908	-47,443	515,435	459,634	412,948	-46,686
$15,000 under $20,000	673,961	838,624	776,052	-62,572	673,885	809,946	739,611	-70,334
$20,000 under $25,000	736,623	1,317,388	1,233,817	-83,571	720,274	1,254,687	1,167,990	-86,697
$25,000 under $30,000	682,498	1,632,454	1,542,300	-90,154	722,133	1,765,560	1,669,335	-96,225
$30,000 under $40,000	1,525,989	5,433,302	5,163,499	-269,803	1,464,062	5,134,958	4,872,644	-262,314
$40,000 under $50,000	1,465,648	7,441,912	7,128,776	-313,136	1,495,997	7,718,621	7,369,755	-348,866
$50,000 under $75,000	3,342,119	26,490,626	25,326,126	-1,164,501	3,451,142	27,359,947	26,148,320	-1,211,627
$75,000 under $100,000	2,151,343	28,161,713	26,870,714	-1,290,999	2,435,436	31,956,485	30,439,377	-1,517,108
$100,000 under $200,000	2,779,234	69,924,533	66,163,622	-3,760,911	3,186,404	80,518,771	75,868,192	-4,650,580
$200,000 under $500,000	935,005	70,985,769	64,069,065	-6,916,704	1,136,894	86,629,285	78,165,542	-8,463,743
$500,000 under $1,000,000	209,350	45,354,508	39,234,808	-6,119,701	239,726	51,736,522	45,111,759	-6,624,763
$1,000,000 or more	124,239	138,367,243	107,083,383	-31,283,860	149,523	169,049,647	133,567,869	-35,481,778

* Estimate should be used with caution due to the small number of sample returns on which it is based.

[1] Includes special tax not included in tax generated.

[2] The difference between the amount of tax resulting from using provisions of one of the special tax computations and the amount of tax resulting from the regular tax computation.

[3] Includes returns with adjusted gross deficit.

NOTE: Detail may not add to totals because of rounding.

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Table 5.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986-1999

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns: [1]						
1986	102,087,623	1,020,876	5,104,381	10,208,762	25,521,906	51,043,811
1987	106,154,761	1,061,548	5,307,738	10,615,476	26,538,690	53,077,380
1988	108,872,859	1,088,729	5,443,643	10,887,286	27,218,214	54,436,429
1989	111,312,721	1,113,127	5,565,636	11,131,272	27,828,181	55,656,361
1990	112,812,262	1,128,123	5,640,613	11,281,226	28,203,066	56,406,132
1991	113,804,104	1,138,041	5,690,205	11,380,410	28,451,026	56,902,052
1992	112,652,759	1,126,528	5,632,638	11,265,276	28,163,190	56,326,380
1993	113,681,387	1,136,814	5,684,069	11,368,139	28,420,347	56,840,694
1994	114,989,920	1,149,899	5,749,496	11,498,992	28,747,480	57,494,960
1995	117,274,186	1,172,742	5,863,709	11,727,419	29,318,546	58,637,093
1996	119,441,767	1,194,418	5,972,088	11,944,177	29,860,442	59,720,884
1997 *	121,503,284	1,215,033	6,075,164	12,150,328	30,375,821	60,751,642
1998	123,775,831	1,237,758	6,188,792	12,377,583	30,943,958	61,887,915
1999	126,008,974	1,260,090	6,300,449	12,600,897	31,502,244	63,004,487
Adjusted gross income floor on percentiles (current dollars):						
1986	N/A	118,818	62,377	48,656	32,242	17,302
1987	N/A	139,289	68,414	52,921	33,983	17,768
1988	N/A	157,136	72,735	55,437	35,398	18,367
1989	N/A	163,869	76,933	58,263	36,839	18,993
1990	N/A	167,421	79,064	60,287	38,080	19,767
1991	N/A	170,139	81,720	61,944	38,929	20,097
1992	N/A	181,904	85,103	64,457	40,378	20,803
1993	N/A	185,715	87,386	66,077	41,210	21,179
1994	N/A	195,726	91,226	68,753	42,742	21,802
1995	N/A	209,406	96,221	72,094	44,207	22,344
1996	N/A	227,546	101,141	74,986	45,757	23,174
1997 *	N/A	250,736	108,048	79,212	48,173	24,393
1998	N/A	269,496	114,729	83,220	50,607	25,491
1999	N/A	293,415	120,846	87,682	52,965	26,415
Adjusted gross income floor on percentiles (constant dollars): [2]						
1986	N/A	108,411	56,913	44,394	29,418	15,786
1987	N/A	122,614	60,224	46,585	29,915	15,641
1988	N/A	132,828	61,484	46,861	29,922	15,526
1989	N/A	132,152	62,043	46,986	29,709	15,317
1990	N/A	128,096	60,493	46,126	29,135	15,124
1991	N/A	124,919	60,000	45,480	28,582	14,756
1992	N/A	129,654	60,658	45,942	28,780	14,828
1993	N/A	128,522	60,475	45,728	28,519	14,657
1994	N/A	132,069	61,556	46,392	28,841	14,711
1995	N/A	137,406	63,137	47,306	29,007	14,661
1996	N/A	145,026	64,462	47,792	29,163	14,769
1997 *	N/A	156,222	67,320	49,353	30,014	15,198
1998	N/A	164,427	69,999	50,775	30,877	15,553
1999	N/A	176,119	72,537	52,630	31,792	15,855

Footnotes at end of Table 6.

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Table 5.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986-1999--Continued

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Adjusted gross income (millions of dollars):						
1986	2,524,124	285,197	608,467	886,510	1,490,173	2,103,569
1987	2,813,728	346,635	722,221	1,038,221	1,709,389	2,373,869
1988	3,124,156	473,527	890,702	1,232,536	1,950,860	2,657,865
1989	3,298,858	468,079	918,421	1,286,539	2,054,478	2,805,235
1990	3,451,237	483,252	953,337	1,338,032	2,144,177	2,932,537
1991	3,516,142	456,603	943,350	1,343,202	2,174,765	2,984,003
1992	3,680,552	523,586	1,031,093	1,443,784	2,299,401	3,131,400
1993	3,775,578	520,586	1,048,252	1,474,463	2,357,953	3,212,299
1994	3,961,146	546,700	1,103,084	1,552,205	2,481,074	3,371,352
1995	4,244,607	619,610	1,222,723	1,704,513	2,689,820	3,627,542
1996	4,590,527	736,545	1,393,805	1,909,149	2,952,637	3,944,383
1997 *	5,023,457	872,826	1,597,107	2,151,401	3,267,600	4,327,992
1998	5,469,211	1,010,245	1,796,647	2,393,716	3,589,600	4,721,430
1999	5,909,329	1,152,820	2,011,763	2,652,835	3,927,308	5,126,164
Total income tax (millions of dollars): [3]						
1986	366,979	94,491	156,240	200,703	278,976	343,289
1987	369,046	91,559	159,642	205,230	283,857	346,655
1988	412,761	113,841	188,303	236,411	321,297	389,145
1989	432,838	109,259	190,188	241,458	334,258	407,599
1990	447,061	112,338	195,088	247,514	344,340	421,075
1991	448,349	111,267	194,480	250,282	346,511	423,759
1992	476,163	131,156	218,479	276,213	373,700	452,070
1993	502,720	145,836	238,083	297,808	398,516	478,563
1994	534,754	154,337	254,106	317,902	425,402	509,256
1995	588,331	178,035	287,741	357,402	472,808	561,225
1996	658,124	212,626	335,433	411,404	535,164	629,684
1997 *	727,303	241,239	377,241	459,639	594,007	696,161
1998	788,452	274,009	424,506	512,836	651,964	755,240
1999	877,292	317,419	486,464	583,002	732,890	842,168
Average tax rate (percentage): [4]						
1986	14.54	33.13	25.68	22.64	18.72	16.32
1987	13.12	26.41	22.10	19.77	16.61	14.60
1988	13.21	24.04	21.14	19.18	16.47	14.64
1989	13.12	23.34	20.71	18.77	16.27	14.53
1990	12.95	23.25	20.46	18.50	16.06	14.36
1991	12.75	24.37	20.62	18.63	15.93	14.20
1992	12.94	25.05	21.19	19.13	16.25	14.44
1993	13.32	28.01	22.71	20.20	16.90	14.90
1994	13.50	28.23	23.04	20.48	17.15	15.11
1995	13.86	28.73	23.53	20.97	17.58	15.47
1996	14.34	28.87	24.07	21.55	18.12	15.96
1997 *	14.48	27.64	23.62	21.36	18.18	16.09
1998	14.42	27.12	23.63	21.42	18.16	16.00
1999	14.85	27.53	24.18	21.98	18.66	16.43

Footnotes at end of Table 6.

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Table 5.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986-1999--Continued

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Adjusted gross income share (percentage):						
1986	100.00	11.30	24.11	35.12	59.04	83.34
1987	100.00	12.32	25.67	36.90	60.75	84.37
1988	100.00	15.16	28.51	39.45	62.44	85.07
1989	100.00	14.19	27.84	39.00	62.28	85.04
1990	100.00	14.00	27.62	38.77	62.13	84.97
1991	100.00	12.99	26.83	38.20	61.85	84.87
1992	100.00	14.23	28.01	39.23	62.47	85.08
1993	100.00	13.79	27.76	39.05	62.45	85.08
1994	100.00	13.80	27.85	39.19	62.64	85.11
1995	100.00	14.60	28.81	40.16	63.37	85.46
1996	100.00	16.04	30.36	41.59	64.32	85.92
1997 *	100.00	17.38	31.79	42.83	65.05	86.16
1998	100.00	18.47	32.85	43.77	65.63	86.33
1999	100.00	19.51	34.04	44.89	66.46	86.75
Total income tax share (percentage):						
1986	100.00	25.75	42.57	54.69	76.02	93.54
1987	100.00	24.81	43.26	55.61	76.92	93.93
1988	100.00	27.58	45.62	57.28	77.84	94.28
1989	100.00	25.24	43.94	55.78	77.22	94.17
1990	100.00	25.13	43.64	55.36	77.02	94.19
1991	100.00	24.82	43.38	55.82	77.29	94.52
1992	100.00	27.54	45.88	58.01	78.48	94.94
1993	100.00	29.01	47.36	59.24	79.27	95.19
1994	100.00	28.86	47.52	59.45	79.55	95.23
1995	100.00	30.26	48.91	60.75	80.36	95.39
1996	100.00	32.31	50.97	62.51	81.32	95.68
1997 *	100.00	33.17	51.87	63.20	81.67	95.72
1998	100.00	34.75	53.84	65.04	82.69	95.79
1999	100.00	36.18	55.45	66.45	83.54	96.00

Footnotes at end of Table 6.

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Table 6.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986-1999

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns: [1]						
1986	102,087,623	51,043,811	76,565,717	91,878,861	96,983,242	101,066,747
1987	106,154,761	53,077,380	79,616,071	95,539,285	100,847,023	105,093,213
1988	108,872,858	54,436,429	81,654,643	97,985,572	103,429,215	107,784,129
1989	111,312,721	55,656,361	83,484,542	100,181,451	105,747,087	110,199,596
1990	112,812,262	56,406,132	84,609,198	101,531,038	107,171,651	111,684,141
1991	113,804,104	56,902,052	85,353,078	102,423,694	108,113,899	112,666,063
1992	112,652,759	56,326,380	84,489,560	101,387,483	107,020,121	111,526,231
1993	113,681,387	56,840,693	85,261,040	102,313,248	107,997,318	112,544,573
1994	114,989,920	57,494,960	86,242,440	103,490,928	109,240,424	113,840,021
1995	117,274,186	58,637,093	87,955,640	105,546,767	111,410,477	116,101,444
1996	119,441,767	59,720,883	89,581,325	107,497,590	113,469,679	118,247,349
1997 *	121,503,284	60,751,642	91,127,463	109,352,956	115,428,120	120,288,251
1998	123,775,831	61,887,916	92,831,873	111,398,248	117,587,039	122,538,073
1999	126,008,974	63,004,487	94,506,731	113,408,077	119,708,525	124,748,884
Adjusted gross income (millions of dollars):						
1986	2,524,124	420,555	1,033,951	1,637,614	1,915,657	2,238,927
1987	2,813,728	439,859	1,104,338	1,775,506	2,091,507	2,467,093
1988	3,124,156	466,291	1,173,296	1,891,620	2,233,454	2,650,629
1989	3,298,858	493,623	1,244,380	2,012,319	2,380,437	2,830,779
1990	3,451,237	518,700	1,307,060	2,113,205	2,497,900	2,967,985
1991	3,516,142	532,138	1,341,377	2,172,939	2,572,792	3,059,539
1992	3,680,552	549,152	1,381,151	2,236,768	2,649,459	3,156,966
1993	3,775,578	563,279	1,417,625	2,301,115	2,727,326	3,254,992
1994	3,961,146	589,795	1,480,073	2,408,941	2,858,063	3,414,447
1995	4,244,607	617,065	1,554,788	2,540,094	3,021,884	3,624,997
1996	4,590,527	646,144	1,637,891	2,681,378	3,196,723	3,853,983
1997 *	5,023,457	695,465	1,755,857	2,872,056	3,426,350	4,150,631
1998	5,469,211	747,781	1,879,611	3,075,495	3,672,564	4,458,967
1999	5,909,329	783,164	1,982,021	3,256,494	3,897,565	4,756,509
Total income tax (millions of dollars): [3]						
1986	366,979	23,690	88,002	166,276	210,739	272,488
1987	369,046	22,391	85,189	163,816	209,404	277,488
1988	412,761	23,616	91,464	176,350	224,459	298,920
1989	432,838	25,239	98,580	191,380	242,650	323,579
1990	447,061	25,986	102,721	199,547	251,973	334,723
1991	448,349	24,554	101,837	198,067	253,869	337,081
1992	476,163	24,093	102,463	199,950	257,683	345,007
1993	502,720	24,157	104,203	204,912	264,637	356,884
1994	534,754	25,499	109,353	216,852	280,648	380,418
1995	588,331	27,106	115,523	230,929	300,590	410,296
1996	658,124	28,440	122,960	246,720	322,691	445,498
1997 *	727,303	31,134	133,296	267,664	350,062	486,064
1998	788,452	33,212	136,488	275,615	363,946	514,442
1999	877,292	35,126	144,402	294,290	390,828	559,874

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Table 6.--Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986-1999--Continued

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Average tax rate (percentage): [4]						
1986	14.54	5.63	8.51	10.15	11.00	12.17
1987	13.12	5.09	7.71	9.23	10.01	11.25
1988	13.21	5.06	7.80	9.32	10.05	11.28
1989	13.12	5.11	7.92	9.51	10.19	11.43
1990	12.95	5.01	7.86	9.44	10.09	11.28
1991	12.75	4.61	7.59	9.12	9.87	11.04
1992	12.94	4.39	7.42	8.94	9.73	10.93
1993	13.32	4.29	7.35	8.90	9.70	10.96
1994	13.50	4.32	7.39	9.00	9.82	11.14
1995	13.86	4.39	7.43	9.09	9.95	11.32
1996	14.34	4.40	7.51	9.20	10.09	11.56
1997 *	14.48	4.48	7.59	9.32	10.22	11.71
1998	14.42	4.44	7.26	8.96	9.91	11.54
1999	14.85	4.49	7.29	9.04	10.03	11.77
Adjusted gross income share (percentage):						
1986	100.00	16.66	40.96	64.88	75.89	88.70
1987	100.00	15.63	39.25	63.10	74.33	87.68
1988	100.00	14.93	37.56	60.55	71.49	84.84
1989	100.00	14.96	37.72	61.00	72.16	85.81
1990	100.00	15.03	37.87	61.23	72.38	86.00
1991	100.00	15.13	38.15	61.80	73.17	87.01
1992	100.00	14.92	37.53	60.77	71.99	85.77
1993	100.00	14.92	37.55	60.95	72.24	86.21
1994	100.00	14.89	37.36	60.81	72.15	86.20
1995	100.00	14.54	36.63	59.84	71.19	85.40
1996	100.00	14.08	35.68	58.41	69.64	83.96
1997 *	100.00	13.84	34.95	57.17	68.21	82.63
1998	100.00	13.67	34.37	56.23	67.15	81.53
1999	100.00	13.25	33.54	55.11	65.96	80.49
Total income tax share (percentage):						
1986	100.00	6.46	23.98	45.31	57.43	74.25
1987	100.00	6.07	23.08	44.39	56.74	75.19
1988	100.00	5.72	22.16	42.72	54.38	72.42
1989	100.00	5.83	22.78	44.22	56.06	74.76
1990	100.00	5.81	22.98	44.64	56.36	74.87
1991	100.00	5.48	22.71	44.18	56.62	75.18
1992	100.00	5.06	21.52	41.99	54.12	72.46
1993	100.00	4.81	20.73	40.76	52.64	70.99
1994	100.00	4.77	20.45	40.55	52.48	71.14
1995	100.00	4.61	19.64	39.25	51.09	69.74
1996	100.00	4.32	18.68	37.49	49.03	67.69
1997 *	100.00	4.28	18.33	36.80	48.13	66.83
1998	100.00	4.21	17.31	34.96	46.16	65.25
1999	100.00	4.00	16.46	33.55	44.55	63.82

N/A-- Not applicable.

* Numbers have been revised.

[1] The number of returns with negative adjusted gross income, i.e., returns with an adjusted gross deficit, and the corresponding amounts for adjusted gross deficit, were excluded from Tables 5 and 6. By excluding deficit returns, alternative minimum tax reported on some of these returns was also excluded. For Tax Year 1999, there were 4,842 returns with no adjusted gross income that reported income tax, mostly alternative minimum tax, totaling $109.3 million.

[2] For Table 5, constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). See footnote 2 of this article for further details.

[3] Total income tax is the sum of income tax after credits and alternative minimum tax reported on returns that showed a positive amount for adjusted gross income. Therefore, total income tax excludes alternative minimum tax, Form 8814 tax (tax on a child's interest or dividends), and Form 4972 tax (tax on lump-sum distributions from qualified retirement plans) reported on some returns with a negative amount for adjusted gross income. See also footnote 1.

[4] The average tax rate was computed by dividing total income tax (see footnote 3) by (positive) adjusted gross income.

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Table 7.--Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, Income Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986-1999

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns: [1]						
1986	101,988,805	1,019,888	5,099,440	10,198,881	25,497,201	50,994,402
1987	106,191,624	1,061,916	5,309,581	10,619,162	26,547,906	53,095,812
1988	108,879,154	1,088,792	5,443,958	10,887,915	27,219,788	54,439,577
1989	111,328,835	1,113,288	5,566,442	11,132,884	27,832,209	55,664,418
1990	112,717,959	1,127,180	5,635,898	11,271,796	28,179,490	56,358,980
1991	113,823,123	1,138,231	5,691,156	11,382,312	28,455,781	56,911,562
1992	112,687,747	1,126,877	5,634,387	11,268,775	28,171,937	56,343,874
1993	113,721,706	1,137,217	5,686,085	11,372,171	28,430,426	56,860,853
1994	115,061,112	1,150,611	5,753,056	11,506,111	28,765,278	57,530,556
1995	117,333,779	1,173,338	5,866,689	11,733,378	29,333,445	58,666,889
1996	119,487,813	1,194,878	5,974,391	11,948,781	29,871,953	59,743,906
1997	121,555,156	1,215,552	6,077,758	12,155,516	30,388,789	60,777,578
1998 *	123,852,016	1,238,520	6,192,601	12,385,202	30,963,004	61,926,008
1999	126,107,596	1,261,076	6,305,380	12,610,760	31,526,899	63,053,798
Income floor on percentiles (current dollars):						
1986	N/A	147,863	68,362	52,035	33,623	17,909
1987	N/A	145,624	69,222	53,094	34,165	17,959
1988	N/A	161,774	73,451	55,532	35,432	18,534
1989	N/A	169,603	77,542	58,429	36,783	19,152
1990	N/A	174,813	80,400	60,623	38,026	19,947
1991	N/A	180,268	83,300	62,413	38,913	20,302
1992	N/A	197,031	87,370	65,283	40,423	21,041
1993	N/A	199,698	88,992	66,685	41,013	21,390
1994	N/A	210,742	93,186	69,118	42,480	22,000
1995	N/A	224,523	98,420	72,210	43,860	22,575
1996	N/A	246,268	103,489	75,574	45,508	23,378
1997	N/A	268,889	110,949	79,598	47,738	24,551
1998 *	N/A	301,513	120,262	84,904	50,232	25,612
1999	N/A	332,253	126,643	89,172	52,399	26,487
Income floor on percentiles (constant dollars): [2]						
1986	N/A	134,912	62,374	47,477	30,678	16,340
1987	N/A	128,190	60,935	46,738	30,075	15,809
1988	N/A	136,749	62,089	46,942	29,951	15,667
1989	N/A	136,777	62,534	47,120	29,664	15,445
1990	N/A	133,751	61,515	46,383	29,094	15,262
1991	N/A	132,355	61,160	45,825	28,571	14,906
1992	N/A	140,436	62,274	46,531	28,812	14,997
1993	N/A	138,199	61,586	46,149	28,383	14,803
1994	N/A	142,201	62,879	46,638	28,664	14,845
1995	N/A	147,325	64,580	47,382	28,780	14,813
1996	N/A	156,959	65,959	48,167	29,004	14,900
1997	N/A	167,532	69,127	49,594	29,743	15,297
1998 *	N/A	183,962	73,375	51,802	30,648	15,627
1999	N/A	199,432	76,016	53,525	31,452	15,899

Footnotes at end of Table 8.

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Table 7.--Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, Income Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986-1999--Continued

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Income (millions of dollars):						
1986	2,804,691	427,513	796,935	1,097,550	1,732,231	2,368,620
1987	2,856,118	363,880	749,240	1,067,438	1,741,747	2,411,715
1988	3,153,639	484,675	911,170	1,255,108	1,973,061	2,683,524
1989	3,336,571	486,976	947,363	1,317,619	2,085,003	2,838,481
1990	3,497,118	504,687	987,582	1,376,162	2,182,091	2,973,847
1991	3,577,337	478,756	985,590	1,390,924	2,224,979	3,038,428
1992	3,763,002	556,421	1,090,019	1,509,728	2,369,701	3,206,490
1993	3,849,532	554,075	1,105,014	1,537,285	2,422,475	3,278,866
1994	4,033,642	579,564	1,161,972	1,617,250	2,544,400	3,436,167
1995	4,317,506	653,717	1,284,726	1,772,890	2,754,988	3,692,267
1996	4,670,644	772,868	1,462,979	1,984,931	3,025,107	4,015,461
1997	5,112,706	918,007	1,679,877	2,242,353	3,353,245	4,409,075
1998 *	5,626,390	1,072,779	1,925,214	2,542,399	3,742,006	4,869,467
1999	6,082,931	1,236,081	2,166,370	2,825,789	4,099,929	5,290,805
Total income tax (millions of dollars): [3]						
1986	366,763	93,128	155,553	198,862	277,578	342,296
1987	368,924	89,908	158,485	204,050	282,970	346,228
1988	412,549	112,208	186,793	235,121	320,152	388,631
1989	432,643	107,508	188,588	240,229	333,285	407,106
1990	446,906	110,530	192,991	245,856	342,926	420,345
1991	448,177	107,926	192,548	246,745	345,168	423,180
1992	476,067	127,361	216,303	272,361	372,352	451,494
1993	502,638	142,329	235,908	294,238	397,261	477,997
1994	534,693	150,133	250,770	314,909	423,743	508,540
1995	588,292	173,877	284,036	354,427	471,035	560,748
1996	658,059	208,071	331,404	407,726	532,750	628,918
1997	731,123	238,978	376,046	459,674	595,060	699,131
1998 *	783,437	262,464	413,303	503,577	644,182	749,547
1999	877,199	307,382	479,531	577,903	729,679	841,172
Average tax rate (percentage): [4]						
1986	13.08	21.78	19.52	18.12	16.02	14.45
1987	12.92	24.71	21.15	19.12	16.25	14.36
1988	13.08	23.15	20.50	18.73	16.23	14.48
1989	12.97	22.08	19.91	18.23	15.98	14.34
1990	12.78	21.90	19.54	17.87	15.72	14.13
1991	12.53	22.54	19.54	17.74	15.51	13.93
1992	12.65	22.89	19.84	18.04	15.71	14.08
1993	13.06	25.69	21.35	19.14	16.40	14.58
1994	13.26	25.90	21.58	19.47	16.65	14.80
1995	13.63	26.60	22.11	19.99	17.10	15.19
1996	14.09	26.92	22.65	20.54	17.61	15.66
1997	14.30	26.03	22.39	20.50	17.75	15.86
1998 *	13.92	24.47	21.47	19.81	17.21	15.39
1999	14.42	24.87	22.14	20.45	17.80	15.90

Footnotes at end of Table 8.

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Table 7.--Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, Income Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986-1999--Continued

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Income share (percentage):						
1986	100.00	15.24	28.41	39.13	61.76	84.45
1987	100.00	12.74	26.23	37.37	60.98	84.44
1988	100.00	15.37	28.89	39.80	62.56	85.09
1989	100.00	14.60	28.39	39.49	62.49	85.07
1990	100.00	14.43	28.24	39.35	62.40	85.04
1991	100.00	13.38	27.55	38.88	62.20	84.94
1992	100.00	14.79	28.97	40.12	62.97	85.21
1993	100.00	14.39	28.71	39.93	62.93	85.18
1994	100.00	14.37	28.81	40.09	63.08	85.19
1995	100.00	15.14	29.76	41.06	63.81	85.52
1996	100.00	16.55	31.32	42.50	64.77	85.97
1997	100.00	17.96	32.86	43.86	65.59	86.24
1998 *	100.00	19.07	34.22	45.19	66.51	86.55
1999	100.00	20.32	35.61	46.45	67.40	86.98
Total income tax share (percentage):						
1986	100.00	25.39	42.41	54.22	75.68	93.33
1987	100.00	24.37	42.96	55.31	76.70	93.85
1988	100.00	27.20	45.28	56.99	77.60	94.20
1989	100.00	24.85	43.59	55.53	77.03	94.10
1990	100.00	24.73	43.18	55.01	76.73	94.06
1991	100.00	24.08	42.96	55.06	77.02	94.42
1992	100.00	26.75	45.44	57.21	78.21	94.84
1993	100.00	28.32	46.93	58.54	79.04	95.10
1994	100.00	28.08	46.90	58.90	79.25	95.11
1995	100.00	29.56	48.28	60.25	80.07	95.32
1996	100.00	31.62	50.36	61.96	80.96	95.57
1997	100.00	32.69	51.43	62.87	81.39	95.62
1998 *	100.00	33.50	52.76	64.28	82.23	95.67
1999	100.00	35.04	54.67	65.88	83.18	95.89

Footnotes at end of Table 8.

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Table 8.--Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986-1999

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns: [1]						
1986	101,988,805	50,994,402	76,491,604	91,789,924	96,889,365	100,968,917
1987	106,191,624	53,095,812	79,643,718	95,572,462	100,882,043	105,129,708
1988	108,879,154	54,439,577	81,659,366	97,991,239	103,435,196	107,790,362
1989	111,328,835	55,664,417	83,496,626	100,195,951	105,762,393	110,215,547
1990	112,717,959	56,358,980	84,538,469	101,446,163	107,082,061	111,590,779
1991	113,823,123	56,911,562	85,367,342	102,440,811	108,131,967	112,684,892
1992	112,687,747	56,343,874	84,515,810	101,418,972	107,053,360	111,560,870
1993	113,721,706	56,860,853	85,291,280	102,349,535	108,035,621	112,584,489
1994	115,061,112	57,530,556	86,295,834	103,555,001	109,308,056	113,910,501
1995	117,333,779	58,666,890	88,000,334	105,600,401	111,467,090	116,160,441
1996	119,487,813	59,743,907	89,615,860	107,539,032	113,513,422	118,292,935
1997	121,555,156	60,777,578	91,166,367	109,399,640	115,477,398	120,339,604
1998 *	123,852,016	61,926,008	92,889,012	111,466,814	117,659,415	122,613,496
1999	126,107,596	63,053,798	94,580,697	113,496,836	119,802,216	124,846,520
Income (millions of dollars):						
1986	2,804,691	436,071	1,072,460	1,707,142	2,007,756	2,377,178
1987	2,856,118	444,403	1,114,372	1,788,680	2,106,878	2,492,238
1988	3,153,639	470,115	1,180,578	1,898,531	2,242,469	2,668,964
1989	3,336,571	498,089	1,251,567	2,018,952	2,389,207	2,849,595
1990	3,497,118	523,271	1,315,027	2,120,956	2,509,535	2,992,431
1991	3,577,337	538,910	1,352,358	2,186,413	2,591,748	3,098,582
1992	3,763,002	556,512	1,393,300	2,253,273	2,672,983	3,206,581
1993	3,849,532	570,666	1,427,057	2,312,247	2,744,518	3,295,456
1994	4,033,642	597,475	1,489,242	2,416,392	2,871,670	3,454,078
1995	4,317,506	625,239	1,562,518	2,544,615	3,032,780	3,663,789
1996	4,670,644	655,183	1,645,537	2,685,713	3,207,665	3,897,777
1997	5,112,706	703,631	1,759,461	2,870,353	3,432,828	4,194,699
1998 *	5,626,390	756,923	1,884,384	3,083,991	3,701,176	4,553,611
1999	6,082,931	792,125	1,983,002	3,257,142	3,916,561	4,846,850
Total income tax (millions of dollars): [3]						
1986	366,763	24,467	89,186	167,901	211,210	273,635
1987	368,924	22,696	85,954	164,874	210,439	279,016
1988	412,549	23,918	92,397	177,429	225,756	300,341
1989	432,643	25,537	99,358	192,414	244,055	325,135
1990	446,906	26,562	103,980	201,050	253,915	336,376
1991	448,177	24,997	103,009	201,432	255,629	340,251
1992	476,067	24,573	103,715	203,706	259,764	348,706
1993	502,638	24,641	105,377	208,400	266,730	360,309
1994	534,693	26,153	110,950	219,783	283,923	384,560
1995	588,292	27,544	117,257	233,864	304,256	414,415
1996	658,059	29,142	125,310	250,333	326,655	449,988
1997	731,123	31,992	136,063	271,450	355,078	492,146
1998 *	783,437	33,889	139,249	279,860	370,134	520,973
1999	877,199	36,027	147,520	299,294	397,669	569,817

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Table 8.--Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986-1999--Continued

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Average tax rate (percentage): [4]						
1986	13.08	5.61	8.32	9.84	10.52	11.51
1987	12.92	5.11	7.71	9.22	9.99	11.20
1988	13.08	5.09	7.83	9.35	10.07	11.25
1989	12.97	5.13	7.94	9.53	10.21	11.41
1990	12.78	5.08	7.91	9.48	10.12	11.24
1991	12.53	4.64	7.62	9.21	9.86	10.98
1992	12.65	4.42	7.44	9.04	9.72	10.87
1993	13.06	4.32	7.38	9.01	9.72	10.93
1994	13.26	4.38	7.45	9.10	9.89	11.13
1995	13.63	4.41	7.50	9.19	10.03	11.31
1996	14.09	4.45	7.62	9.32	10.18	11.54
1997	14.30	4.55	7.73	9.46	10.34	11.73
1998 *	13.92	4.48	7.39	9.07	10.00	11.44
1999	14.42	4.55	7.44	9.19	10.15	11.76
Income share (percentage):						
1986	100.00	15.55	38.24	60.87	71.59	84.76
1987	100.00	15.56	39.02	62.63	73.77	87.26
1988	100.00	14.91	37.44	60.20	71.11	84.63
1989	100.00	14.93	37.51	60.51	71.61	85.40
1990	100.00	14.96	37.60	60.65	71.76	85.57
1991	100.00	15.06	37.80	61.12	72.45	86.62
1992	100.00	14.79	37.03	59.88	71.03	85.21
1993	100.00	14.82	37.07	60.07	71.29	85.61
1994	100.00	14.81	36.92	59.91	71.19	85.63
1995	100.00	14.48	36.19	58.94	70.24	84.86
1996	100.00	14.03	35.23	57.50	68.68	83.45
1997	100.00	13.76	34.41	56.14	67.14	82.04
1998 *	100.00	13.45	33.49	54.81	65.78	80.93
1999	100.00	13.02	32.60	53.55	64.39	79.68
Total income tax share (percentage):						
1986	100.00	6.67	24.32	45.78	57.59	74.61
1987	100.00	6.15	23.30	44.69	57.04	75.63
1988	100.00	5.80	22.40	43.01	54.72	72.80
1989	100.00	5.90	22.97	44.47	56.41	75.15
1990	100.00	5.94	23.27	44.99	56.82	75.27
1991	100.00	5.58	22.98	44.94	57.04	75.92
1992	100.00	5.16	21.79	42.79	54.56	73.25
1993	100.00	4.90	20.96	41.46	53.07	71.68
1994	100.00	4.89	20.75	41.10	53.10	71.92
1995	100.00	4.68	19.93	39.75	51.72	70.44
1996	100.00	4.43	19.04	38.04	49.64	68.38
1997	100.00	4.38	18.61	37.13	48.57	67.31
1998 *	100.00	4.33	17.77	35.72	47.24	66.50
1999	100.00	4.11	16.82	34.12	45.33	64.96

N/A--Not applicable.

* Numbers have been revised.

[1] The number of returns in columns 2 through 6, Tables 7 and 8, was processed in thousands and, therefore, reflects differences due to rounding .

[2] For Table 7, constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). See footnote 2 of this article for further details.

[3] Total income tax is the sum of income tax after credits and the alternative minimum tax.

[4] Average tax rate was computed by dividing total income tax (see footnote 3) by income, using the 1979 income concept (see text and Figure I).

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ATTACHMENT N

Docket No. OR03-5-001
Exhibit No. BPX-14
Transcript excerpt of testimony from Richard Bullock, Docket No. IS05-23, Pgs 01720-01732

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9 Q Has your company ever done or commissioned to be
10 done a study to determine the income level of the
11 individual limited partners of KMEP?
12 A No.
13 Q Has your company ever done or commissioned to be
14 done a study to determine which, if any, of the individual
15 partners of KMEP actually paid income taxes for the tax
16 year 2004?
17 A No.
18 PRESIDING JUDGE: The witness may be clear on
19 this, but I'm not. What do you mean by "your company"?
20 MR. BENNETT: I'm sorry, your Honor, SFPP, L.P.,
21 or any other of the Kinder Morgan companies or group that
22 you're associated with.
23 THE WITNESS: No; the answer is no.
24 BY MR. BENNETT:
25 Q Just for clarity of the record, who are you

1 employed by?
2 A I'm employed by Kinder Morgan, Inc.
3 Q Did Kinder Morgan, Inc., or any of the
4 affiliated Kinder Morgan companies perform or cause to be
5 performed the kind of studies that I mentioned to you in
6 the last two or three questions that I asked?
7 A No, not to my knowledge.
8 Q Do you hold the view that KMEP serves mostly as

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9 a tax shelter for wealthy individuals?
10 A Do I hold that view?
11 Q Yes.
12 A No.
13 Q And that's based on what?
14 A Well, it's based on the belief that losses are
15 not the driving motivation for investment in KMEP or any
16 other -- I shouldn't say "any other," but in KMEP. So
17 maybe to clarify a little more, if there were no cash
18 distributions made from KMEP to its partners but it was
19 able to allocate losses to the partners, then I don't think
20 it would be an attractive investment.
21 Q What do you think the primary motivation is for
22 people to buy into KMEP, then?
23 A Well, I believe it's a combination of things. I
24 believe it would be cash distributions, the fact that we
25 have had a track record of increased market value for the

1 limited partner common units and that there is an element
2 of tax deferral.
3 Q Could you explain to me generally what "gross
4 income" means?
5 A Gross income generally would indicate income
6 before deductions.
7 Q Income before any deductions; correct?

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8 A Yes.
9 Q And could you explain generally what the
10 term "net income" means?
11 A It would be generally gross income less
12 deductions.
13 Q And could you explain generally what you
14 understand the term "taxable income" to mean?
15 A Taxable income is the result of combining all
16 items of gross taxable income, deducting all allowable tax
17 deductions, and arriving at a net number.
18 Q Could you turn to SFN-5, which is an attachment
19 to your direct testimony? And if you will look, please, at
20 page 35 of 105.
21 A Okay.
22 Q You see there's a provision there that
23 begins "After the application of Section 5.1(d)(iii)(A);
24 right?
25 A Yes.

01723

1 Q Just for clarity of the record, could you read
2 that provision into the record?
3 A "After the application of Section
4 5.1(d)(iii)(A), all or any portion of the remaining items
5 of Partnership gross income or gain for the taxable period,
6 if any, shall be allocated 100 percent to the General
7 Partner, until the aggregate amount of such items allocated

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8 to the General Partner pursuant to this paragraph
9 5.1(d)(iii)(B) for the current taxable period and all
10 previous taxable periods is equal to the cumulative amount
11 of all Incentive Distributions made to the General Partner
12 (or its assignees) from the Closing Date to a date 45 days
13 after the end of the current taxable period."
14 Q Okay. Now, with reference to the term "gross
15 income" that appears on the third line there, do you have a
16 different understanding of gross income as it appears there
17 than the definition you gave me when I asked you the
18 question several minutes before?
19 A Well, I believe that there are different
20 interpretations of gross income.
21 Q How do you understand the term "gross income" as
22 it appears there in the provision that you just read?
23 A Well, gross income is not defined by the
24 partnership agreement. So again, I believe that that may
25 be something that is subject to interpretation.

1 Q What is your interpretation?
2 A Well, I can tell you how that's interpreted with
3 respect to the income that's allocated from the partnership
4 to the partners.
5 Q That's okay if you're going to give me your
6 interpretation. That's what I'm interested in. Are you

7 going to give me your interpretation of the term as it
8 appears there?
9 A Well, my interpretation with respect to the
10 partnership return would be the same as the way it's
11 interpreted for the partnership return.
12 Q And what is your interpretation?
13 A That the items -- it is gross income based on
14 the items of gross -- on the items of income that are
15 reported on Schedule K of the partnership return for
16 ordinary income, interest income, and dividend income.
17 Q Is that all of the income that KMEP receives in
18 a given year?
19 A No.
20 Q What income is left out that's not included in
21 the term "gross income" given the understanding of the
22 term "gross income" that you just enunciated?
23 A It could include the proceeds on the sale of
24 assets, and I believe that's it. The allocations that are
25 made for tax purposes are based on the amounts of ordinary

1 income, interest income, and dividend income. For ordinary
2 income, it's ordinary income after deductions, excluding
3 depreciation.
4 Q Okay. Are you saying, then, that gross income,
5 as it's used in this language here in SFN-5, includes all
6 receipts resulting from the regulated activity of SFPP,

7 L.P.?

8 A That would be, yes, part of it.

9 Q Okay. And what else does it include other than

10 all receipts from the regulated activity of SFPP, L.P.?

11 A It would include all receipts of all of the

12 underlying partnerships that allocate income to KMEP.

13 Q All right. What happens after an allocation of

14 gross income is made to the general partner of KMEP?

15 A The remaining -- the remaining taxable income is

16 then allocated to the limited partners and the general

17 partner in accordance with their ownership percentage,

18 except for the I units.

19 Q I should have been a little bit more precise.

20 What happens to the other part of the gross income after an

21 allocation of gross income is made to the general partner

22 of KMEP?

23 A Well, that's included in determining the amount

24 of income that gets allocated to the limited partners.

25 Q So are the limited partners allocated income

1 from gross income before any deductions are taken or

2 without any deductions being taken?

3 A Well, again, the allocation that is made in the

4 return is based on ordinary income after deductions

5 excluding depreciation, interest income, and dividend

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6 income. So the general partner gets allocated an amount of
7 those three items equal to the incentive distribution
8 first, and then whatever is remaining gets allocated to the
9 limited partners.
10 Q Sorry. I'm not really following you. Is there
11 a step between the allocation of gross income to the
12 general partner and the allocation of something else to the
13 limited partners that might be described as a netting of
14 income?
15 A I'm sorry. Could you repeat or rephrase that
16 for me?
17 Q Okay. After the allocation of gross income to
18 the general partner that's linked to the cash distribution
19 incentive that you've described, it's not, wouldn't you
20 agree, 100 percent of gross income that's allocated to the
21 general partner; right?
22 A No.
23 Q So after the allocation of some percentage of
24 gross income to the general partner, there remains an
25 additional amount of gross income; is that correct?

1 A Yes, that's true, but I don't think that's
2 exactly the way we do it for the return.
3 Q Okay. Stick with me now.
4 A Okay.
5 Q So what happens to the other portion of the

6 gross income to get some income allocated to limited
7 partners? Are there any steps in between those two points?
8 Do you understand what I'm asking?
9 A Not in the way you're presenting it, there
10 isn't. The way the income gets allocated, the amount of
11 the income allocation, you're getting to get the same
12 answer whether you use your approach or whether you use the
13 approach in the return that we use for the tax return.
14 Because the total amount of gross income that could be
15 allocated to the general partner, based on the incentive
16 distribution, is not going to exceed the amount of the
17 incentive distribution, correct. So whatever the incentive
18 distribution is, the general partner is going to get that
19 amount of income allocated to it. The balance will be
20 allocated to the limited partners.
21 Q So as the balance is being allocated to the
22 limited partners, does the notion of net income have any
23 meaning?
24 A I don't think so, because as you refer to it,
25 the balance, it is the balance. I'm not sure -- it's the

1 remainder. I'm not sure what -- exactly what the
2 relationship is to net income, again net income in terms of
3 for financial statement purposes or tax purposes. I'm not
4 sure I see -- I'm not sure that I see the relationship.

5 The incentive distribution resulted in allocation of
6 income. The balance goes to the limited partners.
7 Q Would you say that this provision is ambiguous?
8 A Not in the result of how much income is
9 allocated to the general partner based on the incentive
10 distribution, it's not.
11 Q But in any other way, is it unclear?
12 A Again, I think, you know, there can be some
13 interpretation as to what gross income means, but it's not
14 ambiguous with respect to the amount of taxable income to
15 be allocated to the general partner.
16 Q But you would agree, wouldn't you, that
17 reasonable people could differ about how to interpret the
18 provision, aside from the allocation of gross income to
19 general partner; is that correct?
20 A As long as it didn't result in a different
21 answer.
22 Q From your answer?
23 A Yes.
24 Q If there's a limited partner in KMEP reading
25 this agreement, how are they to understand whether their

1 allocation of taxable income comes from gross income or net
2 income?
3 A Well, this provision is worded this way, I
4 believe, to ensure that even in a circumstance where the

5 partnership had a tax loss, so there's no taxable income
6 calculated at the partnership level in total, it's a tax
7 loss. Then to the extent that the general partner gets an
8 incentive distribution, even though there's a tax loss, the
9 general partner is still going to get an allocation of
10 income.
11 So I think it's worded this way, again, to
12 ensure that anytime there's an incentive distribution, the
13 general partner is going to get allocated income, and that
14 income is going to be taxable. And to the extent it's
15 allocated to the general partner, it will reduce the amount
16 of taxable income that would be left to allocate to the
17 limited partners, or it would increase the amount of loss
18 that would be allocated to the limited partners. In other
19 words, the general partner is not going to get off the hook
20 for paying tax when the general partner receives an
21 incentive distribution.
22 Q All right. I want to stick with this notion of
23 net income, though, for limited partners. Are you equating
24 net income after the allocation of gross income to the
25 general partner with taxable income when you consider the

1 limited partners and the allocations they are to receive,
2 if any, from KMEP?
3 A Do I consider net income different from taxable

4 income?

5 Q Yes, that's one way of putting it. I was asking

6 you, do you equate the two, net income equals taxable

7 income after allocation of gross income to the general

8 partner of KMEP?

9 A No, because net income is net income for the

10 entity, and I think I understand your question is, you

11 know, this is an allocation of income to the general

12 partner. So in other words, any allocation made to the

13 general partner due to the incentive distribution is not

14 deducting -- it's not deducted in arriving at net income.

15 This is an allocation of income between the general partner

16 and the limited partners. So it's not a deduction of the

17 partnership to get to net income.

18 Q Right. I understand that. Now just focusing on

19 the universe of limited partners after this phenomenon has

20 happened of allocation of gross income to the general

21 partner, is the allocation of income thereafter to limited

22 partners an allocation of net income or an allocation of

23 taxable income?

24 A I think we're mixing concepts a little bit here.

25 I would normally think of net income in terms of financial

1 reporting and taxable income in terms of tax reporting.

2 The two aren't the same. So I don't really know how to

3 compare those two other than to say for financial

4 accounting purposes, the allocation made to the general
5 partner is not a deduction to arrive at net income.
6 The same is true for the calculation of taxable
7 income. It is not a deduction -- it is not a deduction in
8 arriving at taxable income. Under each circumstance, it is
9 an allocation of income to the general partner.
10 The allocation of income to the general partner
11 with respect to the incentive distribution will be the same
12 for financial accounting purposes as it is for tax
13 purposes, because that amount is dependent upon the total
14 incentive distribution paid to the general partner. But
15 the actual net income number for financial accounting
16 purposes and taxable income for tax purposes could be a
17 different number.
18 Q And with respect to the allocation of income to
19 the limited partners now, is that an allocation after
20 certain deductions have been taken against gross income
21 and, therefore, is an allocation of taxable income, or is
22 it something else?
23 A We are not allocating -- we are allocating
24 taxable income to the limited partners.
25 Q What happens to the tax basis of the general

1 partner after the allocation of gross income to the general
2 partner pursuant to this provision that we've been

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3 discussing for the last several minutes?

4 A The general partner's tax basis in the

5 partnership is increased by the amount of income allocated

6 to it, taxable income allocated to the general partner and

7 is reduced by the amount of cash distributed to the general

8 partner. So in effect, you'd get a dollar of income

9 allocated for each dollar of incentive distribution paid in

10 cash. They would offset. One would increase; the other

11 would decrease.

12 Q What is the benefit, if any, of this provision

13 that we've been talking about for ratepayers of SFPP, L.P.?

14 A I don't know. The partnership agreement was to

15 reflect allocations for tax purposes. I don't think it had

16 any concept of we're supposed to determine something from a

17 regulatory standpoint.

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ATTACHMENT O

Docket No. OR03-5-001
Exhibit No. BPX-15
Prepared Direct Testimony of Elizabeth H. Crowe
December 14, 2007

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Exhibit No. BPX-15

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
ExxonMobil Oil Corporation, and	)	
ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al*.
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

PREPARED DIRECT TESTIMONY
OF ELIZABETH H. CROWE
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

DECEMBER 14, 2007
(Revised April 30, 2008)

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Exhibit No. BPX-15

PREPARED DIRECT TESTIMONY OF ELIZABETH H. CROWE ON BEHALF OF BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

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Exhibit No. BPX-15

PREPARED DIRECT TESTIMONY
OF ELIZABETH H. CROWE
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

DECEMBER 14, 2007
(Revised February 20, 2008)

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EXHIBIT NO.	DESCRIPTION
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BPX-16	Curriculum Vitae of Elizabeth H. Crowe
BPX-17	KMEP Capital Structure & Cost of Debt Tables
BPX-18	Oil & Gas Partnership Per-Unit Income & Distributions
BPX-19	Corporate Group DCF Calculation
BPX-20	North Line & Oregon Line Cost-of-Service Calculations

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Exhibit No. BPX-15

PREPARED DIRECT TESTIMONY
OF ELIZABETH H. CROWE
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

DECEMBER 14, 2007
(Revised February 20, 2008)

LIST OF ACRONYMS IN CROWE TESTIMONY

ADIT	Accumulated Deferred Income Taxes
AFUDC	Allowance for Funds Used During Construction
BOY	Beginning-of-Year
CPA	Certified Public Accountant
EOY	End-of-Year
FERC	Federal Energy Regulatory Commission
KMEP	Kinder Morgan Energy Partners, L.P.
MLP	Master Limited Partnership
NYSE	New York Stock Exchange
PAA	Purchase Accounting Adjustment
SEC	U.S. Securities & Exchange Commission

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
ExxonMobil Oil Corporation, and	)	
ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al*.
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

PREPARED DIRECT TESTIMONY
OF ELIZABETH H. CROWE
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

I. IDENTIFICATION AND QUALIFICATIONS

Q. Please state your name, professional association, and business address.

A. My name is Elizabeth H. Crowe. I am President of Foresite Energy Services, LLC, an independent firm providing economic consulting services to the regulated energy industry.

Q. Please attach a copy of your resume and a list of some or all of the cases that you have participated in at the FERC.

A. A copy of my biography and list of proceedings in which I have testified or otherwise participated is attached as Exhibit No. BPX-16.

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II. MEETING COMPLAINANTS' BURDEN TO SHOW THAT CURRENT RATES ARE NOT "JUST AND REASONABLE."

Q. Please state whether the interstate revenues of SFPP, L.P. have exceeded its claimed interstate cost of service in 1999 through 2006, and, if so, by how much in both dollars and percentages.

A. Yes, SFPP has over-recovered its cost of service by between 12.6% and 36.1% in each of these years. The table below shows the numbers as reported by SFPP, L.P. in its FERC Form No. 6 annual report to the Commission, page 700:

Year	Total Cost of Service	Total Interstate Operating Revenues	Over-Recovery	Percent Over-Recovery
1999	$ 85,386,000	$ 113,968,000	$ 28,582,000	33.5%
2000	$ 88,870,968	$ 115,760,000	$ 26,889,032	30.3%
2001	$ 89,487,649	$ 121,765,000	$ 32,277,351	36.1%
2002	$ 94,168,364	$ 124,801,000	$ 30,632,636	32.5%
2003	$ 109,188,314	$ 124,956,117	$ 15,767,803	14.4%
2004	$ 100,535,308	$ 127,709,781	$ 27,174,473	27.0%
2005	$ 107,184,334	$ 136,683,920	$ 29,499,586	27.5%
2006	$ 123,587,556	$ 139,172,954	$ 15,585,398	12.6%

Q. As to the North Line, do you have any further evidence of whether the interstate revenues have exceeded the interstate cost of service in 2004?

A. Yes, I have two.

First, Hon. Peter Young, Presiding Administrative Law Judge, found that the cost of service claimed by SFPP in a proposed rate increase case on the North Line was overstated and ordered reductions in the rates and therefore in the revenues being collected.[1]

Second, in a 2004 decision of the Commission, the revenues collected on the North Line in 1999 were reported to be $15,429,000, and the cost of service for the same year was reported

[1] *SFPP, L.P.,* 116 FERC ¶ 63,059 (2006).

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1 to be $12,778,000. This $2,651,000 in excess revenues represents a 20.75% over-recovery of
2 costs.[2]
3 Q. How about the Oregon Line?
4 A. The same order showed revenues on the Oregon Line of $7,130,000, which are
5 $1,099,000, or 18.22%, higher than the $6,031,000 cost of service for the same year.
6 **III. RETURN**
7 **A. Overview**
8 Q. Would you accept the following statement to be true and correct: leaving aside for the
9 moment the question of rate base, critical elements in the Commission's methodology for
10 calculating a "return" component in a cost of service include (a) the debt/equity ratio; (b) the cost
11 of debt; and (c) the rate of return on equity?
12 A. Yes.
13 Q. Good. Let us review each in turn.
14 **B. Debt/Equity Ratio**
15 Q. In situations such as we have here, where the public utility, SFPP, is not a "stand alone"
16 entity, if it is an entity at all, where does one look to find a debt/equity ratio?
17 A. Generally, one looks to the parent entity which is ultimately responsible for the debts of
18 the public utility, and either secures or provides the borrowed capital used by the regulated
19 company.

[2] *SFPP, L.P.,* 106 FERC ¶ 61,300, at Appendix A, p. 38 (2004).

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Q. According to a Commission order issued in Docket No. OR07-14-000, 121 FERC ¶ 61,239, at ¶ 56 (2007), that entity is Kinder Morgan Energy Partners, L.P. (KMEP), so please use that entity.

A. Very well.

Q. What is the debt/equity ratio that you recommend?

A. I recommend a debt/equity ration of 63.8% debt and 36.2% equity.

Q. What is the provenance of that number?

A. I start with the long-term debt and partners' capital reported in KMEP's 2007 third quarter Form 10Q, filed with the U.S. Securities & Exchange Commission (SEC). I then make two adjustments to the partners' capital to arrive at my recommended debt/equity ratio.

Q. What adjustments do you make?

A. I remove two "write-ups" on the asset side of the balance sheet that operate to inflate the equity component, or partner's capital, on the liability side of the balance sheet.

First, I remove the "write-up" of hard assets from the depreciated original cost to "market" value which were made at the time of acquisition. This is sometimes called a "Purchase Accounting Adjustment" or PAA. Only in limited circumstances, not here presented, does the FERC allow a "write-up" of assets to be included in the rate base on which regulated rates are determined. Thus, FERC's practice is to calculate return on a rate base where the basic plant accounting is depreciated original cost. The amount to be removed for KMEP PAA related to its regulated subsidiaries is taken from the Initial Decision of Hon. Peter Young, Presiding Administrative Law Judge, in Docket No. IS05-230, which is another proceeding involving SFPP's North Line rates.[3]

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[3] *SFPP, L.P.,* 116 FERC ¶ 63,059, at ¶ 82 (2006).

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1 Second, I remove $1,076,000 designated as "goodwill" on KMEP's third quarter 2007
2 balance sheet, based on the testimony of CPA Kellye Jennings. She states that "goodwill" is
3 generally the "premium" paid by a new purchaser over and above even the "write-up" of the hard
4 assets. She further states that "goodwill" flows directly to the "equity" on the other side of the
5 balance sheet. Shippers should not have to provide a higher profit and higher debt coverage
6 based on good-will premiums paid, any more than they should pay for a write-up of the hard
7 assets.
8 Q. What is the net result of these adjustments?
9 A. The net result of these two adjustments is to increase the debt component of the capital
10 structure from 54.5% to my recommended 63.8%. These calculations are shown on Exhibit No.
11 BPX-17.
12 **C. Cost of Debt**
13 Q. Allow me to ask you to calculate the cost of debt for KMEP.
14 A. All right.
15 Q. Are there companies who give credit ratings to companies like KMEP?
16 A. Yes.
17 Q. In your view do interest rates tend to increase as bond ratings are decreased, and vice
18 versa?
19 A. Yes.
20 Q. Let us focus on one of the bond rating agencies, in an effort to make one calculation, with
21 the invitation for SFPP to make others if they wish. You may take it as a fact that one or more of
22 the bond rating agencies lowered the ratings of KMEP because of the then pending takeover of
23 Kinder Morgan Inc. by a consortium of Wall Street Equity Funds and a minority interest owned

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by some of the then current management, as was established at the California Public Utilities Commission and the SEC and cannot be denied by SFPP. Have you located a downgrade of KMEP credit in 2007?

A. Yes. I have a Moody's 5/30/07 downgrade of KMEP's credit rating.

Q. In your opinion, should ratepayers and consumers pay higher debt costs that were precipitated by the takeover of the ultimate holding company of SFPP?

A. No.

Q. Please quantify the result of the Moody downgrade of KMEP bond rating, subject to comparison subsequently with other bond rating agencies, if SFPP wishes to do so.

A. I start with the cost of long-term debt reported by KMEP in its 2006 annual report to the SEC (Form 10K). This cost of long-term debt is also quantified by SFPP in its East Line Expansion filing, Docket No. IS08-28, at Schedule 11, page 2. There the weighted cost of senior bonds is shown as 6.48%. To the senior bonds I add the commercial paper, which KMEP characterizes as long-term debt and which Hon. Peter Young found to be properly included in calculating the cost of debt for SFPP.[4] The amount and cost of commercial paper was also taken from KMEP's 2006 Form 10K. The total weighted debt cost when commercial paper is included is 6.26%, as shown on Exhibit No. BPX-17.

I then recommend further adjusting this cost of debt to account for the downgrade of KMEP's credit rating by Moody's. In May, 2007, Moody's downgraded the senior secured notes for "KMP" (KMEP) from Baa1 to Baa2.[5] Generally speaking, a downgrade of one full category would result in a cost of debt increase of about 20 basis points, based on observed historical differentials between different categories of Moody's utility bond rates. Thus, I

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[4] 116 FERC ¶ 63,059 at ¶ 87 (2006).
[5] Press release can be located at http://uk.reuters.com/article/oilRpt/idUKWNA652320070530.

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recommend lowering the cost of debt for SFPP from 6.26% to 6.19%, to reflect the one-third of a category downgrade by Moody's.

D. Rate of Return On Equity

1. Selection of proxy group

Q. I ask you to deal with the selection of a proxy group in two sections, this one which we will use, as its base, the proxy group selected by SFPP in its November, 2007 filing in SFPP, L.P. Docket No. IS08-28, and subsequently, one that you would recommend for Commission consideration. Is this all right with you?

A. Yes.

Q. What entities did SFPP use in this contemporaneous filing?

A. SFPP used the nine oil Master Limited Partnerships shown below, as presented on Schedule 10 of the Docket No. IS08-28 East Line Expansion filing.

Buckeye Partners, L.P.	Enbridge Energy Partners LP	Enterprise Products Partners	Kinder Morgan Energy Partners	Magellan Midstream	NuStar Energy	Plains All American	Sunoco Logistics	TEPPCO Partners

2. Calculating dividend yield

Q. I wish you to focus now on just the "dividend yield" portion of the DCF methodology for rate of return on equity.

A. Very well.

Q. Have you made a study of the various comments filed on this subject in the Commission's inquiry on proxy groups in Docket No. PL07-2?

A. No, though I have briefly reviewed the comments of a limited number of parties in that proceeding.

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Q. Before we begin, please give me a brief explanation of what the "dividend yield" calculation is all about and what the issue is?

A. I think a good brief explanation is this: the objective of the DCF methodology is to calculate a just and reasonable rate of return on equity for a regulated utility. That is, it seeks to determine what would represent a fair level of earnings, or return on investment, for an investor in stock or partnership units on the New York Stock Exchange (NYSE). The key here is the calculation of "earnings" or "income" to the investor.

In the case of a corporation, the basic formula is to divide the dividend per share by the appropriate stock market price in order to derive a percentage of income or earnings that the investor received on his investment, measured against the stock market price. This percentage is called the dividend yield. The dividend is a share of the income of the corporation, and thus is, as I understand it, taxable in the hands of the investor as investment income. The dividend yield is a return on equity investment measured in percentage terms by the stock market price.

In the case of Master Limited partnerships (MLP), we must limit our discussion of earned returns in the context of the DCF formula solely to the public limited partners who buy and sell on the NYSE. I am not aware of any controversy over this limitation. Nor is it reasonable that there be any, since the limited partners are the only investors whose "earnings" can be correlated with the stock market price to calculate a yield in this fashion.

The current controversy regarding application of the DCF methodology to MLPs centers on what to use for "dividends" in the "dividend yield" formula.

Q. Please stop there so we can take these up one at a time.

A. Very well.

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a. SFPP method: using the "cash distributions" to the public limited partners instead of using income in the "dividend yield" formula.

Q. First, I simply wish you replicate the "dividend yield" calculation of SFPP in the new East Line rate case, at Schedule 10 of Docket No. IS08-28, confirming that what SFPP labels as "Divd" in Schedule 10 are not "dividends," but in fact are the "cash distributions" that purportedly went to the public limited partners in KMEP.

A. I believe that the SFPP exhibit reports "cash distributions" in the column labeled "divd." I am not aware of any proceeding in which the "dividends" used for MLPs in the "dividend yield" column represented anything other than unit cash distributions divided by the average stock market price. I also confirm that the unit cash distributions used as "dividends" are ostensibly those that were paid to the public limited partners (the ones who buy and sell on the NYSE) on a per unit basis, as that would be what is reported as "dividends" by financial news services. Here is the SFPP claim:

Pipeline	Average Price (April - Sept, 2007)	"Dividend"	Yield
Buckeye Partners, L.P.	$ 51.45	$ 3.25	6.32%
Enbridge Energy Partners LP	$ 54.93	$ 3.70	6.74%
Enterprise Products Partners	$ 31.14	$ 1.93	6.20%
Kinder Morgan Energy Partners	$ 53.14	$ 3.40	6.40%
Magellan Midstream	$ 45.40	$ 2.52	5.55%
NuStar Energy	$ 64.93	$ 3.80	5.85%
Plains All American	$ 59.36	$ 3.32	5.59%
Sunoco Logistics	$ 57.58	$ 3.35	5.82%
TEPPCO Partners	$ 42.81	$ 2.74	6.40%
Average "Dividend" Yield			**6.10%**

Q. So SFPP wants to insert "cash distributions" to the public limited partners for "dividends" in the "dividend yield" formula?

A. Yes.

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Q. In your view, it is correct and appropriate to insert "cash distributions" for "dividends" in the dividend yield formula?

A. No. It is inappropriate to insert anything other than "income" or "earnings" that are allocated to the investors who are the publicly-traded limited partners into the DCF formula as a "dividend" yield. In addition, the testimonies of the CPAs Jennings and Sintetos, on which I rely, make it clear that "cash distributions" are never taxed as income from the partnership and are, in fact, nothing more than the investor getting some of his/her investment dollars back. This is a "return of capital," in the same way that depreciation is a "return of capital" to the owners of a pipeline and is collected as such in the pipeline's cost of service. Depreciation is never treated as income for purposes of calculating an income tax; in fact, depreciation is a non-cash expense deducted from revenues along with other cash expenses in order to derive taxable net income. Depreciation and cash distributions share the attributes of being a return of capital and thus do not belong in a formula which seeks to measure return on capital.

Q. In order to make consistent comparisons among methods, let us attempt to rely on the data provided to the SEC in Form 10-K, an annual report, for the nine proxy companies selected by SFPP, and calculate the "dividend" yield using cash distributions to limited partners and limited partner units for the computation. If we do, what do we have to work with here?

A. Looking at the data reported to the SEC, and using my best judgment, I can come up with a beginning-of-year (BOY) and an end-of-year (EOY) amount for the number of partnership units that correlate with the public limited partners and I can ascertain the total dollar amount of cash distributions claimed for these limited partners. Not all of the 10-Ks that I looked at were perfectly clear with respect to the categories of partnership units to include as limited partner

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units, but I used my best judgment. I can thus calculate a BOY and EOY and provide the average cash distribution and cash distribution yield.

Q. Now, so that we can have an "apples to apples" comparison with the next studies, please recalculate the SFPP method using the 2006 10-K data.

A. Here is the calculation of "dividends" and "dividend yield" using 2006 average stock prices and 2006 unit cash distributions to limited partners in the formula:

Pipeline	Avg. stock price 2006	Average "Dividend"	Yield
Buckeye Partners, L.P.	$ 43.67	$ 3.11	7.12%
Enbridge Energy Partners LP	$ 46.30	$ 3.70	7.99%
Enterprise Products Partners	$ 25.96	$ 1.80	6.94%
Kinder Morgan Energy Partners	$ 46.64	$ 3.20	6.87%
Magellan Midstream	$ 34.93	$ 2.34	6.69%
NuStar Energy	$ 51.86	$ 3.55	6.84%
Plains All American	$ 45.81	$ 2.46	5.36%
Sunoco Logistics	$ 43.54	$ 3.25	7.46%
TEPPCO Partners	$ 37.35	$ 2.46	6.59%
Avg "Dividend" Yield			**6.87%**

b. Using "cash distributions" to all partners, not just the public limited partners, as the insert into the dividend yield formula.

Q. One of the set of comments that I read was sponsored by Dr. Horst. He advocates using all the cash distributions, not just the distributions that go to the public limited partners. I summarize his rationale as something like this: in the MLP structure, with a General Partner who owns maybe 1% or 2% of the Master Limited Partnership, with limited partners of one kind or another owning the 98 or 99%, the General Partner often takes up to half of the cash distributions as an "incentive" to manage well (which I call a "management fee"), thus leaving less cash for the MLP to distribute to the limited partners. If I understand him correctly, then Dr. Horst believes the ratepayers should subsidize the "incentive" distribution to the General Partner.

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Would you help me try to quantify, as best we can working together, what number would result from that?

A. Yes, I will.

Q. Again using KMEP's SEC Form 10-K for 2006, what did you come up with for the "dividend yield" using all cash distributions to all partners as if they were "income" to the public limited partners?

A. I calculated an average cash distribution yield of 9.21%. Here is the table:

Pipeline	Avg. stock price 2006	Average "Dividend"	Yield
Buckeye Partners, L.P.	$ 43.67	$ 3.30	7.56%
Enbridge Energy Partners LP	$ 46.30	$ 4.22	9.12%
Enterprise Products Partners	$ 25.96	$ 2.05	7.90%
Kinder Morgan Energy Partners	$ 46.64	$ 6.37	13.66%
Magellan Midstream	$ 34.93	$ 3.27	9.37%
NuStar Energy	$ 51.86	$ 4.36	8.41%
Plains All American	$ 45.81	$ 2.87	6.26%
Sunoco Logistics	$ 43.54	$ 4.89	11.23%
TEPPCO Partners	$ 37.35	$ 3.49	9.34%
Avg "Dividend" Yield			**9.21%**

Q. Would you recommend this methodology?

A. No, it has all of the problems of the SFPP method and then some. The cash distributions used in the calculation do not all go to the investors but instead go to other partners, including the general partner for its "incentive" to provide good management. This is neither income nor even cash distributions to the public limited partners and cannot be correlated with the stock market price or used in the DCF formula to estimate the public investors' expected return on equity.

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1 **c. SEC type earnings**

2 Q. There are some who may wish to advocate that the "earnings" or "income" for the public
3 limited partners, if reflected in the financial reports to the SEC in the Form 10-K, be used on a
4 per unit basis to be inserted into the formula as "dividends." Please make the calculations,
5 consistently.

6 A. Using income allocated to limited partners and again using my judgment to determine the
7 appropriate units to include as limited partner units when the SEC reports were not entirely clear,
8 I calculate the following "dividend" yield for each of the proxy companies:

Pipeline	Avg. stock price 2006	Average "Dividend"	Yield
Buckeye Partners, L.P.	$ 43.67	$ 2.72	6.23%
Enbridge Energy Partners LP	$ 46.30	$ 3.70	7.98%
Enterprise Products Partners	$ 25.96	$ 1.23	4.73%
Kinder Morgan Energy Partners	$ 46.64	$ 2.04	4.36%
Magellan Midstream	$ 34.93	$ 2.38	6.81%
NuStar Energy	$ 51.86	$ 2.93	5.65%
Plains All American	$ 45.81	$ 2.70	5.88%
Sunoco Logistics	$ 43.54	$ 3.15	7.22%
TEPPCO Partners	$ 37.35	$ 1.81	4.84%
Avg "Dividend" Yield			**5.97%**

9 I have included all three of these tables, with supporting calculations, as Exhibit No.
10 BPX-18 attached to this testimony.

11 Q. Would you recommend that "income" as reported for financial purposes to the SEC as
12 allocated to the public limited partners be used as the "dividend" in the dividend yield formula?

13 A. No, for the reasons stated by CPAs Jennings and Sintetos. According to these two CPAs,
14 there is no necessary correlation between "book" income allocated to the limited partners and the
15 amount of "income" that really went to the public limited partners on their K-1 tax forms. In
16 addition, even SFPP in its annual report says that actual income can vary substantially from book

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1 income.[6] Finally, the calculation of a unit dividend based on income reported to the SEC as
2 going to limited partners involves the doubtful assumption that every partner gets the same
3 amount of income for each percentage, or unit, owned, and I know that this is not a true
4 statement, based on the testimony of CPA Sintetos.

5 **d. IRS type earnings.**

6 Q. Well, how about using the actual taxable income that flowed through to the public limited
7 partners as the "dividend" in the dividend yield formula?

8 A. I believe that this is the correct methodology, as confirmed by CPAs Sintetos and
9 Jennings.

10 Q. In your professional work at the FERC, have you ever seen a proponent of the use of
11 MLPs in their proxy groups use the income that actually reaches the limited partners who buy
12 and sell on the NYSE and thus have a stock market price to calculate with?

13 A. No.

14 Q. Perhaps SFPP will in this case, so let's anticipate. One of the MLPs in the SFPP proxy
15 group was KMEP. In 2006, what was the dividend yield for the class of public limited
16 partnership owners, using income flowed through?

17 A. It was less than zero.

18 Q. How do you know that?

19 A. From CPA Sintetos' testimony (BPX-5) and the SFPP exhibit he cited (BPX-10).

20 Q. What about the other MLPs in the proxy group sought by SFPP?

21 A. I have no information on that.

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[6] *See*, *e.g.,* SFPP 2006 FERC Form No. 6, Notes to Financial Statements, p. 123.6, which states in part, "SFPP's taxable income or loss, which may vary substantially from the net income or net loss it reports in its statement of income, is includable in the tax returns for each partner."

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Q. Can you discern the income from knowing the numbers for cash distributions and/or SEC earnings?

A. No, not according to the CPAs, and I agree.

Q. So, in the absence of any evidence that taxable income actually reaches the public limited partners in the tax sheltered MLPs, what can you say the "dividend yield" is?

A. I cannot say.

e. Conventional corporate proxy group

Q. Have you performed a DCF analysis using a proxy group composed of oil and gas corporate entities rather than MLPs?

A. Yes. This analysis is shown on Exhibit No. BPX-19. I have included ten corporate entities whose primary or exclusive business is in the oil and gas industry, and who own at least one major interstate oil or natural gas pipeline. While only one company (Sunoco, Inc.) owns primarily oil rather than natural gas transportation assets, this proxy group comes as close as any non-MLP group could come, in my opinion, to being representative of the business profile of KMEP, which also owns several large interstate natural gas pipelines.

Q. What are the results of the analysis for corporate oil and gas companies with respect to dividend yield?

A. Using the most recent six months' stock prices and dividend data (June – November, 2007), I calculate a range of dividend yields from 0.93% to 3.70%, with an average yield of 2.04%.

Q. What is your recommendation for a proxy group for this case, right now limiting to the dividend yield factor?

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A. Given the fact that the DCF formula, and the purpose for which it is used in FERC ratemaking, pertain to the calculation of an expected or reasonable rate of return on equity for the investing public, it is my opinion that only corporations, whose dividends represent actual income to the stock market investor, should be used in the proxy group. Thus, I recommend using the ten-member corporate proxy group shown on Exhibit No. BPX-19.

3. Growth factors

Q. What is the basic theory that underlies the FERC methodology for calculating the "growth in earnings" factors for the rate of return on equity?

A. In my view, the basic theory is that there is a positive correlation between growth in earnings and growth in corporate dividends.

Q. If the Commission chose to use SEC type MLP earnings for the public limited partners as the "dividend" in the dividend yield formula, would this theory apply?

A. Yes, it would, if the SEC-reported earnings were, in fact, passed on to the public limited partners.

Q. If the Commission decided to use "income" actually flowed through to the public limited partners as the "dividend" in the dividend yield formula, would this theory apply?

A. Yes.

Q. If the Commission decided to use "cash distributions" as the dividend in the dividend yield formula, would this theory apply?

A. No. Cash distributions are not limited to cash derived from earnings, but can and do come from borrowing cash from banks, from floating new equity securities issues and from flowing through other depreciation dollars and other available cash as well, so the theory will not

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1 work. The MLP can make cash distributions be virtually whatever they want them to be, so long
2 as they can borrow money or float new units to fund the increasing distributions.

3 **4. Placing SFPP in range of proxy group.**

4 Q. Since you do not know what proxy group SFPP will urge in this case, it would be
5 premature and unfair to ask you to place SFPP within the range of the proxies, so let me ask a
6 general question. What factor do you presently think would be most crucial in placing SFPP in
7 the range of a proxy group?

8 A. The fact that SFPP is the only refined petroleum product pipeline in the state of Oregon
9 and in the State of Arizona, and is the only way to reach the State of Nevada, directly or through
10 its affiliate, Calnev. This gives SFPP a virtual monopoly over the transportation of refined
11 petroleum products by common carrier pipeline in these areas with the attendant reduced risks,
12 meaning that SFPP should be at or near the bottom of the range of reasonable returns produced
13 by the proxy group.

14 Q. Let us leave relative risk as an open question here. I ask you, please, when you make the
15 next calculation, to give SFPP the median or mean, whichever is most favorable to it, subject to
16 revisiting when we see what SFPP has to say.

17 **E. Recommendations Regarding Rate of Return**

18 Q. Now Ms. Crowe, what do you recommend for the elements of the return components that
19 we have discussed?

20 A. I recommend a debt/equity ratio of 63.8%/36.2%, a cost of debt of 6.19%, and a nominal
21 rate of return on equity of 10.56%, assuming that SFPP should be given the mean, which is
22 higher than the median in the corporate proxy group analysis I performed.

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IV. INCOME TAX ALLOWANCE

A. Defining Taxable Income

Q. What is the starting point for determining "taxable income" for an oil pipeline?

A. There are two starting points for an oil pipeline: a real return on equity, or current "income," and a deferred return on equity component, consisting of the difference between the real rate of return on equity and the nominal rate of return on equity. This second component is usually called "Deferred earnings" and is included in calculating the trended original cost (TOC) rate base as well as being amortized in the cost of service under "Amortization of deferred earnings," or something similar.

Q. Is "depreciation" included?

A. No, depreciation is a return of capital, not income.

Q. Are "cash distributions" included?

A. No, like depreciation, cash distributions are a return of capital, not income.

Q. I notice that sometimes pipelines add a claim for income for Allowance for Funds Used During Construction ("AFUDC"); is this income?

A. Pipelines generally will add the annual depreciation allowance for equity AFUDC to the calculated return on equity for purposes of computing an income tax allowance, because equity AFUDC is not depreciable for tax purposes – it is disallowed by the IRS. This equity AFUDC depreciation adjustment to calculated return on equity is not income.

Q. What about a claim involving ITC?

A. SFPP includes "Depreciation of ITC Basis Reduction" as another adder to calculated return on equity for purposes of computing the income tax allowance. As I understand it, this is not income, either, but has to do with income tax credits. If I understand CPA Sintetos'

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1 testimony about "flow-through" on partnerships, any ITC basis reduction should have long since
2 been passed through to the partners in the partnership.
3 Q. Now let us cover the deductions and credits from "income" in order to determine "taxable
4 income."
5 A. Very well.
6 **B. Deductions And Credits To Reduce "Income" To "Taxable Income."**
7 **1. State income taxes**
8 Q. Are any state income taxes a deduction from "income" to arrive at "taxable income"?
9 A. Yes. Because state income taxes are deductible for federal income tax purposes, the
10 weighted total federal and state income tax rate is normally derived by a downward adjustment
11 to the applicable state income tax rate. This is routine in FERC ratemaking proceedings.
12 **2. Depreciation**
13 Q. Is depreciation a deduction from "income"?
14 A. Yes, depreciation is a non-cash expense that utilities deduct from their revenues, along
15 with other cash expenses, to derive their taxable income.
16 Q. For corporate public utilities which are tax-paying entities, how is depreciation usually
17 accounted for?
18 A. Usually depreciation is accounted for in the ratemaking process in two ways. First, the
19 FERC straight-line "book" depreciation is used to calculate the depreciation component of the
20 cost of service. Second, any accelerated depreciation that reduces the taxable income above
21 straight-line depreciation is accounted for separately. The basic assumption is that the tax-
22 paying corporation "defers" the payment of taxes resulting from the difference between book

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depreciation and accelerated tax depreciation. This is generally referred to as "normalized" taxes for the tax-paying corporation. Here is the way it usually works.

First, the tax-paying corporation deducts the full amount of accelerated depreciation from its own income tax return with the result that its actual or potential income taxes are reduced in the early years of operation from what they would have been if only book depreciation had been deducted.

Second, the rate payers initially pay an income tax allowance as if there were no accelerated tax deductions, thus paying more than the actual or potential cost of income taxes.

Third, the tax-paying corporation then calculates the savings in income taxes resulting from the full deduction of accelerated depreciation and records that number in an account called "Accumulated Deferred Income Taxes" ("ADIT").

Fourth, the ADIT account at the time of a rate or complaint case is deducted from rate base, in recognition that the ratepayers have advanced more money to the corporation for income taxes than the corporation actually pays.

Fifth, when the accelerated income tax deductions are used up, the corporation deducts the increased taxes from the ADIT account.

Sixth, if and when the ADIT account is "overfunded" -- that is, the company owes less in deferred taxes than the amount that has been set aside in the account — then the corporation must flow the over-funded portion of the ADIT account back to the cost of service as a reduction in rates, usually by lowering the taxable income and income tax allowance.

Q. Does this methodology apply to partnerships that do not pay any income taxes but flow through all depreciation, both straight line and accelerated, to the partners each year, deferring nothing?

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1 A. No. According to CPA Sintetos' testimony, I would classify SFPP as a "flow-through"
2 entity, one that cannot and does not "normalize" taxes.
3 Q. What is the consequence of this conclusion?
4 A. The ratepayers should not be called upon to pay income taxes on more than the taxable
5 income flowed through the partnership. In this situation, there would be nothing to add to the
6 ADIT account, since the actual tax liability is recognized currently.
7 Q. Very well, Ms. Crowe, in order to establish this principle, I direct you to accept for this
8 moment in time the amount of tax savings, if any, that SFPP calculated for addition to the ADIT
9 account and calculate the deduction from income that would yield the tax savings.
10 A. Recognizing that the calculation depends upon the income tax rate, an issue we have not
11 addressed yet, I can only give you the answer in terms of the claim of SFPP for an income tax
12 rate.
13 Q. That will be sufficient to establish the principle.
14 A. In this case, SFPP's ADIT account for the North Line increased from 2003 to 2004 by the
15 amount of $177,000, as shown on page 3b of 6 of the North Line cost of service provided by
16 SFPP in this proceeding. Using SFPP's own blended income tax rate of 37.61% (shown on the
17 Inputs page of the same cost of service), I calculate a deduction from income in the amount of
18 $471,000. For the Oregon Line, the ADIT account did not increase from 2003 to 2004, so there
19 would be no additional deduction from income recognized in that year.
20 **3. Crediting the ADIT account**
21 Q. You said above, in item "sixth," that when the ADIT account is "overfunded," the cost of
22 service is credited, lowering the tax allowance and the rates, as I understood you.
23 A. Yes, that it usually called the South Georgia (and reverse South Georgia) method.

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1 Q. Have you observed SFPP making South Georgia credits in their cost of service?

2 A. Yes, SFPP has made several adjustments of this type on Schedule 7 of the cost of service

3 files provided for 2003 and 2004 in this proceeding.

4 Q. Now, Ms. Crowe, since SFPP, L.P. is and always has been a "flow-through" entity for

5 income tax purposes, having no income taxes itself to defer and having flowed through all

6 accelerated depreciation to its partners each year, how much, if any, is the ADIT account

7 overfunded?

8 A. It is 100% overfunded.

9 Q. Just taking for now the SFPP claim for the total amount in ADIT, what is that number?

10 A. SFPP claims total ADIT at the end of 2004 of $1.23 million on the Oregon Line and

11 $5.26 million on the North Line (see Schedule 7).

12 Q. What do you recommend in this case?

13 A. I recommend that the ADIT account, having been funded by the ratepayers' money, be

14 amortized back to the ratepayers as a credit to the cost of service.

15 **C. Determining The Amount of Investment Income At KMEP Level That Is**
16 **Subject To Actual Or Potential Income Tax Liability**

17 Q. Now let us assume that there is some taxable income that flows up to KMEP, the entity

18 which is apparently to be used under the Policy Statement for determining an income tax rate to

19 be used for the income tax allowance. You may take it from me, as a legal interpretation, the tax

20 rate must be calculated on the basis of actual or potential taxes on the investment income, if any,

21 that actually reaches the partners, if SFPP can prove it. What steps do you recommend be taken?

22 A. I recommend two adjustments be made to the taxable income in order to determine an

23 income tax rate to apply in this proceeding. My recommendations are based on the testimony of

24 CPA Sintetos.

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1 **1. Deducting the management fee of the General Partner**

2 First, it is my understanding that the amount of income that the general partner (GP)
3 receives as what is called by KMEP an "incentive" for good management of the MLP is a
4 "guaranteed payment to partners" under the IRS code, in part because the GP is guaranteed
5 income equal to up to a 50% share of the cash distributions, whether the partnership has any
6 income or not. This is, as I understand it, credited to the income of the partnership and taken off
7 the top. The remainder is the income of the partnership that goes to all partners, in accordance
8 with the partnership agreement, including the GP. So this guaranteed payment to the GP, or
9 incentive amount, should be deducted from income.

10 **2. Calculating taxable income to public limited partners including the**
11 **"write up" deduction under 743(b)**

12 Second, I understand from CPA Sintetos that public limited partners in KMEP are
13 allowed to "write up" their tax basis to the amount of the purchase price on the NYSE and start
14 depreciation all over again. So this depreciation deduction, accounted for by the MLP, is
15 deducted from income as well as the depreciation and credits that flow through the partnership
16 itself. This would further reduce the actual or potential income taxes of the public limited
17 partners and therefore most likely the income tax rate as well.

18 Of course, if losses in income are flowed through, then there would be no income tax to
19 pay at all and the income tax rate would be zero.

20 Q. Do you have any reason to believe that the public limited partners in KMEP received, as
21 a class, losses in income?

22 A. Yes, based on CPA Sintetos' testimony.

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1 **3. Determining the appropriate income tax rate for each category**

2 Q. The Commission has held that it is to be presumed that all individuals pay 28% of their
3 taxable income in income taxes. Do you believe this presumption is reasonable?

4 A. Based on CPA Sintetos' testimony, I do not.

5 **D. Vectoring The Income Tax Allowance To Those Who Pay Income Taxes And**
6 **Other Prerequisites To Applying The Policy Statement**

7 Q. Under the Policy Statement, the "partnership agreement" at the level where the "partners"
8 who have actual or potential income tax liability on the "net income," here the North Line and
9 Oregon Line segments of SFPP serving the interstate market, must be amended so as to vector
10 the subsidy to be collected from shippers and consumers only to those who have the actual or
11 potential liability on the investment income that they receive. I have read what SFPP claims is
12 the current KMEP partnership agreement and found nothing that would comply with this Policy
13 Statement requirement. Thus the income tax allowance is, again, zero as a matter of law.
14 However, as a matter of fact, are you aware of any effort on the part of KMEP to flow through an
15 income tax allowance to correlate with the income tax actual or potential liability?

16 A. No. All I can say is that the cash distributions to the public limited partners appear from
17 KMEP's SEC reports to be on a straight per-unit basis. What they do for tax purposes in
18 allocating income, if any, I do not know.

19 **V. CONCLUSION**

20 Q. Now is the time to sum up in these ten seconds of time. In doing so, I want you to accept,
21 only provisionally, the cost of service items claimed by SFPP that you do not adjust as well as
22 the claimed volumes, as is. Put an "*" by numbers presently taken "as is", without prejudice to
23 revision in the light of developments.

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1 A. My illustrative cost of service calculations are contained on Exhibit No. BPX-20, and

2 summarized below:

NORTH LINE

Description	BPX 2004		SFPP 2004
Average Net TOC Rate Base	$46,387	*	$46,476
Weighted Cost of Capital	6.69%		8.30%
Allowed Total Return	$3,101		$3,858
Add: Permanent Tax Differences:			
Amortization of Deferred Earnings	$247	*	$247
Depreciation of Equity AFUDC	$24		$27
Depreciation of ITC Basis Reduction	$13		$13
Less: Debt Return	$1,588		$1,363
Subtotal	$1,798		$2,783
Amortization of Unfunded and Overfunded ADIT	($1,072)		($20)
Net to Tax Multiplier	0.60286		0.60286
Subtotal	$438		$1,665
Income Tax Allowance	$0		$1,645
Add Carrier Expenses:			
Operating Expenses Excluding Depreciation	$10,237	*	$10,237
Carrier Depreciation Expense	$1,733	*	$1,733
Amortization of AFUDC	$24	*	$26
Amortization of Deferred Earnings	$247	*	$247
Total Operating Expenses	$12,241		$12,244
Total Cost of Service	$14,271		$17,747

Note: * indicates amount is accepted at this time for illustrative purposes

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OREGON LINE

Description	BPX 2004		SFPP 2004
Average Net TOC Rate Base	$8,738	*	$8,741
Weighted Cost of Capital	6.74%		8.44%
Allowed Total Return	$589		$738
Add: Permanent Tax Differences:			
Amortization of Deferred Earnings	$77	*	$77
Depreciation of Equity AFUDC	$6		$6
Depreciation of ITC Basis Reduction	$5		$5
Less: Debt Return	$271		$232
Subtotal	$406		$593
Amortization of Unfunded and Overfunded ADIT	($252)	(1)	($6)
Net to Tax Multiplier	0.57613		0.57613
Subtotal	$88		$338
Income Tax Allowance	$0		$332
Add Carrier Expenses:			
Operating Expenses Excluding Depreciation	$4,748	*	$4,748
Carrier Depreciation Expense	$439	*	$439
Amortization of AFUDC	$5	*	$5
Amortization of Deferred Earnings	$77	*	$77
Total Operating Expenses	$5,269		$5,269
Total Cost of Service	$5,606		$6,339

Note: * indicates amount is accepted at this time for illustrative purposes

These calculations reflect my recommended capital structure, cost of debt, rate of return on equity, amortization of the over-funded ADIT balance and a zero income tax allowance. On the North Line, my total cost of service of $14.3 million is $2.0 million, or 12.5%, less than SFPP's reported revenues of $16.3 million for the same year (Schedule 21 of the cost of service provided

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by SFPP). On the Oregon line, my $5.6 million cost of service is $2.4 million, or 29.7%, less than SFPP's reported revenues of $8.0 million for the same year.

Q. Does this conclude your testimony at this time?

A. Yes.

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company, BP West Coast Products LLC, ExxonMobil Oil Corporation, and ConocoPhillips Company, Complainants, v. SFPP, L.P., Respondent.	))))))))))))	Docket Nos. OR03-5-001, *et al.*

AUTHENTICATION OF TESTIMONY

I, Elizabeth H. Crowe, hereby declare under penalty of perjury that I have reviewed the foregoing testimony and it is true and accurate to the best of my knowledge, information, and belief.

Executed this 13th day of December, 2007.

Elizabeth H. Crowe
ELIZABETH H. CROWE

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ATTACHMENT P

Docket No. OR03-5-001
Exhibit No. BPX-16
Curriculum Vitae of Elizabeth H. Crowe

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ELIZABETH H. CROWE

Ms. Crowe is President of Foresite Energy Services LLC, an independent consulting firm offering economic consulting services to the energy industries. She has been engaged in energy consulting since 1981. Her consulting work has focused primarily on the transportation of natural gas, and has included:

Regulatory Analysis and Expert Testimony

- Testimony at the FERC in pipeline rate cases concerning cost of service, cost classification, cost allocation, rate design and throughput levels.
- Preparation of cost of service, rates and financial schedules for natural gas pipeline certificate applications at the FERC.
- Development of an incentivized cost-based ratemaking proposal for gas pipelines.
- Analysis and recommendations in FERC proposed rulemakings to revise Uniform System of Accounts and pipeline filing requirements.
- Analysis of competition on a pipeline applying to participate in FERC's capacity release pilot program.
- Feasibility analysis of FERC's proposed negotiated services policy for natural gas pipelines.
- Preparation of cost and rate information in CRE filing for proposed natural gas pipeline in Mexico, and development of economic bid packages on several gas distribution systems.

Supply, Demand and Price Analysis

- Analysis of the competitive positions of specific natural gas pipelines through development of average cost profiles.
- Quantitative analysis of the vulnerability of a producer's sales to specific pipeline companies due to the impact of FERC Order Nos. 380 and 436.
- For a major transmission company, profiles of direct and indirect sales and end-use markets to assist in the determination of market prospects.
- For a natural gas pipeline, analysis of a two-level incentive pricing rate design.
- Development of various databases for monitoring supplies, deliveries, prices and other developments and trends in the U.S. natural gas industry.

Prior to founding Foresite Energy Services LLC, Ms. Crowe was Vice President of Swanson Energy Group, Inc., where she worked in various capacities from 1981 to 2000. Ms. Crowe received a Bachelor of Arts in Economics, magna cum laude, from Wellesley College in 1975.

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email: fes@foresiteenergy.com

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LIST OF REGULATORY PROCEEDINGS AND TESTIMONY
of
Elizabeth H. Crowe

FORESITE ENERGY SERVICES, LLC
P.O. Box 318
Wenham, MA 01984

A. Testimony Before the FERC

1. Southern Natural Gas Company, Docket No. RP93-15
2. Tennessee Gas Pipeline Company, Docket No. RP91-203 (Phase I)
3. Mojave Pipeline Company, Docket No. RP95-175
4. Stingray Pipeline Company, Docket No. RP99-166
5. Wyoming Interstate Company, Docket No. RP99-381
6. Trailblazer Pipeline Company, Docket No. RP03-162
7. High Island Offshore System, L.L.C., Docket No.RP03-221
8. Texaco Refining and Marketing Inc., et. al., v. SFPP, L.P., Docket Nos. OR96-2, et. al.
9. Kern River Gas Transmission Company, Docket No. RP04-274
10. SFPP, L.P., Docket No. IS05-230

B. Filed Testimony at the FERC

1. Tennessee Gas Pipeline Company, Docket No. RP91-203
2. Southern Natural Gas Company, Docket No. RP92-134
3. Texas Eastern Transmission Corporation, Docket No. RP93-192
4. Tennessee Gas Pipeline Company, Docket No. RP91-203 (Phase II)
5. Koch Gateway Pipeline Company, Docket No. RP94-120
6. Tennessee Gas Pipeline Company, Docket No. RP95-112
7. Northern Natural Gas Company, Docket No. RP95-185
8. Indicated Shippers v. Sea Robin Pipeline Company, Docket No. RP95-167
9. El Paso Natural Gas Company, Docket No. RP95-363 (Affidavit)
10. Colorado Interstate Gas Company, Docket No. RP96-190
11. Eastern Shore Natural Gas Company, Docket No. RP97-32
12. Columbia Gulf Transmission Company, Docket No. RP97-52
13. Wyoming Interstate Company, Ltd., Docket No. RP97-375
14. Koch Gateway Pipeline Company, Docket No. RP97-373
15. Trailblazer Pipeline Company, Docket No. RP97-408
16. KN Interstate Gas Transmission Company, Docket No. RP98-117
17. Mojave Pipeline Company, Docket No. RP01-172
18. Texas Gas Transmission Corporation, Docket No. RP00-260 (Affidavit)
19. Northern Natural Gas Company, Docket No. RP03-398

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20. Maritimes & Northeast Pipeline, L.L.C., Docket No. RP04-360
21. Northern Border Pipeline Company, Docket No. RP06-72
22. Southwest Gas Storage Company, Docket No. RP07-34
23. Gas Transmission Northwest Corporation, Docket No. RP06-407

C. Testimony Before Other Regulatory Agencies

1. Regulatory Commission of Alaska: Beluga Pipe Line Company, Docket No. U-04-81
2. Regulatory Commission of Alaska: Cook Inlet Gas Gathering System, Docket No. P-04-20

D. Filed Testimony at Other Regulatory Agencies

1. Regulatory Commission of Alaska: Kenai-Nikiski Pipeline, Docket No. P-03-07
2. Regulatory Commission of Alaska: Kenai-Nikiski Pipeline, Docket No. P-04-12
3. Regulatory Commission of Alaska: Beluga Pipeline Company, Docket No. U-07-141

E. Filings in Other FERC Proceedings

1. Regulation of Negotiated Transportation Services of Natural Gas Pipelines, Docket No. RM96-7; "Negotiated / Enhanced Services in the Natural Gas Pipeline and Other Industries: A Response to the Brattle Group Paper" (August, 1996)

2. Secondary Market Transactions on Interstate Natural Gas Pipelines, Docket No. RM96-14; "Response to Columbia Gas and Columbia Gulf Findings Regarding Competition in Their Secondary Transportation Markets" (October, 1996)

3. Regulation of Interstate Natural Gas Transportation Services, Docket No. RM98-12; "An Incentivized Cost-Based Ratemaking Proposal to Increase the Efficiency of the Ratemaking Process" (April, 1999)

4. Regulation of Short-Term Natural Gas Transportation Services, and Regulation of Interstate Natural Gas Transportation Services, Docket No. RM98-10-011, "An Analysis of Long-Term Contracting Practices on Selected Interstate Pipelines" (July, 2002)

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ATTACHMENT Q

Docket No. OR03-5-001
Exhibit No. BPX-17
KMEP Capital Structure & Cost of Debt Tables

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SFPP, L.P.
Docket No. OR-03-5-001

KMEP Capital Structure
3rd Quarter 2007
($ millions)

		(A)	(B)	(C)
1	Long-term debt	$ 6,457		63.8%
2	Partners' capital		$ 5,382	
3	Less: Good will		$ (1,076)	
4	Less: PAA write-up		$ (649)	
5	Net partner's capital	$ 3,658		36.2%
6	Total capitalization	10,114.3		

Source: SEC Form 10Q, 3rd Quarter 2007, pages 4 and 70
PAA from 116 FERC ¶ 63,059, P.82 (2006).

Cost of debt
As of December 31, 2006

		Principal	Cost
7	Senior bonds	$ 4,246	6.48%
8	Commercial paper	$ 1,098	5.42%
9	Total	$ 5,344	6.26%

Source: Docket No. IS08-28, Schedule 11, page 2 (senior bonds)
KMEP 2006 SEC Form 10K pages 170-172 (commercial paper)

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ATTACHMENT R

Docket No. OR03-5-001
Exhibit No. BPX-18
Oil & Gas Partnership Per-Unit Income & Distributions

SFPP L.P.
Docket No. OR03-5-001

Oil & Gas Partnership Per-Unit Income & Distributions
Year Ending 2006

		(A) Buckeye Partners, L.P.	(B) Enbridge Energy Partners LP (1)	(C) Enterprise Products Partners	(D) Kinder Morgan Energy Partners (3)	(E) Magellan Midstream (2)	(F) NuStar Energy (2)	(G) Plains All American	(H) Sunoco Logistics (2)	(I) TEPPCO Partners	(J) Average
	Limited Partners:										
1	Net income ($000s)	103,477	199,000	504,156	336,263	151,134	123,180	246,900	63,029	144,318	
2	Cash Distributions ($000s)	(118,173)	(199,300)	(739,632)	(529,259)	(148,496)	(149,004)	(224,900)	(65,104)	(196,665)	
3	BOY # Units (000s)	36,864	53,852	389,110	162,319	60,681	37,210	73,800	17,231	69,964	
4	EOY # Units (000s)	39,165	53,852	431,303	168,130	66,361	46,810	109,400	22,844	89,805	
5	Cash Distributions to All Partners ($000s)	(125,501)	(227,400)	(841,437)	(1,052,457)	(207,966)	(183,290)	(262,600)	(97,987)	(278,566)	
	Ltd Partner Income per Ltd Partner Unit										
6	Beginning of Year	$ 2.81	$ 3.70	$ 1.30	$ 2.07	$ 2.49	$ 3.31	$ 3.35	$ 3.66	$ 2.06	
7	End of Year	$ 2.64	$ 3.70	$ 1.17	$ 2.00	$ 2.28	$ 2.63	$ 2.26	$ 2.76	$ 1.61	
8	Average Year	**$ 2.72**	**$ 3.70**	**$ 1.23**	**$ 2.04**	**$ 2.38**	**$ 2.93**	**$ 2.70**	**$ 3.15**	**$ 1.81**	
	Ltd Partner Distributions per Ltd Partner Unit										
9	Beginning of Year	$ 3.21	$ 3.70	$ 1.90	$ 3.26	$ 2.45	$ 4.00	$ 3.05	$ 3.78	$ 2.81	
10	End of Year	$ 3.02	$ 3.70	$ 1.71	$ 3.15	$ 2.24	$ 3.18	$ 2.06	$ 2.85	$ 2.19	
11	Average Year	**$ 3.11**	**$ 3.70**	**$ 1.80**	**$ 3.20**	**$ 2.34**	**$ 3.55**	**$ 2.46**	**$ 3.25**	**$ 2.46**	
	Total Distributions per Ltd. Partner Unit (4)										
12	Beginning of Year	$ 3.40	$ 4.22	$ 2.16	$ 6.48	$ 3.43	$ 4.93	$ 3.56	$ 5.69	$ 3.98	
13	End of Year	$ 3.20	$ 4.22	$ 1.95	$ 6.26	$ 3.13	$ 3.92	$ 2.40	$ 4.29	$ 3.10	
14	Average Year	**$ 3.30**	**$ 4.22**	**$ 2.05**	**$ 6.37**	**$ 3.27**	**$ 4.36**	**$ 2.87**	**$ 4.89**	**$ 3.49**	
15	Average 2006 Stock Price	$ 43.67	$ 46.30	$ 25.96	$ 46.64	$ 34.93	$ 51.86	$ 45.81	$ 43.54	$ 37.35	
	Average Year Yield										
16	Ltd Partner Income per Ltd Partner Unit	6.23%	7.98%	4.73%	4.36%	6.81%	5.65%	5.88%	7.22%	4.84%	5.97%
17	Ltd Partner Distributions per Ltd Partner Unit	7.12%	7.99%	6.94%	6.87%	6.69%	6.84%	5.36%	7.46%	6.59%	6.87%
18	Total Distributions per Ltd. Partner Unit (4)	7.56%	9.12%	7.90%	13.66%	9.37%	8.41%	6.26%	11.23%	9.34%	9.21%

Notes
(1) "Limited partner" includes Class A & Class B Common Units.
(2) "Limited partner" includes Common Units only
(3) "Limited partner" includes Common Units and Class B Units.
(4) Total distributions includes General Partner & Subordinated unit (if applicable) distributions divided by limited partner units only.

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ATTACHMENT S

Docket No. OR03-5-001
Exhibit No. BPX-19
Corporate Group DCF Calculation

SFPP L.P.
Docket No. OR03-5-001

Corporate Group DCF Calculation

	(A) Company	(B) Symbol	(C) Dividend Yield *(1)*	(D) 5 Year Analyst Growth Estimate	(E) Estimated GDP Growth Rate *(2)*	(F) Weighted Avg. Growth	(G) Adjusted Dividend Yield	(H) Yield Plus Growth
1	El Paso Corp.	EP	0.95%	11.33%	4.63%	9.10%	1.00%	10.09%
2	Equitable Resources	EQT	1.71%	11.20%	4.63%	9.01%	1.79%	10.80%
3	National Fuel Gas	NFG	2.73%	4.35%	4.63%	4.44%	2.79%	7.23%
4	ONEOK, Inc.	OKE	2.93%	8.80%	4.63%	7.41%	3.04%	10.45%
5	Questar	STR	0.93%	8.70%	4.63%	7.34%	0.97%	8.31%
6	Southern Union	SUG	1.28%	7.65%	4.63%	6.64%	1.32%	7.96%
7	Spectra Energy	SE	3.50%	6.33%	4.63%	5.76%	3.60%	9.37%
8	Sunoco, Inc.	SUN	1.50%	18.72%	4.63%	14.02%	1.61%	15.63%
9	TransCanada Corp.	TRP	3.70%	5.00%	4.63%	4.88%	3.79%	8.67%
10	Williams Cos.	WMB	1.20%	21.40%	4.63%	15.81%	1.30%	17.11%
11	Mean		2.04%					10.56%
12	Median		1.61%					9.73%
13	High		3.70%					17.11%
14	Low		0.93%					7.23%

Source: Yahoo Finance, http://finance.yahoo.com
(1) Dividend yield based on 6 months ending: November-07
(2) Estimated GDP Growth Rate calculated as follows:

Source	Year Beginning	Nominal GDP ($Billion)	Year Ending	Nominal GDP ($Billion)	Annual GDP Growth (%)
EIA [1]	2011	$ 16,805	2030	$ 40,823	4.78%
SSA [2]	2011	$ 16,900	2060	$ 144,256	4.47%
Average					4.63%

[1] Energy Information Administration Annual Energy Outlook 2007 with Projections to 2030 (February 2007), Table 19. Macroeconomic Indicators. Nominal GDP=(Real GDP)*(GDP Chain-Type Price Index). http://www.eia.doe.gov/oiaf/aeo/aeoref_tab.html\

[2] Social Security Administration: The 2007 OASDI Trustees Report, Table VI.F4.-- OASDI and HI Annual and Summarized Income, Cost, and Balance as a Percentage of GDP, Calendar Years 2007-85, Intermediate Assumptions. http://www.ssa.gov/OACT/TR/TR07/VI_OASDHI_GDP.html#wp113389

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ATTACHMENT T

Docket No. OR03-5-001
Exhibit No. BPX-20
North Line & Oregon Line 2004 Cost-of-Service Calculations

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SFPP. L.P.
Calculation of North Line Interstate Cost of Service
For the Period Ending December 31, 2004
($000's)

Line No.	Description	Source	2004		SFPP 2004
1	Average Net TOC Rate Base	Page 3, Line 21	$46,387	*	$46,476
2	Weighted Cost of Capital	Page 2, Line 14	6.69%		8.30%
3	Allowed Total Return	Line (1 * 2)	$3,101		$3,858
	Add: Permanent Tax Differences:				
4	Amortization of Deferred Earnings	Page 4, Line 40	$247	*	$247
5	Depreciation of Equity AFUDC	Page 6, Ln 13	$24		$27
6	Depreciation of ITC Basis Reduction	Schedule 7	$13		$13
7	Less: Debt Return	Page 2, Line 17	$1,588		$1,363
8	Subtotal	Line (3 + 4 + 5 + 6 - 7)	$1,798		$2,783
9	Amortization of Unfunded and Overfunded ADIT	Schedule 7	($1,072)	(1)	($20)
10	Net to Tax Multiplier	Schedule 8	0.60286		0.60286
11	Subtotal	Line ((8 + 9) * 10)	$438		$1,665
12	Income Tax Allowance	Line (9 + 11)	$0		$1,645
	Add Carrier Expenses:				
13	Operating Expenses Excluding Depreciation	Schedule 15	$10,237	*	$10,237
14	Carrier Depreciation Expense	Schedules 1 & 3	$1,733	*	$1,733
15	Amortization of AFUDC	Page 6, Ln 13 + Page 6, Ln 25	$24	*	$26
16	Amortization of Deferred Earnings	Line 4	$247	*	$247
17	Total Operating Expenses	Line (13 thru 16)	$12,241		$12,244
18	Total Cost of Service	Line (3 + 12 + 17)	$14,271		$17,747

Note: * indicates amount is accepted at this time for illustrative purposes
(1) Remaining balance in ADIT amortized over 5 years.

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SFPP. L.P.
Calculation of Oregon Line Interstate Cost of Service
For the Period Ending December 31, 2004
($000's)

Line No.	Description	Source	2004		SFPP 2004
1	Average Net TOC Rate Base	Page 3, Line 21	$8,738	*	$8,741
2	Weighted Cost of Capital	Page 2, Line 14	6.74%		8.44%
3	Allowed Total Return	Line (1 * 2)	$589		$738
	Add: Permanent Tax Differences:				
4	Amortization of Deferred Earnings	Page 4, Line 40	$77	*	$77
5	Depreciation of Equity AFUDC	Page 6, Ln 13	$6		$6
6	Depreciation of ITC Basis Reduction	Schedule 7	$5		$5
7	Less: Debt Return	Page 2, Line 17	$271		$232
8	Subtotal	Line (3 + 4 + 5 + 6 - 7)	$406		$593
9	Amortization of Unfunded and Overfunded ADIT	Schedule 7	($252)	(1)	($6)
10	Net to Tax Multiplier	Schedule 8	0.57613		0.57613
11	Subtotal	Line ((8 + 9) * 10)	$88		$338
12	Income Tax Allowance	Line (9 + 11)	$0		$332
	Add Carrier Expenses:				
13	Operating Expenses Excluding Depreciation	Schedule 15	$4,748	*	$4,748
14	Carrier Depreciation Expense	Schedules 1 & 3	$439	*	$439
15	Amortization of AFUDC	Page 6, Ln 13 + Page 6, Ln 25	$5	*	$5
16	Amortization of Deferred Earnings	Line 4	$77	*	$77
17	Total Operating Expenses	Line (13 thru 16)	$5,269		$5,269
18	Total Cost of Service	Line (3 + 12 + 17)	$5,606		$6,339

Note: * indicates amount is accepted at this time for illustrative purposes
(1) Remaining balance in ADIT amortized over 5 years.

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ATTACHMENT U

Docket No. OR03-5-001
Exhibit No. BPX-21
Prepared Rebuttal Testimony of Christopher P. Sintetos
April 7, 2008

20080808-5110 FERC PDF (Unofficial) 8/8/2008 3:48:23 PM

Exhibit No. BPX-21

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
ExxonMobil Oil Corporation, and	)	
ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al*.
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

PREPARED REBUTTAL TESTIMONY
OF CHRISTOPHER P. SINTETOS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

APRIL 7, 2008

20080808-5110 FERC PDF (Unofficial) 8/8/2008 3:48:23 PM

Exhibit No. BPX-21

PREPARED REBUTTAL TESTIMONY OF CHRISTOPHER P. SINTETOS ON BEHALF OF BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

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Exhibit No. BPX-21

PREPARED REBUTTAL TESTIMONY
OF CHRISTOPHER P. SINTETOS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

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Exhibit No. BPX-21

PREPARED REBUTTAL TESTIMONY OF CHRISTOPHER P. SINTETOS ON BEHALF OF BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

LIST OF ACRONYMS

CPA	Certified Public Accountant
FERC	Federal Energy Regulatory Commission
IRS	U.S. Internal Revenue Service
KMEP	Kinder Morgan Energy Partners, L.P.
MLP	Master Limited Partnership
NYSE	New York Stock Exchange

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
ExxonMobil Oil Corporation, and	)	
ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al*.
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

PREPARED REBUTTAL TESTIMONY
OF CHRISTOPHER P. SINTETOS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

Q. Please state your name.

A. Christopher P. Sintetos.

Q. Are you the same Christopher Sintetos who submitted prepared direct testimony in this proceeding on December 14, 2007?

A. Yes.

I. ISSUE: Does SFPP's Claim for "Taxable Income" as the Basis for An Income Tax Allowance utilize a number (a) before or (b) after recognition of all IRS deductions against income taxes, including but not limited to accelerated depreciation, in order to derive an income tax rate?
Answer: After**.**

Q. May I call to your attention an exhibit tendered by SFPP witness Ganz, the same being Exhibit No. SFO-62A, page 1 of 3 pages, labeled "Weighted Federal Income Tax Allowance; SFPP; 2003." This document is presently claimed to be "Confidential Protected Material."

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1 A. Very well.

2 Q. On the left margin do you see the words "SFPP taxable income allocated to:"?

3 A. Yes.

4 Q. Under the "total" column do you see a total of $69,769,749?

5 A. Yes.

6 Q. Now I ask you to look at an exhibit tendered by SFPP witness Bullock, the same being

7 Exhibit No. SFO-55A, pages 1 through 25, labeled "1065 U.S. Return of Partnership Income

8 2003; SFPP, L.P," and you may take this exhibit "as is" without yourself vouching for any part

9 of it. This is also presently claimed to be "Confidential Protected Material."

10 A. All right.

11 Q. Focusing now on page 4 of SFPP's federal Form 1065 (further identified as Bates No.

12 SFO3 09157, Exhibit No. SFO-55A, page 6 of 25), I want to ask some questions about

13 "Schedule M-1 Reconciliation of Income (Loss) per books with Income (Loss) per Return."

14 First, what is the total amount of taxable income claimed by SFPP?

15 A. That number is $69,769,749, found on line 9 of that schedule.

16 Q. What is the amount of "net income (loss) per books" claimed?

17 A. That number is $161,220,571, as found on line 1 of schedule M-1 and again on line 3 of

18 schedule M 2, Analysis of Partners' Capital Accounts.

19 Q. To satisfy my curiosity as well as perhaps others, explain what is happening with lines 2

20 through 5 of schedule M-1, which seem to add up to a larger number.

21 A. Perhaps the simplest way to explain is to say that those are the numbers used to arrive at a

22 "net" number on line 1. One starts with line 5 and then deducts the numbers on lines 2 to 4 to

23 arrive at line 1.

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1 Q. Thank you. Now back to the line of questioning. Here we have:

2

Net income (loss) per books	$ 161,220,571
Taxable Income	$ 69,769,749
Net income in excess of taxable income	$ 91,450,822

3 Assuming again the accuracy of the tax return, is the conclusion to draw that $91,450,822

4 of book income was not taxable at all?

5 A. Yes.

6 Q. Percentage wise, what per cent of the book income was taxable?

7 A. I calculate 43.28%.

8 Q. Asking a redundant question here in order to make a better public record, would you say

9 that the claimed book income for 2003 was more than half sheltered from income tax liability

10 because of IRS deductions claimed?

11 A. The difference between book income and taxable income is the difference between the

12 allowable deductions claimed and income recognized for tax purposes versus book purposes.

13 Q. Just confining yourself to the face of Exhibit No. SFO-55A, page 6 of 25, Bates SF03

14 09157, and assuming the accuracy thereof, please, what explanation is offered by SFPP for

15 sheltering book income from federal taxation?

16 A. SFPP's explanation is set forth on lines 6 through 7. In this case, deductions are claimed

17 for tax exempt interest, for depreciation, and for other deductions said to be displayed on

18 Schedule 5.

19 Q. Can you tell from the face of this document whether the depreciation used to shelter book

20 income from taxable income did or did not include IRS tax depreciation above book

21 depreciation?

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A. Yes, by comparing line 4(a) depreciation [book] with line 7(a) depreciation [tax], you see that a greater depreciation for tax purposes was claimed as compared to the book depreciation claimed.

Q. Is this surprising to you?

A. Not at all. I would expect the tax depreciation to be greater than the book depreciation. Speaking generally, book depreciation tends to be straight-line depreciation over the useful life of an asset. Tax depreciation tends to be shorter in duration and to have forms of "acceleration" where the deductions are higher than a pure straight line depreciation would yield, even a straight line for tax purposes, which can be for periods of time less than the useful life of the depreciable property.

Q. Can what you are saying here be illustrated, at least in part, by reference to Form 4562 Depreciation and Amortization for SFPP for 2003, in this same exhibit SFO-55A, at page 7 of 25 (Bates No. SFO 09158)? This document is presently claimed to be protected, so do not use any numbers in responding.

A. Yes. Perhaps it suffices to look at Part III Section B, which displays several of the ways in which tax depreciation is calculated. This schedule is limited in its detail as it only displays the methods and lives used for current asset additions. To get a more detailed explanation one would need the tax preparer's detailed depreciation schedules which would show the tax lives and methods for prior year additions.

Q. With that background, let me ask you this question: if the number for taxable income used by Mr. Ganz in calculating a "Weighted Federal Average Income Tax Allowance" for 2003 on Exhibit No. SFO-62A is the same as the taxable income number reflected in SFPP's 2003 tax

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return, Exhibit No. SFO-55A, does it follow that Mr. Ganz is using a number for taxable income that is AFTER all IRS deductions are taken, including IRS depreciation?

A. Yes.

II. ISSUE: What is the effect on "taxable income" for IRS purposes if a reduction in book income is made, speaking generally? In context here, the question pertains to how, if at all, to change the number for "taxable income" if excess profits resulting from the collection of unjust and unreasonable rates from interstate ratepayers are removed from book income. Stated another way, since the Commission does not permit an income tax allowance on excess or illegal profits, how should the correction be made?

Q. Now, sir, a question based on three things:

(a) the same exhibit tendered by SFPP witness Bullock, the same being SFO-55A, pages 1 through 25, labeled "1065 U.S. Return of Partnership Income 2003; SFPP, L.P," and you may take this exhibit "as is" without yourself vouching for any part of it. This is presently claimed to be "Confidential Protected Material." Again, let us focus on page 4 of the federal form (page 6 of 25, further identified as Bates No. SFO3 09157), "Schedule M-1 Reconciliation of Income (Loss) per books with Income (Loss) per Return;"

(b) a hypothetical that I will give you based on real numbers that I will give you as an assumption; and

(c) the hypothetical.

To refresh, that document shows, inter alia:

Net income (loss) per books	$ 161,220,571
Taxable Income	$ 69,769,749

That is the (a) part of the question.

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1 Now for the (b) part, or the "real" numbers that I will ask you to assume. These real
2 numbers are taken from the Page 700 of SFPP's annual report, FERC Form 6, for 2003, which I
3 ask you to attach as an exhibit.

Total interstate revenues	$124,956,117
Total interstate cost of service	$105,412,438
Excess profits	$ 19,543,679

4 Now for the (c) part, or hypothetical. Assume that, just before the Form 1065 for SFPP
5 was sent to the IRS, SFPP discovered that it had overstated net book income by $19,543,679, all
6 for revenue collected for the ordinary course of business in providing transportation service to
7 the interstate market, which had to be refunded to ratepayers. Assume that SFPP corrected the
8 error. Can you tell me what the taxable income number would then be?
9 A. Yes, I have attached SFPP's Page 700 for 2003 is attached hereto as Exhibit No. BPX-22.
10 All things being equal, the taxable income would be reduced by $19,543,679 so long as there are
11 no book to tax (M-1) differences in the recognition of revenue between book and tax, or from
12 $69,769,749 to $50,226,070.

13 **III. ISSUE: Tracing "taxable income" to partners in KMEP for purposes of**
14 **(a) determining whether there is any actual or potential income tax liability and**
15 **(b) determining whether there is any "taxable income" allocated to the public**
16 **limited partners and, if so, how much, in order to make the calculation for a rate of**
17 **return on equity.**

18 Q. Now let us turn to the income tax return of KMEP for 2003, the same being tendered by
19 SFPP witness Bullock as Exhibit No. SFO-55C, pages 1-54 (Bates Nos. SF03 09669 *et seq*.).
20 Again, you may take this tax return "as is" without taking any responsibility for its accuracy. Let
21 us start by recording here the book income and the taxable income reported on page 6 of 54
22 (Bates No. SF03 09674), Schedule M-1, please.

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1 A. All right.

2

Net income per books	$697,337,369
Taxable income	$205,638,230

3 Q. Now please refer to the "analysis of net income (loss)" at the top of that same page and
4 tell me what KMEP claims for net income to be allocated to the various classes of partners.
5 A. That is line 1, $205,638,230.
6 Q. How much of that income was allocated to the General Partner?
7 A. That is line 2a, and the amount is $316,295,160.
8 Q. If I did the math right, that would mean that the General Partner received all of the
9 taxable income of the KMEP partnership plus $110,656,930 in additional taxable income. Is that
10 a correct reading of that schedule?
11 A. Yes, that is what is being represented to the IRS.
12 Q. Forgive me now for asking a redundant question, this time without using numbers, in
13 order to enhance the public record. Did the General Partner receive all of the taxable income of
14 the KMEP partnership plus an additional sum, over and above the total reported taxable income?
15 A. Again, that is what is being represented to the IRS.
16 Q. How can that possibly be true?
17 A. It can possibly be true by allocating the plus $110,656,930 to the General Partner and
18 then allocating a negative, or loss in income, to the limited partners of $110,656,930 to be
19 included on line 2b.
20 Q. Again with apology, please answer the same question without using any numbers.

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A. It can possibly be true by allocating a sum of income greater than the total income of the partnership to the general partner and then offsetting the additional positive income to the general partner by allocating an equal amount of losses in income to the limited partners.

Q. Let us pause right here for a "sub total" type question, since we have even more to talk about. The question is: relying on the Form 1065, Exhibit No. SFO-55C, page 6 of 54 (Bates SF03 09674) as being true and correct, what conclusion, if any, would you draw with regard to the taxable income, if any, allocated to the limited partners?

A. On the face of this document, standing alone, and on the questions you have asked me so far, I would conclude that no taxable income was allocated to the limited partners as a class; rather, as a class, or classes, they were allocated losses in income and thus would not have any "taxable income." However, this response is subject to check against the K-1 data.

Q. I will discuss the relevance of the K-1 data with you later. For now tell me, please, what this schedule says with regard to the classes of limited partner shown on the IRS form: corporate, individual (active), individual (passive), partnership, exempt organizations, and nominee/others.

A. All right, see the table below. It appears that there are no "individual (active)" limited partners, nor would I expect there to be, because the general partner has substantially all the power in the typical limited partnership.

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Limited partners:	
Corporate	-$ 80,739,836
individual (passive)	-$265,106,510
partnership	-$ 10,087,081
exempt organizations	-$ 48,862,723
nominee/others	-$ 23,807,111
Total	-$ 428,603,261

Q. Are you saying that, as a class, the limited partners were allocated losses in taxable income of $428,603,261?

A. That is what the 1065 tax return says at page 6 of 54 (Bates SF03 09674).

Q. Assuming the accuracy of KMEP's Form 1065 for 2003, would there be any actual or potential income tax liability on that $428,603,261?

A. No. There would be no current income tax liability on that sum, but that sum, being a loss in income, would carry forward into future years and operate to mitigate or eliminate up to the amount of taxable income that KMEP might allocate to those partners in the future.

Q. Let us pause on your last point: the mitigation or elimination of any taxable income that KMEP might allocate to those partners in the future. Are you saying that, if KMEP allocates any taxable income in the future, the losses in taxable income in the prior years operate to offset the taxable income?

A. Yes, passive loss carryovers from publicly traded partnerships are suspended and may offset future income from that same partnership. In the event all of the carryover losses have not been offset at the time of disposition of the partnership interest, the unused losses can be used to offset other taxable income of the disposing partner.

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Q. In response to Indicated Shippers' Data Request No. BPX-1-29 (which I ask that you attach to your testimony), Mr. Bullock provided the following information about the taxable income just to the public partners of KMEP:

2003	-429,537,099
2004	-225,602,769
2005	-405,767,214
2006	-355,008,090

Just sticking to the relevance of this to the future income tax liability, would the public limited partners who received these losses in taxable income be able to deduct these losses against any future income that KMEP might allocate to them?

A. Yes, by applying the passive loss rules for publicly traded partners that I explained above. Mr. Bullock's response is attached as Exhibit No. BPX-23.

Q. Now let us return to the Analysis of Net Income shown on SFO-55C, page 6 of 54 (Bates No. SF03 09674), the Form 1065 income tax return of KMEP for 2003. But first, we have not yet discussed the K-1 data. What is a Schedule K-1?

A. That is the IRS form that a partnership has to provide to each partner showing that partner's share of income (positive or negative), deductions (including all tax depreciation), and the other reportable items.

Q. Does the amount of any cash distributions given to the partners show up on the K-1s?

A. Yes.

Q. Is the amount of cash distributions reflected in the K-1s reported to the IRS as taxable income from KMEP?

A. No. Cash distributions in themselves do not represent "taxable income." A cash distribution operates solely as a reduction in the basis of the investment -- a return of capital. A

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1 cash distribution can trigger a tax as a constructive sale or liquidation of part of the partnership
2 unit if the cash distributions, in the aggregate, reduce the basis of the investment below zero.
3 Q. Let me nail down one other point before we proceed. Let us use the taxable income/
4 (losses) reported by KMEP for individuals on the 2003 return of negative $265,106,510. Is it at
5 least theoretically possible that some individuals in one year would get some positive taxable
6 income while the partnership reported nothing but losses in taxable income to the class?
7 A. Yes, it is possible that a study of the K-1s would reveal that some partners, here assumed
8 to be individuals, did receive some taxable income. In that case, the number reported in the 1065
9 is the net number. Let us say, for the sake of argument, that in 2003 some individuals did get an
10 aggregate amount of taxable income in the amount of $50,000,000. If the number reported in the
11 1065 is a negative $265,106,510, that would mean that the total amount of losses to the class of
12 limited partners was actually $315,106,510 or $50,000,000 greater than reported, so the net
13 would be the $265,106,510.
14 Q. Does it also follow that, under the hypo you used above, there could be actual or potential
15 income taxes to pay on the $50,000,000?
16 A. Yes, depending upon each partner's passive loss carryover situation.
17 Q. So for the class of individual partners under the hypo used above, there could be actual or
18 potential income taxes to pay on $50,000,000 but no actual nor potential income taxes to be paid
19 on $315,106,510?
20 A. Yes.
21 Q. So the ratio of actual or potential income tax liability within the class is something like
22 6:1, 6 no tax and 1 some actual or potential?
23 A. Based on the assumptions you provided, yes.

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1 Q. Did your firm make any study of the K-1 data for 2003 provided on computer disc by
2 SFPP?
3 A. Yes, and the 2003 study is attached as Exhibit No. BPX-24.
4 Q. With regard to the public limited partners of KMEP, did you find any K-1s with any
5 taxable income at all?
6 A. No, I found no taxable income allocated to any of the public limited partners in 2003.
7 Q. Did your firm make any study of the K-1 data for 2004 provided on computer disc by
8 SFPP?
9 A. Yes, and the 2004 study is attached as Exhibit BPX-25.
10 Q. With regard to the public limited partners of KMEP, did you find any K-1s with any
11 taxable income at all?
12 A. Yes, I found that some 12,693 of the total public partners -- about 6.3181% of the
13 publicly traded partners -- received some $14,070,193 in taxable income, subject to reduction or
14 elimination by passive losses in earlier years, in 2004.
15 Q. I want to be able to derive a percentage that the positive income of $14,070,193 is of the
16 total losses in taxable income (not just the net number). What is or are the number or numbers
17 for the total losses in taxable income suffered by the public limited partners?
18 A. Because KMEP's tax return and K-1 numbers do not reconcile, the answer depends on
19 which source of information you use. My analysis of the 2004 K-1 information, in Exhibit
20 No. BPX-25, indicates that the net taxable (loss) to all the limited partners netted to
21 ($221,743,727). However, the analysis of taxable income by partner type on page 4 of KMEP's
22 2004 Form 1065, Exhibit No. SFO-57C, Bates No. SFO 309728, indicates that the net (loss) to
23 the all limited partners netted to ($217,909,833) In order to get to the *total* loss for *all public*

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limited partners, you need to note that the non-publicly traded limited partners as a group had net taxable income of $25,730,085 (this figure is netted in arriving at the above net limited partner (losses)). If you add back the *non-public* limited partners net income to the *public* limited partners net total loss, the net (losses) to public partners would be ($247,473,812) and ($243,639,918) respectively. All of the above amounts are before tax credits that also passed through to all partners.

IV. ISSUE: In search of unaccounted for losses in taxable income to limited partners.

Q. State whether or not the total amount of line 2a added to the total amount of line 2b is supposed to equal the net taxable income of KMEP on line 1 of the Analysis of Net Income, SFO-55C, page 6 of 54 (Bates SFO3 09674).

A. That is the general rule and, if it is not followed, then KMEP should explain why not.

Q. In 2003 line 2a, the General partner's allocation, when added to the allocation of negative income to the limited partners, does not equal the taxable income reported. If my math is correct, then the sums of the two lines, added together, yields a negative $112,308,101. How does KMEP purport to explain that discrepancy?

A. First, on page 18 of 54 (Bates SF03 09686) in Exhibit No. SFO-55C, KMEP claims that the difference between the amount on Form 1065, page 4, Analysis of Net Income is "explained" by two different factors.

(1) KMEP indicates that it has received incomplete information on beneficial owners from the nominees. It is claimed that the amounts reported on page 4, line 2, do represent the sum of the Schedule K-1 amounts "and therefore include all over allocations."

(2) KMEP reports that the schedule K-1 amounts also include the effects of Section 743(b) basis adjustments in the capital balances and therefore do not sum to the total capital balance as shown on Schedule M-2 for Form 1065.

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1 Second, on Exhibit No. SFO-55C, page 19 of 54 (Bates SF03 09687), KMEP purports to
2 comply with the requirement that 743(b) depreciation be reported in its tax return, but with
3 narrative without providing any numbers. As KMEP recognizes, "The partnership has elected to
4 adjust the basis of partnership properties under Section 743(b)…."
5 Q. Let me ask some questions about the "nominee" stated problem first, then turn to Section
6 743(b). Does KMEP purport to report a category called "nominee/other" in its analysis of Net
7 Income (Loss) in its tax return, Exhibit No. SFO-55C page 6 of 54 (Bates SF03 09674)?
8 A. Yes, KMEP reports allocating losses in income of $23,807,111 to this classification,
9 about 5% of the total reported losses in income.
10 Q. Yet, Exhibit SFO-62A, Weighted Federal Income Tax Allowance for 2003, purports to
11 be able to identify classes of limited partners down to a fraction of a percent, three of the
12 categories being said to be less than one percent. Do you have anything to suggest to explain
13 this inconsistency?
14 A. No.
15 Q. Now let us address the Section 743(b) question. Please give me a brief tutorial in what
16 this is all about.
17 A. The 743(b) depreciation adjustment that a partner gets is a result of adjusting the basis of
18 the partnership's assets for the difference between the purchase price paid for a partner's interest
19 and the historical tax basis of the partnership interest purchased. One basic premise of
20 partnership taxation is that a "new" partner buying a partnership interest from an "old" partner
21 steps into the shoes of the old partner, taking the depreciated assets as is and continuing the
22 depreciation. However, if the partnership so elects, the partners can adjust the assets of the
23 partnership to reflect the difference between the price paid for their interest and the historical tax

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1 cost associated with the interest purchased. This election is known as a Section 754 election.
2 Once the election is made it is binding upon the partnership for subsequent years until revoked.
3 This election is usually made by partnerships that have interests that sell for more than the tax
4 book value. The reason this is done is so that the additional purchase price paid can yield the
5 additional tax depreciation associated with the write up of the new partner's interest. This allows
6 a new partner to start depreciation/amortizing the partnership assets all over again. KMEP states
7 here that it has made the election, so that means, among other things, that public limited partners
8 who buy and sell limited partnership interests on the NYSE can "write up" their tax basis and
9 thus can claim greater depreciation to offset taxable income. The partnership itself is supposed
10 to keep track of this additional depreciation/amortization and reflect the additional depreciation
11 and amortization in the K-1s given to the partners.
12 Here KMEP is reporting that the Analysis of Net Income on SFO-55C page 6 of 54
13 (Bates SFO3 09674) does include the additional 743(b) depreciation, so the losses in taxable
14 income reported are after, not before, all depreciation deductions have been taken into account.
15 Q. Does the additional depreciation under 743(b) operate to reduce the actual or potential
16 income taxes of the partners?
17 A. Yes. Any additional depreciation combines with tax depreciation and other deductions
18 flowed through to the partners, offsetting taxable income, either currently or carried forward to
19 future tax years until used up.
20 Q. Do you believe that KMEP or its contractor, Price Waterhouse Cooper, knows the
21 amount of 743(b) depreciation flowed through to the partners on the K-1s?
22 A. Yes, or how else could the calculations said to have been made actually have been made?
23 Q. Let us recap now:

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The total taxable income of KMEP in 2003 was said to be $205,638,230.

The General Partner was allocated $316,295,160 (before tax credits of $431,050).

To balance out the difference in income that went to the GP of ($110,656,930) that sum had to be offset by having (losses) in that amount to the Limited Partners.

But the total amount of losses in income allocated to the limited partners was ($428,603,261).

The difference between the net loss to limited partners that is needed to tie to total taxable income ($110,656,930) and the amount identified on Exhibit No. SFO-55C, page 6 of 54, as going to those same limited partners ($428,603,261), is ($317,946,331) of additional (loss) or expense.

This ($317,946,331) of additional loss is said to be accounted for by a combination of 743(b) deductions and improperly accounted for limited partners.

Did I do the math right?

A. I believe that you did, using the Analysis of Net Income (Loss).

Q. Without plowing the same ground with the 2004 income tax return on KMEP, Exhibit No. SFO-57C, let us simply reflect here what is shown on page 6 of 51, Bates No. SF03 09728, the Analysis of Net Income (Loss).

Total net income of KMEP	$467,322,069 (line 1)
General Partner	$387,460,554 (line 2(a))
Total losses reported in all categories of limited partners	$217,909,833 (line 2(b))

And let me ask: those numbers are not going to reconcile either, are they? That is, line 1 does not equal the sum of lines 2(a) and 2(b)?

A. The numbers do not reconcile. Line 1 does not equal the sum of lines 2(a) and 2(b).

Q. How many dollars need to be explained?

A. On the face of the document, some ($297,771,348) in additional allocated (loss).

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1 Q. Tell me again, please, what your K-1 study for 2004 revealed as to the total amount of
2 taxable income that went to the public limited partners?
3 A. Of all the K-1s reported on the disc, those K-1s reporting net taxable income had
4 combined taxable income of $14,070,193.
5 Q. And please refresh our recollection on what the loss in taxable income for the public
6 limited partners was in 2004, as reported by Mr. Bullock?
7 A. A (loss) of ($225,602,769). This is probably a "net" number that includes those K-1s
8 reporting taxable income.

9 **V. ISSUE: Do any investors in the NYSE trading care about "income," a return on**
10 **investment?**

11 Q. I put this proposition to you, a Certified Financial Planner as well as a Certified Public
12 Accountant, for you to accept or to reject:

13 Not a single investor in issues traded on the NYSE cares whether he/she receives any
14 income (return on investment) at all; the only thing that matters is how much cash flow
15 comes in from an "investment," even if the cash flow is nothing more than the investor
16 getting some of his/her investment dollars back.

17 A. I reject that proposition.
18 Q. Why?
19 A. Generally an informed investor is focusing on an after-tax return on his/her investment.
20 By doing this an investor can compare a range of investment returns. In addition to comparing
21 the returns on an investment the investor should consider the risks associated with the investment
22 and his or her own personal tax situation and liquidity needs.

23 **VI. Examples of K-1s from MLPs**

24 Q. With the hope and intention of assisting the Commission by developing a more complete
25 record, I have purchased limited partnership interests in a number of MLPs and have received

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1 my K-1 tax returns for 2007. Other than redacting my social security number, I am willing for
2 these K-1s to go into the public record for such use as any party wishes to make of them. Would
3 you please attach the following K-1s as exhibits to your testimony.
4

Kinder Morgan Energy Partners	Exhibit No. BPX-26
Nustar Energy L.P.	Exhibit No. BPX-27
Teppco Partners L.P.	Exhibit No. BPX-28
Enterprise Products Partners L.P.	Exhibit No. BPX-29
Buckeye Partners L.P.	Exhibit No. BPX-30

5 A. Certainly.
6 Q. Do you doubt the genuineness of these documents?
7 A. No.
8 Q. Now I will ask only two questions: do some or all of the K-1s now attached to your
9 testimony provide advice that cash distributions should not be reported to the IRS as income?
10 A. Yes. *See* Exhibit Nos. BPX-26 (KMEP), BPX-27 (Nustar), BPX-28 (Teppco), and BPX-
11 29 (Enterprise).
12 Q. Last question, do any of the K-1s include "FAQs" (frequently asked questions) that
13 pertain to the question of whether the MLP is profitable, given that little or no income is flowed
14 through to the public limited partners?
15 A. Yes. *See* Exhibit Nos. BPX-26 (KMEP).
16 Q. Mr. Sintetos, let me take this as a means to advise you and the record that on the night of
17 Thursday, April 3rd, 2008 I received four documents from SFPP said to be responsive to
18 BP/XOM's Third Set of Discovery Requests. I do not expect you to provide an instant analysis.
19 I know that you are a practicing tax CPA and that April 15th is looming. Further, the due date
20 for this testimony is April 7th which does not leave sufficient time to review these documents.

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1 You may give consideration to these documents (as well as any other subsequently obtained
2 information) in the future, and, if any cause you to modify your testimony, we can bring this to
3 the attention of all in the customary and appropriate way.
4 A. Thank you.
5 Q. Does that conclude your testimony?
6 A. Yes.
7 Q. Thank you, Mr. Sintetos.
8

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
ExxonMobil Oil Corporation, and	)	
ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al.*
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

AUTHENTICATION OF TESTIMONY

I, Christopher P. Sintetos, hereby declare under penalty of perjury that I have reviewed the foregoing testimony and it is true and accurate to the best of my knowledge, information, and belief.

Executed this 2 day of April, 2008.

CHRISTOPHER P. SINTETOS

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ATTACHMENT V

Docket No. OR03-5-001
Exhibit No. BPX-22
SFPP FERC Form 6 for 2003, Page 700

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	03/31/2004	Dec. 31, 2003

Annual Cost of Service Based Analysis Schedule

1.) Use footnotes when particulars are required or for any explanations.
2.) Enter on lines 1-9, columns (b) and (c), the value of the respondent's Operating & Maintenance Expenses,Depreciation Expense, AFUDC Depreciation, Amortization of Deferred Earnings, Rate Base, Rate of Return, Return, Income Tax Allowance, and Total Cost of Service, respectively, for the end of the current and previous calendar years. The values shall be computed consistent with the Commission's Opinion No. 154-B et al. methodology. Any item(s) not applicable to the filing, the pipeline company shall report nothing in columns (b) and (c).
3.) Enter on line 10, columns (b) and (c), total interstate operating revenue, as reported on page 301, for the current and previous calendar years.
4.) Enter on line 11, columns (b) and (c), the throughput in barrels from the Statistics of Operations schedule, page 601, line 33b, total of items (1) and (2), from the current and previous year's FERC Form No. 6.
5.) Enter on line 12, columns (b) and (c), the throughput in barrel-miles from the Statistics of Operations schedule, page 600, line 33a, total of items (1) and (2), from the current and previous year's FERC Form No. 6.
6.) If the company makes major changes to its application of the Opinion No. 154-B et al. methodology, it must describe such changes in a footnote, and calculate the amounts in columns (b) and (c) of lines No. 1-12 using the changed application.
7.) A respondent may be requested by the Commission or its staff to provide its workpapers which support the data reported on page 700.

Line No.	Item (a)	Current Year Amount (in dollars) (b)	Previous Year Amount (in dollars) (c)
1	Operating and Maintenance Expenses	60,739,845	53,889,000
2	Depreciation Expense	8,945,508	8,747,000
3	AFUDC Depreciation	84,285	93,000
4	Amortization of Deferred Earnings	1,588,510	1,477,000
5	Rate Base	227,766,955	225,539,000
6	Rate of Return % (10.25% - 10.25)	11.27	10.55
7	Return on Rate Base	25,669,335	23,794,364
8	Income Tax Allowance	8,384,955	6,168,000
9	Total Cost of Service	105,412,438	94,168,364
10	Total Interstate Operating Revenues	124,956,117	124,801,000
11	Throughput in Barrels	154,990,158	152,079,000
12	Throughput in Barrel-Miles	41,384,120,817	41,097,550,000

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ATTACHMENT W

Docket No. OR03-5-001
Exhibit No. BPX-23
Response of SFPP Richard Bullock to Data Request BX-1-29—Losses to Public Limited Partners Reported by KMEP in 2003-2006

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DATA REQUEST BPX-1-29: For IRS year 2003 and each year thereafter, what is the total amount of taxable income reported by KMEP to the IRS for the class of limited partners whose units trade on the NYSE?

RESPONSE:

THIS RESPONSE CONTAINS MATERIAL PROTECTED UNDER THE PROTECTIVE ORDER IN DOCKET NO. OR03-5-001.

	2003	2004	2005	2006
Total taxable income reported by KMEP to the IRS for the class of limited partners whose units trade on the NYSE	-429,537,099	-225,602,769	-405,767,214	-355,008,090

Response prepared by Richard L. Bullock.

Dated: November 19, 2007.

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ATTACHMENT X

Docket No. OR03-5-001
Exhibit No. BPX-24
Summary of K-1s to Partners in KMEP (2003)

SUMMARY OF K-1S TO PARTNERS IN KMEP (2003)
SOURCE: K-1 DATABASE 2003, BATES NO. SFO3 11763, AND KMEP FORM 1065 TAX RETURN, EXHIBIT SFO-55C

A. All Partners

	Ending K-1 Listed %	BEGINNING CAPITAL - Ja	CAPITAL CONTR. - Jb	CURRENT YR INC/LOSS - Jc	WITHDRAWALS/DISTR - Jd	ENDING CAPITAL - Je	ORDINARY INC - 1	RENTAL - 3	INTEREST INCOME - 4a
Partners 150001-168748		$ 101,796,437	$ 104,685,474	$ (18,403,383)	$ 70,013,607	$ 118,064,921	$ (16,066,277)	$ 117,581	$ 337,082
Partners 100001-15000		$ 497,748,746	$ 656,720,095	$ (98,364,516)	$ 493,035,807	$ 563,068,518	$ (85,907,220)	$ 700,077	$ 2,004,471
Partners 50001-100000		$ 700,532,059	$ 1,216,143,090	$ (149,248,959)	$ 980,878,213	$ 786,547,977	$ (130,622,484)	$ 1,206,403	$ 3,454,810
Partners 1-50000		$ 565,762,192	$ 448,736,406	$ (123,056,939)	$ 344,834,061	$ 546,607,598	$ (103,545,683)	$ 1,008,348	$ 2,888,726
Total Database Public Ltd Ptnrs	86.085047%	$ 1,865,839,434	$ 2,426,285,065	$ (389,073,797)	$ 1,888,761,688	$ 2,014,289,014	$ (336,141,664)	$ 3,032,409	$ 8,685,089
Kinder Morgan GP, Inc as GP	1.000000%	$ 72,099,968	$ -	$ 326,524,118	$ 314,244,307	$ 84,379,779	$ 303,056,177	$ 2,040,612	$ 5,801,358
Kinder Morgan GP, Inc as LP	1.218743%	$ 24,472,299	$ -	$ 4,869,566	$ 4,439,300	$ 24,902,565	$ (411,000)	$ 38,705	$ 111,136
Kinder Morgan, Inc.	6.247892%	$ 125,457,371	$ -	$ 24,963,856	$ 22,758,095	$ 127,663,132	$ (1,977,114)	$ 198,883	$ 571,066
KN Gas Gathering,Inc	5.448318%	$ 157,612,462	$ -	$ 17,389,975	$ 19,845,628	$ 155,156,809	$ 3,344,304	$ 173,431	$ 497,984
Total All Partners	100.000000%	$ 2,245,481,534	$ 2,426,285,065	$ (15,326,282)	$ 2,250,049,018	$ 2,406,391,299	$ (32,129,297)	$ 5,484,040	$ 15,666,633

B. By Partner Type

Partner Type	BEGINNING CAPITAL - Ja	CAPITAL CONTR. - Jb	CURRENT YR INC/LOSS - Jc	WITHDRAWALS/DISTR - Jd	ENDING CAPITAL - Je	ORDINARY INC - 1	RENTAL - 3	INTEREST INCOME - 4a
Individuals	$ 926,517,155	$ 787,486,335	$ (200,643,272)	$ 580,869,808	$ 932,490,410	$ (168,714,258)	$ 1,631,553	$ 4,672,799
Corporations	$ 179,074,534	$ 695,263,528	$ (39,622,141)	$ 610,510,834	$ 224,205,087	$ (34,650,999)	$ 289,973	$ 831,324
Partnerships	$ 51,139,712	$ 80,396,224	$ (7,117,055)	$ 72,770,480	$ 51,648,401	$ (8,355,080)	$ 71,927	$ 206,148
Estates	$ 9,364,147	$ 12,239,626	$ (2,399,183)	$ 7,126,137	$ 12,078,453	$ (2,057,098)	$ 19,328	$ 55,337
Trusts	$ 280,426,731	$ 245,946,304	$ (62,220,535)	$ 149,260,885	$ 314,891,615	$ (55,016,854)	$ 542,347	$ 1,551,603
Foreign Citizens	$ 18,601,695	$ 47,763,477	$ (4,954,099)	$ 24,341,359	$ 37,069,714	$ (4,260,379)	$ 26,728	$ 76,777
Others	$ 122,739,478	$ 241,910,548	$ (20,572,417)	$ 234,834,645	$ 109,242,964	$ (18,135,822)	$ 122,118	$ 350,035
Exempt Organization	$ 35,131,661	$ 41,958,189	$ (6,027,885)	$ 38,366,822	$ 32,695,143	$ (5,506,548)	$ 43,061	$ 123,291
IRAs/Seps/Keoghs	$ 224,114,462	$ 250,862,690	$ (42,045,280)	$ 155,215,247	$ 277,716,625	$ (36,218,745)	$ 259,899	$ 744,781
Pension Plans	$ 17,917,409	$ 20,780,014	$ (3,156,609)	$ 13,402,525	$ 22,138,289	$ (2,994,945)	$ 22,143	$ 63,431
Clearing Account	$ 812,450	$ 1,678,130	$ (315,321)	$ 2,062,946	$ 112,313	$ (230,936)	$ 3,332	$ 9,563
Total by Partner type	$ 1,865,839,434	$ 2,426,285,065	$ (389,073,797)	$ 1,888,761,688	$ 2,014,289,014	$ (336,141,664)	$ 3,032,409	$ 8,685,089
Corporate Ltd modified by paper K-1s	$ 486,616,666	$ 695,263,528	$ 7,601,256	$ 657,553,857	$ 531,927,593	$ (33,694,809)	$ 700,992	$ 2,011,510
Corporate General Partner	$ 72,099,968	$ -	$ 326,524,118	$ 314,244,307	$ 84,379,779	$ 303,056,177	$ 2,040,612	$ 5,801,358

C. Comparison of Net Taxable Income Per 1065 Page 4 Analysis of Net Income (Loss) (SFO-55C) and K-1 Data from Above

	General Partner	Corporate Ltds	Individuals	Partnerships	Exempt Org.	Others	Total All Partners
Net Income (loss)	$ 303,056,177	$ (33,694,809)	$ (168,714,258)	$ (8,355,080)	$ (5,506,548)	$ (118,914,779)	$ (32,129,297)
Net Income (Loss) From Rental Activities	$ 2,040,612	$ 700,992	$ 1,631,553	$ 71,927	$ 43,061	$ 995,895	$ 5,484,040
Interest Income	$ 5,801,358	$ 2,011,510	$ 4,672,799	$ 206,148	$ 123,291	$ 2,851,527	$ 15,666,633
Total Ordinary Dividend	$ 5,943,319	$ 2,053,331	$ 4,773,590	$ 210,498	$ 125,912	$ 2,914,006	$ 16,020,656
Net Section 1231 gain (loss)	$ 962	$ (598,891)	$ (1,639,778)	$ (78,221)	$ (52,723)	$ (1,157,275)	$ (3,525,926)
Interest (Expense)	$ (90,957)	$ (2,042,802)	$ (4,748,355)	$ (209,387)	$ (125,273)	$ (2,899,031)	$ (10,115,805)
Foreign Taxes (Exp)	$ (14,553)	$ (326,239)	$ (751,049)	$ (33,311)	$ (19,915)	$ (456,862)	$ (1,601,929)
IDC (Exp)	$ (441,758)	$ (9,922,362)	$ (23,074,835)	$ (1,017,090)	$ (608,447)	$ (14,090,774)	$ (49,155,266)
Net income (Loss) From All flow Thru (f	$ 316,295,160	$ (41,819,270)	$ (187,850,333)	$ (9,204,516)	$ (6,020,642)	$ (130,757,293)	$ (59,356,894)
From 1065 Pg 4 Analysis	$ 316,295,160	$ (80,739,836)	$ (265,106,510)	$ (10,087,081)	$ (48,862,723)	$ (23,807,111)	$ (112,308,101)
Other Credits	$ 431,050	$ 9,681,575	$ 22,508,907	$ 992,387	$ 593,599	$ 13,744,221	$ 47,951,739

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SUMMARY OF K-1S TO PARTNERS IN KMEP (2003)
SOURCE: K-1 DATABASE 2003, BATES NO. SFO3 11763, AND KMEP FORM 1065 TAX RETURN, EXHIBIT SFO-55C

A. All Partners

	QUALIFIED DIVIDENDS - 4b1	DIVIDEND INCOME - 4b	1231 GAIN/LOSS POST MAY - 6a	1231 GAIN/LOSS - 6b	OTHER CREDITS - 13	INTEREST EXP - 14a	INVESTMENT INC - 14b1	DEPR. ADJ - 16a	FOREIGN GROSS INC - 17d3
Partners 150001-168748	$ 171,203	$ 345,089	$ (6,205)	$ (151,904)	$ 1,628,593	$ 343,559	$ 682,881	$ 5,230,157	$ 775,304
Partners 100001-15000	$ 1,017,896	$ 2,048,137	$ (23,109)	$ (833,239)	$ 9,659,909	$ 2,037,554	$ 4,053,267	$ 29,124,875	$ 4,597,442
Partners 50001-100000	$ 1,754,168	$ 3,528,415	$ 4,618	$ (1,267,462)	$ 16,637,366	$ 3,509,675	$ 6,983,183	$ 46,944,771	$ 7,917,711
Partners 1-50000	$ 1,466,662	$ 2,951,040	$ 10,271	$ (998,316)	$ 13,914,548	$ 2,935,494	$ 5,840,040	$ 38,122,043	$ 6,622,267
Total Database Public Ltd Ptnrs	$ 4,409,929	$ 8,872,681	$ (14,425)	$ (3,250,921)	$ 41,840,416	$ 8,826,282	$ 17,559,371	$ 119,421,846	$ 19,912,724
Kinder Morgan GP, Inc as GP	$ 4,581,563	$ 5,943,319	$ 48,808	$ 962	$ 431,050	$ 90,957	$ 11,744,677	$ 1,490,843	$ 205,058
Kinder Morgan GP, Inc as LP	$ 56,431	$ 113,441	$ 13,492	$ (18,000)	$ 534,903	$ 112,867	$ 224,577	$ 813,758	$ 254,461
Kinder Morgan, Inc.	$ 289,969	$ 582,906	$ 31,495	$ (130,326)	$ 2,748,558	$ 579,960	$ 1,153,972	$ 6,766,595	$ 1,307,532
KN Gas Gathering,Inc	$ 252,860	$ 508,309	$ 13,473	$ (127,641)	$ 2,396,812	$ 505,739	$ 1,006,293	$ 4,458,298	$ 1,140,201
Total All Partners	$ 9,590,752	$ 16,020,656	$ 92,843	$ (3,525,926)	$ 47,951,739	$ 10,115,805	$ 31,688,890	$ 132,951,340	$ 22,819,976

B. By Partner Type

Partner Type									
Individuals	$ 2,372,512	$ 4,773,590	$ 17,137	$ (1,639,778)	$ 22,508,907	$ 4,748,355	$ 9,446,938	$ 61,780,456	$ 10,712,747
Corporations	$ 422,079	$ 848,675	$ (4,423)	$ (322,924)	$ 4,001,302	$ 844,236	$ 1,679,685	$ 12,224,488	$ 1,903,785
Partnerships	$ 104,674	$ 210,498	$ (72)	$ (78,221)	$ 992,387	$ 209,387	$ 416,610	$ 2,966,667	$ 472,213
Estates	$ 28,109	$ 56,501	$ 30	$ (20,514)	$ 266,413	$ 56,181	$ 111,832	$ 732,407	$ 126,782
Trusts	$ 787,900	$ 1,584,465	$ 67	$ (560,224)	$ 7,470,493	$ 1,575,789	$ 3,135,617	$ 19,780,976	$ 3,555,405
Foreign Citizens	$ 38,978	$ 78,373	$ (2,264)	$ (30,336)	$ 369,587	$ 77,978	$ 155,139	$ 1,307,242	$ 175,842
Others	$ 177,746	$ 357,388	$ (6,585)	$ (175,909)	$ 1,685,010	$ 355,538	$ 707,406	$ 5,968,888	$ 801,744
Exempt Organization	$ 62,624	$ 125,912	$ 15	$ (52,723)	$ 593,599	$ 125,273	$ 249,155	$ 1,884,580	$ 282,506
IRAs/Seps/Keoghs	$ 378,242	$ 762,653	$ (17,734)	$ (340,494)	$ 3,600,426	$ 759,245	$ 1,509,233	$ 11,692,927	$ 1,714,061
Pension Plans	$ 32,206	$ 64,863	$ (1,089)	$ (27,629)	$ 306,253	$ 64,587	$ 128,429	$ 981,583	$ 145,739
Clearing Account	$ 4,859	$ 9,763	$ 493	$ (2,169)	$ 46,039	$ 9,713	$ 19,327	$ 101,632	$ 21,900
Total by Partner type	$ 4,409,929	$ 8,872,681	$ (14,425)	$ (3,250,921)	$ 41,840,416	$ 8,826,282	$ 17,559,371	$ 119,421,846	$ 19,912,724
Corporate Ltd modified by pape	$ 1,021,339	$ 2,053,331	$ 54,037	$ (598,891)	$ 9,681,575	$ 2,042,802	$ 4,064,527	$ 24,263,139	$ 4,605,979
Corporate General Partner	$ 4,581,563	$ 5,943,319	$ 48,808	$ 962	$ 431,050	$ 90,957	$ 11,744,677	$ 1,490,843	$ 205,058

SUMMARY OF K-1S TO PARTNERS IN KMEP (2003)
SOURCE: K-1 DATABASE 2003, BATES NO. SFO3 11763, AND KMEP FORM 1065 TAX RETURN, EXHIBIT SFO-55C

A. All Partners

	FOREIGN DEDUCTIONS - 17f3	FOREIGN TAXES - 17g	IDC - 18b	NONDEDUCTIBLE EXP - 21	DISTRIBUTIONS - 22	UBTI	Nontx Ajst to Inc	743(b) Depreciation
Partners 150001-168748	$ 810,117	$ 53,386	$ 1,670,340	$ 12,199	$ 13,584,869	$ (17,631,481)	$ 723,123	
Partners 100001-15000	$ 4,809,979	$ 321,423	$ 9,903,086	$ 78,717	$ 80,377,053	$ (95,234,865)	$ 5,623,947	
Partners 50001-100000	$ 8,286,414	$ 556,332	$ 17,054,510	$ 139,179	$ 138,257,675	$(146,714,748)	$ 12,348,421	
Partners 1-50000	$ 6,929,436	$ 464,478	$ 14,264,207	$ 115,779	$ 115,355,868	$(117,017,659)	$ 6,333,452	
Total Database Public Ltd Ptnrs	$ 20,835,946	$ 1,395,619	$ 42,892,143	$ 345,874	$ 347,575,465	$(376,598,753)	$ 25,028,943	
Kinder Morgan GP, Inc as GP	$ 214,759	$ 14,553	$ 441,758	$ 3,065	$ 314,244,307	$ -		$ 2,592,119
Kinder Morgan GP, Inc as LP	$ 266,501	$ 18,057	$ 548,189	$ 4,597	$ 4,439,300	$ -		$ 1,235,057
Kinder Morgan, Inc.	$ 1,369,394	$ 92,787	$ 2,816,830	$ 23,623	$ 22,758,095	$ -		$ -
KN Gas Gathering,Inc	$ 1,194,146	$ 80,913	$ 2,456,346	$ 20,600	$ 19,845,628	$ -		$ -
Total All Partners	$ 23,880,746	$ 1,601,929	$ 49,155,266	$ 397,759	$ 708,862,795	$(376,598,753)	$ 25,028,943	$ 3,827,176

B. By Partner Type

Partner Type								
Individuals	$ 11,209,307	$ 751,049	$ 23,074,835	$ 187,076	$ 186,717,174	$(190,510,569)	$ 9,903,044	
Corporations	$ 1,993,334	$ 134,482	$ 4,100,997	$ 33,904	$ 33,335,314	$ (38,500,742)	$ 2,496,731	
Partnerships	$ 494,364	$ 33,311	$ 1,017,090	$ 8,416	$ 8,248,805	$ (9,309,466)	$ 3,088,264	
Estates	$ 132,722	$ 8,916	$ 273,074	$ 2,231	$ 2,204,483	$ (2,315,703)	$ 154,078	
Trusts	$ 3,720,853	$ 249,707	$ 7,657,870	$ 62,434	$ 62,085,062	$ (62,284,118)	$ 6,694,421	
Foreign Citizens	$ 184,105	$ 12,432	$ 378,757	$ 3,134	$ 3,075,635	$ (4,612,068)	$ (3,374)	
Others	$ 839,420	$ 56,646	$ 1,727,035	$ 14,305	$ 13,988,021	$ (19,748,050)	$ 748,307	
Exempt Organization	$ 295,701	$ 19,915	$ 608,447	$ 4,968	$ 4,924,900	$ (6,074,273)	$ 591,324	
IRAs/Seps/Keoghs	$ 1,790,829	$ 117,520	$ 3,692,799	$ 26,642	$ 30,043,043	$ (39,679,191)	$ 943,258	
Pension Plans	$ 152,373	$ 10,088	$ 314,061	$ 2,373	$ 2,566,433	$ (3,289,224)	$ 412,890	
Clearing Account	$ 22,938	$ 1,553	$ 47,178	$ 391	$ 386,595	$ (275,349)	$ -	
Total by Partner type	$ 20,835,946	$ 1,395,619	$ 42,892,143	$ 345,874	$ 347,575,465	$(376,598,753)	$ 25,028,943	
Corporate Ltd modified by pape	$ 4,823,375	$ 326,239	$ 9,922,362	$ 82,724	$ 80,378,337	$ (38,500,742)	$ 2,496,731	
Corporate General Partner	$ 214,759	$ 14,553	$ 441,758	$ 3,065	$ 314,244,307	$ -	$ -	

Total Public Partners with Positive Taxable Income	0
Percentage of Public Partners with Positive Taxable Income	0
Total Net Taxable Income to Public Partners	0

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ATTACHMENT Y

Docket No. OR03-5-001
Exhibit No. BPX-25
Summary of K-1s to Partners in KMEP (2004)

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SUMMARY OF K-1S TO PUBLIC PARTNERS IN KMEP (2004)
SOURCE: K-1 DATABASE 2004 BATES NO. SFO3 11763 AND KMEP FORM 1065 TAX RETURN, EXHIBIT SFO-57C

A. All Partners	BEGIN CAPITAL - Na	CAPITAL CONTR. - Nb	CURRENT YR INC/LOSS - Nc	WITHDRAWALS/DISTR - Nd	ENDING CAPITAL - Ne	ORDINARY INC - 1	INTEREST INCOME - 5	ORDINARY DIVIDENDS - 6a
Page 150,0001 - 200,900 total	$ 264,326,532	$ 337,969,108	$ (32,918,087)	$ 235,820,162	$ 333,557,391	$ (31,560,045)	$ 860,698	$ 890,529
Page 100,001-150,000 total	$ 673,094,257	$ 1,240,906,177	$ (75,184,531)	$ 1,001,614,617	$ 837,201,286	$ (80,572,298)	$ 3,261,676	$ 3,370,740
Page 50,001-100,000 total	$ 623,182,341	$ 1,666,509,199	$ (65,355,696)	$ 1,518,032,570	$ 706,303,274	$ (67,456,108)	$ 3,146,656	$ 3,251,911
Page 1-500,000 Total	$ 422,795,181	$ 494,044,769	$ (49,204,618)	$ 365,676,651	$ 501,958,681	$ (47,981,058)	$ 2,520,154	$ 2,604,944
Total Database Public Ltd Partners	$ 1,983,398,311	$ 3,739,429,253	$ (222,662,932)	$ 3,121,144,000	$ 2,379,020,632	$ (227,569,509)	$ 9,789,184	$ 10,118,124
Kinder Morgan GP, Inc. as GP	$ 84,379,779	$ -	$ 395,092,415	$ 376,004,801	$ 103,467,393	$ 376,670,593	$ 5,498,531	$ 5,678,069
Kinder Morgan GP, Inc. as LP	$ 24,902,565	$ -	$ 8,430,352	$ 4,844,440	$ 28,488,477	$ 2,238,475	$ 115,451	$ 119,221
Kinder Morgan, Inc	$ 127,663,132	$ -	$ 43,218,241	$ 24,835,047	$ 146,046,326	$ 11,738,214	$ 593,238	$ 612,611
KN Gas Gathering, Inc	$ 155,156,809	$ -	$ 23,468,512	$ 21,656,782	$ 156,988,539	$ 11,936,461	$ 517,318	$ 534,212
Kinder Morgan Transcolorado, Inc	$ -	$ 32,025,000	$ 2,002,580	$ -	$ 34,027,580	$ 2,011,739	$ 3,715	$ 3,837
Total All Partners	$ 2,375,500,596	$ 3,771,454,253	$ 249,549,168	$ 3,548,485,070	$ 2,848,038,947	$ 177,025,973	$ 16,517,437	$ 17,066,074

B. By Partner Type Partner Type								
Individuals	$ 875,973,269	$ 1,083,150,566	$ (97,210,678)	$ 856,144,887	$ 1,005,768,270	$ (96,457,824)	$ 4,849,299	$ 5,012,421
Corporations	$ 244,685,861	$ 1,406,561,688	$ (27,453,684)	$ 1,315,545,093	$ 308,248,772	$ (28,513,828)	$ 1,126,412	$ 1,163,469
Partnerships	$ 59,711,719	$ 119,918,440	$ (7,213,887)	$ 97,127,549	$ 75,288,723	$ (7,332,336)	$ 282,583	$ 291,915
Estates	$ 12,166,957	$ 11,173,062	$ (185,055)	$ 9,604,510	$ 13,550,454	$ (1,426,991)	$ 67,091	$ 69,352
Trusts	$ 347,243,505	$ 334,203,629	$ (34,665,398)	$ 245,541,229	$ 401,240,507	$ (38,740,401)	$ 1,916,856	$ 1,981,334
Foreign Citizens	$ 44,760,386	$ 131,725,761	$ (8,889,205)	$ 80,910,020	$ 86,686,922	$ (8,532,569)	$ 177,052	$ 182,822
Others	$ 65,578,336	$ 202,132,496	$ (8,306,780)	$ 173,179,250	$ 86,224,802	$ (8,698,347)	$ 269,964	$ 278,914
Exempt Organization	$ 34,059,128	$ 94,160,815	$ (3,643,849)	$ 87,524,599	$ 37,051,495	$ (3,581,770)	$ 140,876	$ 145,573
IRAs/Seps/Keoghs	$ 278,204,991	$ 329,801,535	$ (32,188,730)	$ 240,957,477	$ 334,860,319	$ (31,547,896)	$ 874,714	$ 905,115
Pension Plans	$ 20,328,950	$ 26,537,515	$ (2,837,337)	$ 14,376,369	$ 29,652,759	$ (2,687,225)	$ 75,452	$ 78,031
Clearing Account	$ 685,209	$ 63,746	$ (68,329)	$ 233,017	$ 447,609	$ (50,322)	$ 8,885	$ 9,178
Total Database by Partner Type	$ 1,983,398,311	$ 3,739,429,253	$ (222,662,932)	$ 3,121,144,000	$ 2,379,020,632	$ (227,569,509)	$ 9,789,184	$ 10,118,124
Corporate Ltd modified by paper K-1s	$ 552,408,367	$ 1,406,561,688	$ 47,663,421	$ 1,366,881,362	$ 673,799,694	$ (588,939)	$ 2,356,134	$ 2,433,350
Corporate General Partner	$ 84,379,779	$ -	$ 395,092,415	$ 376,004,801	$ 103,467,393	$ 376,670,593	$ 5,498,531	$ 5,678,069

C. Comparison of Net Taxable Income Per 1065 Page 4 Analysis of Net Income (Loss) (SFO-57C) K-1 Data from Above

	General Partner	Corporate Ltds	Individuals	Partnerships	Exempt Org.	Others	Total All Partners
Net Income (loss)	$ 376,670,593	$ (588,939)	$ (96,457,824)	$ (7,332,336)	$ (3,581,770)	$ (91,683,751)	$ 177,025,973
Net Inc. (Loss) From Rental A	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest Income	$ 5,498,531	$ 2,356,134	$ 4,849,299	$ 282,583	$ 140,876	$ 3,390,014	$ 16,517,437
Total Ordinary Dividend	$ 5,678,069	$ 2,433,350	$ 5,012,421	$ 291,915	$ 145,573	$ 3,504,746	$ 17,066,074
Net Sec. 1231 gain (loss)	$ (3,885)	$ 40,840	$ (517,842)	$ (33,517)	$ (15,940)	$ (420,536)	$ (950,880)
Interest (Expense)	$ (83,832)	$ (2,015,233)	$ (4,142,378)	$ (241,642)	$ (120,421)	$ (2,893,766)	$ (9,497,272)
Foreign Taxes (Exp)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
IDC (Exp)	$ (298,922)	$ (7,294,727)	$ (15,029,485)	$ (875,016)	$ (436,195)	$ (10,510,160)	$ (34,444,505)
Total Taxable Income (Loss)It	$ 387,460,554	$ (5,068,575)	$ (106,285,809)	$ (7,908,013)	$ (3,867,877)	$ (98,613,453)	$ 165,716,827
From 1065 Pg4 Analysis	$ 387,460,554	$ (1,211,697)	$ (158,108,485)	$ (7,848,844)	$ (40,152,156)	$ (10,588,651)	$ 169,550,721
Tax Credits	$ 522,756	$ 12,570,303	$ 25,896,579	$ 1,507,666	$ 751,622	$ 18,110,759	$ 59,359,685

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SUMMARY OF K-1S TO PUBLIC PARTNERS IN KMEP (2004)
SOURCE: K-1 DATABASE 2004 BATES NO. SFO3 11763 AND KMEP FORM 1065 TAX RETURN, EXHIBIT SFO-57C

A. All Partners	QUALIFIED DIVIDENDS - 6b	1231 GAIN/LOSS - 10	INVESTMENT INT EXP - 13I	SECTION 59e2 EXP - 13K	OTHER CREDITS - 15U	FOREIGN GROSS INC - 16F	FOREIGN DEDUCTIONS - 16K	DEPRECIATION ADJ - 17A
Page 150,0001 - 200,900 total	$ 890,529	$ (124,072)	$ 732,840	$ 2,673,740	$ 4,608,870	$ 3,004,296	$ 1,823,981	$ 10,188,325
Page 100,001-150,000 total	$ 3,370,740	$ (385,926)	$ 2,787,093	$ 10,103,992	$ 17,409,152	$ 11,356,975	$ 6,908,932	$ 31,877,082
Page 50,001-100,000 total	$ 3,251,911	$ (336,040)	$ 2,688,516	$ 9,749,762	$ 16,799,749	$ 10,958,391	$ 6,665,765	$ 29,698,028
Page 1-500,000 Total	$ 2,604,944	$ (265,693)	$ 2,152,950	$ 7,810,987	$ 13,458,604	$ 8,778,408	$ 5,338,842	$ 22,447,788
Total Database Public Ltd Partners	$ 10,118,124	$ (1,111,731)	$ 8,361,399	$ 30,338,481	$ 52,276,375	$ 34,098,070	$ 20,737,520	$ 94,211,223
Kinder Morgan GP, Inc. as GP	$ 5,678,069	$ (3,885)	$ 83,832	$ 298,922	$ 522,756	$ 341,054	$ 140,081	$ 1,175,712
Kinder Morgan GP, Inc. as LP	$ 119,221	$ (6,324)	$ 98,770	$ 357,426	$ 615,931	$ 401,842	$ 244,589	$ 314,603
Kinder Morgan, Inc	$ 612,611	$ (32,408)	$ 507,522	$ 1,836,607	$ 3,164,916	$ 2,064,837	$ 1,256,805	$ 4,370,665
KN Gas Gathering, Inc	$ 534,212	$ 205,330	$ 442,571	$ 1,601,567	$ 2,759,886	$ 1,800,589	$ 1,095,965	$ 2,398,832
Kinder Morgan Transcolorado, Inc	$ 3,837	$ (1,862)	$ 3,178	$ 11,502	$ 19,821	$ 12,931	$ 7,871	$ 409,511
Total All Partners	$ 17,066,074	$ (950,880)	$ 9,497,272	$ 34,444,505	$ 59,359,685	$ 38,719,323	$ 23,482,831	$ 102,880,546
B. By Partner Type								
Partner Type								
Individuals	$ 5,012,421	$ (517,842)	$ 4,142,378	$ 15,029,485	$ 25,896,579	$ 16,891,113	$ 10,272,766	$ 43,664,552
Corporations	$ 1,163,469	$ (123,896)	$ 963,192	$ 3,487,625	$ 6,009,749	$ 3,920,872	$ 2,386,094	$ 11,930,910
Partnerships	$ 291,915	$ (33,517)	$ 241,642	$ 875,016	$ 1,507,666	$ 983,677	$ 598,566	$ 2,921,591
Estates	$ 69,352	$ (6,851)	$ 57,376	$ 207,849	$ 358,147	$ 233,649	$ 142,191	$ 619,394
Trusts	$ 1,981,334	$ (208,067)	$ 1,637,939	$ 5,938,773	$ 10,231,842	$ 6,674,837	$ 4,060,470	$ 16,980,744
Foreign Citizens	$ 182,822	$ (34,195)	$ 151,096	$ 547,775	$ 943,759	$ 615,737	$ 374,642	$ 2,573,628
Others	$ 278,914	$ (37,130)	$ 230,811	$ 836,139	$ 1,440,730	$ 939,960	$ 571,936	$ 3,011,518
Exempt Organization	$ 145,573	$ (15,940)	$ 120,421	$ 436,195	$ 751,622	$ 490,365	$ 298,330	$ 1,373,090
IRAs/Seps/Keoghs	$ 905,115	$ (122,833)	$ 744,573	$ 2,717,914	$ 4,685,218	$ 3,053,688	$ 1,853,793	$ 10,176,437
Pension Plans	$ 78,031	$ (10,905)	$ 64,370	$ 234,201	$ 403,661	$ 263,248	$ 159,911	$ 891,907
Clearing Account	$ 9,178	$ (555)	$ 7,601	$ 27,509	$ 47,402	$ 30,924	$ 18,821	$ 67,452
Total Database by Partner Type	$ 10,118,124	$ (1,111,731)	$ 8,361,399	$ 30,338,481	$ 52,276,375	$ 34,098,070	$ 20,737,520	$ 94,211,223
Corporate Ltd modified by paper K-1s	$ 2,433,350	$ 40,840	$ 2,015,233	$ 7,294,727	$ 12,570,303	$ 8,201,071	$ 4,991,324	$ 19,424,521
Corporate General Partner	$ 5,678,069	$ (3,885)	$ 83,832	$ 298,922	$ 522,756	$ 341,054	$ 140,081	$ 1,175,712

SUMMARY OF K-1S TO PUBLIC PARTNERS IN KMEP (2004)
SOURCE: K-1 DATABASE 2004 BATES NO. SFO3 11763 AND KMEP FORM 1065 TAX RETURN, EXHIBIT SFO-57C

A. All Partners	NONDEDUCTIBLE EXP - 18C	DISTRIBUTIONS - 19A	INVESTMENT INCOME - 20A	UBTI - 20P	GROSS RECEIPTS - 20Q1	743(b) Depreciation
Page 150,0001 - 200,900 total	$ 34,615	$ 35,996,601	$ 1,752,375	$ (33,242,469)	$ 679,286,874	
Page 100,001-150,000 total	$ 145,157	$ 135,831,899	$ 6,631,102	$ (87,617,969)	$ 2,565,944,255	
Page 50,001-100,000 total	$ 139,339	$ 130,992,924	$ 6,398,522	$ (74,336,195)	$ 2,476,067,100	
Page 1-500,000 Total	$ 110,955	$ 105,038,383	$ 5,125,622	$ (53,606,277)	$ 1,983,605,460	
Total Database Public Ltd Partners	$ 430,066	$ 407,859,807	$ 19,907,621	$ (248,802,910)	$ 7,704,903,689	
Kinder Morgan GP, Inc. as GP	$ 4,330	$ 376,004,801	$ 11,176,600	$ -		$ 2,393,878
Kinder Morgan GP, Inc. as LP	$ 5,245	$ 4,844,440	$ 234,672			$ 1,158,667
Kinder Morgan, Inc	$ 26,951	$ 24,835,047	$ 1,205,849			
KN Gas Gathering, Inc	$ 23,502	$ 21,656,782	$ 1,051,530			
Kinder Morgan Transcolorado, Inc	$ 169		$ 7,552	$ 2,048,221	$ 2,921,433	
Total All Partners	$ 490,263	$ 835,200,877	$ 33,583,824	$ (246,754,689)	$ 7,707,825,122	$ 3,552,545

B. By Partner Type Partner Type						
Individuals	$ 213,395	$ 201,961,735	$ 9,862,398	$ (107,252,127)	$ 3,816,787,388	$ -
Corporations	$ 50,766	$ 47,008,870	$ 2,289,512	$ (30,846,176)	$ 885,791,547	$ -
Partnerships	$ 12,717	$ 11,759,995	$ 574,329	$ (7,923,373)	$ 222,225,021	$ -
Estates	$ 3,013	$ 2,792,638	$ 136,441	$ (1,578,226)	$ 52,786,626	$ -
Trusts	$ 85,383	$ 79,857,455	$ 3,897,446	$ (43,050,895)	$ 1,508,050,156	$ -
Foreign Citizens	$ 7,914	$ 7,382,986	$ 359,492	$ (8,847,783)	$ 139,108,117	$ -
Others	$ 12,140	$ 11,229,334	$ 548,838	$ (9,254,060)	$ 212,361,079	$ -
Exempt Organization	$ 6,281	$ 5,859,039	$ 286,300	$ (3,874,664)	$ 110,776,818	$ -
IRAs/Seps/Keoghs	$ 34,836	$ 36,476,145	$ 1,781,229	$ (33,271,282)	$ 690,534,790	$ -
Pension Plans	$ 3,216	$ 3,161,368	$ 153,575	$ (2,833,600)	$ 59,495,761	$ -
Clearing Account	$ 405	$ 370,242	$ 18,061	$ (70,724)	$ 6,986,386	$ -
Total Database by Partner Type	$ 430,066	$ 407,859,807	$ 19,907,621	$ (248,802,910)	$ 7,704,903,689	$ -
Corporate Ltd modified by paper K-1s	$ 106,633	$ 98,345,139	$ 4,789,115	$ (28,797,955)	$ 888,712,980	$ 1,158,667
Corporate General Partner	$ 4,330	$ 376,004,801	$ 11,176,600	$ -	$ -	$ 2,393,878

Total Public Partners with Positive Taxable Income	12,693
Percentage of Public Partners with Positive Taxable Income	6.3181%
Total Net Taxable Income to these Public Partners	$ 14,070,193

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ATTACHMENT Z

Docket No. OR03-5-001
Exhibit No. BPX-26
KMEP 2007 K-1 issued to Gordon Gooch

 651107

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

2007

For calendar year 2007, or tax year beginning _____, 2007
ending _____, 20__

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0380342

B Partnership's name, address, city, state, and ZIP code
KINDER MORGAN ENERGY PARTNERS, L.P.
ONE ALLEN CENTER
500 DALLAS STREET, SUITE 1000
HOUSTON, TX 77002

C IRS Center where partnership filed return
Ogden, UT

D [X] Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code
R GORDON GOOCH
851 NORTH GLEBE ROAD
SUITE 1911
ARLINGTON VA 22203

G ☐ General partner or LLC member-manager ☒ Limited partner or other LLC member

H [X] Domestic partner ☐ Foreign partner

I What type of entity is this partner? Individual

J Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.000000 %	0.000000 %
Loss	0.000000 %	0.000000 %
Capital	0.000000 %	0.000000 %

K Partner's share of liabilities at year end:
Nonrecourse . . . . . $
Qualified nonrecourse financing . $
Recourse . . . . . $

L Partner's capital account analysis:

Beginning capital account	$ 31
Capital contributed during the year.	$ 0
Current year increase (decrease) .	$ -6
Withdrawals & distributions. . .	$ (3)
Ending capital account	$ 22

[X] Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss)	-5
2 Net rental real estate income (loss)	
3 Other net rental income (loss)	
4 Guaranteed payments	
5 Interest income	0
6a Ordinary dividends	0
6b Qualified dividends	0
7 Royalties	
8 Net short-term capital gain (loss)	
9a Net long-term capital gain (loss)	
9b Collectibles (28%) gain (loss)	
9c Unrecaptured section 1250 gain	
10 Net section 1231 gain (loss)	0
11 Other income (loss)	
12 Section 179 deduction	
13 Other deductions	
G	0
I	1
*	STMT
14 Self-employment earnings (loss)	
15 Credits	
16 Foreign transactions	
A	OTHER COUNTRIES
E	1
J	1
M	0
17 Alternative minimum tax (AMT) items	
A	0
B	0
18 Tax-exempt income and nondeductible expenses	
C	0
19 Distributions	
A	3
20 Other information	
A	0
V	-5
W*	STMT

*See attached statement for additional information.

For IRS Use Only

KMA0208TV50055 - DataProse, Inc - www.dataprose.com

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

1. Ordinary business income (loss). You must first determine whether the income (loss) is passive or nonpassive. Then enter on your return as follows:

	Report on
Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (j)

2. Net rental real estate income (loss)	See the Partner's Instructions
3. Other net rental income (loss)	
Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions
4. Guaranteed payments	Schedule E, line 28, column (j)
5. Interest income	Form 1040, line 8a
6a. Ordinary dividends	Form 1040, line 9a
6b. Qualified dividends	Form 1040, line 9b
7. Royalties	Schedule E, line 4
8. Net short-term capital gain (loss)	Schedule D, line 5, column (f)
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain	See the Partner's Instructions
10. Net section 1231 gain (loss)	See the Partner's Instructions
11. Other income (loss)	
Code	
A Other portfolio income (loss)	See the Partner's Instructions
B Involuntary conversions	See the Partner's Instructions
C Sec. 1256 contracts & straddles	Form 6781, line 1
D Mining exploration costs recapture	See Pub. 535
E Cancellation of debt	Form 1040, line 21 or Form 982
F Other income (loss)	See the Partner's Instructions
12. Section 179 deduction	See the Partner's Instructions
13. Other deductions	
A Cash contributions (50%)	See the Partner's Instructions
B Cash contributions (30%)	
C Noncash contributions (50%)	
D Noncash contributions (30%)	
E Capital gain property to a 50% organization (30%)	
F Capital gain property (20%)	
G Investment interest expense	Form 4952, line 1
H Deductions—royalty income	Schedule E, line 18
I Section 59(e)(2) expenditures	See the Partner's Instructions
J Deductions—portfolio (2% floor)	Schedule A, line 23
K Deductions—portfolio (other)	Schedule A, line 28
L Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
M Educational assistance benefits	See the Partner's Instructions
N Dependent care benefits	Form 2441, line 14
O Preproductive period expenses	See the Partner's Instructions
P Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions
Q Pensions and IRAs	See the Partner's Instructions
R Reforestation expense deduction	See the Partner's Instructions
S Domestic production activities information	See Form 8903 instructions
T Qualified production activities income	Form 8903, line 7
U Employer's Form W-2 wages	Form 8903, line 15
V Other deductions	See the Partner's Instructions

14. Self-employment earnings (loss)
Note. *If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.*

A Net earnings (loss) from self-employment	Schedule SE, Section A or B
B Gross farming or fishing income	See the Partner's Instructions
C Gross non-farm income	See the Partner's Instructions
15. Credits	
A Low-income housing credit (section 42(j)(5))	See the Partner's Instructions
B Low-income housing credit (other)	
C Qualified rehabilitation expenditures (rental real estate)	
D Other rental real estate credits	
E Other rental credits	
F Undistributed capital gains credit	Form 1040, line 70; check box a
G Credit for alcohol used as fuel	See the Partner's Instructions
H Work opportunity credit	
I Welfare-to-work credit	
J Disabled access credit	
Code	*Report on*
K Empowerment zone and renewal community employment credit	Form 8844, line 3
L Credit for increasing research activities	See the Partner's Instructions
M New markets credit	
N Credit for employer social security and Medicare taxes	
O Backup withholding	Form 1040, line 64
P Other credits	See the Partner's Instructions
16. Foreign transactions	
A Name of country or U.S. possession	Form 1116, Part I
B Gross income from all sources	
C Gross income sourced at partner level	
Foreign gross income sourced at partnership level	
D Passive category	Form 1116, Part I
E General category	
F Other	
Deductions allocated and apportioned at partner level	
G Interest expense	Form 1116, Part I
H Other	Form 1116, Part I
Deductions allocated and apportioned at partnership level to foreign source income	
I Passive category	Form 1116, Part I
J General category	
K Other	
Other information	
L Total foreign taxes paid	Form 1116, Part II
M Total foreign taxes accrued	Form 1116, Part II
N Reduction in taxes available for credit	Form 1116, line 12
O Foreign trading gross receipts	Form 8873
P Extraterritorial income exclusion	Form 8873
Q Other foreign transactions	See the Partner's Instructions
17. Alternative minimum tax (AMT) items	
A Post-1986 depreciation adjustment	See the Partner's Instructions and the Instructions for Form 6251
B Adjusted gain or loss	
C Depletion (other than oil & gas)	
D Oil, gas, & geothermal—gross income	
E Oil, gas, & geothermal—deductions	
F Other AMT items	
18. Tax-exempt income and nondeductible expenses	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See the Partner's Instructions
C Nondeductible expenses	See the Partner's Instructions
19. Distributions	
A Cash and marketable securities	See the Partner's Instructions
B Other property	See the Partner's Instructions
20. Other information	
A Investment income	Form 4952, line 4a
B Investment expenses	Form 4952, line 5
C Fuel tax credit information	Form 4136
D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
E Basis of energy property	See the Partner's Instructions
F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
G Recapture of low-income housing credit (other)	Form 8611, line 8
H Recapture of investment credit	See Form 4255
I Recapture of other credits	See the Partner's Instructions
J Look-back interest—completed long-term contracts	See Form 8697
K Look-back interest—income forecast method	See Form 8866
L Dispositions of property with section 179 deductions	See the Partner's Instructions
M Recapture of section 179 deduction	
N Interest expense for corporate partners	
O Section 453(l)(3) information	
P Section 453A(c) information	
Q Section 1260(b) information	
R Interest allocable to production expenditures	
S CCF nonqualified withdrawals	
T Information needed to figure depletion—oil and gas	
U Amortization of reforestation costs	
V Unrelated business taxable income	
W Other information	

2007 SCHEDULE K-1 SUPPLEMENTAL INFORMATION

This page represents additional information NOT supplied on Schedule K-1 of which may be needed for you to complete your current year tax filings:

13S1	Domestic Production Gross Receipts (DPGR)	3
13S2	COGS Allocable to DPGR	0
13S3	Directly Allocable Deductions	3
13S4	Indirectly Allocable Deductions	1
13U	Employer's W-2 wages	0
20W1	Gross Receipts	48
20W2	Depletion Included in Box 1	0
20W3	Capital Account Adjustment; Canadian Withholding Tax	0

ITEMS TO NOTE

IRC Section 743(b) adjustments have been included in box 1 if applicable.

In Accordance with IRS Notice 88-75, Net Passive Income not reported on Line 20A may be considered Investment Income for purposes of Filing Form 4952.

Included below are the state apportionment factors for the states in which we operate and where you may be required to file an income tax return. You may need this information to compute your share of deductible foreign tax expense for those states where a deduction is allowed.

STATE CODE	APPORTIONMENT FACTOR
AL	0.024
AZ	1.502
AR	0.053
CA	6.047
CO	5.205
DE	0.008
FL	1.719
GA	0.299
IL	0.636
IN	0.282
IA	0.109
KS	1.392
KY	0.231
LA	0.487
MD	0.135
MI	0.013
MN	0.107
MS	0.059
MO	0.086
NE	0.881
NJ	1.538
NM	1.939
NY	0.010
NC	0.390
ND	0.162
OH	0.129
OR	0.370
PA	0.417
SC	0.623
TN	0.055
VA	0.930
WV	0.006
WI	0.025

KMA0208TV50055 - DataProse, Inc. - www.dataprose.com

Q. Are the cash distributions I received from the Partnership taxable?

A. In general, cash distributions received from the partnership are not taxable. You are required to report in your tax return only those items of income, gain, loss, deduction or tax credit as reflected on your Schedule K-1. However, if the cumulative cash distributions received from the Partnership exceed your tax basis in the partnership you would have a taxable gain to report. You should consult your tax advisor for proper reporting of such gain.

Q. Why is the amount of cash I received different than my allocable share of partnership income, gain, loss, deduction or credit?

A. The Partnership distributes available cash as determined by the Partnership agreement. The calculation of cash available for distribution differs from the calculation of taxable income to be reported to the partners. For example, depreciation is an expense that reduces taxable income reported to the partners but does not reduce cash available for distribution.

Q. Why do I receive a Schedule K-1 rather than a Form 1099?

A. Form 1099 is used to report interest and dividend income. Partnerships are required to separately report many different items of income, gain, loss, deduction and credit. Federal tax law requires these items to be reported on a Schedule K-1.

Q. Why don't I receive my Schedule K-1 by January 31, which is the same date as required for distribution of Forms 1099?

A. The required distribution date for Schedule K-1 is different than for Forms 1099. Federal law requires partnerships to provide Schedule K-1 to partners as early as April 15. However, the Partnership strives to provide Schedule K-1 as early as possible, typically during the middle of February. The Partnership must obtain information regarding partnership units bought or sold during the year from stock brokerage firms or transfer agents to prepare the Schedule K-1. Much of this information, in accordance with applicable law, is not provided to the Partnership until late January. A cursory review of this information is performed and then processed with other K-1 information resulting in printing and mailing during February. The Partnership continues to work toward an earlier distribution date of the Schedule K-1.

Q. If I sell my Partnership units, how is my tax basis determined for computing gain or loss?

A. Your tax basis is the original amount paid for the partnership units, adjusted as follows:
- Increased by the cumulative amounts of income and gain reported to you on Schedule K-1.
- Reduced by the cumulative amounts of loss, deduction and credit reported to you on Schedule K-1, and
- Reduced, but not below zero, by the cumulative amounts of cash distributions received from the Partnership.
- Reduced for amounts paid to Revenue Canada on your behalf.

Q. Does the Schedule K-1 show my tax basis in Partnership units?

A. No. However, the Schedule K-1 Box L - Partner's Capital Account Analysis may provide an approximation of your ending tax basis for all units owned at December 31. The amount reflected in Ending Capital Account includes your original cost of units, as reported to the Partnership by your broker, and other adjustments affecting tax basis. However, brokers do not always report original cost to the Partnership, or the original cost reported may be incorrect. When brokers do not report original cost to the Partnership, the low closing price for the month in which you purchased units is assumed to be the cost. This assumption, or incorrect reporting by the broker, can cause this end of year amount to be different than your actual tax basis at December 31.

Q. If I sell my partnership units at a gain, why is part of the gain treated as ordinary income rather than capital gain?

A. A sale of partnership units is treated as if there was a sale of the partner's allocable share of each of the Partnership's assets. Gain on the sale of assets for which depreciation or depletion deductions have been taken is treated as ordinary income rather than capital gain. The ordinary income on sale of units represents the depreciation and depletion deductions previously allocated to you.

Q. If my Schedule K-1 reports a passive activity loss from partnership operations, does this mean the Partnership was not profitable?

A. No. The Partnership achieved earnings for 2007 of $1 billion (before certain items) and $590.3 million (after certain items). Any operating loss reported to partners for tax purposes is due principally to tax depreciation expense in excess of financial depreciation expense.

The information in the enclosed tax package is provided by the Partnership to assist you in preparing your personal tax return. The information reflects the application of various assumptions and conventions, some of which have been disclosed by the Partnership in various SEC filings and other offering documents. It is anticipated that the Partnership may provide disclosure of certain of these assumptions and conventions in the preparation of the Partnership return as warranted to the Internal Revenue Service and/or other taxing authorities to avoid the possibility of certain penalties. We suggest that you refer to the appropriate federal and state income tax laws, instructions, and SEC filings and other offering documents, and that you consult your tax advisor to determine if you have a similar disclosure obligation for partnership items that are a substantial portion of your tax return.

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ATTACHMENT AA

Docket No. OR03-5-001
Exhibit No. BPX-27
Nustar Energy L.P. 2007 K-1 issued to Gordon Gooch

 651107

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065) **2007**

Department of the Treasury
Internal Revenue Service

For calendar year 2007, or tax year beginning _____, 2007
ending _____, 20____

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
74-2956831

B Partnership's name, address, city, state, and ZIP code
NUSTAR ENERGY L.P.
ATTN TAX DEPT
PO BOX 781609
SAN ANTONIO, TX 78278-1609

C IRS Center where partnership filed return
Ogden, UT

D [X] Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code
R GORDON GOOCH
851 NORTH GLEBE ROAD
SUITE 1911
ARLINGTON VA 22203

G [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

H [X] Domestic partner [ ] Foreign partner

I What type of entity is this partner? Individual

J Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.000002 %	0.000001 %
Loss	0.000002 %	0.000001 %
Capital	0.000002 %	0.000001 %

K Partner's share of liabilities at year end:
Nonrecourse . . . . . $_____
Qualified nonrecourse financing . . $_____
Recourse . . . . . $_____

L Partner's capital account analysis:
Beginning capital account . . . . $ 40
Capital contributed during the year . $ 0
Current year increase (decrease) . . $ -2
Withdrawals & distributions . . . $ (4)
Ending capital account . . . . $ 34

[X] Tax basis [ ] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) -2	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16 A	Foreign transactions OTHER COUNTRIES
4	Guaranteed payments	B	18
5	Interest income 0	D	3
6a	Ordinary dividends 0	G	0
6b	Qualified dividends 0	I	1
7	Royalties	L	0
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss) 0	17 A	Alternative minimum tax (AMT) items 1
9b	Collectibles (28%) gain (loss)	B	0
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss) 0	18 C	Tax-exempt income and nondeductible expenses 0
11	Other income (loss)		
		19 A	Distributions 4
12	Section 179 deduction		
13 A	Other deductions 0	20 A	Other information 0
		V	-2
14	Self-employment earnings (loss)	W*	STMT

*See attached statement for additional information.

For IRS Use Only

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

	Report on
1. Ordinary business income (loss). You must first determine whether the income (loss) is passive or nonpassive. Then enter on your return as follows:	
Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (j)
2. Net rental real estate income (loss)	See the Partner's Instructions
3. Other net rental income (loss)	
Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions
4. Guaranteed payments	Schedule E, line 28, column (j)
5. Interest income	Form 1040, line 8a
6a. Ordinary dividends	Form 1040, line 9a
6b. Qualified dividends	Form 1040, line 9b
7. Royalties	Schedule E, line 4
8. Net short-term capital gain (loss)	Schedule D, line 5, column (f)
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain	See the Partner's Instructions
10. Net section 1231 gain (loss)	See the Partner's Instructions
11. Other income (loss)	
Code	
A Other portfolio income (loss)	See the Partner's Instructions
B Involuntary conversions	See the Partner's Instructions
C Sec. 1256 contracts & straddles	Form 6781, line 1
D Mining exploration costs recapture	See Pub. 535
E Cancellation of debt	Form 1040, line 21 or Form 982
F Other income (loss)	See the Partner's Instructions
12. Section 179 deduction	See the Partner's Instructions
13. Other deductions	
A Cash contributions (50%)	See the Partner's Instructions
B Cash contributions (30%)	
C Noncash contributions (50%)	
D Noncash contributions (30%)	
E Capital gain property to a 50% organization (30%)	
F Capital gain property (20%)	
G Investment interest expense	Form 4952, line 1
H Deductions—royalty income	Schedule E, line 18
I Section 59(e)(2) expenditures	See the Partner's Instructions
J Deductions—portfolio (2% floor)	Schedule A, line 23
K Deductions—portfolio (other)	Schedule A, line 28
L Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
M Educational assistance benefits	See the Partner's Instructions
N Dependent care benefits	Form 2441, line 14
O Preproductive period expenses	See the Partner's Instructions
P Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions
Q Pensions and IRAs	See the Partner's Instructions
R Reforestation expense deduction	See the Partner's Instructions
S Domestic production activities information	See Form 8903 instructions
T Qualified production activities income	Form 8903, line 7
U Employer's Form W-2 wages	Form 8903, line 15
V Other deductions	See the Partner's Instructions
14. Self-employment earnings (loss)	
***Note.** If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.*	
A Net earnings (loss) from self-employment	Schedule SE, Section A or B
B Gross farming or fishing income	See the Partner's Instructions
C Gross non-farm income	See the Partner's Instructions
15. Credits	
A Low-income housing credit (section 42(j)(5))	See the Partner's Instructions
B Low-income housing credit (other)	
C Qualified rehabilitation expenditures (rental real estate)	
D Other rental real estate credits	
E Other rental credits	
F Undistributed capital gains credit	Form 1040, line 70; check box a
G Credit for alcohol used as fuel	See the Partner's Instructions
H Work opportunity credit	
I Welfare-to-work credit	
J Disabled access credit	
Code	*Report on*
K Empowerment zone and renewal community employment credit	Form 8844, line 3
L Credit for increasing research activities	See the Partner's Instructions
M New markets credit	
N Credit for employer social security and Medicare taxes	
O Backup withholding	Form 1040, line 64
P Other credits	See the Partner's Instructions
16. Foreign transactions	
A Name of country or U.S. possession	Form 1116, Part I
B Gross income from all sources	
C Gross income sourced at partner level	
Foreign gross income sourced at partnership level	
D Passive category	Form 1116, Part I
E General category	
F Other	
Deductions allocated and apportioned at partner level	
G Interest expense	Form 1116, Part I
H Other	Form 1116, Part I
Deductions allocated and apportioned at partnership level to foreign source income	
I Passive category	Form 1116, Part I
J General category	
K Other	
Other information	
L Total foreign taxes paid	Form 1116, Part II
M Total foreign taxes accrued	Form 1116, Part II
N Reduction in taxes available for credit	Form 1116, line 12
O Foreign trading gross receipts	Form 8873
P Extraterritorial income exclusion	Form 8873
Q Other foreign transactions	See the Partner's Instructions
17. Alternative minimum tax (AMT) items	
A Post-1986 depreciation adjustment	See the Partner's Instructions and the Instructions for Form 6251
B Adjusted gain or loss	
C Depletion (other than oil & gas)	
D Oil, gas, & geothermal—gross income	
E Oil, gas, & geothermal—deductions	
F Other AMT items	
18. Tax-exempt income and nondeductible expenses	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See the Partner's Instructions
C Nondeductible expenses	See the Partner's Instructions
19. Distributions	
A Cash and marketable securities	See the Partner's Instructions
B Other property	See the Partner's Instructions
20. Other information	
A Investment income	Form 4952, line 4a
B Investment expenses	Form 4952, line 5
C Fuel tax credit information	Form 4136
D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
E Basis of energy property	See the Partner's Instructions
F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
G Recapture of low-income housing credit (other)	Form 8611, line 8
H Recapture of investment credit	See Form 4255
I Recapture of other credits	See the Partner's Instructions
J Look-back interest—completed long-term contracts	See Form 8697
K Look-back interest—income forecast method	See Form 8866
L Dispositions of property with section 179 deductions	See the Partner's Instructions
M Recapture of section 179 deduction	
N Interest expense for corporate partners	
O Section 453(l)(3) information	
P Section 453A(c) information	
Q Section 1260(b) information	
R Interest allocable to production expenditures	
S CCF nonqualified withdrawals	
T Information needed to figure depletion—oil and gas	
U Amortization of reforestation costs	
V Unrelated business taxable income	
W Other information	

2007

INDIVIDUALIZED INCOME TAX REPORTING PACKAGE AND INSTRUCTIONS

INTRODUCTION

NuStar Energy L.P. (the Partnership) is a publicly traded limited partnership which is not subject to federal or state income tax. Instead, partners are required to report their allocable share of the Partnership's items of taxable income, gain, deduction or loss in their individual income tax returns as though each partner had incurred such items directly. The Partnership has included a Graphic Guide to assist you in preparing your federal income tax return.

IMPORTANT: The amount of your taxable income will not correspond to the amount of cash distributed to you during the year.

This Individualized Income Tax Reporting Package is being provided to Registered Owners, (i.e., partners who have received a numbered certificate of ownership representing their units) and to Beneficial Owners (i.e., partners whose units are held in a brokerage or other nominee account) who have been identified by the Partnership.

If you have any questions regarding this information, please contact your tax advisor.

IMPORTANT NOTICE

The enclosed information is provided for your general guidance. The information is not intended to be, nor should it be construed as, the basis of tax advice. The tax information discussed in this booklet and reflected on the schedules provided to you is based on existing federal and state laws and regulations as interpreted by the General Partner. Before undertaking any tax filing, we suggest that you refer to the appropriate federal and state income tax laws or consult with your personal tax advisor.

QUESTIONS AND ANSWERS

Q. *Do I report any cash I received as my taxable income?*
A. No. You should report the income items shown on your Schedule K-1 provided to you by the Partnership.

Q. *Why is the amount of cash I received different than the amount I have to report on my individual income tax return?*
A. The cash you receive is a return of capital and represents your share of the partnership's available cash. The amount you are required to include in your individual income tax return is your share of the partnership's income and related items, allocated based on the number of units you owned during 2007 and reported on your Schedule K-1. These amounts differ due to changes in cash flow and depreciation (a non-cash expense).

Q. *What is a Schedule K-1?*
A. NuStar Energy L.P. is a publicly traded limited partnership consisting of a general partner and many limited partners (the investing public). Therefore, all income and expenses flow through to the unitholders to be reported on their individual tax returns. The Partnership is required to file a Form 1065 with the IRS which includes a Schedule K-1 for each unitholder reporting their respective tax information.

Q. *Why am I receiving a Schedule K-1 rather than a Form 1099?*
A. Form 1099's are used to report dividends and interest (among other items), rather than partnership information.

Q. *How is my basis affected by cash distributions and partnership net income?*
A. The cash distributions you receive are a return of capital and decrease your basis in the partnership. At year end your basis is increased by your share of the partnership's taxable income allocated to you on your Schedule K-1.

Q. *What is Unrelated Business Taxable Income (UBTI)?*
A. UBTI is a tax-exempt organization's (including IRA's, Keogh and other qualified retirement plans') distributive share of gross income and allowable deductions of a publicly traded partnership which is considered to be unrelated to the regular activities of the tax-exempt organization and therefore includable in taxable income but which may be offset by a $1,000 deduction.

Q. *What is Alternative Minimum Tax (AMT) Depreciation Adjustment?*
A. The AMT depreciation adjustment amount represents the difference between depreciation for AMT purposes and depreciation for regular tax purposes. This adjustment is necessary in the calculation of your alternative minimum tax.

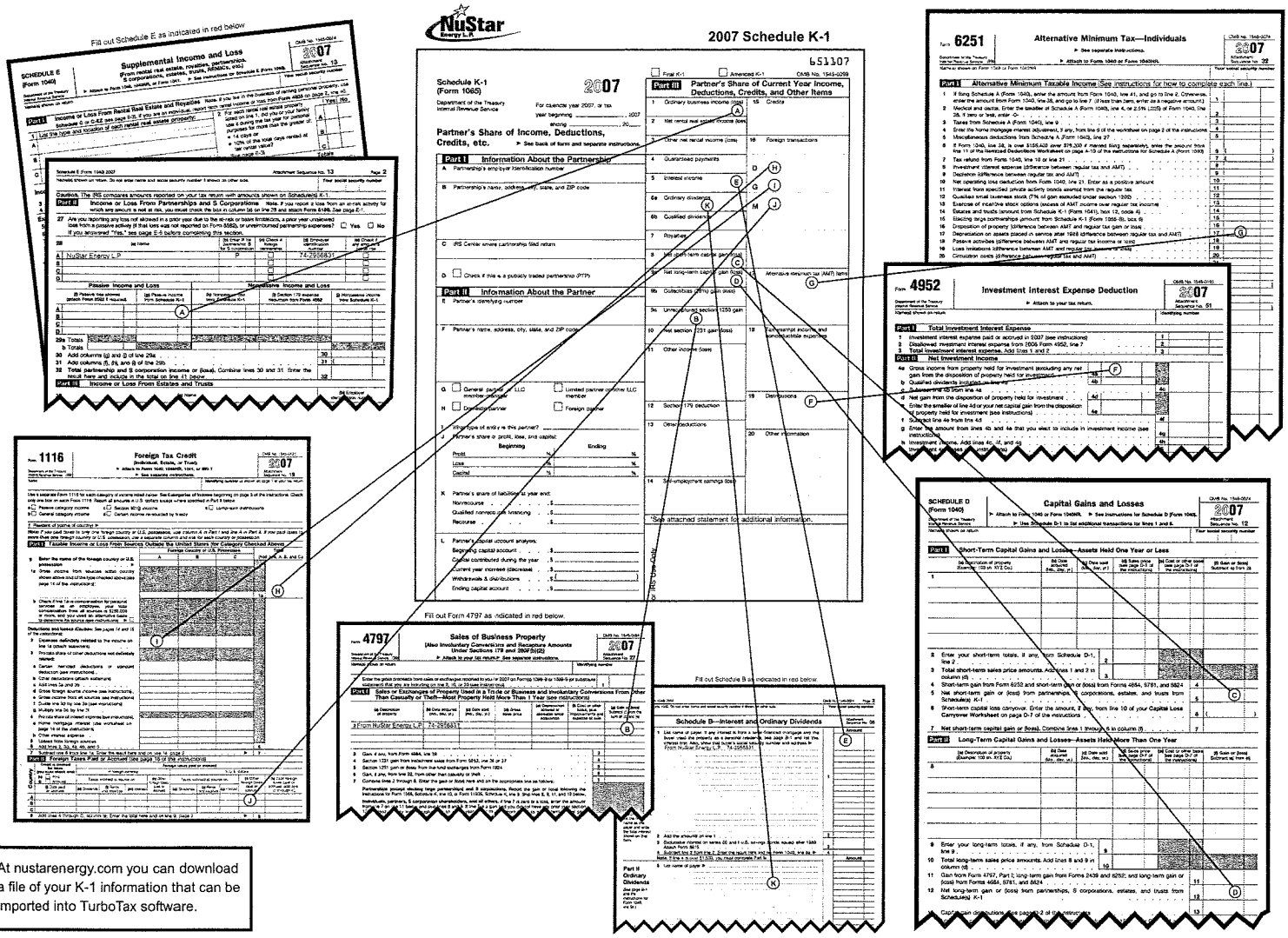
Q. *What should I do if the information in my tax package is incorrect?*
A. Make any corrections directly onto the Ownership Schedule and return it to the Partnership by May 15, 2008 at the address given in the instructions. The partnership will use the information on the Ownership Schedule to update its records and will send you corrected tax information.

Q. *Is NuStar Energy L.P. registered as a tax shelter?*
A. Yes, and the IRS has assigned the Partnership a tax shelter registration number of 00294000008.

Q. *Do I have to file tax returns in any state in which I do not live?*
A. Certain states require unitholders to file tax returns in the states in which the Partnership operates. General information regarding the filing requirements of these states can be found in the State Income Taxes section of these Instructions.

GRAPHIC GUIDE

The Partnership has included this Graphic Guide to assist you in preparing your federal income tax return.
The amounts reported to you on your 2007 Schedule K-1 are represented by letters.
Follow the arrows for each letter to locate the line on the appropriate federal form in which to report your federal amounts. For example, the letter "A" represents the amount of net ordinary income (Box 1), which should be reported on page 2, Column (g) of Schedule E, Supplemental Income Schedule.
*If you have a Passive Loss on your Schedule K-1, this Graphic Guide will not apply to you. Please consult your Personal Tax Advisor.



At nustarenergy.com you can download a file of your K-1 information that can be imported into TurboTax software.

IF YOU HAVE A PASSIVE LOSS ON YOUR SCHEDULE K-1, THIS GRAPHIC GUIDE WILL NOT APPLY TO YOU. PLEASE CONSULT YOUR PERSONAL TAX ADVISOR.

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ATTACHMENT BB

Docket No. OR03-5-001
Exhibit No. BPX-28
Teppco Partners, L.P. 2007 K-1 issued to Gordon Gooch

651107

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

2007

For calendar year 2007, or tax year beginning January 1, 2007
ending May 7, 2007

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0291058

B Partnership's name, address, city, state, and ZIP code
TEPPCO PARTNERS, L.P.
PO BOX 4018
HOUSTON, TX 77210-4018

C IRS Center where partnership filed return
Ogden, UT

D [X] Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code
R GORDON GOOCH
851 NORTH GLEBE ROAD
SUITE 1911
ARLINGTON VA 22203

G ☐ General partner or LLC member-manager ☒ Limited partner or other LLC member

H [X] Domestic partner ☐ Foreign partner

I What type of entity is this partner? Individual

J Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.000001 %	0.000001 %
Loss	0.000001 %	0.000001 %
Capital	0.000001 %	0.000001 %

K Partner's share of liabilities at year end:
Nonrecourse . . . . . $ 17
Qualified nonrecourse financing . $
Recourse . . . . . $

L Partner's capital account analysis:
Beginning capital account . . . . $ 28
Capital contributed during the year. $ 0
Current year increase (decrease) . $ 2
Withdrawals & distributions. . . $ (1)
Ending capital account . . . . . $ 29

[X] Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) 2	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income 0		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss) 0	17	Alternative minimum tax (AMT) items A 0
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss) 0	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)		
12	Section 179 deduction	19	Distributions A 1
13	Other deductions * STMT	20	Other information A 0
			V 2
14	Self-employment earnings (loss)		W* STMT

*See attached statement for additional information.

For IRS Use Only

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This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

1. Ordinary business income (loss). You must first determine whether the income (loss) is passive or nonpassive. Then enter on your return as follows:

	Report on
Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (j)

2. Net rental real estate income (loss)	See the Partner's Instructions
3. Other net rental income (loss)	
Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions
4. Guaranteed payments	Schedule E, line 28, column (j)
5. Interest income	Form 1040, line 8a
6a. Ordinary dividends	Form 1040, line 9a
6b. Qualified dividends	Form 1040, line 9b
7. Royalties	Schedule E, line 4
8. Net short-term capital gain (loss)	Schedule D, line 5, column (f)
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain	See the Partner's Instructions
10. Net section 1231 gain (loss)	See the Partner's Instructions
11. Other income (loss)	

Code	
A Other portfolio income (loss)	See the Partner's Instructions
B Involuntary conversions	See the Partner's Instructions
C Sec. 1256 contracts & straddles	Form 6781, line 1
D Mining exploration costs recapture	See Pub. 535
E Cancellation of debt	Form 1040, line 21 or Form 982
F Other income (loss)	See the Partner's Instructions
12. Section 179 deduction	See the Partner's Instructions
13. Other deductions	
A Cash contributions (50%)	See the Partner's Instructions
B Cash contributions (30%)	
C Noncash contributions (50%)	
D Noncash contributions (30%)	
E Capital gain property to a 50% organization (30%)	
F Capital gain property (20%)	
G Investment interest expense	Form 4952, line 1
H Deductions—royalty income	Schedule E, line 18
I Section 59(e)(2) expenditures	See the Partner's Instructions
J Deductions—portfolio (2% floor)	Schedule A, line 23
K Deductions—portfolio (other)	Schedule A, line 28
L Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
M Educational assistance benefits	See the Partner's Instructions
N Dependent care benefits	Form 2441, line 14
O Preproductive period expenses	See the Partner's Instructions
P Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions
Q Pensions and IRAs	See the Partner's Instructions
R Reforestation expense deduction	See the Partner's Instructions
S Domestic production activities information	See Form 8903 instructions
T Qualified production activities income	Form 8903, line 7
U Employer's Form W-2 wages	Form 8903, line 15
V Other deductions	See the Partner's Instructions

14. Self-employment earnings (loss)
Note. *If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.*

A Net earnings (loss) from self-employment	Schedule SE, Section A or B
B Gross farming or fishing income	See the Partner's Instructions
C Gross non-farm income	See the Partner's Instructions
15. Credits	
A Low-income housing credit (section 42(j)(5))	See the Partner's Instructions
B Low-income housing credit (other)	
C Qualified rehabilitation expenditures (rental real estate)	
D Other rental real estate credits	
E Other rental credits	
F Undistributed capital gains credit	Form 1040, line 70; check box a
G Credit for alcohol used as fuel	See the Partner's Instructions
H Work opportunity credit	
I Welfare-to-work credit	
J Disabled access credit	

Code	*Report on*
K Empowerment zone and renewal community employment credit	Form 8844, line 3
L Credit for increasing research activities	See the Partner's Instructions
M New markets credit	
N Credit for employer social security and Medicare taxes	
O Backup withholding	Form 1040, line 64
P Other credits	See the Partner's Instructions
16. Foreign transactions	
A Name of country or U.S. possession	Form 1116, Part I
B Gross income from all sources	
C Gross income sourced at partner level	
Foreign gross income sourced at partnership level	
D Passive category	Form 1116, Part I
E General category	
F Other	
Deductions allocated and apportioned at partner level	
G Interest expense	Form 1116, Part I
H Other	Form 1116, Part I
Deductions allocated and apportioned at partnership level to foreign source income	
I Passive category	Form 1116, Part I
J General category	
K Other	
Other information	
L Total foreign taxes paid	Form 1116, Part II
M Total foreign taxes accrued	Form 1116, Part II
N Reduction in taxes available for credit	Form 1116, line 12
O Foreign trading gross receipts	Form 8873
P Extraterritorial income exclusion	Form 8873
Q Other foreign transactions	See the Partner's Instructions
17. Alternative minimum tax (AMT) items	
A Post-1986 depreciation adjustment	See the Partner's Instructions and the Instructions for Form 6251
B Adjusted gain or loss	
C Depletion (other than oil & gas)	
D Oil, gas, & geothermal—gross income	
E Oil, gas, & geothermal—deductions	
F Other AMT items	
18. Tax-exempt income and nondeductible expenses	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See the Partner's Instructions
C Nondeductible expenses	See the Partner's Instructions
19. Distributions	
A Cash and marketable securities	See the Partner's Instructions
B Other property	See the Partner's Instructions
20. Other information	
A Investment income	Form 4952, line 4a
B Investment expenses	Form 4952, line 5
C Fuel tax credit information	Form 4136
D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
E Basis of energy property	See the Partner's Instructions
F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
G Recapture of low-income housing credit (other)	Form 8611, line 8
H Recapture of investment credit	See Form 4255
I Recapture of other credits	See the Partner's Instructions
J Look-back interest—completed long-term contracts	See Form 8697
K Look-back interest—income forecast method	See Form 8866
L Dispositions of property with section 179 deductions	See the Partner's Instructions
M Recapture of section 179 deduction	
N Interest expense for corporate partners	
O Section 453(l)(3) information	
P Section 453A(c) information	
Q Section 1260(b) information	
R Interest allocable to production expenditures	
S CCF nonqualified withdrawals	
T Information needed to figure depletion—oil and gas	
U Amortization of reforestation costs	
V Unrelated business taxable income	
W Other information	

651107

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

2007

For calendar year 2007, or tax year beginning May 8, 2007
ending December 31, 2007

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0291058

B Partnership's name, address, city, state, and ZIP code
TEPPCO PARTNERS, L.P.
PO BOX 4018
HOUSTON, TX 77210-4018

C IRS Center where partnership filed return
Ogden, UT

D [x] Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code
R GORDON GOOCH
851 NORTH GLEBE ROAD
SUITE 1911
ARLINGTON VA 22203

G ☐ General partner or LLC member-manager [x] Limited partner or other LLC member

H [x] Domestic partner ☐ Foreign partner

I What type of entity is this partner? Individual

J Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.000001 %	0.000001 %
Loss	0.000001 %	0.000001 %
Capital	0.000001 %	0.000001 %

K Partner's share of liabilities at year end:
Nonrecourse . . . . . $ 38
Qualified nonrecourse financing . $
Recourse . . . . . $

L Partner's capital account analysis:
Beginning capital account . . . . $ 29
Capital contributed during the year. $ 0
Current year increase (decrease) . $ 1
Withdrawals & distributions. . . $ (1)
Ending capital account . . . . . $ 29

[x] Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) 1	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income 0		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items A 0
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss) 0	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)		
		19	Distributions A 1
12	Section 179 deduction		
13	Other deductions * STMT	20	Other information A 0
			V 1
14	Self-employment earnings (loss)		W* STMT

*See attached statement for additional information.

For IRS Use Only

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This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

	Report on
1. Ordinary business income (loss). You must first determine whether the income (loss) is passive or nonpassive. Then enter on your return as follows:	
Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (j)
2. Net rental real estate income (loss)	See the Partner's Instructions
3. Other net rental income (loss)	
Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions
4. Guaranteed payments	Schedule E, line 28, column (j)
5. Interest income	Form 1040, line 8a
6a. Ordinary dividends	Form 1040, line 9a
6b. Qualified dividends	Form 1040, line 9b
7. Royalties	Schedule E, line 4
8. Net short-term capital gain (loss)	Schedule D, line 5, column (f)
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain	See the Partner's Instructions
10. Net section 1231 gain (loss)	See the Partner's Instructions
11. Other income (loss)	
Code	
A Other portfolio income (loss)	See the Partner's Instructions
B Involuntary conversions	See the Partner's Instructions
C Sec. 1256 contracts & straddles	Form 6781, line 1
D Mining exploration costs recapture	See Pub. 535
E Cancellation of debt	Form 1040, line 21 or Form 982
F Other income (loss)	See the Partner's Instructions
12. Section 179 deduction	See the Partner's Instructions
13. Other deductions	
A Cash contributions (50%)	See the Partner's Instructions
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C Noncash contributions (50%)	
D Noncash contributions (30%)	
E Capital gain property to a 50% organization (30%)	
F Capital gain property (20%)	
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I Section 59(e)(2) expenditures	See the Partner's Instructions
J Deductions—portfolio (2% floor)	Schedule A, line 23
K Deductions—portfolio (other)	Schedule A, line 28
L Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
M Educational assistance benefits	See the Partner's Instructions
N Dependent care benefits	Form 2441, line 14
O Preproductive period expenses	See the Partner's Instructions
P Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions
Q Pensions and IRAs	See the Partner's Instructions
R Reforestation expense deduction	See the Partner's Instructions
S Domestic production activities information	See Form 8903 instructions
T Qualified production activities income	Form 8903, line 7
U Employer's Form W-2 wages	Form 8903, line 15
V Other deductions	See the Partner's Instructions
14. Self-employment earnings (loss)	
Note. *If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.*	
A Net earnings (loss) from self-employment	Schedule SE, Section A or B
B Gross farming or fishing income	See the Partner's Instructions
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B Low-income housing credit (other)	
C Qualified rehabilitation expenditures (rental real estate)	
D Other rental real estate credits	
E Other rental credits	
F Undistributed capital gains credit	Form 1040, line 70; check box a
G Credit for alcohol used as fuel	See the Partner's Instructions
H Work opportunity credit	
I Welfare-to-work credit	
J Disabled access credit	
Code	*Report on*
K Empowerment zone and renewal community employment credit	Form 8844, line 3
L Credit for increasing research activities	See the Partner's Instructions
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C Gross income sourced at partner level	
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D Passive category	Form 1116, Part I
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Deductions allocated and apportioned at partner level	
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Q Other foreign transactions	See the Partner's Instructions
17. Alternative minimum tax (AMT) items	
A Post-1986 depreciation adjustment	See the Partner's Instructions and the Instructions for Form 6251
B Adjusted gain or loss	
C Depletion (other than oil & gas)	
D Oil, gas, & geothermal—gross income	
E Oil, gas, & geothermal—deductions	
F Other AMT items	
18. Tax-exempt income and nondeductible expenses	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See the Partner's Instructions
C Nondeductible expenses	See the Partner's Instructions
19. Distributions	
A Cash and marketable securities	See the Partner's Instructions
B Other property	See the Partner's Instructions
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A Investment income	Form 4952, line 4a
B Investment expenses	Form 4952, line 5
C Fuel tax credit information	Form 4136
D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
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N Interest expense for corporate partners	
O Section 453(l)(3) information	
P Section 453A(c) information	
Q Section 1260(b) information	
R Interest allocable to production expenditures	
S CCF nonqualified withdrawals	
T Information needed to figure depletion—oil and gas	
U Amortization of reforestation costs	
V Unrelated business taxable income	
W Other information	

TEPPCO PARTNERS, L. P. (NYSE:TPP)

AUTOALL FOR AADC 220 750 AADC 40938-B-46
90965 2 AB 0.466

R GORDON GOOCH
851 NORTH GLEBE ROAD SUITE 1911
ARLINGTON VA 22203-4162

Dear TEPPCO Unitholder:

Attached please find your TEPPCO tax package for 2007. Note that due to various transactions that occurred during the previous 12 month period, TEPPCO Partners, LP experienced a "technical termination" for income tax purposes. The practical result of such a termination is that we are required by the IRS to file two Schedule K-1's for TEPPCO unitholders who held their TEPPCO units both before and after May 7, 2007. If you sold all of your TEPPCO units prior to May 7th and/or acquired your TEPPCO units after May 7th, you will only receive one Schedule K-1 for 2007. (This is also true with respect to the Ownership Schedule and the State Schedule.) The period from January 1 through May 7, 2007 is considered to be one "tax period" and the period from May 8 through December 31, 2007 is another "tax period." **If you held units in both tax periods you must sum amounts from both K-1's in order to compute the total 2007 taxable income or loss allocated to you from TEPPCO.** The following items are included in the package:

1. 2007 Individualized Income Tax Reporting Package and Instructions
2. Schedule K-1, including a page for K-1 Supplemental Information (for each applicable tax period)
3. 2007 Ownership Schedule (for each applicable tax period)
4. 2007 State Schedule (for each applicable tax period)
5. 2007 Sales Schedule (only applicable to those who sold TEPPCO units in 2007)
6. 2007 Partner's Instructions for Schedule K-1 (Form 1065)

Please carefully review the information on your Ownership Schedule. If the information is inaccurate, please contact us as instructed at the top of the Ownership Schedule. We will issue a revised Schedule K-1, Ownership Schedule, State Schedule, and (if applicable), Sales Schedule, as soon as possible.

As noted above, the Sales Schedule will only be included if you sold any TEPPCO units during 2007. Thus, if our records show you did not sell any TEPPCO units in 2007, you will not receive a Sales Schedule.

We urge you to read the Tax Instructions carefully prior to preparing your federal or state tax returns. **Note, if you have a net passive loss - i.e. the sum of Lines 1 and 10 of your K-1(s) is negative - generally, you should not report that loss on your federal or state tax returns unless you disposed of ALL your interest in TEPPCO prior to January 1, 2008, in a fully taxable transaction.**

The enclosed Partner instructions and IRS instructions are provided for your general guidance, and are not intended to be, nor should they be construed as, tax advice. The tax information discussed in this package and reflected on the schedules provided to you is based on existing federal and state laws and regulations as interpreted by the General Partner. Before undertaking any tax filing, we suggest that you refer to the appropriate federal and state income tax laws or consult your personal tax advisor.

If you have any questions regarding this tax package, please call toll free at 1-877-699-1093, send a fax at 1-972-248-5395, or visit our website at www.taxpackagesupport.com/teppco.

2007 SCHEDULE K-1 SUPPLEMENTAL INFORMATION

Period 1 - Beginning: January 1, 2007
Ending: May 7, 2007

13S1	Domestic Production Gross Receipts (DPGR)	0
13S2	Cost of Goods Sold allocable to DPGR	0
13S3	Total deductions, expenses, and losses directly allocable to DPGR	0
13S4	Other deductions, expenses, and losses Not directly allocable to DPGR	1
13S5	Employer's W-2 wages	0
20W1	Sec. 743(b) adjustments included in Line 1 and/or Line 10	0
20W2	Gross Receipts for UBTI	38
20W3	Gross Deductions for UBTI	37

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2007

INDIVIDUALIZED INCOME TAX REPORTING PACKAGE & INSTRUCTIONS

This information should be used in conjunction with the attached 2007 Partner's Instructions for Schedule K-1 (Form 1065) published by the Internal Revenue Service (IRS).

TEPPCO Partners, L.P. is a publicly traded limited partnership which requires its partners to report their allocable share of the Partnership's items of taxable income, gain, deduction or loss in their individual income tax returns as though each partner has incurred such items directly.

An Individualized Income Tax Reporting Package has been provided to Registered Owners, (i.e., partners who have received a numbered certificate of ownership representing their units) and to Beneficial Owners (i.e. partners whose units are held in a street name, in a brokerage or other nominee account) who have been identified by the Partnership. The Partnership has included this instruction guide to assist you in preparing your income tax returns.

For your convenience, a web site is available at www.taxpackagesupport.com/teppco. You can use this website to view your tax schedules, print tax package including instructions, and/or request changes to correct information.

IMPORTANT: The amount of your taxable income will not correspond to the amount of cash distributed to you during 2007.

PASSIVE ACTIVITY LOSS LIMITATION FOR PUBLICLY TRADED PARTNERSHIPS:

The tax law characterizes ordinary income, gain, loss, and deduction from a publicly traded limited partnership interest as passive income/loss, subject to Passive Activity Loss Limitations (PAL Limitations). The tax law limits the recognition of passive activity losses from a publicly traded limited partnership to the amount of passive activity income from the SAME partnership. Net passive activity income from a publicly traded limited partnership cannot be used to offset the net passive activity losses from other sources including other publicly traded partnerships.

To determine whether PAL Limitations apply to you, you must sum income from lines 1 and 10. If the sum is positive, report each item on your Form 1040 according to the instructions below. You can also utilize your prior year suspended losses, if any, to offset your current year income. If the sum is negative, then PAL Limitations will apply to you. Losses are allowed to the extent of income, and any excess must be suspended until:

a. you are allocated net passive activity income from the Partnership, or

b. you have disposed of all your interest in the Partnership.

IMPORTANT NOTICE

The information in the enclosed tax package is provided by the Partnership to assist you in preparing your personal tax return. The information reflects the application of various assumptions and conventions, as disclosed by the Partnership to you in various SEC filings and other offering documents. It is anticipated that the Partnership may provide disclosure of certain of these assumptions and conventions in the preparation of the Partnership return as warranted to the Internal Revenue Service and/or other taxing authorities. We suggest that you refer to the appropriate federal and state income tax laws, instructions, and SEC filings and other offering documents, and that you consult your tax advisor with any questions you may have. You should discuss with your tax advisor whether the treatment of any items in the enclosed tax package may subject you and/or your tax advisor to a penalty by a taxing authority and the need to adequately disclose any items in order to avoid such penalty.

Please refer to the Schedule K-1 Line Item Supplemental Instructions below and the IRS 2007 Partner's Instructions for Schedule K-1 (Form 1065) instruction for Limitations on Losses, Deductions, and Credits, particularly the section entitled Publicly traded partnerships for more information and examples. You can utilize worksheets 5, 6, and 7 of Form 8582 Passive Activity Loss Limitations to track your suspended losses. Please also consult your personal tax advisor.

SCHEDULE K-1 LINE ITEM SUPPLEMENTAL INSTRUCTIONS

Partnership's employer identification number:

This is the Partnership's federal taxpayer identification number. Report this number on your U.S. Individual Income Tax Return, Form 1040, Schedule E, Part II, Column (d), "Employer Identification Number" 76-0291058.

Item K - Partner's share of liabilities (Nonrecourse)

A partnership's liabilities are treated as nonrecourse debt to the extent that no partner or related person bears the economic risk of loss for the liability. Any increase in your allocated nonrecourse debt will give you additional basis in your partnership interest, which will allow you to receive additional non-taxable distributions as a return of capital. Any decrease in allocated nonrecourse debt will reduce your tax basis. If your tax basis is below zero, you will be required to recognize additional income.

Item L - Analysis of partner's capital account:

This section provides a summary of Partnership activity attributable to your Partnership units as it affects your capital account. Your capital account activity is summarized on the basis of the information shown on your Ownership Schedule. Please note that your capital account balance bears no relationship to, and is not indicative of the fair market value of your investment.

For federal income tax purposes, TPP experienced a "technical termination" in 2007. As a result, many unitholders will receive two Schedule K-1's in 2007. If you received two Schedule K-1's, you must sum amounts from each in order to determine your total TPP reportable amounts for calendar year 2007.

Line 1 - Ordinary business income (loss)

This amount represents your share of the ordinary income (loss) from the trade or business activities of the Partnership.

If you have an overall loss, you are subject to PAL Limitations in the current year and this item may be partially or completely suspended. To the extent of income reported on line 10 of Schedule K-1, you may report a portion of this item on Form 1040, Schedule E, Part II, Column (f). The remaining portion must be suspended until you are allocated income from this partnership or you have disposed of your entire interest in this partnership. Report allowed losses on Schedule E, Part II, Col. (f).

If you have an overall income, you are not subject to PAL Limitations in the current year. Report this amount on Form 1040, Schedule E, Part II, Column (j). You will also need to determine whether you have prior suspended losses to be used to offset your current year overall net passive activity income. Report the amount of suspended losses you utilized on Form 1040, Schedule E, Part II, Column (h).

Please also refer to the instructions section titled "PASSIVE ACTIVITY LOSS LIMITATION FOR PUBLICLY TRADED PARTNERSHIPS"

Lines 5 and 9a, Portfolio Items:

Regardless of the amount of your passive activity income or loss, portfolio income (loss) items are always reported currently.

Interest (Line 5) - This item represents your share of net portfolio interest income and expense. Report this amount on Form 1040, Schedule B, Part I, Line 1.

Line 9a – Net Long-Term Capital Gain (Loss)

This amount represents your share of the net long-term capital gain or (loss) from the disposition of assets. Report the net long-term capital gain (loss) on Schedule D (Form 1040), line 12, column (f).

Line 10, Net 1231 gain (loss)

This amount represents your share of gain or loss from the disposition of trade or business assets held by the partnership for more than one year. Report amounts on Line 10 on Form 4797, Line 2, Col. (g) and write "From TEPPCO Partners, L.P. 76-0291058" in Column (a).

Line 13 - Other deductions

Code S – Domestic partnership activity information under IRC Section 199. This represents your unadjusted allocable portion of TPP's income and expense items related to Qualifying Domestic Production Activities. The deduction available under Section 199 is limited to 50% of the W-2 wages allocated to you. **Note that the Partnership has no employees and thus has no W-2 wages. As a result, you would not receive any deduction under Section 199 from your interest in TPP.** Refer to (IRS) Form 8903 or consult your personal tax advisor for additional information.

Line 17, Adjustments and Tax Preference Items:

These items are preference items used to calculate your alternative minimum tax (AMT). They are also subject to PAL Limitations, and should be reported consistently with your other income items.

Depreciation adjustments on property placed in service after 1986 (Line 17A) - This amount represents the net difference between depreciation for AMT purposes and for regular tax purposes. It is an adjustment for the calculation of your alternative minimum tax. This amount should be reported on Form 6251, Line 18.

Line 20, Other Information:

Investment Income (Line 20A) - This amount is used in the computation of the limitation on deductible interest expense. Report this amount on Form 4952, Line 4a.

Unrelated business taxable income or loss (Line 20V) - If your investment in the Partnership was made through an IRA, Keogh or other qualified retirement plan, or if you are any other tax-exempt entity, your trustee may be required to report this as unrelated to your tax-exempt purpose, which may be offset by a $1,000 deduction, on IRS Form 990-T (Exempt Organization Business Income Tax Return). You should consult your trustee or personal tax advisor for the appropriate tax treatment.

743b adjustment included in Box 1 and/or 10 of the K-1(Line 20W1) - this represents your share of the Section 743b adjustment related to tax depreciation, amortization and/or gain or loss on sales of assets used in the Partnership. Please note that this amount is already included in Lines 1 and/or 10 of your K-1. **Do not adjust your taxable income or loss from the Partnership by this amount. This amount is provided for informational purposes only.**

Gross receipts for UBTI (Line 20 W2) – This amount represents your share of the gross receipts from Partnership operations, other than interest income or dividends.

Gross deductions for UBTI (Line 20W3) – This represents your share of deductions from Partnership operations.

Nontaxable adjustment to capital (Line 20W4) - if applicable, this represents a revision to a partner's capital account. This revision can result from a change in how the capital account was originally calculated. An example of an event would be a change in the transaction date on the Ownership Schedule.

Required IRC Section 754 statement for acquisition of units:

The Partnership has made the election, provided under Internal Revenue Code (IRC) Section 754, to adjust the basis of Partnership property for transfers of Partnership interests. The election applies to unitholders who acquired their units by purchase or by inheritance. Unless otherwise notified by you or by your broker, the Partnership has assumed that any acquisition of units reported on your Ownership Schedule was made by purchase or inheritance.

The general effect of such an election is that upon acquisition of a Partnership unit, a unitholder is entitled to an adjustment to his share of Partnership property to reflect the price at which the unit was purchased or inherited. An election under IRC Section 754 permits an investor to claim depreciation deductions to the extent that any basis adjustment is allocated to depreciable property. The Partnership has adjusted 2007 tax information for the IRC Section 754 election based on unit trading prices for the calendar month in which your acquisition was recorded.

If you acquired your units by purchase or by inheritance, you must include the IRC Section 754 Statement stated below in your income tax return for the first year you become a partner.

IRC SECTION 754 STATEMENT

The taxpayer is a transferee partner in TEPPCO Partners, L.P. who has a special adjustment under Internal Revenue Code (IRC) Section 743(b) pursuant to the IRC Section 754 election made by TEPPCO Partners, L.P. The special basis adjustment was made in accordance with the rules provided in IRC Section 743 and 755 and the Regulations thereunder. Detailed information is available in the office of TEPPCO's General Partner upon request.

Required IRC Section 751 Statement for sale of Units:

If you had a taxable disposition of Partnership units during 2007, you should receive a partially completed 2007 Sales Schedule. The schedule contains information necessary to determine your gain or loss upon disposition of Partnership units during 2007. Some amounts have been supplied, but you will need to add additional figures to determine your gain or loss upon the sale of your units. Please follow the instructions on the schedule to determine your gain or loss on the sale.

If you are reporting ordinary income attributable to sales of Partnership units, you must include the IRC Section 751 Statement stated below in your income tax return for the year you made the disposition.

IRC SECTION 751 STATEMENT

The taxpayer has reported ordinary income upon the disposition of units in TEPPCO Partners, L.P., as provided by the General Partner. The amount was determined in accordance with Internal Revenue Code Section 751. Detailed information is available in the office of the General Partner upon request.

Form 8082 - Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR):

The Partnership will be filing a copy of your Schedule K-1 with the Internal Revenue Service. If you have notified the Partnership of necessary corrections prior to May 30, 2008, the corrected information will be filed with the IRS. Any correction made after this day may require you to file Form 8082 with your return.

Unitholders in the Partnership should include amounts in their income tax returns which are consistent with the amounts reported on Schedule K-1. If the amounts you report in your income tax return differ from the Schedule K-1, you must complete Form 8082 - Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR) as follows:

Part I	Line 1	Check box 1(a)
	Line 3	Check box 3(a)
	Line 4	Enter 76-0291058
	Line 5	TEPPCO Partners, L.P. PO Box 4018 Houston, TX 77210-4018
	Line 7	Enter Ogden, Utah
	Line 8	Enter 01/01/2007-12/31/2007
	Line 9	Enter your tax year
Part II	Line 10(a)	Enter "See Explanation Below"
	Line 10(b)	Check the appropriate box
	Line 10(c-e)	Complete where applicable.
Part III	Enter the associated item number and appropriate explanation	

QUESTIONS AND ANSWERS

Q. What should I do if the information in this package is incorrect?
A. You should notify the Partnership of the changes via mail, phone, or the internet (see 2007 Ownership Schedule) by May 30, 2008. The Partnership will update your information and send you a corrected tax package.

Q. Why am I receiving a Schedule K-1 rather than Form 1099?
A. Form 1099 is used to report dividends and interest (among other items). TEPPCO Partners, L.P. is a publicly traded limited partnership consisting of a general partner and many limited partners (the investing public). All income and expenses from the Partnership flow through to the unitholders to be reported on their individual tax returns. The Partnership is required to file Form 1065 with the IRS which includes a Schedule K-1 for each unitholder reporting their respective tax information.

Q. Do I report the cash distribution I received as my taxable income?
A. No, the cash you received represents your share of the Partnership's available cash and should be treated as a return of capital to the extent of your tax basis. If your distribution exceeds your tax basis, you must recognize the excess as additional income in order to restore your tax basis back to zero. You should use your prior year suspended losses, if any, to offset this income. The amount you have to include in your individual income tax return is your share of the Partnership's income and related items reported on your Schedule K-1. Follow the instructions provided to report your income and losses related to the Partnership.

Q. How is my tax basis affected by cash distributions, income, and non-recourse debt?
A. The cash distributions you receive are treated as a return of capital and decrease your tax basis in the Partnership. At year end your tax basis is also adjusted by your share of the Partnership's taxable income (loss) and non-recourse debt allocated to you on your Schedule K-1.

Q. How do Passive Activity Loss Limitation rules effect my income reporting?
A. Depending on when you acquired your units and the operational results of the Partnership, you will have either net passive activity income or net passive activity loss in 2007. If you have net passive activity loss, you may not recognize this loss in the current year. If you have net passive activity income, you should first offset this income with any prior suspended losses and report any net income currently. For additional information, please refer your 2007 INDIVIDUALIZED INCOME TAX REPORTING PACKAGE & INSTRUCTIONS, and the IRS instructions for Schedule K-1 (Form 1065) under Limitations and Losses, Deductions, and Credits in the section entitled "Publicly traded partnership". Please consult your personal tax advisor for the appropriate tax treatment should you need additional help.

Q. What is Unrelated Business Taxable Income (UBTI)?
A. UBTI is the distributive share of income/(loss) from a publicly traded partnership which is considered to be unrelated to the regular activities and reportable as taxable income/(loss) of a tax-exempt organization (including IRA's, Keogh and other qualified retirement plans). Each tax-exempt organization is entitled to an annual $1,000 deduction to offset their net UBTI income.

Q. What is Alternative Minimum Tax (AMT) Depreciation Adjustment?
A. The AMT depreciation adjustment amount represents the difference between depreciation for AMT purposes and depreciation for regular tax purposes. This adjustment is necessary in the calculation of your alternative minimum tax.

Q. Am I required to file tax returns in any state in which I do not live?
A. Certain states require unitholders to file tax returns in the states in which the Partnership operates. **A copy of the Federal Schedule K-1 is being sent to the states in which the partnership has filing requirements.**

Q. What is nonrecourse debt?
A. A partnership's liability is treated as nonrecourse debt to the extent that no partner or related person bears the economic risk of loss for the liability. A partner's share of partnership liabilities is included in the partner's adjusted basis in his partnership interest. A partner may deduct partnership losses allocated to him only to the extent of his adjusted basis.

Q. Why is the amount of cash I received different than my allocable share of partnership income, gain, loss, deduction or credit?
A. The Partnership distributes available cash as determined by the Partnership agreement. The calculation of cash available for distribution differs from the calculation of taxable income to be reported to the partners. For example, depreciation is an expense that reduces taxable income reported to the partners but does not reduce cash available for distribution.

Q. If I sell my partnership units at a gain, why is part of the gain treated as ordinary income rather than capital gain?
A. A sale of partnership units is treated as if there were a sale of the partner's allocable share of each of the Partnership's assets. Gain on the sale of assets for which depreciation and depletion deductions have been taken is treated as ordinary income rather than capital gain. The ordinary income on sale of assets represents the depreciation and depletion deductions previously allocated to you.

Q. Why did I receive two K-1's in 2007?
A. If you held TEPPCO units both before and after May 7, 2007, you will receive two K-1's for 2007. This is a result of TEPPCO experiencing a "technical termination" as of that date for federal income tax purposes. If you received two K-1's in 2007, you must sum them together to determine your total 2007 income or loss from TEPPCO.

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ATTACHMENT CC

Docket No. OR03-5-001
Exhibit No. BPX-29
Enterprise Products Partners, L.P. 2007 K-1 issued to Gordon Gooch

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

2007

For calendar year 2007, or tax year beginning _____, 2007
ending _____, 20__

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0568219

B Partnership's name, address, city, state, and ZIP code
ENTERPRISE PRODUCTS PARTNERS L.P.
PO BOX 4018
HOUSTON, TX 77210-4018

C IRS Center where partnership filed return
Ogden, UT

D [X] Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code
R GORDON GOOCH
851 NORTH GLEBE ROAD
SUITE 1911
ARLINGTON VA 22203

G ☐ General partner or LLC member-manager ☒ Limited partner or other LLC member

H [X] Domestic partner ☐ Foreign partner

I What type of entity is this partner? Individual

J Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.000082 %	0.000081 %
Loss	0.000082 %	0.000081 %
Capital	0.000082 %	0.000081 %

K Partner's share of liabilities at year end:

Nonrecourse	$ 8,235
Qualified nonrecourse financing	$
Recourse	$

L Partner's capital account analysis:

Beginning capital account	$ 2,645
Capital contributed during the year	$ 0
Current year increase (decrease)	$ 232
Withdrawals & distributions	$ (693)
Ending capital account	$ 2,184

[X] Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) 225	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income 7		
6a	Ordinary dividends 4		
6b	Qualified dividends 4		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss) 0	17	Alternative minimum tax (AMT) items A -28
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss) -2	18	Tax-exempt income and nondeductible expenses C 2
11	Other income (loss)		
12	Section 179 deduction	19	Distributions A 693
13	Other deductions * STMT	20	Other information A 11
			V 225
14	Self-employment earnings (loss)		W* STMT

*See attached statement for additional information.

For IRS Use Only

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This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

	Report on
1. Ordinary business income (loss). You must first determine whether the income (loss) is passive or nonpassive. Then enter on your return as follows:	
Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (j)
2. Net rental real estate income (loss)	See the Partner's Instructions
3. Other net rental income (loss)	
Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions
4. Guaranteed payments	Schedule E, line 28, column (j)
5. Interest income	Form 1040, line 8a
6a. Ordinary dividends	Form 1040, line 9a
6b. Qualified dividends	Form 1040, line 9b
7. Royalties	Schedule E, line 4
8. Net short-term capital gain (loss)	Schedule D, line 5, column (f)
9a. Net long-term capital gain (loss)	Schedule D, line 12, column (f)
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain	See the Partner's Instructions
10. Net section 1231 gain (loss)	See the Partner's Instructions
11. Other income (loss)	
Code	
A Other portfolio income (loss)	See the Partner's Instructions
B Involuntary conversions	See the Partner's Instructions
C Sec. 1256 contracts & straddles	Form 6781, line 1
D Mining exploration costs recapture	See Pub. 535
E Cancellation of debt	Form 1040, line 21 or Form 982
F Other income (loss)	See the Partner's Instructions
12. Section 179 deduction	See the Partner's Instructions
13. Other deductions	
A Cash contributions (50%)	See the Partner's Instructions
B Cash contributions (30%)	
C Noncash contributions (50%)	
D Noncash contributions (30%)	
E Capital gain property to a 50% organization (30%)	
F Capital gain property (20%)	
G Investment interest expense	Form 4952, line 1
H Deductions—royalty income	Schedule E, line 18
I Section 59(e)(2) expenditures	See the Partner's Instructions
J Deductions—portfolio (2% floor)	Schedule A, line 23
K Deductions—portfolio (other)	Schedule A, line 28
L Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
M Educational assistance benefits	See the Partner's Instructions
N Dependent care benefits	Form 2441, line 14
O Preproductive period expenses	See the Partner's Instructions
P Commercial revitalization deduction from rental real estate activities	See Form 8582 Instructions
Q Pensions and IRAs	See the Partner's Instructions
R Reforestation expense deduction	See the Partner's Instructions
S Domestic production activities information	See Form 8903 instructions
T Qualified production activities income	Form 8903, line 7
U Employer's Form W-2 wages	Form 8903, line 15
V Other deductions	See the Partner's Instructions
14. Self-employment earnings (loss)	
Note. *If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.*	
A Net earnings (loss) from self-employment	Schedule SE, Section A or B
B Gross farming or fishing income	See the Partner's Instructions
C Gross non-farm income	See the Partner's Instructions
15. Credits	
A Low-income housing credit (section 42(j)(5))	See the Partner's Instructions
B Low-income housing credit (other)	
C Qualified rehabilitation expenditures (rental real estate)	
D Other rental real estate credits	
E Other rental credits	
F Undistributed capital gains credit	Form 1040, line 70; check box a
G Credit for alcohol used as fuel	See the Partner's Instructions
H Work opportunity credit	
I Welfare-to-work credit	
J Disabled access credit	
Code	*Report on*
K Empowerment zone and renewal community employment credit	Form 8844, line 3
L Credit for increasing research activities	See the Partner's Instructions
M New markets credit	
N Credit for employer social security and Medicare taxes	
O Backup withholding	Form 1040, line 64
P Other credits	See the Partner's Instructions
16. Foreign transactions	
A Name of country or U.S. possession	Form 1116, Part I
B Gross income from all sources	
C Gross income sourced at partner level	
Foreign gross income sourced at partnership level	
D Passive category	Form 1116, Part I
E General category	
F Other	
Deductions allocated and apportioned at partner level	
G Interest expense	Form 1116, Part I
H Other	Form 1116, Part I
Deductions allocated and apportioned at partnership level to foreign source income	
I Passive category	Form 1116, Part I
J General category	
K Other	
Other information	
L Total foreign taxes paid	Form 1116, Part II
M Total foreign taxes accrued	Form 1116, Part II
N Reduction in taxes available for credit	Form 1116, line 12
O Foreign trading gross receipts	Form 8873
P Extraterritorial income exclusion	Form 8873
Q Other foreign transactions	See the Partner's Instructions
17. Alternative minimum tax (AMT) items	
A Post-1986 depreciation adjustment	See the Partner's Instructions and the Instructions for Form 6251
B Adjusted gain or loss	
C Depletion (other than oil & gas)	
D Oil, gas, & geothermal—gross income	
E Oil, gas, & geothermal—deductions	
F Other AMT items	
18. Tax-exempt income and nondeductible expenses	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See the Partner's Instructions
C Nondeductible expenses	See the Partner's Instructions
19. Distributions	
A Cash and marketable securities	See the Partner's Instructions
B Other property	See the Partner's Instructions
20. Other information	
A Investment income	Form 4952, line 4a
B Investment expenses	Form 4952, line 5
C Fuel tax credit information	Form 4136
D Qualified rehabilitation expenditures (other than rental real estate)	See the Partner's Instructions
E Basis of energy property	See the Partner's Instructions
F Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8
G Recapture of low-income housing credit (other)	Form 8611, line 8
H Recapture of investment credit	See Form 4255
I Recapture of other credits	See the Partner's Instructions
J Look-back interest—completed long-term contracts	See Form 8697
K Look-back interest—income forecast method	See Form 8866
L Dispositions of property with section 179 deductions	See the Partner's Instructions
M Recapture of section 179 deduction	
N Interest expense for corporate partners	
O Section 453(l)(3) information	
P Section 453A(c) information	
Q Section 1260(b) information	
R Interest allocable to production expenditures	
S CCF nonqualified withdrawals	
T Information needed to figure depletion—oil and gas	
U Amortization of reforestation costs	
V Unrelated business taxable income	
W Other information	

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ENTERPRISE PRODUCTS PARTNERS L. P. (NYSE:EPD)

SUPPLEMENTAL K-1 SCHEDULE FOR TAX YEAR 2007

Schedule of Activites	FEIN	Type of Activity	Disposed	PTP	Pass-through
EPD. Enterprise Products Partners, LP	76-0568219	trade/business		x	x
DEP. Duncan Energy Partners, LP	20-5639997	trade/business		x	x

THE TOTAL OF THE ITEMS BELOW MAY NOT AGREE TO THE TOTALS SHOWN ON SCHEDULE K-1 DUE TO ROUNDING DIFFERENCES. FOR EXAMPLE, THE SUM OF AMOUNTS FOR ITEM 1 - ORDINARY INCOME/(LOSS) - FOR THE TWO ACTIVITIES MAY NOT TOTAL THE AMOUNT SHOWN IN BOX 1 OF THE SCHEDULE K-1 DUE TO ROUNDING. IN ANY EVENT, YOU MUST REPORT THE AMOUNTS BY ACTIVITY, AS REPORTED ON THIS SCHEDULE.

YOU CAN NOT OFFSET PASSIVE INCOME FROM ONE ACTIVITY BY PASSIVE LOSSES FROM ANY OTHER ACTIVITY.

IF YOU HAVE NET PASSIVE ACTIVITY INCOME FROM AN ACTIVITY (THE SUM OF ITEMS 1 AND 10) - THAT INCOME MUST BE REPORTED ON YOUR FEDERAL INCOME TAX RETURN. IF THE SUM OF ITEMS 1 AND 10 OF AN ACTIVITY ARE A NET LOSS, THAT LOSS SHOULD BE SUSPENDED. YOU CAN NOT CLAIM THAT LOSS ON YOUR 2007 FEDERAL INCOME TAX RETURN. KEEP TRACK OF YOUR PASSIVE LOSSES BY ACTIVITY AS YOU WILL BE ABLE TO USE THOSE LOSSES WHEN/IF THAT PARTICULAR ACTIVITY HAS PASSIVE INCOME IN SUBSEQUENT YEARS. PORTFOLIO INCOME (ITEMS 5, 6a AND 6b) MUST BE REPORTED ON YOUR 2007 FEDERAL INCOME TAX RETURN.

		EPD	DEP
1	Ordinary business income (loss)	223	2
5	Interest income	7	0
6a	Ordinary dividends	4	0
6b	Qualified dividends	4	0
10	Net section 1231 gain (loss)	-2	0
13	Other deductions		
S1	Domestic production gross receipts (DPGR)	4,832	0
S2	Cost of goods sold allocable to DPGR	0	0
S3	Total deductions, expenses, and losses directly allocable to DPGR	4,224	0
S4	Other deductions, expenses, and losses Not directly allocable to DPGR	221	0
S5	Employer's W-2 wages	0	0
17A	Depreciation adjustment on property placed in service after 1986 (for AMT purposes)	-28	0
18C	Nondeductible expenses	2	0
19A	Cash distributions	693	0
20	Other Information		
A	Investment income	11	0
V	Unrelated business taxable income	223	2
W1	Section 743(b) adjustments included in Line 1 and/or Line 10	0	0
W2	Gross receipts for UBTI	13,791	181
W3	Gross deductions for UBTI	13,568	179
W4	Nontaxable adjustment to capital account	0	0
W5	E&P adjustment due to depreciation and asset sales	0	0
K	Partner's share of liabilities at year-end:		
	Nonrecourse	8,162	73
	Recourse	0	0

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2007 STATE SCHEDULE

ENTERPRISE PRODUCTS PARTNERS L. P. (NYSE:EPD)

Activity for EPD (excluding DEP)

PARTNER NAME: **R GORDON GOOCH**

PARTNER ACCOUNT NUMBER:

PARTNER FEDERAL ID/ENTITY:

CUSTODIAN FEDERAL ID:

PARTNERSHIP FEDERAL ID: **76-0568219**

State Tax Information:

The partnership has operations in many states. You may be required to file an income tax return with some of those states. Each of the states is identified by its two-letter postal designation. For each state we have reported applicable items in columns 1 thru 5. Column 1 relates to Line 1 of the federal K-1. Column 2 relates to federal K-1 line 5, and Column 3 relates to line 6a. Column 4 relates to line 10 of the K-1. Column 5 lists total gross receipts allocated to you, by state, before any deductions. Differences between state amounts and federal amounts are due to rounding and variations between federal and state income tax laws.

Generally we include all states EPD or its subsidiary companies do business in, even though not all states impose an income tax. Note, however, that in states where the tax is payable at the *partnership* level, as opposed to the *partner* level, no state information is shown. (Texas and Tennessee, for example, are such states.)

EPD has not attempted to determine for each unitholder whether resident or nonresident state tax returns should be filed. We recommend you consult your personal tax advisor on this matter.

Finally, as stated elsewhere in this tax package, if you have a net passive loss from this activity, you should not report that loss - for federal or state tax purposes - unless you disposed of ALL your interest in EPD in 2007.

State Information

(Due to rounding and other Federal and State differences, totals may not agree to Federal totals)

State	(1) Ordinary Business Income or Loss (-)	(2) Portfolio Interest Income	(3) Portfolio Dividend Income	(4) Net Section 1231 Gain or Loss (-)	(5) Gross Receipts
AL	1	0	0	0	89
AR	0	0	0	0	6
AZ	1	0	0	0	51
CA	2	0	0	0	151
CO	4	0	0	0	244
DE	0	0	0	0	1
FL	0	0	0	0	8
GA	1	1	0	0	61
IA	0	0	0	0	16
IL	0	0	0	0	5
IN	0	0	0	0	6
KS	5	0	0	0	336
KY	0	0	0	0	11
LA	36	1	1	0	2,218
MA	0	0	0	0	7
MD	0	0	0	0	1
ME	0	0	0	0	1
MI	0	0	0	0	3
MN	0	0	0	0	29
MO	1	0	0	0	50
MS	6	0	0	0	350
NC	1	0	0	0	55
ND	0	0	0	0	15
NE	0	0	0	0	9
NH	0	0	0	0	8
NM	18	0	0	0	1,085
NY	0	1	0	0	23
OH	0	0	0	0	19
OK	1	0	0	0	39
PA	0	0	0	0	18
SC	1	0	0	0	79
UT	2	0	0	0	104
VA	0	0	0	0	5
VT	0	0	0	0	6
WA	1	0	0	0	44
WI	0	0	0	0	7
WV	0	0	0	0	2

DO NOT INCLUDE THIS SCHEDULE WITH YOUR FEDERAL OR STATE TAX RETURNS

Enterprise Instructions

2007
INDIVIDUALIZED INCOME TAX REPORTING PACKAGE & INSTRUCTIONS

This information should be used in conjunction with the attached 2007 Partner's Instructions for Schedule K-1 (Form 1065) published by the Internal Revenue Service (IRS).

Enterprise Products Partners L.P. is a publicly traded limited partnership which requires its partners to report their allocable share of the Partnership's items of taxable income, gain, deduction or loss in their individual income tax returns as though each partner has incurred such items directly.

An Individualized Income Tax Reporting Package has been provided to Registered Owners, (i.e., partners who have received a numbered certificate of ownership representing their units) and to Beneficial Owners (i.e. partners whose units are held in a street name, in a brokerage or other nominee account) who have been identified by the Partnership. The Partnership has included this instruction guide to assist you in preparing your income tax returns.

For your convenience, a web site is available at www.taxpackagesupport.com/enterprise. You can use this website to view your tax schedules, print tax package including instructions, and/or request changes to correct information.

IMPORTANT: The amount of your taxable income will not correspond to the amount of cash distributed to you during 2007.

PASSIVE ACTIVITY LOSS LIMITATION FOR PUBLICLY TRADED PARTNERSHIPS:

The tax law characterizes ordinary income, gain, loss, and deduction from a publicly traded limited partnership interest as passive income/loss, subject to Passive Activity Loss Limitations (PAL Limitations). The tax law limits the recognition of passive activity losses from a publicly traded limited partnership to the amount of passive activity income from the SAME partnership. Net passive activity income from a publicly traded limited partnership cannot be used to offset the net passive activity losses from other sources including other publicly traded partnerships. **Note that since EPD has an interest in Duncan Energy Partners (DEP), another publicly traded partnership, each of these "activities" has to be accounted for separately. A net passive activity loss from EPD's activity (excluding DEP) cannot be used to offset net passive activity income from EPD's interest in DEP, or vice versa.**

To determine whether PAL Limitations apply to you, you must sum income from lines 1 and 10 for each activity. If the sum is positive, report each item on your Form 1040 according to the instructions below. You can also utilize your prior year suspended losses from EPD, if any, to offset your current year income from EPD, if any. If the sum is negative for any activity, then PAL Limitations will apply to you. Losses are allowed to the extent of income for that activity, and any excess must be suspended until:
a. you are allocated net passive activity income from that activity, or
b. you have disposed of all your interest in the Partnership.

Due to the fact that there are two separate "activities" in EPD, you should refer to, and use, the Supplemental K-1 Schedule for Tax Year 2007, to properly transfer amounts to the appropriate lines and/or schedules of your federal income tax return. Do not use Schedule K-1 as the basis for reporting amounts on your federal tax return, since the K-1 sums amounts for both activities.

IMPORTANT NOTICE

The information in the enclosed tax package is provided by the Partnership to assist you in preparing your personal tax return. The information reflects the application of various assumptions and conventions, as disclosed by the Partnership to you in various SEC filings and other offering documents. It is anticipated that the Partnership may provide disclosure of certain of these assumptions and conventions in the preparation of the Partnership return as warranted to the Internal Revenue Service and/or other taxing authorities. We suggest that you refer to the appropriate federal and state income tax laws, instructions, and SEC filings and other offering documents, and that you consult your tax advisor with any questions you may have. You should discuss with your tax advisor whether the treatment of any items in the enclosed tax package may subject you and/or your tax advisor to a penalty by a taxing authority and the need to adequately disclose any items in order to avoid such penalty.

Please refer to the Schedule K-1 Line Item Supplemental Instructions below and the IRS 2007 Partner's Instructions for Schedule K-1 (Form 1065) instruction for Limitations on Losses, Deductions, and Credits, particularly the section entitled Publicly traded partnerships for more information and examples. You can utilize worksheets 5, 6, and 7 of Form 8582 to track your suspended losses. Please also consult your personal tax advisor.

SCHEDULE K-1 LINE ITEM SUPPLEMENTAL INSTRUCTIONS

Partnership's employer identification number:

This is the Partnership's federal taxpayer identification number. Report this number on your U.S. Individual Income Tax Return, Form 1040, Schedule E, Part II, Column (d), "Employer Identification Number" 76-0568219.

Item K - Partner's share of liabilities (Nonrecourse)

A partnership's liabilities are treated as nonrecourse debt to the extent that no partner or related person bears the economic risk of loss for the liability. Any increase in your allocated nonrecourse debt will give you additional basis in your partnership interest, which will allow you to receive additional non-taxable distributions as a return of capital. Any decrease in allocated nonrecourse debt will reduce your tax basis. If your tax basis is below zero, you will be required to recognize additional income.

Item L - Analysis of partner's capital account:

This section provides a summary of Partnership activity attributable to your Partnership units as it affects your capital account. Your capital account activity is summarized on the basis of the information shown on your Ownership Schedule. Please note that your capital account balance bears no relationship to, and is not indicative of the fair market value of your investment.

Line 1 - Ordinary business income (loss)

This amount represents your share of the ordinary income (loss) from the trade or business activities of the Partnership.

If you have an overall loss for an activity, you **are** subject to PAL Limitations in the current year, and this item may be partially or completely suspended. To the extent of income reported on line 10 of Schedule K-1 for an activity, you may report a portion of this item on Form 1040, Schedule E, Part II, Column (f). The remaining portion must be suspended until you are allocated income from that activity or you have disposed of your entire interest in this partnership. Report allowed losses on Schedule E, Part II, Col. (f).

If you have an overall income for an activity, you **may not be** subject to PAL Limitations in the current year. Report this amount on Form 1040, Schedule E, Part II, Column (j). You will also need to determine whether you have prior suspended losses to be used to offset your current year overall net passive activity income. Report the amount of suspended losses you utilized on Form 1040, Schedule E, Part II, Column (h).

Please also refer to the instructions section titled "PASSIVE ACTIVITY LOSS LIMITATION FOR PUBLICLY TRADED PARTNERSHIPS"

Lines 5 & 6a, Portfolio income (loss):

Regardless of the amount of your passive activity income or loss, portfolio income (loss) items are always reported currently.

Interest (Line 5) - This item represents your share of net portfolio interest income and expense. Report this amount on Form 1040, Schedule B, Part I, Line 1.

Ordinary Dividends (Line 6a) - This item represents your share of the portfolio dividend income. Report this amount on Form 1040, Schedule B, Part II, Line 5.

Line 10, Net 1231 gain (loss)

This amount represents your share of gain or loss from the disposition of trade or business assets held by the partnership for more than one year. Report amounts for an activity on Line 10 on Form 4797, Line 2, Col. (g) and write "From Enterprise Products Partners L.P. 76-0568219" in Column (a).

Line 13 – Other deductions:

Code S – Domestic partnership activity information under IRC Section 199. This represents your unadjusted allocable portion of EPD's income and expense items related to Qualifying Domestic Production Activities. The deduction available under Section 199 is limited to 50% of the W-2 wages allocated to you. **Note that the Partnership has no employees and thus has no W-2 wages. As a result, you would not receive any deduction under Section 199 from your interest in EPD.** Refer to (IRS) Form 8903 or consult your personal tax advisor for additional information.

Line 17, Adjustments and Tax Preference Items:

These items are preference items used to calculate your alternative minimum tax (AMT). They are also subject to PAL Limitations, and should be reported consistently with your other income items.

Depreciation adjustments on property placed in service after 1986 (Line 17A) - This amount represents the net difference between depreciation for AMT purposes and for regular tax purposes. It is an adjustment for the calculation of your alternative minimum tax. This amount should be reported on Form 6251, Line 18.

Line 20, Other Information:

Investment Income (Line 20A) - This amount is used in the computation of the limitation on deductible interest expense. Report amounts for an activity on Form 4952, Line 4a.

Unrelated business taxable income or loss (Line 20V) - If your investment in the Partnership was made through an IRA, Keogh or other qualified retirement plan, or if you are any other tax-exempt entity, your trustee may be required to report this as unrelated to your tax-exempt purpose, which may be offset by a $1,000 deduction, on IRS Form 990-T (Exempt Organization Business Income Tax Return). You should consult your trustee or personal tax advisor for the appropriate tax treatment.

743b adjustment included in Box 1 and/or 10 of the K-1(Line 20W1) - this represents your share of the Section 743b adjustment related to tax depreciation, amortization and/or gain or loss on sales of assets for an activity. Please note that these amounts are already included in Lines 1 and/or 10 of your K-1. **Do not adjust your taxable income or loss from the activity by this amount. This amount is provided for informational purposes only.**

Gross receipts for UBTI (Line 20W2) – This amount represents your share of the gross receipts from Partnership operations, other than interest income or dividends.

Gross deductions for UBTI (Line 20W3) – This represents your share of deductions from Partnership operations.

Nontaxable adjustment to capital (Line 20W4) - If applicable, this represents a revision to a partner's capital account. This revision can result from a change in how the capital account was originally calculated. An example of an event would be a change in the transaction date on the Ownership Schedule.

Required IRC Section 754 statement for acquisition of units:

The Partnership has made the election, provided under Internal Revenue Code (IRC) Section 754, to adjust the basis of Partnership property for transfers of Partnership interests. The election applies to unitholders who acquired their units by purchase or by inheritance. Unless otherwise notified by you or by your broker, the Partnership has assumed that any acquisition of units reported on your Ownership Schedule was made by purchase or inheritance.

The general effect of such an election is that upon acquisition of a Partnership unit, a unitholder is entitled to an adjustment to his share of Partnership property to reflect the price at which the unit was purchased or inherited. An election under IRC Section 754 permits an investor to claim depreciation deductions to the extent that any basis adjustment is allocated to depreciable property. The Partnership has adjusted 2007 tax information for the IRC Section 754 election based on the weighted average price for the calendar month in which your acquisition was recorded.

If you acquired your units by purchase or by inheritance, you must include the IRC Section 754 Statement stated below in your income tax return for the first year you become a partner.

IRC SECTION 754 STATEMENT

The taxpayer is a transferee partner in Enterprise Products Partners L.P. who has a special adjustment under Internal Revenue Code (IRC) Section 743(b) pursuant to the IRC Section 754 election made by Enterprise Products Partners L.P. The special basis adjustment was made in accordance with the rules provided in IRC Section 743 and 755 and the Regulations thereunder. Detailed information is available in the office of the General Partner upon request.

Required IRC Section 751 Statement for sale of Units:

If you had a taxable disposition of Partnership units during 2007, you should receive a partially completed 2007 Sales Schedule. The worksheet contains information necessary to determine your gain or loss upon disposition of Partnership units during 2007. Some amounts have been supplied, but you will need to add additional figures to determine your gain or loss upon the sale of your units. Please follow the instructions on the worksheet to determine your gain or loss on the sale.

If you are reporting ordinary income attributable to sales of Partnership units, you must include the IRC Section 751 Statement stated below in your income tax return for the year you made the disposition.

IRC SECTION 751 STATEMENT

The taxpayer has reported ordinary income upon the disposition of units in Enterprise Products Partners L.P., as provided by the General Partner. The amount was determined in accordance with Internal Revenue Code Section 751. Detailed information is available in the office of the General Partner upon request.

Form 8082 - Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR):

The Partnership will be filing a copy of your Schedule K-1 with the Internal Revenue Service. If you have notified the Partnership of necessary corrections prior to May 30, 2008, the corrected information will be filed with the IRS. Any correction made after this day may require you to file Form 8082 with your return.

Unitholders in the Partnership should include amounts in their income tax returns which are consistent with the amounts reported on Schedule K-1. If the amounts you report in your income tax return differ from the Schedule K-1, you must complete Form 8082 - Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR) as follows:

Part I	Line 1	Check box 1(a)
	Line 3	Check box 3(a)
	Line 4	Enter 76-0568219
	Line 5	Enterprise Products Partners L.P. PO Box 4018, Houston, TX 77210-4018
	Line 7	Enter Ogden, Utah
	Line 8	Enter 01/01/2007-12/31/2007
	Line 9	Enter your tax year
Part II	Line 10(a)	Enter "See Explanation Below"
	Line 10(b)	Check the appropriate box
	Line 10(c-e)	Complete where applicable.
Part III		Enter the associated item number and appropriate explanation

QUESTIONS AND ANSWERS

Q. What should I do if the information in this package is incorrect?
A. You should notify the Partnership of the changes via mail, phone, or the internet (see 2007 Ownership Schedule) by May 30, 2008. The Partnership will update your information and send you a corrected tax package.

Q. Why am I receiving a Schedule K-1 rather than Form 1099?
A. Form 1099 is used to report dividends and interest (among other items). Enterprise Products Partners L.P. is a publicly traded limited partnership consisting of a general partner and many limited partners (the investing public). All income and expenses from the Partnership flow through to the unitholders to be reported on their individual tax returns. The Partnership is required to file Form 1065 with the IRS which includes a Schedule K-1 for each unitholder reporting their respective tax information.

Q. Do I report the cash distribution I received as my taxable income?
A. No, the cash you received represents your share of the Partnership's available cash and should be treated as a return of capital to the extent of your tax basis. If your distribution exceeds your tax basis, you must recognize the excess as additional income in order to restore your tax basis back to zero. You should use your prior year suspended losses, if any, to offset this income. The amount you have to include in your individual income tax return is your share of the Partnership activities' income and related items reported on your Schedule K-1 from the activities. Follow the instructions provided to report your income and losses related to the Partnership.

Q. How is my tax basis affected by cash distributions, income, and non-recourse debt?
A. The cash distributions you receive are treated as a return of capital and decrease your tax basis in the Partnership. At year end your tax basis is also adjusted by your share of the Partnership's taxable income (loss) and non-recourse debt allocated to you on your Schedule K-1.

Q. How do Passive Activity Loss Limitation rules effect my income reporting?
A. Depending on when you acquired your units and the operational results of the Partnership, you will have either net passive activity income or net passive activity loss in 2007. If you have net passive activity loss, you may not recognize this loss in the current year. If you have net passive activity income, you should first offset this income with any prior suspended losses and report any net income currently. For additional information, please refer your 2007 INDIVIDUALIZED INCOME TAX REPORTING PACKAGE & INSTRUCTIONS, and the IRS instructions for Schedule K-1 (Form 1065) under Limitations and Losses, Deductions, and Credits in the section entitled "Publicly traded partnership". **Note that since EPD has an interest in Duncan Energy Partners (DEP), another publicly traded partnership, each of these "activities" has to be accounted for separately. A net passive activity loss from EPD's activity excluding DEP cannot be used to offset net passive activity income from EPD's interest in DEP, or vice versa.** Please consult your personal tax advisor for the appropriate tax treatment should you need additional help.

Q. What is Unrelated Business Taxable Income (UBTI)?
A. UBTI is the distributive share of income/(loss) from a publicly traded partnership which is considered to be unrelated to the regular activities and reportable as taxable income/(loss) of a tax-exempt organization (including IRA's, Keogh and other qualified retirement plans). Each tax-exempt organization is entitled to an annual $1,000 deduction to offset their net UBTI income.

Q. Why is the amount of cash I received different than my allocable share of partnership income, gain, loss, deduction or credit?

A. The Partnership distributes available cash as determined by the Partnership agreement. The calculation of cash available for distribution differs from the calculation of taxable income to be reported to the partners. For example, depreciation is an expense that reduces taxable income reported to the partners but does not reduce cash available for distribution.

Q. If I sell my partnership units at a gain, why is part of the gain treated as ordinary income rather than capital gain?

A. A sale of partnership units is treated as if there were a sale of the partner's allocable share of each of the Partnership's assets. Gain on the sale of assets for which depreciation or depletion deductions have been taken is treated as ordinary income rather than capital gain. The ordinary income on sale of assets represents the depreciation and depletion deductions previously allocated to you.

Q. What is Alternative Minimum Tax (AMT) Depreciation Adjustment?

A. The AMT depreciation adjustment amount represents the difference between depreciation for AMT purposes and depreciation for regular tax purposes. This adjustment is necessary in the calculation of your alternative minimum tax.

Q. Am I required to file tax returns in any state in which I do not live?

A. Certain states require unitholders to file tax returns in the states in which the Partnership operates. **A copy of the Federal Schedule K-1 is being sent to the states in which the partnership has filing requirements.**

Q. What is nonrecourse debt?

A. A partnership's liability is treated as nonrecourse debt to the extent that no partner or related person bears the economic risk of loss for the liability. A partner's share of partnership liabilities is included in the partner's adjusted basis in his partnership interest. A partner may deduct partnership losses allocated to him only to the extent of his adjusted basis.

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ATTACHMENT DD

Docket No. OR03-5-001
Exhibit No. BPX-30
Buckeye Partners L.P. 2007 K-1 issued to Gordon Gooch

651107

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0099

Schedule K-1 (Form 1065) **2007**

Department of the Treasury
Internal Revenue Service

For calendar year 2007, or tax year beginning _____, 2007
ending _____, 20____

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
23-2432497

B Partnership's name, address, city, state, and ZIP code
BUCKEYE PARTNERS, L.P.
5 TEK PARK
9999 HAMILTON BLVD
BREINIGSVILLE PA 18031

C IRS Center where partnership filed return
Ogden, UT

D [X] Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code
R GORDON GOOCH
851 NORTH GLEBE ROAD
SUITE 1911
ARLINGTON VA 22203

G ☐ General partner or LLC member-manager ☒ Limited partner or other LLC member

H [X] Domestic partner ☐ Foreign partner

I What type of entity is this partner? Individual

J Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.000002 %	0.000002 %
Loss	0.000002 %	0.000002 %
Capital	0.000002 %	0.000002 %

K Partner's share of liabilities at year end:
Nonrecourse . . . . . $ 19
Qualified nonrecourse financing . . $ _____
Recourse . . . . . $ _____

L Partner's capital account analysis:
Beginning capital account . . . . $ 38
Capital contributed during the year . $ 0
Current year increase (decrease) . . $ -1
Withdrawals & distributions . . . $ (3)
Ending capital account . . . . $ 34

[X] Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss) -2	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income 1		
6a	Ordinary dividends 0		
6b	Qualified dividends 0		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17 A	Alternative minimum tax (AMT) items 0
9b	Collectibles (28%) gain (loss)	B	0
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss) 0	18 C	Tax-exempt income and nondeductible expenses 0
11	Other income (loss)		
12	Section 179 deduction	19 A	Distributions 3
13	Other deductions		
		20 A	Other information 1
		W*	STMT
14	Self-employment earnings (loss)		

*See attached statement for additional information.

For IRS Use Only

For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Cat. No. 11394R Schedule K-1 (Form 1065) 2007

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ATTACHMENT EE

Docket No. OR03-5-001
Exhibit No. BPX-31
Prepared Rebuttal Testimony of Kellye Jennings
April 7, 2008

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Exhibit No. BPX-31

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
ExxonMobil Oil Corporation, and	)	
ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al*.
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

PREPARED REBUTTAL TESTIMONY OF KELLYE JENNINGS ON BEHALF OF BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

APRIL 7, 2008

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Exhibit No. BPX-31

PREPARED REBUTTAL TESTIMONY

OF KELLYE JENNINGS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

INDEX OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
BPX-31	Rebuttal Testimony of Kellye Jennings

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Exhibit No. BPX-31

PREPARED REBUTTAL TESTIMONY
OF KELLYE JENNINGS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

LIST OF ACRONYMS

CPA	Certified Public Accountant
GAAP	Generally Accepted Accounting Principles
MLP	Master Limited Partnership

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UNITED STATES OF AMERICA
BEFORE THE
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Chevron Products Company,	)	
BP West Coast Products LLC,	)	
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ConocoPhillips Company,	)	
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Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al*.
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

PREPARED REBUTTAL TESTIMONY
OF KELLYE JENNINGS
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

Q. Please state your name.

A. My name is Kellye Jennings.

Q. Are you the same Kellye Jennings who provided prepared direct testimony in this proceeding on December 14, 2007?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of the testimony is to respond to Professor Williamson's criticism of the bank account analogy I used in my direct testimony in order to illustrate the difference between return of capital and return on capital in the partnership context.

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1 Q. Do you believe that you, a Certified Public Accountant, know the difference between a
2 bank account and a partnership interest?
3 A. Yes, I do.
4 Q. Does the difference between a bank account and a partnership interest have anything
5 material to do with the accounting point that you were making?
6 A. No. Because some people confuse "cash distributions" received by a partner with income
7 (that is, they mistake a return of capital for a return on capital), I thought I would illustrate the
8 same principle with a bank account, a form of transaction that is more generally understood than
9 the complex MLP partnerships. The point I was making and continue to make is that when a
10 partner receives a cash distribution from a partnership, that cash distribution is a return of capital
11 -- *i.e.,* the partner getting some investment dollars back -- in the same way that withdrawal of
12 cash from a bank account is a return of capital -- the owner getting some investment dollars back.
13 In neither case, as long as the investment amounts remain above zero, is the cash distribution nor
14 the withdrawal considered to be "taxable income" or even "income" at all; both are a return of
15 invested capital.
16 When the capital account is positive and remains positive or results in a zero balance
17 after a cash distribution, cash distributions are a return of capital, not a return on capital. In a
18 partnership, income -- return on capital -- is separately accounted for and reported. These are
19 independent variables, each operating separately from the other. Both have their individual
20 "placeholders" in the analysis of capital accounts, but the operation of one does not have any
21 influence over the operation of the other. A cash distribution, in total, always operates to reduce
22 the capital account (as long as the partner account is positive), since the partner has received
23 some investment dollars back. Income, on the other hand, may be positive or it may be negative

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or there may be none at all. In addition, a partner can receive a cash distribution in the same period that negative income is reported. If the income allocated to the partner is positive, then the capital account is increased by this amount. If the income is negative, then the capital account is further reduced by this amount. If there is no income, there is no effect on the capital account.

Q. What if Mr. Williamson really and truly believes that a cash distribution from a partnership is income to the partner?

A. Then he is applying a definition unknown to GAAP. As I said, distributions in and of themselves are not income.

Q. Does this conclude your testimony?

A. Yes.

Q. Thank you, Ms. Jennings.

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
ExxonMobil Oil Corporation, and	)	
ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al.*
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

AUTHENTICATION OF TESTIMONY

I, Kellye Jennings, hereby declare under penalty of perjury that I have reviewed the foregoing testimony and it is true and accurate to the best of my knowledge, information, and belief.

Executed this 2nd day of April, 2008.

Kellye Jennings
KELLYE JENNINGS

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ATTACHMENT FF

Docket No. OR03-5-001
Exhibit No. BPX-32
Prepared Rebuttal Testimony of Elizabeth H. Crowe
April 7, 2008

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Exhibit No. BPX-32

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
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ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al*.
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

PREPARED REBUTTAL TESTIMONY OF ELIZABETH H. CROWE ON BEHALF OF BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

APRIL 7, 2008
(Revised April 30, 2008)

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Exhibit No. BPX-32

PREPARED REBUTTAL TESTIMONY OF ELIZABETH H. CROWE ON BEHALF OF BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

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AUTHENTICATION PAGE

EXHIBITS

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Exhibit No. BPX-32

PREPARED REBUTTAL TESTIMONY
OF ELIZABETH H. CROWE
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

INDEX OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
BPX-32	Rebuttal Testimony of Elizabeth H. Crowe
BPX-33	KMEP 2003 & 2004 Capital Structure
BPX-34	Excerpt from KMEP 2007 Form 10K
BPX-35	Summaries of operations of each company in SFPP's proxy group
BPX-36	Maps of crude oil and products pipeline operations
BPX-37	2007 EBIT/Operating Income for Oil MLPs by business segment
BPX-38	Excerpts from Teppco and Buckeye 2007 Forms 10K
BPX-39	SFPP Adjusted Taxable Income Calculation for 2003
BPX-40	SFPP Recalculation of Weighted Income Tax Rate for 2003

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Exhibit No. BPX-32

PREPARED REBUTTAL TESTIMONY
OF ELIZABETH H. CROWE
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

LIST OF ACRONYMS

ADIT	Accumulated Deferred Income Taxes
CPA	Certified Public Accountant
FERC	Federal Energy Regulatory Commission
GP	General Partner
IRS	Internal Revenue Service
KM	Kinder Morgan
KMEP	Kinder Morgan Energy Partners, L.P.
LP	Limited Partner
MLP	Master Limited Partnership
NYSE	New York Stock Exchange
OLP-D	Kinder Morgan Operating Limited Partnership "D"
PAA	Purchase Accounting Adjustment

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UNITED STATES OF AMERICA
BEFORE THE
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Chevron Products Company,	)	
BP West Coast Products LLC,	)	
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SFPP, L.P.,	)	
	)	
Respondent.	)	

PREPARED REBUTTAL TESTIMONY
OF ELIZABETH H. CROWE
ON BEHALF OF
BP WEST COAST PRODUCTS LLC AND EXXONMOBIL OIL CORPORATION

Q. Please state your name.

A. My name is Elizabeth H. Crowe.

Q. Are you the same Elizabeth Crowe who provided prepared testimony in this proceeding on December 14th 2007?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to rate of return and income tax allowance issues addressed in the answering testimony of Mr. Williamson and Mr. Ganz.

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1 **I. RETURN**

2 **A. Dividend Yield**

3 Q. Let us start with the "dividend yield" factor in the determination of rate of return on
4 equity, please. What is the basic formula for corporate public utilities?

5 A. The "basic" formula for the dividend yield is the income given to shareholders in the
6 form of dividends divided by the stock market price, yielding a rate of return on equity for this
7 factor. "Dividends" are the taxable income that a corporation flows through to stockholders who
8 then must pay any applicable income taxes on the dividends. No allowance for the income taxes
9 that a shareholder might have to pay is included in the cost of service.

10 Q. Please state the exhibit number of Mr. Williamson's latest iteration of a rate of return on
11 equity calculation that you can identify.

12 A. I believe Exhibit No. SFO-15 contains Mr. Williamson's most recent set of rate of return
13 on equity calculations.

14 Q. Does Mr. Williamson apply the same formula that you described?

15 A. No. He ignores the question of whether there is any income flowed through to those who
16 buy and sell on the NYSE. He substitutes "cash distributions" in the place of income flowed
17 through to stockholders. Cash distributions are not income but instead are the return of capital to
18 the unitholder in a partnership.

19 Q. Are all of the Williamson proxy companies "master limited partnerships?"

20 A. Yes (see Exhibit No. SFO-12 at page 19, lines 5-6).

21 Q. Just to nail this down, state whether Mr. Williamson reflected any income at all in his
22 calculation of a dividend yield, or "income" divided by "stock market price."

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A. I find no attempt by Mr. Williamson in his calculation of a "dividend" yield to reflect income earned by the partners.

Q. Let us now focus on one of the MLPs in Williamson's proxy group, KMEP, often described as the parent of SFPP. What number does Mr. Williamson get when he divides cash distributions by stock market price in 2003?

A. Mr. Williamson shows a result of 6.11% for KMEP in 2003 (see page 9 of Exhibit No. SFO-15).

Q. Can you calculate what the "dividend yield" number would be if Mr. Williamson used the net "income" that flowed through to the public partners who buy and sell KMEP units on the NYSE in 2003 and 2004?

A. Yes, based on the latest data provided by SFPP and available to me, and relying on that information to be accurate, we know (a) the total number of units for the public limited partners of KMEP and (b) the net taxable income flowed through to these public limited partners. Simple division will yield an average per unit income number. Only the limited partners are relevant for this calculation because the stock market price only applies to this group of partners.

Q. What then is the "return on equity" for the dividend yield part of the test for KMEP in 2003 and 2004?

A. For the years 2003 and 2004, it is less than zero. The public limited partners of KMEP were allocated large losses in taxable income in these years. The loss in income, on average, is $2.70 per unit for 2003, and $1.32 per unit for 2004.

Q. What is the provenance for your "taxable income" numbers?

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A. SFPP Witness Bullock, in a protected response to Data Request BPX-1-29, attached to the rebuttal testimony of Mr. Sintetos, Exhibit No. BPX-23, provided the following information:

	2003	**2004**	**2005**	**2006**
Total taxable income reported by KMEP to the IRS for the class of limited partners whose units trade on the NYSE	$ -429,537,099	-225,602,769	-405,767,214	-355,008,090

Thus, assuming the accuracy of Mr. Bullock's response, the public limited partners as a class received a loss in taxable income of negative $429,537,099 in 2003. In 2004, the public limited partners as a class received a loss in taxable income of negative $225,602,769

Q. Allow me to call to your attention the testimony of CPA Sintetos filed concurrently with your testimony pertaining to the K-1 information that SFPP provided on disc in discovery. He reports that none of the public limited partners received any taxable income in 2003. What conclusion do you draw from this?

A. This is further confirmation that the dividend yield ("return on equity") for KMEP in 2003 should be zero.

Q. Further, as to the K-1 information that SFPP provided on disc in discovery for 2004, Mr. Sintetos reports that the information indicates that public limited partners were allocated $14,070,193 in taxable income. Adjusting the Bullock "net" number of negative $225,602,769 for this positive taxable income yields losses in taxable income to the public limited partners of $239,672,962 with positive taxable income being about 5.87% of the total losses. What do you conclude from this?

A. I conclude that the average income per publicly-traded unit will remain a negative number, based on what Mr. Bullock says.

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1 Q. What is the provenance of your "units" number?

2 A. Mr. Ganz's Exhibit Nos. SFO-62A and B. The same information is also provided in Mr.
3 Ganz's testimony, Exhibit No. SFO-61, at pages 18 and 23.

4 Q. Has SFPP provided comparable data for the other MLPs in its proxy group?

5 A. Not that I can find.

6 Q Have you reached a conclusion about Mr. Williamson's exhibit?

7 A. Yes, Mr. Williamson's exhibit cannot be used to set a rate of return on equity. At best,
8 his exhibit can be said to show the rate of return of capital, that is, the unitholder's average rate
9 of investment being recovered, much like depreciation in a company recovers the original capital
10 invested by the owner.

11 Q. Does it appear to you that SFPP wants to have two components in its rates dealing with
12 return of capital, one being the "depreciation" component, the other being the "cash distribution
13 component," mislabeled "return on equity?"

14 A. Yes, to the extent that the cash distribution includes dollars recovered by the pipeline as
15 depreciation, those dollars are being recovered twice under SFPP's proposed cost of service.

16 Q. Is the depreciation component in the rates one of the sources for "cash distributions?"

17 A. I believe so. Depreciation is cash received by the pipeline for which there is no
18 associated expense. Thus, depreciation dollars are available for distribution to unitholders of the
19 partnership.

20 Q. So we have the problem here of a "double dip"?

21 A. Yes, in the sense that SFPP is proposing to recover both a depreciation allowance and an
22 equity return on that depreciation allowance for those depreciation dollars that are included in the
23 cash distributions used by Mr. Williamson in his DCF calculations.

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1 Q. Does Mr. Williamson address the appropriateness of using cash distributions
2 (representing return of capital), rather than income (representing return on capital), in his
3 "dividend" yield calculations?
4 A. Briefly. Mr. Williamson addresses the issue by asserting that none of the three witnesses
5 for BP and ExxonMobil understands how investors determine the yield on their investments in
6 MLPs.[1] Mr. Williamson claims it is "clear" that investors determine the yield "by dividing the
7 cash distribution by the unit price" and that they believe that cash distributions constitute a return
8 on their investment. He then claims that investors "prefer small rather than large allocations of
9 taxable income" which is "opposite to the opinions of the three witnesses." Mr. Williamson
10 offers no support for any of these assertions, and no reference to testimony of the three BP and
11 ExxonMobil witnesses where they purportedly state opinions as to the preferences of investors
12 with respect to allocations of taxable income.
13 Q. Is Mr. Williamson's response relevant to the issue of whether it is appropriate for the
14 Commission to use cash distributions as a substitute for income to investors in the determination
15 of a rate of return on equity for SFPP?
16 A. No. Whether or not some or all investors in an MLP believe that cash distributions
17 represent a return *on* their investment does not change the fact that cash distributions are *not* a
18 return on their investment, and therefore are not appropriate for use in a measure of the
19 appropriate rate of return *on* investment to approve for SFPP in this rate proceeding. While I do
20 not, in fact, claim to know whether investors view their cash distributions as a return on their
21 investment, rather than viewing the income that is allocated to them on their K-1 forms as the

[1] Exhibit No. SFO-12 at page 26, lines 11-21.

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1 return on their investment, to the extent that they do view distributions in this manner, they are
2 incorrect.
3 Q. Did you offer an opinion in your testimony as to whether investors prefer small or large
4 allocations of taxable income, as Mr. Williamson claims?
5 A. No.

6 **B. Capital Structure**

7 Q. Mr. Williamson criticizes your use of the third-quarter 2007 capital structure for KMEP
8 for this proceeding. What is your response to this?
9 A. Counsel has informed me that the applicable test period for this case has not been
10 specifically determined as yet. Thus, I used the most recent information available regarding
11 KMEP's current capital structure. For purposes of completeness in the record, I attach here as
12 Exhibit No. BPX-33 the capital structure for KMEP at year-end 2003 and 2004. I have made the
13 same adjustments for the PAA write-up and for goodwill as were made on Exhibit No. BPX-17.
14 As shown on the exhibit, the debt/equity ratio for 2003 is 65/35% and the ratio for 2004 is
15 61/39%.
16 Q. Mr. Williamson also criticizes your adjustment to remove goodwill from the equity
17 portion of KMEP's capitalization, citing the testimony of Mr. Prim on behalf of SFPP regarding
18 the lack of relationship of KMEP's goodwill to the purchase of SFPP.[2] How do you respond?
19 A. The testimony of Mr. Prim to which Mr. Williamson refers consists of one word – "No" –
20 in response to a question regarding whether there is any connection between the goodwill on
21 KMEP's books and the acquisition of SFPP.[3] However, I did not remove the goodwill because it

[2] Exhibit No. SFO-12 at page 36, lines 1-7.
[3] Exhibit No. SFO-81 at page 5, line 19.

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1 was directly related to the purchase of SFPP. Rather, I removed it because, like a PAA write-up,
2 goodwill reflects an accounting adjustment that increases the value of an asset above its net
3 depreciated book value. As such, it artificially inflates the equity component of rate base and
4 thereby produces an unwarranted increase in the cost of service to ratepayers.[4]
5 Q. Do you have support for your assertion that goodwill is essentially equivalent to the PAA
6 already disallowed by the Commission in the prior SFPP order to which you have referred?
7 A. Yes. Attached as Exhibit No. BPX-34 are excerpts from KMEP's 2007 Form 10K that
8 set forth the nature of goodwill. Goodwill represents the bulk of KMEP's intangible assets,
9 which KMEP defines as "assets which provide future economic benefit but have no physical
10 substance" (p. 52). No economic benefit to ratepayers of SFPP has been shown or alleged for
11 any of KMEP's goodwill. In addition, KMEP states that goodwill represents "excess cost over
12 fair value of net assets" created by the difference between the price paid to acquire these assets
13 and their underlying net book value (p. 127). Thus, they are substantially the same as the PAAs
14 the Commission does not allow to be included in rate base for development of a pipeline's cost
15 of service.
16 **C. Business Risk**
17 Q. Does SFPP address the issue of its business risk relative to the proxy group companies
18 and the placement of SFPP within the zone of reasonableness produced by the DCF formula?
19 A. The only discussion I could locate was a single sentence in the testimony of Mr.
20 Williamson where he states that he is unaware of any unusual circumstances that would indicate
21 "anomalously high or low risk" for SFPP.[5]

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[4] *SFPP, L.P.*, 113 FERC ¶ 61,277, at ¶¶ 65-66 (2005).
[5] Exhibit No. SFO-12 at page 21, lines 16-19.

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1 Q. Have you examined the business position and risk of SFPP relative to the other proxy
2 group companies in SFPP's proposed proxy group?
3 A. Yes. I have reviewed publicly-available information for the five proxy group members
4 shown on Exhibit No. SFO-15. I find that SFPP is considerably less risky than the five
5 companies used by SFPP in its proxy group for rate of return on equity calculations.
6 Q. Please provide a general description and supporting information concerning the
7 businesses of the five proxy group companies used by SFPP.
8 A. Attached as Exhibit No. BPX-35 are summaries of the operations of each company in
9 SFPP's proxy group. These summaries are taken from the websites of the proxy group
10 companies. In addition, I have attached to this testimony, as Exhibit No. BPX-36, maps showing
11 the crude oil and products pipeline operations of each of the member companies. Also attached,
12 as Exhibit No. BPX-37, is a business segment analysis for each of the five companies, showing
13 the income or earnings by segment for calendar year 2007.
14 Q. What information can you draw from these materials that has bearing on their relative
15 business risk as compared to SFPP?
16 A. There are several conclusions that can be drawn from the publicly-available information
17 provided by these proxy companies. First, as the pipeline maps show, all the companies have
18 petroleum products pipelines and/or crude oil pipelines serving competitive markets such as
19 Chicago, Philadelphia and/or the Texas/Oklahoma mid-continent area. The concentration of
20 pipelines in these major refining and market areas suggests the presence of sufficient competition
21 to influence the market price for transportation of these products. For example, Teppco has
22 FERC permission to utilize market-based rates for almost all its transportation of refined
23 petroleum products (see attached Exhibit No. BPX-38, pages 1-4 of 8, excerpt from Teppco

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1 Partners, L.P. 2007 Form 10K). Similarly, Buckeye is authorized to charge market-based rates
2 in 15 regions and metropolitan areas (see pages 5-8 of Exhibit No. BPX-38). NuStar also
3 charges some market-based rates. In addition, NuStar just completed the acquisition of CITGO
4 asphalt refineries on the east coast, including a long-term agreement for the purchase of crude oil
5 at market-based rates.[6]

6 In contrast, SFPP serves areas in California and Nevada where no other common carrier
7 product pipeline alternatives are available to its customers. SFPP is thus shielded from
8 competition in its transportation of petroleum products by pipeline, and therefore faces
9 significantly less business risk than any of the other companies in the proxy group used by SFPP.

10 For all these reasons, SFPP should be placed considerably below the median return in the
11 range of reasonable returns determined in this proceeding.

12 II. INCOME TAX ALLOWANCE

13 A. Determining "Taxable" Income for Income Tax Allowance Calculation

14 Q. Do you agree with me that in the normal course in FERC ratemaking, where an income
15 tax allowance is in order, it is necessary to have a number of dollars of taxable income computed
16 that, when multiplied by the correct tax rate, will yield the amount of dollars to be included in the
17 cost of service as an income tax allowance?

18 A. Yes, I agree that this is the basic formula.

19 Q. Now the question on the floor is whether the "number of dollars" that Mr. Ganz
20 calculated for the purpose of multiplying the appropriate tax rate was really "taxable income" or
21 some other form of income, such as "book" income. Have you reviewed Mr. Ganz's exhibits,
22 Exhibit No. SFO-62, basically dealing with the income tax allowance rate being claimed, and

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[6] http://biz.yahoo.com/e/080325/ns8-k.html

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1 Exhibit Nos. SFO-65 and 67, the costs of service for the two lines wherein Mr. Ganz purports to
2 calculate an income tax allowance for the rates?
3 A. Yes, I have.
4 Q. When Mr. Ganz purports to calculate a weighted income tax rate on Exhibit No. SFO-62
5 for use in SFPP's cost of service for the two lines, does he use as "taxable income" the number
6 resulting from the application of all IRS depreciation and other deductions from "book" income
7 as reflected in the SFPP income tax return?
8 A. Yes, he does.
9 Q. But when he calculates an income tax allowance for the rates, does he ignore IRS tax
10 depreciation and other deductions when calculating the income tax allowance component in the
11 costs of service?
12 A. Yes. He has previously removed ratepayer contributed capital, called "Accumulated
13 Deferred Income Taxes," or ADIT, from rate base, thus lowering the return somewhat. But this
14 is not done for tax purposes but instead to compensate ratepayers for overpaying the current
15 income tax liability over the early years of the pipeline's operations.
16 Q. How can you be so sure that Mr. Ganz is ignoring IRS tax depreciation and other
17 deductions when calculating the taxable income in the cost of service schedules?
18 A. Because (a) he does not show any such deductions in his calculation of income and (b) he
19 separately purports to calculate the amount of taxes saved by some IRS accelerated depreciation
20 and places that amount in an ADIT account which is credited to rate base rather than used to
21 calculate "taxable" income.
22 Q. We will get to ADIT in a moment. Let us stay with the subject of the calculation of
23 taxable income for purposes of calculating an income tax allowance in the rates. I call to your

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1 attention the contemporaneous testimony of Christopher Sintetos, CPA, who, after examining the
2 relevant 2003 income tax return of SFPP, relied upon by Mr. Ganz, testified as follows (Exh. No.
3 BPX-21, page 3, lines 10-16):

4 Q. Thank you [, Mr. Sintetos]. Now back to the line of questioning. Here we
5 have:
6

Net income (loss) per books	$ 161,220,571
Taxable Income	$ 69,769,749
Net income in excess of taxable income	$ 91,450,822

7 Assuming again the accuracy of the tax return, is the conclusion to draw
8 that $91,450,822 of book income was not taxable at all?
9 A. Yes.
10 Q. Percentage wise, what per cent of the book income was taxable?
11 A. I calculate 43.28%.

12 Q. Will you rely on Mr. Sintetos here?

13 A. Yes, I will rely on Mr. Sintetos here.

14 Q. What adjustment, if any, would you make to the "taxable income" used by Mr. Ganz for
15 the North Line and the Oregon Line segments for 2003 so that the income would truly be
16 "taxable income" and not something else?

17 A. I would reduce the amount of income upon which an income tax allowance is calculated
18 in the cost of service to 43.28% for 2003, to match the overall amount claimed by SFPP.

19 Q. But you are using the aggregate taxable income number for all of SFPP: interstate,
20 intrastate, terminals, other income, are you not?

21 A. Yes. This is consistent with the taxable income number used by Mr. Ganz on Exhibit
22 No. SFO-62.

23 **B. Effect of ADIT on Taxable Income**

24 Q. Please give me a brief refresher on ADIT and its use by Mr. Ganz on behalf of SFPP.

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A. Using the methodology for corporate public utilities, rather than for partnerships, Mr. Ganz ignores the fact that IRS depreciation will lower the taxable income of SFPP that is flowed through every year to the partners. Instead, he designs an income tax allowance based on the higher level of book income that does not take account of IRS depreciation. As a result, ratepayers pay an income tax allowance that is known to be too high until that time when the IRS depreciation rates drop below the book depreciation rates. In theory, the tax savings generated by the overpayment of current income tax subsidies is capital contributed by ratepayers, and the public utility may use this cash as it pleases. Mr. Ganz purports to calculate this capital contributed by ratepayers. As compensation, these "tax savings" are placed in an account called ADIT. Then, in the ordinary course of business, three things happen. One, the dollars in the ADIT account are deducted from rate base, thus lowering somewhat the return to the public utility. Two, as the depreciation deductions (and related tax savings) are "used up," the ADIT account is drawn down. Third, if the ADIT account ever had more dollars in it than are needed to pay future taxes, then the dollars must be refunded to the ratepayers.

Q. Please refresh me again on why this ADIT methodology is not applicable to partnerships like SFPP and KMEP.

A. A corporation has its own income tax liability and has the ability to "normalize" income taxes. That is, the corporation can opt to pay income taxes on a form of accelerated depreciation, maintain an ADIT account, and pay any increased taxes when due. A corporation does not flow through any income tax deductions, including accelerated depreciation, to its stockholders.

Partnerships like SFPP and KMEP do not fit any of these necessary conditions. These partnerships have no income tax liability of their own. All income and deductions, including all

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1 IRS depreciation and deductions, thus flow through to the partners each year. Nothing is held
2 back for "future taxes."
3 Thus, the partners get the full benefits of tax depreciation each year, and it is not proper
4 to call upon shippers to pay income taxes for the partners based on the assumption that the
5 partners do not get the full benefits of depreciation flowed through each year. That is a double
6 dip. As Mr. Sintetos explains, with the full amount of depreciation flowed through to the
7 partners, the partners have, in effect, a personal ADIT account because any losses in taxable
8 income, as the result of tax depreciation or otherwise, are "carried forward" and can be used to
9 offset any taxable income that the partner might receive from KMEP in the future. Requiring the
10 shippers to pay income taxes for partners as if there were no tax depreciation or other deductions
11 only provides more "return" for the partners than is disclosed on the face of the cost of service.
12 Q. So what is your recommendation?
13 A. I recommend refunding the contributed capital back to the ratepayers by amortizing the
14 ADIT account over a five-year period and crediting it to the taxable income. Ratepayers have
15 long ago prepaid even the current income tax liability of the limited partners.
16 Q. So what do you recommend for the amount of "taxable income" on which any income tax
17 allowance would be calculated?
18 A. As shown on Exhibit No. BPX-39, the 2003 taxable income remaining after these
19 adjustments are made is zero. Thus, the taxable income on which any income tax allowance
20 would be calculated is zero.

21 **C. Income Tax Rate**

22 **1. 743(b) depreciation**

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1 Q. Let me see if I can cut to the chase here: Mr. Ganz basically is looking for the income
2 tax that would be due on taxable income of SFPP for 2003. He starts with about $69,800,000,
3 allocates that amount among the various partners, and comes with, first, a federal tax liability of
4 some 33%, more or less, right?
5 A. Yes, on Exhibit SFO-62A.
6 Q. In dollars of taxes then, he is looking for a federal actual component of about $23.0
7 million, right?
8 A. That would be the amount of income tax produced by applying the 33% weighted tax rate
9 to the $69.8 million of net income.
10 Q. If Mr. Ganz somehow overlooked, say, $30,000,000 in deductions that would shelter the
11 $69,800,000, then, after correcting for this oversight, Mr. Ganz would be looking for $13.1
12 million to cover the actual or potential income tax liability of the partners, right?
13 A. That would be the amount of income tax produced by applying the 33% weighted tax rate
14 to $39.8 million of net income.
15 Q. Did Mr. Ganz overlook deductions that would shelter some or all of the $69,800,000 in
16 taxable income?
17 A. Yes. Mr. Ganz does not account for the fact that some, if not all, partners in KMEP are
18 entitled to additional depreciation, called 743(b) depreciation, as the result of an election made
19 by KMEP that requires partners who buy and sell units on the NYSE to "write up" the tax basis
20 to the purchase price (or close to it), and then begin depreciation all over again. As I understand
21 Mr. Sintetos, KMEP keeps track of this additional depreciation and flows it through to the
22 partners in their K-1 tax reports, thus reducing taxable income, if any, even further. Mr. Ganz

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1 does not factor in the 743(b) depreciation in calculating an income tax rate, and thus his
2 calculations of an income tax rate are incorrect and overstated.
3 Q. Can you quantify the amount of 743(b) depreciation?
4 A. I defer to Mr. Sintetos on this, since he is a tax CPA. As I understand it, he says that
5 KMEP has failed to quantify the total amounts, although required to do so by the IRS, and
6 without more information can only conclude that the amounts of losses] in taxable income yet to
7 be explained by KMEP are in the hundreds of millions of dollars.

8 **2. Amount of Taxable Income to Public Limited Partners**

9 Q. Let's hark back to Mr. Bullock and the amount of losses in taxable income that the public
10 limited partners have suffered as shown on Exhibit No. BPX-23:
11

	2003	2004	2005	2006
Total taxable income reported by KMEP to the IRS for the class of limited partners whose units trade on the NYSE.	-429,537,099	-225,602,769	-405,767,214	-355,008,090

12
13
14
15
16
17

18 Does Mr. Ganz claim that the public limited partners in KMEP had positive taxable
19 income in 2003 and 2004—that they had actual or potential tax liability?
20 A. Yes, he calculates a share of taxable income for these partners and calculates a tax rate.
21 Q. Mr. Ganz may not be aware that Mr. Sintetos' study of the K-1 discs revealed that not
22 one public limited partner received any positive income in 2003, but you may rely on Mr.
23 Sintetos. What is your view?
24 A. My view is that both Mr. Bullock and Mr. Sintetos have shown that there is no actual or
25 potential income tax liability for any of the public limited partners in 2003.

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1 Q. Mr. Sintetos said he could find some $14,000,000 in positive taxable income for the
2 public limited partners in 2004. What is your view?
3 A. Comparing the $14,000,000 in positive income to the net losses in income reported by
4 Mr. Bullock, adjusting for the "netting" would mean that, at best, there was about 6% of taxable
5 income and 94% of non-taxable income, so only a very small fraction of Mr. Ganz's income tax
6 rate for public limited partners in 2004 should be included in the calculation of a weighted
7 income tax rate, prior to any other adjustments.
8 Q. Before we leave the public limited partners, let me ask if you accept the proposition that
9 each and every individual owner of a limited partnership interest in KMEP, directly or indirectly,
10 pays federal income taxes at a flat 28% marginal rate.
11 A. No, as I understand Mr. Sintetos, no one pays a flat marginal rate of 28%. I believe that
12 the evidence relied upon by the FERC on its face showed that the effective tax rate for
13 individuals who fell into the 28% tax bracket as they went up the progressive scale was
14 something like 19%.

15 **D. Excess Profits**

16 Q. Using 2003 as an illustration, I call to your attention that SFPP reported, under oath, to
17 the FERC that it was collecting $19,543,679 from interstate shippers in excess of its own
18 claimed cost of service, as shown on Page 700 of Form 6, as shown on Exhibit No. BPX-22.
19 A. I note that.
20 Q. Do you believe that interstate shippers should subsidize any income taxes that may be
21 due on excess profits, or the fruits of unjust and unreasonable rates?

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1 A. No, I do not. Any income tax allowance should cover only the allowed taxable income,
2 principally the return on equity found just and reasonable by the Commission, as adjusted
3 appropriately.
4 Q. CPA Sintetos testifies contemporaneously with this testimony that, all things being equal,
5 a reduction in book income of $19,543,679 should result in the same reduction for taxable
6 income. And on this statement you can rely.
7 A. I will rely on that statement.
8 Q. Thus, if on equitable or other legal grounds, such as providing an income tax allowance
9 for an illegal rate, the $19,543,679 is disallowed for purposes of taxable income, then the total
10 amount of dollars that Mr. Ganz would be looking for would be the taxes on $50,226,020, not
11 $69,769,749. There would be zero tax allowance on $19,543,579, is that right?
12 A. That would be correct.

13 **E. General Partner**

14 Q. What adjustment, if any, could you make for the general partner ("GP")?
15 A. I have two. First, I could make an interim correction in the amount of taxable income
16 Mr. Ganz assigns to the GP of KMEP. One must remember, as better explained by Mr. Sintetos,
17 and also by Mr. Bullock, that the "income" allocated to the GP by KMEP has nothing at all to do
18 with the taxable income of KMEP. As an "incentive distribution" to encourage good
19 management (or as we would say, a "management fee"), the general partner can get up to almost
20 half of the cash distributions on a progressive scale, and, in addition, gets income in the same
21 amount. That means the general partner can get more income than the partnership itself makes,
22 as happened in 2003.

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1 Thus, in order to determine the "income" to be allocated to the GP, one does not look at
2 the income of the partnership at all; it does not matter what the partnership income was or even if
3 there were no income. The GP is going to get income equal to its cash distribution as a
4 management fee. So we have to trace the cash distribution that goes to the GP.
5 Leaving aside for the moment whether the GP should get the maximum when only SFPP
6 is considered, I would use the percentage that Mr. Bullock reported in his testimony, which is
7 49.49% (Exhibit No. SFO-49, page 9, line 17).
8 Thus, starting with the cash distributions reported by SFPP of $80,000,000, I would
9 subtract the amounts of cash distributions that went to the limited partner in SFPP and to the
10 general partner of OLP-D. I would then apply the 49.49% percent to this reduced number to
11 calculate the proper amount for Mr. Ganz to claim for the GP income.
12 However, for the sake of simplicity, I am going to skip this step and proceed directly to a
13 major point. For this purpose I leave intact the claims of Mr. Ganz for the GP of KMEP, the LP
14 of SFPP, and the GP of OLP-D for their share of the total taxable income claimed for SFPP.
15 Now, for my second step, I eliminate entirely an income tax allowance for the general
16 partner in KMEP. Since I believe that the income that goes from KMEP to its general partner is
17 a payment for services rendered, here management services, the GP is not entitled to an income
18 tax subsidy from the shippers, so I set the applicable tax rate for the GP to zero.
19 Q. If you only make two corrections to Ganz's SFO-62A, one dealing with the public
20 limited partners and the other dealing with the General Partner, what is the result?
21 A. If I (a) replaced the claimed income tax rates for the public limited partners with zero for
22 2003, since the evidence shows that there was no taxable income allocated to them and (b)
23 replaced the claimed income tax rate for the general partner with a zero because of the fact that

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1 the general partner is getting a management fee, then the weighted average federal income tax
2 allowance for 2003 would be 3.02%, not 33.05%. This calculation is shown on Exhibit No.
3 BPX-40.
4 Q. And if you made the first adjustment to the general partner's income allocation, what
5 would happen?
6 A. The weighted average federal income tax allowance would change slightly.
7 Q. What about 2004, where Mr. Sintetos found evidence from the K-1s that a small
8 percentage of positive income did find its way to public limited partners?
9 A. A consistent calculation could be made, but only up to a point. Recall that Mr. Ganz has
10 not recognized 743(b) depreciation that is flowed through to at least the public limited partners.
11 I understand that a data request has been tendered to SFPP which calls for disclosure of this
12 information. It may well be that the 743(b) depreciation would eliminate some or all of the very
13 small relative amount of positive income. Only KM has this information. And we must be
14 vigilant to see that no form of income tax subsidy is imposed on ratepayers for excess profits.
15 Q. Let us assume, Ms. Crowe, that at the end of the day a positive number is calculated for
16 use in computing an income tax allowance, be it exactly what SFPP requests or some much
17 lower number following your reasoning and calculations. What is your recommendation for an
18 income tax allowance?
19 A. The income tax allowance remains zero, regardless of the tax rate that is determined.
20 This is because the "taxable income" against which the tax rate is multiplied is zero. Taxable
21 income is zero as a result of two factors, discussed above. First, because partnerships are flow-
22 through entities, all tax depreciation and deductions must be given to the partners in the year
23 received, thus lowering the taxable income. None of these deductions is deferred. Second, the

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1 ratepayers have prepaid the income taxes for the partners for years now, and this cash collected
2 from ratepayers needs to be returned to them through amortization of the ADIT account.

3 **F. Ganz Methodology**

4 Q. Now I do ask you: do you accept Mr. Ganz's methodology?
5 A. No. Among other things, as discussed above, I do not accept that all of the taxable
6 income of SFPP, less the LP of SFPP and the GP of OLP-D, reached KMEP's partners and was
7 subject to either actual or potential income taxes by each and every partner. This is particularly
8 true since Mr. Ganz did not factor in 743(b) depreciation, nor, for that matter, did he consider the
9 effect of losses in taxable income in prior years being carried forward to reduce or eliminate
10 current taxable income. With Mr. Bullock's response to Data Request BPX-1-29, we know that
11 Mr. Ganz cannot possibly be correct, since the public limited partners alone suffered hundreds of
12 millions of dollars in taxable income losses.
13 Q. Assuming that an actual income tax rate is to be determined, how would you recommend
14 the Commission do this?
15 A. I would recommend that the K-1 data be used as the basis data. As I understand it, the K-
16 1s show precisely what income and deductions the partners had in 2003 and 2004, including the
17 743(b) depreciation, even if KMEP cannot account for it.
18 Q. Does this conclude your testimony at this time?
19 A. Yes.

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Chevron Products Company,	)	
BP West Coast Products LLC,	)	
ExxonMobil Oil Corporation, and	)	
ConocoPhillips Company,	)	
	)	
Complainants,	)	
	)	
v.	)	Docket Nos. OR03-5-001, *et al.*
	)	
SFPP, L.P.,	)	
	)	
Respondent.	)	

AUTHENTICATION OF TESTIMONY

I, Elizabeth H. Crowe, hereby declare under penalty of perjury that I have reviewed the foregoing testimony and it is true and accurate to the best of my knowledge, information, and belief.

Executed this _3rd_ day of April, 2008.

Elizabeth H. Crowe
ELIZABETH H. CROWE

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ATTACHMENT GG

Docket No. OR03-5-001
Exhibit No. BPX-33
KMEP 2003 & 2004 Capital Structures

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SFPP, L.P. Docket No. OR03-5
KMEP 2003 & 2004 Capital Structure

			2003 Dollars (thousands)	%		2004 Dollars (thousands)	%
	DEBT						
1	Long-term debt, excluding market value of interest rate swaps	$	4,316,678		$	4,722,410	
2	*Total Debt*	*$*	*4,316,678*	*65.0%*	*$*	*4,722,410*	*61.0%*
	EQUITY						
3	Minority Interest	$	40,064		$	45,646	
4	Partners' capital, excluding accumulated other comprehensive loss *(1)*	$	3,666,737		$	4,353,863	
5	(Less Goodwill) *(2)*	$	(732,838)		$	(729,510)	
6	(Less Purchase Accounting Adjustment)	$	(649,000)		$	(649,000)	
7	*Total Equity*	*$*	*2,324,963*	*35.0%*	*$*	*3,020,999*	*39.0%*
8	**Total Capitalization**	**$**	**6,641,641**		**$**	**7,743,409**	

Note: (1) The figure shown reflects the 2003 data shown in the 2004 10-K. Data in the original 2003 Form 10-K includes only "partners' capital" of $3,510,927,000
(2) Goodwill assets balance obtained from 2004 10-K, p 105.

Source: KMP Form 10-K for 2004, p71; http://www.kindermorgan.com/investor/kmp_sec_filings.cfm

insurance expenses. We continue to aggressively manage our infrastructure expense and to focus on our productivity and expense controls.

Interest expense, net of interest income, totaled $195.0 million in 2004, $181.4 million in 2003 and $176.5 million in 2002. Although our average borrowing rates were essentially flat across both 2003 and 2004, we incurred a $13.6 million (7%) increase in net interest charges in 2004 as a result of higher average borrowings. The increase in average borrowings was primarily due to higher capital spending related to internal expansions and improvements, and to incremental borrowings made in connection with acquisition expenditures. For more information on our capital expansion and acquisition expenditures, see "Liquidity and Capital Resources - Investing Activities". The $4.9 million (3%) increase in net interest items in 2003 compared to 2002 reflects higher average borrowings since the end of 2002, partially offset by decreases in average borrowing rates.

Minority interest, which includes the 1.0101% general partner interest in our five operating limited partnerships, totaled $9.7 million in 2004, compared to $9.1 million in 2003 and $9.6 million in 2002. The $0.6 million (7%) increase in 2004 versus 2003 resulted mainly from higher overall partnership income, partly offset by our November 2003 acquisition of the remaining approximate 32% ownership interest in MidTex Gas Storage Company, LLP that we did not already own, thereby eliminating the associated minority interest. The $0.5 million (5%) decrease in 2003 compared to 2002 resulted primarily from our May 2002 acquisition of the remaining 33 1/3% ownership interest in Trailblazer Pipeline Company that we did not already own, thereby eliminating the associated minority interest.

Liquidity and Capital Resources

We attempt to maintain a conservative overall capital structure, with a long-term target mix of approximately 60% equity and 40% debt. The following table illustrates the sources of our invested capital (dollars in thousands). In addition to our results of operations, these balances are affected by our financing activities as discussed below:

	December 31,		
	2004	2003	2002
Long-term debt, excluding market value of interest rate swaps	$4,722,410	$4,316,678	$3,659,533
Minority interest	45,646	40,064	42,033
Partners' capital, excluding accumulated other comprehensive loss	4,353,863	3,666,737	3,461,186
Total capitalization	9,121,919	8,023,479	7,162,752
Short-term debt, less cash and cash equivalents	-	(21,081)	(41,088)
Total invested capital	$9,121,919	$8,002,398	$7,121,664
Capitalization:			
Long-term debt, excluding market value of interest rate swaps	51.8%	53.8%	51.1%
Minority interest	0.5%	0.5%	0.6%
Partners' capital, excluding accumulated other comprehensive loss	47.7%	45.7%	48.3%
	100.0%	100.0%	100.0%
Invested Capital:			
Total debt, less cash and cash equivalents and excluding market value of interest rate swaps	51.8%	53.7%	50.8%
Partners' capital and minority interest, excluding accumulated other comprehensive loss	48.2%	46.3%	49.2%
	100.0%	100.0%	100.0%

We employ a centralized cash management program that essentially concentrates the cash assets of our operating partnerships and their subsidiaries in joint accounts for the purpose of providing financial flexibility and lowering the cost of borrowing. Our centralized cash management program provides that funds in excess of the daily needs of our operating partnerships and their

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ATTACHMENT HH

Docket No. OR03-5-001
Exhibit No. BPX-34
Excerpt from KMEP 2007 Form 10K

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KINDER MORGAN ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2007	2006
	(Dollars in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 58.9	$ 6.7
Restricted deposits	67.9	—
Accounts, notes and interest receivable, net Trade	960.2	854.7
Related parties	3.6	7.9
Inventories		
Products	19.5	20.4
Materials and supplies	18.3	16.6
Gas imbalances		
Trade	21.2	7.8
Related parties	5.7	11.6
Other current assets	54.4	111.1
	1,209.7	1,036.8
Property, Plant and Equipment, net	11,591.3	10,106.1
Investments	655.4	426.3
Notes receivable		
Trade	0.1	1.2
Related parties	87.9	96.2
Goodwill	1,077.8	1,421.0
Other intangibles, net	238.6	213.2
Deferred charges and other assets	317.0	241.4
Total Assets	$ 15,177.8	$ 13,542.2
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable		
Cash book overdrafts	$ 19.0	$ 46.2
Trade	926.7	784.1
Related parties	22.6	203.3
Current portion of long-term debt	610.2	1,359.1
Accrued interest	131.2	83.7
Accrued taxes	73.8	35.4
Deferred revenues	22.8	20.0
Gas imbalances		
Trade	23.7	15.9
Related parties	—	—
Accrued other current liabilities	728.3	589.6
	2,558.3	3,137.3
Long-Term Liabilities and Deferred Credits		
Long-term debt		
Outstanding	6,455.9	4,384.3
Value of interest rate swaps	152.2	42.6
	6,608.1	4,426.9
Deferred revenues	14.2	18.8
Deferred income taxes	202.4	185.2
Asset retirement obligations	50.8	48.9
Other long-term liabilities and deferred credits	1,254.1	716.6
	8,129.6	5,396.4
Commitments and Contingencies (Notes 13 and 16)		
Minority Interest	54.2	60.2
Partners' Capital		
Common Units (170,220,396 and 162,816,303 units issued and outstanding as of December 31, 2007 and 2006, respectively)	3,048.4	3,414.9
Class B Units (5,313,400 and 5,313,400 units issued and outstanding as of December 31, 2007 and 2006, respectively)	102.0	126.1
i-Units (72,432,482 and 62,301,676 units issued and outstanding as of December 31, 2007 and 2006, respectively)	2,400.8	2,154.2

Legal Matters

We are subject to litigation and regulatory proceedings as a result of our business operations and transactions. We utilize both internal and external counsel in evaluating our potential exposure to adverse outcomes from orders, judgments or settlements. To the extent that actual outcomes differ from our estimates, or additional facts and circumstances cause us to revise our estimates, our earnings will be affected. In general, we expense legal costs as incurred. When we identify specific litigation that is expected to continue for a significant period of time and require substantial expenditures, we identify a range of possible costs expected to be required to litigate the matter to a conclusion or reach an acceptable settlement. If no amount within this range is a better estimate than any other amount, we record a liability equal to the low end of the range. Any such liability recorded is revised as better information becomes available.

As of December 31, 2007, our most significant ongoing litigation proceedings involve our SFPP, L.P, subsidiary, which is the limited partnership that owns our Pacific operations' pipelines, excluding CALNEV Pipe Line LLC. Tariffs charged by our Pacific operations' pipeline systems are subject to certain proceedings at the FERC involving shippers' complaints regarding the interstate rates, as well as practices and the jurisdictional nature of certain facilities and services. Generally, the interstate rates on our Pacific operations' pipeline systems are "grandfathered" under the Energy Policy Act of 1992 unless "substantially changed circumstances" are found to exist. To the extent "substantially changed circumstances" are found to exist, our Pacific operations may be subject to substantial exposure under these FERC complaints and could, therefore, owe reparations and/or refunds to complainants as mandated by the FERC or the United States' judicial system. For more information on our Pacific operations' regulatory proceedings, see Note 16 to our consolidated financial statements included elsewhere in this report.

Intangible Assets

Intangible assets are those assets which provide future economic benefit but have no physical substance. We account for our intangible assets according to the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations" and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." These accounting pronouncements introduced the concept of indefinite life intangible assets and provided that all identifiable intangible assets having indefinite useful economic lives, including goodwill, will not be subject to regular periodic amortization. Such assets are not to be amortized until their lives are determined to be finite. Instead, the carrying amount of a recognized intangible asset with an indefinite useful life must be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value. We have selected an impairment measurement test date of January 1 of each year, and we have determined that our goodwill was not impaired as of January 1, 2008.

As of December 31, 2007, our goodwill was $1,077.8 million. Included in this goodwill balance is $251.0 million related to our Trans Mountain business segment, which we acquired from Knight on April 30, 2007. Following the provisions of generally accepted accounting principles, this transaction caused Knight to consider the fair value of the Trans Mountain pipeline system, and to determine whether goodwill related to these assets was impaired. Knight recorded a goodwill impairment charge of $377.1 million in the first quarter of 2007. This impairment is also reflected on our books due to the accounting principles for transfers of assets between entities under common control, which require us to account for Trans Mountain as if the transfer had taken place on January 1, 2006.

Our remaining intangible assets, excluding goodwill, include customer relationships, contracts and agreements, technology-based assets and lease value. These intangible assets have definite lives, are being amortized on a straight-line basis over their estimated useful lives, and are reported separately as "Other intangibles, net" in our accompanying consolidated balance sheets. As of December 31, 2007 and 2006, these intangibles totaled $238.6 million and $213.2 million, respectively.

Estimated Net Recoverable Quantities of Oil and Gas

We use the successful efforts method of accounting for our oil and gas producing activities. The successful efforts method inherently relies on the estimation of proved reserves, both developed and undeveloped. The existence and the estimated amount of proved reserves affect, among other things, whether certain costs are

Impairments

We evaluate the impairment of our long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less the cost to sell. We review for the impairment of long-lived assets whenever events or changes in circumstances indicate that our carrying amount of an asset may not be recoverable. We would recognize an impairment loss when estimated future cash flows expected to result from our use of the asset and its eventual disposition is less than its carrying amount.

We evaluate our oil and gas producing properties for impairment of value on a field-by-field basis or, in certain instances, by logical grouping of assets if there is significant shared infrastructure, using undiscounted future cash flows based on total proved and risk-adjusted probable and possible reserves. Oil and gas producing properties deemed to be impaired are written down to their fair value, as determined by discounted future cash flows based on total proved and risk-adjusted probable and possible reserves or, if available, comparable market values. Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognized at the time of impairment.

Equity Method of Accounting

We account for investments greater than 20% in affiliates, which we do not control, by the equity method of accounting. Under this method, an investment is carried at our acquisition cost, plus our equity in undistributed earnings or losses since acquisition, and less distributions received.

Excess of Cost Over Fair Value

We account for our business acquisitions and intangible assets in accordance with the provisions of SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Accounting standards require that goodwill not be amortized, but instead should be tested, at least on an annual basis, for impairment. Pursuant to this SFAS No. 142, goodwill and other intangible assets with indefinite useful lives cannot be amortized until their useful life becomes determinable. Instead, such assets must be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value. We have selected an impairment measurement test date of January 1 of each year and we have determined that our goodwill was not impaired as of January 1, 2008; however, our consolidated income statement for the year ended December 31, 2007 included a goodwill impairment expense of $377.1 million, due to the inclusion of Knight's first quarter 2007 impairment of goodwill that resulted from a determination of the fair values of Trans Mountain pipeline assets prior to our acquisition of these assets on April 30, 2007. For more information on this acquisition and this impairment expense, see Notes 3 and 8, respectively.

Our total unamortized excess cost over fair value of net assets in consolidated affiliates was $1,077.8 million as of December 31, 2007 and $1,421.0 million as of December 31, 2006. Such amounts are reported as "Goodwill" on our accompanying consolidated balance sheets. Our total unamortized excess cost over underlying fair value of net assets accounted for under the equity method was$138.2 million as of both December 31, 2007 and December 31, 2006. Pursuant to SFAS No. 142, this amount, referred to as equity method goodwill, should continue to be recognized in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." Accordingly, we included this amount within "Investments" on our accompanying consolidated balance sheets.

In almost all cases, the price we paid to acquire our share of the net assets of our equity investees differed from the underlying book value of such net assets. This differential consists of two pieces. First, an amount related to the difference between the investee's recognized net assets at book value and at current fair values (representing the appreciated value in plant and other net assets), and secondly, to any premium in excess of fair value (representing equity method goodwill as described above) we paid to acquire the investment. The first differential, representing the excess of the fair market value of our investees' plant and other net assets over its underlying book value at the date of acquisition totaled $174.7 million and $177.1 million as of December 31, 2007 and 2006, respectively, and similar to our treatment of equity method goodwill, we included these amounts within "Investments" on our

Source: KINDER MORGAN ENERGY, 10-K, February 26, 2008

Goodwill and Excess Investment Cost

As an investor, the price we pay to acquire an ownership interest in an investee will most likely differ from the underlying interest in book value, with book value representing the investee's net assets per its financial statements. This differential relates to both discrepancies between the investee's recognized net assets at book value and at current fair values and to any premium we pay to acquire the investment. Under ABP No. 18, any such premium paid by an investor, which is analogous to goodwill, must be identified.

For our investments in affiliated entities that are included in our consolidation, the excess cost over underlying fair value of net assets is referred to as goodwill and reported separately as "Goodwill" in our accompanying consolidated balance sheets. Goodwill is not subject to amortization but must be tested for impairment at least annually. This test requires goodwill to be assigned to an appropriate reporting unit and to determine if the implied fair value of the reporting unit's goodwill is less than its carrying amount.

Changes in the carrying amount of our goodwill for each of the two years ended December 31, 2006 and 2007 are summarized as follows (in millions):

	Products Pipelines	Natural Gas Pipelines	CO_2	Terminals	Trans Mountain(a)	Total
Balance as of December 31, 2005	$ 263.2	$ 288.4	$ 46.1	$ 201.3	$ —	$ 799.0
Acquisitions and purchase price adjs.	—	—	—	30.0	593.2	623.2
Disposals	—	—	—	—	—	—
Impairments	—	—	—	—	—	—
Currency translation adjustments	—	—	—	—	(1.2)	(1.2)
Balance as of December 31, 2006	$ 263.2	$ 288.4	$ 46.1	$ 231.3	$ 592.0	$ 1,421.0
Acquisitions and purchase price adjs.	—	—	—	(2.2)	—	(2.2)
Disposals	—	—	—	—	—	—
Impairments	—	—	—	—	(377.1)	(377.1)
Currency translation adjustments	—	—	—	—	36.1	36.1
Balance as of December 31, 2007	$ 263.2	$ 288.4	$ 46.1	$ 229.1	$ 251.0	$ 1,077.8

(a) On April 18, 2007, we announced that we would acquire the Trans Mountain pipeline system from Knight (formerly KMI), and this transaction was completed April 30, 2007 (discussed in Note 3). Following the provisions of generally accepted accounting principles, this transaction caused Knight to consider the fair value of the Trans Mountain pipeline system, and to determine whether goodwill related to these assets was impaired. Knight recorded a goodwill impairment charge of $377.1 million in the first quarter of 2007.

For our investments in entities that are not fully consolidated but instead are included in our financial statements under the equity method of accounting, the premium we pay that represents excess cost over underlying fair value of net assets is referred to as equity method goodwill, and under SFAS No. 142, this excess cost is not subject to amortization but rather to impairment testing pursuant to APB No. 18. The impairment test under APB No. 18 considers whether the fair value of the equity investment as a whole, not the underlying net assets, has declined and whether that decline is other than temporary. Therefore, in addition to our annual impairment test of goodwill, we periodically reevaluate the amount at which we carry the excess of cost over fair value of net assets accounted for under the equity method, as well as the amortization period for such assets, to determine whether current events or circumstances warrant adjustments to our carrying value and/or revised estimates of useful lives in accordance with APB Opinion No. 18. As of both December 31, 2007 and 2006, we have reported $138.2 million in equity method goodwill within the caption "Investments" in our accompanying consolidated balance sheets.

We also periodically reevaluate the difference between the fair value of net assets accounted for under the equity method and our proportionate share of the underlying book value (that is, the investee's net assets per its financial statements) of the investee at date of acquisition. In almost all instances, this differential, relating to the discrepancy between our share of the investee's recognized net assets at book values and at current fair values, represents our share of undervalued depreciable assets, and since those assets (other than land) are subject to depreciation, we amortize this portion of our investment cost against our share of investee earnings. We reevaluate this differential, as well as the amortization period for such undervalued depreciable assets, to determine whether current events or circumstances warrant adjustments to our carrying value and/or revised estimates of useful lives in accordance with

Source: KINDER MORGAN ENERGY, 10-K, February 26, 2008

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ATTACHMENT I I

Docket No. OR03-5-001
Exhibit No. BPX-35
Summaries of Operations of Each Company in SFPP's Proxy Group

About Us

Buckeye Partners, L.P., through its subsidiary partnerships, is engaged in the transportation of refined petroleum products primarily serving the northeastern and midwestern United States. The Partnership also operates approximately 2,000 miles of pipeline under agreement with major oil and chemical companies, and provides bulk storage services at terminals in Illinois, Indiana, Massachusetts, Michigan, Missouri, New York, Ohio and Pennsylvania.

Buckeye, with its principal operating and technical service office in Macungie, Pennsylvania, provides an important link between major petroleum refining and supply locations and demand in many of the area's principal cities. Buckeye operates one of the nation's largest independent common-carrier pipelines, providing refiners, wholesalers, marketers and commercial end-users a dependable, all-weather method of transportation for refined petroleum products. The company's unique combination of experienced and responsive professional staff, technical expertise, and modern transportation facilities have earned Buckeye a reputation for high quality, safe, reliable, and efficient transportation services.

Buckeye owns and operates approximately 5,350 miles of underground pipelines serving over 100 delivery locations within a eighteen states. The company transports refined petroleum products including gasoline, jet fuel, diesel fuel, heating oil, and kerosene from major supply sources to industry-owned terminals and airports located within major end-use markets. Buckeye also transports other refined products, such as propane and butane, refinery feedstocks and blending components. Transportation service is typically provided on a common carrier basis under published tariffs for our valued customers. Buckeye's geographical diversity, connections to multiple sources of supply, and extensive delivery system have created a strong base business. Buckeye is not affiliated with oil companies and does not own the material that it transports.

Commitment to Service Excellence

Buckeye is committed to providing quality transportation service to its customers by continuing to grow and diversify its service offerings. As the petroleum supply and distribution functions continue to become more complex and critical, customers can rely on Buckeye to provide unsurpassed service. Buckeye's strengths are its remarkable combination of history, sound financial background, and dedicated employees. We look forward to undertaking new challenges in the next millennium, and welcome the opportunity to continue to serve our valued customers.

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Click on the Tax Web link to receive the most recent K-1 tax information pertaining to your investment in Enbridge Energy Partners. Information for the immediately prior tax year is typically available from late February to Dec. 31. When at the log on page, Partner Federal ID number typically means your SSN.

Tax Web

Enbridge Energy Partners, L.P. (the "Partnership"), headquartered in Houston, is a leader in energy transportation, delivering crude oil, liquid petroleum and natural gas and operating natural gas midstream businesses in the Mid-Continent and Gulf Coast regions of the United States. The Partnership's Liquids Segment is conducted in large part through ownership of the U.S. portion of the world's longest liquid petroleum pipeline, which transports crude oil and natural gas liquids primarily from reserves in western Canada to refining centers in the Midwest and Ontario, Canada. The Natural Gas Segment consists of gathering, transmission, processing, treating and marketing subsidiaries operating in the Mid-Continent and Gulf Coast regions.

The Partnership's units trade on the New York Stock Exchange (NYSE) under the symbol **EEP**. Shares of Enbridge Energy Management, L.L.C., which manages the business and affairs of the Partnership, trade on the NYSE under the symbol EEQ. Enbridge Inc., based in Calgary, Alberta, Canada, holds an approximate 15 percent interest in the Partnership through its U.S. subsidiary Enbridge Energy Company, Inc. (the general partner of the Partnership). Enbridge Energy Management, L.L.C., together with approximately 78,000 unitholders, owns the remaining interests. Enbridge Inc. trades on the NYSE and the Toronto Stock Exchange (TSX) under the symbol ENB.

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kinder morgan energy partners, l.p. corporate profile

Kinder Morgan Energy Partners, L.P. (NYSE: KMP) is one of America's largest publicly traded pipeline limited partnerships with an enterprise value of approximately $20 billion.

Most of Kinder Morgan's assets reside at KMP, which is comprised of the following business segments.

- KMP is the largest independent owner/operator of products pipelines in the United States, transporting more than 2 million barrels a day of gasoline, jet fuel, diesel fuel and natural gas liquids through over 8,300 miles of pipelines. The Products Pipelines business segment also includes approximately 60 liquids terminals, which have a storage capacity of over 29 million barrels, and six transmix facilities.

- KMP is a major transporter of natural gas in Texas, the Rocky Mountains and the Midwest. The Natural Gas Pipelines business segment consists of approximately 14,700 miles of pipelines with transportation capacity of about 7 billion cubic feet per day and working gas storage capacity of about 35 billion cubic feet. This segment also owns or operates natural gas gathering, treating and processing facilities.

- KMP is the largest CO2 marketer and transporter in North America. Kinder Morgan CO2 Company owns the most prolific source of carbon dioxide in the world and transports and markets more than 1 billion cubic feet per day of CO2 through 1,200 miles of pipelines. CO2 is used for enhanced oil recovery projects. This business segment is also one of the largest oil producers in Texas with significant interests in the Permian Basin.

- KMP is the largest independent terminal operator in North America. The Terminals business segment consists of approximately 100 terminals, which have a liquids storage capacity of over 45 million barrels for petroleum products and chemicals, and handles over 85 million tons annually of bulk materials like coal and petcoke. This segment also has about 60 transload facilities.

- KMP's newest business segment is the Trans Mountain Pipeline, an approximately 700-mile pipeline system that transports crude oil and petroleum products from Alberta to marketing terminals and refineries in British Columbia and Washington state. Trans Mountain has a pipeline capacity of approximately 260,000 barrels per day.

- The $4.89 billion Rockies Express Pipeline, one of the largest natural gas pipeline projects to be built in the United States in the past 25 years. A joint venture of KMP, Sempra Pipelines and Storage and ConocoPhillips, the 1,678-mile Rockies Express Pipeline will run from the Rocky Mountains to Clarington, Ohio, and will transport up to 1.8 billion cubic feet of natural gas per day. The first two segments of the project are operational, with Rockies Express-West beginning interim service in January. Subject to receiving required regulatory approvals, the entire project is expected to be fully operational in June 2009.

- The $1.3 billion Midcontinent Express Pipeline, a 500-mile natural gas pipeline that originates in Oklahoma and terminates in Alabama. Pending necessary regulatory approvals, Midcontinent Express is expected to be in service by February 2009 and has an initial transportation capacity of 1.4 billion cubic feet per day. The project is a joint venture of KMP and Energy Transfer Partners.

-

The $510 million Kinder Morgan Louisiana Pipeline, which will provide takeaway capacity from the Cheniere Sabine Pass liquefied natural gas import terminal in Louisiana. The proposed 136-mile pipeline will transport up to 3.2 billion cubic feet of natural gas per day and will connect with various interstate and intrastate pipelines. Total completion is scheduled for the second quarter of 2009.

- KMP continues work on the approximately $400 million expansion of its CALNEV pipeline system into Las Vegas, Nev. The expansion involves the construction of a new 16-inch diameter pipeline, which will parallel existing utility corridors to minimize environmental impacts, from Colton, Calif., to Las Vegas. Capacity for refined petroleum products on CALNEV would increase to approximately 200,000 bpd upon completion of the new pipeline. We expect to complete the project in 2010.

- Construction continues on the approximately C$443 million Anchor Loop project, the second phase of the Trans Mountain pipeline system expansion that will increase capacity on Trans Mountain from about 260,000 to 300,000 barrels per day (bpd). The project is expected to be completed in November 2008.

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About NuStar Energy L.P.

NuStar Energy L.P. is a publicly traded, limited partnership based in San Antonio, with 9,063 miles of pipeline, 86 terminal facilities, four crude oil storage tank facilities and two asphalt refineries with a combined throughput capacity of 104,000 barrels per day. One of the largest asphalt refiners and marketers in the U.S. and the second largest independent liquids terminal operator in the nation, NuStar has operations in the United States, the Netherlands Antilles, Canada, Mexico, the Netherlands and the United Kingdom. The partnership's combined system has over 86 million barrels of storage capacity, and includes two asphalt refineries, crude oil and refined product pipelines, refined product terminals, a petroleum and specialty liquids storage and terminaling business, as well as crude oil storage facilities.

Fast Facts

Total Miles of pipeline: 9,113 -
6,259 miles of refined products pipelines
854 miles of crude oil pipelines
2,000 miles of anhydrous ammonia pipeline
Number of terminal facilities: 84 facilities located throughout six countries.
Storage Capacity: 79.8 million barrels

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- Business Values
- Corporate Responsibility
- Ownership Structure
- Officers & Directors
- Quick Facts
- TEPPCO History

Print Page

About Us

TEPPCO Partners, L.P. is a publicly traded master limited partnership, which conducts business through various subsidiary operating companies.

TEPPCO owns and operates one of the largest common carrier pipelines of refined petroleum products and liquefied petroleum gases in the United States; owns and operates petrochemical and natural gas liquid pipelines; is engaged in crude oil transportation, storage, gathering and marketing; owns and operates natural gas gathering systems; and owns 50-percent interests in Seaway Crude Pipeline Company, Centennial Pipeline LLC, and Mont Belvieu Storage Partners, L.P., and an undivided ownership interest in the Basin Pipeline.

Texas Eastern Products Pipeline Company, LLC, an indirect subsidiary of EPCO, Inc., is the general partner of TEPPCO Partners, L.P.

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ATTACHMENT JJ

Docket No. OR03-5-001
Exhibit No. BPX-36
Maps of crude oil and products pipeline operations

About Us : Pipeline System Map

About Buckeye
Mission & Principles
Organizational History
Operating Units
Pipeline System Map
ULSD Receipt Specifications

Quick Links

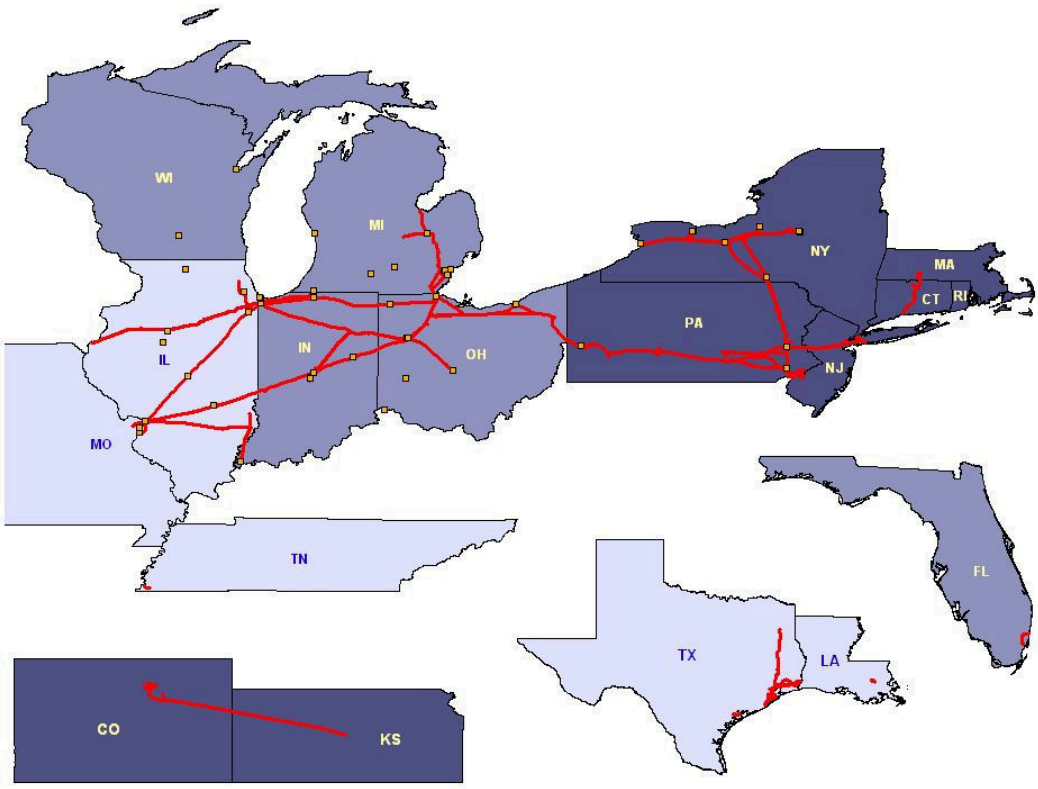
Emergency Information

Buckeye Gulf Coast

Call Before You Dig

General Pipeline Information

Transport4



Not shown are additional Buckeye assets near Reno, NV and San Diego, CA.

For a listing of counties where Buckeye has pipeline and facilities, click here.

To find out which pipelines are in your community, please consult the National Pipeline Mapping System.

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Liquids Pipelines

We are uniquely positioned to provide transportation solutions to connect growing production from Alberta's oil sands to key U.S. refinery markets and beyond.

During the last two years, our market strategy has set the stage for crude oil moving through our Lakehead System to secure further penetration into the Midwest and Mid-Continent regions as well as entry into the refining center of the U.S. Gulf Coast—which together process 70 percent of U.S. refined products. The three major systems in the Liquids Pipelines segment transported an average of 1.7 million barrels per day in 2005 and have a combined 23.4 million barrels of crude oil storage capacity.

Enbridge Liquids Pipelines are owned by Enbridge Energy Partners, L.P. and Enbridge (U.S.) Inc., an indirect and wholly owned subsidiary of Enbridge Inc. Click on "Ownership Map" to the left for detailed pipeline ownership information.

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KINDER MORGAN
ENERGY PARTNERS, L.P.

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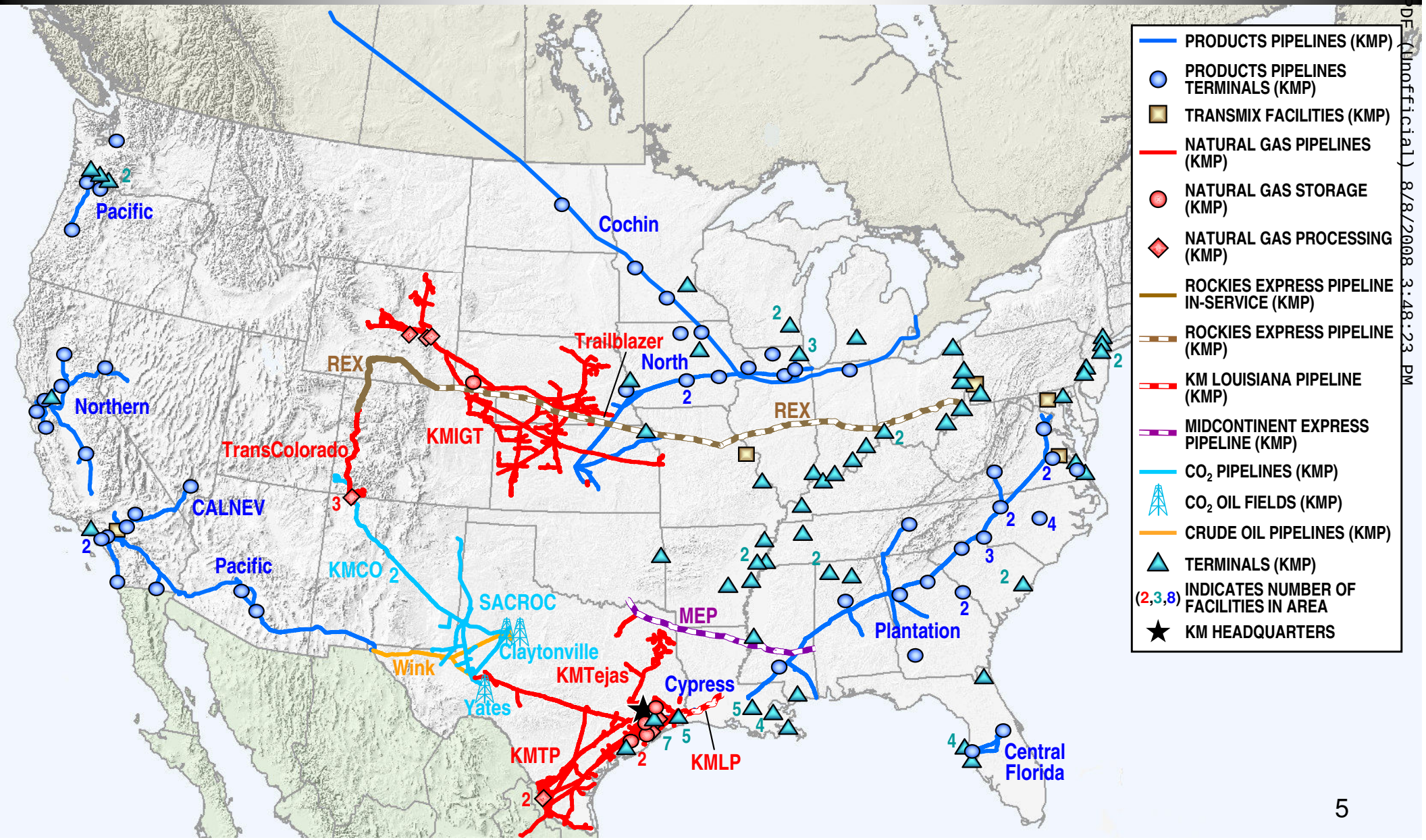
System Map



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http://www.nustarenergy.com/company/Operations%20Images/LPOperationsMap101006.jpg

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TEPPCO

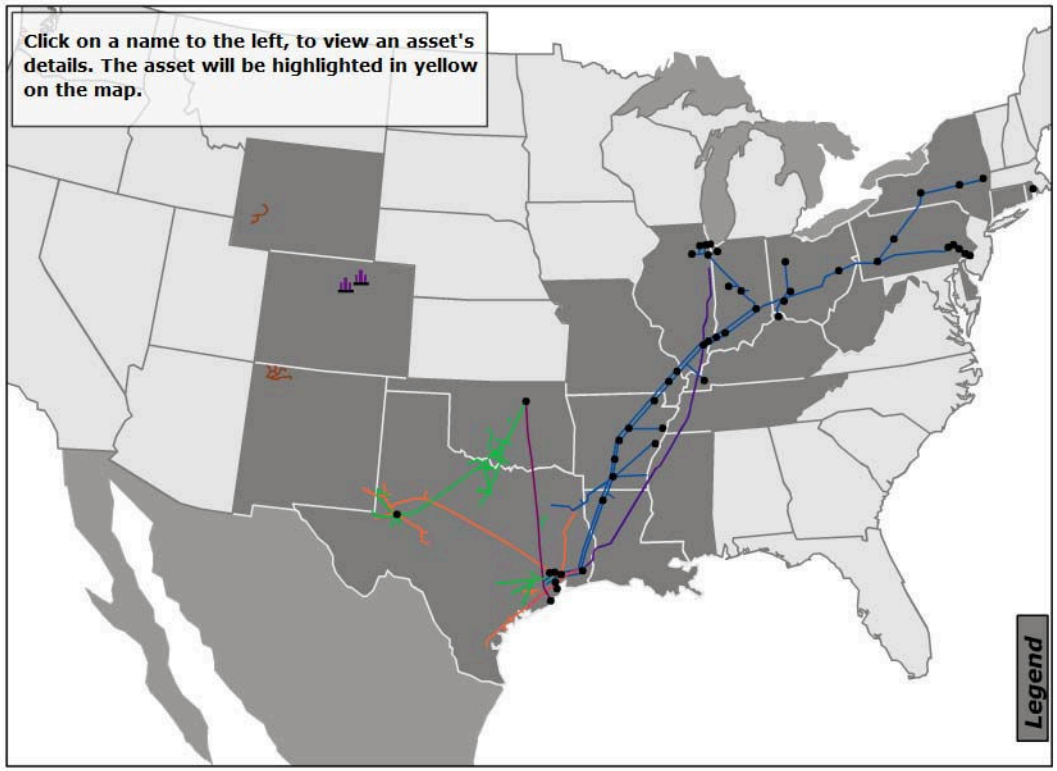
Back

Assets

Pipelines:

Downstream -
TE Products Pipeline
Centennial Pipeline
Dean North Pipeline
Upstream -
Seaway Crude Pipeline
Red River System
South Texas System
West Texas Trunk System
Basin Pipeline
Midstream -
Jonah Gathering System
Val Verde Gathering System
Chaparral Pipeline
Quanah Pipeline
Dean South Pipeline
Wilcox Pipeline

Asset Details



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ATTACHMENT KK

Docket No. OR03-5-001
Exhibit No. BPX-37
2007 EBIT/Operating Income for Oil MLPs by Business Segment

SFPP, L.P. Docket No. OR03-5

2007 Segmented EBIT / Operating Income for Oil MLPs

	Company	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
				(In thousands)						
	Kinder Morgan Energy Partners, L.P.	Products Pipelines	Natural Gas Pipelines	CO2	Terminals	Trans Mountain	Interest and Corp. Admin.		Total	% Oil Transp.
1	Segment Earnings	$477,000	$535,000	$252,800	$326,700	-$315,100	($686,100)		$590,300	81%
	Buckeye Partners, L.P.	Pipelines	Terminalling & Storage	Other Operations					Total	
2	Operating Income	$150,295	$42,843	$8,942					$202,080	74%
	Enbridge Energy Partners LP	Liquids	Natural Gas	Marketing	Corporate				Total	
3	Operating Income	$207,100	$91,200	$24,000	($3,500)				$318,800	65%
	NuStar Energy L.P.	Refined Product Terminals	Refined Product Pipelines	Crude Oil Pipelines	Crude Oil Storage Tanks	Marketing	Intersegment. Eliminations	General & Admin	Total	
4	Segment operating income	$88,865	$93,812	$32,696	$25,770	$21,111	($1,740)	($67,915)	$192,599	66%
	TEPPCO Partners, L.P.	Downstream	Upstream	Midstream	Intersegment Eliminations				Total	
5	Operating income	$135,055	$84,222	$25,767	$4,511				$249,555	*

* Oil transportation services included in Downstream, Upstream, and Midstream operations for TEPPCO.

Sources:	Source	page
Kinder Morgan Energy Partners, L.P.	2007 Form 10-K	175
Buckeye Partners, L.P.	2007 Form 10-K	42
Enbridge Energy Partners LP	2007 Form 10-K	F-48
NuStar Energy L.P.	2007 Form 10-K	44-45
TEPPCO Partners, L.P.	2007 Form 10-K	60

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ATTACHMENT LL

Docket No. OR03-5-001
Exhibit No. BPX-38
Excerpts from Teppco and Buckeye 2007 Forms 10K

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____to _____.

Commission File Number 1-10403

TEPPCO Partners, L.P.

(Exact name of Registrant as specified in its charter)

Delaware	**76-0291058**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

1100 Louisiana Street, Suite 1600
Houston, Texas 77002
(Address of principal executive offices, including zip code)
(713) 381-3636
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Limited Partner Units representing Limited Partner Interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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. (Check one):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

At June 30, 2007, the aggregate market value of the registrant's Limited Partner Units held by non-affiliates was $3.2 billion, which was computed using the average of the high and low sales prices of the Limited Partner Units on June 30, 2007.

Limited Partner Units outstanding as of February 1, 2008: 94,766,431.

Documents Incorporated by Reference: **None.**

approximately $321.0 million for revenue generating projects, which includes $153.0 million for our expected spending on the Motiva project. We expect to spend approximately $57.0 million to sustain existing operations (including $17.0 million for pipeline integrity) including life-cycle replacements for equipment at various facilities and pipeline and tank replacements among all of our business segments. We expect to spend approximately $12.0 million to improve operational efficiencies and reduce costs among all of our business segments. Additionally, we expect to invest approximately $124.0 million (including $3.0 million of capitalized interest) in our Jonah joint venture during 2008 for the completion of the Phase V expansion and additional facilities to expand the Pinedale field production.

During 2008, TE Products may be required to contribute cash to Centennial to cover capital expenditures, debt service requirements or other operating needs. We continually review and evaluate potential capital improvements and expansions that would be complementary to our present business operations. These expenditures can vary greatly depending on the magnitude of our transactions. We may finance capital expenditures through internally generated funds, debt or the issuance of additional equity.

Regulation

FERC

Certain of our crude oil, petroleum products and natural gas liquids pipeline systems ("liquids pipelines") are interstate common carrier pipelines subject to rate regulation by the FERC, under the Interstate Commerce Act ("ICA") and the Energy Policy Act of 1992 ("Energy Policy Act"). The ICA prescribes that interstate tariffs must be just and reasonable and must not be unduly discriminatory or confer any undue preference upon any shipper. FERC regulations require that interstate oil pipeline transportation rates be filed with the FERC and posted publicly.

The ICA permits interested persons to challenge proposed new or changed rates and authorizes the FERC to investigate such rates and to suspend their effectiveness for a period of up to seven months. If, upon completion of an investigation, the FERC finds that the new or changed rate is unlawful, it may require the carrier to refund the revenues in excess of the prior tariff during the term of the investigation. The FERC may also investigate, upon complaint or on its own motion, rates that are already in effect and may order a carrier to change its rates prospectively. Upon an appropriate showing, a shipper may obtain reparations for damages sustained for a period of up to two years prior to the filing of its complaint.

On October 24, 1992, Congress passed the Energy Policy Act. The Energy Policy Act deemed just and reasonable under the ICA (*i.e* ., "grandfathered") liquids pipeline rates that were in effect for the twelve months preceding enactment and that had not been subject to complaint, protest or investigation. The Energy Policy Act also limited the circumstances under which a complaint can be made against such grandfathered rates. In order to challenge grandfathered rates, a party must show that it was previously contractually barred from challenging the rates, or that the economic circumstances of the liquids pipeline that were a basis for the rate or the nature of the service underlying the rate had substantially changed or that the rate is unduly discriminatory or preferential. Some but not all of our interstate liquids pipeline rates are considered grandfathered under the Energy Policy Act. There is currently pending before the U.S. Court of Appeals for the D.C. Circuit ("D.C. Circuit") a challenge to the FERC's standards for assessing when such a substantial change has occurred. We cannot at this time predict what effect, if any, the decision in that case will have on the ability of parties to challenge grandfathered rates.

Certain other rates for our interstate liquids pipeline services are charged pursuant to a FERC-approved indexing methodology, which allows a pipeline to charge rates up to a prescribed ceiling that changes annually based on the change from year to year in the Producer Price Index for finished goods ("PPI"). A rate increase within the indexed rate ceiling is presumed to be just and reasonable unless a protesting party can demonstrate that the rate increase is substantially in excess of the pipeline's costs. Effective March 21, 2006, FERC issued its final order concluding its second five-year review of the oil pipeline pricing index. FERC concluded that for the five-year period commencing July 1, 2006, liquids pipelines charging indexed rates may adjust their indexed ceilings annually by the PPI plus 1.3 percent ("PPI Index"). At the end of that five year period, in July 2011, the FERC will once again review the PPI Index to determine whether it continues to measure adequately the cost changes in the oil pipeline industry.

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As an alternative to using the PPI Index, interstate liquids pipelines may elect to support rate filings by using a cost-of-service methodology, competitive market showings ("Market-Based Rates") or agreements with all of the pipeline's shippers that the rate is acceptable. TE Products has been granted permission by the FERC to utilize Market-Based Rates for all of its refined products movements other than the Little Rock, Arkansas, Arcadia and Shreveport-Arcadia, Louisiana destination markets, which are currently subject to the PPI Index. As with all rates for service on an oil pipeline subject to FERC regulation under the ICA, TE Products must file its market-based rates with FERC and charge those rates on a non-discriminatory basis, such that the same Market-Based Rate shall be charged to similarly situated shippers. With respect to LPG movements, TE Products uses the PPI Index. All interstate transportation movements of crude oil by TCPL are subject to the PPI Index as are the NGL interstate transportation movements on the Chaparral NGL system.

Because of the complexity of ratemaking, the lawfulness of any rate is never assured. The FERC uses prescribed rate methodologies for approving regulated tariff rates for transporting crude oil and refined products. These methodologies may limit our ability to set rates based on our actual costs or may delay the use of rates reflecting increased costs. Changes in the FERC's approved methodology for approving rates could adversely affect us. Adverse decisions by the FERC in approving our regulated rates could adversely affect our cash flow. Challenges to our tariff rates could be filed with the FERC. We believe the transportation rates currently charged by our interstate common carrier pipelines are in accordance with the ICA. However, we cannot predict the rates we will be allowed to charge in the future for transportation services by our interstate liquids pipelines.

In that regard, one element of the FERC's cost-of-service methodology as it affects partnerships such as us remains under review. In a case involving Lakehead Pipe Line Company, L.P., a partnership that operates a crude oil pipeline, the FERC concluded in its Opinion No. 397 that Lakehead was entitled to include in calculating its rates an income tax allowance only with respect to the portion of its earnings that are attributable to its partners that are not individuals, rationalizing that income attributable to individuals would be subject to only one level of taxation. The parties subsequently settled the case, so there was no judicial review of the FERC's decision. The FERC subsequently applied this approach in proceedings involving SFPP, L.P., which is a subsidiary of a publicly traded limited partnership engaged in the transportation of petroleum products. In the first SFPP proceeding, Opinion No. 435, the FERC (among other things) affirmed Opinion No. 397's determination that there should not be an income tax allowance built into a petroleum pipeline's rates for income attributable to non-corporate partners.

Following several FERC orders on rehearing, the matter was appealed to the D.C. Circuit. The court found the Lakehead policy to lack a reasonable basis and vacated the portion of the FERC's rulings that permitted SFPP an income tax allowance in accordance with that policy. The court remanded the issue to the FERC for further consideration, and the FERC thereafter initiated a broader inquiry into the implications of the court's decision on other FERC-regulated companies. That was followed by the issuance of the FERC's "Policy Statement on Income Tax Allowances" ("Policy Statement") on May 4, 2005, which addressed the circumstances in which a partnership or other pass-through entity would be permitted to include a tax allowance in its cost of service. On December 16, 2005, the FERC issued its "Order on Initial Decision and on Certain Remanded Cost Issues" in various dockets involving SFPP (the "SFPP Order"). Among other things, the SFPP Order applied the Policy Statement to the specific facts of the SFPP case, suggesting how the FERC will treat other Master Limited Partnership ("MLP") petroleum pipelines. The SFPP Order confirmed that an MLP is entitled to a tax allowance with respect to partnership income for which there is an "actual or potential income tax liability" and determined that a unitholder that is required to file a Form 1040 or Form 1120 tax return that includes partnership income or loss is presumed to have an actual or potential income tax liability sufficient to support a tax allowance on that partnership income. The FERC also established certain other presumptions, including that corporate unitholders are presumed to be taxed at the maximum corporate tax rate of 35% while individual unitholders (and certain other types of unitholders taxed like individuals) are presumed to be taxed at a 28% tax rate.

Both the SFPP Order and the Policy Statement were appealed to the D.C. Circuit, in a case that was argued before the court on December 12, 2006. The matter is currently awaiting a decision.

The intrastate liquids pipeline transportation services we provide are subject to various state laws and regulations that affect the rates we charge and terms and conditions of that service. Although state regulation typically is less onerous than FERC regulation, proposed and existing rates subject to state regulation and the provision of non-discriminatory service are subject to challenge by complaint.

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The Val Verde and Jonah natural gas gathering systems are exempt from FERC regulation under the Natural Gas Act of 1938 since they are intrastate gas gathering systems rather than interstate transmission pipelines. However, FERC regulation still significantly affects the Midstream Segment, directly or indirectly, by its influences on the parties that produce the natural gas gathered on the Val Verde and Jonah systems as well as the parties that transport that natural gas. In addition, in recent years, the FERC has pursued pro-competition policies in its regulation of interstate natural gas pipelines. If the FERC does not continue the pro-competition policies as it considers pipeline rate case proposals, revisions to rules and policies that affect shipper rights of access to interstate natural gas transportation capacity or proposals by natural gas pipelines to allow natural gas pipelines to charge negotiated rates without rate ceiling limits, such policy changes could have an adverse effect on the gathering rates the Midstream Segment is able to charge in the future.

Environmental and Safety Matters

Our pipelines and other facilities are subject to multiple environmental obligations and potential liabilities under a variety of federal, state and local laws and regulations. These include, without limitation: the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Clean Air Act; the Federal Water Pollution Control Act or the Clean Water Act; the Oil Pollution Act; and analogous state and local laws and regulations. Such laws and regulations affect many aspects of our present and future operations, and generally require us to obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals, with respect to air emissions, water quality, wastewater discharges, and solid and hazardous waste management. Failure to comply with these requirements may expose us to fines, penalties and/or interruptions in our operations that could influence our results of operations. If an accidental leak, spill or release of hazardous substances occurs at any facilities that we own, operate or otherwise use, or where we send materials for treatment or disposal, we could be held jointly and severally liable for all resulting liabilities, including investigation, remedial and clean-up costs. Likewise, we could be required to remove or remediate previously disposed wastes or property contamination, including groundwater contamination. Any or all of this could materially affect our results of operations and cash flows.

The following is a discussion of all material environmental and safety laws and regulations that relate to our operations. We believe that we are in material compliance with all these environmental and safety laws and regulations and that the cost of compliance with such laws and regulations will not have a material adverse effect on our results of operations or financial position. We cannot ensure, however, that existing environmental regulations will not be revised or that new regulations will not be adopted or become applicable to us. The clear trend in environmental regulation is to place more restrictions and limitations on activities that may be perceived to affect the environment, and thus there can be no assurance as to the amount or timing of future expenditures for environmental regulation compliance or remediation, and actual future expenditures may be different from the amounts we currently anticipate. Revised or additional regulations that result in increased compliance costs or additional operating restrictions, particularly if those costs are not fully recoverable from our customers, could have a material adverse effect on our business, financial position, results of operations and cash flows.

Water

The Federal Water Pollution Control Act of 1972, as renamed and amended as the Clean Water Act ("CWA"), and comparable state laws impose strict controls against the discharge of oil and its derivatives into navigable waters. The CWA provides penalties for any discharges of petroleum products in reportable quantities and imposes substantial potential liability for the costs of removing petroleum or other hazardous substances. State laws for the control of water pollution also provide varying civil and criminal penalties and liabilities in the case of a release of petroleum or its derivatives in navigable waters or into groundwater. Spill prevention control and countermeasure requirements of federal laws require appropriate containment berms and similar structures to help prevent a petroleum tank release from impacting navigable waters. The Environmental Protection Agency ("EPA") has adopted regulations that require us to have permits in order to discharge certain storm water run-off. Storm water discharge permits may also be required by certain states in which we operate. These permits may require us to monitor and sample the storm water run-off. The CWA and regulations implemented thereunder also prohibit discharges of dredged and fill material in wetlands and other waters of the United States unless authorized by an appropriately issued permit. We believe that our costs of compliance with these CWA requirements will not have a material adverse effect on our operations.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2007

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission file number 1-9356

Buckeye Partners, L.P.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**23-2432497** (IRS Employer Identification number)
Five TEK Park **9999 Hamilton Blvd.** **Breinigsville, Pennsylvania** (Address of principal executive offices)	**18031** (Zip Code)

Registrant's telephone number, including area code: (610) 904-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
LP Units representing limited partnership interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

At June 30, 2007, the aggregate market value of the registrant's LP Units held by non-affiliates was $2.0 billion. The calculation of such market value should not be construed as an admission or conclusion by the registrant that any person is in fact an affiliate of the registrant.

LP Units outstanding as of February 19, 2008: 45,718,146

Partnership's Laurel subsidiary operates a pipeline in intrastate service across Pennsylvania, and its tariff rates are regulated by the Pennsylvania Public Utility Commission. The Partnership's Wood River subsidiary operates a pipeline in intrastate service in Illinois, and tariff rates related to this pipeline are regulated by the Illinois Commerce Commission.

FERC Rate Regulation

The generic oil pipeline regulations issued under the Energy Policy Act of 1992 rely primarily on an index methodology that allows a pipeline to change its rates in accordance with an index (currently the change in the Producer Price Index ("PPI") plus 1.3%) that FERC believes reflects cost changes appropriate for application to pipeline rates. Under FERC's rules, as an alternative to indexed rates, a pipeline is also allowed to charge market-based rates if the pipeline establishes that it does not possess significant market power in a particular market. The final rules became effective on January 1, 1995.

The tariff rates of each of Wood River, BPL Transportation, Buckeye NGL and Norco are governed by the generic FERC index methodology, and therefore are subject to change annually according to the index. If PPI +1.3% were to be negative, then Wood River, BPL Transportation, Buckeye NGL and Norco could be required to reduce their rates if they exceed the new maximum allowable rate. Shippers may also file complaints against indexed rates as being unjust and unreasonable, subject to the FERC's standards. For example, at December 31, 2007, PPI +1.3% was calculated to be 5.2%

In addition, FERC had a longstanding rule that pass-through entities, like the Partnership and the Operating Subsidiaries, may not claim an income tax allowance for income attributable to non-corporate limited partners in justifying the reasonableness of their rates that are based on their cost of service. (The General Partner believes only a small percentage of the Partnership's limited partnership units are held by corporations.) Further, in a July 2004 decision involving an unrelated pipeline limited partnerships, the United States Court of Appeals for the District of Columbia Circuit overruled a prior FERC decision allowing a limited partnership to claim a partial income tax allowance. On May 4, 2005, the FERC adopted a new policy providing that all entities owning public utility assets—oil and gas pipelines and electric utilities—would be permitted to include an income tax allowance in their cost-of-service rates to reflect the actual or potential income tax liability attributable to their public utility income, regardless of the form of ownership. FERC determined that any pass-through entity seeking an income tax allowance in a rate proceeding must establish that its partners have an actual or potential income tax obligation on the entity's public utility income. The amount of any income tax allowance will be reduced accordingly to the extent that any of the partners do not have an actual or potential income tax obligation. This reduction will be reflected in the weighted income tax liability of the entity's partners. Whether a pipeline's owners have an actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. This policy was applied by FERC in June 2005 with an order involving an unrelated pipeline limited partnership ("2005 Policy Statement"). FERC concluded that the pipeline should be afforded an income tax allowance on all of its partnership interests to the extent that the ultimate owners of those interests had an actual or potential income tax obligation during the periods at issue. In December 2005, FERC reaffirmed its new income tax allowance policy as it applied to that pipeline. On May 29, 2007, the United States Court of Appeals for the District of Columbia Circuit issued a decision affirming FERC's 2005 Policy Statement, and on August 20, 2007, denied requests for rehearing. On December 26, 2007, FERC issued an order on remand reaffirming and clarifying its 2005 Policy Statement. In orders concurrently issued, FERC further found that complaints against oil pipeline rates challenging its income tax policy, as clarified, would not be considered.

A shipper or FERC could cite these decisions in a protest or complaint challenging indexed rates maintained by certain of the Operating Subsidiaries. Whether a pipeline's ultimate owners have actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Although this

new policy is generally favorable for pipelines that are organized as pass-through entities, it still entails risk due to the case-by-case review requirement. If a challenge were brought and FERC were to find that some of the indexed rates exceed either the maximum allowable rate or levels justified by the cost of service, FERC could order a reduction in the indexed rates and could require reparations. As a result, the Partnership's results of operations and cash flows could be adversely affected.

Buckeye Pipe Line's rates are governed by an exception to the rules discussed above, pursuant to specific FERC authorization. Buckeye Pipe Line's market-based rate regulation program was initially approved by FERC in March 1991 and was subsequently extended in 1994. Under this program, in markets where Buckeye Pipe Line does not have significant market power, individual rate increases: (a) will not exceed a real (i.e., exclusive of inflation) increase of 15% over any two-year period, and (b) will be allowed to become effective without suspension or investigation if they do not exceed a "trigger" equal to the change in the Gross Domestic Product implicit price deflator since the date on which the individual rate was last increased, plus 2%. Individual rate decreases will be presumptively valid upon a showing that the proposed rate exceeds marginal costs. In markets where Buckeye Pipe Line was found to have significant market power and in certain markets where no market power finding was made: (i) individual rate increases cannot exceed the volume-weighted average rate increase in markets where Buckeye Pipe Line does not have significant market power since the date on which the individual rate was last increased, and (ii) any volume-weighted average rate decrease in markets where Buckeye Pipe Line does not have significant market power must be accompanied by a corresponding decrease in all of Buckeye Pipe Line's rates in markets where it does have significant market power. Shippers retain the right to file complaints or protests following notice of a rate increase, but are required to show that the proposed rates violate or have not been adequately justified under the market-based rate regulation program, that the proposed rates are unduly discriminatory, or that Buckeye Pipe Line has acquired significant market power in markets previously found to be competitive.

The Buckeye Pipe Line program was subject to review by FERC in 2000 when FERC reviewed the index selected in the generic oil pipeline regulations. FERC decided to continue the generic oil pipeline regulations with no material changes and did not modify or discontinue Buckeye Pipe Line's program. The General Partner cannot predict the impact that any change to Buckeye Pipe Line's rate program would have on Buckeye Pipe Line's operations. Independent of regulatory considerations, it is expected that tariff rates will continue to be constrained by competition and other market factors.

Environmental Regulation

The Operating Subsidiaries are subject to federal, state and local laws and regulations relating to the protection of the environment. Although the General Partner believes that the operations of the Operating Subsidiaries comply in all material respects with applicable environmental laws and regulations, risks of substantial liabilities are inherent in pipeline operations, and there can be no assurance that material environmental liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly rigorous environmental laws, regulations and enforcement policies, and claims for damages to property or injuries to persons resulting from the operations of the Operating Subsidiaries, could result in substantial costs and liabilities to the Partnership. See "Legal Proceedings" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Environmental Matters."

The Oil Pollution Act of 1990 ("OPA") amended certain provisions of the federal Water Pollution Control Act of 1972, commonly referred to as the Clean Water Act ("CWA"), and other statutes, as they pertain to the prevention of and response to petroleum product spills into navigable waters. The OPA subjects owners of facilities to strict joint and several liability for all containment and clean-up costs and certain other damages arising from a spill. The CWA provides penalties for the discharge of petroleum products in reportable quantities and imposes substantial liability for the costs of removing a

alternative, a pipeline is allowed to charge market-based rates if the pipeline establishes that it does not possess significant market power in a particular market.

The indexing methodology is used to establish rates on the pipelines owned by Wood River, BPL Transportation, Buckeye NGL and Norco. The indexing method presently allows a pipeline to increase its rates by a percentage equal to the change in the annual producer price index ("PPI") for finished goods plus 1.3%. If the change in PPI +1.3% were to be negative, we could be required to reduce the rates charged by Wood River, BPL Transportation, Buckeye NGL and Norco if they exceed the new maximum allowable rate. In addition, changes in the PPI might not fully reflect actual increases in the costs associated with these pipelines, thus hampering our ability to recover our costs. Shippers may also file complaints against indexed rates as being unjust and unreasonable, subject to the FERC's standards.

Buckeye Pipe Line presently is authorized to charge rates set by market forces, subject to limitations, rather than by reference to costs historically incurred by the pipeline, in 15 regions and metropolitan areas. The Buckeye Pipe Line program is an exception to the generic oil pipeline regulations the FERC issued under the Energy Policy Act of 1992. The generic rules rely primarily on the index methodology described above.

The Buckeye Pipe Line rate program was reevaluated by the FERC in July 2000, and was allowed to continue with no material changes. We cannot predict the impact, if any, that a change in the FERC's method of regulating Buckeye Pipe Line would have on our operations, financial condition, results of operations, or cash flows.

Environmental regulation may impose significant costs and liabilities on us.

Our Operating Subsidiaries are subject to federal, state and local laws and regulations relating to the protection of the environment. Risks of substantial environmental liabilities are inherent in the Operating Subsidiaries' operations, and we cannot assure you that the Operating Subsidiaries will not incur material environmental liabilities. Additionally, our costs could increase significantly and we could face substantial liabilities, if, among other developments:

- environmental laws, regulations and enforcement policies become more rigorous; or
- claims for property damage or personal injury resulting from the operations of the Operating Subsidiaries are filed.

Existing or future state or federal government regulations relating to certain chemicals or additives in gasoline or diesel fuel could require capital expenditures or result in lower pipeline volumes and thereby adversely affect our results of operations and cash flows.

Changes made to governmental regulations governing the components of refined petroleum products may necessitate changes to our pipelines and terminals which may require significant capital expenditures or result in lower pipeline volumes. For instance, the increasing use of ethanol as a fuel additive, which is blended with gasoline at product terminals, may lead to reduced pipeline volumes and revenue which may not be totally offset by increased terminal blending fees we may receive at our terminals.

Department of Transportation regulations may impose significant costs and liabilities on us.

The Operating Subsidiaries' pipeline operations are subject to regulation by the United States Department of Transportation. These regulations require, among other things, that pipeline operators engage in a regular program of pipeline integrity testing to assess, evaluate, repair and validate the integrity of their pipelines, which, in the event of a leak or failure, could affect populated areas, unusually sensitive environmental areas, or commercially navigable waterways. In response to these regulations, the Operating Subsidiaries conduct pipeline integrity tests on an ongoing and regular basis. Depending on the results of these integrity tests, the Operating Subsidiaries could incur significant and unexpected capital and operating expenditures, not accounted for in anticipated capital or operating budgets, in order to repair such pipelines to ensure their continued safe and reliable operation.

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ATTACHMENT MM

Docket No. OR03-5-001
Exhibit No. BPX-39
SFPP Adjusted Taxable Income Calculation for 2003

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SFPP, L.P. Docket No. OR03-5
Adjusted Taxable Income Calculation for 2003
(000's of Dollars)

				North Line		Oregon Line
1	SFPP Taxable Income	Exhibit No. SFO-65	$	2,068	$	632
2	Taxable to Book Income Ratio			43.28%		43.28%
3	Taxable Income		$	895	$	274
4	ADIT Balance	Exhibit No. SFO-65	$	5,043	$	1,264
5	South Georgia Credit		$	895	$	274
6	Net Taxable Income	Line 3 - Line 5	$	-	$	-
7	ADIT Unamortized Balance	Line 4 - Line 5	$	4,148	$	990

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ATTACHMENT NN

Docket No. OR03-5-001
Exhibit No. BPX-40
SFPP Recalculation of Weighted Income Tax Rate for 2003

SFPP, L.P. Docket No. OR03-5
Recalculation of Weighted Income Tax Rate for 2003

Original Exhibit No. SFO-62A

			Commission Specified Categories						
			Subchapter C Corporations				Pensions		
	SFPP taxable income allocated to:	Total	SFPPI/ KMGP Inc.	Others	Individuals	Mutual Funds	IRAs Keoghs	UBTI Entities	Non Taxpaying Entities
1	KMEP limited partner ownership percentages		11.48%	6.59%	70.91%	0.66%	9.24%	0.91%	0.20%
2	KMEP limited partners in total	23,388,929	23,388,929	23,388,929	23,388,929	23,388,929	23,388,929	23,388,929	23,388,929
3	KMEP limited partners by category		2,685,255	1,541,636	16,584,590	155,074	2,161,901	213,506	46,967
4	Santa Fe Pacific Pipelines, Inc.	2,652,109	2,652,109						
5	KMGP, Inc. from OLP-D	677,955	677,955						
6	KMGP, Inc. from KMEP	43,050,756	43,050,756						
7		69,769,749	49,066,075	1,541,636	16,584,590	155,074	2,161,901	213,506	46,967
8	Percent of total	100.00%	70.33%	2.21%	23.77%	0.22%	3.10%	0.31%	0.07%
9	Applicable tax rates		35%	34%	28%	28%	28%	34%	0%
10	Weighted federal income tax allowance	33.05%	24.61%	0.75%	6.66%	0.06%	0.87%	0.10%	0.00%

	Adjusted Income Tax Rate Calculation	Allocated Income	Percent of Total	Tax Rate	Weighted Tax Rate
11	SFPP Taxable income				
12	KMGP incentive / management fee	43,050,756	61.7%	0.0%	0.00%
13	SFPPI/KMGP Inc. limited partners	2,685,255	3.8%	35.0%	1.35%
14	SFPP Inc.	2,652,109	3.8%	35.0%	1.33%
15	KMGP from OLP-D	677,955	1.0%	35.0%	0.34%
16	Remaining limited partners	20,703,674	29.7%	0.0%	0.00%
17	Total SFPP taxable income	69,769,749	100.0%		3.02%

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ATTACHMENT OO

Docket No. OR03-5-001
Exhibit No. BPX-41
SFPP FERC Form 6 for 2003, Page 700

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	03/31/2004	Dec. 31, 2003

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Annual Cost of Service Based Analysis Schedule BPX-_____

1.) Use footnotes when particulars are required or for any explanations.
2.) Enter on lines 1-9, columns (b) and (c), the value of the respondent's Operating & Maintenance Expenses,Depreciation Expense, AFUDC Depreciation, Amortization of Deferred Earnings, Rate Base, Rate of Return, Return, Income Tax Allowance, and Total Cost of Service, respectively, for the end of the current and previous calendar years. The values shall be computed consistent with the Commission's Opinion No. 154-B et al. methodology. Any item(s) not applicable to the filing, the pipeline company shall report nothing in columns (b) and (c).
3.) Enter on line 10, columns (b) and (c), total interstate operating revenue, as reported on page 301, for the current and previous calendar years.
4.) Enter on line 11, columns (b) and (c), the throughput in barrels from the Statistics of Operations schedule, page 601, line 33b, total of items (1) and (2), from the current and previous year's FERC Form No. 6.
5.) Enter on line 12, columns (b) and (c), the throughput in barrel-miles from the Statistics of Operations schedule, page 600, line 33a, total of items (1) and (2), from the current and previous year's FERC Form No. 6.
6.) If the company makes major changes to its application of the Opinion No. 154-B et al. methodology, it must describe such changes in a footnote, and calculate the amounts in columns (b) and (c) of lines No. 1-12 using the changed application.
7.) A respondent may be requested by the Commission or its staff to provide its workpapers which support the data reported on page 700.

Line No.	Item (a)	Current Year Amount (in dollars) (b)	Previous Year Amount (in dollars) (c)
1	Operating and Maintenance Expenses	60,739,845	53,889,000
2	Depreciation Expense	8,945,508	8,747,000
3	AFUDC Depreciation	84,285	93,000
4	Amortization of Deferred Earnings	1,588,510	1,477,000
5	Rate Base	227,766,955	225,539,000
6	Rate of Return % (10.25% - 10.25)	11.27	10.55
7	Return on Rate Base	25,669,335	23,794,364
8	Income Tax Allowance	8,384,955	6,168,000
9	Total Cost of Service	105,412,438	94,168,364
10	Total Interstate Operating Revenues	124,956,117	124,801,000
11	Throughput in Barrels	154,990,158	152,079,000
12	Throughput in Barrel-Miles	41,384,120,817	41,097,550,000

$ 19,543,679

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ATTACHMENT PP

Docket No. OR03-5-001
Exhibit No. BPX-42
SFPP FERC Form 6 for 2004, Page 700

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	04/25/2005	End of 2004/Q4

Annual Cost of Service Based Analysis Schedule

BPX

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1.) Use footnotes when particulars are required or for any explanations.
2.) Enter on lines 1-9, columns (b) and (c), the value of the respondent's Operating & Maintenance Expenses,Depreciation Expense, AFUDC Depreciation, Amortization of Deferred Earnings, Rate Base, Rate of Return, Return, Income Tax Allowance, and Total Cost of Service, respectively, for the end of the current and previous calendar years. The values shall be computed consistent with the Commission's Opinion No. 154-B et al. methodology. Any item(s) not applicable to the filing, the pipeline company shall report nothing in columns (b) and (c).
3.) Enter on line 10, columns (b) and (c), total interstate operating revenue, as reported on page 301, for the current and previous calendar years.
4.) Enter on line 11, columns (b) and (c), the throughput in barrels from the Statistics of Operations schedule, page 601, line 33b, total of items (1) and (2), from the current and previous year's FERC Form No. 6.
5.) Enter on line 12, columns (b) and (c), the throughput in barrel-miles from the Statistics of Operations schedule, page 600, line 33a, total of items (1) and (2), from the current and previous year's FERC Form No. 6.
6.) If the company makes major changes to its application of the Opinion No. 154-B et al. methodology, it must describe such changes in a footnote, and calculate the amounts in columns (b) and (c) of lines No. 1-12 using the changed application.
7.) A respondent may be requested by the Commission or its staff to provide its workpapers which support the data reported on page 700.

Line No.	Item (a)	Current Year Amount (in dollars) (b)	Previous Year Amount (in dollars) (c)
1	Operating and Maintenance Expenses	60,680,141	60,739,845
2	Depreciation Expense	9,676,099	8,945,508
3	AFUDC Depreciation	121,341	84,285
4	Amortization of Deferred Earnings	1,592,981	1,588,510
5	Rate Base	231,394,049	227,766,955
6	Rate of Return % (10.25% - 10.25)	10.31	11.27
7	Return on Rate Base	23,856,726	25,669,335
8	Income Tax Allowance	13,667,699	8,384,955
9	Total Cost of Service	109,594,987	105,412,438
10	Total Interstate Operating Revenues	126,574,999	124,956,117
11	Throughput in Barrels	155,957,980	154,990,158
12	Throughput in Barrel-Miles	41,321,939,809	41,384,120,817

$ 16,980,012

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ATTACHMENT QQ

Docket No. OR03-5-001
Exhibit No. BPX-43
Post-Technical Conference Affidavit of J. Peter Williamson, PL07-2
February 11, 2008

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Composition of Proxy Groups for Determining Gas and Oil Pipeline Return on Equity	)))	**Docket No. PL07-2-000**

POST-TECHNICAL CONFERENCE AFFIDAVIT
OF J. PETER WILLIAMSON
ON BEHALF OF
THE ASSOCIATION OF OIL PIPE LINES

J. Peter Williamson, being duly sworn, deposes and states as follows:

1. My name is J. Peter Williamson. My business address is 89 Main Street, West Lebanon, New Hampshire 03784, and P.O. Box 5160, Hanover, New Hampshire 03755. I am the Laurence F. Whittemore Professor of Finance Emeritus at the Amos Tuck School of Business Administration, Dartmouth College.

2. The Association of Oil Pipe Lines ("AOPL") has asked me to comment on certain specific issues raised at the January 23, 2008 technical conference regarding master limited partner ("MLP") growth rates held by the Commission in the above-referenced docket. These comments address three main issues: (1) the use of the Institutional Brokers Estimate System ("IBES") in the discounted cash flow ("DCF") formula; (2) the sustainability of long-term MLP growth, including the use of GDP forecasts; and (3) the lack of usefulness of the so-called sustainable growth analysis ($g = br + sv$).

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IBES IS THE APPROPRIATE SOURCE OF GROWTH FORECASTS FOR PROXY MLPS IN THE DCF FORMULA.

3. In my judgment, the Commission should continue to use IBES for the "short-term" growth element in the DCF formula.[1] IBES is the source that most investors rely on. Moreover, in the MLP context, IBES appears to provide a good – albeit conservative – prediction of future limited partner distribution growth.

4. Exhibit No. 1 provides a historical record for the MLPs currently used as proxies in oil pipeline cases: Buckeye Partners, L.P. ("Buckeye"); Enbridge Energy Partners, L.P. ("Enbridge Energy"); Enterprise Products Partners, L.P. ("Enterprise Products"); Kinder Morgan Energy Partners, L.P. ("Kinder Morgan Energy"); and TEPPCO Partners, L.P. ("TEPPCO"). One corporation, Kinder Morgan, Inc. ("KMI") is included for comparison purposes. (This is the analysis that I referred to at the technical conference and promised to provide.) The exhibit shows per unit annual earnings, distributions, book values, and unit prices. It also shows annual IBES earnings growth forecasts. The time periods covered vary, depending on the availability of data, but for most of the MLPs extend back to 1994.

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[1] Although the Commission refers to IBES as a "short-term" forecast, investors generally think of the IBES five-year forecasts as long-term forecasts. Investors generally do not give much credence to predictions of growth beyond that five-year time frame. Nevertheless, the Commission's current two-thirds weighting of IBES and its one-third weighting of GDP is reasonable as it serves to combine company-specific forecasts with a generic growth projection that ties the overall growth rate to the economy as a whole.

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5. For the companies, the arithmetic averages of the annual growth rates per unit shown in the exhibit were:

	Distributions	Earnings
Buckeye:	6.79%	3.15%
Enbridge Energy:	3.39%	21.10%
Enterprise Products:	60.45%	30.67%
Kinder Morgan Energy:	14.53%	16.19%
TEPPCO:	6.73%	1.68%
KMI:	14.53%	16.19%

6. The arithmetic averages shown above are the averages of each year's annual growth in earnings and distributions. The arithmetic averages presented here are similar to the average growth rates shown in my August 30, 2007 Affidavit filed in support of AOPL's Initial Comments in this docket. The average growth rates contained in my prior affidavit showed the percentage change between the first and last year's distributions and earnings for each company in the sample on an annualized basis. (The average growth rates were contained in Exhibit No. 8 to my August 30, 2007 Affidavit. That exhibit is reproduced here for the convenience of the Commission as Exhibit No. 2.)

7. Exhibit No. 1 also compares the IBES five-year growth forecast in each year with the actual growth in earnings and distributions in the subsequent five-year period. For each of the five oil pipeline proxy MLPs, the exhibit shows 5 to 9 IBES forecasts. The total number of forecasts is 39. Of the 39 forecasts, 29 were closer to the actual subsequent five-year per unit distribution growth than to the actual earnings growth. In other words, IBES was a more accurate predictor of distribution growth 74 percent of the time.

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8. Exhibit No. 1 also shows that, of the 39 IBES growth forecasts, 22 were lower than the actual distribution growth and 17 were higher. Thus, the IBES growth forecasts underestimated distributions growth 56 percent of the time, which indicates that the IBES growth rates are not biased upwards. The IBES growth forecasts were lower than earnings growth 10 times and higher than earnings growth 29 times.

9. The proxy MLPs have unique growth records across the 13 years from 1994 to 2007. Growth in distributions and in earnings is not generally smooth over the years. The stories behind the forecasts for the MLPs are all a little different. What is important is the relationship between the forecasts and actual subsequent distribution growth, since the DCF model calls for expected distribution growth.

10. For Buckeye, the forecasts for the first four years in the exhibit were quite low compared to the actual subsequent distribution growth. Then there were four years when the opposite was true, but the differences between the forecasts and actual results were not great. The 2002 forecast was almost perfect.

11. For Enbridge Energy, for the first three years, the IBES forecasts were below actual distribution growth. In the fourth year, the IBES forecast exceeded the actual distribution growth, but not by much. In the next four years, the IBES forecasts were above actual distributions.

12. For Enterprise, the first year's forecast was significantly below actual distribution growth. The next year, the forecast was also below actual distributions. In the next three years, the forecasts were all somewhat above actual distribution growth.

13. For Kinder Morgan Energy, the first two years' forecasts (when the company was still Enron Liquids Pipeline) were significantly below actual distribution growth. In the third

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year, after Kinder Morgan had acquired the company, the IBES growth forecasts increased substantially. This sharp increase in IBES growth forecasts that occurred when Enron Liquids Pipeline was acquired by Kinder Morgan indicates the importance of management and policy changes that are reflected in the IBES forecasts. While the IBES growth forecasts had increased substantially, they still remained below what actual growth in distributions turned out to be during the third, fourth and fifth years. In the next three years, the IBES forecasts exceeded the actual distributions by varying amounts.

14. For TEPPCO, the first six years' forecasts were below actual distribution growth. In the seventh year, the forecast of distributions growth was almost perfect. In 2001, the IBES growth rates increased, perhaps on the strength of several years of good distributions growth. However, the 2001 and 2002 IBES growth forecasts have been above actual distribution growth.

15. Kinder Morgan, Inc. is included in the table to provide a comparison between the MLP proxies and a corporate proxy. In the Fall of 1999, Kinder Morgan Inc., then the general partner of Kinder Morgan Energy, took over KN Energy, renamed it Kinder Morgan, Inc., and slashed the dividend from 65 cents (in 1999) to twenty cents (in 2000), aiming for high growth, and also began to reduce debt. In 2000, the IBES consensus jumped from 13% to 20% and turned out even then to be too low, as both earnings and dividends began to grow at extraordinary rates.

16. Thus, for most proxies distributions (and earnings) do not show smooth growth patterns across the years. Moreover, changes in management policies have a substantial impact on growth in distributions and earnings, and management changes do take place, especially as MLPs take the place of corporations as owners. Analysts will also change their forecasts significantly when management changes. Ultimately, for the reasons explained above, there is no

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reason to abandon the IBES reports as the best guide to investor expectations or to believe that the reports consistently overstate actual distributions growth.

MLP GROWTH IS SUSTAINABLE OVER THE LONG TERM AND THE GDP FORECAST IS APPROPRIATE FOR LONG TERM MLP GROWTH.

17. In my judgment, there is no support for the theory that MLPs will not be able to sustain consistent long-term growth in distributions. MLPs have every incentive to grow and numerous tools at their disposal to ensure that they do so. The historical record also shows that MLPs have been able to sustain high levels of growth over the long term. Exhibit No. 1 shows growth for most of the MLPs over a period of 13 years – well over the five-year "short term" IBES forecasts. Exhibit No. 2 shows high historic growth rates as well.

18. As an initial matter, there is no empirical or theoretical basis for the view that all companies will, over the long-term, grow at no more than GDP growth. Indeed, there are several companies that have been in existence for very long periods of time for which the current IBES growth rates are above GDP. These include E.I. Dupont (established 1802, for which the current IBES growth forecast is 8 percent); John Deere (established 1837, for which the IBES growth forecast is 10 percent); ExxonMobil (125 years old, with an IBES growth forecast of 7 percent); and Ford Motor Company (established 1903, with an IBES growth forecast of 10 percent). Quite clearly, some companies that are many years old will grow faster than GDP. Others will grow slower, and many, of course, will go out of business. Given the inability to predict long-term growth with accuracy, we have no way to attach specific long-term growth numbers to any company, whether structured as a corporation or an MLP.

19. In the absence of knowledge of investor expectations for the long term for the individual MLPs we use as proxies in the DCF model, the Commission has chosen GDP long-

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term growth forecasts to represent the long-term expectations for all of the proxy companies, which in the oil pipeline context are all MLPs. This is reasonable in my judgment. Using something less than GDP for either corporations or MLPs would not be reasonable. Companies that are expected by investors to grow consistently at less than GDP (whether corporations or MLPs) will find themselves unable to attract investors and, before long, will be out of business.

20. MLP management (*i.e.*, the general partner) can be expected to do whatever is necessary to maintain long-term growth expectations that will continue to attract investors, which means growth above expected GDP growth.

21. MLPs have numerous ways to sustain and increase the growth of their limited partner distributions. In addition to the sale of equity shares, MLPs can engage in higher-growth projects, borrow money, cut costs or cut the general partner distribution. They can also make investments through the issuance of shares, without spending any cash at all.

22. For example, in 2002, Enterprise Products lowered the maximum share of distributions for the general partner from 50 percent to 25 percent, which helped Enterprise Products continue to increase the growth of its limited partner distributions. In 2006, TEPPCO Partners, L.P. did the same. Plains All American Pipeline, L.P. also recently announced that it would reduce its general partner distributions every year from 2007 through 2011. *See* Exhibit No. 3.

23. In addition, two of the oil pipeline MLPs (Enbridge Energy and Kinder Morgan Energy) issue i-units that receive no cash distributions, only distributions in the form of more i-units. The ultimate investors in the i-units actually hold I-shares in Enbridge Management LLC (EEQ) or Kinder Morgan Management Company (KMR) and receive more I-shares in place of cash distributions. (The functions of EEQ and KMR are discussed at length in my August 30,

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2007 Affidavit.) The issuance of i-units and I-shares provides another means of raising capital without having to pay out distributions. Also, due to the i-units and I-shares, the ratio of distributions per unit to earnings per unit, shown for example in Value Line reports, suggest a larger retained earnings "deficit" than there really is.

24. Nor is ability to invest limited to cash flow. In 1998, Kinder Morgan Energy acquired ownership of SFPP, L.P., largely by the issuance of units of Kinder Morgan. The common unit holders of SFPP's former owner, Santa Fe Pacific Pipeline Partners, L.P. (SFPPP), received in exchange for their units in SFPPP approximately 26.6 million units of Kinder Morgan, valued at over a billion dollars.

25. Maintaining significant growth requires constantly finding investments and organic sources of growth. Models for forecasting long-term growth must recognize management incentives and ability to make the changes necessary to maintain growth.

26. All else being equal, the level of distributions can have an effect on future growth expectations. As the Commission itself noted, IBES growth rates for MLPs are often lower than corporations. *See Composition of Proxy Groups for Determining Gas and Oil Pipeline Return on Equity*, 120 FERC ¶ 61,068, at P 22 (2007). However, there is no reason to adjust the generic GDP forecast to reflect supposedly lower MLP growth, since the effect of distribution policy on future growth is already reflected in the company-specific IBES forecasts and the market price.

27. The suggestion of some commentators that the long-term growth in limited partner distributions must be lower than the long-term growth in the MLP as a whole is unsupported. Just because limited partner distributions are a subset of the overall MLP distributions, does not mean that the *growth rate* of the limited partner distributions will necessarily be lower than that of the MLP. As long as the relative division of the distributions

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between the limited partners and the general partner remains constant, the growth rate of the limited partner distributions will be equal to the growth rate of the whole.

28. If the general partner's sharing percentage were to increase from year one to the next, the growth rate of the general partner's distribution would be greater than the growth rate of the limited partners' distributions. However, while the general partner's share of distributions can increase, the general partner's share can also decrease. As noted above, Enterprise Products, TEPPCO, and Plains All American provide examples of MLPs reducing their general partner distributions in order to ensure high limited partner distribution growth.

29. Exhibit No. 4 tabulates the cash flow for the five proxy MLPs, focusing for each company on the cash inflow that provides the cash for investment and for distributions. (This exhibit was previously attached to my August 30, 2007 Affidavit as Exhibit No. 7). Annual data for 2005 are used for all of the companies. The exhibit shows that net income for all of the MLPs was indeed less than distributions in 2005 (that is, retained earnings were negative). But there was positive investment for all of the companies, with investment exceeding distributions for all of the companies in 2005. For Buckeye and Enbridge, the amount of cash invested was more than twice the amount of distributions. The total cash inflow in all cases except TEPPCO was more than that required for investment and distributions combined, leading to a net cash inflow for the year. This exhibit clearly demonstrates that it is quite possible for MLP proxy companies to have high levels of limited partner distributions, and still have cash left over to fund growth.

30. MLPs have also made substantial investments even though their growth in distributions has been sustained over a long period. Exhibit No. 5 shows the historical record of the property plant and equipment of the proxy MLPs. (This exhibit was also attached to my

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August 30, 2007 Affidavit as Exhibit No. 10.) Investment in these hard assets (such as pipeline) has grown significantly, as has the portion of the unit price that can be seen to represent hard assets. In fact, the record of investment for the incorporated proxy companies used by the Commission in recent gas cases (Equitable Resources, National Fuel Gas, Questar, and KMI) is weaker than that of the MLP proxy companies, with Equitable Resources and National Fuel Gas both showing negative investment. *Compare* Exhibit No. 6 *with* Exhibit No. 4 (Exhibit Nos. 9 and 7 in my August 30, 2007 Affidavit). The only corporation in the proxy group with dividends exceeding net income (KMI) also had the highest amount of investment.

31. The historical evidence directly contradicts the suggestion that MLPs cannot sustain high levels of limited partner distribution growth.

THE SUSTAINABLE GROWTH ANALYSIS IS NOT USEFUL AS A LONG-TERM GROWTH FORECAST.

32. Suggestions were made at the technical conference that the long-term growth forecast in the DCF model should be replaced with the so-called sustainable growth analysis ($g = br + sv$) used by the Commission for electric utilities. In that formula, growth ("g") is measured by adding retained earnings ("br") and the expected value of additional equity issuances ("sv"). The "b" stands for the fraction of earnings per unit that is retained and not paid out in the form of dividends or distributions, and the "r" is the expected rate of return on equity for the proxy company. The "s" term represents the percent of common equity expected to be issued annually as new common stock and the "v" term is the equity accretion rate (*i.e.*, the value of the new share issues reflected in the market to book ratio.).

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33. This model is not useful for explaining actual growth of the proxy companies. As an initial matter, as explained above, companies have other ways to grow in addition to retained earnings and equity issuances.

34. With respect to the "br" term, Exhibit No. 1 shows the results of that calculation for each of the proxy companies, over the years tabulated, and then averages the results across the years. The rate of return is the Value Line published rate of return on partner capital for each MLP, which is also shown in the exhibit for each MLP for each year. As shown in that exhibit, the "br" results are extremely low (indeed, mostly negative) and bear no relationship to the actual growth in distributions or earnings.

35. The "sv" term is also problematic. As a practical matter, it is difficult to find adequate data regarding a company's projected equity issuances. Indeed, most companies are reluctant to provide this type of information. Value Line forecasts the "s" term for some companies, but only for three to five years. Thus, it is not suitable as a long-term growth forecast.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed this 11th day of February, 2008.

J. Peter Williamson

J. Peter Williamson

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Data for 1994 through 2007
for Oil Pipeline Proxies

Oil Pipeline MLP Statistics		Below each IBES earnings growth forecast is the actual five year average annual growth rate in distributions and earnings over the five years following														
		the IBES forecast.														Avg
		The purpose is to test the accuracy and possible bias in the IBES forecasts as forecasts of distribution and earnings growth.														
Buckeye Partners, L.P.															Buckeye Partners, L.P.	
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		
Earnings/Share	1.98	2.05	2.03	$1.91	$2.05	$2.41	$2.38	$2.56	$2.65	$2.64	$2.76	$2.69	$2.65	$2.90	Earnings/Share	
Annual change		3.54%	-0.98%	-5.91%	7.33%	17.56%	-1.24%	7.56%	3.52%	-0.38%	4.55%	-2.54%	-1.49%	9.43%	Annual change	3.15%
Distributions/Share	1.4	1.4	1.5	$1.72	$2.10	$2.18	$2.40	$2.45	$2.50	$2.54	$2.64	$2.83	$3.03	$3.23	Distributions/Share	
Annual change		0.00%	7.14%	14.67%	22.09%	3.81%	10.09%	2.08%	2.04%	1.60%	3.94%	7.20%	7.07%	6.60%	Annual change	6.79%
Payout Ratio				90.06%	102.44%	90.46%	100.84%	95.70%	94.34%	96.21%	95.65%	105.20%	114.34%	111.38%		
b x r			4.67%	1.60%	-0.45%	1.97%	-0.16%	0.85%	1.14%	0.76%	0.60%	-0.69%	-1.86%	-1.65%	b x r	0.56%
Book Value/unit	10.13	10.79	11.33	11.23	11.06	11.72	12.90	12.99	13.15	13.03	17.54	19.88	20.25	20.00		
Unit Price close	17.13	17.06	21.31	28.97	29.00	26.00	28.88	37.48	38.40	45.35	42.32	42.22	46.48			
IBES December earnings																
growth forecast	4.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	4.00%	5.00%	4.00%		growth forecast	4.83%
Actual 5 yr avg																
distr grwth	9.26%	11.38%	10.31%	7.77%	3.88%	3.90%	3.35%	4.34%	5.26%						distr grwth	6.27%
eps grwth	4.01%	3.03%	4.75%	6.77%	5.19%	2.75%	2.48%	0.69%	1.82%						eps grwth	3.43%
Value Line ret'n on																
partner cap			17.90%	16.10%	18.60%	20.60%	18.50%	19.70%	20.10%	20.10%	13.70%	13.20%	13.00%	14.50%		
Enbridge Energy Partners, L.P. (Lakehead before 2001)															Enbridge Energy	
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	0.00	
Earnings/Share	2.61	2.55	2.11	3.02	$3.07	$2.48	$1.78	$0.98	$1.76	$1.93	$2.06	$0.77	$2.98		Earnings/Share	
Annual change		-2.30%	-17.25%	43.13%	1.66%	-19.22%	-28.23%	-44.94%	79.59%	9.66%	6.74%	-62.62%	287.01%		Annual change	21.10%
Distributions/Share	2.51	2.55	2.6	2.92	$3.36	$3.49	$3.50	$3.50	$3.63	$3.70	$3.70	$3.70	$3.70		Distributions/Share	
Annual change		1.59%	1.96%	12.31%	15.07%	3.87%	0.29%	0.00%	3.71%	1.93%	0.00%	0.00%	0.00%		Annual change	3.39%
Payout Ratio	96.17%	100.00%	123.22%	96.69%	109.45%	140.73%	196.63%	357.14%	206.25%	191.71%	179.61%	480.52%				
b x r					-1.69%	-5.46%	-10.82%	-15.43%	-8.39%	-7.80%	-7.88%	-19.79%			b x r	-9.66%
Book Value/unit	6.01	0.9	0.9	19.02	$18.73	$20.08	$18.36	$19.54	$22.31	$24.26	$23.65	$20.28				
Unit Price close	36.375	25.5	34.5	43.685	$48.50	$34.81	$41.25	42.06	$42.15	$49.90	$51.57	$43.90	$49.39			
IBES December earnings															IBES December earnings	
growth forecast	6.00%	6.00%	5.00%	5.00%	6.00%	7.00%	8.00%	7.00%	8.00%	5.00%	5.00%	5.00%	4.00%		growth forecast	5.92%
Actual 5 yr avg															Actual 5 yr avg	
distr grwth	6.81%	6.54%	6.13%	4.45%	1.95%	1.18%	1.12%	1.12%							distr grwth	3.21%
eps grwth	-1.02%	-6.94%	-14.22%	-10.24%	-8.87%	-3.64%	-15.43%	24.91%							eps grwth	-4.92%
															0.00	
Value Line ret'n on															Value Line ret'n on	
partner cap					17.90%	13.40%	11.20%	6.00%	7.90%	8.50%	9.90%	5.20%			partner cap	10.00%
																Avg

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Data for 1994 through 2007
for Oil Pipeline Proxies

																Avg
Enterprise Products Partners, L.P. (EPD)															Enterprise Products	
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		
Earnings/Share					$0.31	$0.82	$1.32	$1.39	$0.54	$0.58	$0.87	$0.91	$1.20	$1.35	Earnings/Share	
Annual Change						164.52%	60.98%	5.30%	-61.15%	7.41%	50.00%	4.60%	31.87%	12.50%	Annual Change	30.67%
Distributions/Share					$0.16	$0.90	$1.05	$1.16	$1.33	$1.44	$1.54	$1.66	$1.79	$1.95	Distributions/Share	
Annual change						462.50%	16.67%	10.48%	14.66%	8.27%	6.94%	7.79%	7.83%	8.94%	Annual change	60.45%
Payout Ratio					51.61%	109.76%	79.55%	83.45%	246.30%	248.28%	177.01%	182.42%	149.17%	144.44%		
b x r					3.19%	-1.48%	4.83%	3.49%	-12.87%	-12.16%	-3.85%	-6.10%	-4.43%		b x r	-3.26%
Book Value/unit					4.16	5.86	5.54	6.58	6.94	7.86	14.45	14.87	15.50	15.75		
Unit Price close					7.43	9.21	15.71	23.52	19.40	24.55	25.86	24.01	28.98			
IBES December earnings															IBES December earnings	
growth forecast					8.00%	9.00%	10.00%	10.00%	10.00%	10.00%	10.00%	8.00%	8.00%		growth forecast	9.22%
Actual 5 yr avg															Actual 5 yr avg	
distr grwth					55.18%	11.34%	9.59%	9.06%	7.95%						distr grwth	18.63%
eps grwth					13.35%	1.19%	-7.17%	-2.90%	20.11%						eps grwth	4.92%
Value Line ret'n on partner cap					6.60%	15.20%	23.60%	21.10%	8.80%	8.20%	5.00%	7.40%	9.00%	10.00%	Value Line ret'n on partner cap	11.49%
Kinder Morgan Energy Partners, L.P. KMP (formerly Enron Liquids Pipeline)															Kinder Morgan Energy	
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		Avg
Earnings/Share	$0.47	$0.43	$0.45	$0.51	$1.05	$1.32	$1.34	$1.56	$1.96	$2.00	$2.22	$1.58	$2.00	$2.30	Earnings/Share	
Annual Change		-8.51%	4.65%	13.33%	105.88%	25.71%	1.52%	16.42%	25.64%	2.04%	11.00%	-28.83%	26.58%	15.00%	Annual Change	16.19%
Distributions/Share	$0.63	$0.63	$0.63	$0.81	$1.19	$1.39	$1.60	$2.08	$2.36	$2.58	$2.81	$3.07	$3.25	$3.40	Distributions/Share	
Annual Change		0.00%	0.00%	28.57%	46.91%	16.81%	15.11%	30.00%	13.46%	9.32%	8.91%	9.25%	5.86%	4.62%	Annual Change	14.53%
Payout Ratio	134.0%	146.51%	140.00%	158.82%	113.33%	105.30%	119.40%	133.33%	120.41%	129.00%	126.58%	194.30%	162.50%	147.83%		
b x r			-4.04%	-6.94%	-1.15%	-0.52%	-2.54%	-4.67%	-3.63%	-5.74%	-5.66%	-25.65%	-12.50%	-10.28%	b x r	-6.94%
Book Value/unit	5.42	4.68	4.50	5.47	13.81	14.87	15.43	18.72	18.48	18.13	18.32	15.86	16.80	18.00		
Unit Price close	6.16	6.09	6.90	18.06	18.12	20.71	28.15	37.82	35.00	49.27	44.33	47.82	47.90			
IBES December earnings															IBES December earnings	
growth forecast		5.00%	5.00%	13.00%	14.00%	15.00%	15.00%	14.00%	13.00%	9.00%	8.00%	8.00%	7.00%		growth forecast	10.50%
Actual 5 yr avg															Actual 5 yr avg	
distr grwth		20.49%	26.98%	23.85%	16.74%	15.12%	13.92%	9.34%	7.58%						distr grwth	16.75%
eps grwth		25.52%	28.23%	30.90%	13.75%	10.96%	3.35%	5.09%	3.25%						eps grwth	15.13%
Value Line ret'n on partner cap			10.10%	11.80%	8.60%	9.90%	13.10%	14.00%	17.80%	19.80%	21.30%	27.20%	20.00%	21.50%	Value Line ret'n on partner cap	16.26%

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Exhibit on IBES growth forecasts
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TEPPCO Partners LP	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Earnings/Share	1.37	1.54	1.90	1.95	1.61	1.91	1.89	1.84	1.79	1.46	1.61	1.71	1.75	1.95
Annual Change		-1.91%	23.38%	2.63%	-17.44%	18.63%	-1.05%	-2.65%	-2.72%	-18.44%	10.27%	6.21%	2.34%	11.43%
Distributions/Share	1.20	1.33	1.43	1.55	1.75	1.85	2.00	2.15	2.35	2.50	2.64	2.68	2.70	2.80
Annual Change		10.83%	7.52%	8.39%	12.90%	5.71%	8.11%	7.50%	9.30%	6.38%	5.60%	1.52%	0.75%	3.70%
Payout Ratio	76.4%	86.36%	75.26%	79.49%	108.70%	96.86%	105.82%	116.85%	131.28%	171.23%	163.98%	156.73%		
b x r			5.00%	4.14%	-2.04%	0.99%	-1.43%	-2.85%	-4.13%	-7.84%	-8.89%	-7.66%	-8.14%	-7.41%
Book Value/unit	9.19	9.41	9.85	10.25	7.67	7.90	9.58	13.10	16.34	17.72	16.74	18.05	16.50	15.75
Unit Price close	25.50	36.38	41.75	52.38	24.56	19.31	24.56	30.00	27.75	40.30	39.39	34.84	40.31	
IBES December earnings growth forecast	5.00%	4.00%	4.00%	4.00%	5.00%	6.00%	6.00%	8.00%	8.00%	8.00%	8.00%	5.00%	5.00%	
Actual 5 yr avg														
distr grwth	9.04%	8.50%	8.50%	8.68%	7.39%	7.37%	6.03%	4.66%	3.57%					
eps grwth	4.00%	4.18%	-0.64%	-1.70%	-1.94%	-3.36%	-1.98%	-1.00%	1.73%					
Value Line ret'n on partner cap			20.20%	20.20%	23.50%	31.40%	24.60%	16.90%	13.20%	11.00%	13.90%	13.50%	15.00%	17.00%

TEPPCO Partners LP	
Earnings/Share Annual Change	2.36%
Distributions/Share Annual Change	6.79%
b x r	-3.36%
IBES December earnings growth forecast	5.92%
Actual 5 yr avg distr grwth	6.84%
eps grwth	-0.59%
Value Line ret'n on partner cap	18.37%

Kinder Morgan Inc. KMI (was KN Energy)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Earnings/Share	$0.81	$1.22	$1.43	$1.63	$1.10	$0.96	$1.28	$1.97	$2.78	$3.08	3.81	4.43	5.00	5.40
Annual Change		50.62%	17.21%	13.99%	-32.52%	-12.73%	33.33%	53.91%	41.12%	10.79%	23.70%	16.27%	12.87%	8.00%
Dividends/Share	$0.65	$0.67	$0.70	$0.73	$0.76	$0.65	$0.20	$0.20	$0.30	$1.10	2.25	2.90	3.50	3.75
Annual Change		3.08%	4.48%	4.29%	4.11%	-14.47%	-69.23%	0.00%	50.00%	266.67%	104.55%	28.89%	20.69%	7.14%
Payout Ratio	80.25%	54.92%	48.95%	44.79%	69.09%	67.71%	15.63%	10.15%	10.79%	35.71%	59.06%	65.46%	70.00%	69.44%
b x r			6.18%	6.96%	1.79%	1.49%	6.92%	9.52%	13.02%	9.19%	6.80%	4.87%	4.95%	5.19%
Book Value/unit	9.52	10.13	11.44	12.62	17.74	14.79	15.70	18.24	19.35	21.55	23.19	29.34	30.75	32.30
Unit Price close	15.83	19.42	26.17	36.12	24.25	20.18	52.18	55.69	42.27	59.10	73.13	91.95	105.75	
IBES December earnings growth forecast		10.00%	10.00%	13.00%	13.00%	13.00%	20.00%	20.00%	20.00%	12.00%	12.00%	11.00%	12.00%	
Actual 5 yr avg														
div grwth		-21.48%	-22.16%	-16.29%	7.68%	28.19%	70.72%	77.26%	65.72%					
eps grwth		0.96%	6.62%	11.27%	22.87%	31.74%	28.19%	20.48%	14.20%					
Value Line ret'n on equity			12.10%	12.60%	5.80%	4.60%	8.20%	10.60%	14.60%	14.30%	16.60%	14.10%	16.50%	17.00%

Kinder Morgan Inc.	
Earnings/Share Annual Change	18.20%
Dividends/Share Annual Change	31.55%
b x r	6.41%
IBES December earnings growth forecast	13.83%
div grwth	23.70%
eps grwth	17.04%
Value Line ret'n on equity	12.25%

Note: Value Line 2006 earnings, distributions, book values and returns on partner capital are estimated since final data are not available, and the values for 2007 are forecasts.

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OIL Pipeline MLP Statistics

Buckeye Partners, L.P.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Percent Change earliest to latest	Annualized Percent Change	Accumulation Per unit from earliest year to 2006 plus Proceeds of sale in 2006	Accumulation as percent of purchase price in earliest year
Earnings/Share	1.98	2.05	2.03	$1.91	$2.05	$2.41	$2.38	$2.56	$2.65	$2.64	$2.76	$2.69	$2.65	$2.90	46.46%	2.98%		
Distributions/Share	1.4	1.4	1.5	$1.72	$2.10	$2.18	$2.40	$2.45	$2.50	$2.54	$2.64	$2.83	$3.03	$3.23	130.71%	6.64%	75.17	438.82%
Payout Ratio				90.05%	102.44%	90.46%	100.84%	95.70%	94.34%	96.21%	95.65%	105.20%	114.34%	111.38%				
Book Value/unit	10.13	10.79	11.33	11.23	11.06	11.72	12.90	12.99	13.15	13.03	17.54	19.88	20.25	20.00	97.43%	5.37%		
Unit Price close	17.13	17.06	21.31	28.97	29.00	26.00	28.88	37.48	38.40	45.35	42.32	42.22	46.48		171.34%	8.67%		
IBES December earnings growth forecast	4.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	4.00%	5.00%	4.00%					
Value Line ret'n on partner cap			17.90%	16.10%	18.60%	20.60%	18.50%	19.70%	20.10%	20.10%	13.70%	13.20%	13.00%	14.50%	avg 17.17%			

Enbridge Energy Partners, L.P. (Lakehead before 2001)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Change earliest to latest	Annualized Percent Change	Accumulation Per unit from earliest year to 2006 plus Proceeds of sale in 2006	Accumulation as percent of purchase price in earliest year
Earnings/Share	2.61	2.55	2.11	3.02	$3.07	$2.48	$1.78	$0.98	$1.76	$1.93	$2.06	$0.77	$2.98		14.18%	1.11%		
Distributions/Share	2.51	2.55	2.6	2.92	$3.36	$3.49	$3.50	$3.50	$3.63	$3.70	$3.70	$3.70	$3.70		47.41%	3.29%	92.25	253.61%
Payout Ratio	96.17%	100.00%	123.22%	96.69%	109.45%	140.73%	196.63%	357.14%	206.25%	191.71%	179.61%	480.52%						
Book Value/unit	6.01	0.9	0.9	19.02	$18.73	$20.08	$18.36	$19.54	$22.31	$24.26	$23.65	$20.28			237.44%	11.69%		
Unit Price close	36.375	25.5	34.5	43.685	$48.50	$34.81	$41.25	42.06	$42.15	$49.90	$51.57	$43.90	$49.39		35.78%	2.58%		
IBES December earnings growth forecast	6.00%	6.00%	5.00%	5.00%	6.00%	7.00%	8.00%	7.00%	8.00%	5.00%	5.00%	5.00%	4.00%					
Iue Line ret'n on tner cap					17.90%	13.40%	11.20%	6.00%	7.90%	8.50%	9.90%	5.20%			Avg 10.00%			

Enterprise Products Partners, L.P. (EPD)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Change earliest to latest	Annualized Percent Change	Accumulation Per unit from earliest year to 2006 plus Proceeds of sale in 2006	Accumulation as percent of purchase pprice in earliest year
Earnings/Share					$0.31	$0.82	$1.32	$1.39	$0.54	$0.58	$0.87	$0.91	$1.20	$1.35	335.48%	17.76%		
Distributions/Share					$0.16	$0.90	$1.05	$1.16	$1.33	$1.44	$1.54	$1.66	$1.79	$1.95	1118.75%	32.03%	40.01	538.49%
Payout Ratio					51.61%	109.76%	79.55%	83.45%	246.30%	248.28%	177.01%	182.42%	149.17%	144.44%				
Book Value/unit					4.16	5.86	5.54	6.56	6.94	7.86	14.45	14.87	15.50	15.75	278.61%	15.94%		
Unit Price close					7.43	9.21	15.71	23.52	19.40	24.35	25.86	24.01	28.98		290.04%	18.55%		
IBES December earnings growth forecast					8.00%	9.00%	10.00%	10.00%	10.00%	10.00%	10.00%	8.00%	8.00%					
Value Line ret'n on partner cap					6.60%	15.20%	23.60%	21.10%	8.80%	8.20%	5.00%	7.40%	9.00%	10.00%	Avg 11.49%			

Kinder Morgan Energy Partners, L.P. KMP (formerly Enron Liquids Pipeline)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Percent Change earliest to latest	Annualized Percent Change	Accumulation Per unit from earliest year to 2006 plus Proceeds of sale in 2006	Accumulation as percent of purchase pprice in earliest year
Earnings/Share	$0.47	$0.43	$0.45	$0.51	$1.05	$1.32	$1.34	$1.56	$1.96	$2.00	$2.22	$1.58	$2.00	$2.30	389.36%	12.99%		
Distributions/Share	$0.63	$0.63	$0.63	$0.81	$1.19	$1.39	$1.60	$2.08	$2.36	$2.58	$2.81	$3.07	$3.25	$3.40	439.68%	13.85%	70.93	1151.46%
Payout Ratio	134.04%	146.51%	140.00%	158.82%	113.33%	105.30%	119.40%	133.33%	120.41%	129.00%	126.58%	194.30%	162.50%	147.83%				
Book Value/unit	5.42	4.68	4.50	5.47	13.81	14.87	15.43	18.72	18.48	18.13	18.32	15.86	16.80	18.00	232.10%	9.67%		
Unit Price close	6.16	6.09	6.90	18.06	18.12	20.71	28.15	37.82	35.00	49.27	44.33	47.82	47.90		677.60%	18.64%		

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~~Docket No. PL07-2-000~~
Williamson Affidavit
~~Exhibit No. 2~~
~~Page 2 of 2~~

Data for 1994 through 2007
for Oil Pipeline Proxies

IBES December earnings growth forecast		5.00%	5.00%	13.00%	14.00%	15.00%	15.00%	14.00%	13.00%	9.00%	8.00%	8.00%	7.00%					
Value Line ret'n on partner cap			10.10%	11.80%	8.60%	9.90%	13.10%	14.00%	17.80%	19.80%	21.30%	27.20%	20.00%	21.50%	Avg 16.26%			
TEPPCO Partners LP	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Percent Change earliest to latest	Annualized Percent Change	Accumulation Per unit from earliest year to 2006 plus Proceeds of sale in 2006	Accumulation as percent of purchase pprice in earliest year
Earnings/Share	1.57	1.54	1.90	1.95	1.61	1.91	1.89	1.84	1.79	1.46	1.61	1.71	1.75	1.95	24.20%	1.68%		
Distributions/Share	1.20	1.33	1.43	1.55	1.75	1.85	2.00	2.15	2.35	2.50	2.64	2.68	2.70	2.80	133.33%	6.73%	66.44	260.55%
Payout Ratio	76.43%	86.36%	75.26%	79.49%	108.70%	96.86%	105.82%	116.85%	131.28%	171.23%	163.98%	156.73%						
Book Value/unit	9.19	9.41	9.85	10.25	7.67	7.90	9.58	13.10	16.34	17.72	16.74	18.05	16.50	15.75	71.38%	4.23%		
Unit Price close	25.50	36.38	41.75	52.38	24.56	19.31	24.56	30.00	27.75	40.30	39.39	34.84	40.31		58.08%	3.89%		
IBES December earnings growth forecast	5.00%	4.00%	4.00%	4.00%	5.00%	6.00%	6.00%	8.00%	8.00%	8.00%	8.00%	5.00%	5.00%					
Value Line ret'n on partner cap			20.20%	20.20%	23.50%	31.40%	24.60%	16.90%	13.20%	11.00%	13.90%	13.50%	15.00%	17.00%	Avg 18.37%			
Kinder Morgan Inc. KMI (was KN Energy)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Percent Change earliest to latest	Annualized Percent Change	Accumulation Per unit from earliest year to 2006 plus Proceeds of sale in 2006	Accumulation as percent of purchase pprice in earliest year
Earnings/Share	$0.81	$1.22	$1.43	$1.63	$1.10	$0.96	$1.28	$1.97	$2.78	$3.08	3.81	4.43	5.00	5.40	566.67%	15.71%		
Dividends/Share	$0.65	$0.67	$0.70	$0.73	$0.76	$0.65	$0.20	$0.20	$0.30	$1.10	2.25	2.90	3.50	3.75	476.92%	14.43%	120.36	760.33%
Payout Ratio	80.25%	54.92%	48.95%	44.79%	69.09%	67.71%	15.63%	10.15%	10.79%	35.71%	59.06%	65.46%	70.00%	69.44%				
Book Value/unit	9.52	10.13	11.44	12.62	17.74	14.79	15.70	18.24	19.35	21.55	23.19	29.34	30.75	32.50	239.29%	9.85%		
Unit Price close	15.83	19.42	26.17	36.12	24.25	20.18	52.18	55.69	42.27	59.10	73.13	91.95	105.75		568.04%	17.15%		
IBES December earnings growth forecast		10.00%	10.00%	13.00%	13.00%	13.00%	20.00%	20.00%	20.00%	12.00%	12.00%	11.00%	12.00%					
Value Line ret'n on equity			12.10%	12.60%	5.80%	4.60%	8.20%	10.60%	14.60%	14.30%	16.60%	14.10%	16.50%	17.00%	Avg 12.25%			

Note: Value Line 2006 earnings, distributions, book values and returns on partner capital are estimated since final data are not available, and the values for 2007 are forecasts.

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MLP Cash Flows - Distributions and Investments in Thousands

	KMEP 2005				TEPPCO 2005	
Cash Flow from Operations	Net Income	812,227			162,551	
	Deprec & Amort	349,827			111,341	
	Non-cash expense	5,644			1,624	
	Non-cash income	-91,660			-668	
	Cash from Investments	63,098			16,991	
	Total		1,139,136			291,839
	Cash flow from changes in					
	Working Capital	46,610			-37,334	
	Other Cash Sources net	103,684				
Net cash from Operations			1,289,430		0	254,505
Net Borrowing		434,341			52,402	
Sale Com Units		415,574			278,806	
Minority Contribn		7,839			-498	
Net from financing			857,754			331,208
Total Cash Inflow			2,147,184			585,713
Cash Used for Investments			1,181,128		350,915	
Cash used for Distributions			953,732		251,101	
Total Cash Outflow			2,134,860			602,016
Currency adjustment			-216			
Inflow minus Outflow (Cash Increase/Decrease for the Year)			12,108			-16,303
	Source: 2005 Annual Report, page 115				Source: 2005 Annual Report, page F-5	

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MLP Cash Flows - Distributions and Investments in Thousands

Enterprise Products Partners 2005			
Cash Flow from Operations	Net Income	419,508	
	Deprec & Amort	413,441	
	Other Amort	7,336	
	Non-cash income	-14,548	
	Cash from Investments	56,058	
	Acctg changes	-262,187	
	Misc	2,112	
	Minority Interest	5,760	
	Non cash Gain	-4,488	
	Deferred Expense	8,594	
	Non cash Valuation	122	
Net cash from Operations			631,708
Net Borrowing		552,437	
Sale Com Units		646,928	
Minority Contribn		39,287	
Net from financing			1,238,652
Total Cash Inflow			1,870,360
	Cash Used for Investments	1,130,395	
	Cash used for Distributions	722,423	
	Total Cash Outflow		1,852,818
Inflow minus Outflow			17,542
(Cash Increase for the Year)			
Source: 2005 Annual Report, page 57			

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MLP Cash Flows - Distributions and Investments in Thousands

Buckeye Partners 2005				Enbridge Energy Partners 2005	
Cash Flow from Operatio	Net Income	99,958		89,200	
	Deprec & Amort	36,760		138,200	
	Other	3,758		-300	
	Non-cash income	-5,303		-18,100	
	Cash from Investments	3,764			
	Other amort	40		58,400	
	Net from Working Cap	3,501		-300	
Net cash from Operations			142,478		267,100
Net Borrowing		100,485		123,500	
Sale of Units		157,502		268,600	
Minority Contribn					
Net from financing			257,987		392,100
Total Cash Inflow			400,465		659,200
	Cash Used for Investments	287,973		437,100	
	Cash used for Distributions	106,647		210,600	
	Total Cash Outflow		394,620		647,700
Inflow minus Outflow			5,845		11,500
(Cash Increase for the Year)					
Source: 2005 Annual Report, page 66				Source: 2005 Annual Report, page F-6	

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Kinder Morgan Inc. for Comparison			
	Kinder Morgan Inc. 2005		
Cash Flow fr	Net Income	554619	
	Loss on discontinued	711	
	Losss on disposal	-3160	
	Loss form impairment	6492	
	Deprec & Amort	131640	
	Def inc tax	89408	
	Equity in KMEP earnings	-605399	
	Distr frm KMEP	530810	
	Equity in earnings	-16242	
	Distr'bns	8050	
	Minority interest	50457	
	Increase	-4624	
	Def pur gas	19017	
	Gain sale of assets	-76457	
	Foreign currency	-4961	
	Pension	-23844	
	Working Cap Changes	-48832	
Net cash from Continuing Operations			607685
Net cash from Discontinued Operations			8535
Net Cash from Operations			616220
Net Borrowing		1925320	
Sale of Shares		62851	
Advances to Affiliates		-11668	
Minority Interest		-2416	
Net from continuing financing activities			1974087
Exchange rate change			258
Net frm Discontinued financing activities			565
Total Cash Inflow			2591130
	Cash Used for Investments	1978677	
	Cash dividends	355191	
	Share repurchases	317147	
	Total Cash Outflow		2651015
Inflow minus Outflow			-59885
(Cash Decrease for the Year)			
Net income less Distributions &Stk repurchase			-117719

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Docket No. OR03-5-001
Exhibit No. BPX-44
Hypothetical Study of K-1 for an Individual Public Limited Partner in an MLP (three-page A, B, C exhibit)

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A Hypothetical Study of a K-1 for an Individual Public Limited Partner in an MLP
(comparable to Kinder Morgan Energy Partners, LP)

	Only variable: income, line 3:		none	some	loss	
			2002	2003	2004	Sub total Tax allowance
1	Beginning Capital Account		$ 50.00	$ 48.00	$ 47.00	
2	Cash Distributions		$ (2.00)	$ (2.00)	$ (2.00)	
a	Cash Distributions	$1.20				
b	Tax Subsidy *	$0.80				$2.40
		$2.00				**3yr Total Tax Subsidy**
3	net income (loss)		$ -	$ 1.00	$ (1.00)	
4	Ending Capital Account		$ 48.00	$ 47.00	$ 44.00	

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A Hypothetical Study of a K-1 for an Individual Public Limited Partner in an MLP
(comparable to Kinder Morgan Energy Partners, LP)

Only variable: income, line 3:		none	some	loss	
		2002	2003	2004	Sub total Tax allowance
1 Beginning Capital Account		$ 50.00	$ 48.00	$ 47.00	
2 Cash Distributions		$ (2.00)	$ (2.00)	$ (2.00)	
a Cash Distributions	$1.20				
b Tax Subsidy *	$0.80				$2.40
	$2.00				3yr Total Tax Subsidy
3 net income (loss)		$ -	$ 1.00	$ (1.00)	
4 Ending Capital Account		$ 48.00	$ 47.00	$ 44.00	

B IRS Tax Effect of the Above Each Year

taxable income from Trade or business	$ -	$ 1.00	$ -	
tax at assumed 28%		$ 0.28		$0.28
				Tax Paid During 3 yrs
loss carryforward	$ -	$ -	$ (1.00)	$2.12
				Balance
capital gains income	$ -	$ -	$ -	
basis for tax purposes	$ 48.00	$ 47.00	$ 44.00	
not taxed return of capital (cash distributions)	$ 2.00	$ 2.00	$ 2.00	

C Other considerations

income yield (return on investment)	$0.00	$1.00	-$1.00
recovery of investment (return of capital)	$2.00	$2.00	$2.00

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Footnote

*
Using NL Cost of Service Percentage of Cash Distributions, as adjusted, to tax allowance

Cash Distribution Return	$1,841	60%
Tax Allowance	$1,234	40%
Total	$3,075	

Footnote

*
Using NL Cost of Service Percentage of Cash Distributions, as adjusted, to tax allowance

Cash Distribution Return	$1,841	60%
Tax Allowance	$1,234	40%
Total	$3,075	

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Docket No. OR03-5-001
Exhibit No. BPX-45
Comparison of Taxable Income & cash Distributions for KMEP (using KMEP Income Tax Return)

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COMPARISON OF TAXABLE INCOME AND CASH DISTRIBUTIONS FOR KINDER MORGAN ENERGY PARTNERS
USING 2003 INCOME TAX RETURN AS EXAMPLE, BPX 9

	GENERAL PARTNER (Kinder Morgan GP, Inc) (not publicly traded)	ALL LIMITED PARTNERS ("KMP" on New York Stock Exchange- 89% of class)	KINDER MORGAN MANAGEMENT LLC ("KMR" on New York Stock Exchange)
A. TAXABLE INCOME ALLOCATION %	1%	99%	0%
(i) KMEP INCOME: $205,638,230	$316,295,160 "incentive" or "management fee" taken off top before allocation to partners	-$428,603,261	zero
B. CASH DISTRIBUTIONS	1%	circa 73%	circa 26%
$668,853,474 in cash; new i-shares	$314,244,307 "incentive" or "management fee" taken off top before allocation to partners	$354,609,000	I-SHARES instead of taking cash of
Available Cash for Distribution	$117,972,000	<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<	$117,972,000

Sources
2003 Income Tax Return of Kinder Morgan Energy Partners LP (BPX 9)
2003 SEC form 10-K for Kinder Morgan Energy Partners, LP
2003 SEC form 10-K for Kinder Morgan Management LLC

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Docket No. OR03-5-001
Exhibit No. BPX-46
Morgan Stanley Study
MLP Capital Intensity (Ex. 10)
August 13, 2007

Exhibit 10

MLP Capital Intensity

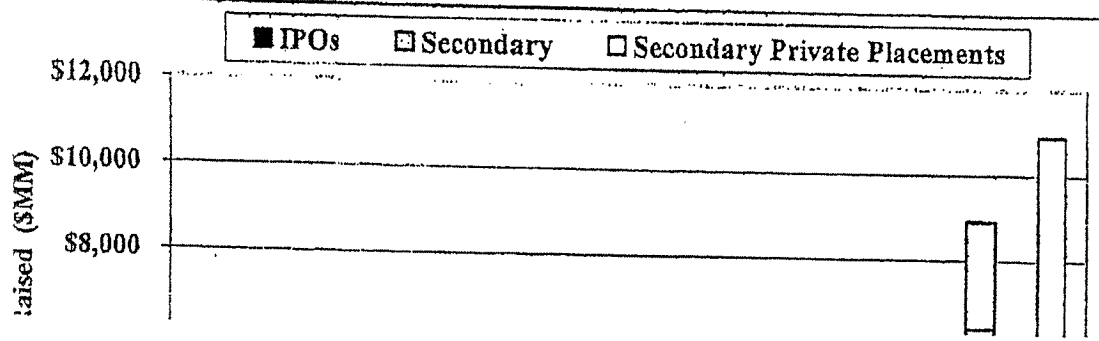
Pipeline	Ticker		Price ($/Unit)	Quarterly Distribution ($/Unit)*	Annualized Distribution ($/Unit)*	% Split Structure	LP Distribution ($MM)	GP Distribution ($MM)	% Cash Paid to GP	Implied Cost of Equity	Debt to Total Capital (%)	Required Capital for CDU Growth** ($MM)	Capital Intensity Req. Cap/EV ($MM)
	APL	Atlas Pipeline Partners L.P.	$44.60	$0.86	$3.44	50/50	$45	$18	28%	10.8%	48.4%	$297	32%
	BPL	Buckeye Partners L.P.	47.59	0.81	$3.25	50/50	$142	$36	20%	8.6%	52.1%	$843	29%
	BWP	Boardwalk Pipeline Partners L.P.	32.30	0.44	$1.76	50/50	$146	$2	2%	5.5%	46.1%	$704	14%
	CPNO	Copano Energy L.L.C.	40.08	0.44	$1.76	LLC	$74	$0	0%	4.4%	41.8%	$352	17%
	DPM	DCP Midstream Partners L.P.	45.10	0.53	$2.12	50/50	$30	$0	1%	4.8%	72.5%	$144	14%
	EEP	Enbridge Energy Partners L.P. (Cl A)	49.72	0.93	$3.70	50/50	$204	$24	10%	8.3%	45.4%	$1,078	16%
	EPD	Enterprise Products Partners L.P.	28.94	0.48	$1.93	25/75	$338	$117	12%	7.6%	46.0%	$4,519	25%
	EROC	Eagle Rock Energy Partners L.P.	22.85	0.36	$1.45	50/50	$73	$0	0%	6.3%	60.4%	$347	21%
	ETP	Energy Transfer Partners L.P.	50.00	0.81	$3.23	50/50	$442	$240	35%	10.0%	53.2%	$3,227	31%
	GEL	Genesis Energy L.P.	28.50	0.23	$0.92	49/51	$26	$0	0%	3.2%	22.2%	$123	30%
	GLP	Global Partners LP	29.13	0.47	$1.86	50/50	$10	$0	4%	6.6%	57.6%	$51	9%
	HEP	Holly Energy Partners L.P.	44.55	0.71	$2.82	50/50	$23	$2	7%	6.8%	85.4%	$117	13%
	HLND	Hiland Partners L.P. Un	50.25	0.73	$2.93	50/50	$15	$2	14%	6.8%	50.5%	$84	14%
	KGS	Quicksilver Gas Services LP	20.26	0.30	$1.20	2/98	$14	$0	2%	6.0%	0.0%	$67	29%
	KMP	Kinder Morgan Energy Partners L.P.	49.25	0.85	$3.40	50/50	$555	$419	43%	12.1%	59.2%	$4,607	26%
	MMP	Magellan Midstream Partners L.P.	40.45	0.63	$2.52	50/50	$168	$87	34%	9.4%	51.4%	$1,203	34%
	MWE	MarkWest Energy Partners L.P.	31.50	0.53	$2.12	50/50	$75	$0	1%	6.8%	56.6%	$356	22%
	NGLS	Targa Resources Partners L.P.	28.85	0.34	$1.35	50/50	$26	$1	2%	4.8%	27.5%	$126	22%
	OKS	ONEOK Partners L.P.	58.74	1.00	$4.00	50/50	$186	$64	26%	9.1%	49.4%	$1,179	17%
	PAA	Plains All American Pipeline L.P.	55.52	0.83	$3.32	50/50	$385	$108	22%	7.7%	43.6%	$2,331	24%
	RGNC	Regency Energy Partners L.P.	31.00	0.38	$1.52	50/50	$62	$1	2%	5.0%	79.0%	$297	14%
	SEP	Spectra Energy Partners L.P.	27.00	0.30	$1.20	2/98	$81	$2	2%	4.5%	21.8%	$392	19%
	SGLP	Semgroup Energy Partnership LP	29.80	0.31	$1.25	2/98	$18	$0	2%	4.3%	33.8%	$87	20%
	SXL	Sunoco Logistics Partners L.P.	49.20	0.84	$3.35	50/50	$96	$35	27%	9.3%	49.5%	$618	31%
	TCLP	TC PipeLines L.P.	34.13	0.66	$2.62	50/50	$91	$9	9%	8.4%	39.2%	$475	27%
	TPP	TEPPCO Partners L.P.	38.60	0.69	$2.74	25/75	$246	$105	30%	10.1%	54.1%	$1,660	33%
	NS	NuSTAR Energy L.P.	59.82	0.92	$3.66	25/75	$171	$52	23%	8.0%	42.8%	$1,057	25%
	WPZ	Williams Partners L.P.	42.00	0.53	$2.10	50/50	$68	$13	17%	6.0%	31.3%	$385	16%
	XTEX	Crosstex Energy L.P.	33.62	0.57	$2.28	50/50	$50	$24	32%	10.0%	57.3%	$350	18%

Source: Company data, Morgan Stanley Research

**Required capital for growth would be the required capital to sustain a 7% CDU growth rate through 2010. This analysis, for demonstrative purposes only, assumes a 10% ROI with a 90% payout ratio. The relevance is in ascertaining those MLPs which offer the lowest capital intensity to sustain above average growth.

Exhibit 11

Equity Offerings for Master Limited Partnerships



Aug 13 2007

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ATTACHMENT UU

Docket No. OR03-5-001
Exhibit No. BPX-47
Hypothetical Balance Sheets to Highlight "Goodwill"

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Hypothetical Balance Sheets to Highlight "Goodwill"
for FERC regulatory proceedings

Definition: "Good Will" is the premium over both book and any "write up" of assets under a claimed "purchase accounting adjustment" paid by a new purchaser

A. Securities and Exchange Commission type Balance Sheet, oversimplified

ASSETS		**LIABILITIES**	
Good Will	$100	Debt	$150
Purchase Accounting Adjustment (write up of assets to "market.")	$200		
Depreciated Original Cost (of assets includable in rate base in regulatory proceedings)	$300	Equity	$450
Total	$600		$600

B. Appropriate FERC type ratemaking balance sheet

Good Will	$0	Debt	$150
Purchase Accounting Adjustment (write up of assets to "market.")	$0		
Depreciated Original Cost (of assets includable in rate base in regulatory proceedings)	$300	Equity	$150
Total	$300		

C. Recapitualing Adjustments

First, eliminate "Good will" from both Assets and Equity. There is no asset "used and useful" to the ratepayer, and no return should be allowed.

Second, eliminate the Purchased Accounting Adjustment from both Assets and Equity. Barring a waiver from the FERC, ratepayers pay only for the depreciated original cost facilities in rate base, so PAA has to come out of both assets and equity.

Third, depreciated original cost rate base stays at $300, subject to depreciation. Debt/equity ratio is now 50-50.

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ATTACHMENT VV

Docket No. OR03-5-001
Exhibit No. BPX-48
The Theory of Investment Value, John Burr Williams

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Exhibit No.
SEP ARCO - 61

THE THEORY OF INVESTMENT VALUE

Federal Energy Regulatory Commission
Docket No. OR96-2-012
Hearing Ex. No. SEP ARCO-61
Date Identified 2/23/05
Date Admitted 2/25/05

JOHN BURR WILLIAMS

Exhibit SEP-ARCO for ID 2/23/05

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CHAPTER V

EVALUATION BY THE RULE OF PRESENT WORTH

1. FUTURE DIVIDENDS, COUPONS, AND PRINCIPAL

Now that we have disposed of the troublesome misconception that stock prices are somehow determined in accordance with a quantity theory of money, we are at last ready to take up the main thesis of this book.

Let us define the investment value of a stock as the present worth of all the dividends[1] to be paid upon it. Likewise let us define the investment value of a bond as the present worth of its future coupons and principal. In both cases, dividends, or coupons and principal, must be adjusted for expected changes in the purchasing power of money. The purchase of a stock or bond, like other transactions which give rise to the phenomenon of interest, represents the exchange of present goods for future goods — dividends, or coupons and principal, in this case being the claim on future goods. To appraise the investment value, then, it is necessary to estimate the future payments. The annuity of payments, adjusted for changes in the value of money itself, may then be discounted at the pure interest rate demanded by the investor. This definition of investment value can be expressed by the following equations:[2]

[1] Cf. Robert F. Wiese, "Investing for True Values," *Barron's*, September 8, 1930, p. 5: "*The proper price of any security, whether a stock or bond, is the sum of all future income payments discounted at the current rate of interest in order to arrive at the present value.*" See also Chapter I, § 2.

[2] "*Note for the non-technical reader:* It is not necessary to master all of the algebra in the following chapters to understand the rest of this book, for the text between the equations has been so written as to summarize the argument and make it possible to take the derivation of the formulas for granted. The symbols used in the formulas are defined one by one when first introduced, but for

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For stocks —

$$V_o = \sum_{t=1}^{t=\infty} \pi_t v^t = \pi_1 v + \pi_2 v^2 + \pi_3 v^3 + \cdots \tag{1a}$$

where V_o = investment value at start
π_t = dividend in year t

$$v = \frac{1}{1+i}, \text{ by definition} \tag{2}$$

i = interest rate sought by the investor

For bonds —

$$V_o = \sum_{t=1}^{t=n} \pi_t v^t + Cv^n \tag{1b}$$

where π_t = coupon in year t
C = face value, or principal, of bond
n = number of years to maturity

---

easy reference they are reprinted with explanations in a systematic "Table of Symbols" at the end of the book.

The subscripts 1, 2, 3, etc., attached to the Greek letter π in the equations below signify the first, second, third, etc., value of the variable π. Thus π_1 is the amount of the dividend in the first year, π_2 in the second year, π_3 in the third, etc., and π_t in the tth year, where t means time.

The series of terms $\pi_1 v + \pi_2 v^2 + \pi_3 v^3 + \cdots$ is called an infinite series because there is no end to the number of terms. In this particular series each term is constructed according to the rule that the exponent of the factor v shall be the same as the subscript of the factor π, thus $\pi_3 v^3$, $\pi_t v^t$, etc. In certain special cases the sum of all the terms in an infinite series is a finite number, and not infinity, even though the number of terms is infinite; under these circumstances, the series is said to be convergent. Suffice it to say that a series will often be convergent if each additional term is smaller than the preceding one; any further discussion of convergency would take us too far into higher mathematics.

Two ways of denoting an infinite series are as follows:

$$\pi_1 v + \pi_2 v^2 + \pi_3 v^3 + \cdots\cdots$$

and

$$\sum_{t=1}^{t=\infty} \pi_t v^t$$

The second notation, using the Greek letter Σ, means exactly the same as the first, but is briefer. This notation is read "Summation from t equals one, to

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The way in which dividends, or coupons and principal, should be adjusted for changes in the value of money in future years will be discussed later.[3]

2. FUTURE EARNINGS OF STOCKS

Most people will object at once to the foregoing formula for stocks by saying that it should use the present worth of future *earnings*, not future *dividends*.[4] But should not earnings and dividends both give the same answer under the implicit assumptions of our critics? If earnings not paid out in dividends are all successfully reinvested at compound interest for the benefit of the stockholder, as the critics imply, then these earnings should produce dividends later; if not, then they are money lost. Furthermore, if these reinvested earnings will produce dividends, then our formula will take account of them when it takes account of all future dividends; but if they will not, then our formula will rightly refrain from including them in any discounted annuity of benefits.

Earnings are only a means to an end, and the means should not be mistaken for the end. Therefore we must say that a stock derives its value from its dividends, not its earnings. In short, a stock is worth only *what you can get out of it*. Even so spoke the old farmer to his son:

---

t equals infinity, of pi sub t, times v to the tth power." It should be noted that $\sum_{t=1}^{t=\infty}$ is not a factor to be multiplied by the other factors w_t and v^t, but is an operational sign applied to these two factors taken together.

If the series runs from $t = 1$ to $t = n$, as in formula (1b) applying to bonds, the series is a finite series instead of an infinite series, because the number of terms is limited and is given in this case by the number of coupons payable during the life of the bond.

A series of the kind under discussion here, whether finite or infinite, is known as a geometric progression if w_t is constant.

[3] See Chapter VIII, § 2, and Chapter IX.

[4] See also Chapter XXII, "U. S. Steel," especially § 13.

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A cow for her milk,
A hen for her eggs,
And a stock, by heck,
For her dividends.

An orchard for fruit
Bees for their honey,
And stocks, besides,
For their dividends.

The old man knew where milk and honey came from, but he made no such mistake as to tell his son to buy a cow for her cud or bees for their buzz.

In saying that dividends, not earnings, determine value, we seem to be reversing the usual rule that is drilled into every beginner's head when he starts to trade in the market; namely, that earnings, not dividends, make prices. The apparent contradiction is easily explained, however, *for we are discussing permanent investment, not speculative trading*, and dividends for years to come, not income for the moment only. Of course it is true that low earnings together with a high dividend for the time being should be looked at askance, but likewise it is true that these low earnings mean low dividends *in the long run*. On analysis, therefore, it will be seen that no contradiction really exists between our formula using dividends and the common precept regarding earnings.

How to estimate the future dividends for use in our formula is, of course, the difficulty. In later chapters ways of making an estimate will be given for such stocks as we now know how to deal with. In so doing, this book seeks to make its most important contribution to Investment Analysis.

3. PERSONAL VS. MARKET RATE OF INTEREST

In applying the foregoing formulas, each investor should use his own personal rate of interest. If one investor de-

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mands 10 per cent and another 2 per cent as minimum wages of abstinence, then the same stock or bond will be accorded a lower value by the one than by the other.

The only case in which the market rate of interest should be applied is when the analyst is speaking not for himself personally but for investors in general. Then he should use the pure interest rate as it is expected to be found in the open market in the years to come.[5]

4. COMPOUND INTEREST AT A CHANGING RATE

In the usual discussion of compound interest, it is always assumed that the rate of interest stays the same throughout the period in question. The assumption of a changing rate is never met with, and apparently the possibility of such a thing is not even considered.[6] Yet in theory a changing rate is easily conceivable, and so provision for it, when it occurs, should be made in our formula, thus:

$$V_0 = \sum_{t=1}^{t=n} r_t v_1 v_2 \cdots v_t \tag{1c}$$

where

$$v_1 = \frac{1}{1 + i_1};\ v_2 = \frac{1}{1 + i_2};\ \text{etc.} \tag{2}$$

and

i_1 = interest rate in first year
i_2 = interest rate in second year
i_t = interest rate in tth year

The interest rate i_t in every case is that for one-year loans made at the beginning of the year t, and paid at the end of it.

[5] See Chapter XX, § 21.

[6] An exceptional case in which the possibility of changing interest rates is in fact considered occurs in life insurance, where actuaries of non-participating companies occasionally use a split rate in computing premiums and making other calculations.

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The meaning of the equation can be shown by an example. Suppose that investors think that the interest rate for one-year loans, as determined by the equilibrium of the demand and supply for new savings, will be

$$
\begin{aligned}
i_1 &= \tfrac{1}{2}\% \text{ in } 1937\\
i_2 &= 1\% \text{ in } 1938\\
i_3 &= 1\tfrac{1}{2}\% \text{ in } 1939\\
i_4 &= 2\% \text{ in } 1940\\
i_5 &= 2\tfrac{1}{2}\% \text{ in } 1941\\
i_6 &= 3\% \text{ in } 1942
\end{aligned}
$$

Then the present worth of π dollars payable

at the end of 1937 will be $\dfrac{\pi}{(100\frac{1}{2}\%)}$

at the end of 1938 will be $\dfrac{\pi}{(100\frac{1}{2}\%)\ (101\%)}$

at the end of 1939 will be $\dfrac{\pi}{(100\frac{1}{2}\%)\ (101\%)\ (101\frac{1}{2}\%)}$

and at the end of t years will be $\pi v_1 v_2 \cdots v_t$

Long-term interest rates are not a genus wholly distinct from short-term interest rates, and they are not determined separately from short-term rates by independent considerations. Rather, long-term rates are only a thing derived, an average of a special kind, a mere figure of substitution that can be used in place of the series of short-term rates for the years covered. This average is not an ordinary arithmetic average, nor even a geometric average, but is a more complicated average whose formula is given implicitly by the formula for the value of the bond or stock under consideration.[7]

[7] For a further discussion of this point, see Chapter X, "Bonds with Interest Rates Changing."

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5. RIGHTS AND ASSESSMENTS

In the case of growing companies,[8] rights to subscribe to additional shares may be offered from time to time, and this will affect the annuity of payments received by the stockholder. Such an issue of rights is equivalent to a stock dividend paid to the stockholder together with an assessment levied on him. Since it is well recognized that a stock dividend, like a split-up, does not change the values behind a given percentage of a company's stock, it follows that an offering of "rights," in so far as it increases the number of shares outstanding but leaves unchanged the percentage owned by each stockholder, adds nothing to the value of the stockholder's equity. And in so far as the offering brings new money into the company's treasury, it is like any other assessment in building up the stockholder's equity. But in so far as the offering draws this money out of the stockholder's pocket, it increases the total cost of his commitment. This latter fact is clearly reflected by the change in the market worth of an issue of stock when it goes ex-rights. Then the new value of the entire issue becomes greater than that of the old by exactly the amount of new money paid in, and the stockholders' bank accounts become less by the same amount. The operation is thus exactly the opposite of the payment of a cash dividend, in that the payment of dividends re-

[8] Cf. Gabriel A. D. Preinreich, *The Nature of Dividends* (New York: Lancaster Press, Inc., 1935), p. 9: "There are various kinds of corporations. Some are unable to reinvest their earnings, others can do so only in part, still others can use every cent they earn and there are cases where the retention of the entire earnings is insufficient to provide for expansion. It is an important duty of the corporate management to formulate dividend policies which conform to these conditions. A company which can not reinvest its earnings must distribute them; slowly expanding companies will distribute the difference between the total earnings and that portion which can be reinvested, while rapidly expanding companies will not only endeavor to retain all earnings but must in addition attract new capital."

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duces the value of the stockholders' investment and increases the value of their bank accounts, while the exercise of rights does the reverse.

But, it may be asked, will not the new money collected by the company be invested at a good profit, and so will not the stock rise as the profits accrue in the future? No, it may be answered, the rise will not occur in the future, because it has already occurred in the past. The price does not ordinarily wait for the profits to accrue, or even for the funds to be collected, but responds as soon as the investment opportunity appears, because usually there is no question as to the power of a company to secure such new money as may be needed to enable it to exploit any new opportunities that may arise. For established companies, the mechanism of issuing rights to take advantage of recognized opportunities for profit is known to be so sure that when the feat is successfully accomplished each time, the market sees no cause for surprised elation. The assessment is viewed as merely a routine operation in the company's growth.

That the word "assessment" used above carries an invidious connotation is true. The word "contribution" could have been used instead, but such a choice of terms would have been less challenging to old views. Just because my opponents call the contribution a "right," I shall retort by calling it an "assessment."[9] In either case, however, innuendo obscures the real facts. Assessments and dividends are opposite aspects of the same thing, differing only with respect to the direction in which the money flows. A company which pays liberal cash dividends and offers frequent rights should not be considered doubly

[9] Cf. Stephen Heard, in *Stock Growth and Discount Tables*, by S. E. Guild (Boston: Financial Publishing Company, 1931). Heard says on page 293, in an appendix written by him for that book, "If, therefore, a stockholder wishes to maintain his position, rights are in reality an assessment."

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generous — the usual interpretation of such a policy — but rather as taking back with one hand what it doles out with the other. Its *gross* dividend is offset by an assessment which often makes its *net* dividend very small, or even negative. Nevertheless, such a course does not affect the intrinsic, long-run value of the stock, for, be it remembered, the investment value of a common stock is the present worth of its *net* dividends to perpetuity.

"Rights" should not be treated as income. Methods of evaluation based on such a treatment involve endless difficulties and often certain bad errors. A method which assumes, for instance, that the investor is to sell some of his rights to provide cash for subscribing with the rest makes it necessary to know the price at which these rights can be sold, and thus also the price of the stock at intervals during the period treated. If the past is drawn upon, as is sometimes done, to provide a figure for the worth of rights, then the answer becomes dependent on the general level of stock prices prevailing in the past, with the result that this method of evaluation becomes of no use in estimating the price which should prevail in the future. Not what has been but what should be the price of a given stock is our problem; and we must not use the widely fluctuating and hence mostly incorrect prices of the past as data in our calculations.[10]

The relation which exists between gross dividends, subscriptions, and net dividends may be expressed by the following equation:

$$\pi = \kappa - \sigma \tag{3a}$$

where

π = pure, or net, dividend in any given year
κ = actual, or gross, dividend in any given year
σ = subscription, or assessment in any given year

} per share of original stock

[10] Heard's method of adjusting for rights (Guild, *Stock Growth and Discount Tables*, pp. 296–297) would seem to be open to this objection.

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If no rights are issued in a particular year, then the assessment, or subscription, in that year will be nil, and $\sigma = 0$. It usually happens that assessments are large but infrequent, hence in the years when they do occur, σ exceeds κ and π becomes temporarily negative. Even though the assessments do not come every year, however, and even though they are spaced at irregular intervals, we may still treat them as items in an annuity (a negative one this time), and then find their present worth, and deduct this sum from the present worth of the gross dividends, to get a figure for the fair value of a stock, thus:

$$V_e = \sum_{t=1}^{t=\infty} \kappa_t v^t - \sum_{t=1}^{t=\infty} \sigma_t v^t \tag{1d}$$

From the foregoing discussion of the place of rights in the evaluation of common stocks, it should be clear that nothing but *cash* dividends ought to be included in the formulas for appraisal,[11] and that neither rights nor stock dividends nor option warrants nor any other form of distribution should be considered except in terms of the cash payments to which it may later give rise.

6. THE FORMATION POINT FOR INCOME

If, as argued above, assessments add to the value of one's stockholdings only so much as they subtract from one's bank account, and if dividends do only the opposite, how can either operation add to one's wealth, and how can anyone get rich from his stockholdings? Surely income accrues sometime, somewhere. The behavior of stock prices indicates, and reason confirms, the conclusion that a man's income arises and his wealth increases at that point in the chain between customer and stockholder where

[11] Cf. Chapter XXIV, § 2, dealing with the rights offered on American Telephone.

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a company's earnings reach its cash account. When a corporation, after making and paying for its wares and selling them at a profit, finally collects the cash due on them, then at last it realizes its profit. From that moment on, shareholders may take their money at will.[12] The date of distribution does not matter. But when the dividend is once allotted, on that day the stock goes ex-dividend by the amount of the payment, and then what a man gains in cash assets he loses in invested assets.

The reason for drawing the line at the time when profits reach the cash account instead of earlier in their development is because at the cash stage they are no longer among the earning assets of a business. Plant, inventories, receivables, all in their proper proportions, make up a going concern, and are expected to earn a higher return than cash assets. Cash assets, however, if loaned in the money market, yield the same return to all companies, just as they would to their individual stockholders; but invested assets yield varying returns to different companies. A stockholder does not give his cash to a corporation to be lent for him, but to be invested in bricks and mortar, or in current assets. He can do his own lending. When profits are still in the form of invested assets, their final cash equivalent is uncertain, but when they reach the cash account, their exact amount is known, and no variation results from the mere processes of distribution or contribution. Hence the place to draw the line is between cash and other assets.

Of course if cash piles up in a company's treasury, and is then spent again, unwisely this time, that is another story, and the stockholders' wealth decreases when the unwise expenditure is made. It still remains true, nevertheless, that the stockholders' wealth had previously increased when operations succeeded in yielding a cash profit.

[12] Cf. Schabacker, *Stock Market*, p. 348, section entitled "Dividends not a Fundamental Benefit."

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7. THE VALUE OF A RIGHT

After each assessment, or offering of new stock, the old shares go ex-rights, and change their value because the number of shares and the cash assets of the company have increased. The value of a right is derived as follows:

Let

M = market price rights-on
$\hat{M}$ = market price ex-rights [13]
M_w = market price of right, or subscription warrant
S = subscription price of new stock offered
N = number of rights required for subscription to one new share

Since

N = total number of shares held before subscription to one new share

NM = total value of shares held before subscription to one new share

and

$N + 1$ = total number of shares held after subscription

$NM + S$ = total value of holdings after subscription

and

$\hat{M}(N + 1)$ = total value of shares held after subscription

therefore

(4a) $$\hat{M}(N + 1) = NM + S$$

and

(4b) $$\hat{M} = \frac{NM + S}{N + 1}, \text{ the price of the stock ex-rights}$$ [14]

and

(5) $$M_w = M - \hat{M}, \text{ the price of a right}$$

[13] The symbol $\hat{M}$ is read "M-cap," and may be thought of as meaning "M after recapitalization in the manner specified."

[14] The application of this formula is illustrated in Chapter XXIV, § 8, dealing with American Telephone.

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8. UNCERTAINTY AND THE PREMIUM FOR RISK

If the investor is uncertain about the future, he cannot tell for sure just what is the present worth of the dividends or of the interest and principal he will receive. He can only say that under one set of possible circumstances it will have one value and under another, another. Each of these possible values will have a different probability, however, and so the investor may draw a probability curve to express the likelihood that any given value, V, will prove to be the true value. Thus, if he is appraising a risky twenty-year bond bearing a 4 per cent coupon and selling at 40 to yield 12 per cent to maturity, even though the pure interest seems to be only 4 per cent, he may conclude that the probabilities are as shown in Diagram 6.

The various possible values, V, of the bond, from zero to par, are shown by the abscissae of the curve, while the likelihood, $f(V)$, that any given value will prove to be the true value, is shown by the ordinates. A uni-modal curve, of the form usual for probability curves, could not be used in this case, because it would fail to show the relatively high chances of receiving all or none of the interest and principal.

Whenever the value of a security is uncertain and has to be expressed in terms of probability, the correct value to choose is the mean value,[15]

$$\overline{V} = \frac{\int_0^\infty V \quad f(V)dV}{\int_0^\infty f(V)dV} \tag{6}$$

The customary way to find the value of a risky security has always been to add a "premium for risk" to the pure interest rate, and then use the sum as the interest rate for

[15] The value of the denominator is always unity because the sum of all the separate probabilities is necessarily one. For values of V above the maximum, $f(V) = 0$.

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discounting future receipts. In the case of the bond under discussion, which at 40 would yield 12 per cent to matu-

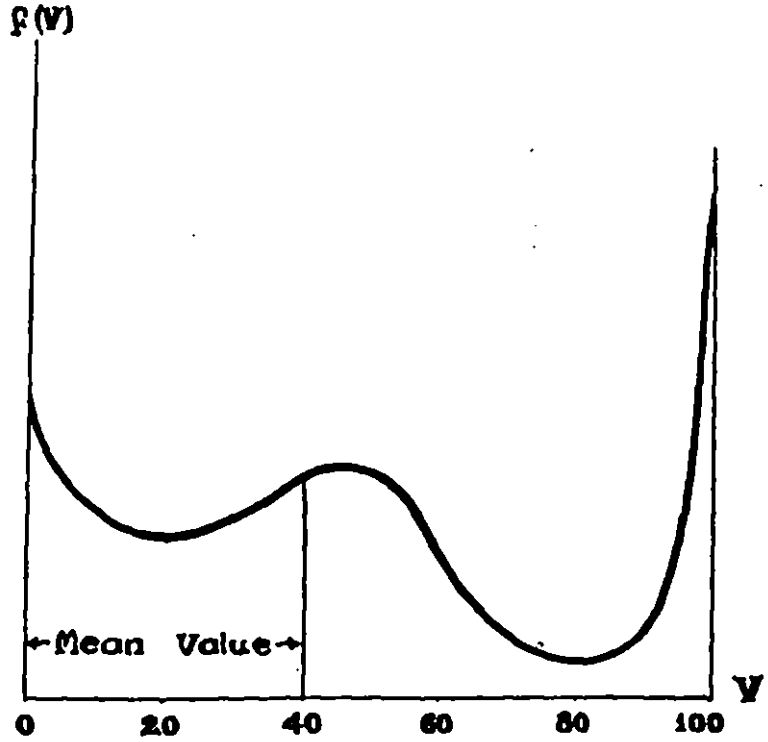

DIAGRAM 6

PROBABILITY CURVE FOR TRUE VALUE

rity,[16] the "premium for risk" is 8 per cent when the pure interest rate is 4 per cent.

Strictly speaking, however, there is no risk in buying the bond in question if its price is right. Given adequate diversification, gains on such purchases will offset losses,

[16] See, for instance, *High Yield Tables of Bond Values* (Boston: Financial Publishing Co., and London: George Rutledge and Sons, Ltd., 1919), p. 83.

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and a return at the pure interest rate will be obtained. Thus the *net risk* turns out to be nil. To say that a "premium for risk" is needed is really an elliptical way of saying that payment of the full face value of interest and principal is not to be expected on the average. This leads to the mathematical definition of the "premium for risk" as the value of x that will satisfy the following two equations:

$$x = i - \mathfrak{i} \tag{7}$$

$$\bar{V} = \sum_{t=1}^{t=n} \frac{w_t}{(1+i)^t} + \frac{C}{(1+i)^n} \tag{1e}$$

where

x = premium for risk
i = yield, at face value of interest and principal
$\mathfrak{i}$ = pure interest rate [17]
$\bar{V}$ = mean of all possible values of bond, as defined in equation (6)
w = face value of coupons
C = face value of principal
n = number of years to maturity of bond

If the mean value, $\bar{V}$, is known, equation (1e) can be solved for i, the proper yield. Or, if i is known, the same equation can be solved for $\bar{V}$. The problem can be approached in either way. Most people are used to going about it in the latter way, however, and find it easier to think in terms of interest and principal at face value heavily discounted than in terms of interest and principal at reduced value lightly discounted. They think they can make a better estimate of the proper rate of discount in

[17] Although it would make a more consistent notation to use $\mathfrak{i}$ instead of i for the risk-inclusive rate, so as to correspond with $\bar{V}$ for the risk-inclusive value, the more common symbol was made the simpler, and i was used for the risk-inclusive, $\mathfrak{i}$ for the riskless, rate of interest.

[18] The economic "premium for risk" is not to be confused with the accounting "premium" on a bond bought above par.

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any given situation than of the various possibilities of partial or complete default. If they can, their method has the advantage of being quicker and easier, because it requires the calculation of the present worth of one simple, instead of many varied, annuities. The final choice depends on whether the element of uncertainty in forecasts can be handled by the mind more easily in the one way or the other. Usually the method of using an enlarged discount rate will prove to be the simpler to think of, and so we shall generally employ it in the pages to follow.[18]

9. SENIOR AND JUNIOR ISSUES OF THE SAME CONCERN

As everyone knows, the risk factor varies between the several securities of the same company. Usually the bonds are considered safer than the shares, with the underlying bonds having a better rating than the junior bonds, and the preferred stock than the common stock. Sometimes, however, this rule appears to be refuted by actual market prices, especially in the case of overcapitalized enterprises that nevertheless enjoy good speculative prospects. With such enterprises, the senior securities usually sell to give a high yield, the common stock a low yield. Yet the market is quite right in thus reversing the usual rule, for if the venture should fail, the bondholders would lose much; but if it should succeed, they would gain little, since all the profits in excess of stipulated interest would go to the common stockholders, who have but little to lose and much to gain. A notable instance of the foregoing was the United States Steel Corporation at the beginning of its career. As discussed in a later chapter,[19] its senior securities sold to yield 6.5 per cent on the average soon after it was

[18] See also the discussion of risk and uncertainty in connection with option warrants and convertible bonds in Chapter XIV, and in connection with government bonds during inflation in Chapter XIX, § 20.

[19] Chapter XXII, § 17, Table 25.

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formed, while its stock sold at a high price-earnings ratio, because the success of the new trust was then still in doubt, although the company was thought to have great speculative possibilities.

The proper yield on the *common* stock of such an enterprise is fixed and determined, after the manner of a dependent variable, once the proper yield on the *senior* securities and on the enterprise as a whole are agreed upon, as the following algebraic analysis shows. (For simplicity a horizontal trend of earnings is assumed.)

Let

V_b = investment value of bonds, per share of common
V_c = investment value of stock, per share of common
V_e = investment value of entire enterprise, per share of common

Then

(18a) $$V_e = V_b + V_c$$

Likewise let

β = bond interest, per share of common
π = pure dividend, per share of common
i_b = fair interest rate for bonds
i_c = fair interest rate for common stock
i_e = fair interest rate for entire enterprise

Then

(8c) $$V_b = \frac{\beta}{i_b}$$ (see Chapter VI, § 2. For simplicity, the bonds are assumed to be perpetual bonds.)

(8a) $$V_c = \frac{\pi}{i_c}$$

(8b) $$V_e = \frac{\beta + \pi}{i_e}$$

Combining (18a) and (8b), we get

(8d) $$V_b + V_c = \frac{\beta + \pi}{i_e}$$

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and combining (8c) and (8a) with (8d), we get

$$\frac{\beta}{i_b} + \frac{\pi}{i_c} = \frac{\beta + \pi}{i_a}$$

$$\frac{\pi}{i_c} = \frac{\beta + \pi}{i_a} - \frac{\beta}{i_b}$$

whence

$$i_c = \frac{\pi}{\dfrac{\beta + \pi}{i_a} - \dfrac{\beta}{i_b}} \tag{8e}$$

Q. E. F.

The foregoing formula[20] shows the proper yield for a common stock once the fair yield for the senior securities and the enterprise as a whole have been decided upon.

10. THE LAW OF THE CONSERVATION OF INVESTMENT VALUE

If the investment value of an enterprise as a whole is by definition the present worth of all its future distributions to security holders, whether on interest or dividend account, then this value in no wise depends on what the company's capitalization is. Clearly if a single individual or a single institutional investor owned all the bonds, stocks, and warrants issued by a corporation, it would not matter to this investor what the company's capitalization was.[21] Any earnings collected as interest could not be collected as dividends. To such an individual it would be perfectly obvious that total interest- and dividend-paying power was in no wise dependent on the kind of securities issued to the company's owner. Furthermore, no *change* in the investment value of the enterprise as a whole would

[20] The application of this formula is illustrated in Chapter XXII, § 17, dealing with U. S. Steel.

[21] Except for details concerning the income tax.

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result from a *change* in its capitalization. Bonds could be retired with stock issues, or two classes of junior securities (i.e., common stock and warrants) could be combined into one, without changing the investment value of the company as a whole. Such constancy of investment value is analogous to the indestructibility of matter or energy; it leads us to speak of the Law of the Conservation of Investment Value, just as physicists speak of the Law of the Conservation of Matter, or the Law of the Conservation of Energy.

Since market value does not usually conform exactly to investment value, no "conservation of market value" is to be found in general. Only to a rough extent do total market values remain the same regardless of capitalization. The exceptions in practice are important enough to afford many opportunities for profit by promoters and investment bankers.[22]

II. REFUNDING OPERATIONS

If a bond issue matures, or if general interest rates decline enough to allow the replacement of a callable issue with another bearing a lower interest rate, a refunding operation may be undertaken that will alter the corporation's interest charges and change the investment value of its common stock. Since the distributable fraction of a company's quasi-rents is independent of its capital structure and is entirely available for taxes, interest, and dividends, any saving in interest can be used for dividends, and any increase in interest must come out of dividends. Hence the resulting increment or decrement in earnings per share must be capitalized at a different rate from the original earnings per share. If by refunding its bonds at a lower rate and replacing its preferred stock with low-coupon

[22] See discussion of United Corporation in Chapter XXV.

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notes, for instance, a company saves a dollar a share in senior charges, then — assuming that dividends are capitalized at 5 per cent, and earnings at 10 per cent (the usual rule of thumb) — it adds twenty dollars a share, and not ten, to the value of its common stock. If, on the other hand, a company is forced to refund a maturing issue at a higher rate, as might happen if its bonds came due during a banking crisis, then the decrease in earnings per share, resulting from the higher interest charges, would have to be capitalized at twenty times, and not at ten as would an ordinary change in earnings.

12. MARKETABILITY

Marketability, or salability, or liquidity, is an attribute of an investment to which many buyers of necessity attach great importance. Yet it would not be helpful to amend our definition of investment value in such a way as to make it take cognizance of marketability. Risk, to be sure, should be covered by the definition, as done above, but not marketability, for the inclusion of marketability would only lead to confusion. Better to treat intrinsic value as one thing, salability as another. Then we can say, for instance, that a given investment is both cheap and liquid, not that it is cheap partly because it is liquid; the latter phraseology would only raise the question of how much of the cheapness was due to liquidity and how much to other factors. To divorce liquidity, or salability, or marketability, from the concept of investment value is in conformity, moreover, with accepted usage outside the field of investment. In speaking of goods and services, for instance, one does not say that a pound of sugar is cheap at six cents because it is so "salable." Nothing of the sort; for the sugar is bought for consumption and not for resale. By the same token, why should one say that a bond is

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cheap because it is so salable? For if the bond is bought for investment, as by a life insurance company, it is not intended for resale at all, but for holding to maturity. Of course, if the buyer is a speculator, that is another matter, since investment value is only one of several things considered by a speculator. But even a speculator should not confuse salability with cheapness, any more than he should confuse popularity with cheapness.[28] Just as market price determined by marginal opinion is one thing, and investment value determined by future dividends is another, so also salability is one thing and cheapness another.

Likewise *stability* is a thing distinct from investment value, and from marketability as well. While the expected stability of the price of a security in future years is a consideration of great importance to some investors, particularly banks, yet it is not a component of investment value as the latter term ought to be defined. Many individual investors who buy and hold for income do not need to concern themselves with stability any more than with liquidity; hence to include the concept of stability in the definition of investment value would only make investment value mean something different for each and every investor, according to his own personal need for stability as compared with other things.

In conclusion, therefore, it may be said that neither marketability nor stability should be permitted to enter into the meaning of the term *investment value*.

[28] Cf. Chapter III, § 7.

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CHAPTER XXI

GENERAL MOTORS

I. THE MEANING OF INVESTMENT VALUE

Because it lends itself to appraisal by the simplest methods, the common stock of the General Motors Corporation has been chosen as the first case to illustrate our Theory of Investment Value. Assuming, for reasons to be given later, that the secular trend of the company's earnings will be horizontal,[1] we can estimate the worth of its stock by the simple formula

$$V = \frac{\pi}{i} \tag{35}$$

which states that the investment value V of such a stock is to be found by capitalizing its normal dividend π at the going rate of interest i for long-term issues moderately free from risk.

During the bull market[2] of 1932–1936, General Motors rose from 7⅝ to 77, but it has since declined, and on June 15, 1937 it sold at 50. If the stock was really worth 50, the investor who bought it at the price could hope to receive a fair return on his money over the years to come, but if the stock was still too high on June 15, the buyer then could only plan to be a speculator pure and simple, intend-

[1] For a discussion of the tendency of industries to grow rapidly at first, and later more slowly, according to a Gomperz curve, see Chapter VII, § 2, and Chapter XI, and also Simon S. Kuznets, *Secular Movements in Production and Prices* (Boston and New York: Houghton Mifflin Company, 1930). The growth of the motor industry in particular is treated in Ralph C. Epstein, *The Automotive Industry* (Chicago & New York: A. W. Shaw Company, 1928).

[2] The high for the 1921–1929 bull market was 91¾.

[3] Notable speculation in General Motors stock by President Alfred P. Sloan is mentioned in Chapter III, § 7, footnote 25.

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ing to profit only by finding another buyer who was a "bigger sucker" than himself. The pure investor, however, would buy only for a dividend return, and only on the basis of intrinsic value carefully estimated; and he therefore would not need to concern himself with forecasting the course of the market, for if General Motors was really worth 50, he would get a fair return from dividends during the years to come even if the stock went down the day after he bought it and never touched the purchase price again, not even once during the next hundred years.

It follows, therefore, that the future market action of this stock will in no sense confirm or refute the appraisal we shall make of it, for investment value is one thing, and the market price another — today, tomorrow, or many years hence. To try to test the Theory of Investment Value by the performance of the market would be to rest our argument on the false premise that the market, while wrong now, will be right later and will stay right.

It is the common practice nowadays to reckon that a stock is worth, let us say, ten, or twelve, or fifteen times its earnings. The earnings of General Motors in 1935 being $3.69 a share, its value then, according to the old rule-of-thumb which settled on the figure ten as the proper multiplier, should have been 37. In 1936, however, the company earned $5.35 a share, in which case the stock should have been worth 54 that year. But if the stock was worth 54 in 1936, how could it have been worth only 37 in 1935, with one-year interest rates at a fraction of 1 per cent in the meantime?

To answer this question, a common practice is to take the *average* earnings of recent years. If care is used to include a whole number of business cycles, and if the secular trend of earnings is horizontal, this practice will give good results, provided the right multiplier for earnings

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per share is used. As to what is the right multiplier, however, there is no agreement among authorities. Investment Analysis until now has been unable to settle this point;[4] and yet it is highly important to do so with certainty. Let us see if the theoretical analysis of Book I cannot be invoked to resolve the difficulty.

According to this analysis, a stock is worth the present value of its future dividends, with future dividends dependent on future earnings. Thus, if 5 per cent is a fair return from an investment, a stock should sell at twenty times its normal future dividend. Every dollar of dividends thus means twenty dollars of investment value. But what earnings are needed to produce a dollar of dividends? That is the question. If two dollars of earnings are needed to support one dollar of dividends, then a stock is worth only ten times earnings, but if $1.25 of earnings, for instance, is all that is needed, then a stock is worth sixteen times earnings. True value thus depends on the distribution rate for earnings, which rate is itself determined by the reinvestment needs of the business.

2. THE NORMAL DIVIDEND FOR THE STOCK

To find out what the distribution rate of General Motors has been in the past, we need its record of earnings and dividends, as given in Table 16. This table shows that during the eleven years from 1926 through 1936 average earnings per share were $3.52 and average dividends $2.71, with the result that the distribution rate, when preferred dividends are included, has been 78.2 per cent, as shown in Table 17. Although this distribution rate is somewhat higher than the rate of 72.62 per cent given in the last Annual Report[5] for the entire period from 1909 through

[4] Cf. the article entitled, "Is Earning Power a Safe Guide?" by "The Trader" in *Barron's*, September 20, 1937. [5] *Annual Report* for 1936, p. 55, col. 6.

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1936, the discrepancy is to be accounted for by the fact that dividends were relatively low from 1909 to 1925, because of the large reinvestment requirements of the business at that time. During those years the secular trend of the company's sales was so sharply upward that very large

TABLE 16

THE GROWTH OF GENERAL MOTORS

Year	Earnings per Share[a]	Dividends Declared on Common[a]	General Motors' Sales throughout the World[b]	Production of All Companies in the U. S. and Canada[b]	General Motors' Share of Total[c]
1921	$−1.16	$0.53½	214,799	1,682,365	12.8%
1922	1.24	0.26⅔	456,763	2,646,229	17.3%
1923	1.68	0.64	798,555	4,180,450	19.1%
1924	1.15	0.64⅔	587,341	3,737,786	15.7%
1925	2.80	1.60	835,902	4,427,800	18.9%
1926	4.11	2.50	1,234,850	4,505,661	27.4%
1927	5.20	3.10	1,562,748	3,580,380	43.6%
1928	6.14	3.80	1,810,806	4,601,141	39.4%
1929	5.49	3.60	1,899,267	5,621,715	33.8%
1930	3.25	3.00	1,174,115	3,510,178	33.4%
1931	2.01	3.00	1,074,709	2,472,359	43.5%
1932	−0.21	1.25	562,970	1,431,494	39.3%
1933	1.72	1.25	869,035	1,985,909	43.8%
1934	1.99	1.50	1,240,447	2,869,963	43.2%
1935	3.69	2.25	1,715,688	4,119,811	41.6%
1936	5.35[d]	4.50	2,037,690	4,616,857	44.1%

[a] Adjusted to present capitalization. The number of common shares was reduced in 1924 in the ratio of 1 new for 4 old shares, increased on September 11, 1926 in the ratio of 1⅓ new for 1 old, increased again in September 1927 from 1⅓ old to 3 new, and increased once more on January 7, 1929 from 3 old to 7⅓ new; all of which may be summarized thus:

$$4 \rightarrow 1 \rightarrow 1\tfrac{1}{3} \rightarrow 3 \rightarrow 7\tfrac{1}{3}$$

On June 30, 1926, the outstanding minority interest in the Fisher Body Corporation was acquired by an exchange of shares, resulting in a still further increase in capitalization.

[b] Number of cars and trucks. The General Motors' sales from Annual Reports, year by year. The production of all companies from Annual Report for 1932, p. 13, and for 1936, p. 12.

[c] Ratio of the two preceding columns.

[d] After the tax of 5¢ a share on undistributed earnings.

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sums were needed for reinvestment to increase capacity, whereas in recent years growth has almost ceased, and reinvestment on so large a scale has not been necessary.

TABLE 17

DISTRIBUTION RATE OF GENERAL MOTORS *

All Eleven Years 1926–1936	First Four Years 1926–1929	Last Seven Years 1929–1936
$\beta = \$0.22$	$\beta = \$0.22$	$\beta = \$0.22$
$\pi = 2.70$	$\pi = 3.25$	$\pi = 2.39$
$\beta + \pi = \$2.92$	$\beta + \pi = \$3.37$	$\beta + \pi = \$2.61$
$\beta = \$0.22$	$\beta = \$0.22$	$\beta = \$0.22$
$\gamma = 3.52$	$\gamma = 5.24$	$\gamma = 2.54$
$\beta + \gamma = \$3.74$	$\beta + \gamma = \$5.46$	$\beta + \gamma = \$2.76$
$q = \frac{\beta + \pi}{\beta + \gamma} = \frac{\$2.92}{\$3.74}$	$q = \frac{\beta + \pi}{\beta + \gamma} = \frac{\$3.37}{\$5.46}$	$q = \frac{\beta + \pi}{\beta + \gamma} = \frac{\$2.61}{\$2.76}$
$q = 78.1\%$	$q = 61.7\%$	$q = 94.6\%$

* The distribution rate for the capitalization as a whole, including preferred stock as well as common, may be found by means of formula

$$q = \frac{\beta + \pi}{\beta + \gamma} \tag{83a}$$

where β = preferred dividends per share of common stock
π = common dividends per share of common stock
γ = earnings per share of common stock
q = distribution rate (after depreciation and taxes)

In the earlier years of its history, General Motors grew faster than the automobile industry as a whole, and as time went on sold a larger and larger percentage of the total output, as shown by the last column in Table 16. In 1927, a spectacular increase in General Motors' share occurred when Ford suspended the production of his Model T in order to re-tool for his new Model A. But since 1929, the Ford and the Plymouth have been able to give the Chevrolet much stronger competition, and earnings have never again reached the 1928 peak of $6.14 a share. Although prior to 1928 the secular trend of earnings was upward, since then the trend seems to have been horizontal. Even

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if some future years should see the unit sales of the industry at a new high in excess of the 1929 figure, the price of cars will doubtless be so much lower than in 1929 that dollar sales and dollar profits will not exceed the peaks of the last boom. Hence it seems fair to forecast a trend for the company's earnings and dividends that is merely horizontal.

The eleven-year average earnings of $3.52 per share, derived from Table 16, contain the results of four good, four bad, and three fair years as regards industrial activity in general; probably these eleven years constitute a fair sample of the ups and downs of general business and give a fair picture of the average earning power of General Motors. Perhaps, however, the future reinvestment requirements of the business are slightly overstated by the record of the past eleven years, because this period included the years 1926 to 1929, in which capacity was being increased enough to raise the output from 1,234,850 units to 1,899,267 units. If so, the average distribution of 78.1 per cent computed in Table 17 for the past eleven years is too low. As a matter of fact, the rate in the seven years following the completion of the expansion program in 1929 was 94.6 per cent, as compared with only 61.7 per cent in the first four years, when the expansion program was still under way. It would seem altogether reasonable, therefore, to choose a future distribution rate that was somewhat higher than the average rate for the past eleven years, and a future rate [6] of 83⅓ per cent would seem to be more nearly right.

A future normal distribution rate of 83⅓ per cent, if applied to future normal earnings of $3.52 (the same as the average for the past eleven years), would give a future normal dividend of $2.90, as computed in Table 18.

[6] The actual distribution rate in 1936, the first year in which the Undistributed Profits Tax was in effect, was 84 per cent. Evidently the new tax did not produce any noteworthy change in General Motors' established dividend policy.

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TABLE 18

FUTURE NORMAL DIVIDEND OF GENERAL MOTORS

(83c) $\pi = q(\beta + \gamma) - \beta$

where

$\beta = \$0.22$, the preferred dividend		per share of common
$\gamma = 3.52$, the earnings on common		
$\beta + \gamma = \$3.74$, the earnings on investment		
$q = 83\frac{1}{3}\%$, the distribution rate		
$q(\beta + \gamma) = \$3.12$	the total distribution	per share of common
$-\beta = -.22$	the preferred dividend	
$\pi = \$2.90$	the common dividend	

3. COMPETITION IN THE MOTOR INDUSTRY

During the last ten years most of the small automobile companies have gradually been losing their earning power, as Table 19 shows. Only General Motors and Chrysler now remain in the list of those able to pay large dividends. The past decade has seen receivership for Willys-Overland, Studebaker, Hupp,[7] and several smaller companies, and the loss of most of their earning power by Hudson, Nash, Packard, and many other companies that once were highly profitable.

Apparently the cause of these troubles, in addition to the depression, has been the improvement in the smaller and less expensive cars in comparison with the larger and more costly ones. The light cars have become so good that the public has not thought it worth while to pay the extra cost of heavy cars, and, in consequence, the sales of heavy cars have declined greatly and the earnings of their makers have vanished in the process. Even among the small cars, moreover, only the Chevrolet and the Plymouth have remained really profitable, and others, like the Terraplane made by Hudson and the small cars made by Nash and

[7] While Hupp was not actually in receivership in June 1937, its operations had been almost at a standstill for some time.

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ATTACHMENT WW

Docket No. OR03-5-001
Exhibit No. BPX-49
Chart—SFPP Chain of Ownership

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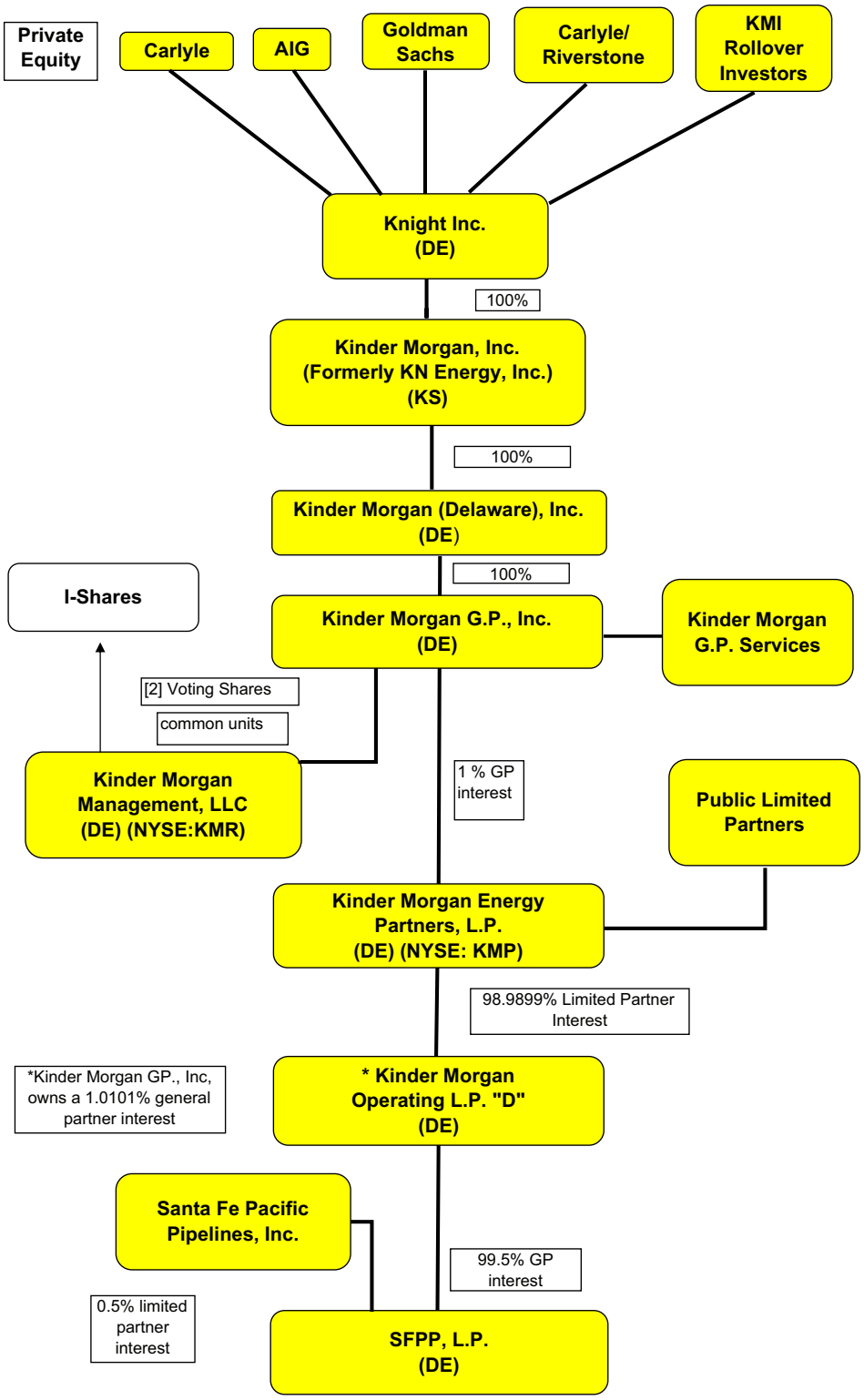
SFPP Chain of Ownership



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ATTACHMENT XX

Docket No. OR03-5-001
Exhibit No. BPX-50
SFPP FERC Form 6 for 2003

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Check appropriate box:

☐ An Original Signed Form

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Form Approved
OMB No. 1902-0022
(Expires 3/31/2004)

FERC Form No. 6: ANNUAL REPORT OF OIL PIPELINE COMPANIES

(Formerly ICC Form P)

This report is mandatory under the Interstate Commerce Act, Section 20, and 18 CFR 357.2. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)	Year of Report
SFPP, L.P.	Dec. 31, 2003

FERC FORM NO. 6:
ANNUAL REPORT OF OIL PIPELINE COMPANIES

IDENTIFICATION		
01 Exact Legal Name of Respondent SFPP, L.P.		02 Year of Report Dec. 31, 2003
03 Previous Name and Date of Change (if name changed during year)		
04 Address of Principal Office at End of Year (street, City, State, Zip Code) 1100 Town & Country Road, Orange, California 92868		
05 Name of Contact Person Gary L. Prim	06 Title of Contact Person Assistant Treasurer	
07 Address of Contact Person (Street, City, State, Zip Code) 1100 Town & Country Road, Orange, California 92868		
08 Telephone of Contact Person, Including Area Code (714) 560-4660	09 This Report Is (1) [X] An Original (2) [ ] A Resubmission	10 Date of Report (Mo, Da, Yr) 03/31/2004

VERIFICATION	
The undersigned officer certifies that he/she has examined the accompanying report; that to the best of his/her knowledge, information, and belief, all statement of fact contained in the accompanying report are true and the accompanying report is a correct statement of the business and affairs of the above named respondent in repect to each and every matter set forth therein during the period from and including January 1 to and including December 31 of the year of the report.	
01 Name Gary L. Prim	02 Title Assistant Treasurer
03 Signature /s/ G.L.P.	04 Date Signed (Mo, Da, Yr) 04/30/2004
Title 18, U.S.C. 1001, makes it a crime for any person knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction.	

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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	03/31/2004	Dec. 31, 2003

List of Schedules

Enter in column (d) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the responses are "none," "not applicable," or "NA."

Title of Schedule (a)	Reference Page No. (b)	Date Revised (c)	Remarks (d)
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Carrier Property	212-213	REV 12-03	
Undivided Joint Interest Property	214-215	REV 12-03	NA
Accrued Depreciation - Carrier Property	216	REV 12-03	
Accrued Depreciaton - Undivided Joint Interest Property	217	REV 12-03	NA
Amortization Base and Reserve	218-219	REV 12-03	NA
Noncarrier Property	220	REV 12-00	
Other Deferred Charges	221	REV 12-00	
BALANCE SHEET SUPPORTING SCHEDULES (Liabilities and Other Credits)			
Payables to Affiliated Companies	225	REV 12-00	
Long Term Debt	226-227	ED 12-00	NA
Analysis of Federal Income and Other Taxes Deferred	230-231	REV 12-00	NA
Capital Stock	250-251	REV 12-95	NA
Capital Stock Changes During the Year	252-253	ED 12-91	NA

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List of Schedules (continued)

Enter in column (d) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the responses are "none," "not applicable," or "NA."

Title of Schedule (a)	Reference Page No. (b)	Date Revised (c)	Remarks (d)
Additional Paid-in Capital	254	ED 12-87	NA
INCOME ACCOUNT SUPPORTING SCHEDULES			
Operating Revenue Accounts	301	REV 12-00	
Operating Expense Accounts	302-303	REV 12-00	
Pipeline Taxes	305	ED 12-87	
Income from Noncarrier Property	335	ED 12-91	
Interest and Dividend Income	336	REV 12-95	
Miscellaneous Items in Income and Retained Income Accounts for the Year	337	ED 12-96	
Payments for Services Rendered by Other Than Employees	351	REV 12-95	
PLANT STATISTICAL DATA			
Statistics of Operations	600-601	REV 12-00	
Miles of Pipeline Operated at End of Year	602-603	REV 12-00	
Footnotes	604	ED 12-91	
Annual Cost of Service Based Analysis Schedule	700	REV 12-00	

Stockholders' Reports (check appropriate box)

[ ] Two copies will be submitted

[X] No annual report to stockholders is prepared

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General Information

1.) For item No. 1, give the exact full name of the respondent. Use the words "The" and "Company" only when they are parts of the corporate name. The corporate name should also be given uniformly throughout the report, notably on the cover, on the title page, and in the "Verification" (p. 1). If the report is made by receivers, trustees, a committee of bondholders, or individuals otherwise in possession of the property, state names and facts with precision.

2.) For item No. 2, if incorporated under a special charter, give date of passage of the act; if under a general law, give date of filing certificate of organization; if a reorganization has been effected, give date of reorganization. If a receivership or other trust, give also date when such receivership or other possession began. If a partnership, give date of formation and full names of present partners.

3.) For item No. 3, give specific reference to laws of each State or Territory under which organized, citing chapter and section. Include all grants of corporate powers by the United States, or by Canada or other foreign country; also, all amendments to charter. It in bankruptcy, give court of jurisdiction and dates of beginning of receivership or trusteeship and of appointment of receivers of trustees.

4.) For item No. 4, give specific reference to special or general laws under which each consolidation or merger or combination of other form was effected during the year, citing chapter and section. Specify Government, State, Territory under the laws of which each company consolidated or merged or otherwise combined during the year into the present company was organized; give reference to the charters of each, and to all amendments of them. Carefully distinguish between mergers and consolidations. For the purpose of this report, a merger may be defined as the absorption of one of two existing corporations by the other so the absorbed or merged corporation ceases to exist as a legal entity, its property passing to the merging or absorbing corporation, which assumes all of the merged corporation's obligations. A consolidation may be defined as the union of two or more existing corporations into a new corporation, which, through the consolidation, acquires all of the property of the uniting corporations, assumes all of their obligations, and issues its capital stock in exchange for those of the uniting corporations in ratios fixed in the agreement for consolidations, after completion of which both or all of the consolidating corporations cease to exist as legal entities. In a footnote, explain combinations that are not classifiable as mergers or consolidations. Cases in which corporations have become inactive and have been practically absorbed through ownership or control of their entire capital stock, through leases of long duration (under which the lessor companies so not keep up independent organizations for financial purposes), or otherwise, so that no distinction is made in operating or in accounting by reason of the original separate incorporation, should be included in a separate list and fully explained in answering this and the following page.

1. Give exact name of pipeline company making this report.

SFPP, L.P.

2. Give date of incorporation.

08/25/1988

3. Give reference to laws of the Government, State, or Territory under which the company is organized. If more than one, name all.

Delaware

4. If a consolidated or a merged company, name all constituent and all merged companies absorbed during the year.

None

5. Give date and authority for each consolidation and for each merger effected during the year.

None

6. If a reorganized company, give name of original corporation, refer to laws under which it was organized, and state the occasion fo any reorganization effected during the year.

None

7. State whether or not the respondent during the year conducted any part of its businesss under a name or names other than that shown in response to inquiry No. 1, above; if so, give full particulars (details).

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Control Over Respondent

1.) Report in Column (a) the names and state of incorporation of all corporations, partnerships, business trusts, and similar organizations that indirectly held control (see page iii for definition of control) over the respondent at end of year by means of intermediaries. Report only the names of those companies that held ultimate control over the respondent. If control is in a holding company organization, report in a footnote the chain of organization only if there are two or more intermediary companies in the chain of ownership.

2.) Report in column (b) the names and state of incorporation and in column (c) the percent of the respondent's voting stock owned by all corporations, partnerships, business trusts, and similar organizations that directly held control over the respondent at end of year.

3.) If control is held by trustees, state in a footnote the names of the trustees, the names of beneficiaries for whom the trust is maintained, and the purpose of the trust.

Line No.	Controlling Company or Main Parent (a)	Intermediate or Direct Parent (b)	Percent Voting Stock Owned (c)
1	Kinder Morgan GP, Inc.	Kinder Morgan	
2	(General Partner of Kinder	Operating L.P. "D"	99.50
3	Morgan Operating L.P. "D")	Delaware	
4	Delaware		
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Companies Controlled by Respondent

1.) Report in column (a) the names of and state of incorporation of all corporations, partnerships, and similar organizations controlled (see page iii for definition of control) directly by respondent at end of year.

2.) If control is held jointly with one or more other interests, state the fact in a footnote and name the other interests.

Line No.	Name of Company Controled (a)	Kind of Business (b)	Percent Voting Stock Owned (c)
1	Colton Processing Facility	Transmix processing facility	50.00
2	a California Joint Venture		
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Principal General Officers

1.) Give the title, name, and address of the principal general officers as follows: Executive, Legal, Fiscal and Accounting, Purchasing, Operating, Construction, Maintenance, Engineering, Commercial, and Traffic. If there are receivers, trustees, or committees, who are recognized as in the controlling management of the company or of some department of it, also give their names and titles, and the location of their offices. If the duties of an officer extend to more than one department, or if his duties are not in accordance with the customary acceptance of his given title, briefly state the facts under Explanatory Remarks below.

Line No.	Title of General Officer (a)	Name of Person Holiding Office at End of Year	Office Address (c)
1	Chairman and CEO	Richard D. Kinder	One Allen Center
2			500 Dallas Street, Suite 1000
3			Houston, Texas 77002
4			
5	President, Products Pipelines	Thomas A. Bannigan	-do-
6			
7	Vice President and CFO	C. Park Shaper	-do-
8			
9	Vice President and Controller	Jackson W. Ellis	-do-
10			
11	Vice President, Marketing	Mary F. Morgan	-do-
12			
13	Vice President, Engineering	Thomas F. Jensen	1100 Town & Country Road
14			Orange, California 92868
15			
16			
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Directors

1.) Report below the information called for concerning each director of the respondent who held office at any time during the year. Include in column (a), abbreviated titles of the directors who are officers of the respondent.
2.) Designate members of the Executive Committee by an asterisk and the Chairman of the Executive Committee by a double asterisk.

Line No.	Name and Title of Director (a)	Offices Address (Street, city, state, zip) (b)
1	Gary L. Hulquist	Hulquist Capital LLC
2		One Embarcadero Center, Suite 1200
3		San Francisco, California 94111
4		
5	Edward O. Gaylord	5851 San Felipe, Suite 900, Houston, Texas 77057
6		
7	Perry M. Waughtal	Songy Partners Realty, Ltd.
8		777 Post Oak Blvd., Suite 300
9		Houston, Texas 77056
10		
11	Richard D. Kinder, Chairman	One Allen Center
12		500 Dallas Street, Suite 1000, Houston, Texas 77002
13		
14	C. Park Shaper	-do-
15		
16		
17		
18		
19		
20		

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Important Changes During the Year

Give particulars (details) concerning the matters indicated below. Make the statements explicit and precise, and number these in accordance with the inquiries. Each inquiry should be answered. Enter "none" or "not applicable" where applicable. If information which answers an inquiry is given elsewhere in the report, make a reference to the schedule in which it appears.

1.) Changes and important additions to franchise rights: Describe the actual consideration given therefor and state from whom the franchise rights were acquired. State if no consideration was given.

2.) Acquisition of ownership in other carrier operations by reorganization, merger, or consolidation with other companies: Give names of companies involved, particulars concerning the transactions, and reference to dates of Commission authorization and journal entries filed if applicable.

3.) Important extension or reduction of carrier pipeline operations: State territory added or relinquished and date operations began or ceased and give reference to Commission authorization, if any was required.

4.) State briefly the status of any materially important legal proceedings pending at the end of the year, and the results of any such proceedings culminated during the year.

5.) If the important changes during the year relating to the respondent company appearing in the respondent's annual report to stockholders are applicable in every respect and furnish the data required by instructions 1 to 4 above, such notes may be attached to this page.

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Important Changes During the Year (continued)

1. None
2. None.
3. None.
4. Refer to page 122, Notes to Financial Statements
5. Not applicable.

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Comparative Balance Sheet Statement

For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.
1.) For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.
2.) On line 30, include depreciation applicable to investment in system property.
For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.

Line No.	Item (a)	Reference Page No. (b)	Balance at End of Current Year (in dollars) (c)	Balance at End of Previous Year (in dollars) (d)
	CURRENT ASSETS			
1	Cash (10)		(2,984,481)	(905,519)
2	Special Deposits (10-5)			
3	Temporary Investments (11)		1,684	3,062,631
4	Notes Receivable (12)			
5	Receivables from Affiliated Companies (13)	200	141,992,585	311,451,469
6	Accounts Receivable (14)		28,466,860	23,913,424
7	Accumulated Provision For Uncollectible Accounts (14-5)		(575,480)	(1,072,614)
8	Interest and Dividends Receivable (15)			
9	Oil Inventory (16)			
10	Material and Supplies (17)		2,414,826	1,362,372
11	Prepayment (18)		(170,323)	(80,973)
12	Other Current Assets (19)			
13	Deferred Income Tax Assets (19-5)	230-231		
14	TOTAL Current Assets (Total of lines 1 thru 13)		169,145,671	337,730,790
	INVESTMENTS AND SPECIAL FUNDS			
	Investments in Affiliated Companies (20):			
15	Stocks	202-203		
16	Bonds	202-203		
17	Other Secured Obligations	202-203		
18	Unsecured Notes	202-203		
19	Investment Advances	202-203	4,403,470	5,751,800
20	Undistributed Earnings from Certain Invest. in Acct. 20	204	(484,656)	(561,748)
	Other Investments (21):			
21	Stocks			
22	Bonds			
23	Other Secured Obligations			
24	Unsecured Notes			
25	Investment Advances			
26	Sinking and other funds (22)			
27	TOTAL Investment and Special Funds (Total lines 15 thru 26)		3,918,814	5,190,052
	TANGIBLE PROPERTY			
28	Carrier Property (30)		1,395,445,746	1,351,920,516

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Comparative Balance Sheet Statement (continued)

For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.
1.) For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.
2.) On line 30, include depreciation applicable to investment in system property.
For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.

Line No.	Item (a)	Reference Page No. (b)	Balance at End of Current Year (in dollars) (c)	Balance at End of Previous Year (in dollars) (d)
29	(Less) Accrued Depreciation-Carrier Property (31)		188,349,936	156,594,407
30	(Less) Accrued Amortization-Carrier Property (32)			
31	Net Carrier Property (Line 28 less 29 and 30)		1,207,095,810	1,195,326,109
32	Operating Oil Supply (33)			
33	Noncarrier Property (34)		351,728,000	333,886,495
34	(Less) Accrued Depreciation-Noncarrier Property		45,692,719	37,594,553
35	Net Noncarrier Property (Line 33 less 34)		306,035,281	296,291,942
36	TOTAL Tangible Property (Total of lines 31, 32, and 35)		1,513,131,091	1,491,618,051
	OTHER ASSETS AND DEFERRED CHARGES			
37	Organization Costs and Other Intangibles (40)			
38	(Less) Accrued Amortization of Intangibles (41)			
39	Reserved			
40	Miscellaneous Other Assets (43)			
41	Other Deferred Charges (44)	221	19,380,352	18,671,230
42	Accumulated Deferred Income Tax Assets (45)	230-231		
43	Derivative Instrument Assets (46)			
44	Derivative Instrument Assets - Hedges (47)			
45	TOTAL Other Assets and Deferred Charges (37 thru 44)		19,380,352	18,671,230

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Comparative Balance Sheet Statement (continued)

For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.
1.) For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.
2.) On line 30, include depreciation applicable to investment in system property.
For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.

Line No.	Item (a)	Reference Page No. (b)	Balance at End of Current Year (in dollars) (c)	Balance at End of Previous Year (in dollars) (d)
46	TOTAL Assets (Total of lines 14, 27, 36 and 45)		1,705,575,928	1,853,210,123
	CURRENT LIABILITIES			
47	Notes Payable (50)			
48	Payables to Affiliated Companies (51)		410,822,794	533,081,424
49	Accounts Payable (52)		9,693,621	3,076,067
50	Salaries and Wages Payable (53)			
51	Interest Payable (54)		28,024,374	22,748,311
52	Dividends Payable (55)			
53	Taxes Payable (56)		3,609,708	2,358,484
54	Long-Term Debt - Payable Within One Year (57)	226-227		37,078,000
55	Other Current Liabilities (58)		35,845,303	108,286,868
56	Deferred Income Tax Liabilities (59)	230-231		
57	TOTAL Current Liabilities (Total of lines 47 thru 56)		487,995,800	706,629,154
	NONCURRENT LIABILITIES			
58	Long-Term Debt - Payable After One Year (60)	226-227		
59	Unamortized Premium on Long-Term Debt (61)			
60	(Less) Unamortized Discount on Long-Term Debt-Dr. (62)			
61	Other Noncurrent Liabilities (63)		34,259,100	23,147,811
62	Accumulated Deferred Income Tax Liabilities (64)	230-231		
63	Derivative Instrument Liabilities (65)			
64	Derivative Instrument Liabilities - Hedges (66)			
65	Asset Retirement Obligations (67)			
66	TOTAL Noncurrent Liabilities (Total of lines 58 thru 65)		34,259,100	23,147,811
67	TOTAL Liabilities (Total of lines 57 and 66)		522,254,900	729,776,965
	STOCKHOLDERS' EQUITY			
68	Capital Stock (70)		1,183,321,028	1,123,433,158
69	Premiums on Capital Stock (71)			
70	Capital Stock Subscriptions (72)			
71	Additional Paid-In Capital (73)	254		
72	Appropriated Retained Income (74)	118		
73	Unappropriated Retained Income (75)	119		
74	(Less) Treasury Stock (76)			
75	Accumulated Other Comprehensive Income (77)			
76	TOTAL Stockholders' Equity (Total of lines 68 thru 75)	115	1,183,321,028	1,123,433,158
77	TOTAL Liabilities and Stockholders' Equity (Total of lines 67 and 76)		1,705,575,928	1,853,210,123

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Income Statement

1.) Give the particulars (details) called for from the income Accounts of the respondent for the year. The entries in this statement should be determined in accordance with the rules prescribed in the U.S. of A. and should be consistent with the details stated on the pages referred to.

2.) The dividends on line 5 includes only dividends from investments accounted for under the cost method. The dividends on line 11 includes only dividends accounted for under the equity method. Line 12 includes the undistributed earnings from investments accounted for under the equity method. Line 13 represents the earnings (losses) of investee companies accounted for under the equity method.

Line No.	Item (a)	Reference Page No. (b)	Current Year Amount (in dollars) (c)	Previous Year Amount (in dollars) (d)
	ORDINARY ITEMS - Carrier Operating Income			
1	Operating Revenues (600)	301	232,070,711	231,015,619
2	(Less) Operating Expenses (610)	302-304	133,556,119	185,029,035
3	Net Carrier Operating Income		98,514,592	45,986,584
	Other Income and Deductions			
4	Income (Net) from Noncarrier Property (602)	335	44,810,269	38,945,692
5	Interest and Dividend Income (From Investment under Cost Only) (630)	336	973,800	93,948
6	Miscellaneous Income (640)	337	3,301,719	1,011,463
7	Unusual or Infrequent Items--Credits (645)			
8	(Less) Interest Expense (650)		8,778,916	14,095,293
9	(Less) Miscellaneous Income Charges (660)	337	416,650	195,235
10	(Less) Unusual or Infrequent Items--Debit (665)			
11	Dividend Income (From Investments under Equity Only)			
12	Undistributed Earnings (Losses)		1,483,056	980,241
13	Equity in Earnings (Losses) of Affiliated Companies (Total lines 11 and 12)		1,483,056	980,241
14	TOTAL Other Income and Deductions (Total lines 4 thru 10 and 13)		41,373,278	26,740,816
15	Ordinary Income before Federal Income Taxes (Line 3 +/- 14)		139,887,870	72,727,400
16	(Less) Income Taxes on Income from Continuing Operations (670)			
17	(Less) Provision for Deferred Taxes (671)	230-231		
18	Income (Loss) from Continuing Operations (Total lines 15 thru 17)		139,887,870	72,727,400
	Discontinued Operations			
19	Income (Loss) from Operations of Discontinued Segments (675)*			
20	Gain (Loss) on Disposal of Discontinued Segments (676)*			
21	TOTAL Income (LOss) from Discontinued Operations (Lines 19 and 20)			
22	Income (Loss) before Extraordinary Items (Total lines 18 and 21)		139,887,870	72,727,400
	EXTRAORDINARY ITEMS AND ACCOUNT CHANGES			
23	Extraordinary Items -- Net -- (Debit) Credit (680)	337		
24	Income Taxes on Extraordinary Items -- Debit (Credit) (695)	337		
25	Provision for Deferred Taxes -- Extraordinary Items (696)	230-231		
26	TOTAL Extraordinary Items (Total lines 23 thru 25)			
27	Cumulative Effect of Changes in Accounting Principles (697)*			
28	TOTAL Extraordinary Items and Accounting Changes -- (Debit) Credit (Line 26 + 27)			
29	Net Income (Loss) (Total lines 22 and 28)		139,887,870	72,727,400
	* Less applicable income taxes as reported on page 122			

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Statement of Accumulated Comprehensive Income and Hedging Activities

1. Report in columns (b) (c) and (e) the amounts of accumulated other comprehensive income items, on a net-of-tax basis, where appropriate.

2. Report in columns (f) and (g) the amounts of other categories of other cash flow hedges.

3. For each category of hedges that have been accounted for as "fair value hedges", report the accounts affected and the related amounts in a footnote.

Line No.	Item (a)	Unrealized Gains and Losses on available-for-sale securities (b)	Minimum Pension liabililty Adjustment (net amount) (c)	Foreign Currency Hedges (d)	Other Adjustments (e)
1	Balance of Account 77 at Beginning of Preceding Year				
2	Preceding Year Reclassification from Account 77 to Net Income				
3	Preceding Year Changes in Fair Value				
4	Total (lines 2 and 3)				
5	Balance of Account 77 at End of Preceding Year / Beginning of Current Year				
6	Current Year Reclassifications from Account 77 to Net Income				
7	Current Year Changes in Fair Value				
8	Total (lines 6 and 7)				
9	Balance of Account 77 at End of Current Year				

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Statement of Accumulated Comprehensive Income and Hedging Activities(continued)

Line No.	Other Cash Flow Hedges [Specify] (f)	Other Cash Flow Hedges [Specify] (g)	Totals for each category of items recorded in Account 77 (h)	Net Income (Carried Forward from Page 114, Line 29) (i)	Total Comprehensive Income (j)
1					
2					
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4					
5					
6					
7					
8					
9					

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Appropriated Retained Income

Give an analysis of the amount in Account No. 74, Appropriated Retained Income, at the end of the year.

Line No.	Class of Appropriation (a)	Balance at End of Current Year (in Dollars) (b)	Balance at End of Previous Year (in dollars) (c)
1	Additions to Property Through Retained Income		
2	Debt Retained Through Retained Income		
3	Sinking Funds		
4	Other Funds		
5	Appropriated Retained Income Not Specifically Invested		
6	Other Appropriations (Specify)		
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20	**Total**		

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	03/31/2004	Dec. 31, 2003

Unappropriated Retained Income Statement

1.) Report items of the Retained Income Accounts of the respondents for the year, classified in accordance with the U.S. of A.
2.) Report on lines 15 and 16 the amount of assigned Federal income tax consequences, Account Nos. 710 and 720.
3.) Report on lines 17 through 20 all amounts applicable to the equity in undistributed earnings (losses) of affiliated companies based on the equity method of accounting.
4.) Line 18 should agree with line 12, Schedule 114. The total of lines 2, 6, and 18 should agree with line 29, Schedule 114.
5.) Include on lines 1 through 12 only amounts applicable to Retained Income exclusive of any amounts included on lines 17 through 20.

Line No.	Item (a)	Reference Page No. (b)	Current Year Amount (in dollars) (c)	Previous Year Amount (in dollars) (d)
	UNAPPROPRIATED RETAINED INCOME			
1	Balances at Beginning of Year			
	CREDITS			
2	Net Balance Transferred from Income (700)	114		
3	Prior Period Adjustments to Beginning Retained Income (705)			
4	Other Credits to Retained Income (710)*	337		
5	TOTAL (Lines 2 thru 4)			
	DEBITS			
6	Net Balance Transferred from Income (700)	114		
7	Other Debits to Retained Income (720)*	337		
8	Appropriations of Retained Income (740)			
9	Dividend Appropriations of Retained Income (750)	119		
10	TOTAL (lines 6 thru 9)			
11	Net Increase (Decrease) During Year (Line 5 minus line 10)			
12	Balances at End of Year (Lines 1 and 11)			
13	Balance from Line 20			
14	TOTAL Unapprop. Retained Inc. and Equity in Undistr. Earnings. (Losses) of Affil. Comp. at End of Year (Lines 12 & 13)			
	*Amount of Assigned Federal Income Tax Consequences			
15	Account No. 710			
16	Account No. 720			
	EQUITY IN UNDISTRIBUTED EARNINGS (LOSSES) OF AFFILIATED COMPANIES			
17	Balances at Beginning of Year			
18	Net Balance transferred from Income (700)	114		
19	Other Credits (Debits)			
20	Balances at End of Year			

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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	03/31/2004	Dec. 31, 2003

Statement of Cash Flows

1.) If the notes to the cash flow statement in the respondents annual stockholders report are applicable to this statement such notes should be attached to page 122. Information about noncash investing and financing activities should be provided on page 122. Provide also on page 122 a reconciliation between "Cash and Cash Equivalents at End of Year" with related amounts on the balance sheet.
2.) Under "Other' specify significant amounts and group others.
3.) Operating Activities-Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show on page 122 the amounts of interest paid (net of amounts capitalized) and income taxes paid.

Line No.	Description (See Instructions No. 5 for Explanation of Codes) (a)	Current Year Amount (b)	Previous Year Amount (c)
1	Cash Flow from Operating Activities:		
2	Net Income	139,887,870	72,727,400
3	Noncash Charges (Credits) to Income:		
4	Depreciation	43,999,318	43,058,978
5	Amortization		
6			
7			
8	Deferred Income Taxes		
9			
10	Net (Increase) Decrease in Receivables	(5,050,570)	8,286,295
11	Net (Increase) Decrease in Inventory		
12	Net Increase (Decrease) in Payables and Accrued Expenses	(59,296,724)	82,754,223
13			
14	Other:		
15	Net (Increase) Decrease in Receivables from Affiliated Companies	169,458,884	(122,775,341)
16	Net Increase (Decrease) in Payables to Affiliated Companies	(159,336,630)	43,722,604
17	Net Increase (Decrease) in Noncurrent Liabilities	11,111,289	(32,615,344)
18	Other	(1,749,318)	(4,503,933)
19			
20			
21	Net Cash Provided by (Used in) Operating Activities		
22	(Total of lines 2 thru 20)	139,024,119	90,654,882
23			
24	Cash Flows from Investment Activities:		
25	Construction and Acquisition of Plant (including land):		
26	Gross Additions to Carrier Property:	(20,447,264)	(18,062,655)
27	Gross Additions to Noncarrier Property	(22,942,622)	(9,354,320)
28	Other:		
29	Other Carrier Property Changes	(26,455,995)	9,130,599
30	Other	4,333,523	2,820,775
31			
32			
33			
34	Cash Outflows for Plant (Total of lines 26 thru 33)	(65,512,358)	(15,465,601)
35			
36	Acquisition of Other Noncurrent Assets (d)		
37	Proceeds from Disposal of Noncurrent Assets (d)		
38			
39	Investments in and Advances to Assoc. and Subsidiary Companies	1,348,330	(518,529)
40	Contributors and Advances from Assoc. and Subsidiary Companies		
41	Disposition of Investments in (and Advances to)		
42	Associated and Subsidiary Companies		
43			
44	Purchase of Investment Securities (a)		
45	Proceeds from Sales of Investment Securities (a)		

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Statement of Cash Flows (continued)

4.) Investing Activities:
Include at Other (line 28) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed on page 122.
5.) Codes used:
(a) Net proceeds or payments.
(b) Bonds, debentures and other long term debt.
(c) Include commercial paper.
(d) Identify separately such items assets, intangibles, etc.
6.) Enter on page 122 clarifications and explanations.

Line No.	Description (See Instructions No. 5 for Explanation of Codes) (a)	Current Year Amount (b)	Previous Year Amount (c)
46	Loans Made or Purchased		
47	Collections on Loans		
48			
49	Net (Increase) Decrease in Receivables		
50	Net (Increase) Decrease in Inventory		
51	Net Increase (Decrease) in Payables and Accrued Expenses		
52	Other:		
53			
54			
55			
56	Net Cash Provided by (Used in) Investing Activities		
57	(Total of Lines 34 thru 55)	(64,164,028)	(15,984,130)
58			
59	Cash Flows from Financing Activities:		
60	Proceeds from Issuance of:		
61	Long-Term Debt (b)		
62	Capital Stock		
63	Other:		
64			
65			
66	Net Increase in Short-Term Debt (c)	37,078,000	42,479,000
67	Other:		
68			
69			
70	Cash Provided by Outside Sources (Total of lines 61 thru 69)	37,078,000	42,479,000
71			
72	Payment for Retirement of:		
73	Long-term Debt (b)	(37,078,000)	(42,479,000)
74	Capital Stock		
75	Other:		
76	Distributions to General and Limited Partners	(80,000,000)	(80,000,000)
77			
78	Net Decrease in Short-Term Debt (c)		
79			
80	Dividends on Capital Stock		
81	Other:		
82	Net Cash Provided by (Used in) Financing Activities		
83	(Total of lines 70 thru 81)	(80,000,000)	(80,000,000)
84			
85	Net Increase (Decrease) in Cash and Cash Equivalents		
86	(Total of Lines 22, 57, and 83)	(5,139,909)	(5,329,248)
87			
88	Cash and Cash Equivalents at Beginning of Year	2,157,112	7,486,360
89			
90	Cash and Cash Equivalents at End of Year	(2,982,797)	2,157,112

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Notes to Financial Statements

1.) Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account therefor. Classify the notes according to each basic statement, providing a subheading for each statement, except where a note is applicable to more than one statement.

2.) Furnish details as to any significant commitments or contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessments of additional income taxes of a material amount, or of a claim for refund of income taxes of a material amount initiated by the respondent. State whether such commitments or contingencies will have a material adverse effect upon the financial position or results of operations of the respondent.

3.) Furnish details on the accounting for the respondent's
pensions and postretirement benefits and explain any changes in the method of accounting for them. Include in the details a concise breakdown of the effects of the various components on income for the year, funding for the plans and accumulated obligations at year end.

4.) Provide an explanation of any significant changes in operations during the year. Give the financial statement effects of acquiring oil pipelines by purchase or merger or by participating in joint ventures or similar activities.

5.) Furnish details on the respondent's accounting for income taxes and provide an explanation of any changes in the methods of accounting for income taxes and give the financial statement effects resulting from these changes.

6.) Provide an explanation of any significant rate or other regulatory matters involving the respondent during the year and give the effects, if any, on the respondent's financial statements.

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Note 1 – General

Organization

SFPP, L.P. (SFPP) owns and operates approximately 2,800 miles of pipeline that transport refined petroleum products and 13 truck-loading. It is owned (99.5%) by its general partner Kinder Morgan Energy Partners, L.P. (KMEP) and (0.5%) by its special limited partner Santa Fe Pacific Pipelines, Inc. KMEP holds the general partnership interest in SFPP through one of its operating partnerships, Kinder Morgan Operating L.P. "D" (OLP-D).

Kinder Morgan, Inc. (KMI) is the sole stockholder of Kinder Morgan GP, Inc. (KMGP), which holds the general partner interest in KMEP (1%) as well as an interest (1.0101%) in each of the operating limited partnerships held by KMEP, including OLP D.

On February 14, 2001, Kinder Morgan Management LLC (KMR), a limited liability company, was formed under the Delaware Limited Liability Company Act. KMR is a public entity that trades on the New York Stock Exchange under the symbol "KMR". KMGP owns each of the two KMR voting securities and is its sole managing member. During fiscal year 2001, KMGP delegated to KMR the right to manage and control KMEP, the parent company and general partner of SFPP.

Pensions and Postretirement Benefits

SFPP, L.P. has no officers, directors or employees. All management services for the Partnership were provided by KMR. Salaries and wages, and associated pension and benefit costs, related to the management of the Partnership are included in Accounts 320 and 520, *Outside Services* on page 303.

Income Tax

For federal and state income tax purposes, SFPP is not a taxable entity. As such, it does not directly pay Federal or State income tax. SFPP's taxable income or loss, which may vary substantially from the net income or net loss it reports in its statement of income, is includable in the tax returns for each partner.

Compliance

SFPP maintains its chart of accounts to comply with the Uniform System of Accounts for oil pipelines. Therefore, the amounts contained in this Form 6 may not necessarily reflect or capture all the costs required for analysis using the regulatory methodology set forth in Opinion Nos. 154-B and 154-C, revisions thereof and successors thereto.

Note 2 – Litigation and Other Contingencies

The tariffs SFPP charges for transportation on its interstate common carrier pipelines are subject to rate regulation by the Federal Energy Regulatory Commission (FERC), under the Interstate Commerce Act. The Interstate Commerce Act requires, among other things, that interstate petroleum products pipeline rates be just and reasonable and non-discriminatory. Pursuant to FERC Order No. 561, effective January 1, 1995, interstate petroleum products pipelines are able to change their rates within prescribed ceiling levels that are tied to an inflation index. FERC Order No. 561-A, affirming and clarifying Order No. 561, expands the circumstances under which interstate petroleum products pipelines may employ cost-of-service ratemaking in lieu of the indexing methodology, effective January 1, 1995.

Federal Energy Regulatory Commission Proceedings

Tariffs charged by SFPP are subject to certain proceedings at the FERC involving shippers' complaints regarding the interstate rates, as well as practices and the jurisdictional nature of certain facilities and services, SFPP's pipeline systems. Generally, the interstate rates on SFPP's pipeline systems are "grandfathered" under the Energy Policy Act of 1992 unless "substantially changed circumstances" are found to exist. To the extent "substantially changed circumstances" are found to exist, SFPP may be subject to substantial exposure under these FERC complaints.

The complainants in the proceedings before the FERC have alleged a variety of grounds for finding "substantially changed circumstances." Applicable rules and regulations in this field are vague, relevant factual issues are complex, and there is little precedent available regarding the factors to be considered or the method of analysis to be employed in making a determination of "substantially changed circumstances." If SFPP rates previously "grandfathered" under the Energy Policy Act lose their "grandfathered" status and are found to be unjust and unreasonable, shippers may be entitled to prospective rate reductions and complainants may be entitled to reparations for periods from the date of their respective complaint to the date of the implementation of the new rates.

On June 24, 2003, a non-binding, phase one initial decision was issued by an administrative law judge hearing a FERC case on the rates charged by SFPP on the interstate portion of its pipelines (see OR96-2 section below for further discussion). In his phase one initial decision, the administrative law judge recommended that the FERC "ungrandfather" SFPP's interstate rates and found most of SFPP's rates at issue to be unjust and unreasonable. The administrative law judge has indicated that a phase two initial decision will address prospective rates and whether reparations are necessary.

Initial decisions have no force or effect and must be reviewed by the FERC. The FERC is not obliged to follow any of the administrative law judge's findings and can accept or reject this initial decision in whole or in part. In addition, as stated above, the facts are complex, the rules and regulations in this area are vague and little precedent exists. The FERC is now considering the phase one initial decision and will consider the phase two initial decision when it is issued and briefed by the parties. If the FERC ultimately finds, after reviewing both initial decisions, that these rates should be "ungrandfathered" and are unjust and unreasonable, they could be lowered prospectively and complaining shippers could be entitled to reparations for prior periods. We do not expect any impact on our rates relating to this matter before early 2005.

SFPP currently believe that these FERC complaints seek approximately $154 million in tariff reparations and prospective annual tariff reductions, the aggregate average annual impact of which would be approximately $45 million. As the length of time from the filing of the complaints increases, the amounts sought by complainants in tariff reparations will likewise increase until a determination of reparations owed is made by the FERC. SFPP is not able to predict with certainty the final outcome of the pending FERC proceedings, should they be carried through to their conclusion, or whether SFPP can reach a settlement with some or all of the complainants. The administrative law judge's initial decision does not change SFPP's estimate of what the complainants seek. Furthermore, even if "substantially changed circumstances" are found to exist, SFPP believes that the resolution of these FERC complaints will be for amounts substantially less than the amounts sought and that the resolution of such matters will not have a material adverse effect on SFPP's business, financial position, results of operations or cash flows.

OR92-8, et al. proceedings. FERC Docket No. OR92-8-000 *et al.*, is a consolidated proceeding that began in September 1992 and includes a number of shipper complaints against certain rates and practices on SFPP's East Line (from El Paso, Texas to Phoenix, Arizona) and West Line (from Los Angeles, California to Tucson, Arizona), as well as SFPP's gathering enhancement fee at Watson Station in Carson, California. The complainants in the case are El Paso Refinery, L.P. (which settled with SFPP in 1996), Chevron Products Company, Navajo Refining Company (now Navajo Refining Company, L.P.), ARCO Products Company (now part of BP West Coast Products, LLC), Texaco Refining and Marketing Inc., Refinery Holding Company LP (now named Western Refining Company, L.P.), Mobil Oil Corporation (now part of ExxonMobil Oil Corporation) and Tosco Corporation (now part of ConocoPhillips Company). The FERC has ruled that the complainants have the burden of proof in those proceedings.

A FERC administrative law judge held hearings in 1996, and issued an initial decision in September 1997. The initial decision held that all but one of SFPP's West Line rates were "grandfathered" under the Energy Policy Act of 1992 and therefore deemed to be just and reasonable; it further held that complainants had

failed to prove "changed circumstances" with respect to those rates and that they therefore could not be challenged in the Docket No. OR92-8 *et al.* proceedings, either for the past or prospectively. However, the initial decision also made rulings generally adverse to SFPP on certain cost of service issues relating to the evaluation of East Line rates, which are not "grandfathered" under the Energy Policy Act. Those issues included the capital structure to be used in computing SFPP's "starting rate base," the level of income tax allowance SFPP may include in rates and the recovery of civil and regulatory litigation expenses and certain pipeline reconditioning costs incurred by SFPP. The initial decision also held SFPP's Watson Station gathering enhancement service was subject to FERC jurisdiction and ordered SFPP to file a tariff for that service.

The FERC subsequently reviewed the initial decision, and issued a series of orders in which it adopted certain rulings made by the administrative law judge, changed others and modified a number of its own rulings on rehearing. Those orders began in January 1999, with FERC Opinion No. 435, and continued through June 2003.

The FERC affirmed that all but one of SFPP's West Line rates are "grandfathered" and that complainants had failed to satisfy the threshold burden of demonstrating "changed circumstances" necessary to challenge those rates. The FERC further held that the one West Line rate that was not grandfathered did not need to be reduced. The FERC consequently dismissed all complaints against the West Line rates in Docket Nos. OR92-8 *et al.* without any requirement that SFPP reduce, or pay any reparations for, any West Line rate.

The FERC initially modified the initial decision's ruling regarding the capital structure to be used in computing SFPP's "starting rate base" to be more favorable to SFPP, but later reversed that ruling. The FERC also made certain modifications to the calculation of the income tax allowance and other cost of service components, generally to SFPP's disadvantage.

On multiple occasions, the FERC required SFPP to file revised East Line rates based on rulings made in the FERC's various orders. SFPP was also directed to submit compliance filings showing the calculation of the revised rates, the potential reparations for each complainant and in some cases potential refunds to shippers. SFPP filed such revised East Line rates and compliance filings in March 1999, July 2000, November 2001 (revised December 2001), October 2002 and February 2003 (revised March 2003). Most of those filings were protested by particular SFPP shippers. The FERC has held that certain of the rates SFPP filed at the FERC's directive should be reduced retroactively and/or be subject to refund; SFPP has challenged the FERC's authority to impose such requirements in this context.

While the FERC initially permitted SFPP to recover certain of its litigation, pipeline reconditioning and environmental costs, either through a surcharge on prospective rates or as an offset to potential reparations, it ultimately limited recovery in such a way that SFPP was not able to make any such surcharge or take any such offset. Similarly, the FERC initially ruled that SFPP would not owe reparations to any complainant for any period prior to the date on which that party's complaint was filed, but ultimately held that each complainant could recover reparations for a period extending two years prior to the filing of its complaint (except for Navajo, which was limited to one month of pre-complaint reparations under a settlement agreement with SFPP's predecessor). The FERC also ultimately held that SFPP was not required to pay reparations or refunds for Watson Station gathering enhancement fees charged prior to filing a FERC tariff for that service.

In April 2003, SFPP paid complainants and other shippers reparations and/or refunds as required by FERC's orders. In August 2003, SFPP paid shippers an additional refund as required by FERC's most recent order in the Docket No. OR92-8 *et al.* proceedings. Payments of $44.9 million were made in 2003 for reparations and refunds under order from the FERC.

Beginning in 1999, SFPP, the complainants and intervenor Ultramar Diamond Shamrock Corporation (now part of Valero Energy Corporation) filed petitions for review of FERC's Docket OR92-8 *et al.* orders in the United States Court of Appeals for the District of Columbia Circuit. Certain of those petitions were dismissed by the Court of Appeals as premature, and the remaining petitions were held in abeyance pending completion of agency action. However, in December 2002, the Court of Appeals returned to its active docket all petitions to review the FERC's orders in the case through November 2001 and severed petitions regarding later FERC orders. The severed orders were held in abeyance for later consideration.

Briefing in the Court of Appeals was completed in August 2003, and oral argument took place on November 12, 2003. The Court of Appeals is expected to issue its decision in the first or second quarter of 2004.

Sepulveda proceedings. In December 1995, Texaco filed a complaint at FERC (Docket No. OR96-2) alleging that movements on SFPP's Sepulveda pipelines (Line Sections 109 and 110) to Watson Station, in the Los Angeles basin, were subject to FERC's jurisdiction under the Interstate Commerce Act, and claimed that the rate for that service was unlawful. Several other West Line shippers filed similar complaints and/or motions to intervene.

Following a hearing in March 1997, a FERC administrative law judge issued an initial decision holding that the movements on the Sepulveda pipelines were not subject to FERC jurisdiction. On August 5, 1997, the FERC reversed that decision. On October 6, 1997, SFPP filed a tariff establishing the initial interstate rate for movements on the Sepulveda pipelines at the pre-existing rate of five cents per barrel. Several shippers protested that rate. In December 1997, SFPP filed an application for authority to charge a market-based rate for the Sepulveda service, which application was protested by several parties. On September 30, 1998, the FERC issued an order finding that SFPP lacks market power in the Watson Station destination market and set a hearing to determine whether SFPP possessed market power in the origin market.

Following a hearing, on December 21, 2000, an administrative law judge found that SFPP possessed market power over the Sepulveda origin market. On February 28, 2003, the FERC issued an order upholding that decision. SFPP filed a request for rehearing of that order on March 31, 2003. The FERC denied SFPP's request for rehearing on July 9, 2003.

As part of its February 28, 2003 order denying SFPP's application for market-based ratemaking authority, the FERC remanded to the ongoing litigation in Docket No. OR96-2, *et al*. the question of whether SFPP's current rate for service on the Sepulveda line is just and reasonable. That issue is currently pending before the administrative law judge in the Docket No. OR96-2, *et al*. proceeding. The procedural schedule in this remanded matter is currently suspended pending issuance of the phase two initial decision in the Docket No. OR96-2, *et al*. proceeding (see below).

OR96-2; OR97-2; OR98-1. et al. proceedings. In October 1996, Ultramar filed a complaint at FERC (Docket No. OR97-2) challenging SFPP's West Line rates, claiming they were unjust and unreasonable and no longer subject to grandfathering. In October 1997, ARCO, Mobil and Texaco filed a complaint at the FERC (Docket No. OR98-1) challenging the justness and reasonableness of all of SFPP's interstate rates, raising claims against SFPP's East and West Line rates similar to those that have been at issue in Docket Nos. OR92-8, *et al*. discussed above, but expanding them to include challenges to SFPP's grandfathered interstate rates from the San Francisco Bay area to Reno, Nevada and from Portland to Eugene, Oregon - the North Line and Oregon Line. In November 1997, Ultramar Diamond Shamrock Corporation filed a similar, expanded complaint (Docket No. OR98-2). Tosco Corporation filed a similar complaint in April 1998. The shippers seek both reparations and prospective rate reductions for movements on all of the lines. The FERC accepted the complaints and consolidated them into one proceeding (Docket No. OR96-2, *et al*.), but held them in abeyance pending a FERC decision on review of the initial decision in Docket Nos.

OR92-8, *et al*.

In a companion order to Opinion No. 435, the FERC gave the complainants an opportunity to amend their complaints in light of Opinion No. 435, which the complainants did in January 2000.

In August 2000, Navajo and RHC filed complaints against SFPP's East Line rates and Ultramar filed an additional complaint updating its pre-existing challenges to SFPP's interstate pipeline rates. These complaints were consolidated with the ongoing proceeding in Docket No. OR96-2, *et al*.

A hearing in this consolidated proceeding was held from October 2001 to March 2002. A FERC administrative law judge issued his initial decision on June 24, 2003. The initial decision found that, for the years at issue, the complainants had shown substantially changed circumstances for rates on SFPP's West, North and Oregon Lines and for SFPP's fee for gathering enhancement service at Watson Station and thus found that those rates should not be "grandfathered" under the Energy Policy Act of 1992. The initial decision also found that most of SFPP's rates at issue were unjust and unreasonable. The initial decision indicated that a phase two initial decision will address prospective rates and whether reparations are necessary. Issuance of the phase two initial decision is expected sometime in the first quarter of 2004.

SFPP has filed a brief on exceptions to the FERC that contests the findings in the initial decision. SFPP's opponents have responded to SFPP's brief. The FERC is now considering the phase one initial decision and will consider the phase two initial decision when it is issued and briefed by the parties. If the FERC ultimately finds, after reviewing both initial decisions, that these rates should be "ungrandfathered" and are unjust and unreasonable, they could be lowered prospectively and complaining shippers could be entitled to reparations for prior periods. We do not expect any impact on our rates relating to this matter before early 2005.

OR02-4 proceedings. On February 11, 2002, Chevron, an intervenor in the Docket No. OR96-2, *et al*. proceeding, filed a complaint against SFPP in Docket No. OR02-4 along with a motion to consolidate the complaint with the Docket No. OR96-2, *et al*. proceeding. On May 21, 2002, the FERC dismissed Chevron's complaint and motion to consolidate. Chevron filed a request for rehearing, which the FERC dismissed on September 25, 2002. In October 2002, Chevron filed a request for rehearing of the FERC's September 25, 2002 Order, which the FERC denied on May 23, 2003. On July 1, 2003, Chevron filed a petition for review of this denial at the U.S. Court of Appeals for the District of Columbia Circuit. On August 18, 2003, SFPP filed a motion to dismiss Chevron's petition on the basis that Chevron lacks standing to bring its appeal and that the case is not ripe for review. Chevron answered on September 10, 2003. SFPP's motion was pending, when the Court of Appeals, on December 8, 2003, granted Chevron's motion to hold the case in abeyance pending the outcome of the appeal of the Docket No. OR92-8, *et al.* proceeding. On January 8, 2004, the Court of Appeals granted Chevron's motion to have its appeal of the FERC's decision in Docket No. OR03-5 (see below) consolidated with Chevron's appeal of the FERC's decision in the Docket No. OR02-4 proceeding. Chevron continues to participate in the Docket No. OR96-2 *et al*. proceeding as an intervenor.

OR03-5 proceedings. On June 30, 2003, Chevron filed another complaint against SFPP - substantially similar to its previous complaint – and moved to consolidate the complaint with the Docket No. OR96-2, *et al*. proceeding. This complaint was docketed as Docket No. OR03-5. Chevron requested that this new complaint be treated as if it were an amendment to its complaint in Docket No. OR02-4, which was previously dismissed by the FERC. By this request, Chevron sought to, in effect, back-date its complaint, and claim for reparations, to February 2002. SFPP answered Chevron's complaint on July 22, 2003, opposing Chevron's requests for consolidation and for the back-dating of its complaint. On October 28, 2003 , the FERC accepted Chevron's complaint, but held it in abeyance pending the outcome of the Docket No. OR96-2, *et al.* proceeding. The FERC denied Chevron's request for consolidation and for back-dating. On November 21, 2003, Chevron filed a petition for review of the FERC's October 28, 2003

Order at the Court of Appeals for the District of Columbia Circuit. On January 8, 2004, the Court of Appeals granted Chevron's motion to have its appeal consolidated with Chevron's appeal of the FERC's decision in the Docket No. OR02-4 proceeding and to have the two appeals held in abeyance pending outcome of the appeal of the Docket No. OR92-8, *et al.* proceeding.

California Public Utilities Commission Proceeding
ARCO, Mobil and Texaco filed a complaint against SFPP with the California Public Utilities Commission on April 7, 1997. The complaint challenges rates charged by SFPP for intrastate transportation of refined petroleum products through its pipeline system in the State of California and requests prospective rate adjustments. On October 1, 1997, the complainants filed testimony seeking prospective rate reductions aggregating approximately $15 million per year.

On August 6, 1998, the CPUC issued its decision dismissing the complainants' challenge to SFPP's intrastate rates. On June 24, 1999, the CPUC granted limited rehearing of its August 1998 decision for the purpose of addressing the proper ratemaking treatment for partnership tax expenses, the calculation of environmental costs and the public utility status of SFPP's Sepulveda Line and its Watson Station gathering enhancement facilities. In pursuing these rehearing issues, complainants sought prospective rate reductions aggregating approximately $10 million per year.

On March 16, 2000, SFPP filed an application with the CPUC seeking authority to justify its rates for intrastate transportation of refined petroleum products on competitive, market-based conditions rather than on traditional, cost-of-service analysis.

On April 10, 2000, ARCO and Mobil filed a new complaint with the CPUC asserting that SFPP's California intrastate rates are not just and reasonable based on a 1998 test year and requesting the CPUC to reduce SFPP's rates prospectively. The amount of the reduction in SFPP rates sought by the complainants is not discernible from the complaint.

The rehearing complaint was heard by the CPUC in October 2000 and the April 2000 complaint and SFPP's market-based application were heard by the CPUC in February 2001. All three matters stand submitted as of April 13, 2001, and resolution of these submitted matters is anticipated within the third quarter of 2004.

The CPUC subsequently issued a resolution approving a 2001 request by SFPP to raise its California rates to reflect increased power costs. The resolution approving the requested rate increase also required SFPP to submit cost data for 2001, 2002, and 2003, and to assist the CPUC in determining whether SFPP's overall rates for California intrastate transportation services are reasonable. The resolution reserves the right to require refunds, from the date of issuance of the resolution, to the extent the CPUC's analysis of cost data to be submitted by SFPP demonstrates that SFPP's California jurisdictional rates are unreasonable in any fashion. On February 21, 2003, SFPP submitted the cost data required by the CPUC, which submittal was protested by Valero Marketing and Supply Company, Ultramar Inc., BP West Coast Products LLC, Exxon Mobil Oil Corporation and Chevron Products Company. Issues raised by the protest, including the reasonableness of SFPP's existing intrastate transportation rates, were the subject of evidentiary hearings conducted in December 2003 and are expected to be resolved by the CPUC by the third quarter of 2004.

We currently believe the CPUC complaints seek approximately $15 million in tariff reparations and prospective annual tariff reductions, the aggregate average annual impact of which would be approximately $31 million. There is no way to quantify the potential extent to which the CPUC could determine that SFPP's existing California rates are unreasonable. With regard to the amount of dollars potentially subject to refund as a consequence of the CPUC resolution requiring the provision by SFPP of cost-of-service data, such refunds could total about $6 million per year from October 2002 to the

anticipated date of a CPUC decision during the third quarter of 2004.

SFPP believes the submission of the required, representative cost data required by the CPUC indicates that SFPP's existing rates for California intrastate services remain reasonable and that no refunds are justified.

SFPP believes that the resolution of such matters will not have a material adverse effect on its business, financial position, results of operations or cash flows.

Southern Pacific Transportation Company Easements
SFPP and Southern Pacific Transportation Company (SPTC) are engaged in a judicial reference proceeding to determine the extent, if any, to which the rent payable by SFPP for the use of pipeline easements on rights-of-way held by SPTC should be adjusted pursuant to existing contractual arrangements (*Southern Pacific Transportation Company vs. Santa Fe Pacific Corporation, SFP Properties, Inc., Santa Fe Pacific Pipelines, Inc., SFPP, L.P., et al.*, Superior Court of the State of California for the County of San Francisco, filed August 31, 1994). In the second quarter of 2003, the trial court set the rent at approximately $5.0 million per year as of January 1, 1994. SPTC has appealed the matter to the California Court of Appeals.

Environmental Matters
SFPP is subject to environmental cleanup and enforcement actions from time to time. In particular, the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) generally imposes joint and several liability for cleanup and enforcement costs on current or predecessor owners and operators of a site, without regard to fault or the legality of the original conduct. SFPP's operations are also subject to federal, state and local laws and regulations relating to protection of the environment. Although SFPP believes its operations are in substantial compliance with applicable environmental regulations, risks of additional costs and liabilities are inherent in pipeline and terminal operations and there can be no assurance that SFPP will not incur significant costs and liabilities. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from SFPP's operations, could result in substantial costs and liabilities to SFPP.

SFPP is currently involved in the following governmental proceedings related to compliance with environmental regulations associated with its assets and has established a reserve to address the costs associated with the cleanup: (i) one cleanup ordered by the United States Environmental Protection Agency related to ground water contamination in the vicinity of SFPP's storage facilities and truck loading terminal at Sparks, Nevada, (ii) several ground water hydrocarbon remediation efforts under administrative orders issued by the California Regional Water Quality Control Board and two other state agencies and (iii) SFPP is, from time to time, involved in civil proceedings relating to damages alleged to have occurred as a result of accidental leaks or spills of refined petroleum products.

Other
SFPP is a defendant in various lawsuits arising from day-to-day operations. Although no assurance can be given, SFPP believes, based on its experiences to date, that the ultimate resolution of such items will not have a material adverse impact on its business, financial position, results of operations or cash flows.

In addition to the matters described above, SFPP may face additional challenges to its rates in the future. Shippers on SFPP's pipelines do have rights to challenge the rates SFPP charges under certain circumstances prescribed by applicable regulations. There can be no assurance that SFPP will not face challenges to the rates SFPP receives for services on its pipeline systems in the future. In addition, since many of SFPP's assets are subject to regulation, SFPP is subject to potential future changes in applicable rules and regulations that may have an adverse effect on SFPP's business, financial position or results of operations.

Note 3 – Colton Processing Facility
SFPP owns a 50% interest in the Colton Processing Facility and accounts for its interests using the equity method of accounting. Under this method, an investment is carried at SFPP's acquisition cost, plus its equity in undistributed earnings or losses since acquisition.

In the second quarter of 2003, the Cardlock Joint Venture (of which SFPP owned a 50% interest in) was dissolved, and all assets and liabilities liquidated.

Note 4 – Debt
In December 2003, SFPP retired the $37.1 million balance outstanding under the First Mortgage Series F notes, plus accrued interest.

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Receivables from Affiliated Companies

1.) Give particulars (details) of the various affiliated company debtors and the character of the transactions involved in the current asset Account No. 13, Receivables from Affiliated Companies.
2.) In column (a), list every item amounting to $500,000 or more. For debtors whose balances were less than $500,000, a single entry may be made under a caption "Minor accounts, less than $500,000."

Line No.	Name of Debtor (a)	Description of Assets or of Transaction (b)	Balance at End of Year (in dollars) (c)
1	Kinder Morgan Energy		
2	Partners, L.P. and		
3	affiliates	Advances	141,992,585
4			
5			
6			
7			
8			
9			
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11			
12			
13			
14			
15			
16			
17			
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46			
47			
48			
49		**Total**	141,992,585

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	03/31/2004	Dec. 31, 2003

Investments in Affiliated Companies

1.) Give particulars (details) of investments included in Account Nos. 20, Investments in Affiliated Companies and 22, Sinking and Other Funds.
2.) Refer to the General Instructions on page 201. Be sure to follow the classification of Investments. Give totals for each class and for each subclass, and a grand total for each account.
3.) Indicate in footnotes the obligation in support of which any security is pledged, mortgaged, or otherwise encumbered, giving names and other important particulars (details) of such obligations.
4.) Enter in column (c) date of maturity of bonds and other evidences of indebtedness. In case obligations of the same designation mature serially, the date in column (c) may be reported as "Serially 19 to 19 ". In making entries in this column, abbreviations in common use in standard financial publications may be used where necessary due to limited space.

Line No.	Account No. (a)	Class No. (From 201) (b)	Name of Issuing Comapny and Description of Security Held, Also Lien Reference, If Any (c)	Extent of Control (In percent) (d)
1	20	E	Colton Processing Facility	50.00
2				
3			No bonds or other evidence of indebtedness	
4				
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6				
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43				

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Investments in Affiliated Companies (continued)

5.) If any of the companies included in this schedule are controlled by respondent, give the percent of control in column (d). In case any company listed is controlled other than through actual ownership of securities, give particulars (details) in a footnote. In cases of joint control, give in a footnote names of other parties and particulars (details) of control.
6.) If any advances are pledged, give particulars (details) in a footnote.
7.) Give particulars (details) of investments made, disposed of, or written down during the year in columns (f), (g) and (h). If the cost of any investment made during the year differs from the book value reported in column (f), explain the matter in a footnote. "Cost" means the consideration given minus accrued interest or dividends included therein. If the consideration given or received for such investments was other than cash, describe the transaction in a footnote.
8.) Do not include in this schedule issued securities or assumed by respondent.

Line No.	Total Book Value of Investments At End of Year (in dollars) (e)	Book Value of Investments of During Year (in dollars) (f)	INVST. DISP. WRITTEN Book Value (g)	INVST. DISP. WRITTEN Selling Price (h)	DIVIDENDS OR INTEREST Rate (in percent) (i)	DIVIDENDS OR INTEREST Amount Credited to Income (in dollars)
1	3,918,814					
2						
3						
4						
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11						
12						
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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	03/31/2004	Dec. 31, 2003

Invest in Com Stocks of Affiliated Co / Co Controlled Directly by Resp other than through Title to Securities

1.) Report below the particulars (details) of all investments in common stocks included in Account No. 20, Investments in Affiliated Companies, which qualify for the equity method under instruction 2-2 in the U.S. of A.

2.) Enter in column (c) the amount necessary to retroactively adjust those investments qualifying for the equity method of accounting in accordance with instruction 2-2 (c) (11) of the U.S. of A.

Line No.	Name of Issuing Company and Description of Security Held (a)	Balance at Beginning of Year (in dollars) (b)
	Carriers (List specifics for each company)	0
1		0
2		0
3		0
4		0
5		0
6		0
7		0
8		0
9		0
10		0
11		0
12		0
13	TOTAL	0
14	Noncarriers (Show totals only for each column)	0
15	TOTAL	0

COMPANIES CONTROLLED DIRECTLY BY RESPONDENT OTHER THAN THROUGH TITLE TO SECURITIES

Line No.	Name of Company Controlled (a)	Sole or Joint (b)
1		
2		
3		
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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
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Invest in Com Stocks of Affiliated Co / Co Controlled Directly by Resp other than through Title to Securities

3.) Enter in column (d) the share of undistributed earnings (i.e., less dividends) or losses.
4.) Enter in column (e) the amortization for the year of the excess of cost over equity in net assets (equity over cost) at date of acquisition. See instruction 2-2 (c) (4) of the U.S. of A.
5). The cumulative total of column (g) must agree with column (c), line 19, Schedule 110.

Line No.	Adjustment for Investments Qualifying for Equity Method (in dollars) (c)	Equity in Undistributed Earnings (Losses during year in dollars) (d)	Amortization During Year (in dollars) (e)	Adjustment for Investments Disposed of or Written Down During Year (in dollars) (f)	Balance at End of Year (in dollars) (g)
	0	0	0	0	0
1	0	0	0	0	0
2	0	0	0	0	0
3	0	0	0	0	0
4	0	0	0	0	0
5	0	0	0	0	0
6	0	0	0	0	0
7	0	0	0	0	0
8	0	0	0	0	0
9	0	0	0	0	0
10	0	0	0	0	0
11	0	0	0	0	0
12	0	0	0	0	0
13	0	0	0	0	0
14	0	0	0	0	0
15	0	0	0	0	0

COMPANIES CONTROLLED DIRECTLY BY RESPONDENT OTHER THAN THROUGH TITLE TO SECURITIES (Continued)

Line No.	DESCRIP. OF CONTROL Other Parties, if Any, to Joint Agreement for Control (c)	DESC OF CONTROL How Established (d)	DESC OF CONTROL Extent of Control (In percent) (e)	Remarks (f)
1			0.00	
2			0.00	
3			0.00	
4			0.00	
5			0.00	
6			0.00	
7			0.00	
8			0.00	
9			0.00	
10			0.00	
11			0.00	
12			0.00	
13			0.00	
14			0.00	
15			0.00	
16			0.00	
17			0.00	
18			0.00	
19			0.00	
20			0.00	
21			0.00	
22			0.00	
23			0.00	
24			0.00	

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	03/31/2004	Dec. 31, 2003

Carrier Property

Line No.	Account (a)	Balance at Beginning of Year (in dollars) (b)	PROP CHNGS DUR YR Expenditures for New Construction, Additions, and Improvements	PROP CHNGS DUR YR Expenditures for Existing Property Purchased or Otherwise Acquired (d)
	GATHERING LINES			
1	Land (101)			
2	Right of Way (102)			
3	Line Pipe (103)			
4	Line Pipe Fittings (104)			
5	Pipeline Construction (105)			
6	Buildings (106)			
7	Boilers (107)			
8	Pumping Equipments (108)			
9	Machine Tools and Machinery (109)			
10	Other Station Equipment (110)			
11	Oil Tanks (111)			
12	Delivery Facilities (112)			
13	Communication systems (113)			
14	Office Furniture and Equipment (114)			
15	Vehicles and Other Work Equipment (115)			
16	Other Property (116)			
17	Asset Retirement Costs for Gathering Lines (117)			
18	TOTAL (Lines 1 thru 17)			
	TRUNK LINES			
19	Land (151)	16,482,893		
20	Right of Way (152)	83,721,445	1,459,793	
21	Line Pipe (153)	297,000,930	241,700	
22	Line Pipe Fittings (154)	23,182,074	81,841	
23	Pipeline Construction (155)	537,452,608	5,791,259	
24	Buildings (156)	11,645,310	159,477	
25	Boilers (157)			
26	Pumping Equipment (158)	135,577,297	63,132	
27	Machine Tools and Machinery (159)			
28	Other Station Equipment (160)	176,780,085	8,228,327	
29	Oil Tanks (161)	30,334,296	1,236,060	
30	Delivery Facilities (162)	8,917,223	295,963	
31	Communication Systems (163)	2,051,428	13,855	
32	Office Furniture and Equipment (164)	6,883,025	2,179,100	
33	Vehicles and Other Work Equipment (165)	6,788,390	696,757	
34	Other Property (166)			
35	Asset Retirement Costs for Trunk Lines (167)			
36	TOTAL (Lines 19 thru 35)	1,336,817,004	20,447,264	
	GENERAL			
37	Land (171)			
38	Buildings (176)			
39	Machine Tools and Machinery (179)			
40	Communication Systems (183)			
41	Office Furniture and Equipment (184)			
42	Vehicles and Other Work Equipment (185)			
43	Other Property (186)			
44	Asset Retirement Costs for General Property (186.1)			
45	Construction Work in Progress (187)	15,103,512		
46	TOTAL (Lines 37 thru 45)	15,103,512		
47	GRAND TOTAL (Lines 18, 36, and 46)	1,351,920,516	20,447,264	

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Carrier Property (continued)

Line No.	PROP CHNGS DUR YR Property Sold, Abandoned, or Otherwise Retired During the Year (e)	PROP CHNGS DUR YR Net (c + d - e) (f)	Other Adjustments, Transfers and Clearnances (in dollars) (g)	Increase or Decrease During the Year (f+/-g) (in dollars) (h)	Balance at End of Year (b +\- h) (in dollars) (i)
1					
2					
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14					
15					
16					
17					
18					
19					16,482,893
20		1,459,793	(274,268)	1,185,525	84,906,970
21	87,017	154,683	(352,537)	(197,854)	296,803,076
22	3,306	78,535	(12,902)	65,633	23,247,707
23	418,991	5,372,268	(4,990,250)	382,018	537,834,626
24	27,916	131,561	(25,138)	106,423	11,751,733
25					
26	23,545	39,587	(9,952)	29,635	135,606,932
27					
28	857,752	7,370,575	(1,296,607)	6,073,968	182,854,053
29	29,045	1,207,015	(194,846)	1,012,169	31,346,465
30	5,705	290,258	4,878,110	5,168,368	14,085,591
31	3,272	10,583		10,583	2,062,011
32	12,071	2,167,029	133,597	2,300,626	9,183,651
33	520,540	176,217	(57,389)	118,828	6,907,218
34					
35					
36	1,989,160	18,458,104	(2,202,182)	16,255,922	1,353,072,926
37					
38					
39					
40					
41					
42					
43					
44					
45			27,269,308	27,269,308	42,372,820
46			27,269,308	27,269,308	42,372,820
47	1,989,160	18,458,104	25,067,126	43,525,230	1,395,445,746

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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	03/31/2004	Dec. 31, 2003

Undivided Joint Interest Property

Name of Undivided Joint Interest Pipeline:

Line No.	Account (a)	Balance at Beginning of Year (in dollars) (b)	Property. Change During Year (in dollars) Expenditures for New Construction, Additions, and Improvements (c)	Property Change During Year (in dollars) Expenditures for Existing Property Purchased or Otherwise Acquired (d)
	GATHERING LINES			
1	Land (101)			
2	Right of Way (102)			
3	Line Pipe (103)			
4	Line Pipe Fittings (104)			
5	Pipeline Construction (105)			
6	Buildings (106)			
7	Boilers (107)			
8	Pumping Equipment (108)			
9	Machine Tools and Machinery (109)			
10	Other Station Equipment (110)			
11	Oil Tanks (111)			
12	Delivery Facilities (112)			
13	Communication Systems (113)			
14	Office Furniture and Equipment (114)			
15	Vehicles and Other Work Equipment (115)			
16	Other Property (116)			
17	Asset Retirement Costs for Gathering Lines (117)			
18	TOTAL (Lines 1 thru 17)			
	TRUNK LINES			
19	Land (151)			
20	Right of Way (152)			
21	Line Pipe (153)			
22	Line Pipe Fittings (154)			
23	Pipeline Construction (155)			
24	Buildings (156)			
25	Boilers (157)			
26	Pumping Equipment (158)			
27	Machine Tools and Machinery (159)			
28	Other Station Equipment (160)			
29	Oil Tanks (161)			
30	Delivery Facilities (162)			
31	Communication Systems (163)			
32	Office Furniture and Equipment (164)			
33	Vehicles and Other Work Equipment (165)			
34	Other Property (166)			
35	Asset Retirement Costs for Trunk Lines (167)			
36	TOTALS Lines 19 thru 35)			
	GENERAL			
37	Land (171)			
38	Buildings (176)			
39	Machine Tools and Machinery (179)			
40	Communication Systems (183)			
41	Office Furniture and Equipment (184)			
42	Vehicles and Other Work Equipment (185)			
43	Other Property (186)			
44	Asset Retirement Costs for General Property (186.1)			
45	Construction Work in Progress (187)			
46	TOTAL (Lines 37 thru 45)			
47	GRAND TOTAL (Lines 18, 36, and 46)			

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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
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Undivided Joint Interest Property

Line No.	Property Change During Year (in dollars) Property Sold, Abandonded, or Otherwise Retired During the Year (e)	Net (c+d-e) (f)	Other Adjustments, Transfers, and Clearances (in dollars) (g)	Increase or Decrease During the Year (f + g) (in dollars) (h)	Balance at End of Year (b+h) (in dollars) (i)
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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
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Accrued Depreciation - Carrier prop (Exclusive of Depreciation on Undiv. Joint Int. Prop. reported in schedule 217)

Give particulars (details) of the credits and debits to Account No. 31, Accrued Depreciation - Carrier Property, during the year.

Line No.	Account (a)	Balance at Beginning of Year (in dollars) (b)	Debits to Account No. 540 and 541 of U.S. of A. (in dollars) (c)	Net Debit From Retirement of Carrier Property (in dollars) (d)	Other Debits and Cardits Net (in dollars) (e)	Balance at End of Year (b + c + d + e) (in dollars) (f)	Annual Composite/ Component Rates (in percent) (g)
	GATHERING LINES						
1	Right of Way (102)						
2	Line Pipe (103)						
3	Line Pipe Fittings (104)						
4	Pipeline Construction (105)						
5	Buildings (106)						
6	Boilers (107)						
7	Pumping Equipment (108)						
8	Machine Tools and Machinery (109)						
9	Other Station Equipment (110)						
10	Oil Tanks (111)						
11	Delivery Facilities (112)						
12	Communication Systems (113)						
13	Office Furniture and Equipment (114)						
14	Vehicles and Other Work Equipment (115)						
15	Other Property (116)						
16	Asset Retirement Costs for Gathering Lines (117)						
17	TOTAL (lines 1 thru 16)						
	TRUNK LINES						
18	Right of Way (152)	10,216,704	2,192,169		(214,395)	12,194,478	2.60
19	Line Pipe (153)	31,093,459	6,591,224	(87,017)	(667,949)	36,929,717	2.22
20	Line Pipe Fittings (154)	2,693,423	603,587	(3,306)	(55,725)	3,237,979	2.60
21	Pipeline Construction (155)	61,476,563	13,441,090	(418,991)	(948,136)	73,550,526	2.50
22	Buildings (156)	1,534,398	380,202	(27,916)	(1,831)	1,884,853	3.25
23	Boilers (157)						
24	Pumping Equipment (158)	18,234,527	3,999,967	(23,545)	(321,240)	21,889,709	2.95
25	Machine Tools and Machinery (159)						
26	Other Station Equipment (160)	19,124,428	4,585,335	(857,752)	400,511	23,252,522	2.55
27	Oil Tanks (161)	4,037,456	986,892	(29,045)	(49,376)	4,945,927	3.20
28	Delivery Facilities (162)	1,182,547	356,544	(5,705)	(23,541)	1,509,845	3.10
29	Communication Systems (163)	301,649	75,070	(3,272)	(1,958)	371,489	3.65
30	Office Furniture and Equipment (164)	3,687,950	1,124,667	(12,071)	(8,356)	4,792,190	14.00
31	Vehicles and Other Work Equipment (165)	3,011,303	796,811	(520,540)	503,127	3,790,701	15.70
32	Other Property (166)						
33	Asset Retirement Costs for Trunk Lines (167)						
34	TOTAL (Lines 18 thru 33)	156,594,407	35,133,558	(1,989,160)	(1,388,869)	188,349,936	
	GENERAL						
35	Buildings (176)						
36	Machine Tools and Machinery (179)						
37	Communication Systems (183)						
38	Office Furniture and Equipment (184)						
39	Vehicles and Other Work Equipment (185)						
40	Other Property (186)						
41	Asset Retirement Costs for General Property (186.1)						
42	TOTAL (lines 35 thru 41)						
43	GRAND TOTAL (Lines 17, 34, 42)	156,594,407	35,133,558	(1,989,160)	(1,388,869)	188,349,936	

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Accrued Depreciation - Undivided Joint Interest Property

Give particulars (details) of the credits and debits to Account No. 31, Accrued Depreciation - Carrier Property, during the year.

Name of Undivided Joint Interest Pipeline:

Line No.	Account (a)	Balance at Beginning of Year (in dollars) (b)	Debits to Account No. 540 and 541 (in dollars) (c)	Net Debit From Retirement of System Property (in dollars) (d)	Other Debits and Credits - Net (in dollars) (e)	Balance at End of Year (b + c+ d + e) (in dollars) (f)	Annual Composit/ Component Rates (in percent) (g)
	GATHERING LINES						
1	Right of Way (102)						
2	Line Pipe (103)						
3	Line Pipe Fittings (104)						
4	Pipeline Construction (105)						
5	Buildings (106)						
6	Boilers (107)						
7	Pumping Equipment (108)						
8	Machine Tools and Machinery (109)						
9	Other Station Equipment (110)						
10	Oil Tanks (111)						
11	Delivery Facilities (112)						
12	Communication Systems (113)						
13	Office Furniture and Equipment (114)						
14	Vehicles and Other Work Equipment (115)						
15	Other Property (116)						
16	Asset Retirement Costs for Gatherling Lines (117)						
17	TOTAL (Lines 1 thru 16)						
	TRUNK LINES						
18	Right of Way (152)						
19	Line Pipe (153)						
20	Line Pipe Fittings (155)						
21	Pipeline Construction (155)						
22	Buildings (156)						
23	Boilers (157)						
24	Pumping Equipment (158)						
25	Machine Tools and Machinery (159)						
26	Other Station Equipment (160)						
27	Oil Tanks (161)						
28	Delivery Facilites (162)						
29	Communication Systems (163)						
30	Office Furniture and Equipment (164)						
31	Vehicles and Other Work Equipment (165)						
32	Other Property (166)						
33	Asset Retirement Costs for Trunk Lines (167)						
34	TOTAL (Lines 18 thru 33)						
	GENERAL						
35	Buildings (176)						
36	Machine Tools and Machinery (179)						
37	Communication Systems (183)						
38	Office Furniture and Equipment (184)						
39	Vehicles and Other Work Equipment (185)						
40	Other Property (186)						
41	Asset Retirement Costs for General Property (186.1)						
42	TOTAL (Lines 35 thru 41)						
43	GRAND TOTAL (Lines 17, 34, 42)						

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Amortization Base and Reserve

1.) Enter in columns (b) thru (e) the cost of pipeline property used as the base in computing amortization charges included in Account 540, Depreciation and Amortization, and Account 541, Depreciation Expense for Asset Retirement Costs, of the accounting company.
2.) Enter in columns (f) thru (i) the balances at the beginning and end of the year and the total credits and debits during the year in Account No. 32, Accrued Amortization -Carrier Property.
3.) The information requested for columns (b) thru (i) may be shown by projects or for totals only.
4.) If reporting by project, briefly describe in a footnote each project amounting to $100,000 or more. Reference the kind of property reported; do not

Line No.	Items (a)	BASE 540 and 541 Balance at Beginning of Year (in dollars) (b)	BASE 540 and 541 Debits During Year (in dollars) (c)	BASE 540 and 541 Credits During Year (in dollars) (d)	BASE 540 and 541 Balance at End of Year (in dollars) (e)
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47	**Total**				

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include location. Items less than $100,000 may be combined in a single entry titled Minor Items, Each Less Than $100,000

5.) If the amounts in column (g) do not correspond to the amounts actually charged to Account No. 540 and/or 541, explain such differences in a footnote.

6.) Explain in a footnote adjustments included in column (h) that affect operating expenses.

Line No.	RESERVE Balance at Beginning of Year (in dollars) (f)	RESERVE Credits During Year (in dollars) (g)	RESERVE Debits During Year (in dollars) (h)	RESERVE Balance at End of Year (in dollars) (i)
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Noncarrier Property

1.) Give particulars (details) of all investments of the re-spondent in physical property includable in Account No. 34, Noncarrier property, in the USofA. In column (a), when describing the property, give the location and other identifica-tion with a reasonable amount of detail.

2.) Report each item in excess of $1,000,000. Items less than $1,000,000 may be combined in a single entry titled "Minor items, less than $1,000,000."

3.) If any noncarrier property was disposed of during the year, or by reclassification was transferred to or from the carrier property accounts, give particulars (details) in a footnote.

4.) Summarize the revenues and expenses of operated noncarrier properties on schedule 335.

Line No.	Name and Description of Physical property Held at End of Year as an Investment (a)	Date Included in Account No. 34 (b)	Book Cost at End of Year (in dollars) (c)	Remarks (d)
1	Albany (OR) Truck Loading Terminal	12/31/1980	1,058,429	
2	Atwater (CA) Truck Loading Terminal	12/31/1987	399,884	
3	Beale Air Force Base (CA) Military Base	12/31/1987	484,731	
4	Bradshaw (CA) Truck Loading Terminal	12/31/1958	16,629,161	
5	Brisbane (CA) Truck Loading Terminal	12/31/1979	18,829,625	
6	Chico (CA) Truck Loading Terminal	12/31/1978	14,853,946	
7	Colton (CA) Truck Loading Terminal	12/31/1956	24,561,014	
8	Concord (CA) Initiating Pump Station	12/31/1987	6,020,171	
9	El Paso (TX) Initiating Pump Station	12/31/1980	446,641	
10	Eugene (OR) Truck Loading Terminal	12/31/1980	16,241,821	
11	Fresno (CA) Truck Loading Terminal	12/31/1974	23,817,832	
12	Imperial (CA) Truck Loading Terminal	12/31/1980	11,353,239	
13	Lemoore Naval Air Station (CA) Military Base	12/31/1997	1,255,641	
14	Mission Valley (CA) Truck Loading Terminal	12/31/1988	27,368,299	
15	Niland (CA) Delivery Station	12/31/1980	584,079	
16	Ontario (CA) Truck Loading Terminal	12/31/1980	3,770,021	
17	Orange (CA) Truck Loading Terminal	12/31/1988	13,437,692	
18	Phoenix (AZ) Truck Loading Terminal	12/31/1980	43,586,256	
19	Reno (NV) Truck Loading Terminal	12/31/1976	16,044,610	
20	Rocklin (CA) Delivery Station	12/31/1980	1,966,563	
21	San Jose (CA) Truck Loading Terminal	12/31/1976	31,375,330	
22	Stockton (CA) Delivery Station	12/31/1987	757,611	
23	Tucson (AZ) Truck Loading Terminal	12/31/1980	30,985,952	
24	Williams Air Force Base (AZ) Military Base	12/31/1987	1,816,937	
25	Yuma (AZ) Delivery Station	12/31/1987	1,477,390	
26	Software	12/31/1985	2,795,777	
27	Communications related	12/31/1998	29,032,825	
28	Acquisition costs	12/31/1998	9,007,822	
29	Minor items, each less than $1,000,000		1,768,701	
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46		**Total**	351,728,000	

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Other Deferred Charges

Give an analysis of the balance in Account No. 44, Other Deferred Charges, at the end of the year, show-ing in detail each item or subaccount of $500,000 or more. Items less than $500,000 may be combined in a single entry designated Minor Items, Each Less Than $500,000. In case the type of any item is not fully disclosed by the entries in the columns below, explain in a foot-note.

Line No.	Description and Type of Items: Names of Debtor (or Class of Debtors), If Any (a)	Amount at End of Year (in dollars) (b)
1	Properties purchased for, or related to, remediation, including improvements and other assets	
2	Recovery expected related to property	2,446,000
3	Undivided interest in property in Sparks, Nevada	1,465,808
4	Minor Items, Each Less Than $500,000	260,010
5		
6	Expected reimbursement of environmental settlement costs	2,318,954
7		
8	Deferred State tax	9,052,000
9		
10	Recollectible projects	1,264,786
11		
12	Engineering studies	2,142,135
13		
14	Minor Items, Each Less Than $500,000	430,659
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50	**Total**	19,380,352

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Payables to Affiliated Companies

1.) Give particulars (details) on the various affiliated company creditors and provide a description of the transactions involved in the current liability Account No. 51, Payable to Affiliated Companies.
2.) In column (a), list every item amounting to $500,000 or more. For creditors whose balances were less than $500,000, a single entry may be made under a caption "Minor accounts, less than $500,000."

Line No.	Name of Creditor (a)	Description of Liability or of Transaction (b)	Balance at End of Year (in dollars) (c)
1	Kinder Morgan Energy Partners L.P.		
2	and affiliates	Advances	55,822,794
3			
4	Kinder Morgan Operating L.P. "D"	Demand Notes	355,000,000
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49		**Total**	410,822,794

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Long-Term Debt

1.) Give particulars (details) of the various unmatured bonds and other evidence of long-term debt of the respondent included in Account No. 57, Long-Term Debt Payable Within One Year and No. 60, Long-Term Debt Payable After One Year.
2.) In column (a) enter the name of each bond or other obligations as it is designated in the records of the respondent.
3.) In case obligations of the same designation mature serially or otherwise at various dates, enter in column (c) the latest date of maturity and explain the matter in a footnote.
4.) If respondent has had to obtain final authority for the amount of debt to be incurred, provide in a footnote the name of such officer or board and the date when assent was given.

Line No.	Name and Description of Obligation (a)	Nominal Date of Issue (b)	Date of Maturity (c)	TOTAL PAR VALUE In Treasury (d)	TOTAL PAR VALUE Sinking, Other Funds (e)	TOTAL PAR VALUE Pledged as Collateral (f)
	MORTGAGE BONDS					
1						
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10						
11	TOTAL for Mortgage Bonds					
	COLLATERAL TRUST BONDS					
12						
13						
14						
15						
16						
17	TOTAL for Collateral Trust Bonds					
	INCOME BONDS					
18						
19						
20						
21	TOTAL for Income Bonds					
	MISCELLANEOUS OBLIGATIONS					
22						
23						
24						
25						
26						
27						
28						
29						
30	TOTAL for Miscellaneous Obligations					
	NONNEGOTIABLE DEBT TO AFFILIATED CO.					
31						
32						
33						
34						
35						
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39						
40	TOTAL for Nonnegotiable Debt to Affil. Co.					
41	GRAND TOTAL (Lines 11, 17, 21, 30 and					

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Long-Term Debt (continued)

5.) Refer to the definitions of "nominally issued," "actually issued," etc.
6.) If interest accrued during the year (as entered in columns (k) and (l)) does not aggregate the total accrual for the year on any security, explain the discrepancy in a footnote. Entries in these columns should include interest accrued on long-term debt reacquired or retired during the year, although no portion of the issue is actually outstanding at the end of the year.
7.) In determining the entries for column (m), do not treat any interest as paid unless the interest is actually paid to the respondent. Do not report deposits of cash with banks and other fiscal agents for the payment of interest coupons as payments of such interest until actually paid to coupon holders or others under such circumstances as to relieve the respondent from further liability.

Line No.	TOTAL PAR VALUE Payable within 1 Yr. (Acc. 57) (g)	TOTAL PAR VALUE Payable After 1 Yr. (acc. 60) (h)	INTR. PROV. Rate Per Amnum (in percent) (i)	INTR. PROV. Dates Due (j)	Amount of Interest Accrued During Year Charged to Income (in dollars) (k)	Amount of Int. Charged to Construction or Other Investment Account (in dollars) (l)	Amount of Interest Paid During Year (in dollars) (m)
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Analysis of Federal Income and Other Taxes Deferred

1.) Listed in column (a) are the current and noncurrent deferred income tax accounts.
2.) Report in column (b) under the current and noncurrent deferred tax holdings the beginning of year balance for each item that causes temporary differences between financial reporting and tax reporting bases of assets and liabilities. Such items should include, but not be limited to, accelerated depreciation and amortization, and tax deferrals of pensions and post retirement benefits. Other items which cause such a difference should be listed under, Other, including State and other taxes deferred if computed separately. Minor items each less than $100,000 may be combined in a single entry under Other.
3.) Report in column (c) for the current deferred tax category the net change in Account Nos. 19.5, Deferred Income Tax Assets and 59, Deferred Income Tax Liabilities and for the noncurrent accumulated deferred tax category the net change in Account Nos. 45, Accumulated Deferred Income Tax Assets and 64, Accumulated Deferred Income Tax Liabilities for the current year temporary differences.
4.) The total of net credits (debits) for the current year in column (c) should agree with the contra debits (credits) to Account No. 671, Provision for Deferred Taxes, and Account No. 696, Provision for Deferred Taxes-Extraordinary Items, for the current reporting year.
5.) Report in column (d) any adjustments, as appropriate, including adjustments to eliminate or reinstate deferred tax effects (credits or deb-its) due to applying or recognizing a loss carryforward or a loss carry-back. Explain the adjustments in the space at the end of this schedule.
6.) Report in column (e) for the current and noncurrent deferred tax categories the cumulative totals of columns (b), (c), and (d). The total of column (e) for the current deferred tax category must be the same as the balance in Account Nos. 19.5 or 59 and the total of column (e) for the noncurrent accumulated deferred tax category must be the same as the balance in Account Nos. 45 or 64 as reported in the Comparative Balance Sheet Statement.

Line No.	Items Causing Temporary Differences (a)	Beginning of Year Balance (in dollars) (b)	Net Charge for the Current Year (in dollars) (c)	Adjustments (in dollars) (d)	End of Year Balance (b + c + d) (in dollars) (e)
	Current Deferred Taxes - Account Nos. 19-5 and 59				
1	Defered Income Tax Assets/Liabilities:				
2					
3					
4					
5					
6	Other (Specify)				
7					
8					
9					
10	TOTALS				
	Noncurrent Deferred Taxes - Accont Nos. 45 and 64				
11	Accumulated Defered Income Tax Assets/Liabilities:				
12					
13					
14					
15					
16	Other (Specify)				
17					
18					
19					
20	TOTALS				

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Capital Stock (Account 70)

1.) Report below the particulars (details) called for concerning common and preferred stock at end of year, distinguishing separate series of any general class. Show separate totals for common and preferred stock. If information to meet the stock exchange reporting requirement out lined in column (a) is available from the SEC 10-K Report form filing, a specific reference to the report form (i.e. year and company title) may be reported in column (a) provided the fiscal years for both the 10-K report and this report are compatible.
2.) Entries in column (b) should represent the number of shares authorized by the articles of incorporation as amended to end of year.

Line No.	Class and Series of Stock and Name of Stock Exchange (a)	Number of Shares Authorized by Charter (b)	Par or Stated Value Per Share (c)	Call Price at End of Year (d)
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Capital Stock (Account 70)

3.) Give particulars (details) concerning shares of any class and series of stock authorized to be issued by a regulatory commission which have not been issued.
4.) The identification of each class of preferred stock should show the dividend rate and whether the dividends are cumulative or noncumulative.
5.) State in a footnote if any capital stock which has been nominally issued is nominally outstanding at end of year.
6.) Give particulars (details) in column (a) of any nominally issued capital stock, reacquired stock, or stock in sinking and other funds which is pledged, stating name of pledgee and purpose of pledge.

Line No.	OUTS. PER BAL. SHEET Shares (e)	OUTS. PER BAL. SHEET Amount (f)	HELD BY RESP. AS TREAS. STOCK Shares (g)	HELD BY RESP. AS TREAS. STOCK Amount (h)	HELD BY RESP. IN SINK AND OTH FUNDS Shares (i)	HELD BY RESP. IN SINK AND OTH. FUNDS Amount (j)
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Capital Stock Changes During the Year

1.) Give particulars (detail) of stock actually or nominally issued (either original issues or reissues) and of stocks reacquired or canceled during the year. For nominally issued stock, show returns in columns (a), (b), and (d) only.
2.) In column (c) state whether issued for construction of new properties, for additions and betterments, for purchase of pipe line or other property, for conversion, for acquisition of securities, for reorganization, or for other corporate purposes. If an issue, of securities was authorized for more than

Line No.	Class of Stock (a)	STOCKS ISS. DUR YR Date of Issue (Mo, Da, Yr) (b)	STOCKS ISS. DUR YR Purpose of the Issue, Authority, and Number and Date of Authorization (c)	STOCKS ISS. DUR YR Number of Shares (d)	STOCKS ISS. DUR YR Net Proceeds Received for Issue (Cash or its Equivalent) (in dollars) (e)
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Capital Stock Changes During the Year (continued)

one purpose, state in a footnote amount applicable to each purpose. Also give the number and date of the authorization by the public authority under whose control such issue was made, naming such authority.
3.) In column (e) include as cash all money, checks, drafts, bills of exchange, and other commercial paper payable as par on demand.

Line No.	STOCKS ISS. DUR YR Cash Value of Other Property Acquired or Services Received as Consideration for Issue (in dollars) (f)	STOCKS ISS. DUR YR Net Total Discounts or Premiums (Exclude entries in column (h); enter premiums in parentheses) (in dollars) (g)	STOCKS ISS. DUR YR Expense of Issuing Capital Stock (in dollars) (h)	STOCKS REACQ. DUR YR Number of Shares (i)	STOCKS REACQ. DUR YR Purchase Price (in dollars) (j)	Remarks (k)
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Additional Paid-in Capital

Give an analysis of Account 73, Additional Paid-In Capital. In column (a) give a brief description of the items added or deducted and in column (b) insert the contra account number to which the amount stated in column (c) was charged or credited.

Line No.	Item (a)	Contra Account Number (b)	Amount (in dollars) (c)
1	Balance at Beginning of Year		
2	Additions During the Year (Describe):		
3			
4			
5			
6			
7			
8			
9			
10			
11	TOTAL Additions During the Year		
12	Deductions During the Year (Describe):		
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23	TOTAL Deductions		
24	Balance at End of Year (TOTAL Lines 1 and 11 less		

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Operating Revenue Accounts (Account 600)

1.) Report the respondent's pipeline operating revenues for the year, classified in accordance with the USofA.

2.) For Account Nos. 200, 210, and 220, indicate the revenues derived from the interstate transportation of oil and the revenues derived from the intrastate transportation of oil. The sum of the two revenue figures should equal the total revenues in Account Nos. 200, 210, and 220.

Line No.	Operating Revenue Accounts (a)	Crude Oil Previous Year (in dollars) (b)	Crude Oil Current Year (in dollars) (c)	Products Previous Year (in dollars) (d)	Products Current Year (in dollars) (e)	Total Previous Year (in dollars b + c) (f)	Total Current Year (in dollars b + c) (g)
1	Gathering Revenues (200)						
2	Trunk Revenues (210)			224,754,164	222,767,150	224,754,164	222,767,150
3	Delivery Revenues (220)						
4	Allowance Oil Revenue (230)						
5	Storage and Demurrage Revenue						
6	Rental Revenue (250)						
7	Incidental Revenue (260)			6,261,455	9,303,561	6,261,455	9,303,561
8	TOTAL			231,015,619	232,070,711	231,015,619	232,070,711

Line No.	Account (a)	Interstate Previous Year (b)	Interstate Current Year (c)	Intrastate Previous Year (d)	Intrastate Current Year (e)	Total Previous Year (b + c) (f)	Total Current Year (b + c) (g)
1	Gathering Revenues (200)						
2	Trunk Revenues (210)	124,801,000	124,956,117	99,953,164	97,811,033	224,754,164	222,767,150
3	Delivery Revenues (220)						
4	TOTAL	124,801,000	124,956,117	99,953,164	97,811,033	224,754,164	222,767,150

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Operating Expense Accounts (Account 610)

State the pipeline operating expenses of the respondent for the year, classifying them in accordance with the U. S. of A.

Line No.	Operating Expenses Accounts (a)	CRUDE OIL Gathering (b)	CRUDE OIL Trunk (c)	CRUDE OIL Delivery (d)	CRUDE OIL Total (b + c + d) (e)
	OPERATIONS and MAINTENANCE				
1	Salaries and Wages (300)				
2	Materials and Supplies (310)				
3	Outside Services (320)				
4	Operating Fuel and Power (330)				
5	Oil Losses and Shortages (340)				
6	Rentals (350)				
7	Other Expenses (390)				
8	TOTAL Operations and Maintenance Expenses				
	GENERAL				
9	Salaries and Wages (500)				
10	Materials and Supplies (510)				
11	Outside Services (520)				
12	Rentals (530)				
13	Depreciation and Amortization (540)				
14	Depreciation Expense for Asset Retirement Costs				
15	Employee Benefits (550)				
16	Insurance (560)				
17	Casualty and Other Losses (570)				
18	Pipeline Taxes (580)				
19	Other Expenses (590)				
20	Accretion Expense (591)				
21	Gains or losses on Asset Retirement Obligations				
22	TOTAL General Expenses				
23	GRAND TOTALS				

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Line No.	Operating Expenses Accounts (a)	PRODUCTS (in dollars) Trunk (f)	PRODUCTS (in dollars) delivery (g)	PRODUCTS (in dollars) Total (f + g) (h)	Grand Total (e + h) (i)
	OPERATIONS and MAINTENANCE				
1	Salaries and Wages (300)				
2	Materials and Supplies (310)	2,714,623		2,714,623	2,714,623
3	Outside Services (320)	23,925,257		23,925,257	23,925,257
4	Operating Fuel and Power (330)	31,180,321		31,180,321	31,180,321
5	Oil Losses and Shortages (340)	(3,365,435)		(3,365,435)	(3,365,435)
6	Rentals (350)	7,368,115		7,368,115	7,368,115
7	Other Expenses (390)				
8	TOTAL Operations and Maintenance Expenses	61,822,881		61,822,881	61,822,881
	GENERAL				
9	Salaries and Wages (500)				
10	Materials and Supplies (510)				
11	Outside Services (520)	26,600,453		26,600,453	26,600,453
12	Rentals (530)				
13	Depreciation and Amortization (540)	35,133,558		35,133,558	35,133,558
14	Depreciation Expense for Asset Retirement Costs				
15	Employee Benefits (550)				
16	Insurance (560)				
17	Casualty and Other Losses (570)				
18	Pipeline Taxes (580)	9,566,917		9,566,917	9,566,917
19	Other Expenses (590)	432,310		432,310	432,310
20	Accretion Expense (591)				
21	Gains or losses on Asset Retirement Obligations				
22	TOTAL General Expenses	71,733,238		71,733,238	71,733,238
23	GRAND TOTALS	133,556,119		133,556,119	133,556,119

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Pipeline Taxes (Other than Income Taxes)

1.) Give the particulars (details) on the taxes accrued in carrier properties and charged to Account No. 580, Pipeline Taxes, of the respondent's income Account for the year.
2.) If during the year an important adjustment was made in Account 580 for taxes applicable to a prior year, state the full particulars (details) in a footnote.

A. STATE, LOCAL, AND OTHER TAXES

Line No.	Name of State (a)	Amount (in dollars) (b)	Line No.	Name of State (a)	Amount (in dollars) (b)
1	Alabama	0	31	New Mexico	32,049
2	Alaska	0	32	New York	0
3	Arizona	4,548,636	33	North Carolina	0
4	Arkansas	0	34	North Dakota	0
5	California	4,471,922	35	Ohio	0
6	Colorado	0	36	Oklahoma	0
7	Connecticut	0	37	Oregon	260,374
8	Delaware	0	38	Pennsylvania	0
9	Florida	0	39	Rhode Island	0
10	Georgia	0	40	South Carolina	0
11	Hawaii	0	41	South Dakota	0
12	Idaho	0	42	Tennessee	0
13	Illinois	0	43	Texas	94,957
14	Indiana	0	44	Utah	0
15	Iowa	0	45	Vermont	0
16	Kansas	0	46	Virginia	0
17	Kentucky	0	47	Washington	0
18	Louisiana	0	48	West Virginia	0
19	Maine	0	49	Wisconsin	0
20	Maryland	0	50	Wyoming	0
21	Massachusetts	0	51	District of Columbia	0
22	Michigan	0	52	Other (Specify):	0
23	Minnesota	0	53		0
24	Mississippi	0	54		0
25	Missouri	0	55		0
26	Montana	0	56		0
27	Nebraska	0	57		0
28	Nevada	158,979	58		0
29	New Hampshire	0	59	TOTAL - State, Local and Other Taxes	9,566,917
30	New Jersey	0			0

B. U.S. GOVERNMENT TAXES

Line No.	Kind of Tax (a)	Amount (in dollars) (b)
61	Old-Age Retirement	0
62	Unemployment Insurance	0
63	Other U.S. Taxes (Specify, Except Income Taxes)	0
64		0
65		0
66		0
67		0
68		0
69		0
70	TOTAL - U.S. Government Taxes	0
71	**GRAND Total (Account No. 580)**	**9,566,917**

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Income From Noncarrier Property

1.) State the revenues, expenses, and net income of the respondent during the year from each class of noncarrier property provided for in Account No. 620, Income from Noncarrier Property, in the U.S. of A.
2.) If the income relates to only a part of the year, give particulars (details) in a footnote.

Line No.	General Description of Property (a)	Total Revenues (in dollars) (b)	Total Expenses (in dollars) (c)
1	Noncarrier Facilities	70,558,318	25,748,049
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50	**Total**	70,558,318	25,748,049

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Interest and Dividend Income

Give a detailed analysis of amounts credited to Account No. 630, Interest and Dividend Income, classified in accordance with the U.S. of A.

Line No.	Item (a)	Dividend Income (in dollars) (b)	Interest Income (in dollars) (c)
1	Inc from Securities Invest in Affil Co (From Sched 202-203)		
2	Income from Other Securities Investments		
3	Income from Temporary Cash Investments		16,588
4	Other Credits (Specify)		
5	Interest earned on advances to Kinder Morgan Energy		
6	Partners, L.P. and affiliates		957,212
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50	**Total**		973,800

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Miscellaneous Items in Income and Retained Income Accounts for the Year

1.) Give a detailed analysis of items in Accounts 640, Miscellaneous Income; 660, Miscellaneous Income Charges; 680, Extraordinary Items; 695 Income Taxes on Extraordinary Items; 710, Other Credits to Retained Income, and 720, Other Debits to Retained Income, for the year (The classifications should be made in accordance with the U.S. of A.)
2.) For Accounts 640 and 660, report each item amounting to $250,000 or more; items less than $250,000 in these accounts may be combined in a single entry designated "Minor Items, each less than $250,000." Enter a total for each account.

Line No.	Account No. (a)	Item (b)	Debits (in dollars) (c)	Credits (in dollars) (d)
1	640	Gain on sales of noncarrier property		2,348,165
2	640	Adjustment to Accumulated Provision for		
3		Uncollectible Accounts		500,000
4	640	Administrative fees related to reimbursements		146,047
5	640	Minor Items, each less than $250,000		307,507
6				
7				
8	660	Losses on sale or disposition of noncarrier		
9		property	398,598	
10	660	Minor Items, each less than $250,000	18,052	
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15				
16				
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Payments for Services Rendered by Other than Employees

1.) Give information concerning payments, fees, retainers, commissions, gifts, contributions, assessments, bonuses, pensions, subscriptions, allowance for expenses, or any form of payments mounting in the aggregate to $100,000 or more during the year to any corporation, institution, association, firm, partnership, committee, or any person for services or as a donation. In the case of contributions of under $100,000 which are made in common with other carriers under a joint arrangement in payment for the performance of services or as a donation, report such contribution, irrespectively of the amount thereof, if the total amount paid by all contributors for the performance of the particular service is equal to the some of $100,000 or more.

2.) Include among others, payments, directly or indirectly, for legal, medical engineering, advertising, valuation, accounting statistical, financial, educational, entertainment, charitable, advisory, defensive, detective, developmental, research, appraisal, registration, purchasing, architectural, and hospital services; payments for expert testimony and for handling wage disputes; and payments for services of banks, bankers, trust companies, insurance companies, brokers, trustees, promoters, solicitors, consultants, actuaries, investigators, inspectors, and efficiency engineers. The enumeration of these kinds of payments should not be understood as excluding other payments for services not excluded below.

3.) Exclude: Rent of buildings or other property; taxes payable to Federal, State, or local governments; payments for heat, light, power, telegraph, and telephone services; and payments to other carriers on the basis of lawful tariff charges, as well as other payments for services which both as to their nature and amount may reasonably be regarded as ordinarily connected with the routine operation, maintenance, or construction of a pipeline. Do not include any special and unusual payments for services.

4.) If more convenient, this schedule may be completed for a group of companies considered as one system and shown only in the report of the principal company in the system, with references thereto in the reports of the other companies.

5.) If any doubt exists in the mind of the reporting officers as to the reportability of any type of payment, requests should be made for a ruling before filing this report.

Line No.	Name of Recipient (a)	Nature of Service (b)	Amount of Payment (in dollars) (c)
1	Burlington Northern Santa Fe	Post retirement benefits	267,538
2			
3			
4			
5			
6			
7			
8			
9			
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39			
40		**Total**	267,538

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Statistics of Operations

1.) Give particulars (details) by States of origin for crude oil and for each kind of product received during the year and totals only (i.e., no State detail) for number of barrels of crude oil and of each kind of product delivered out of the pipeline during the year. Classify and list in column (a) by States of origin the refined products transported in the following order: 29111, Gasoline, jet fuels, and other high volatile petroleum fuels, except natural gasoline; 29112, Kerosene; 29113, Distillate fuel oil; 29114, Lubricating and similar oils and derivative; 29117, Residual fuel oil and other low volatile petroleum fuels; 29119, Products of petroleum refining, n.e.c.-Specify.

2.) In column (b) show all oils received by the respondent from connecting carriers reporting to the Federal Energy Regulatory Commission. In column (c) show all oils originated on respondent's gathering lines and in column (d) all oils received into respondent's trunk line, except receipts shown in columns (b) and (c). Any barrels received into a pipeline owned by the respondent, but operated by others, should be reported separately on additional pages (For example 600a- 601a, 600b- 601b, etc.).

3.) Entries in column (e) should be the sum of columns (b), (c), and (d). In column (f) show all oils delivered to connecting carriers reporting to the Federal Energy Regulatory Commission. In column (g) show all oils terminated on the respondent's gathering lines, and in column (h) all oils delivered out of respondent's pipeline, except deliveries shown under columns (f) and (g).

Line No.	State of Origin (a)	Number of Barrels Received From Connecting Carriers (b)	Number of Barrels Received ORIGINATED On Gathering Lines (c)	Number of Barrels Received ORIGINATED On Trunk Lines (d)
	CRUDE OIL			
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15	TOTAL			
	PRODUCTS (State of Origin and			
16	CA, gasoline - 29111			216,034,077
17	OR, gasoline - 29111			10,565,525
18	TX, gasoline - 29111			27,922,245
19	CA, kerosene - 29112			62,512,348
20	OR, kerosene - 29112			71,192
21	TX, kerosene - 29112			2,402,007
22	CA, fuel oil - 29113			80,473,575
23	OR, fuel oil - 29113			5,507,751
24	TX, fuel oil - 29113			3,702,589
25				
26				
27				
28				
29				
30				
31	TOTAL			409,191,309
	GRAND TOTAL			409,191,309

33a Total Number of Barrel-Miles (Trunk Lines Only):

(1) Crude Oil

(2) Products 62,259,020,000

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Statistics of Operations

Entries in column (i) should be the sum of columns (f), (g), and (h). Any barrels delivered out of a pipeline owned by the respondent, but operated by others, should be reported separately on additional pages (For example 600a- 601a, 600b- 601b, etc.).

4.) Enter actual amount for lines 33a and 33b. Estimate if actual figures are not available. Barrel miles as reported on this schedule are the summation, for all segments, of the number of miles associated with each pipeline segment (trunk line only) multiplied by the number of barrels delivered through the segment. For example, 1,000 barrels moved through a 57-mile pipeline segment would be recorded as 57,000 barrel miles. For a crude pipeline with several segments:

Segments	Barrels	Miles	Barrel-Miles
A	1,000	57	57,000
B	5,000	10	50,000
C	1,000	25	25,000

Line No.	Total Received (b + c + d) (e)	Number of Barrels Delivered Out To Connecting Carriers (f)	Number of Barrels Delivered Out TERMINATED On Gathering Lines (g)	Number of Barrels Delivered Out TERMINATED On Trunk Lines (h)	Total Delivered Out (f + g + h) (i)
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16	216,034,077	20,091,671		196,445,043	216,536,714
17	10,565,525			10,571,685	10,571,685
18	27,922,245			28,116,473	28,116,473
19	62,512,348	11,070,437		51,153,918	62,224,355
20	71,192			66,212	66,212
21	2,402,007	594,723		1,752,301	2,347,024
22	80,473,575	13,601,575		66,630,257	80,231,832
23	5,507,751			5,516,040	5,516,040
24	3,702,589			3,592,887	3,592,887
25					
26					
27					
28					
29					
30					
31	409,191,309	45,358,406		363,844,816	409,203,222
	409,191,309	45,358,406		363,844,816	409,203,222

33b Total Number of Barrels of Oil Having Trunk-Line Movement:

(1) Crude Oil

(2) Products 409,203,222

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Miles of Pipeline Operated at end of Year

1.) Give particulars (details) called for by State and termini, concerning the miles of all pipeline operated, and size of each line at end of year, according to the classifications given.

2.) Report miles of pipeline operated to the nearest whole mile adjusted to footings, i.e.: count ½ mile and over as a whole mile disregarding any fraction less than ½ mile. Report fractional size line in the next smaller whole size, e.g.: report 2-1/2" and 6-5/8" lines as 2" and 6" lines, respectively. Size of line is defined as inside diameter.

3.) Report under (A), the lines wholly owned and operated by respondent, including wholly owned minor facilities temporarily idle or in standby service.

4.) Report under (B), the total miles of pipeline owned in undivided joint interests and operated by respondent. Name each pipeline and give names of

Line No.	Name of Company and State (a)	TERMINI From - (b)	TERMINI TO - (c)	OP AT END OF YR GATHERING LINES Miles (d)	OP AT END OF YR GATHERING LINES Size of Line (in inches) (e)	OP AT END OF YR TRUNK LINES FOR CRUDE OIL Miles (f)	OP AT END OF YR TRUNK LINES FOR CRUDE OIL Size of Lines (in inches) (g)
	(A) OWNED AND OPERATED BY RESPONDENT						
1	California	Watson	Colton				
2	California	Norwalk	AZ state line				
3	Arizona	Ca state line	Phoenix				
4	California	Watson	Colton				
5	California	Watson	Mission Valley				
6	California	Various	Various				
7	Arizona	NM state line	Tuscon				
8	California	Amorco	Oakland				
9	California	Oakland	San Francisco				
11	California	Concord	Sacramento				
12	Arizona, Califonia and Texas	Various	Various				
13	Califonia and Texas	Various	Various				
14	New Mexico	TX state line	AZ state line				
15	Arizona	NM state line	Phoenix				
16	California	Colfax	NV state line				
17	Oregon	Portland	Eugene				
18	California	Bakersfield	Fresno				
19	California	Roseville	Chico				
21	California and Oregon	Various	Various				
22	Arizona	Phoenix	Tucson				
23	Nevada	CA state line	Fallon NAS				
24	California	Concord	Fresno				
25	New Mexico	TX state line	AZ state line				
26	Texas	El Paso	NM state line				
27	Arizona and California	Various	Various				
28	California	Concord	NV state line				
29	California	Concord	San Jose				
31	California	Richmond	Brisbane				
32	California and Nevada	Various	Various				
33	Texas	El Paso	NM state line				
34	Arizona	Weymouth St	Naviska				
35	California	Sacramento	Roseville				
36	California	Richmond	Suisun				
37	California	Niland	Imperial				
38	California	Fresno	Lemoore NAS				
40	Subtotal						
	(B) OWNED IN UNDIVIDED JOINT INTEREST AND OPERATED BY RESPONDENT						
40	Subtotal						
	(C) OWNED IN UNDIVIDED JOINT INTEREST AND OPERATED BY OTHERS						
40	Subtotal						
	(D) OWNED BY OTHERS BUT OPERATED BY RESPONDENT						
40	Subtotal						
	GRAND TOTAL						

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Miles of Pipeline Operated at end of Year (continued)

5.) Report under (C), the total miles of pipeline owned in undivided joint interests and operated by others. Name each pipeline and give names of owning companies.
6.) Report under (D), the respondent operating lines not owned by it, but leased from others, when leases are for reasonably long terms and consist of an imporant part of the respondent's pipeline. The lessor company should omit from its schedule such mileages leased to others.
7.) Omit minor gathering line facilities under temporary or short-term lease from this classification; the lessor should include such lines in its wholly owned and operated lines.

Line No.	OP AT END OF YR TRUNK LINES FOR PRODUCTS Miles (h)	OP AT END OF YR TRUNK LINES FOR PRODUCTS Size of Line (in inches) (i)	CHG IN MILES OPR DUR THE YR INCREASES Gathering Lines (j)	CHG IN MILES OPR DUR THE YR INCREASES TRUNK LINES For Crude Oil (k)	CHG IN MILES OPR DUR THE YEAR INCREASES TRUNK LINES For Products (l)	CHG IN MILES OPR DUR THE YEAR DECREASES Gathering Lines (m)	CHG IN MILES OPR DUR THE YEAR DECREASES TRUNK LINES For Crude Oil (n)	CHG IN MILES OPR DUR THE YEAR DECREASES TRUNK LINES For Products (o)
	(A) OWNED AND OPERATED BY RESPONDENT							
1	31	24	0	0	0	0	0	0
2	229	20	0	0	0	0	0	0
3	161	20	0	0	0	0	0	0
4	63	16	0	0	0	0	0	0
5	128	16	0	0	0	0	0	0
6	4	16	0	0	0	0	0	0
7	120	12	0	0	1	0	0	0
8	32	12	0	0	0	0	0	0
9	30	12	0	0	0	0	0	0
11	61	14	0	0	0	0	0	0
12	67	6	0	0	0	0	0	0
13	18	4	0	0	0	0	0	0
14	164	8	0	0	0	0	0	0
15	199	8	0	0	0	0	0	1
16	57	8	0	0	0	0	0	0
17	115	8	0	0	0	0	0	0
18	98	8	0	0	0	0	0	0
19	77	8	0	0	0	0	0	0
21	56	8	0	0	3	0	0	0
22	138	6	0	0	0	0	0	0
23	70	6	0	0	0	0	0	0
24	171	12	0	0	0	0	0	0
25	163	12	0	0	0	0	0	0
26	22	12	0	0	0	0	0	0
27	35	12	0	0	1	0	0	6
28	128	10	0	0	0	0	0	0
29	51	10	0	0	0	0	0	0
31	26	10	0	0	0	0	0	0
32	44	10	0	0	0	0	0	0
33	22	8	0	0	0	0	0	0
34	20	12	0	0	0	0	0	0
35	24	12	0	0	0	0	0	0
36	44	8	0	0	0	0	0	0
37	25	6	0	0	0	0	0	0
38	35	6	0	0	0	0	0	0
40	2,728	0	0	0	5	0	0	7
	(B) OWNED IN UNDIVIDED JOINT INTEREST AND OPERATED BY RESPONDENT							
40	0	0	0	0	0	0	0	0
	(C) OWNED IN UNDIVIDED JOINT INTEREST AND OPERATED BY OTHERS							
40	0	0	0	0	0	0	0	0
	(D) OWNED BY OTHERS BUT OPERATED BY RESPONDENT							
40	0	0	0	0	0	0	0	0
	2,728				5			7

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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
SFPP, L.P.	(1) [X] An Original (2) [ ] A Resubmission	03/31/2004	Dec. 31, 2003

Annual Cost of Service Based Analysis Schedule

1.) Use footnotes when particulars are required or for any explanations.
2.) Enter on lines 1-9, columns (b) and (c), the value of the respondent's Operating & Maintenance Expenses,Depreciation Expense, AFUDC Depreciation, Amortization of Deferred Earnings, Rate Base, Rate of Return, Return, Income Tax Allowance, and Total Cost of Service, respectively, for the end of the current and previous calendar years. The values shall be computed consistent with the Commission's Opinion No. 154-B et al. methodology. Any item(s) not applicable to the filing, the pipeline company shall report nothing in columns (b) and (c).
3.) Enter on line 10, columns (b) and (c), total interstate operating revenue, as reported on page 301, for the current and previous calendar years.
4.) Enter on line 11, columns (b) and (c), the throughput in barrels from the Statistics of Operations schedule, page 601, line 33b, total of items (1) and (2), from the current and previous year's FERC Form No. 6.
5.) Enter on line 12, columns (b) and (c), the throughput in barrel-miles from the Statistics of Operations schedule, page 600, line 33a, total of items (1) and (2), from the current and previous year's FERC Form No. 6.
6.) If the company makes major changes to its application of the Opinion No. 154-B et al. methodology, it must describe such changes in a footnote, and calculate the amounts in columns (b) and (c) of lines No. 1-12 using the changed application.
7.) A respondent may be requested by the Commission or its staff to provide its workpapers which support the data reported on page 700.

Line No.	Item (a)	Current Year Amount (in dollars) (b)	Previous Year Amount (in dollars) (c)
1	Operating and Maintenance Expenses	60,739,845	53,889,000
2	Depreciation Expense	8,945,508	8,747,000
3	AFUDC Depreciation	84,285	93,000
4	Amortization of Deferred Earnings	1,588,510	1,477,000
5	Rate Base	227,766,955	225,539,000
6	Rate of Return % (10.25% - 10.25)	11.27	10.55
7	Return on Rate Base	25,669,335	23,794,364
8	Income Tax Allowance	8,384,955	6,168,000
9	Total Cost of Service	105,412,438	94,168,364
10	Total Interstate Operating Revenues	124,956,117	124,801,000
11	Throughput in Barrels	154,990,158	152,079,000
12	Throughput in Barrel-Miles	41,384,120,817	41,097,550,000

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ATTACHMENT YY

Docket No. OR03-5-001
Exhibit No. BPX-51
Analysis of KMEP Schedules K-1 for 2000 and 2001 reflecting sale of units

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R. Gordon Gooch
Analysis of Kinder Morgan Schedules K-1
December 31, 2000 and 2001

		2000	2001
1	**Beginning Partner's Capital Account**	$ -	$ 3,868
2	Cap 07/14/2000 Purchase of 100 Units	$ 4,185	$ -
3	**Combined Income (Loss):**		
a	Net Ordinary Income or Loss	$ (140)	$ (560)
b	Income From Rental	-	3
c	Depletion	(8)	-
d	Intangible Drilling Costs	-	(27)
e	Portfolio Income Dividends	9	51
f	Portfolio Income-Interest	5	18
g	Investment Interest Expense	(11)	(39)
h	Enhanced Oil Recovery Tax Credit	(2)	(14)
i	Nondeductible Expenses	-	(1)
4	**Total Combined Income (Loss) (Lines 3a-3h)**	$ (147)	$ (569)
5	**Cash Distributions**	$ (170)	$ (415)
6	**Ending Partner's Capital Account (Add Lines 1, 2, 4 & 5)**	$ 3,868	$ 2,884

Cumulative Adjustments to Basis:	
Combined Income (Loss)-	
December 31, 2000 (Line 4)	$ (147)
December 31, 2001 (Line 4)	(569)
Cash Distributions-	
December 31, 2000 (Line 5)	(170)
December 31, 2001 (Line 5)	(415)
Total Cumulative Adjustments to Basis	$ (1,301)
Initial Outside Basis (Line 2)	4,185
Adjusted Outside Basis @ 12/20/01	$ 2,884
Sales Price	$ 7,089
Total Gain on Sale[1]	$ 4,205
a) Potential Capital Gain	$ 3,514
b) Potential Ordinary Gain	$ 691

[1]The break down of total gain between capital gain and ordinary income is based exclusively on data included within the Gooch Schedule K-1. Verification of the break down would require an analysis of the character of gain that would be realized by the partnership on a hypothetical sale of all of its assets at their respect fair market values as of December 20, 2001, the date that the Gooch partnership interest was sold.

EXHIBIT A

Exhibit No.
SEP ARCO - 33

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ATTACHMENT ZZ

Docket No. OR03-5-001
Exhibit No. BPX-52
Gooch Substitute K-1 from KMEP 2000

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~~Exhibit No. ARCO-~~ (63)

KINDER MORGAN ENERGY PARTNERS, L.P.

2000 SUBSTITUTE SCHEDULE K-1

(See reverse side for additional instructions)

Partner Name: R GORDON GOOCH
Account Number:
Partner Federal ID/Entity:
Partnership Federal ID: 76-0380342
Custodian Federal ID:
Tax Shelter Registration #: 92289000496

AUG-08-01 THU 11:22 AM TRAVIS GOOCH FAX NO. 202 721 1000 P. 01

w.kindermorgan.com

SCHEDULE OF REPORTED UNIT TRANSACTIONS

s schedule contains your history of partnership ls bought or sold by date and number of units reported to the partnership by your broker or partnership's transfer agent. The partnership es on purchase and sale information obtained m brokers and transfer agent to prepare the tax ormation reported to you in the schedules below. he information provided by brokers and transfer ent is incorrect, the information reported to you low, as well as the information reported to the ternal Revenue Service, will also be incorrect. ease carefully review the buy and sell transactions orted on this schedule to insure the information accurate and complete. You may make rrections to this information in one of three ys.

Write corrections on this schedule with planations, sign where indicated, tear at rforation and mail to Kinder Morgan Energy rtners, L.P., Attention: Unitholder Relations, O. Box 480927, Denver, CO 80248.

Call Unitholder Relations at 1-800-232-1627.

Submit corrections via our website as scussed under **Website Information ** on is page.

is important that you submit corrections to the artnership by May 15, 2001. If you submit orrections to the partnership after that date please ee "Form 8082 - Notice of Inconsistent Treatment r Administrative Adjustment" on the back of this chedule.

you purchased units during 2000 please see Important Information Regarding IRC Section 54 Statement" on the back of this schedule.

his Substitute Schedule K-1 reports information r all units owned by the partner under the social ecurity or federal identification number shown n the upper right hand corner of this schedule. Units owned by a spouse will be reported on a separate Substitute Schedule K-1 under that spouse's social security number. A separate Substitute Schedule K-1 will be issued for each IRA or other retirement account in which you own units, if any.

TRANSACTION		BROKER OR CERTIFICATE NUMBER	UNITS
DESCRIPTION	DATE		
AC BUY	07/14/2000	418	100.000
			100.000

The information reported on this schedule, as corrected, accurately and completely presents my ownership history through December 31, 2000. By signing this schedule, I authorize the Partnership to make the corrections as indicated above to my Substitute Schedule K-1.

Signed:

Daytime Phone Number:

WEBSITE INFORMATION

Your 2000 Substitute Schedule K-1 is also available via the Internet at www.kindermorgan.com. At this site, please click on "Important K-1 Information" which will take you to our Tax Reporting Package logon screen. After logon, you will be able to:

- View your 2000 tax schedules
- Request changes to incorrect information
- Print your tax package including instructions
- Automatically transfer amounts from your Substitute K-1 to IRS forms
- Print blank IRS forms

0007050 AT **AUTO T7 1 1045 20005-300075
R GORDON GOOCH

Federal Income Tax Forms

The following federal forms are referenced in this Substitute Schedule K-1 and may be required to report partnership items in your 2000 individual income tax return. Blank forms can be downloaded from our website. See **WEBSITE INFORMATION** above.

- Form 1040 Schedule B - Interest and Ordinary Dividends
- Form 1040 Schedule E - Supplemental Income and Loss
- Form 4797 - Sales of Business Property
- Form 4952 - Investment Interest Expense Deduction
- Form 6251 - Alternative Minimum Tax, Individuals
- Form 8082 - Notice of Inconsistent Treatment or Administrative Adjustment
- Form 8271 - Investor Reporting of Tax Shelter Registration Number
- Form 8830 - Enhanced Oil Recovery Credit

~~SEP-ARCO-7 (CPS-3)~~

Exhibit No. BPX-
Page 1 of 2

FEDERAL & STATE SCHEDULE

PARTNER NAME: R GORDON GOOCH
ACCOUNT NUMBER:
PARTNER FEDERAL IDENTITY: Individual
CUSTODIAN FEDERAL ID:
PARTNERSHIP FEDERAL ID: 76-0380342

The Federal and State Schedule provides information needed to complete your federal and state income tax returns.

FEDERAL TAX INFORMATION:

The Federal Amounts and tax form references are at the bottom of columns (1) through (10) and lines 12(a) through (c). For individual tax purposes, federal law characterizes items of income, gain, loss, deduction and tax credit from a publicly-traded partnership as either passive activity or portfolio activity items.

Passive Activity Items:

The amounts reported to you in columns (1), (2), (3), and (4) are from passive activities. If the sum of the Federal Amounts in these columns is a negative number (a passive activity loss) do not report any of the amounts from these columns in your return unless you had sold all of your partnership units prior to January 1, 2001. Also, if you have a passive activity loss do not report the amounts in column (9) or line 12(a) in your return unless you sold all of your partnership units prior to January 1, 2001. If the sum of the Federal Amounts in columns (1) through (4) is a positive amount then report each of the Federal Amounts in columns (1), (2), (3), (4), (9) and line 12(a) as instructed by this form.

A more detailed explanation of passive activities is on the reverse side of this schedule. We encourage you to consult your tax advisor regarding these items.

Portfolio Activity Items:

The amounts reported to you in columns (5), (6), (7) and (8) are from portfolio activities. These amounts, if any, must be reported in your return as instructed by this form.

Other Federal Information:

The amounts reported in column (10) and lines 12(b) and (c) are for informational purposes. These amounts are not to be reported by an individual taxpayer on any federal tax form. These items are explained in more detail on the reverse side of this schedule.

STATE TAX INFORMATION:

The partnership has operations in many states. You may be required to file a tax return with those states. Each state is identified by a two-letter code in the far left column of this schedule with the applicable amounts reported in columns (1) through (10). Differences between the sum of the state amounts and federal amounts are due to rounding and variations between federal and state income tax laws. Please refer to the reverse side for additional information regarding state income tax filing requirements.

STATE	(1) NET ORDINARY INCOME OR LOSS(-)	(2) DEPLETION	(3) TOTAL NET SECTION 1231 GAIN	(4) NET SECTION 1245 GAIN	(5) PORTFOLIO DIVIDEND INCOME	(6) PORTFOLIO INTEREST INCOME	(7) INTEREST EXPENSE ON INVESTMENT DEBTS	(8) INVESTMENT INCOME	(9) ALTERNATIVE MINIMUM TAX DEPRECIATION ADJUSTMENT	(10) GROSS RECEIPTS
STATE AMOUNTS										
AZ	-18	[illegible]	0	0	1	1	1	2	4	50
CA	-47	-3	0	0	3	2	4	5	10	129
CO	-11	-1	0	0	1	0	1	1	2	31
IA	-3	0	0	0	0	0	0	0	1	9
IL	-5	0	0	0	0	0	0	0	1	17
KS	-7	0	0	0	0	0	1	0	1	20
KY	-2	0	0	0	0	0	0	0	0	6
LA	-2	0	0	0	0	0	0	0	0	5
MO	-1	0	0	0	0	0	0	0	0	2
MH	0	0	0	0	0	0	0	0	0	1
MO	-1	0	0	0	0	0	0	0	0	2
NC	-1	0	0	0	0	0	0	0	0	2
NE	-2	0	0	0	0	0	0	0	1	7
NM	-11	-1	0	0	1	0	1	1	2	31
NY	-2	0	0	0	0	0	0	0	1	8
OR	-5	0	0	0	0	0	0	0	1	12
PA	-3	0	0	0	0	0	0	0	1	9
SC	-1	0	0	0	0	0	0	0	0	3
TX	-17	-1	0	0	1	1	1	2	4	47
VA	-9	0	0	0	1	0	1	1	2	24
WY	-4	0	0	0	0	0	0	0	1	14
FEDERAL AMOUNTS	-140	-8	0	0	9	5	11	14	29	390
	FORM 1040, SCH. E, PART II	FORM 1040, SCH. E, PART II	FORM 4797, PART II LINE 2, COLUMN (g)	FORM 4797, PART II, LINE 10	FORM 1040, SCH. B, PART II, LINE 5	FORM 1040, SCH. B, PART I, LINE 1	FORM 4952 LINE 1	FORM 4952 LINE 4a	FORM 6251 LINE 8	SEE INSTRUCTIONS ON BACK

(11) RECONCILIATION OF PARTNER'S CAPITAL ACCOUNT

0	BEGINNING OF YEAR
0	ADJUSTMENT TO BEGINNING CAPITAL
4,185	CONTRIBUTIONS OR UNIT COST
-147	COMBINED INCOME OR LOSS(-)
170	CASH DISTRIBUTIONS
0	UNIT COST ON SALE
3,868	END OF YEAR

(12) OTHER INFORMATION

a)	2	ENHANCED OIL RECOVERY TAX CREDIT - FORM 8830, LINE 3
b)	0	NONDEDUCTIBLE EXPENSES (SEE REVERSE SIDE)
c)	-148	UNRELATED BUSINESS TAXABLE INCOME (SEE REVERSE SIDE)

Exhibit No. BPX-
Page 2 of 2

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ATTACHMENT AAA

Docket No. OR03-5-001
Exhibit No. BPX-53
Gooch Substitute K-1 from KMEP 2001

Page 1 Of 1 ~~ARCO 63A~~

BPX-

KINDER MORGAN ENERGY PARTNERS, L.P. 2001 SUBSTITUTE SCHEDULE K-1

(See reverse side for additional instructions)

www.kindermorgan.com

Partner Name: R GORDON GOOCH
Account Number: [redacted]
Partner Federal ID/Entity: [redacted]
Partnership Federal ID: [redacted]
Custodian Federal ID:
Tax Shelter Registration #: 92289000408

SCHEDULE OF REPORTED UNIT TRANSACTIONS

This schedule contains your history of partnership units bought or sold by date and number of units as reported to the partnership by your broker or the partnership's transfer agent. The partnership relies on purchase and sale information obtained from brokers and transfer agent to prepare the tax information reported to you in the schedules below. If the information provided by brokers and transfer agent is incorrect, the information reported to you below, as well as the information reported to the Internal Revenue Service, will also be incorrect. Please carefully review the buy and sell transactions reported on this schedule to insure the information is accurate and complete. You may make corrections to this information in one of three ways.

1) Write corrections on this schedule with explanations, sign where indicated, tear at perforation and mail to Kinder Morgan Energy Partners, L.P., Attention: Unitholder Relations, P.O. Box 480927, Denver, CO 80248

2) Call Unitholder Relations at 1-800-232-1627.

3) Submit corrections via our website as discussed under "Website Information" on this page.

It is important that you submit corrections to the partnership by May 15, 2002. If you submit corrections to the partnership after that date please see "Form 8082 - Notice of Inconsistent Treatment or Administrative Adjustment" on the back of the schedule.

If you purchased units during 2001 please see "Important Information Regarding IRC Section 754 Statement" on the back of this schedule.

This Substitute Schedule K-1 reports information for all units owned by the partner under the social security or federal identification number shown in the upper right hand corner of this schedule. Units owned by a spouse will be reported on a separate Substitute Schedule K-1 under that spouse's social security number. A separate Substitute Schedule K-1 will be issued for each IRA or other retirement account in which you own units, if any.

TRANSACTION DESCRIPTION		TRANSACTION DATE	BROKER OR CERTIFICATE NUMBER	UNITS
FOR COMMON UNITHOLDERS WHO ACQUIRED AND SOLD UNITS PRIOR TO THE UNIT SPLIT, THE NUMBER OF UNITS SHOWN BELOW SHOULD BE REDUCED BY ONE-HALF.				
AC	BUY	07/14/2000	418	200.000
DA	SELL	12/20/2001	418	-200.000
				0.000

* Unit Split - Please see reverse side for further information

The information reported on this schedule, as corrected, accurately and completely presents my ownership history through December 31, 2001. By signing this schedule, I authorize the Partnership to make the corrections as indicated above to my Substitute Schedule K-1

Signed ______________________

Daytime Phone Number______________________

WEBSITE INFORMATION

Your 2001 Substitute Schedule K-1 is also available via the Internet at www.kindermorgan.com. At this site, please click on "Important K-1 Info" which will take you to our Tax Reporting Package logon screen. After logon, you will be able to:

- View your 2001 tax schedules
- Request changes to incorrect information
- Print your tax package including instructions
- Automatically transfer amounts from your Substitute K-1 to IRS forms
- Print blank IRS forms

R GORDON GOOCH

Federal Income Tax Forms

The following federal forms are referenced in this Substitute Schedule K-1 and may be required to report partnership items in your 2001 individual income tax return. Blank forms can be downloaded from our website. See "WEBSITE INFORMATION" above.

- Form 1040 Schedule B - Interest and Ordinary Dividends
- Form 1040 Schedule E - Supplemental Income and Loss
- Form 1116 - Foreign Tax Credit
- Form 4797 - Sales of Business Property
- Form 4952 - Investment Interest Expense Deduction
- Form 6251 - Alternative Minimum Tax, Individuals
- Form 8082 - Notice of Inconsistent Treatment or Administrative Adjustment
- Form 8271 - Investor Reporting of Tax Shelter Registration Number
- Form 8830 - Enhanced Oil Recovery Credit

FEDERAL & STATE SCHEDULE

PARTNER NAME: R GORDON GOOCH
ACCOUNT NUMBER: [redacted]
PARTNER FEDERAL IDENTITY: [redacted] Individual
CUSTODIAN FEDERAL ID:
PARTNERSHIP FEDERAL ID: [redacted]

The Federal and State Schedule provides information needed to complete your federal and state income tax returns.

FEDERAL TAX INFORMATION:

The Federal Amounts and tax form references are at the bottom of columns (1) through (9) and lines 11(a) through (g). For individual tax purposes, Federal law characterizes items of income, gain, loss, deduction and tax credit from a publicly-traded partnership as either passive activity or portfolio activity items.

Passive Activity Items:

The amounts reported to you in columns (1), (2), (3) and (4) are from passive activities. If the sum of the Federal Amounts in these columns is a negative number (a passive activity loss) do not report any of the amounts from these columns in your return unless you had sold all of your partnership units prior to January 1, 2002. Also, if you have a passive activity loss do not report the amounts in line 11(a), (d), (e), (f) or (g) in your return unless you sold all of your partnership units prior to January 1, 2002. If the sum of the Federal Amounts in columns (1) through (4) is a positive amount then report each of the Federal Amounts in columns (1), (2), (3), (4), and line 11(a), (d), (e), (f), (g) as instructed by this form. A more detailed explanation of passive activities is on the reverse side of this schedule. We encourage you to consult your tax advisor regarding these items.

Portfolio Activity Items:

The amounts reported to you in columns (5), (6), (7) and (8) are from portfolio activities. These amounts, if any, must be reported in your return as instructed by this form.

Other Federal Information:

The amounts reported in column (9) and lines 11(b) and (c) are for informational purposes. These amounts are not to be reported by an individual taxpayer on any federal tax form. These items are explained in more detail on the reverse side of this schedule.

STATE TAX INFORMATION:

The partnership has operations in many states. You may be required to file a tax return with those states. Each state is identified by a two-letter code in the far left column of this schedule with the applicable amounts reported in columns (1) through (9). Differences between the sum of the state amounts and federal amounts are due to rounding and variations between federal and state income tax laws. Please refer to the reverse side for additional information regarding state income tax filing requirements.

STATE	(1) NET ORDINARY INCOME OR LOSS(-)	(2) INCOME OR LOSS FROM RENTAL REAL ESTATE ACTIVITIES	(3) TOTAL NET SECTION 1231 GAIN	(4) INTANGIBLE DRILLING COSTS (IDC)	(5) PORTFOLIO DIVIDEND INCOME	(6) PORTFOLIO INTEREST INCOME	(7) INTEREST EXPENSE ON INVESTMENT DEBTS	(8) INVESTMENT INCOME	(9) GROSS RECEIPTS
STATE AMOUNTS									
AL	-8	0	0	0	1	0	1	1	60
AZ	-21	0	0	-1	2	1	1	3	163
CA	-84	0	0	-4	8	3	8	12	636
CO	-38	0	0	-2	3	1	3	4	281
FL	-10	0	0	0	1	0	1	1	76
GA	0	0	0	0	0	0	0	0	1
IA	-3	0	0	0	0	0	0	0	26
IL	-11	0	0	-1	1	0	1	1	85
IN	-1	0	0	0	0	0	0	0	5
KS	-21	0	0	-1	2	1	1	3	165
KY	-5	0	0	0	1	0	0	1	47
LA	-2	0	0	0	0	0	0	0	18
MD	-1	0	0	0	0	0	0	0	10
ME	0	0	0	0	0	0	0	0	1
MN	-8	0	0	0	1	0	1	1	61
MI	-2	0	0	0	0	0	0	0	13
MS	0	0	0	0	0	0	0	0	3
NC	-4	0	0	0	0	0	0	0	28
ND	-2	0	0	0	0	0	0	0	18
NE	-9	0	0	0	1	0	1	1	85
NJ	-9	0	0	0	1	0	1	1	78
NM	-21	0	0	-1	2	1	1	3	158
OH	-1	0	0	0	0	0	0	0	4
OK	-6	0	0	0	1	0	0	1	48
PA	-8	0	0	0	1	0	1	1	61
SC	-5	0	0	0	1	0	0	1	43
TX	-350	2	0	-17	32	11	24	43	2,665
VA	-8	0	0	0	1	0	1	1	63
WA	-1	0	0	0	0	0	0	0	10
WY	-26	0	0	-1	2	1	2	3	199
FEDERAL AMOUNTS	-560	3	0	-27	51	18	39	59	4,292
	FORM 1040, SCH. E, PART II	FORM 1040, SCH. E, PART II	FORM 4797, PART I, LINE 2, COLUMN (g)	FORM 1040, SCH. E PART II	FORM 1040, SCH. B, PART II, LINE 5	FORM 1040, SCH. B, PART I, LINE 1	FORM 4952 LINE 1	FORM 4952 LINE 4a	SEE INSTRUCTIONS ON BACK

* Unit Split - Please see reverse side for further information

(10) RECONCILIATION OF PARTNER'S CAPITAL ACCOUNT

3,868	BEGINNING OF YEAR
0	ADJUSTMENT TO BEGINNING CAPITAL
0	CONTRIBUTIONS OR UNIT COST
-569	COMBINED INCOME OR LOSS(-)
415	CASH DISTRIBUTIONS
2,884	UNIT COST ON SALE
0	END OF YEAR

(11) OTHER INFORMATION

a)	14	ENHANCED OIL RECOVERY TAX CREDIT - FORM 8830, LINE 5
b)	1	NONDEDUCTIBLE EXPENSES (SEE REVERSE SIDE)
c)	584	UNRELATED BUSINESS TAXABLE INCOME (SEE REVERSE SIDE)
d)	114	ALTERNATIVE MINIMUM TAX DEPRECIATION ADJUSTMENT - FORM 6251, LINE 8
e)	0	FOREIGN SOURCE GROSS INCOME FROM CANADA - FORM 1116, PART I, LINE 1
f)	0	FOREIGN SOURCE DEDUCTIONS FROM CANADA - FORM 1116, PART I, LINE 2
g)	0	FOREIGN SOURCE TAX ACCRUED FROM CANADA - FORM 1116, PART II, LINE 8

SALES SCHEDULE

This schedule is used to calculate gain or loss on partnership units you sold, if any, during 2001. You must calculate the gain or loss based on certain information provided by the partnership as well as other information from your records. The calculated gain or loss should be reported on the tax forms referenced at the bottom of columns (8) and (9).

Information Provided by Partnership

Column (1) - Units Disposed: This is the number of units you sold as reported to the partnership by your broker or transfer agent. If this number is incorrect you should contact the Unitholder Relations department.

Column (2) - Disposition Date: This is the date you sold units as reported to the partnership by your broker or transfer agent. If this information is incorrect you should contact the Unitholder Relations department.

Column (5) - Cumulative Adjustments to Basis: This represents the cumulative amount of income, gains, losses, deductions, credits and distributions allocated to these units since your purchase, which either increase or decrease your original cost of these units.

Column (7) - Total Potential Ordinary Gain: This is the amount of gain, if any, which is treated as ordinary gain rather than capital gain. If you have a loss on the sale of your units this item should be ignored.

Column (10) - Alternative Minimum Tax Basis Adjustment: Your gain, if any, should be adjusted by this amount for alternative minimum tax purposes.

Information from Your Records

Column (3) - Sales Proceeds: Enter the total amount you received from the sale, net of any commissions.

Column (4) - Purchase Amount: Enter the total amount you paid for the units including commissions. See reverse side for additional information.

Calculation of Gain or Loss (-)

Column (6) - Total Gain or Loss (-): Total gain or loss is determined by subtracting the amounts in columns (4) and (5) from the amount in column (3).

Column (8) - Ordinary Gain: Enter the amount in column (6) or (7), whichever is less, but not less than zero. If you have ordinary gain, a Section 751 Statement must be attached to your tax return as explained on the reverse side of this schedule.

Column (9) - Capital Gain or Loss (-): Subtract the amount in column (8), if any, from the amount calculated in column (6).

(1) UNITS DISPOSED	(2) DISPOSITION DATE	(3) SALES PROCEEDS	(4) PURCHASE AMOUNT	(5) CUMULATIVE ADJUSTMENTS TO BASIS	(6) TOTAL GAIN OR LOSS (-)	(7) TOTAL POTENTIAL ORDINARY GAIN	(8) GAIN OR LOSS CLASSIFICATION: ORDINARY GAIN	(9) GAIN OR LOSS CLASSIFICATION: CAPITAL GAIN OR LOSS (-)	(10) ALTERNATIVE MINIMUM TAX BASIS ADJUSTMENT
200.000	12/20/2001			-1,301		681			-143
PARTNER TOTALS									-143
TAX FORM REFERENCES							FORM 4797, PART II, LINE 13	FORM 1040, SCHEDULE D	FORM 6251, LINE 9

* Unit Split - Please see reverse side for further information

Exhibit No. ~~SEP-ARCO-60~~

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2001 Substitute Schedule K-1 Additional Information and Instructions

General: This Substitute Schedule K-1 and Graphic Guide provides tax information required to be reported to you by the partnership under current federal tax law and other information intended to assist you in completing your federal and state returns. The information is not, nor should it be construed as, tax advice. We recommend you seek guidance from your tax advisor for proper inclusion of the partnership tax items in your returns.

SCHEDULE OF REPORTED UNIT TRANSACTIONS

*** Unit Split - Common units of the Partnership split 2 for 1 for unitholders of record on August 17, 2001. Unitholders of record on August 17, 2001 were issued one additional common unit for each common unit held on that date. The additional units issued for the split are included in the Schedule of Reported Unit Transactions numbers.**

Important Information Regarding IRC Section 754 Statement

If you acquired units during 2001 by purchase or inheritance you must attach an IRC Section 754 Statement to your federal return. Failure to include this statement in your return may result in the loss of partnership deductions to which you would otherwise be entitled. Below is an example of this statement:

IRC Section 754 Statement

The taxpayer is a transferee partner in Kinder Morgan Energy Partners, L.P. who has a special basis adjustment under Internal Revenue Code (IRC) Section 743(b) pursuant to an IRC Section 754 election made by Kinder Morgan Energy Partners, L.P. The special basis adjustment was made in accordance with the rules provided in IRC Sections 743 and 755 and the Regulations thereunder. Detailed information is available in the offices of the General Partner upon request.

Form 8082 - Notice of Inconsistent Treatment or Administrative Adjustment

If you report amounts in your federal tax return which are different than the amounts reported on this Substitute Schedule K-1, or on a tax form different than instructed by this Substitute Schedule K-1, you must explain such differences on Form 8082 and attach it to your return. The Schedule of Reported Unit Transactions tells you how to correct information on your Substitute Schedule K-1. Corrections submitted to the partnership after May 15, 2002, may result in a requirement to include Form 8082 in your return. Corrections submitted after May 15, 2002, will not be reflected in the partnership's tax return filed with the Internal Revenue Service. The partnership files its federal tax return with the Memphis, TN, IRS Processing Center.

Tax Shelter Registration Number

The partnership's tax shelter registration number is 92289000496. This number must be reported in your tax return on Form 8271, column (b). The Internal Revenue Service may impose a $250 penalty on you for failure to report this number in your return.

FEDERAL AND STATE SCHEDULE

Passive Activities

The tax law characterizes items of income, gain, loss, deduction and tax credit from a publicly-traded limited partnership as either passive activity or portfolio activity items. Federal tax law imposes limitations on utilization of a loss from passive activities. A loss from passive activities is not deductible on your 2001 tax return unless you had sold all of your partnership units prior to January 1, 2002. If the sum of the Federal Amounts reported to you in columns (1) through (4) of the Federal and State Schedule is a negative number you have a loss from passive activities. Such loss is suspended (carried to future tax years) until:

a) net passive activity income is reported to you from this partnership, against which the suspended loss can be offset, or
b) you no longer own partnership units at the end of a calendar year, at which time the loss is fully deducted.

Net passive activity income from a publicly-traded limited partnership is taxable. If the sum of the Federal Amounts reported to you in columns (1) through (4) of the Federal and State Schedule is a positive number you have net passive activity income. Net passive activity income from a publicly-traded limited partnership cannot be reduced by net passive activity losses from other sources including other publicly-traded partnerships, however, as explained above, prior year suspended losses from this partnership may be used to reduce current year net passive activity income from this partnership.

Other Federal Information

Column 9, Gross Receipts: This amount represents your share of partnership income before expenses. This information may be needed by tax-exempt organizations and qualified retirement plans to determine if a Form 990-T must be filed. Individual taxpayers may need this information to determine whether a return must be filed for certain states in which the partnership operates.

Line 11 b): Certain expenses incurred by the partnership are not deductible for federal tax purposes. This amount is your allocated share of those expenses. This amount is not reported in your tax return but does reduce the federal tax basis of your units.

Line 11 c): This information is applicable to tax-exempt organizations and qualified retirement plans (IRAs, SEP-IRAs, 401(k) and other qualified plans). Income from publicly-traded limited partnerships is treated as taxable income for tax-exempt organizations and qualified retirement plans. This information is reportable on Federal Form 990-T for such organizations and plans. Please obtain advice from your tax advisor if you have received this Substitute Schedule K-1 on behalf of a tax-exempt organization or qualified retirement plan.

State Tax Information

You may be required to file a tax return with certain states in which the partnership operates even though you are not a resident of that state. The State Amounts reported on the Federal and State Schedule should be used to help you determine those states that may require you to file a tax return. State tax forms and instructions can be obtained at many local libraries, via the Internet at sites such as www.taxsites.com, or by contacting the appropriate state's department of revenue.

SALES SCHEDULE

*** Unit Split - If you disposed of units prior to August 17, 2001, the number of units shown in column (1) of the Sales Schedule (for sales prior to August 17, 2001) will be incorrect. The correct number of units disposed will be one-half of the number shown. All other information reported on this schedule is correct and should not be adjusted.**

Required IRC Section 751 Statement

If you sold units during 2001 which resulted in a gain, and part or all of the gain was ordinary, then you are required to attach an IRC Section 751 Statement to your tax return. The amount of gain treated as ordinary is shown in column (8) of the Sales Schedule. If you did not sell units during 2001 or units were sold at a loss you are not required to attach this statement to your return. Below is an example of this statement:

IRC Section 751 Statement

The taxpayer has reported ordinary income upon the disposition of units in Kinder Morgan Energy Partners, L.P., as provided by the General Partner. The amount was determined in accordance with Internal Revenue Code Section 751 and the detailed information is available in the offices of the General Partner upon request.

Column 4, Purchase Amount: Enter your original purchase price of the units sold including commissions or other fees. If you acquired the units by some means other than purchase refer to the summary below and consult your tax advisor.

- Tax free exchange - Use the adjusted tax basis of units exchanged.
- Gift - Use the donor's adjusted basis increased by any gift tax paid with respect to the gift. However, if you will recognize a loss on your sale of units, use the lesser of the donor's adjusted tax basis or the fair market value of the units at the date of gift.
- Inheritance - Use the fair market value on the date of death or the alternative valuation date, whichever was used by the estate.

KINDER MORGAN ENERGY PARTNERS, L.P.
2001 INCOME TAX REPORTING PACKAGE
INTRODUCTION

Kinder Morgan Energy Partners, L.P. (the Partnership) is a publicly-traded limited partnership. The Partnership is not subject to federal or state income tax. Instead, each partner is required to report an allocable share of the Partnership's items of income, gain, loss, deduction or tax credit in the partner's individual income tax return. The Partnership has provided a Substitute Schedule K-1 and Graphic Guide to assist you in reporting your allocable share of partnership items in your federal tax income tax return. If you have any questions regarding this information, please contact your tax advisor.

FREQUENTLY ASKED QUESTIONS AND ANSWERS

Q. *Are the cash distributions I received from the Partnership taxable?*

A. In general, cash distributions received from the partnership are not taxable. You are required to report in your tax return only those items of income, gain, loss, deduction or tax credit as reflected on your Substitute Schedule K-1. However, if the cumulative cash distributions received from the Partnership exceed your tax basis in the partnership you would have a taxable gain to report. You should consult your tax advisor for proper reporting of such gain.

Q. *Why is the amount of cash I received different than my allocable share of partnership income, gain, loss, deduction or credit?*

A. The Partnership distributes available cash as determined by the Partnership agreement. The calculation of cash available for distribution differs from the calculation of taxable income to be reported to the partners. For example, depreciation is an expense that reduces taxable income reported to the partners but does not reduce cash available for distribution.

Q. *Why do I receive a Substitute Schedule K-1 rather than a Form 1099?*

A. Form 1099 is used to report interest and dividend income. Partnerships are required to separately report many different items of income, gain, loss, deduction and credit. Federal tax law requires these items to be reported on a Schedule K-1.

Q. *Why don't I receive my Substitute Schedule K-1 by January 31, which is the same date as required for distribution of Forms 1099?*

A. The required distribution date for Schedule K-1 is different than for Forms 1099. Federal law requires partnerships to provide Schedule K-1 to partners as early as April 15. However, the Partnership strives to provide Schedule K-1 as early as possible, typically during the middle of February. The Partnership must obtain information regarding partnership units bought or sold during the year from stock brokerage firms or transfer agents to prepare the Schedule K-1. Much of this information, in accordance with applicable law, is not provided to the Partnership until late January. A cursory review of this information is performed and then processed with other K-1 information resulting in printing and mailing during February. The Partnership continues to work toward an earlier distribution date of the Substitute Schedule K-1.

Q. *If I sell my Partnership units, how is my tax basis determined for computing gain or loss?*

A. Your tax basis is the original amount paid for the partnership units, adjusted as follows:

- Increased by the cumulative amounts of income and gain reported to you on Substitute Schedules K-1.
- Reduced by the cumulative amounts of loss, deduction and credit reported to you on Substitute Schedules K-1, and
- Reduced, but not below zero, by the cumulative amounts of cash distributions received from the Partnership.

Q. *Does the Substitute Schedule K-1 show my tax basis in Partnership units?*

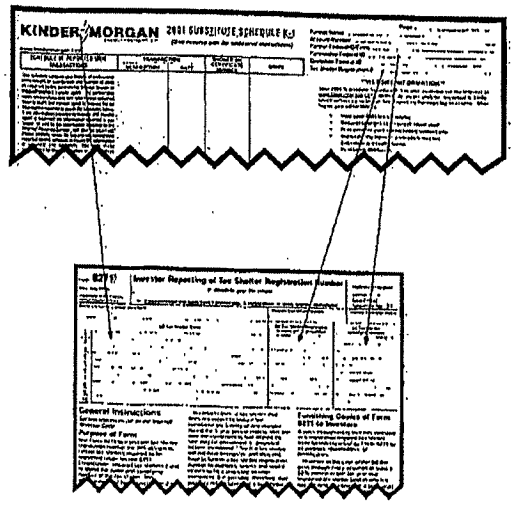
A. No, however, the END OF YEAR amount under Item (10) - Reconciliation of Partner's Capital Account in the Federal and State Schedule may provide an approximation of your ending tax basis for all units owned at December 31. The END OF YEAR amount includes your original cost of units, as reported to the Partnership by your broker, and other adjustments affecting tax basis. However, brokers do not always report original cost to the Partnership, or the original cost reported may be incorrect. When brokers do not report original cost to the Partnership, the low closing price for the month in which you purchased units is assumed to be the cost. This assumption, or incorrect reporting by the broker, can cause this END OF YEAR amount to be different than your actual tax basis at December 31.

Q. *If I sell my partnership units at a gain, why is part of the gain treated as ordinary income rather than capital gain?*

A. A sale of partnership units is treated as if there was a sale of the partner's allocable share of each of the partnership's assets. Gain on the sale of assets for which depreciation or depletion deductions have been taken is treated as ordinary income rather than capital gain. The ordinary income on sale of units represents the depreciation and depletion deductions previously allocated to you.

Q. *If my Substitute Schedule K-1 reports a passive activity loss from partnership operations, does this mean the partnership was not profitable?*

A. No. The partnership achieved record profit for 2001 of over $442 million. Any operating loss reported to partners for tax purposes is due principally to tax depreciation expense in excess of financial depreciation expense.



IRC SECTION 751 STATEMENT

The taxpayer has reported ordinary income upon the disposition of units in Kinder Morgan Energy Partners, L.P., as provided by the General Partner. The amount was determined in accordance with Internal Revenue Code Section 751 and the detailed information is available in the offices of the General Partner upon request.

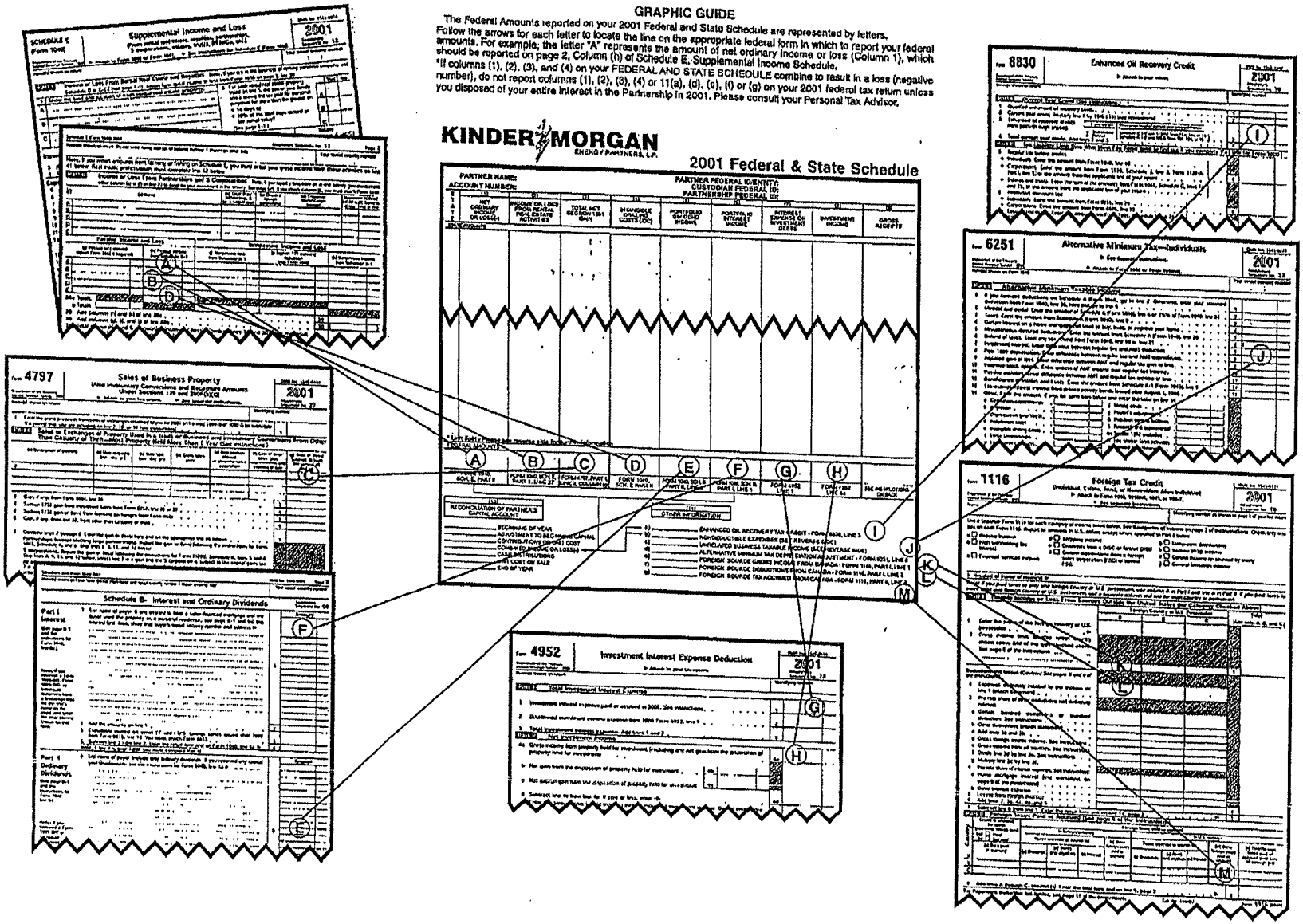
IRC SECTION 754 STATEMENT

The taxpayer is a transferee partner in Kinder Morgan Energy Partners, L.P. who has a special basis adjustment under Internal Revenue Code (IRC) Section 743(b) pursuant to an IRC Section 754 election made by Kinder Morgan Energy Partners, L.P. The special basis adjustment was made in accordance with the rules provided in IRC Sections 743 and 755 and the Regulations thereunder. Detailed information is available in the offices of the General Partner upon request.

GRAPHIC GUIDE

The Federal Amounts reported on your 2001 Federal and State Schedule are represented by letters. Follow the arrows for each letter to locate the line on the appropriate federal form in which to report your federal amounts. For example, the letter "A" represents the amount of net ordinary income or loss (Column 1), which should be reported on page 2, Column (h) of Schedule E, Supplemental Income Schedule.

*If columns (1), (2), (3), and (4) on your FEDERAL AND STATE SCHEDULE combine to result in a loss (negative number), do not report columns (1), (2), (3), (4) or 11(a), (c), (e), (f) or (g) on your 2001 federal tax return unless you disposed of your entire interest in the Partnership in 2001. Please consult your Personal Tax Advisor.



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ATTACHMENT BBB

Docket No. OR03-5-001
Exhibit No. BPX-54
Comparison of 2003 Costs of Service for Nl, OR, EL and WL

COMPARISON OF COSTS OF SERVICE RECEIVED IN DISCOVERY IN FERC Docket Nos. OR03-5-001 and OR03-5-000 *Chevron Products et al. v. SFPP* with Page 700 of FERC Form 6
(Revised to reflect Ganz updated Exhibits SFO-115 and SFO-116)

SFPP. L.P.
Calculation of Cost of Service
For the Period Ending December 31, 2003
($000's)

Line No.	Description	2003 COS (NL) 1/ North Line 2003	2003 COS (WL) West Line 2003	2003 COS (EL) East Line 2003	2003 COS (OR) 2/ Oregon Line 2003	Totals	Page 700 2003 Form 6	Page 700 (previous year column) 2004 Form 6
1	Average Net TOC Rate Base	$28,633	$140,934	$33,634	$8,604	$211,805	$227,767	$211,569
2	Weighted Cost of Capital	8.62%	9.16%	9.20%	8.64%		11.27%	11.33%
3	Allowed Total Return	$2,468	$12,915	$3,095	$743	$19,222	$25,669	$23,971
	Add: Permanent Tax Differences:							
4	Amortization of Deferred Earnings	$225	$864	$232	$74			
5	Depreciation of Equity AFUDC	$17	$104	$23	$5			
6	Depreciation of ITC Basis Reduction	$13	$42	$2	$5			
7	Less: Debt Return	$834	$4,266	$999	$248			
8	Subtotal	$1,890	$9,662	$2,353	$641			
9	Amortization of Unfunded and Overfunded ADIT	($37)	($91)	($15)	($12)			
10	Net to Tax Multiplier	0.53854	0.53854	0.53854	0.53854			
11	Subtotal	$998	$5,145	$1,259	$305			
12	Income Tax Allowance	$961	$5,063	$1,245	$293	$7,562	$8,385	$13,925
	Add Carrier Expenses:							
13	Operating Expenses Excluding Depreciation	$9,422	$27,652	$11,785	$4,093	$52,952	$60,740	$60,740
14	Carrier Depreciation Expense	$1,235	$5,490	$1,648	$426	$8,799	$8,946	$8,946
15	Amortization of AFUDC	$20	$97	$15	$5	$137	$84	$94
16	Amortization of Deferred Earnings	$225	$864	$232	$74	$1,395	$1,589	$1,513
17	Total Operating Expenses	$10,902	$34,102	$13,680	$4,547			
18	Total Cost of Service	$14,331	$52,081	$18,020	$5,583	$90,015	$105,412	$109,188
	Total Interstate Operating Revenues					$124,956	$124,956	$124,956
	Excess of Revenues Over Cost of Service					$34,941	$19,544	$15,768
	Percent in excess of cost of service					38.8%	18.5%	14.40%

Notes:
1/ Source: SFO-115
2/ Source: SFO-116

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ATTACHMENT CCC

Docket No. OR03-5-001
Transcript Excerpt of Cross-Examination of Richard Bullock,
Pgs 00914-00946

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1 BEFORE THE

2 FEDERAL ENERGY REGULATORY COMMISSION

3 - - - - - - - - - - - - - - - - - - -x

4 IN THE MATTER OF: : Docket Number

5 CHEVRON PRODUCTS COMPANY, : OR03-5-001

6 BP WEST COAST PRODUCTS LLC, :

7 EXXONMOBIL OIL CORPORATION, AND :

8 CONOCOPHILLIPS COMPANY :

9 v. :

10 SFPP, L.P. :

11 - - - - - - - - - - - - - - - - - - -x

12

13 Hearing Room 5

14 Federal Energy Regulatory

15 Commission

16 888 First Street, NE

17 Washington, DC

18

19 Wednesday, May 7, 2008

20

21 The above-entitled matter came on for hearing, pursuant

22 to notice, at 10:04 a.m.

23

24 BEFORE: HONORABLE EDWARD M. SILVERSTEIN

25 ADMINISTRATIVE LAW JUDGE

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P R O C E E D I N G S

PRESIDING JUDGE: On the record.

Since you've moved to the front, Ms. Halverson, I trust that you are ready to call the next witness.

MS. HALVERSON: I am, your Honor. Mr. Richard L. Bullock, please.

PRESIDING JUDGE: Off the record.

(Discussion off the record.)

PRESIDING JUDGE: Ms. Halverson.

MS. HALVERSON: I'd like to mark for identification the prepared answering testimony of Richard L. Bullock and his exhibits, Exhibits SFO-49 through SFO-60, please. And the court reporter has her copies.

PRESIDING JUDGE: Mr. Bullock, would you raise your right hand.

Whereupon,

RICHARD L. BULLOCK

was called as a witness and, having first been duly sworn, was examined and testified as follows:

PRESIDING JUDGE: Please be seated.

CROSS-EXAMINATION

BY MS. HALVERSON:

Q Good morning, Mr. Bullock.

A Good morning.

Q Are you the same Richard L. Bullock that

1 prepared answering testimony that's been marked Exhibit
2 Number SFO-49?
3 A I am.
4 Q Was this testimony prepared by you or under your
5 supervision and control?
6 A It was.
7 Q Are you the same Richard L. Bullock who provided
8 the exhibits attached to your prepared answering testimony,
9 that is Exhibit Numbers SFO-50 through SFO-60?
10 A I am.
11 PRESIDING JUDGE: Wait one second. The guy
12 sitting all the way in the back there is Mr. Arthur, and
13 he'd like to hear you, so you need to project your voice.
14 BY MS. HALVERSON:
15 Q Were these exhibits prepared by you and/or under
16 your supervision and control?
17 A Yes, they were.
18 Q Are there any corrections you would like to
19 provide to any of your testimony or exhibits?
20 A No.
21 Q If I asked you the questions presented therein
22 to you today, would you provide the same answers?
23 A Yes.
24 MS. HALVERSON: Your Honor, Mr. Bullock is
25 available for cross-examination.

PRESIDING JUDGE: We're identifying for the record Exhibit SFO-49 through what, Ms. Halverson?

MS. HALVERSON: SFO-60.

PRESIDING JUDGE: SFO-49 through SFO-60 -- let me take that back. Since we've already identified several of these. At this time, we're identifying Exhibits SFO-49 through SFO-54. SFO-55A was identified on April 30. At this time, we're identifying SFO-55B through 55D.

(Exhibits SFO-49 through SFO-54 and SFO-55B through SFO-55D identified.)

PRESIDING JUDGE: According to the index, Ms. Halverson, SFO-56 is withdrawn.

MS. HALVERSON: I'm sorry, your Honor, that's right. 56 and 58 were withdrawn at your request.

PRESIDING JUDGE: SFO-57A was identified on April 30, so we're going to identify SFO-57B, 57C and 57D.

(Exhibits SFO-57B, SFO-57C and SFO-57D identified.)

PRESIDING JUDGE: SFO-58 was withdrawn, as Ms. Halverson noted, and we're identifying SFO-59 and SFO-60. I think I got that right.

(Exhibits SFO-59 and SFO-60 identified.)

PRESIDING JUDGE: Now you can go, Mr. Gooch.

MR. GOOCH: Thank you, your Honor.

CROSS-EXAMINATION

BY MR. GOOCH:

Q Good morning, sir.

A Good morning.

PRESIDING JUDGE: Got to get your voice up, Mr. Gooch. I can't hear you.

MR. GOOCH: I'm sorry, sir.

BY MR. GOOCH:

Q Sir, what proof does SFPP offer in this case that the public limited partners in KMEP had actual or potential income tax liability on taxable income allocated to them by KMEP --

PRESIDING JUDGE: Do you want to go through the whole record, Mr. Gooch? That's one of those never-ending questions. You've got to be more specific than that. I'm sorry. That question is not permissible.

BY MR. GOOCH:

Q Sir, what proof does SFPP offer --

PRESIDING JUDGE: No, no. You're not going to ask him to go through the record. What proof? What is he going to do, tell you Exhibits 8, 9, 10, 11, 15, 1 through 412? You have to ask a specific question. You want the research done, you do it. Ms. Myers can do it. Ms. Banaga can do it. Witnesses are not up here to answer research questions. They're up here to answer specific questions, and if you can't ask a specific question, then we'll move

on.

MR. GOOCH: Yes, sir.

BY MR. GOOCH:

Q Was any taxable income allocated to any of the public limited partners by KMEP in 2003?

A Yes.

PRESIDING JUDGE: I can't hear you.

THE WITNESS: Yes. Sorry.

BY MR. GOOCH:

Q What is the basis for the statement you just made?

A The 2003 income tax returns for SFPP reflect taxable income on their return. That income was allocated to Santa Fe Pacific Pipelines, Inc., and it was also allocated to Kinder Morgan Operating L.P.D. The income was -- Kinder Morgan Operating, L.P.D was allocated to Kinder Morgan GP, Inc. It was also allocated to Kinder Morgan Energy Partners. That income that was allocated to Kinder Morgan Energy Partners was then allocated to some of the public common unitholders of Kinder Morgan Energy Partners.

Q If I may, the question was specifically limited to taxable income allocated to any of the public limited partners by KMEP. Did you understand that to be the question?

A No. My understanding was from SFPP.

1 Q No. That's why I want to correct that. The
2 question is, was any taxable income allocated to any of the
3 public limited partners by KMEP in 2003?
4 A I'm not sure.
5 Q Would you please look at Exhibit Number BPX-23,
6 the data request BPX-1-29. That is attached to the
7 prepared rebuttal testimony of Christopher P. Sintetos.
8 A I have it.
9 Q Let me know when you're ready to take a
10 question, please, sir.
11 A I have it.
12 Q You prepared this exhibit, response, sir?
13 A Yes.
14 Q And you report in 2003 the public limited
15 partners for the class had losses in income of
16 $429,537,099?
17 A Yes, that's correct. I'd like to clarify, if I
18 could. That loss number includes 743(b) depreciation of
19 the partners, which is not a partnership deduction, so it
20 is possible that Kinder Morgan Energy Partners did, in
21 fact, allocate taxable income to some of the common
22 unitholders, and their 743(b) depreciation reduced that to
23 a negative number or loss. It's also possible that within
24 this number, this is a net number, that some of the common
25 unitholders did, in fact, even including their 743(b)

1 depreciation, end up with taxable income.
2 Q That's extremely helpful, and I promise we're
3 going to cover that, and you made the point for me. Thank
4 you. The point remains, however you slice it, however
5 different depreciation in terms of taxable income from KMEP
6 to the public limited partners, there was a negative
7 $429,537,099 in losses; right?
8 A Yes, that's correct.
9 Q And those carry forward, do they?
10 A Yes, to the extent they're not used in a current
11 tax year, they would be carried forward.
12 Q Let's be very careful. Do they have to be used
13 not only in the current tax year but in connection with
14 KMEP?
15 A Yes, they do -- excuse me. Do they have to be
16 used in the current year? The answer to that is no. They
17 have to be used in connection with KMEP. The answer to
18 that is yes.
19 Q So the carryforward in the future years would be
20 dealing with KMEP until you sell?
21 A Until you sell or until you get allocated
22 taxable income from KMEP.
23 Q Perfect. Thank you. You have a class of
24 limited partners, units are not sold on the New York Stock
25 Exchange. Can you tell me, was there any taxable income

1 from a trade or business, such as SFPP, allocated to any of
2 the nonpublic limited partners in 2003? I volunteer to
3 help.
4 A Okay.
5 Q What I looked at in designing the question was
6 SFO-55C, 2003 partner share of income credit deductions,
7 Kinder Morgan Energy Partners, L.P. In particular, I went
8 to the section in the back where you added K-1s for the
9 nonpublic limited partners. I think it starts on page 34
10 of 54.
11 A Okay.
12 Q If you don't mind starting on page 34 of 54,
13 would you please tell me what this piece of paper that says
14 limited partners is. Does it cover all limited partners?
15 I withdraw the question --
16 A I believe it does. I'm not certain about it.
17 Q I know. I can see that, so I withdraw the
18 question. Let's look instead, then, at page 43 of 54.
19 This purports to be a K-1 from KMEP to the general partners
20 who also owns a limited partnership interest. And I ask
21 you if line 1 shows a loss in ordinary income.
22 A Yes, it does.
23 Q Let's go to the next one. The next one is page
24 47 of 54. It goes to Kinder Morgan, Inc. -- and correct me
25 if I'm wrong -- it shows an ordinary loss from trade or

1 business activities of $1.9 million.
2 A Yes, that's correct.
3 Q The next one, Kinder Morgan Energy Partners to
4 KN Gas Gathering, it shows a plus ordinary income from
5 trade or business of 3.3 million or thereabouts?
6 A Yes, that's correct.
7 Q That's all that I show here in the way of K-1s.
8 So would you think it fair, then, to conclude that in 2003,
9 the only ordinary income from trade or business activities of
10 a positive nature was the sum total of 3,344,304 to the
11 nonpublic limited partners?
12 A Yes, I believe that's correct.
13 Q Sir, as a CPA and a chief tax officer, would you
14 say that the income from SFPP, L.P. for the transportation
15 and refined petroleum products in interstate commerce would
16 yield ordinary income from the trade or business?
17 A Yes.
18 MR. GOOCH: With the Court's permission, I will
19 ask you to take a look at an exhibit that's previously been
20 admitted. It is BPX-45, comparison of taxable income and
21 cash distributions for Kinder Morgan Energy Partners using
22 2003 income tax return as an example of BPX-9.
23 The paper I'm holding in my hand differs
24 slightly from what was offered into evidence and is subject
25 to later approval or substitution because in the colloquy

1 with Professor Williamson, we agreed to change a title. No
2 other changes, to the best of my knowledge, have so far
3 been made, and it would be my intention with the Court's
4 permission, when we finish this exercise to ask for a new
5 exhibit number and do a replacement unless you wish it done
6 some other way.
7 PRESIDING JUDGE: Let's go off the record for a
8 second.
9 (Discussion off the record.)
10 PRESIDING JUDGE: We had a discussion off the
11 record concerning the exhibit to which Mr. Gooch referred,
12 and Mr. Tabor has informed me that Professor Williamson has
13 not had a chance to review the modified exhibit. And until
14 he does, we will continue to use the exhibit as originally
15 introduced.
16 After everyone agrees that the modified exhibit
17 is accurate, we'll determine whether or not we'll
18 substitute it for the original or introduce the modified
19 exhibit with a new exhibit number if everyone stipulates to
20 its accuracy.
21 Go ahead, Mr. Gooch.
22 BY MR. GOOCH:
23 Q Please get in front of you Exhibit BPX-45 as is.
24 Have you had the opportunity to see this before, sir?
25 A Yes, I have.

1 Q Oh, good.
2 MR. TABOR: Your Honor, maybe we could go off
3 the record for just a moment, please.
4 PRESIDING JUDGE: Sure.
5 (Discussion off the record.)
6 PRESIDING JUDGE: We were off the record to
7 facilitate getting the witness a copy of the exhibit to
8 which Mr. Gooch referred, and thanks to Ms. Myers, we were
9 able to come up with a clean copy, and the witness now has
10 the exhibit.
11 Go ahead, Mr. Gooch.
12 BY MR. GOOCH:
13 Q Sir, with the permission of the Court, let me
14 walk you through this and give you the opportunity to
15 challenge anything that you see on this exhibit. You see
16 three columns. The first column says "GENERAL PARTNER
17 (Kinder Morgan GP, Inc) (not publicly traded)."
18 Are you satisfied that's a true statement?
19 A Satisfied that Kinder Morgan GP, Inc. is not
20 publicly traded.
21 Q That there is a general partner, that its name
22 is Kinder Morgan GP, Inc. and that it is not publicly
23 traded.
24 A Yes.
25 Q Next column, "ALL LIMITED PARTNERS." Stock

1 symbol is KMP on the New York Stock Exchange, and roughly
2 89 percent of the class of limited partners are publicly
3 traded on the New York Stock Exchange. That's a question.
4 A I'm not sure. I don't know how the 89 percent
5 was calculated.
6 Q I took it from the 10-K, but that's all right.
7 Can you give me, then, the relative percentage between your
8 public limited partners and your in-house limited partners.
9 A I don't know that percentage off the top of my
10 head.
11 Q Third column says "KINDER MORGAN MANAGEMENT LLC
12 ('KMR' on New York Stock Exchange)." Is that an accurate
13 statement, as far as it goes?
14 A Yes.
15 Q Let's look down at line A without mentioning the
16 name that's there. It deals with income. Is it accurate
17 to say that approximately 1 percent of the income goes to
18 the general partner as general partner, leaving aside
19 incentives?
20 A So this is saying taxable income. That is the
21 percentage of taxable income that's allocated to the
22 general partner?
23 Q I can't answer your question because I have to
24 stay with the exhibit as it is now. Right now it says
25 income ownership, so in effect, it's saying what percentage

1 of the KMEP does the general partner own, and the answer, I
2 believe, is 1 percent and some change?
3 A The ownership percentage, not the income
4 ownership percentage -- I guess I'm confused about what --
5 Q I'm just asking you what percentage -- here's
6 the question: What percentage of KMEP does the general
7 partner own? Forget income. Just tell me how much they
8 own.
9 A The general partner interest is approximately 1
10 percent.
11 Q Thank you. Would you say all limited partners
12 in a class own approximately 99 percent?
13 A Yes.
14 Q Will you agree that Kinder Morgan Management,
15 LLC gets allocated no income in the ordinary course of
16 business?
17 A They are allocated zero taxable income or loss.
18 Q The next line down says "KMEP INCOME." This is
19 2003, right off the tax return. It says that KMEP income
20 was $205,638,230. Do you accept that number, or do you
21 want to look it up?
22 A I accept that number as the KMEP taxable income.
23 This says income, but I accept it as taxable income.
24 Q That was the question. And you accept the
25 general partner took $316,295,160 according to the 1065 tax

1 return?
2 A That's the taxable income that is shown as being
3 allocated to the general partner on page 4 of the 1065,
4 line 2A. I agree.
5 Q And we have the number under the limited
6 partners of a negative $428,603,261, which is taken from
7 the 1065. Do you want to -- some time check that number,
8 or you will you accept it subject to check?
9 A I'll check it. Is it all right if I get my
10 calculator?
11 Q It's all right with me if it's all right with
12 the Judge.
13 PRESIDING JUDGE: Are there sufficient numbers
14 in the record so these calculations can be done -- sit
15 down. Don't get up, please. Just talk without getting up.
16 MR. GOOCH: I had, from the first day that I
17 brought these up, I asked SFPP really nice to check the
18 numbers and I never got a response back, so I want to be
19 sure the numbers are accurate because you asked me if I was
20 going to rely on them for the truth, and I am. So they
21 didn't respond. What choice do I have but to get it from
22 their star witness?
23 PRESIDING JUDGE: I don't know if Bullock is
24 their star witness. Just because Mr. Bullock had 433
25 titles in 2003 doesn't make him their star witness,

1 Mr. Gooch, because I counted up each of his titles on
2 Exhibit CC-76, and in 2003, he had 433 titles, but I don't
3 think that makes him their star witness.
4 MR. GOOCH: All right, sir.
5 PRESIDING JUDGE: I'm not sure whether it's
6 Bradley. Bradley may be their star witness, but you missed
7 him yesterday.
8 MR. GOOCH: Sorry.
9 PRESIDING JUDGE: My point is that the numbers
10 that you need them to check are the numbers that are part
11 of the path. You don't need them to check the math. Like
12 I said yesterday to somebody, 2 plus 2 is 4 no matter how
13 you do it, and I don't think that we need to waste court
14 time by having a witness do calculations on the stand.
15 MR. GOOCH: Yes, sir.
16 PRESIDING JUDGE: Either your numbers are
17 correct or not correct, but either way, the calculations
18 are the calculations.
19 MR. GOOCH: Yes, sir.
20 PRESIDING JUDGE: If you verify the numbers with
21 him, we don't need him to do the calculations. You or
22 Ms. Myers or Ms. Banaga or somebody who's not here can do
23 those.
24 BY MR. GOOCH:
25 Q Sir, let's drop down to the line of cash

1 distributions. You see the numbers that I have there for
2 cash distributions and total for the general partner, for
3 the limited partners. And then I have a column called
4 iShares. Is that the right word to put in that column
5 under Kinder Morgan Management, LLC? Is iShare the right
6 word or is iUnit the right word to put there?
7 A KMR owns iUnits in Kinder Morgan Energy
8 Partners.
9 Q Where this says iShares, it should be changed to
10 iUnits; is that correct?
11 A I guess it depends on which ownership you're
12 talking about. If you're talking about KMR's ownership in
13 KMEP, it's iUnits. If you're talking about the public's
14 ownership in KMR, then it's iShares.
15 Q Thank you. That's very helpful. The reason
16 that Kinder Morgan GP, Inc. gets 314 million
17 plus in cash distributions is because of the provision in
18 the contract as an incentive for them to run the company
19 well. Is that a fair way to put it?
20 A No, I don't believe that's fair.
21 Q Say something fair.
22 A The partnership agreement identifies the
23 allocation of cash distributions between the partners, and
24 that partnership agreement specifies that when
25 distributions reach certain levels, that the allocation of

1 the cash distributions will change, and the allocation to
2 the general partner above and beyond its 1 percent
3 ownership in Kinder Morgan Energy Partners is defined as an
4 incentive distribution.
5 Q When the incentive distribution is calculated,
6 do you consider the value of the iUnits?
7 A What way?
8 Q Let me back up a second, then.
9 The Kinder Morgan Management LLC, as I
10 understand it -- correct me if I'm wrong -- is technically
11 allocated to cash distribution, but they do not take it in
12 cash. They take it in other iUnits. So far correct?
13 A Yes, that's correct.
14 Q When you calculate your up to 50 percent of the
15 cash distributions, is the total you calculate from include
16 the cash distributions that went to KMR before they were
17 converted to iUnits?
18 A What is the 50 percent?
19 Q That's your upper limit on your incentive, isn't
20 it?
21 A Yes. It's close to 50 percent, and the answer
22 to that is yes. The incentive distribution to the general
23 partner includes -- that calculation includes the cash that
24 would have been distributed to KMR if it received a cash
25 distribution, but it receives iUnits in lieu of cash.

1 Q Thank you. Let's go back to the lines above,
2 dealing with KMEP taxable income. State whether or not, as
3 part of this agreement, the general partner in KMEP gets
4 taxable income allocated to it approximately equal to the
5 amount of the cash distributions that they get.
6 A The general partner is allocated a dollar of gross
7 income for each dollar of incentive distribution that it
8 receives.
9 Q Does it make any difference whether KMEP has any
10 income at all?
11 A No. They would still be allocated a dollar of
12 gross income regardless of the taxable income of KMEP.
13 Q Even if it's a negative number, they'd still get
14 a positive number; right?
15 A Yes.
16 Q Please, if you'll look back on 45, right-hand
17 column under iShares, you see it says instead of taking
18 cash of, and by my calculation, it was 117,972,000 which I
19 just ask you to take subject to check, and this chart shows
20 the dollars flowing back to the general partner as being
21 available cash for distribution. Is that an accurate way
22 to depict what happens?
23 A No, I don't think that's correct.
24 Q Whatever the sum of money is for the iUnits
25 stays in KMEP; right?

1 A Yes.
2 Q Can that money be used to make cash
3 distributions?
4 A I'm not really sure. I think the answer is no
5 because the total amount of cash distributed to the
6 partners is calculated, and then each of the limited
7 partners and the general partner get their share of that
8 total.
9 Included in that total is the cash distribution
10 that would go to KMR, except it's getting iUnits, so that
11 cash is not distributed. It's retained by the partnership,
12 and I don't believe that it's available for distribution to
13 any of the other partners because the other partners have
14 already gotten their share of available cash.
15 Q Let me try. I want you to think about that for
16 just a minute because I want to try again. You have
17 something that's a cash flow statement that you record all
18 the cash you get; right?
19 A We have a cash flow statement, yes.
20 Q The cash flow statement is the source for cash
21 distributions, tracks it?
22 A The cash flow statement is prepared in
23 accordance with Generally Accepted Accounting Principles.
24 It's not really necessarily a calculation of cash available
25 for distribution.

1 Q I really didn't ask you that. I'm asking you if
2 the cash flow statement is how you track the cash coming in
3 and cash going out?
4 A For generally accepted accounting purposes, yes,
5 it is.
6 Q Are you telling me that the cash that comes in
7 or stays in to KMEP by the sale of the iUnits is not
8 available to fund cash distributions. Is that your
9 position?
10 A The proceeds from any equity offering made by
11 Kinder Morgan Energy Partners would be available for
12 distribution to the partners, but it can only be
13 distributed in accordance with the partnership agreement
14 which sets different sharing ratios for that type of cash.
15 It's different. It is not subject to an incentive
16 distribution allocation to the general partner.
17 Q I didn't ask anything about incentive
18 distribution. I simply asked if it was available for cash
19 distribution. Let's go through the list, please. When
20 iUnits are converted from cash to iUnits, does that cause a
21 taxable event for either the partnership or any partner in
22 KMEP?
23 A Can I restate the question?
24 Q You want me to or do you want to?
25 A I'll take a shot at it. The distribution of the

1 iUnits to KMR -- does the distribution of iUnits to KMR or
2 the distribution of iShares to the public owners of KMR,
3 does that create a taxable event?
4 Q Fine.
5 A Then the answer to that is no.
6 Q How about if you sell new limited partnership
7 units to the public, question A. Is that --
8 PRESIDING JUDGE: Why don't you ask one question
9 at a time.
10 MR. GOOCH: Yes, sir.
11 BY MR. GOOCH:
12 Q When you sell new limited partnership units to
13 the public, does that generate tax liability for anybody,
14 the partnership or any partner?
15 A No.
16 Q Is the cash received from the sale of new
17 limited partnership units available for cash distribution?
18 A Yes, but only 99 percent to the limited
19 partners, 1 percent to the general partner. Again, it's
20 not subject to the incentive distribution allocation
21 formula.
22 Q How about borrowings from a bank? Can you
23 borrow money from a bank and make cash available for cash
24 distributions?
25 A Yes. Again, that cash received could not be

1 distributed under the incentive distribution allocation.
2 It would be 99 percent limited partners, 1 percent general
3 partner.
4 Q Would it be a taxable event to borrow from a
5 bank for anybody?
6 A No.
7 Q How about depreciation dollars collected from
8 ratepayers? Is that cash available, then, for
9 distribution?
10 A I can't say. I don't know how depreciation is
11 received from ratepayers. I don't know what that means.
12 Q As a CPA, you certainly know what
13 depreciation is?
14 A Yes, I do.
15 Q Is depreciation something that is subject to
16 income taxes?
17 A Depreciation is a deduction that is allowable
18 for tax purposes.
19 Q Can you give me an instance where I legitimately
20 take depreciation and the federal government says you owe
21 me a tax because you took depreciation?
22 A Not for the depreciation deduction, no.
23 Q How about reserves set up for future
24 expenditures, like you anticipate some environmental
25 remediation 10 years down the line, so you set up a

1 reserve. Does that create cash that's available for
2 distribution?
3 A No, creating reserve is not a source of cash.
4 We don't receive cash for recording a liability on our
5 balance sheet.
6 Q What if you decide to defer payment to
7 creditors, defer your accounts payable? Does that make
8 cash available, then, for distribution?
9 A It would increase the amount of cash on hand.
10 Since you have increased cash, I would assume there's the
11 possibility that it could increase the cash available for
12 distribution.
13 Q Thank you, sir. How about if you reduced
14 expenditures for maintenance on the pipeline below the
15 dollars collected from ratepayers to pay the maintenance,
16 would that make cash available for distribution?
17 A The cash available for distribution, just in
18 general terms, is the excess of the cash received over the
19 cash paid out. So if you're going to reduce the cash paid
20 out, that would leave more cash to distribute.
21 Q How about collecting deferred income taxes,
22 sometimes referred to as accumulated deferred income taxes
23 for ratepayers? Does that create cash that's available for
24 distribution?
25 A All cash that's received for services provided

1 would provide cash that's potentially available for
2 distribution to the partners.
3 Q Are there any other ways of raising cash, other
4 than earnings -- earnings is a given -- is there any way of
5 raising cash for cash distribution, other than earnings
6 that I haven't mentioned that you can think of?
7 A You could sell assets.
8 Q Now I would like to drop back to the subject
9 that we discussed which you brought up earlier, and that is
10 the so-called 743(b) depreciation. I believe that you
11 gave, by my standards, at least, a very excellent
12 explanation of it, and I won't ask you to repeat that.
13 I will ask you only to confirm that because of
14 an election made by Kinder Morgan Energy Partners, limited
15 partners who buy and sell their limited partnership units
16 on the New York Stock Exchange are entitled to an
17 additional amount of depreciation?
18 A They are entitled to depreciation outside of the
19 partnership in addition to the partnership's depreciation
20 deduction.
21 Q And it is the duty of KMEP to track that 743(b)
22 depreciation and include it in the K-1s they provide to the
23 limited partners; correct?
24 A I don't know if it's required or not. We do
25 that for the limited partners.

1 Q Does the IRS call upon KMEP to provide the
2 answer to the question of how much taxable income was
3 sheltered by a 743(b) depreciation?
4 A There are requirements to provide calculations
5 related to the 743(b) depreciation.
6 Q Can you tell me, in 2003, how much tax taxable
7 income was sheltered by 743(b) depreciation of the public
8 limited partners?
9 A No.
10 Q When a limited partner sells his limited
11 partnership interest, KMEP will tell them the amount of
12 their 743(b) depreciation that they took; right?
13 A No, I don't believe so.
14 Q Really? We're going to do, with the Court's
15 indulgence, a slight time warp. I think you'll recognize
16 this document when you see it, Mr. Bullock.
17 With the Court's permission, we'd like to have
18 three exhibits marked.
19 PRESIDING JUDGE: Let's go off the record for a
20 second.
21 (Discussion off the record.)
22 PRESIDING JUDGE: Ms. Myers, you've got an
23 exhibit? Is that what this is?
24 MS. MYERS: Yes, your Honor. I have three
25 exhibits here. BPX-51 is a one-page document, which is

1 entitled "R. Gordon Gooch Analysis of Kinder Morgan
2 Schedules K-1." Accompanying BPX-51 is a two-page document
3 entitled "2000 SUBSTITUTE SCHEDULE K-1" --
4 PRESIDING JUDGE: Explain to me what "2000
5 SUBSTITUTE SCHEDULE K-1" means.
6 MS. MYERS: In other words, this is a substitute
7 K-1 that was issued to Mr. Gooch in lieu of a normal K-1 as
8 a limited partner in KMEP in the year --
9 PRESIDING JUDGE: Mr. Gooch is a limited
10 partner?
11 MS. MYERS: At this time, for the year 2000, he
12 was a limited partner in KMEP. And likewise, if I may hand
13 up BPX-53, it's a similar document for 2001 Substitute K-1
14 for Mr. Gooch.
15 PRESIDING JUDGE: Let me just note that there's
16 nobody in this room over the age of 12 who's going to be
17 able to read the first page of BPX-53, and I'm not even
18 certain somebody who is 12 could read it. These are
19 infinitesimally small print.
20 MS. MYERS: I apologize, your Honor. These were
21 actually used as exhibits previously in earlier cases, and
22 they're the best copies we could get.
23 PRESIDING JUDGE: You're just a sadist is what
24 you are. Here's what we're doing. We're marking for
25 identification as BPX Exhibit 51 a one-page document that

is captioned "R. Gordon Gooch Analysis of Kinder Morgan Schedules K-1 December 31, 2000 and 2001."

As Exhibit Number BPX-52, we're marking a two-page document which is captioned "KINDER MORGAN ENERGY PARTNERS" "2000 SUBSTITUTE SCHEDULE K-1."

And as Exhibit Number BPX-53, a four-page document, a document captioned "KINDER MORGAN ENERGY PARTNERS" "2001 SUBSTITUTE SCHEDULE K-1."

(Exhibits BPX-51, BPX-52 and BPX-53 identified.)

PRESIDING JUDGE: Go ahead, Mr. Gooch.

MR. GOOCH: Thank you, sir.

BY MR. GOOCH:

Q Sir, please look at BPX-51. See if this doesn't jog your memory that you and Mr. Hrdlicka did this for us in the North Line case, and we can cut to the chase if you can refresh yourself on this which picks up the data that's reflected in BPX-52 and 53.

A Okay. I'm sorry. I don't recall this schedule.

Q Let me ask you the simple questions anyway. If we work them, as the judge says, anybody can work through the numbers and do the math. You get down to the bottom of page 51, you see there is a breakout of total gain on sale, and it has then broken down potential capital gain and potential ordinary gain.

1 Are you now able to tell me whether KMEP
2 provides the 743 potential ordinary gain information to
3 unitholders when they sell their units?
4 A No.
5 Q Let's look at 45 again, BPX-45. Let's see if we
6 can back into this 743 depreciation and get an order of
7 magnitude anyway. We see on 45 that the KMEP taxable
8 income is roughly 205 million and the general partner over
9 316 million.
10 Isn't it true, as night follows the day,
11 Mr. Bullock, that the excess over the 205 million taken by
12 the general partner has to be deducted from the limited
13 partners, convert the overages from the general partners to
14 losses to the limited partners?
15 A Yes.
16 Q Isn't it, then, a simple matter of seeing, after
17 you've accounted for those two numbers, how much more
18 deduction was given, how much more losses of income were
19 given and you have the amount of the 743 plus the little
20 bit that you have? Wouldn't that follow night to day?
21 A I don't understand.
22 Q Let's start over, please. Please look at
23 SFO-55C, page 18 of 54.
24 A Okay.
25 Q I trust you will agree that this document

1 purports to explain why the taxable income for KMEP, when
2 you net the positives and negatives, don't come out even?
3 That's my technical talk. Would you like me to try again,
4 sir.
5 A No. I'm just reading the document.
6 Q Okay. Sorry.
7 A The explanation provided is really there's two
8 components as to why those amounts do not agree. One is
9 attributable to 743(b) depreciation. The other is
10 attributable to the fact that the records for the public
11 partners are incomplete.
12 Q Let's look back at 6 of 54. Analysis of net
13 income. Does the nominee problem that you referred to on
14 page 18 of 54 cover in this line 2, 6 nominee/other?
15 A Part of it could be in that number.
16 Q Is part in other numbers?
17 A Yes.
18 Q So you're telling me you really just don't know
19 the magnitude of the 743(b) depreciation sheltering the
20 taxable income?
21 A I believe that's right.
22 Q I need your help in understanding something
23 else. I would appreciate it very much --
24 PRESIDING JUDGE: You're going to get his help
25 after the break. We'll take our morning recess.

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1 (Recess.)
2 PRESIDING JUDGE: Mr. Gooch, you may continue.
3 MR. GOOCH: Thank you, your Honor.
4 BY MR. GOOCH:
5 Q Mr. Bullock, will you please help me understand
6 something. In Exhibit SFO-55A, the same being "Form 1065
7 U.S. Return of Partnership Income 2003 SFPP, L.P." Can you
8 recognize the signature of the man on the first page?
9 A Yes, I do.
10 Q Is he known to you personally?
11 A Yes, that's my signature.
12 Q Would you believe anything he said?
13 PRESIDING JUDGE: Come on, Mr. Gooch. I can
14 make jokes, but you can't. That's the way things work.
15 MR. GOOCH: I'm sorry.
16 BY MR. GOOCH:
17 Q Please look at page 6 of 25. "Schedule M-1,
18 Reconciliation of Income (Loss) per Books With Income
19 (Loss) Per Return," and I ask you whether line 9 on
20 schedule M-1 reflects the claimed taxable income of SFPP,
21 L.P. that would be flowed forward to partners?
22 A Yes.
23 Q Please point out to me what number I should look
24 at as the net income per books, and I'll ask you -- I have
25 been looking at line 1. Is that the right place to look?

A Yes, that's the right line, schedule M-1, line 1.

Q Line 7, I can't read the little symbol, but it says "SEE STATEMENT 5." So let me ask you to turn to that schedule, which I find on 15 of 25.

A I have it.

Q Sir, I want you to help me understand some things now. I do understand you've gone from book to taxable income. It's some of these deductions that I want to talk to you about. How do you deduct $27,822,126 in reserve expenses?

A I don't recall for sure, but one way that happens is if we have a reserve on the books and a deduction was taken for book purposes in a period, but that deduction was not taken in the same period for tax purposes until those amounts were actually paid, then you would take the deduction for tax return purposes in the period in which they were paid even though that same deduction may have been taken for book purposes in a prior period.

Q Let's look at the next one down, "FERC LITIGATION RESERVE," $45 million. That refers to the litigation on these cases we're involved now?

A I don't know.

Q Let me ask you this: That number sticks in my mind as the amount -- let me start over again, please.

1 Withdraw the question.
2 I'm confused by the word "reserve." I can't
3 tell if that means it's been paid or has not been paid or
4 if it doesn't mean either one. Which is it?
5 A Well, I can tell you this for sure. If it's
6 never paid, then it can't be a deduction, so at some point
7 in time it has to be paid to be a legitimate deduction.
8 Q The correct way to read this is you deducted $45
9 million for FERC litigation expenses. Is that the way to
10 read that?
11 A Yes.
12 Q Is that the same $45 million that has been put
13 in our rates for us to pay?
14 A I don't know.
15 MR. GOOCH: Thank you, Mr. Bullock. I
16 appreciate it.
17 THE WITNESS: You're welcome.
18 PRESIDING JUDGE: Are you done?
19 MR. GOOCH: Yes, sir.
20 CROSS-EXAMINATION
21 BY MR. JAUSS:
22 Q Good morning, Mr. Bullock. My name is Fred
23 Jauss. I'm with the law firm of Dorsey & Whitney, and I'm
24 here on behalf of ConocoPhillips in this case.
25 We learned yesterday that you have a lot of job
26

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ATTACHMENT DDD

Docket No. OR03-5-001
Transcript Excerpt of Cross-Examination of Kellye Jennings
Pgs 00260-00296

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1 BEFORE THE

2 FEDERAL ENERGY REGULATORY COMMISSION

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4 IN THE MATTER OF: : Docket Number

5 CHEVRON PRODUCTS COMPANY, : OR03-5-001

6 BP WEST COAST PRODUCTS LLC, :

7 EXXONMOBIL OIL CORPORATION, AND :

8 CONOCOPHILLIPS COMPANY :

9 v. :

10 SFPP, L.P. :

11 - - - - - - - - - - - - - - - - - - -x

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13 Hearing Room 5

14 Federal Energy Regulatory

15 Commission

16 888 First Street, NE

17 Washington, DC

18

19 Tuesday, April 29, 2008

20

21 The above-entitled matter came on for hearing, pursuant

22 to notice, at 10:49 a.m.

23

24 BEFORE: HONORABLE EDWARD M. SILVERSTEIN

25 ADMINISTRATIVE LAW JUDGE

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PRESIDING JUDGE: Go ahead.

CROSS-EXAMINATION

BY MS. BOUDREAUX:

Q Good morning, Ms. Jennings. I'm Michelle Boudreaux, appearing on behalf of SFPP.

PRESIDING JUDGE: If you don't speak loud enough, I'm throwing you in the back of the room with Lefler.

MS. BOUDREAUX: I will try to speak louder, your Honor.

BY MS. BOUDREAUX:

Q I would like to ask you some questions about your prepared direct testimony beginning on page 13 of 16 pages. I note you have two different sets of page numbers on your direct testimony. So when I give you a page number, I'm going to refer to the page numbers on the top. Just let me know when you're ready.

A I'm ready.

Q In reviewing your testimony at pages 13 through 15, I'm having a little bit of trouble understanding what "goodwill" is.

PRESIDING JUDGE: Let me do something for the record, because we don't want to confuse any reviewing body if you people don't settle, smartly settle, who may get confused. For some silly reason, Ms. Jennings's testimony

1 has page numbers at the bottom, and pursuant to my
2 instructions, which is the only correct way to do it, she
3 has page numbers also in the top right-hand corner that go
4 page X of X pages, which is what my instructions require.
5 So that when you are directing her, or anybody is directing
6 her to the pages, you are, of course, referring to the page
7 numbers that I require, not the ones that were erroneously
8 placed at the bottom of the page. Is that correct?
9 MS. BOUDREAUX: That's correct.
10 PRESIDING JUDGE: So that if some reviewer has
11 to understand where we are looking at the exhibit, they'll
12 understand that.
13 BY MS. BOUDREAUX:
14 Q Back to page 13 of 16, I'm having a little bit
15 of difficulty understanding actually what "goodwill" is.
16 Would you understand that to be a loosely defined term?
17 A In the accounting literature, it is not a
18 loosely defined term.
19 Q So would you say, then, here on line 20 of page
20 13, when you say you generally expect goodwill to be the
21 premium paid by new purchasers of businesses, is it
22 something else as well?
23 A Generally, it is the premium paid by a
24 purchaser, correct.
25 Q What about not generally?

1 A I cannot think of an instance where it would not
2 be a premium.
3 Q Do you think that goodwill has future economic
4 benefits?
5 A No, I do not.
6 MS. BOUDREAUX: I'd like to have a document
7 marked, your Honor, entitled "FACTSaboutFASB," which is
8 from the Web site for the Financial Accounting Standards
9 Board.
10 May I approach the bench, your Honor?
11 PRESIDING JUDGE: Yes.
12 MS. BOUDREAUX: I'm handing two copies to the
13 court reporter. It's already marked with the exhibit
14 number.
15 PRESIDING JUDGE: All right, Ms. Boudreaux --
16 MR. GOOCH: Excuse me. Do you think we could
17 have copies?
18 MS. BOUDREAUX: Ms. Halverson is distributing.
19 PRESIDING JUDGE: All right. I need one copy,
20 and then that's for my clerk. Ms. Boudreaux has handed me
21 a three-page document. On the first page, it's
22 titled "FACTSaboutFASB 2007."
23 This document is marked for identification as
24 Exhibit Number SFO-93.
25 (Exhibit SFO-93 identified.)

1 MS. BOUDREAUX: Your Honor, may I approach the
2 witness?
3 PRESIDING JUDGE: Yes.
4 BY MS. BOUDREAUX:
5 Q This is an excerpt from the facts about FSAB
6 from the Web site of the Financial Accounting Standards
7 Board. I've just handed that to you. Let me know when
8 you're ready. I'm going to ask you a couple of questions
9 about this exhibit.
10 A So should I read this whole thing?
11 Q That's up to you.
12 PRESIDING JUDGE: While the witness is reading
13 that, let me rant again. This time, my rant is about the
14 stupid -- I use that term politely -- stupid numbering
15 system of the SFO exhibits. Who in God's name ever ever
16 conceived of numbering exhibits 92A, 92B, whatever your
17 numbers are? Stupid, stupid, stupid. Whoever did it ought
18 to be fired. Okay?
19 And I'm not overstating. It's just idiotic.
20 Don't ever let it happen again. Jeepers. And then you
21 have tabs in the middle of other exhibits A and B. Dumb,
22 dumb, dumb, dumb. I know it wasn't Mr. Ganz, because he's
23 too smart. So it must have been one of your other people.
24 Dumb. All right.
25 Are you ready, Ms. Jennings?

1 THE WITNESS: I scanned it.
2 PRESIDING JUDGE: Good. That should be enough.
3 BY MS. BOUDREAUX:
4 Q Ms. Jennings, are you familiar with the
5 Financial Accounting Standards Board?
6 A I am.
7 Q And I'd like to direct your attention to the
8 first paragraph beginning with the two words "Since 1973."
9 Do you agree with this statement from this paragraph that
10 the standards of the Financial Accounting Standards Board
11 are recognized as authoritative by the Securities and
12 Exchange Commission and the American Institute of Certified
13 Public Accountants?
14 A I do.
15 Q Is it your view that the standards promulgated
16 by the Financial Accounting Standards Board are generally
17 accepted accounting principles?
18 A Yes.
19 Q Let's turn to your testimony, BPX-1, page 14 of
20 16, lines 12 through 13.
21 A Okay. I'm ready.
22 Q So when a bank or another some sort of lending
23 institution asks you to conduct a study based on intangible
24 assets alone, is that study consistent with generally
25 accepted accounting principles?

A When a bank asks me to do a study?

Q Yes. I think that's what you've said here, that sometimes a bank asks you to do a study. And when you do that study, is it consistent with generally accepted accounting principles?

A In the context of tangible net worth, it would be basically under the terms of the debt agreement is generally the definition of tangible net worth.

Q So is that study consistent with generally accepted accounting principles?

A There are consistencies, yes.

Q Is it entirely consistent with generally accepted accounting principles?

A The tangible net worth calculation generally is in accordance with generally accepted accounting principles, but there may be differences, and those would be identified generally in the debt document.

Q So is goodwill in -- is goodwill addressed in these studies that you conduct for banking or lending institutions?

A Generally, goodwill is identified as a part of the definition of "tangible net worth."

Q And when you do these studies, is the treatment of goodwill in these studies consistent with generally accepted accounting principles?

1 A The treatment is under the definition of
2 tangible net worth. That's a bank definition generally,
3 but it will start from a financial statement and list items
4 to be added or subtracted to the net worth in the financial
5 statement to arrive at the tangible net worth as defined by
6 the bank.
7 MS. BOUDREAUX: I'd like to have another
8 document marked. This is Financial Accounting Standards
9 Board Standard 141. I'm handing two copies to the court
10 reporter. They've already been marked with the exhibit
11 number. Your Honor, may I approach? We're also
12 distributing copies to counsel for BP and ExxonMobil.
13 Your Honor, may I approach the witness?
14 PRESIDING JUDGE: No, not yet. I have magic
15 words, I must say.
16 MS. BOUDREAUX: Okay.
17 PRESIDING JUDGE: Counsel has handed me a
18 10-page document. On the first page, it's indicated to be
19 document number 299-A, issued December 2007, part of the
20 financial accounting series, and it is titled "Statement of
21 Financial Accounting Standards No. 141. (Revised 2007.)"
22 This document is marked for identification as
23 Exhibit SFO-94.
24 (Exhibit SFO-94 identified.)
25 PRESIDING JUDGE: All right. Go ahead,

1 Ms. Boudreaux.
2 BY MS. BOUDREAUX:
3 Q I will note that this is a lengthy document and
4 is an excerpt downloaded from the Web site of the Financial
5 Accounting Standards Board.
6 I'm going to ask you a couple of questions about
7 this document. Let me know when you're ready.
8 MS. MYERS: Does counsel want the witness to
9 review the entire document, or might counsel direct the
10 witness?
11 MS. BOUDREAUX: I'd be happy to. Why don't you
12 turn to what's labeled page 8 of 10, under the section "KEY
13 TERMS," number 3, part J, the definition of "Goodwill."
14 BY MS. BOUDREAUX:
15 Q Are you ready?
16 A I'm ready.
17 Q You said earlier that you do not believe that
18 goodwill has any future economic benefit. Does that mean
19 that you disagree with the Financial Accounting Standards
20 Board definition of "goodwill"?
21 A No. I disagree with your question as it was
22 stated.
23 Q So you do agree, then, that goodwill is an asset
24 that represents future economic benefits; correct?
25 A I do agree that it represents future economic

1 benefits.
2 Q So because goodwill is an asset that represents
3 future economic benefits, doesn't that explain why people
4 put much reliance on goodwill as an asset?
5 A Speculation, yes, but that's speculation.
6 MS. BOUDREAUX: I'd like to have another
7 document marked, your Honor.
8 PRESIDING JUDGE: Okay.
9 MS. BOUDREAUX: This is an excerpt from a
10 dictionary for accountants. I'm handing one copy to the
11 Judge, two copies to the court reporter, and we're
12 distributing copies to counsel.
13 PRESIDING JUDGE: Counsel has handed me a
14 four-page document. On the first page, it is indicated to
15 be "A DICTIONARY FOR ACCOUNTANTS," "FIFTH EDITION." The
16 author is Erik L. Kohler, K-o-h-l-e-r. And as counsel
17 indicated, it appears to be an excerpt from that book.
18 Ms. Boudreaux, would you happen to know the
19 publication date?
20 MS. BOUDREAUX: I have a copy. I believe it's
21 1975.
22 PRESIDING JUDGE: Okay. Thank you.
23 (Exhibit SFO-95 identified.)
24 PRESIDING JUDGE: Is there some particular place
25 you would like to direct the witness?

1 MS. BOUDREAUX: May I approach the witness, your
2 Honor?
3 PRESIDING JUDGE: Sure.
4 BY MS. BOUDREAUX:
5 Q Here's a copy of the excerpt from "A DICTIONARY
6 FOR ACCOUNTANTS." I direct your attention to the
7 definition of "journal entry" on page 2 and 3 of 4.
8 Are you ready?
9 A I'm ready.
10 Q If you would, please turn to your prepared
11 direct testimony, BPX-1, page 14, line 17. I'm going to be
12 asking you about that point in your testimony through page
13 15, line 8.
14 A All right. I'm ready.
15 Q In your hypothetical, the purchaser pays $1,000
16 for a company; is that right?
17 A Okay. I'm sorry. You're on the second page,
18 the second example. Yes, the purchaser paid $1,000.
19 Q And the market value of the target company's
20 assets, according to your testimony, was $800; correct?
21 A The book assets, $800, yes.
22 Q So here, just looking at your testimony, page
23 14, line 20, it says "the asset's market value is $800."
24 A That's correct.
25 MS. BOUDREAUX: I'd like to have another

1 document marked. I'm handing two copies to the court
2 reporter, one copy to the judge. This is a document
3 entitled "Jennings Purchase Example: Journal Entry."
4 PRESIDING JUDGE: Counsel has handed me a
5 one-page document, which, as she indicated, is
6 titled "Jennings Purchase Example: Journal Entry."
7 The document is marked for identification as
8 Exhibit SFO-96.
9 (Exhibit SFO-96 identified.)
10 MS. BOUDREAUX: Your Honor, may I approach the
11 witness?
12 PRESIDING JUDGE: Yes. You don't really need to
13 ask me for permission to approach the witness. My advice
14 would be that you hand the witness a copy of the exhibit
15 before you give it to me so that she has an opportunity,
16 without wasting any court time, of looking at it.
17 MS. BOUDREAUX: I will definitely do that, your
18 Honor.
19 BY MS. BOUDREAUX:
20 Q Just let me know when you're ready.
21 A I'm ready.
22 Q Based on the facts in your hypothetical in your
23 direct testimony, wouldn't you agree that fixed assets
24 would be debited $800?
25 A Yes.

1 Q Would you also agree that goodwill would be
2 debited $200?
3 A Yes.
4 Q And you would also agree that there would be a
5 $1,000 credit to cash; correct?
6 A I do not agree to that. I'm sorry, the
7 purchaser, yes, on the purchaser's books, that's right.
8 Q So you do agree?
9 A I do.
10 Q Thank you. You characterized your hypothetical
11 as simplistic in your testimony; correct?
12 A I did.
13 Q And so I would like to go ahead and add some
14 additional assumptions. Could you, please, assume for me
15 that the cash balance is $10,000 before the purchase.
16 Okay?
17 A Okay.
18 Q And also assume that the fixed asset balance was
19 $20,000 before the purchase. Okay?
20 A Okay.
21 Q And assume that the prepurchase goodwill balance
22 is zero. Okay?
23 A Can you say that again?
24 Q You know what? I'm going to go ahead and have
25 another document marked. Then you can tell me if that

1 helps you. Do you want me to go ahead and repeat it first,
2 though?
3 A If you don't mind.
4 Q No, I would be happy to. The cash balance is
5 $10,000 before the purchase. The fixed asset balance is
6 $20,000 before the purchase, and the prepurchase goodwill
7 balance is zero.
8 MS. BOUDREAUX: So I'd like to have another
9 document marked. I'm handing one copy to Ms. Jennings, two
10 copies to the court reporter, one copy to the Judge, and
11 we're also distributing copies to counsel.
12 PRESIDING JUDGE: Counsel has handed me a
13 one-page document captioned "Jennings Purchase Example:
14 Asset Account Balances."
15 This document is marked for identification as
16 Exhibit SFO-97.
17 (Exhibit SFO-97 identified.)
18 THE WITNESS: I have a correction to the first
19 illustration.
20 PRESIDING JUDGE: Why don't you just wait.
21 MS. BOUDREAUX: So I understand, your Honor,
22 that we're almost at break time.
23 PRESIDING JUDGE: We're beyond break time. Why
24 don't we let her make the correction she asked, and then
25 we'll take our break.

1 Go ahead.
2 THE WITNESS: On the first example, this would
3 assume that the parent and the subsidiary were not keeping
4 separate sets of books. And so this entry would have been
5 booked on the parent company's books, assuming that the
6 subsidiary company was not keeping its own set of books.
7 If the parent company was keeping a set of books
8 separately from the subsidiary company, the debit to fixed
9 assets and goodwill would have been combined, and that
10 entry would have been investment in subsidiary.
11 BY MS. BOUDREAUX:
12 Q But in --
13 PRESIDING JUDGE: She's answered it. Think
14 about it. And you can ask questions. We'll break for 15
15 minutes. So we'll be back at 11:35.
16 (Recess.)
17 PRESIDING JUDGE: On the record.
18 Go ahead, Ms. Boudreaux.
19 BY MS. BOUDREAUX:
20 Q You indicated you had some additional
21 information to your response for the journal entry;
22 correct?
23 A SFO-96?
24 Q That's correct.
25 A Yes.

1 Q And you indicated that, perhaps, your answer
2 would change in the event that this were a parent and
3 subsidiary; correct?
4 A That's correct.
5 Q There is no parent or subsidiary relationship in
6 your hypothetical, is there?
7 A Actually, there was, because almost every
8 purchase accounting transaction I looked at, there's a
9 parent company set of books and a subsidiary set of books.
10 Q I'm talking about your testimony at page 14,
11 line 17 through 18, where it says "one entity buys the
12 other entity."
13 A Yes.
14 Q So a parent is purchasing a subsidiary in your
15 example?
16 A When a company buys another company, then there
17 are two entities involved, and oftentimes, more often than
18 not, there's a parent/subsidiary relationship that exists
19 after the transaction is consummated.
20 Q But that's not here in your hypothetical;
21 correct?
22 A I don't believe that the relationship
23 postacquisition was stated in the hypothetical.
24 Q So you mentioned that goodwill wouldn't show up
25 under --

PRESIDING JUDGE: Wait a minute. You're leaving things hanging. I can't stand things hanging.

Before we took our break, you said that you had a correction to make in Exhibit Number SFO-96; right?

THE WITNESS: That's correct.

PRESIDING JUDGE: And on the record you stated what you said was a correction?

THE WITNESS: That's correct.

PRESIDING JUDGE: All right. Now, in the answers that you gave to Ms. Boudreaux after we returned from the break, were you intending to say that your explanation from before the break was different than what you're saying now?

THE WITNESS: No.

PRESIDING JUDGE: Okay. You better straighten this out, because I'm confused.

BY MS. BOUDREAUX:

Q So this remains the correct journal entry, correct, under these facts?

A Yes.

Q So you would still have 800 debit to fixed assets, $200 debit to goodwill, and $1,000 credit to cash; correct?

A The debit would be to investment in subsidiary for $1,000. That would be the entry on the parent

1 company's books.
2 Q So tell me, if that's it is case, how are you
3 addressing goodwill in your testimony if it wouldn't
4 appear?
5 A It would appear on the subsidiary company's
6 books. And when the parent and the subsidiary consolidate,
7 which they're required to do under the control rules, then
8 the investment account would be removed, and the assets of
9 the subsidiary would appear onto the consolidated set of
10 books.
11 Q But there is nothing in your testimony, is
12 there, that indicates that this is a parent/subsidiary
13 relationship; correct?
14 A No, there is not.
15 Q So if this were not a parent/subsidiary
16 relationship, the journal entry here on SFO-96 would be
17 correct; right?
18 A Yes.
19 Q Let's turn to the exhibit which I just handed
20 you, which is SFO-97.
21 A I'm ready.
22 Q Okay. After the transaction, it's correct,
23 isn't it, that the ending balance for cash would be $9,000?
24 A Correct.
25 Q And the ending balance for fixed assets would be

1 $20,800; correct?
2 A Correct.
3 Q And the ending balance for goodwill would be
4 $200; right?
5 A That's correct.
6 Q And before the transaction, the beginning asset
7 balance is $30,000, isn't it?
8 A Assuming that these are the only three assets,
9 the answer would be yes.
10 Q So you have $10,000 for cash, $20,000 for fixed
11 assets, zero for goodwill, making a beginning balance of
12 $30,000; right?
13 A That's correct.
14 Q And then after the transaction, you've got 9,000
15 for cash; right?
16 A Correct.
17 Q $20,800 for fixed assets, $200 for goodwill,
18 with an ending balance of $30,000?
19 A That's correct.
20 Q Let's just make some -- a couple of additional
21 assumptions to your hypothetical. Assume with me, please,
22 that before the transaction, the beginning long-term debt
23 balance is $15,000. Okay?
24 A That's fine.
25 Q And assume also that the beginning owner's

1 equity balance is also $15,000. Given these assumptions
2 and the other facts in this hypothetical we've been talking
3 about, isn't it correct that after the transaction, the
4 long-term debt balance would still be $15,000?
5 A Yes, on the parent company's books.
6 Q And -- the purchaser?
7 A The purchaser, yes.
8 Q And it's also correct that the owner's equity
9 balance would still be $15,000; correct?
10 A That's correct.
11 MS. BOUDREAUX: Your Honor, I'd like to have
12 another document marked. I'm handing one copy of the
13 document that's entitled "Jennings Purchase Example: Debt
14 and Equity Account Balances" to the witness. I'm handing
15 one to the Judge and two copies to the court reporter, and
16 we're distributing copies to counsel.
17 PRESIDING JUDGE: Counsel has handed me a
18 one-page document captioned "Jennings Purchase Example:
19 Debt and Equity Account Balances."
20 The document is marked for identification as
21 Exhibit SFO-98.
22 (Exhibit SFO-98 identified.)
23 BY MS. BOUDREAUX:
24 Q Are you ready?
25 A I'm ready.

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1 Q This document reflects what we just talked
2 about; correct?
3 A That's correct.
4 Q That the beginning balance for long-term debt is
5 15,000, that the beginning balance for owner's equity is
6 15,000, and that the 15,000 debt and 15,000 owner's equity
7 remains after the transaction?
8 A That's correct.
9 Q So the $30,000 balance for liabilities and
10 equity equals the $30,000 asset balance; correct?
11 A That's correct.
12 MS. BOUDREAUX: That's all I have, your Honor.
13 PRESIDING JUDGE: Okay. Any other
14 cross-examination?
15 MR. BENNETT: Your Honor, just briefly, if
16 there's no other.
17 PRESIDING JUDGE: Apparently not.
18 CROSS-EXAMINATION
19 BY MR. BENNETT:
20 Q Good morning, Ms. Jennings. My name is William
21 W. Bennett, and I will be examining you briefly on behalf
22 of the Staff of the Federal Energy Regulatory Commission.
23 Could you turn to page 6 of your direct
24 testimony, BPX-1?
25 A I'm ready.

1 Q If you would look, please, at line 14.
2 A I'm ready.
3 Q There, you indicate you're about to answer some
4 questions from the standpoint of an investor; correct?
5 A That's correct.
6 Q Have you ever done any empirical studies that
7 ascertain what the role of cash distributions from master
8 limited partnerships is in investors' decisions to acquire
9 publicly traded partnership units in those master limited
10 partnerships?
11 A No, I have not.
12 Q Have you ever done any empirical studies that
13 ascertain what role allocated taxable income plays in
14 investors' decisions to acquire publicly traded partnership
15 units in master limited partnerships?
16 A No, I have not.
17 Q What experience, if any, have you had advising
18 members of the public or institutional investors in how to
19 make investments in master limited partnerships?
20 A I have not had any experience with master
21 limited partnerships.
22 Q Would you turn to page 4 of your direct
23 testimony and look, please, at lines 7 through 10.
24 A Okay. I'm ready.
25 PRESIDING JUDGE: You said page 4?

1 MR. BENNETT: I did, your Honor, and I withdraw
2 that question.
3 Indulge me, please, your Honor.
4 PRESIDING JUDGE: Mr. Bennett, I told Ms. Myers
5 counsel must be prepared. You don't get an excuse.
6 MR. BENNETT: Yes, your Honor. That's true.
7 PRESIDING JUDGE: You have about 30 seconds.
8 MR. BENNETT: No further questions, your Honor.
9 PRESIDING JUDGE: All right. Ms. Myers,
10 redirect?
11 MS. MYERS: No redirect, your Honor.
12 PRESIDING JUDGE: Unfortunately for you,
13 Ms. Jennings, I have a few questions.
14 Turn to page 6 of 16, at line 19. You use the
15 term "capital account." I'd like you to define that term.
16 THE WITNESS: A "capital account" is generally
17 an equity account that's -- that serves as a memo account
18 for the investors.
19 PRESIDING JUDGE: What does that mean?
20 THE WITNESS: Well, in accounting terms, assets
21 equal liabilities plus owner's equity. So the capital
22 accounts are the owner's equity account and generally a
23 pass-through entity like a limited partnership and S
24 corporation.
25 PRESIDING JUDGE: Turn to the next page, page 7,

1 line 6. You refer to a numerator, and at line 18, you
2 again refer to a numerator. Can you tell us what that
3 numerator is?
4 THE WITNESS: The numerator is the distribution.
5 PRESIDING JUDGE: Yeah. I want a number. You
6 say "because of the numerator of the equation, the dividend
7 is zero." I want to know what the number is that causes
8 the dividend to be zero.
9 THE WITNESS: Because a distribution is not the
10 same as a dividend --
11 PRESIDING JUDGE: You're not answering my
12 question. What is the numerator? I want a number.
13 THE WITNESS: The numerator is zero.
14 PRESIDING JUDGE: Okay. It couldn't be any
15 other number, could it?
16 THE WITNESS: No.
17 PRESIDING JUDGE: What was your problem in
18 trying to tell me that? You were being evasive.
19 THE WITNESS: No, no. I was just reminding
20 myself of the testimony.
21 PRESIDING JUDGE: It was your testimony?
22 THE WITNESS: It was.
23 PRESIDING JUDGE: And you wrote these answers?
24 THE WITNESS: I did.
25 PRESIDING JUDGE: So you knew it was zero?

THE WITNESS: I did.

PRESIDING JUDGE: You just forgot?

THE WITNESS: Honestly, I was reading back through to remind myself as to the hypothetical.

PRESIDING JUDGE: Okay.

THE WITNESS: There's simply no other reason.

PRESIDING JUDGE: But in any equation, when the numerator is zero, the answer has to be zero.

THE WITNESS: That's correct.

PRESIDING JUDGE: See, and everybody thought that I forgot my 7th grade algebra because I'm 1050 years old. The only one older than me in this courtroom is Mr. Bennett, because he's the only one that went to law school at a time when people really learned Latin names and numbers and stuff like that.

All right. Let's go to page 9. I want you to look at your answers that begin at -- the answer begins at line 3 and ends at line 6. Tell me when you've finished reading that.

THE WITNESS: I'm ready.

PRESIDING JUDGE: Then turn to page 13. Look at the question and answer that begins at line 12 and goes through line 16.

THE WITNESS: Okay.

PRESIDING JUDGE: Is there any way to decipher

1 income from a return of equity if more information is
2 given?
3 THE WITNESS: In the first scenario or the
4 second scenario?
5 PRESIDING JUDGE: Both.
6 THE WITNESS: If there were more information, it
7 would be possible to determine that, yes.
8 PRESIDING JUDGE: What type of information would
9 be needed?
10 THE WITNESS: You would need to know what the
11 original investment was, the income that was flowed through
12 to the partner over the course of the investment, and the
13 sales price of the investment.
14 PRESIDING JUDGE: Where would we find this
15 information?
16 THE WITNESS: Generally, it would be on a
17 partner's K-1, but you will need to look at the K-1 over
18 the course of the holding of the investment.
19 PRESIDING JUDGE: Looking at the K-1, is there
20 any way to differentiate between income and return of
21 capital or distribution other than income?
22 THE WITNESS: I can't answer that question. I
23 don't prepare tax returns.
24 PRESIDING JUDGE: All right. Let's go to
25 BPX-31, page 2 of 4, the sentence that begins at line 9 and

1 finishes the paragraph at line 15.
2 Are you ready?
3 THE WITNESS: Okay, I'm ready.
4 PRESIDING JUDGE: Suppose Mr. Vaughan,
5 Mr. Money-Bags Vaughan, suppose Mr. Vaughan were to invest
6 $100,000 in a partnership that was intended to create a
7 product to replace gasoline.
8 THE WITNESS: Okay.
9 PRESIDING JUDGE: And suppose they were able to
10 do that, and suppose in the first year that company made
11 $50,000 profit, and suppose Mr. Vaughan left his $100,000
12 in the partnership but received a proportional share of the
13 $50,000 profit, all of which was distributed to the
14 partners.
15 THE WITNESS: Okay.
16 PRESIDING JUDGE: Now, considering that he left
17 his capital investment in place, didn't touch any of the
18 $100,000 that he initially invested but just received a
19 portion of the income of the corporation, the profit that
20 the corporation made, why would that be a return of capital
21 and not something that was the equivalent of a dividend?
22 Put your hand down.
23 THE WITNESS: The reason for that is when income
24 gets allocated to owners, it gets allocated to their
25 capital accounts, and from the capital accounts,

1 distributions are made. So because of the nature of a
2 flow-through entity, you lose that connection between the
3 earnings and the distribution.
4 PRESIDING JUDGE: So what --
5 THE WITNESS: Similar to a checking account.
6 When I withdraw money from my checking account, to me,
7 because it's cash, I don't designate it as being an income
8 withdrawal or just withdrawal of the original amount that I
9 put in.
10 PRESIDING JUDGE: But if you had $1,000 in a
11 checking account that was drawing interest at the minuscule
12 amount that banks pay interest on checking accounts, you
13 would receive a statement at the end of the year that said
14 you made X number of dollars of interest, which the IRS
15 would treat as ordinary income.
16 So how is that analogous to what you just told
17 us the income in a partnership is treated as?
18 THE WITNESS: Because I would have earned that
19 interest regardless of whether I had taken a distribution
20 of that amount out of my account.
21 PRESIDING JUDGE: But -- all right. I was going
22 along with you until you brought up the bank. Then you
23 kind of really threw me, because I don't believe that the
24 interest in a bank or the treatment that a bank gives to
25 money would be analogous to what you're saying.

1 What you're saying insofar as a partnership is
2 concerned, as I understand it, is that a partnership
3 doesn't distribute profit directly to its partners; it
4 places that profit in whatever pro rata shared is required
5 by the partnership agreement into an account
6 labeled "capital"?
7 THE WITNESS: That's correct.
8 PRESIDING JUDGE: Okay. So in point of fact,
9 what we are talking about, then, is really a manner of
10 accounting rather than fact. If it had been an individual
11 ownership and the company made $50,000, it would go to the
12 owner; right?
13 THE WITNESS: Depending on the type of entity.
14 PRESIDING JUDGE: No, just an individual
15 ownership, Vaughan Enterprises. Vaughan Enterprises made
16 $50,000 last year selling faux gasoline, and Vaughan gets
17 the 50,000; right?
18 THE WITNESS: The company earned it. So it's
19 the company's earnings.
20 PRESIDING JUDGE: Well, it's his company. It's
21 Vaughan d/b/a.
22 THE WITNESS: Okay. So the company and the
23 individual are the same.
24 PRESIDING JUDGE: Yes.
25 THE WITNESS: Yes.

1 PRESIDING JUDGE: That's what I'm talking about.
2 THE WITNESS: Yes.
3 PRESIDING JUDGE: Now, if it was a corporation
4 and the corporation earned $50,000 and Vaughan owned all
5 the stock in the corporation and the corporation
6 distributed all of its profit as dividend, Vaughan gets the
7 $50,000 as dividend, which is also treated as ordinary
8 income?
9 THE WITNESS: Yes, he would get dividend income.
10 PRESIDING JUDGE: So why should we look at a
11 similar transaction involving a partnership any
12 differently?
13 THE WITNESS: Because in your analogy, you
14 assumed that only the earnings were being distributed.
15 PRESIDING JUDGE: Yes, that's my hypothetical.
16 THE WITNESS: And in that hypothetical, the
17 distribution would equal earnings.
18 PRESIDING JUDGE: Yes.
19 THE WITNESS: But in many, many cases --
20 PRESIDING JUDGE: That's not what I'm asking
21 you. I'm dealing with my hypothetical.
22 THE WITNESS: In your hypothetical, the
23 distribution would equal the earnings.
24 PRESIDING JUDGE: Right. So why would it be a
25 capital -- a distribution of capital rather than a

1 distribution similar to a dividend or similar to Vaughan
2 d/b/a taking out the $50,000 as profit?
3 THE WITNESS: Because the investor would be --
4 that earnings would be attributable to the investor,
5 regardless of whether or not the money had been distributed
6 to the investor.
7 PRESIDING JUDGE: Well, in Vaughan d/b/a, same
8 thing; no?
9 THE WITNESS: Vaughan d/b/a, the person and the
10 company are the same.
11 PRESIDING JUDGE: Yes.
12 THE WITNESS: So with an LLC, the investors and
13 the LLC are not the same entity.
14 PRESIDING JUDGE: All right. You haven't
15 convinced me. We will do a round of cross-examination
16 based only on my questions. You can't raise any new areas.
17 You can only ask questions based on what I asked the
18 witness.
19 Ms. Boudreaux?
20 MS. BOUDREAUX: Your Honor, we don't have any
21 further questions.
22 PRESIDING JUDGE: Mr. Bennett?
23 MR. BENNETT: No questions, your Honor.
24 PRESIDING JUDGE: Ms. Myers?
25 MS. MYERS: Just one moment, your Honor.

1 No redirect, your Honor.
2 PRESIDING JUDGE: All right. Then all we need
3 to do is deal with the exhibits, and theoretically, you're
4 unscathed. Right.
5 So Ms. Myers, we have BPX-1 through 4 and 31.
6 MS. MYERS: Correct.
7 PRESIDING JUDGE: Are you offering them at this
8 point?
9 MS. MYERS: Yes, please, your Honor.
10 PRESIDING JUDGE: Objections? Seeing none,
11 Exhibits BPX-1 through 4 and BPX-31 are admitted.
12 (Exhibits BPX-1, BPX-2, BPX-3, BPX-4, and BPX-31
13 received.)
14 PRESIDING JUDGE: All right, Ms. Jennings. You
15 may leave the stand.
16 THE WITNESS: Thank you.
17 PRESIDING JUDGE: Thank you.
18 MS. BOUDREAUX: My exhibits, your Honor?
19 PRESIDING JUDGE: Oh, sorry. Thank you,
20 Ms. Boudreaux, for reminding me, because everybody knows
21 I'm a senile old man, and the only one in the courtroom
22 older than me is who? Mr. Bennett.
23 SFO-93 through 98; is that right?
24 MS. BOUDREAUX: That's right.
25 PRESIDING JUDGE: Are you offering them into

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ATTACHMENT EEE

Docket No. OR03-5-001
Transcript Excerpt of Cross-Examination and Redirect of Christopher P. Sintetos
Pgs 00313-00357

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1 BEFORE THE

2 FEDERAL ENERGY REGULATORY COMMISSION

3 - - - - - - - - - - - - - - - - - - -x

4 IN THE MATTER OF: : Docket Number

5 CHEVRON PRODUCTS COMPANY, : OR03-5-001

6 BP WEST COAST PRODUCTS LLC, :

7 EXXONMOBIL OIL CORPORATION, AND :

8 CONOCOPHILLIPS COMPANY :

9 v. :

10 SFPP, L.P. :

11 - - - - - - - - - - - - - - - - - - -x

12

13 Hearing Room 5

14 Federal Energy Regulatory

15 Commission

16 888 First Street, NE

17 Washington, DC

18

19 Wednesday, April 30, 2008

20

21 The above-entitled matter came on for hearing, pursuant

22 to notice, at 10:03 a.m.

23

24 BEFORE: HONORABLE EDWARD M. SILVERSTEIN

25 ADMINISTRATIVE LAW JUDGE

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1

2 On behalf of BP West Coast Products/ExxonMobil Oil

3 Company:

4 SHANNON M. BANAGA, ESQ.

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1 resumed the stand and, having been previously duly sworn,
2 was examined and testified further as follows:
3 CROSS-EXAMINATION
4 BY MS. HALVERSON:
5 Q Good morning, Mr. Sintetos.
6 A Good morning.
7 Q Could you please refer to the document I just
8 handed you, and could you please point out where on this
9 document the 743B depreciation deduction appears?
10 A I don't believe there was a reference on here,
11 having reviewed this. 743 typically belongs to a partner.
12 It's partner-specific. So it would usually be identified
13 on a partner's K-1 as opposed to in the body of the return.
14 Q Okay. And starting on page 22 of this return,
15 there are the schedules K-1 for the partners?
16 A Uh-huh.
17 Q Could you, please, point out where on those
18 schedules K-1 appears the 743B. I have to change the page
19 number, Mr. Sintetos. I'm sorry. Page 19 is where the
20 schedule K-1 begins.
21 A I don't see a reference to it.
22 Q Okay. Thank you.
23 MS. HALVERSON: Your Honor, I'm now handing the
24 witness the Form 1065 U.S. partnership return for 2004 for
25 SFPP, L.P., and I've handed two copies to the court

1 reporter.
2 PRESIDING JUDGE: And this document was
3 previously marked as Exhibit SFO-57A.
4 MS. HALVERSON: That's right, your Honor.
5 PRESIDING JUDGE: All right. This document is
6 now marked for identification.
7 (Exhibit SFO-57A identified.)
8 BY MS. HALVERSON:
9 Q Mr. Sintetos, I pose the same question to you
10 regarding this return or schedules K-1, please.
11 A Well, again, first of all, I'm not sure all the
12 K-1s are included in here. No, they are. I do not see a
13 reference to it in this return. There's a reference to
14 specially allocated depreciation, but that doesn't -- it
15 isn't identified in 743B.
16 Q And the reason you're not seeing it on these
17 returns is because it's not a deduction of SFPP
18 specifically, is it?
19 A Oh, I don't know that. Different accountants
20 account for it different ways. I have seen it on the K-1,
21 which is the way I would prepare a return. I have also
22 seen it embodied within the depreciation schedules, which
23 are not included in here at all, that are flowed through
24 specifically so each partner does not see it separately.
25 So it could be in here; you just can't see the numbers.

1 Once you make a 754 election, it's binding until it's
2 revoked. In some cases, they identify the depreciation,
3 which is the 743; sometimes, they don't.
4 Q Are you aware of whether or not SFPP has made
5 such an election?
6 A If I recall, having looked at SFPP returns from
7 earlier cases, I recall there being an election.
8 MS. HALVERSON: Thank you.
9 That's it, your Honor. I have no more
10 questions.
11 PRESIDING JUDGE: Anybody besides Staff?
12 Go.
13 MR. BENNETT: Thank you, your Honor.
14 CROSS-EXAMINATION
15 BY MR. BENNETT:
16 Q Good morning, Mr. Sintetos.
17 A Good morning.
18 Q My name is William Bennett. I will be examining
19 you this morning on behalf of the Federal Energy Regulatory
20 Commission.
21 Would you turn to page 14 of your recently
22 revised direct testimony, BPX-5.
23 A 14 of 39?
24 Q Yes. And would you look, please, at line 18.
25 A Okay.

Q In that section, you're talking about rate of return on equity; correct?

A Well, I was asked that, yes.

Q And in response to a hypothetical question, you indicate that taxable income flowed through a master limited partnership will result in a positive return on equity; correct?

A If there is income, yes.

Q And that would be at line 15? I'm sorry. On page 15, line 1.

A Okay. Yes.

Q Were you suggesting by your answer that in ratemaking before this Commission, taxable income should be used to develop the dividend yield part of the return on equity formula used in discounted cash flow analysis?

A I don't know anything about ratemaking. So I wouldn't make any suggestions about ratemaking.

Q Just to be clear, you're not making in your testimony a recommendation that for the dividend yield part of the discounted cash flow formula in proceedings before this Commission, taxable income, rather than cash distributions, should be used in the numerator to determine that variable; is that correct?

A I think I was just answering a question about how I would compute return on equity. I wouldn't make any

1 suggestions about ratemaking on it.
2 Q So you understood the question to be return on
3 equity but apart from ratemaking; is that correct?
4 A Yes.
5 Q Based on your experience as a tax specialist and
6 your experience in master limited partnerships, do you
7 understand that --
8 PRESIDING JUDGE: Hold on for a minute.
9 Somebody open up the door and see if they're announcing
10 something. All right. It's amusing. The three
11 underground floors and the lobby are to be evacuated. The
12 rest of us can die because the building's going to blow up
13 anyway. There's a window here. We can throw a chair out
14 and jump.
15 All right. I'm sorry. Go ahead, Mr. Bennett.
16 BY MR. BENNETT:
17 Q I'll rephrase the question, Mr. Sintetos.
18 Based on your experience as a tax specialist and
19 your familiarity with master limited partnerships, is there
20 a difference between the decision to distribute cash and
21 the decision to allocate taxable income?
22 A I think the decision's a management decision,
23 and it's an agreement decision based upon what has been
24 promised partners. But cash and income are not necessarily
25 connected in a partnership.

1 Q So the decisions to distribute them are not
2 necessarily connected in a partnership; is that correct?
3 A That's correct.
4 Q And again, based on your experience with master
5 limited partnerships and as a tax specialist, could you
6 just state for the record what is your understanding of
7 what a master limited partnership is?
8 A A master limited partnership is kind of a
9 securitized -- or a partnership that would trade on an
10 exchange, much like a stock, but it maintains its
11 partnership characteristics from a tax perspective, meaning
12 it's not a taxable entity. It's a flow-through entity.
13 And so the tax returns, as you can see, are partnership
14 returns, not corporate returns.
15 Q Is there a distinction between a master limited
16 partnership and a limited partnership for tax purposes?
17 A Yes, especially when it comes to the area of
18 passive loss rules. Master limited partnerships that
19 generate passive losses can only be used against that
20 master partnership's income. They cannot be used by other
21 passive income a taxpayer might have.
22 Q Just cutting to the chase, do you know what the
23 90 percent rule is?
24 A I think it's as to the nature of the underlying
25 income, has to have a certain character to meet the

1 definitions of a master limited partnership.
2 Q And does that 90 percent rule apply as well to
3 any limited partnership?
4 A Any limited partnership can almost have any
5 numbers -- any assortment of income. It's not a
6 restriction.
7 Q Isn't it true that the 90 percent rule that
8 we've been talking about the last two questions is a rule
9 that governs whether a limited partnership holds the status
10 as a master limited partnership? Isn't that correct?
11 A I think the master limited partnership is more
12 of a regulatory SEC provision than it is a tax provision.
13 Q You're not aware that the rules defining a
14 master limited partnership require the partnership each
15 year to be able to demonstrate that 90 percent of its
16 income comes from specific activities, such as transporting
17 natural gas or petroleum products?
18 A You have to ask that question again.
19 MR. BENNETT: Madam Court Reporter, could you
20 read back the question.
21 PRESIDING JUDGE: Go ahead.
22 (The reporter read the record as requested.)
23 THE WITNESS: Okay. So you're asking me whether
24 I'm aware of that?
25 BY MR. BENNETT:

1 Q Yes.
2 A Yes.
3 Q And is that so?
4 A I believe it is.
5 Q But a limited partnership doesn't face that same
6 rule; correct?
7 A No.
8 Q Would you turn to your Exhibit BPX-9. It's been
9 previously identified as such. It purports to be the 1065
10 IRS form for Kinder Morgan Energy Partners, LP, for 2003;
11 is that right?
12 A 2003, right.
13 Q 2003; is that correct?
14 A Right.
15 Q Would you show me on BPX-9 where I would look to
16 find the taxable income for KMEP, Kinder Morgan Energy
17 Partners, for 2003?
18 A You would need to go to page 3.
19 Q Page 3 of 54?
20 A I'm sorry, page 3 of the form, page 5 of 54 in
21 the exhibit.
22 Q All right. I'm at page 5 of 54 of BPX-9. Would
23 you show me there where I would look to find the taxable
24 income for Kinder Morgan Energy Partners for 2003?
25 A Right. A partnership, because it's a conduit,

1 has to identify all of the characters of its income and
2 deductions. It's not just one lump number. So it's a
3 combination of many of the numbers on this page.
4 It would start with the ordinary income. You
5 would have to increase it by line C3 of that form. You
6 would also increase it by line 4A of that form, by 4B of
7 that form. You would have to note that of the dividends
8 reported on 4B, that the indented qualified dividends 4B 1
9 get a special 15 percent rate applied to them.
10 You would have to go down to section 6A and B
11 and report the losses from 1231 assets, which are assets
12 used in its regular business. You then go down to the
13 credit section, and while that doesn't affect taxable
14 income, it can be a direct offset against the taxes of the
15 partners. These items will be distributed to the partners,
16 and they will get their share of offset taxes with that
17 item.
18 The interest expense on investment debts is an
19 additional deduction that a taxpayer may be entitled to,
20 depending upon his or her investment income situation. If
21 you go down to 17G, you have foreign taxes and
22 compensations that could help an individual or any partner
23 get a foreign tax credit for taxes that were paid on income
24 from a foreign source.
25 Line 18, which is labeled 59(e)(2), those are

1 intangible drilling costs. Those represent additional
2 deductions that a taxpayer is entitled to as well.
3 I think those are most of the items you would
4 have to add up to get to the true taxable income.
5 Q So there's no one single place in the return I
6 could go to to find out what the taxable income is for
7 Kinder Morgan Energy Partners for 2003; is that correct?
8 A Well, this is the one single place, but you just
9 have to combine the numbers and make sure they get the
10 appropriate treatments.
11 Q So if I wanted to use as a regulator taxable
12 income to develop the dividend yield variable for some
13 regulated entity that's a partnership, I would have to
14 manipulate the data to find out what the taxable income is;
15 is that correct?
16 A Yes; yes.
17 Q Would you turn to Exhibit BPX-23. It is an
18 attachment to your rebuttal testimony. Do you have it?
19 A Yes, page 1 of 1, BPX-23.
20 Q Could you just tell us what that is, please.
21 A If I'm not mistaken, I think this was Richard
22 Bullock's response to some questioning as to the taxable
23 income, which I would say because it says "total taxable
24 income," he must have combined a series of the numbers from
25 the tax return to come up with these numbers.

1 Q Have you determined whether the number that
2 Mr. Bullock came up with for 2003, which is -- well, I
3 guess I can say it on the record -- it's over $400 million,
4 where that appears or how that was derived from BPX 9,
5 which is the Kinder Morgan Energy Partners's 1065 for 2003?
6 My question, sir, is, have you done that exercise previous
7 to today?
8 A I thought I had, but if you want, I can check
9 it. I think this is limited only to the limited partners
10 within Kinder Morgan Energy Partners, not the entire
11 partnership. So I would have to go back to a schedule of
12 all the limited partners. I don't think --
13 Q For Kinder Morgan Energy Partnership; correct?
14 A Correct.
15 Q And there are thousands of those; is that
16 correct?
17 A Yes.
18 Q No, I don't want you to do that here, if you
19 don't recall the number.
20 A I mean, I did a lot of analysis on that, if that
21 helps.
22 Q Would you go to page 17 of your rebuttal
23 testimony, which is BPX-21, and will you look at lines 18
24 through 20.
25 A Starting with "why"?

1 Q Yes.
2 A This is a question being asked of me as a
3 certified financial planner rather than as a tax
4 professional.
5 Q My question is -- are you there?
6 A Yes.
7 Q And my question is, you're talking there about,
8 generally, what an informed investor focuses on when
9 they're making an investment in a security; is that
10 correct?
11 A Yes.
12 Q And that would apply to a security which is a
13 unit in a master limited partnership; is that correct?
14 A Again, as someone who has analyzed investments
15 before, you always try to get a present value of an
16 after-tax discounted cash flow.
17 Q And are you suggesting in that testimony that
18 investors in master limited partnerships are not primarily
19 interested in the level of cash distributions that they
20 will receive from the master limited partnership relative
21 to the money they paid for that partnership unit in the
22 master limited partnership?
23 A I don't think that's what I'm saying here. I
24 think what I'm saying is, in a broader sense, the investors
25 in these don't truly understand them, all they understand

1 is the cash they put in and the cash they get out.
2 Q But they do understand the cash they get out; is
3 that right?
4 A That's correct.
5 Q Have you ever done an empirical --
6 PRESIDING JUDGE: Excuse me. What do they
7 understand about the cash they get out?
8 THE WITNESS: It depends upon the venture when
9 you read an agreement. But I can tell you that if you get
10 cash out and it's not subject to tax, that can get you a
11 higher rate of return. If you're handed a K-1 that says
12 you have zero income or negative income but you get cash
13 out, it's not taxable cash at that time. So it works into
14 your present value discounted cash flows.
15 PRESIDING JUDGE: So here's my question, and I
16 was going to ask it to you later, but this seems like an
17 appropriate time. And I went over this yesterday with
18 your -- the witness who was here before.
19 How would an investor who puts $100,000 in a
20 partnership view the money he gets at the end of the year
21 from the partnership when the money he receives is his or
22 her prorated share of the profit from operating the
23 business during that year?
24 THE WITNESS: First of all, I don't think
25 investors understand the profit aspects, as a general

1 comment. They do understand the cash they get. An added
2 incentive to me, if I were an investor, would be that I am
3 handed cash, that I am not paying taxes on if I'm handed a
4 K-1 that shows no taxable income was assigned to me. That
5 makes it an attractive investment.
6 PRESIDING JUDGE: You just said that you're a
7 certified financial planner.
8 THE WITNESS: Right.
9 PRESIDING JUDGE: Suppose I came to you and I
10 said I have this stock in ExxonMobil, I have one share of
11 stock, and for my dividend, they sent me $150,000. But I
12 also have a piece of this partnership, and I got this
13 letter from them saying that they made X amount of dollars
14 profit during the year, and I got my prorated share.
15 Would that investor view the $100,000 that he
16 got or she got from the partnership in the same way that he
17 or she would view the dividend they received on the basis
18 of the ExxonMobil stock?
19 THE WITNESS: They're two different concepts.
20 So it's a --
21 PRESIDING JUDGE: I understand. I'm talking
22 about -- it was Mr. Vaughan who was doing all this
23 investing yesterday, and he's got a lot more than one share
24 of ExxonMobil, but let's use Mr. Vaughan. Let's just say
25 he's not the sophisticated attorney that he is. Maybe he's

1 got some college, maybe not.
2 He comes to you and he says what is this, and
3 you're my CPA, too, and you're going to do my taxes, are
4 they both the same. The dividends are my share of the
5 profit that the corporation received, and this distribution
6 is my share of the profits that the partnership received,
7 isn't it the same thing? What do you tell him?
8 THE WITNESS: I don't think they're the same
9 thing. And the reason they're not is because a corporate
10 dividend, if it's determined to be a dividend, which is
11 something that's determined at the corporate level if it
12 has earnings, it is taxable, first of all, to an individual
13 at a lower rate under current law. It's a 15 percent if
14 it's a qualified dividend.
15 If it's from a partnership, the point that I was
16 asked about cash and income, I might be getting a
17 distribution from a partnership that exceeds the income
18 that's actually being --
19 PRESIDING JUDGE: That's not in my hypothetical.
20 THE WITNESS: Okay. If I'm assigned the same
21 amount of income as the distribution, the partner would be
22 paying taxes on their income.
23 PRESIDING JUDGE: You understand, my
24 hypothetical is that the partnership distributes all its
25 profit and only its profit, doesn't touch the initial

1 capital investment that the partners make.
2 THE WITNESS: Again, the distinction is a
3 partnership can allocate income to different partners, and
4 it can have corporate profit -- company profits, let's say
5 $100 million, and I can give you the $100 million of income
6 that you put on your tax return, and I can hand me, one of
7 the partners, $100,000 in cash, and it -- give me a K-1
8 that says I have no income, and I have to pay more taxes if
9 I have basis in that cash you just returned me. I pay no
10 taxes.
11 PRESIDING JUDGE: Even though both $150 million
12 and whatever you gave the other guy comes from the same
13 pot?
14 THE WITNESS: Yes. That's the way a partnership
15 can work. A partnership agreement can allocate income in
16 one direction and cash in another direction.
17 PRESIDING JUDGE: Okay. So it's not so much how
18 we view the dollars, per se, as to the classification of
19 the dollars; it's what the partnership agreement says the
20 dollars are to be?
21 THE WITNESS: Correct. It has ultimate
22 versatility. It can allocate all of these different ways.
23 PRESIDING JUDGE: Okay. So if I want to know,
24 for example, if I've got a piece of an MLP, and I receive a
25 distribution and turn it over to the person that does my

1 taxes, that person, in order to know how to classify that
2 distribution, is going to have to look at the partnership
3 agreement to see what I'm entitled to?
4 THE WITNESS: He'd have to look at --
5 PRESIDING JUDGE: Well, it could be a her.
6 THE WITNESS: He or she would have to look at
7 the K-1, which should represent the partnership agreement
8 and how the partnership agreed to allocate income.
9 PRESIDING JUDGE: But if we didn't trust them?
10 THE WITNESS: You'd have to go to the
11 partnership agreement.
12 PRESIDING JUDGE: Because we don't trust
13 anybody.
14 THE WITNESS: You'd have to go to the
15 partnership agreement.
16 PRESIDING JUDGE: I know Mr. Vaughan. He
17 wouldn't trust you guys. So we have to look at the
18 partnership agreement?
19 THE WITNESS: Yes.
20 PRESIDING JUDGE: Okay. I'm sorry. Go ahead.
21 MR. BENNETT: Thank you, your Honor.
22 BY MR. BENNETT:
23 Q As a follow-on to his Honor's question, does
24 that mean that I, as a regulator, who is charged with the
25 task of determining return on common equity for a

1 regulated partnership and a dividend yield variable in the
2 course of doing that, if I'm going to use taxable income in
3 computing the dividend yield, I not only have to look
4 through several schedules on the 1065, but I also have to
5 look at the partnership agreement to determine whether the
6 income is actually allocated taxable income?
7 A Yes.
8 Q Have you ever done an empirical study to see
9 whether investors in master limited partnerships are
10 interested primarily in the level of cash distributions
11 they receive relative to what they paid for their
12 partnership units in that master limited partnership?
13 A I've never done an empirical study of that.
14 Q Just a general question, Mr. Sintetos, based on
15 your expertise as a tax specialist and if your Honor will
16 indulge me.
17 PRESIDING JUDGE: No personal -- your taxes are
18 already done for 2007?
19 MR. BENNETT: Yes, your Honor, unfortunately. I
20 did not escape the AMT either, your Honor.
21 PRESIDING JUDGE: You see, if you weren't stuck
22 with all of these bonuses -- and you wanted me to recommend
23 you. Now, I'm not going to do it. It's going to put you
24 into too high of a tax bracket.
25 MR. BENNETT: I should say thank you, your

1 Honor.
2 PRESIDING JUDGE: That's right. Keegan, on the
3 other hand, we'll work on him, but definitely Sherman.
4 MR. BENNETT: May I proceed, your Honor?
5 PRESIDING JUDGE: Yes.
6 BY MR. BENNETT:
7 Q Under the Internal Revenue Code, is there such a
8 thing as a guaranteed payment?
9 A Yes.
10 Q What is that?
11 A Uncle Sam or the IRS, generally, looks at a
12 guaranteed payment as a payment made to a partner that is
13 not based on income and that is for services or forbearance
14 of use of money. In other words, if you have a partnership
15 that says I put in the money, you're going to put in the
16 efforts, and because you're not putting any money in,
17 you're going to get a guaranteed payment to you for the
18 services you're providing, then we can allocate -- even
19 though the partnership might only have $10,000 worth of
20 income, we can allocate you whatever we agreed you would be
21 getting in accordance with the deal we've struck.
22 So I can start with income of 10,000. If we
23 started the year saying you're going to get a guaranteed
24 payment to you for your services that you render equal to
25 $20,000, I can take -- I can take the income of 10 that I

1 might start with, subtract the 20 we agreed you're going to
2 get, which is not based on income, and end up with a loss
3 that we then share.
4 Q So is it fair to say that a guaranteed payment
5 under the Internal Revenue Code is the same thing as a
6 management fee?
7 A Yes. It can not only be a management fee; it
8 can be for forbearance for use of money. I can put in $1
9 million. Because I put in $1 million, we can say I get the
10 first -- the first thing we do is give me 6 percent return
11 on the $1 million I put in.
12 In other words, because I've put in money, we've
13 agreed that even though there's no interest paid to a
14 partner on his capital account, we can agree that I got a
15 return, regardless of what the partnership does, equal to a
16 certain percentage of what I put in. So it can be for
17 forbearance for use of money, as well as for services.
18 MR. BENNETT: Thank you, your Honor. I have no
19 further questions.
20 PRESIDING JUDGE: When you say "forbearance for
21 use of money," what you're really saying is it's a reward
22 for allowing the partnership to use what you put in?
23 THE WITNESS: Yes, sir.
24 PRESIDING JUDGE: Okay; all right.
25 THE WITNESS: And it's not a share of profits;

1 it's guaranteed me. In other words, interest is usually an
2 expense on a tax return --
3 PRESIDING JUDGE: Sort of like the right that
4 maybe a preferred stockholder might have?
5 THE WITNESS: No, it's different, because a
6 preferred stockholder, first, the company has to have
7 profits before they can get it. In a guaranteed payment
8 environment, you get it regardless if the company's made
9 any money.
10 PRESIDING JUDGE: More like a bondholder, then?
11 THE WITNESS: Yes; yeah.
12 MR. BENNETT: Your Honor, may I follow up
13 briefly?
14 PRESIDING JUDGE: Yeah; sure.
15 BY MR. BENNETT:
16 Q I'm trying to get at this notion of guaranteed
17 payment as a tax concept and management fee for services
18 rendered. Can there be a guaranteed payment to a partner,
19 regardless of whether the partner contributes anything to
20 the success of the partnership?
21 A It's whatever the partnership agrees on.
22 Q So there don't necessarily have to be services
23 rendered in exchange for a guaranteed payment in order to
24 get the guaranteed payment; is that correct?
25 A Generally, that is one of the reasons for it. I

1 mean, otherwise, you're just talking about an allocation of
2 income.
3 MR. BENNETT: Thank you, your Honor.
4 PRESIDING JUDGE: Your question -- were you
5 asking whether there could be an agreement whereby someone
6 or something would receive a distribution from the
7 partnership without contributing services or dollars?
8 MR. BENNETT: Yes, that was my question.
9 PRESIDING JUDGE: Okay. Did you understand that
10 question that way?
11 THE WITNESS: And you can do that, but that's
12 not a guarantee. If you don't contribute dollars or it's
13 not tied in to services, it's just an agreement of how
14 income gets spread.
15 BY MR. BENNETT:
16 Q So in that instance, the IRS would not recognize
17 it for tax purposes as a guaranteed payment; is that
18 correct? That is, in the instance where there's no
19 consideration given by the person who receives the
20 guaranteed payment flow of dollars, the IRS would not
21 recognize it as a guarantee payment; is that correct?
22 A I wouldn't think so.
23 Q So final question, what does a person have to
24 demonstrate in order to qualify for a guaranteed payment?
25 A You know, usually -- again, it can't be based on

1 income. In other words, it's not an allocation of income.
2 If I say to you you are going to get this fee, it can be
3 predicated on a fixed amount. It can be predicated on
4 you're going to get a management fee equal to 10 percent of
5 the gross receipts of this company.
6 Well, gross receipts don't determine income.
7 That's just money that came in. So if I'm going to give
8 you a fee and we agree that, because you're a great
9 salesperson or a great manager, you're going to get 5
10 percent of whatever we gross, no matter what we make,
11 because of what you're doing, that could be interpreted to
12 be a guaranteed payment.
13 PRESIDING JUDGE: But I think where
14 Mr. Bennett's questions are has to do with a passive
15 entity.
16 THE WITNESS: If an entity is passive,
17 generally, I don't think you'd have a guarantee. If you're
18 not doing anything, it's an allocation of income.
19 PRESIDING JUDGE: Did I misinterpret what you
20 were saying?
21 MR. BENNETT: No, no. You're on target, your
22 Honor. I'm just thinking whether I should ask this last
23 question or not.
24 PRESIDING JUDGE: It's always dangerous.
25 MR. BENNETT: It is. That's why I'm hesitating,

1 but I think I'll ask it anyway because I'm with the Staff.
2 PRESIDING JUDGE: Good for you.
3 BY MR. BENNETT:
4 Q Do you know whether in the instant case for 2003
5 and 2004, Kinder Morgan Energy Partners paid any guaranteed
6 payments that would be recognized as such by the Internal
7 Revenue Code?
8 A I would say that, if I'm not mistaken -- I can
9 look at the return again for 2003 and 2004 -- I don't think
10 they identified anything as a guaranteed payment on the
11 return. That's a different question than whether the
12 Internal Revenue would look at it that way.
13 I don't think they would, because generally, the
14 only reason Uncle Sam would make an adjustment like that
15 would be if there's revenues in it for them, if they can
16 get some taxes out of it.
17 Q "Them" being Uncle Sam?
18 A Right. So where you might see it -- and I've
19 seen it before in partnerships where they don't call it a
20 guaranteed payment, but somebody's definitely -- their
21 agreement says you're doing efforts and you're getting this
22 guaranteed, where they come in so that the person receiving
23 that has to pay payroll taxes on it.
24 Q Well, is the incentive cash distribution that
25 you typically might find in master limited partnership

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1 agreements to the general partner of the master limited
2 partnership a guaranteed payment for Internal Revenue
3 Service purposes?
4 A It's facts and circumstances. I'm not in a
5 position to judge that.
6 MR. BENNETT: That does conclude my line of
7 questioning, your Honor.
8 PRESIDING JUDGE: Okay; all right. Let's go off
9 the record for a second.
10 (Discussion off the record.)
11 PRESIDING JUDGE: Back on the record.
12 Ms. Myers, redirect?
13 MS. MYERS: Yes, sir.
14 REDIRECT EXAMINATION
15 BY MS. MYERS:
16 Q Mr. Sintetos, Ms. Halverson asked you some
17 questions about 743B depreciation and referred to the SFPP
18 tax returns. I'd like to turn your attention to BPX-9,
19 which is the KMEP Form 1065 tax return for 2003. Would you
20 turn to page 18 of 54 in that exhibit.
21 PRESIDING JUDGE: I'm sorry. What page did you
22 say?
23 MS. MYERS: Page 18 of 54, your Honor.
24 PRESIDING JUDGE: Thank you.
25 BY MS. MYERS:

1 Q And on this page is a -- it's
2 entitled "PARTNERSHIP RETURN OF INCOME DISCLOSURES." What
3 disclosure is made there?
4 A It talks about the analysis of income. It kind
5 of helps you reconcile the income, as we kind of just went
6 through. It tries to explain some of the discrepancies on
7 one of the reconciliation schedules, and it talks about
8 some of the items that cause the capital balances to not
9 total, one of them which is 743B depreciation.
10 Q Does this show the partnership has made an
11 election to use 743B depreciation?
12 A Yes, it would suggest that. I don't recall
13 where I had seen it, and I don't think it was at this
14 level, not SFPP, but I did see references to 743B, either
15 on a K-1 at some point or -- and the problem with 743 is it
16 comes about from an election you make in one year under
17 743. And once you make it, it is binding until you rescind
18 it, and because it's binding until you rescind it,
19 unfortunately, you don't have to refer to it again in
20 subsequent documents.
21 So you don't see a 754 election every year; it
22 just continues. So sometimes it's hard to distinguish
23 whether it had ever been done or not.
24 Q Would you, then, turn to page 19 of 54 in BPX-9.
25 In the first paragraph of that page, would you read me the

first sentence, please?

A "The partnership has elected to adjust the basis of the partnership properties under Section 743(b) and therefore must attach a statement to the partnership return for the year of the transfer of partnership interest setting forth the name and taxpayer identification number of the transferee as well as computation of the adjustment and the partnership properties to which the adjustment has been allocated."

PRESIDING JUDGE: Let us not make a habit of having witnesses read sentences into the record which are already on exhibits.

MS. MYERS: Yes, your Honor.

BY MS. MYERS:

Q Would you turn to page 6 of BPX-9, the same exhibit, page 6 of 54? Mr. Bennett was asking you some questions regarding income of the partnership. Would you, please, explain what the analysis of net income section of the return tells you?

A You're referring to schedule M-1?

Q I'm referring to the top of page 6 --

A Oh, the analysis --

Q Yeah.

A That takes the total net income, which is the combination of the income and deduction items on that

1 schedule K we had talked about before, and it tells you the
2 character of the partner receiving that income. So it
3 tells you that the general partner in this case of the
4 205,000 of total taxable income reported by the
5 partnership --
6 PRESIDING JUDGE: 205 million.
7 THE WITNESS: Excuse me. 205 million. Thank
8 you. That 316 million -- I think that's right if I've got
9 the commas in the right place. Yeah, that's 316 went to
10 the corporate general partner, that the corporate limited
11 partners as a group got --
12 PRESIDING JUDGE: 3,162,000?
13 THE WITNESS: 316 million, isn't it?
14 PRESIDING JUDGE: Wait a minute.
15 MS. MYERS: Line 2a.
16 PRESIDING JUDGE: Yes, I'm sorry, 316 million,
17 right.
18 THE WITNESS: Yeah. That 316 million went to
19 the corporate general, and the corporate limiteds were
20 allocated an aggregate loss, without reading the numbers,
21 and the individuals were given an aggregated loss, and
22 other partnership investors were given a loss. The tax
23 exempt organizations as a group were given a loss, and the
24 other nominees were given a loss.
25 PRESIDING JUDGE: The loss should equal -- I

1 haven't done the math, but the loss should equal the
2 difference between 316 and 205?
3 THE WITNESS: It should.
4 PRESIDING JUDGE: Okay.
5 BY MS. MYERS:
6 Q And now would you please explain what schedule L
7 shows?
8 A That's the balance sheet of the company, at
9 least on a tax basis. Sometimes, the tax -- the returns
10 are prepared on a tax basis balance sheet; sometimes,
11 they're on a book basis balance sheet. I don't have any
12 way of really knowing which method they use.
13 Q All right. And what does schedule M-1 on the
14 same page show?
15 A M-1 takes you from the reported book income to
16 the reported taxable income on this return.
17 Q Could you explain that in more detail? It's
18 entitled "Reconciliation."
19 A Yes. It starts by saying that the reported
20 company income was 697 million, rounded, and that through
21 tax adjustments, it results in taxable income of 205
22 million.
23 Q And does that number correlate with line 1 in
24 the analysis of net income on the top of the page?
25 A Yes, it does.

1 Q And would you also explain what M-2 shows,
2 schedule M-2?
3 A M-2 is a reconciliation. If you look back up to
4 schedule L, partners' capital, line 21, you see the
5 partners' capital account starting at -- again, I have to
6 put commas in here because it gets to be a pretty large
7 number. I guess that's 3 billion 461 million rounded and
8 ends with 3 billion 666 rounded.
9 In this schedule M-2, it starts with the same
10 beginning-of-the-year balance and the end-of-the-year
11 balance, and it explains how they reconciled the beginning
12 to the end of the year. And that is using book income to
13 reconcile, not tax income to reconcile, which then would
14 suggest that this schedule L is done on a book basis.
15 Q Thank you. And did you prepare some exhibits
16 that were an analysis of the tax returns and K-1s and the
17 income that flowed through to the partners in the master
18 limited partnership?
19 A Yes, I did.
20 Q And would you just tell us for the record what
21 exhibits those are, or I can direct you?
22 A They're located at BPX-24.
23 Q And is there one more?
24 A And then BPX-25.
25 MS. MYERS: Thank you, your Honor. I have no

1 further questions.
2 PRESIDING JUDGE: Okay. Tell me again what you
3 just told Ms. Myers about schedule M-2.
4 THE WITNESS: M-2 is a reconciliation from the
5 beginning partners' capital account to the ending partners'
6 capital account. So if you refer -- I've already lost my
7 page in the book. I'm sorry, your Honor.
8 PRESIDING JUDGE: It's page 6 of BPX-9.
9 THE WITNESS: Okay. So then if you start with
10 the balance at the beginning of the year --
11 PRESIDING JUDGE: The 3 billion 461?
12 THE WITNESS: Right. And you add cash that came
13 in, capital that was contributed, and you can see it's
14 either cash coming in, or it can be property coming in.
15 PRESIDING JUDGE: Uh-huh.
16 THE WITNESS: And then you add the book net
17 income to that. It provides you with what total capital
18 was before distributions were made.
19 PRESIDING JUDGE: That's 4 billion 336 million?
20 THE WITNESS: Correct.
21 PRESIDING JUDGE: Okay.
22 THE WITNESS: And then the cash that was
23 distributed from this entity was 668 million. And then
24 there was another subtraction, statement 5, other decreased
25 unit issuance cost. I'm assuming that's a nondeductible

1 expense -- and this is an assumption -- associated with
2 issuing their units.
3 So they treated it on M-2 as a reconciliation of
4 retained earnings to come down to the capital 3 million 666
5 which does tie to line 21, column D of the schedule L
6 balance sheet.
7 PRESIDING JUDGE: Okay. So the schedule M-2 is
8 basically to explain the difference between line 21, column
9 B, and line 21, column D?
10 THE WITNESS: Correct.
11 PRESIDING JUDGE: Okay. And how about schedule
12 M-1?
13 THE WITNESS: M-1 takes you from the reported --
14 the financial statements -- presumably the financial
15 statement's reported book income.
16 PRESIDING JUDGE: Is that also on schedule L?
17 THE WITNESS: No, sir. This is from the income
18 statement. Schedule L is a balance sheet.
19 PRESIDING JUDGE: Okay.
20 THE WITNESS: So if you were to go to their book
21 income statement, you should see a net income line of 697
22 million to start. And then because of there being
23 significant differences between how you account for items
24 from the book perspective and how some of those items are
25 accounted from a tax perspective, it reconciles those

1 differences to give you how they got from almost 700
2 million in book income down to 205 of taxable income.
3 PRESIDING JUDGE: Okay. And so in schedule M-1,
4 if we were to add lines 8 and 9, it should be the same as
5 line 5?
6 THE WITNESS: Well, what you do is take the 209
7 and then subtract line 8, which is a total.
8 PRESIDING JUDGE: You mean --
9 THE WITNESS: Line 5 of schedule M-1, which is
10 the total.
11 PRESIDING JUDGE: You said 209; you meant 902?
12 THE WITNESS: Yes, I'm sorry. If you take the
13 902 on line 5 --
14 PRESIDING JUDGE: And subtract line 8, you get
15 line 9?
16 THE WITNESS: Correct.
17 PRESIDING JUDGE: It's another way of saying the
18 same thing I did, which is if you add lines 8 and 9, you
19 get line 5? I mean, that's just another way of stating the
20 equation.
21 THE WITNESS: Yes.
22 PRESIDING JUDGE: Okay; all right. I'm having a
23 minor problem because the pagination changed in what I
24 originally looked at. Let me see if I can do it without
25 referring you to a specific page. You used the term

1 someplace in BPX-5 -- it used to be on page 26, and I can't
2 find it -- "closely held."
3 Without my being able to refer you specifically
4 to where you used it, can you explain the term "closely
5 held"?
6 THE WITNESS: I have to see what context I used
7 it in.
8 PRESIDING JUDGE: All right. Let me pull out
9 the version --
10 MS. MYERS: Your Honor, if I may help, I believe
11 it's on page 23 of 39 at line 7.
12 PRESIDING JUDGE: Okay. Yes; okay.
13 THE WITNESS: This is in reference to passive
14 activity rules, and passive activity rules generally limit
15 the owner of what otherwise would be a passive activity to
16 offsetting passive income from passive activity losses.
17 And corporations, as a rule, are affected by that series of
18 rules unless they are owned by five or fewer people and are
19 closely held. So larger corporations don't have to worry
20 about many of those rules.
21 PRESIDING JUDGE: Okay. Turn to page 25. I'm
22 looking at the question and answer on lines 10 through 12.
23 THE WITNESS: I'd have to go back. This was an
24 example; right?
25 PRESIDING JUDGE: You're asking "what is the

1 income tax rate to be applied to the limited partners in
2 KMEP in 2006?" You're leading up to there. So if you want
3 to go back and start on page 24. You're right. There was
4 a hypothetical. The hypothetical really starts at page 23,
5 so if you want to just glance through the next couple of
6 pages.
7 THE WITNESS: Right. What this was talking
8 about was taking an individual and calculating what bracket
9 they were in, given their level of income, with certain
10 assumptions as to family and whether they're married or not
11 to come up with an effective rate. That was the general
12 line of this questioning.
13 And then on the next page, it started asking me
14 what level of income would someone have to be at before
15 they reach certain brackets. So now I'm getting down to
16 line 10, applied to the limit partners in KMEP in 2006.
17 Oh, well, if you were allocated losses in income, there
18 would be no taxes. So --
19 PRESIDING JUDGE: So it's specifically because
20 of the allocation?
21 THE WITNESS: Right.
22 PRESIDING JUDGE: Turn to page 30. There's a
23 question that begins at line 21. In the question, there's
24 a term used. On line 1 of page 31. It's "i-shares."
25 Do you see that?

THE WITNESS: Yes.

PRESIDING JUDGE: Can you define that for me?

THE WITNESS: I can't define it. It's something within their agreement that refers to some special units that belong to one of the partners in this partnership. That was my understanding. I'm not an authority on what definition was given i-shares.

PRESIDING JUDGE: So it's not a term that's common?

THE WITNESS: No.

PRESIDING JUDGE: And for all you know, may be one that was made up by the person who asked the question?

THE WITNESS: Yeah. I mean, I -- it's not specific.

PRESIDING JUDGE: Okay. One last question. BPX-21, your rebuttal testimony, there's a question on the bottom of page 4. It starts at line 20 and goes to line 2 on page 5. To the question that you're asked, you answer "yes."

And my question is, so what? What's the import of the question? Why do we care?

THE WITNESS: I just answered the question.

PRESIDING JUDGE: Is there a significance to the question? I mean, I know you didn't pose the question.

THE WITNESS: I was just asked the question

1 whether --
2 PRESIDING JUDGE: And you don't see anything
3 peculiar about the question or significant or important?
4 THE WITNESS: I don't.
5 PRESIDING JUDGE: Okay; good; all right.
6 Ms. Halverson --
7 MS. HALVERSON: Yes, sir.
8 PRESIDING JUDGE: I interrupted Mr. Bennett and
9 asked some questions before. You have the right at this
10 point to follow up on any of those questions or any I have
11 asked since redirect.
12 MS. HALVERSON: We have no further questions,
13 your Honor. Thank you.
14 PRESIDING JUDGE: Mr. Bennett?
15 MR. BENNETT: I'm just asking, can we follow up
16 on the last series of questions just briefly?
17 PRESIDING JUDGE: Yes, because you had the
18 opportunity to do follow-up on the first series.
19 MR. BENNETT: This is your second series?
20 PRESIDING JUDGE: Yes.
21 RECROSS-EXAMINATION
22 BY MR. BENNETT:
23 Q Mr. Sintetos, the Judge took you to page 23 of,
24 I think it was, your direct testimony. Anyway, it was the
25 place where you talked about passivity losses. In the

1 course of responding to one of the judge's questions, I
2 thought you said that passivity losses can be used to
3 offset something.
4 A Passive income generally.
5 Q So is that passive losses can only offset
6 passive income? Is that correct?
7 A That's correct. Now, there's special rules for
8 master limited partnerships, too, within them, but
9 generally, if you have a passive loss, you can only use it
10 if you either dispose of the activity or you have passive
11 income to offset it against.
12 Q When you say "dispose of the activity," you
13 mean, for example, the partnership unit that you own --
14 A Correct.
15 Q -- in Kinder Morgan Energy Partners; is that
16 correct?
17 A Correct.
18 Q So does that mean that at the time I sell my
19 units in Kinder Morgan Energy Partnership, I could take at
20 that point passive losses that have accumulated over the
21 years I've held the investment and use it to offset
22 whatever gain there is from the disposition of the
23 partnership units?
24 A It's interesting that you ask. The losses
25 coming from a passive activity do accumulate, if you can't

1 use them, and they continue to carry forward. And when you
2 dispose of a unit, those losses then free up to offset any
3 income. They're no longer limited to passive activities.
4 So if you have salary, for example, which is, of course,
5 the highest bracketed income, you can offset it with the
6 losses you couldn't use before.
7 Q And his Honor also asked you some questions in
8 the second roundabout schedule M-2, which is on BPX-9, I
9 think. Yes, page 6 of 54, BPX-9. Schedule M-2 purports to
10 be a schedule that addresses partners' capital accounts;
11 correct?
12 A As a group, correct, all the partners.
13 Q Now, just for my own edification, how do --
14 could you just explain how taxable losses affect, if at
15 all, a partner's capital account, how cash distribution
16 affects capital accounts, if at all? I mean, how does the
17 capital account move up and down is what I'm trying to
18 understand.
19 A An individual partner's capital account is
20 determined by how much they contribute to the partnership.
21 It increases by any additional contributions they make to
22 the partnership. It also increases by any income they get
23 from the partnership.
24 Q Taxable income; is that correct?
25 A Well, it depends. When you say -- there's

1 several sets of books. There's a financial set of books.
2 It sounds like there is a FERC set of books. And then
3 there's a tax set of books. So when you ask me that
4 question, I have to ask you, in what context, which set of
5 books are you talking about?
6 Q I'm almost sorry I asked the question.
7 A A partner can have three different capital
8 accounts, if you will. It can have a tax capital account,
9 if you will, which is more or less basis. You'll hear that
10 quite often. You'll have a book capital account --
11 PRESIDING JUDGE: Does anybody else think this
12 is somewhat sleazy? I'm sorry.
13 THE WITNESS: It's complicated.
14 PRESIDING JUDGE: It boggles the mind.
15 THE WITNESS: It can have a set of book capital
16 accounts, which is what the partnership agrees on. You can
17 contribute property that you only paid 100,000 for, and I
18 can agree to give you value when you contributed to the
19 partnership of $1 million. Well, your book capital account
20 is 1 million. Your tax capital account is only your basis,
21 or the 100,000.
22 So do you see how it can differ?
23 BY MR. BENNETT:
24 Q I do. Please continue.
25 A So you first asked the question which set of

1 books are you talking about, and if you're talking about
2 the financial set of books, the income from the partnership
3 on a financial basis would increase your capital account.
4 Your losses that might come from them would decrease it.
5 Anything you contribute to it would increase it. Anything
6 you would extract from it or would be distributed to you
7 would decrease it.
8 Then from a tax perspective, the only difference
9 really is you have to look at your basis and what you
10 contributed to the partnership. You would increase it by
11 your taxable income. You would decrease it by your taxable
12 loss.
13 But as far as contributions, which I've already
14 talked about, distributions, when a distribution is made to
15 you, if it's cash, cash is the one thing that's book or
16 tax. If I distribute back to you your $1 million piece of
17 property that you only have $100,000 in basis in, I'm
18 taking it off the books at a million. From a tax
19 perspective, I'm only giving you back 100,000.
20 I don't know if that helps you at all.
21 Q It does. I won't go much further. But is it
22 true that cash distributions lower your tax basis?
23 A Correct.
24 Q Now, there was also a question about i-shares.
25 Do you recall that?

1 A Yes.
2 Q Have you read the Kinder Morgan Energy Partners
3 partnership agreement?
4 A I probably have looked at parts of it if I was
5 asked questions about parts of it, but I don't have it
6 committed to memory.
7 Q My question is, do you recall whether there's
8 anything among those provisions that define what i-shares
9 are and how they're used in the Kinder Morgan enterprise?
10 A All I can say is I remember there being a
11 reference to i-shares.
12 MR. BENNETT: I'm done, your Honor.
13 MS. MYERS: Yes, your Honor.
14 REDIRECT EXAMINATION
15 BY MS. MYERS:
16 Q Mr. Sintetos, could you explain how 743B
17 depreciation fits into your whole discussion of capital
18 accounts that you were just discussing with Mr. Bennett?
19 A Yes. 743B deals with when you have --
20 PRESIDING JUDGE: It's a provision in the tax
21 code?
22 THE WITNESS: Correct, when you have a new
23 partner coming in who is buying their interest from another
24 partner and they're paying more or less for their interest
25 than what has been maintained on the books as capital for

1 the partner who is selling you the interest.
2 So if your interest or your basis, as a better
3 example, and you're departing and your basis is $100,
4 because I want to make the investment, I'm willing to pay
5 you $500. There's a $400 differential, that if you made
6 one of these 754 elections, you're allowed to take that
7 extra money you spent, and the partnership can increase the
8 assets of the company and start to depreciate it or
9 amortize it and get you additional tax benefits.
10 That's how it works. And it's not something
11 that belongs to the partnership; it belongs to the partner.
12 MS. MYERS: Thank you, Mr. Sintetos.
13 Nothing further, your Honor.
14 PRESIDING JUDGE: So that --
15 THE WITNESS: You can essentially begin to
16 depreciate again an asset that might have been depreciated.
17 PRESIDING JUDGE: And that wouldn't affect any
18 of the other partners, only the new partner who purchased
19 from --
20 THE WITNESS: That's right.
21 PRESIDING JUDGE: So if Mr. Lefler, who moved
22 down here and sent Mr. Ganz to the back of the room again,
23 bought Mr. Vaughan's shares in this corporation to make
24 faux gasoline that we started yesterday --
25 THE WITNESS: Corporation?

PRESIDING JUDGE: I'm sorry, partnership, to make faux gasoline that we started yesterday. And if Mr. Vaughan's basis was $150 and Mr. Lefler, in his beneficence, gave him 200, that extra 50 would benefit Mr. Lefler and not Ms. Halverson who owns all the rest of it?

THE WITNESS: That's correct.

PRESIDING JUDGE: Okay; all right. I guess we're finished with this witness. Exhibits. Ms. Halverson, as I recall, the only exhibits that you referred to are coming in through another witness, and I won't entertain them being offered at this time.

MS. HALVERSON: Okay.

PRESIDING JUDGE: So we'll just be doing -- did we do something to him? He was on the stand and just rushed out. Okay.

So we're doing BPX-5 through BPX-14 and BPX-21 through BPX-30.

MS. MYERS: Yes, your Honor. I would move their admission.

PRESIDING JUDGE: Okay. Objections? Seeing none, they are received.

(Exhibits BPX-5 through BPX-14 and BPX-21 through BPX-30 received.)

PRESIDING JUDGE: Okay. We'll take a 15-minute

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recess and be back at 20 of.

Besides the two tax returns in the first volume, I think it's BPX-23, the first page has a confidential label on it, which I'll ask you to strike as well on the reporter's copies.

MS. MYERS: Yes, your Honor.

PRESIDING JUDGE: Thank you.

(Recess.)

PRESIDING JUDGE: Ms. Myers, last witness?

MS. MYERS: Yes, your Honor. We call Elizabeth H. Crowe. I'll hand up to your Honor a copy of her direct testimony and rebuttal testimony.

Whereupon,

ELIZABETH H. CROWE

was called as a witness and, having first been duly sworn, was examined and testified as follows:

PRESIDING JUDGE: All right. Please be seated.

MS. MYERS: I'd like to ask that her direct testimony and exhibits, BPX-15 through BPX-19, and her rebuttal testimony --

PRESIDING JUDGE: How about 20?

MS. MYERS: And BPX-20, and her rebuttal testimony, BPX-32, and exhibits through BPX-38 be marked as exhibits.

PRESIDING JUDGE: Okay. For the record, at this

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ATTACHMENT FFF

Docket No. OR03-5-001
Transcript Excerpt of Cross-Examination and Redirect of Elizabeth H. Crowe
Pgs 00359-00388

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1 BEFORE THE

2 FEDERAL ENERGY REGULATORY COMMISSION

3 - - - - - - - - - - - - - - - - - - -x

4 IN THE MATTER OF: : Docket Number

5 CHEVRON PRODUCTS COMPANY, : OR03-5-001

6 BP WEST COAST PRODUCTS LLC, :

7 EXXONMOBIL OIL CORPORATION, AND :

8 CONOCOPHILLIPS COMPANY :

9 v. :

10 SFPP, L.P. :

11 - - - - - - - - - - - - - - - - - - -x

12

13 Hearing Room 5

14 Federal Energy Regulatory

15 Commission

16 888 First Street, NE

17 Washington, DC

18

19 Wednesday, April 30, 2008

20

21 The above-entitled matter came on for hearing, pursuant

22 to notice, at 10:03 a.m.

23

24 BEFORE: HONORABLE EDWARD M. SILVERSTEIN

25 ADMINISTRATIVE LAW JUDGE

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1

2 On behalf of BP West Coast Products/ExxonMobil Oil

3 Company:

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1 MS. BOUDREAUX: Actually, she's gone.
2 PRESIDING JUDGE: She's gone? She's sitting
3 right back there.
4 MS. BOUDREAUX: Apparently, I didn't succeed.
5 PRESIDING JUDGE: Go ahead.
6 CROSS-EXAMINATION
7 BY MS. BOUDREAUX:
8 Q Hi, Ms. Crowe. My name is Michelle Boudreaux.
9 I'm appearing on behalf of SFPP.
10 You claim that SFPP is less risky than the
11 companies in Professor Williamson's proxy group, don't you?
12 A Do you have a specific reference to my testimony
13 that we could look at?
14 Q Sure. Why don't you take a look at Exhibit
15 Number BPX-32, your rebuttal testimony. I believe the page
16 numbering on your rebuttal testimony is different from the
17 earlier copy. But I think it should be BPX-32, pages 8 and
18 9 of the copy distributed today.
19 A Yes. The claim, actually, on page 9 of BPX-32
20 and the comparison made there is to the five proxy group
21 members shown on Exhibit SFO-15, which is Dr. Williamson's
22 proxy group in this case, yes.
23 My hesitation was that there was an original
24 proxy group used in my direct testimony from another SFPP
25 proceeding that was a nine-member proxy group. So I just

1 wanted to confirm which proxy group we were talking about.
2 Q Thank you. The material you've presented in
3 your rebuttal testimony to justify your view regarding
4 SFPP's risk compared to that of the proxy companies focuses
5 on issues related to competition; correct?
6 A As a general matter, yes.
7 Q Isn't it true that there are other factors that
8 might be important to a risk analysis besides competition a
9 pipeline faces compared to the competitions other pipelines
10 face?
11 A Are we talking about a business risk analysis or
12 a general risk analysis?
13 Q It could be general risk analysis, business
14 risk, financial risk, regulatory risk.
15 A Because risk, in general, would have a
16 business -- generally is divided into business risks and
17 financial risks. So if you're talking about financial
18 risk, you would not be looking at competition among
19 pipelines. But in looking at business risk, which is what
20 I was focusing on here, competition is certainly one of the
21 major factors in the risks that an entity faces in its
22 markets.
23 Q But there are other factors one would consider;
24 correct?
25 A There could be.

Q Can weather patterns in the area in which a pipeline's assets are located affect risk?

A To the extent that weather patterns could be demonstrated to directly impact the income or sales or revenues of an entity, I suppose theoretically they could affect the risk.

Q Well, for example, if a pipeline's assets were located in the Gulf of Mexico in an area that experiences hurricanes frequently, wouldn't its weather risks be different from those of a pipeline's assets located in, say, the Midwest?

A The risks of the assets being affected by weather could be different, although that would depend on a large variety of circumstances. There are tornadoes in the Midwest as well as hurricanes in the Gulf, and the actual risk, of course, that an entity would face based on that weather-related factor would depend, in part, on the insurance coverage and that kind of thing, because there could be very little risk if they're covered by insurance and are compensated for any loss that they experience.

So there would be a variety of factors you would have to consider.

Q So it sounds like that's a complicated analysis; right?

A I would say that would be a fairly complicated

1 analysis.
2 Q Can the physical environment in the area in
3 which pipeline assets are located also affect risk?
4 A I would have to know what you meant by "physical
5 environment" to answer that question.
6 Q Sure. For example, if pipeline assets were
7 located along a fault in an area that experiences frequent
8 earthquakes, wouldn't its risks be different from those of
9 pipeline assets located in the Northeast where earthquakes
10 or severe earthquakes aren't an issue?
11 A In theory, again, that would be a similar answer
12 to the weather related discussion, because there might be
13 insurance coverage for earthquake damage. But in theory,
14 the geographical risk might be different for that entity.
15 Q And can varying economic conditions in the
16 market served by a pipeline affect risk?
17 A Yes.
18 Q What about the number of markets served? Can
19 the number of markets served by a pipeline affect risk?
20 A The number of markets served could affect risk,
21 but it would depend, in my opinion, more on the level of
22 competition in those markets more than the number of
23 markets, per se.
24 Q And can the number of refineries connected to a
25 pipeline system affect risk?

A On a theoretical basis, I don't know. I would have to look at the specific aspects in which those -- the number of refineries were alleged to affect risk.

Q Well, as an example, if all else were equal, would a products pipeline system connected to multiple refineries be less risky than a products pipeline system connected to only a single refinery?

A I suppose, in theory, the more refineries you have attached, the more diluted the risk of an outage or mechanical problem or something like that at your one refinery would be, in theory.

Q Can differing regulatory regimes that different states may have with respect to environmental regulation affect risk?

A That, again, in theory, is possible. I would say that regulatory regimes could affect risk or may affect cost. For instance, if there are tighter environmental requirements, you may have a higher cost of doing business, but that doesn't necessarily increase your risk unless, for some reason, the regulators don't allow you to recover those costs from your -- if you're a regulated entity, from your ratepayers.

Q And what about differing enforcement cultures? If you have -- would you consider the differing enforcement cultures that different states may have with respect to

environmental regulation affect risk?

A Again, I would suspect, in the absence of a specific situation or specific facts to examine, that a different enforcement environment might affect cost, but again, the question of whether that affects risk would depend, again, more on the -- for a regulated entity, would depend more on the regulators' approach to allowing for recovery of those costs.

Q What about in terms of population of the area in which a pipeline is located? Would that affect risk?

A If the pipeline's throughput and revenues are, in some way, directly dependent on the population in the immediate area of that pipeline, it could affect the risk, yes.

Q So that would be a factor to consider in a risk analysis; correct?

A Given the conditions I've stated, yes.

Q And what about the substances that a pipeline transports? Do risks of a pipeline vary in accordance with substances they transport?

A I have not -- I don't think I'm in a position to answer that, because I have not studied that particular question, per se.

Q Well, let me give you an example, and if you can't answer it, that's fine. But would you say that a

1 pipeline that carries only NGLs, or natural gas liquids,
2 has the same risks as a pipeline that carries only residual
3 fuel oil?
4 A I think the answer to that would depend on a
5 variety of other factors, such as markets and prices and
6 customer base and things that I would have to look at in
7 order to answer that question.
8 Q So that's a complicated analysis, it sounds
9 like; correct?
10 A Well, in order to answer that question, I would
11 need to look at additional factors.
12 Q Sure. If a pipeline insured itself against
13 geographic and weather risk, would it -- wouldn't it be
14 allowed to include its insurance premiums in its cost of
15 service?
16 A As a general matter, I believe I have seen
17 self-insured allowances in place of third-party insurance
18 as a part of a cost of services, as a general matter. I
19 can't give you any specifics right now.
20 Q Can business diversification affect risk?
21 A Are we talking about as a very general matter or
22 for a regulated pipeline or --
23 Q Well, I think for any entity, wouldn't you say
24 that, all else being equal, a company that's involved in a
25 variety of businesses may be less risky than a company

1 that's focused only in a single business sphere?
2 A I would say that depends upon what those
3 businesses are.
4 Q But it may be true; correct?
5 A It may be, but it may be the opposite as well.
6 Q And what about for geographic diversification?
7 Can that affect risk?
8 A Again, the geographic diversification could add
9 to risk. It could decrease risk. It would depend on the
10 specific circumstances.
11 Q Wouldn't you say that the ease with which a
12 company can redeploy its assets is a factor that can affect
13 risk?
14 A As a general matter, I would agree with that
15 statement.
16 MS. BOUDREAUX: That's all I have, your Honor.
17 PRESIDING JUDGE: Mr. Bennett?
18 MR. BENNETT: Yes, your Honor.
19 CROSS-EXAMINATION
20 BY MR. BENNETT:
21 Q Good morning.
22 A Good morning.
23 Q My name is William W. Bennett, and I will be
24 examining you briefly this morning on behalf of the Trial
25 Staff of the Federal Energy --

1 PRESIDING JUDGE: Ms. Halverson can't hear you.
2 MR. BENNETT: Oh, I'm sorry.
3 BY MR. BENNETT:
4 Q Good afternoon -- good morning still, Ms. Crowe.
5 My name is William W. Bennett. I will be examining you
6 this day on behalf of the Trial Staff of the Federal Energy
7 Regulatory Commission.
8 Sticking with this notion of risk, have you read
9 the Commission's recently issued final policy statement on
10 the use of master limited partnerships in proxy groups?
11 A Yes, I have.
12 Q Then you are aware that the Commission is
13 concerned that in doing a return on common equity where you
14 use master limited partnerships in the proxy group, there
15 must be a showing that the master limited partnerships are
16 of comparable risk to the subject entity; is that correct?
17 A Yes, I am.
18 Q And you also are aware, then, that when it comes
19 to actually determining, in a range of returns on common
20 equity, where the return on common equity for the subject
21 entity lies, you have to assess the risk of the subject
22 entity against the risk of the proxy group; is that
23 correct?
24 A Yes.
25 Q And in this case, the subject entity is SFPP,

1 L.P., a stand-alone oil pipeline company; correct?
2 A Correct.
3 Q And the proxy group that Mr. Williamson used and
4 which you were examined about at length by counsel for
5 SFPP, contains a number of master limited partnerships; is
6 that correct?
7 A That's correct.
8 Q And is it true that some of those master limited
9 partnerships engage not only in oil pipeline business, but
10 also in the natural gas business?
11 A I believe that's correct. Give me one minute.
12 Yes; that's correct.
13 Q And do you know what the indexing rate
14 regulatory scheme is at this Commission for oil pipeline
15 companies?
16 A I'm generally aware that oil pipelines are
17 permitted to use an indexing method for rate increases.
18 Q And it's supposed to track inflation increases;
19 is that correct? Is that your understanding?
20 A That is my understanding.
21 Q And do you know whether natural gas companies
22 that are subject to this Commission's jurisdiction have
23 similar indexing regulatory benefits?
24 A To my knowledge, they do not.
25 Q Well, with respect to that particular regulatory

1 scheme, then, would you conclude that SFPP, as a
2 stand-alone oil pipeline, is less risky than any MLP in
3 Mr. Williamson's proxy group that contains natural gas
4 companies?
5 A With respect to that criteria alone?
6 Q With respect to that criteria alone. That is to
7 say, whether they can take -- whether they can use the
8 benefit of an indexing rate regulatory scheme at this
9 Commission.
10 A I don't think I could say that that criteria in
11 and of itself would render a pipeline more or less risky,
12 because on the natural gas side, barring a settlement
13 provision that prohibits it, a pipeline can come in at any
14 time for a rate increase in any amount. So the rate
15 increase could exceed the indexing that the oil pipeline
16 would have been able to use, if we're talking only about
17 that criteria.
18 Q But in your experience at this Commission, have
19 you found that when a natural gas company applies for a
20 rate increase, the degree of litigation that the natural
21 gas company has to go through before an increase is awarded
22 or rejected is different than the degree of litigation that
23 an oil pipeline has to go through when it files for an
24 indexed rate increase?
25 A That would be my general understanding, yes.

1 Q You've done discounted cash flow analyses for
2 rate proceedings at this Commission in the past?
3 A Yes, sir.
4 Q And you're familiar with them; correct?
5 A Yes, sir.
6 Q Is it fair to say that the discounted cash flow
7 analysis is used to obtain a return on common equity in
8 ratemaking proceedings at FERC?
9 A It is fair to say that the purpose to which the
10 Commission puts the DCF analysis is for deriving a rate of
11 return on equity for a pipeline.
12 Q And is there a general formula that one can
13 point to that describes how you determine what the return
14 on common equity is in rate proceedings at this Commission?
15 A Yes. The Commission has identified a formula.
16 Over time, the components have been modified, but it has a
17 general formula, yes.
18 Q And what is your understanding of the basic
19 elements of that formula?
20 A The basic elements of that formula are a
21 dividend yield, which is derived by dividing the dividend
22 of a stock or unit by its price, plus a short-term growth
23 rate, the growth and earnings estimate, which is weighted
24 two-thirds, plus a long-term growth in the economy
25 estimate, which is weighted one-third, to equal the

1 expected or required return on equity.
2 Q Would you turn to page 3 of your rebuttal
3 testimony, BPX-32, and I would ask you to focus, please, on
4 lines 16 through 20?
5 A Yes, sir.
6 Q There, you indicate that with respect to the
7 analysis of SFPP witness Dr. Williamson, for years 2003 and
8 2004, the dividend yield part of the return on the equity
9 was what?
10 A In the section of my testimony to which you're
11 referring, I'm not specifically discussing Mr. Williamson's
12 results, but I'm answering a question about what those
13 results would be if you used income rather than
14 distributions.
15 Q I stand corrected. And if you used income
16 rather than distributions, what would the dividend yield
17 part of the equation be?
18 A For KMEP, for the years 2003 and 2004, it is
19 zero or less than zero.
20 Q And you recommend in this case using income
21 rather than cash distributions to compute the dividend
22 yield part of the equation; is that correct?
23 A Yes; that's correct.
24 Q All right. And if the dividend yield was zero,
25 does that mean that the return common equity would then be

1 equal to the long-term growth rate plus the short-term
2 growth rate?
3 A In accordance to the equation that is used by
4 the Commission, yes.
5 Q Do you know what the long-term growth rate plus
6 the short-term growth rate are in this case for Kinder
7 Morgan Energy Partners for the year 2003?
8 A I believe it was in Mr. Williamson's testimony.
9 Q If you don't recall it, that's fine.
10 A I don't recall it.
11 Q Do you recall what the cost of debt is for
12 Kinder Morgan Energy Partners --
13 PRESIDING JUDGE: Are we testing her memory? Is
14 that what we're doing? There's a TV show that does that,
15 but we don't.
16 THE WITNESS: I'd flunk.
17 PRESIDING JUDGE: Yeah, me, too.
18 BY MR. BENNETT:
19 Q Did you do a DCF analysis in this case?
20 A Yes.
21 Q What was your cost of debt for Kinder Morgan
22 Energy Partners for 2003?
23 A Cost of debt?
24 Q Yes.
25 A You asked if I had done a DCF analysis.

Q I'm sorry. I stand corrected. Did you develop a cost of capital in this case?

A Yes, sir.

Q And did it include not only a cost of equity but a cost of debt?

A Yes, sir.

Q And what is your cost of debt that you determined for Kinder Morgan Energy Partners for 2003 in this case?

A The cost of debt that I calculated is in Exhibit BPX-17. The cost shown there is 6.26 percent, to which I propose a downward adjustment to 6.19 percent. That's discussed in my direct testimony. I could find the reference, if you'd like.

Q No, that's fine. Did you also develop a growth rate for Kinder Morgan Energy Partners for 2003?

A No, sir. My proxy group was composed of corporations and did not include KMEP.

Q So your cost of debt was 6.26 percent for Kinder Morgan Energy Partners for 2003; is that correct?

A 6.19 percent.

Q 19, I'm sorry.

A No, I'm sorry.

Q And do you know how that compares to the growth rate for Kinder Morgan Energy Partners for 2003 that was

1 developed by Dr. Williamson in this case?
2 A No, I do not recall that.
3 Q If your cost of debt, 6.19 percent, for Kinder
4 Morgan Energy Partners for 2003 was higher than the growth
5 rate that Dr. Williamson developed for Kinder Morgan Energy
6 Partners for 2003, would that seem unreasonable to you?
7 A Well, to me, that would illustrate the
8 inappropriateness of using MLPs in the DCF analysis, and I
9 did not use MLPs in my DCF analysis.
10 Q I see. You did say you had read the
11 Commission's recent policy statement; is that correct?
12 A Yes, sir.
13 Q Have you revised your views about the use of
14 MLPs as a result of reading that policy statement?
15 A I have not revised my own opinion about it. I
16 understand -- I have read the order.
17 Q You have done discounted cash flow analyses on
18 many occasions; is that correct?
19 A Yes, sir.
20 Q Do you know what the -- forgive me, your Honor,
21 but do you know what the 10-year Treasury bond yield was
22 for 2003?
23 PRESIDING JUDGE: I'm just curious, before you
24 answer this question, if she gave you an answer, would you
25 know whether she was right or wrong?

1 MR. BENNETT: Yes, roughly.
2 PRESIDING JUDGE: All right. Why don't you give
3 her the answer and let her give you the question, then.
4 MR. BENNETT: I stand corrected, your Honor.
5 BY MR. BENNETT:
6 Q Do you know whether the 10-year Treasury bond --
7 and thank you, your Honor. I appreciate it. I'll ask this
8 question and then move on.
9 Do you know whether the 10-year Treasury bond
10 yield for 2003 was greater than or lower than your cost of
11 debt for Kinder Morgan Energy Partners for 2003 of 6.19
12 percent?
13 A I do not know that.
14 Q Are you familiar with the principles
15 established -- and I'm just asking whether you're
16 familiar -- in the Hope and the Bluefield cases?
17 A I'm familiar with one or two of them as they
18 apply to, I think, the commensurate risk requirement or
19 criteria for proxy groups.
20 Q Are you aware that -- and if you're not, that's
21 fine -- the Hope and Bluefield cases, one of the principles
22 addressed there -- and I'm just asking whether you are
23 aware of it, not to interpret it or anything like that.
24 PRESIDING JUDGE: He's afraid that I'm going to
25 slap him around because I don't allow legal questions. So

1 that's what this is all about. That's why he keeps saying
2 no, I'm just asking you this, because he knows I'm going to
3 slap him.
4 MR. BENNETT: May I proceed, your Honor?
5 PRESIDING JUDGE: You're on very shaky ground.
6 You understand that?
7 MR. BENNETT: I'm aware, your Honor, and I'm
8 trying to craft the question so as to not elicit a legal
9 answer.
10 PRESIDING JUDGE: And Bonnie Pride is not going
11 to help you if you cross me.
12 MR. BENNETT: I understand, Judge.
13 BY MR. BENNETT:
14 Q Do you agree with the notion that regulated
15 utilities are entitled to some return on their investments?
16 A Yes, certainly.
17 Q Would you turn, please, to page 13 of your
18 rebuttal testimony, BPX-32, beginning at line 17 and
19 carrying over to page 14, line 11.
20 A Yes, I have it.
21 Q And there, you're talking about accumulated
22 deferred income taxes; is that correct?
23 A Yes, sir.
24 Q And at line 21 of page 13 to line 2 of page 14,
25 you talk about partnerships not having taxable income of

1 their own and, therefore, not needing to hold anything back
2 for future payment of income taxes; is that what you say
3 there?
4 A Yes, sir.
5 Q What is your proof that accumulated deferred
6 income taxes are inappropriate for SFPP, L.P., rates if it
7 is not the notion that partnerships do not pay income taxes
8 and, therefore, there is no future tax payments to defer?
9 PRESIDING JUDGE: Do you understand the
10 question? Because he read something he wrote three weeks
11 ago.
12 MR. BENNETT: Last night.
13 PRESIDING JUDGE: Last night? I'm sorry.
14 THE WITNESS: I think so.
15 PRESIDING JUDGE: Okay. As long as you
16 understand it -- I'm not sure he does, but as long as you
17 understand it, answer it.
18 THE WITNESS: The question I think you asked is
19 whether there's any other basis besides the fact that
20 partnerships do not pay their own income taxes for not
21 allowing an ADIT allowance.
22 BY MR. BENNETT:
23 Q That's correct. How would you justify -- let me
24 back up.
25 How would you justify not allowing an ADIT

1 recovery to SFPP, L.P., in this case without relying upon
2 the notion that SFPP is a nontaxable entity? Is there
3 another reason you can point to to disallow an accumulated
4 deferred income tax for SFPP, L.P., other than it is a
5 nontaxable entity?
6 A No, that is the basis on which I would disallow
7 or flow back the ADIT that is currently on SFPP's books.
8 Q And that's the sole basis?
9 A The sole basis, that they do not pay their own
10 income taxes but are a flow-through entity.
11 Q All right. Now, would you go to page 14 of
12 BP --
13 MS. BOUDREAUX: Your Honor, I'm sorry to
14 interrupt. May I speak?
15 PRESIDING JUDGE: Go. I may stop you, but you
16 can start.
17 MS. BOUDREAUX: Okay. I'd just like to note
18 that the page numbers he's providing are not from the
19 document that was entered into the record. And so they
20 don't match with the document that was presented this
21 morning.
22 MR. BENNETT: Your Honor, I thought they did. I
23 took the time over the break to --
24 PRESIDING JUDGE: I'm sorry. But I'm looking at
25 Exhibit BPX-32, and they conform.

1 MS. BOUDREAUX: Are you looking at the one that
2 was distributed this morning?
3 PRESIDING JUDGE: Yes.
4 MR. BENNETT: Yes, your Honor. And I was
5 working from the one that was distributed this morning, and
6 over the break, I took my questions from earlier and tried
7 to match up the pagination.
8 MS. BOUDREAUX: All right. I think I've got a
9 new version. Thank you. Sorry about that.
10 PRESIDING JUDGE: Thank you, Mr. Caldwell. I
11 see you are useful for something.
12 MR. CALDWELL: One time.
13 PRESIDING JUDGE: I didn't believe one word that
14 anybody said about you not being useful at all.
15 MR. CALDWELL: I'm going to mark that down.
16 PRESIDING JUDGE: It's those people in the back
17 room. They sent Lefler up to watch you.
18 MR. CALDWELL: Can we keep them back there?
19 PRESIDING JUDGE: Absolutely. Go ahead.
20 MR. BENNETT: Thank you, your Honor.
21 BY MR. BENNETT:
22 Q At page 14 of BPX-32, lines 5 and 6, do you have
23 the reference?
24 A Yes, sir.
25 Q You use the term there "double dip"; is that

1 correct?
2 A Yes, sir.
3 Q What is the first dip in the double dip that you
4 meant when you used that term?
5 PRESIDING JUDGE: Do you have an answer,
6 Ms. Crowe?
7 THE WITNESS: Yes, sir. The first part of the
8 double dip is the income taxes that the shippers pay in the
9 cost of service allowance.
10 BY MR. BENNETT:
11 Q And the second dip?
12 A The second part of the double dip is the ADIT.
13 Q So how is there a double dip when there's ADIT
14 in the rates for SFPP, L.P., and the income tax allowance
15 that the shippers pay? Why are those two things
16 duplicative? Is that what you're suggesting by use of the
17 term "double dip," that they're twice recovering for one
18 thing, there's double recovery for one thing?
19 A Yes. The cost of service has an income tax
20 allowance that's calculated based essentially on book
21 income rather than recognizing the tax depreciation effects
22 that are passed through to the partners each year.
23 So you have income taxes based essentially on
24 book income. So those are higher than they would be to
25 start with if there was tax income.

1 And then you have the tax depreciation affect
2 being captured as if there was a deferred income tax
3 allowance when, in fact, those deferrals are also passed
4 through to the partners on their K-1s because SFPP is a
5 flow-through entity.
6 Q So this all ties back into SFPP's status as a
7 flow-through entity; is that correct?
8 A Yes, sir.
9 Q All right. Would you turn to page 3 of your
10 rebuttal testimony, BPX-32, lines 18 through 20.
11 A Yes.
12 Q Do you suggest there that taxable income be used
13 in the numerator of the dividend yield part of the formula
14 used at this Commission to ascertain the return on equity
15 for regulated entities?
16 A Not exactly, no. What I'm saying is that if you
17 did use taxable income in the numerator, the dividend yield
18 would be zero. But I don't recommend that KMEP or other
19 MLPs be used to calculate a return on equity because that's
20 not what's measured by the DCF analysis used in cash
21 distributions.
22 MR. BENNETT: Thank you.
23 Your indulgence, your Honor. I have no further
24 questions, your Honor.
25 Thank you, Ms. Crowe.

1 THE WITNESS: Thank you.
2 PRESIDING JUDGE: Ms. Myers?
3 MS. MYERS: No questions, your Honor.
4 PRESIDING JUDGE: Turn to BPX-15, page 11.
5 THE WITNESS: Yes, sir.
6 PRESIDING JUDGE: Starting at page 9, there's
7 this very lengthy, I guess, hypothetical based on something
8 that was written by Dr. Horst, whoever Dr. Horst is and
9 whatever he wrote. We don't know because the questioner
10 doesn't tell us. So we don't even care. For all we know,
11 he could be a radio psychologist. Then you're asked "would
12 you help me try to quantify" "what number would result from
13 that?"
14 What I didn't understand was whether you thought
15 that question made any sense whatsoever.
16 THE WITNESS: I understood the question to be
17 asking what would happen to the dividend yield if you
18 included all of the cash distributions to all of the
19 partners rather than just the cash distributions to the
20 limited partners. So that was how I answered the question.
21 PRESIDING JUDGE: Okay; all right. Now, that's
22 helpful, because we don't get that from the exhibit,
23 because we don't know from the exhibit whether you or how
24 you interpreted the question, because Lord knows why.
25 Anyway, go to page 13.

1 THE WITNESS: Yes, your Honor.
2 PRESIDING JUDGE: The question at line 2, tell
3 me what you understood from that question and how you
4 addressed it.
5 THE WITNESS: I understood that question to be
6 asking what happens to the dividend yield if you use the
7 reported book income of the MLP for the public limited
8 partners only to calculate the dividend yield.
9 PRESIDING JUDGE: What's the alternative?
10 THE WITNESS: Well, I think there are several.
11 You could use cash distributions. You could use total cash
12 distributions. You could use just cash distributions to
13 limited partners. You could use the reported book income
14 that flows to the limited partners. You could use the
15 taxable income, as Mr. Sintetos was discussing, that
16 actually goes to the limited partners at the end of the
17 day. Or you could probably use other things, but those are
18 the four, I think, that I examined, four alternatives I
19 examined.
20 PRESIDING JUDGE: Of those alternatives,
21 including the one in the question, which one makes most
22 sense to you?
23 THE WITNESS: To me, the one that makes the most
24 sense, if the Commission wants to calculate a return on
25 equity, which is income, that's required by unitholders or

1 stockholders, the one that makes the most sense is the
2 income that actually goes to those unitholders or
3 stockholders, because that's their return on their
4 investment.
5 And because of the complications and the
6 interplay of distributions and incomes with MLPs, that
7 explains why it's my position that the corporation should
8 continue to be used for the DCF analysis to the extent it
9 is being implemented in order to calculate a return on
10 equity.
11 Oh, I'm not sure I answered your question, your
12 Honor. So I would say none of those, because those are all
13 MLP dividend yields, and so if you could use the actual
14 income that goes to the partners, that would be
15 appropriate, but as we were discussing, sometimes that's
16 zero or negative. So we have a problem there.
17 PRESIDING JUDGE: Okay. If we were sitting
18 around this evening at some pub, we could discuss that, the
19 Commission, but suffice it to say that the way I read the
20 Commission policy statement -- don't anybody else listen;
21 this is between Ms. Crowe and me. It's permissive; it's
22 not required. So you're still on safe ground.
23 Let's go to BPX-32. At the bottom of page 17,
24 you're asked a question at lines 20 and 21 that you answer
25 in -- you say any income tax allowance should cover only

1 the allowed taxable income. Why?
2 THE WITNESS: In the context of the question
3 that was asked, referencing the materials used by Mr. Ganz
4 to develop an income tax rate, those were the actual
5 profits or the actual income of SFPP, which was higher than
6 the cost of service for SFPP in the year that was being
7 examined.
8 And so the question was should SFPP be given an
9 income tax allowance on that excess income above its cost
10 of service, essentially, and my answer was no.
11 PRESIDING JUDGE: Your next question, you're
12 being told what Mr. Sintetos said, and you're told you can
13 rely on that, and you say you will rely on it. So I want
14 to know whether you agree with Mr. Sintetos's statement.
15 THE WITNESS: I would say I'm not in a position
16 to know whether a reduction in book income of $19 million
17 would result in the same reduction for taxable income. So
18 I rely on him as a tax expert.
19 PRESIDING JUDGE: Then there's a follow-up
20 question, again related to the tax allowance, and you say
21 that would be correct.
22 What do you mean there if you're relying on
23 Sintetos?
24 THE WITNESS: What I mean there is that if the
25 excess revenue relative to cost of service of $19.5 million

1 were removed from exhibit of Mr. Ganz that's being
2 discussed here, then the resulting income for which
3 Mr. Ganz would calculate an income tax allowance would be
4 50 million rather than 69.7, and I agreed with that math
5 basically.
6 PRESIDING JUDGE: Okay; all right. So it's --
7 you're not agreeing with the theory or with whether or not
8 it was correct; you're just agreeing that 69 minus 50 is
9 19?
10 THE WITNESS: Yes.
11 PRESIDING JUDGE: All right. As long as we all
12 understand that.
13 Ms. Boudreaux?
14 MS. BOUDREAUX: I don't have anything.
15 PRESIDING JUDGE: Even though Mr. Ganz slipped
16 you a question? I don't miss much.
17 MS. BOUDREAUX: I see that.
18 PRESIDING JUDGE: Mr. Bennett?
19 MR. BENNETT: Limited to what your Honor asked?
20 PRESIDING JUDGE: Yes.
21 MR. BENNETT: Nothing, your Honor.
22 PRESIDING JUDGE: Ms. Myers?
23 MS. MYERS: Nothing, your Honor.
24 PRESIDING JUDGE: Ms. Crowe, unlike
25 Mr. Sintetos, I'd like you to sit until we finish the

exhibits. I've never seen a witness get out of here as fast as he did. It just shocked me.

So the only exhibits are yours?

MS. MYERS: May I ask if we could go off the record for just a moment?

PRESIDING JUDGE: Sure.

(Discussion off the record.)

PRESIDING JUDGE: Ms. Myers, you were saying something about BPX-39 and 40?

MS. MYERS: Yes, your Honor. These two exhibits were omitted when I identified the exhibits of Ms. Crowe earlier, and I would like to have them identified for the record.

PRESIDING JUDGE: Okay. So at this point in time, we're identifying BPX-39 and BPX-40.

(Exhibits BPX-39 and BPX-40 identified.)

PRESIDING JUDGE: I rather suspect you better ask the witness about them so that they're included within the whole context of what would ordinarily be your direct.

MS. MYERS: Yes, your Honor.

REDIRECT EXAMINATION

BY MS. MYERS:

Q Were BPX-39 and BPX-40 prepared by you as a part of your prepared rebuttal testimony in this proceeding?

A Yes.

Q All right. And do you adopt them as you did your earlier testimony as your sworn testimony in this proceeding?

A Yes, I do.

MS. MYERS: Thank you, your Honor.

PRESIDING JUDGE: Now, we've got them properly identified, and so at this point in time, then, you would be offering into evidence BPX-15 through 20 and BPX-32 through 40; is that right?

MS. MYERS: That is correct, your Honor.

PRESIDING JUDGE: Okay. Objections? Okay. Seeing none, BPX-15 through 20 and BPX-32 through 40 are admitted.

(Exhibits BPX-15 through BPX-20 and BPX-32 through BPX-40 received.)

PRESIDING JUDGE: Thank you, Ms. Crowe. I appreciate your sitting there. It would have been dreadful for them if you had left.

It's more or less 12:30. We're break for lunch.

You're finished, Ms. Myers, as I understand it.

MS. MYERS: Yes, sir.

PRESIDING JUDGE: And that means Mr. O'Loughlin, you're next. Okay. See you at 2:00.

(Whereupon, at 12:31 p.m., the hearing was recessed, to be reconvened at 2:00 p.m. this same day.)

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ATTACHMENT GGG

Docket No. OR03-5-001
Transcript Excerpt of Cross-Examination of George Ganz,
Pgs. 00997-01002

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1 BEFORE THE

2 FEDERAL ENERGY REGULATORY COMMISSION

3 - - - - - - - - - - - - - - - - - - -x

4 IN THE MATTER OF: : Docket Number

5 CHEVRON PRODUCTS COMPANY, : OR03-5-001

6 BP WEST COAST PRODUCTS LLC, :

7 EXXONMOBIL OIL CORPORATION, AND :

8 CONOCOPHILLIPS COMPANY :

9 v. :

10 SFPP, L.P. :

11 - - - - - - - - - - - - - - - - - - -x

12

13 Hearing Room 5

14 Federal Energy Regulatory

15 Commission

16 888 First Street, NE

17 Washington, DC

18

19 Wednesday, May 7, 2008

20

21 The above-entitled matter came on for hearing, pursuant

22 to notice, at 10:04 a.m.

23

24 BEFORE: HONORABLE EDWARD M. SILVERSTEIN

25 ADMINISTRATIVE LAW JUDGE

1 out.
2 BY MS. HALVERSON:
3 Q Mr. Ganz, with those corrections, if I asked you
4 the questions presented herein today, would you provide the
5 same answers?
6 A Yes.
7 MS. HALVERSON: Your Honor, Mr. Ganz is
8 available for cross-examination. May I make one comment
9 for the record? I'm sorry. Just so all the parties know,
10 Mr. Ganz had a number of places where we had marked
11 protected material. We've taken those markings out, but
12 the line numbers have not changed. You'll just see that
13 there's jagged edges and kind of weird stops, but all the
14 lines should be the same in his testimony.
15 PRESIDING JUDGE: That's not to change the
16 pagination, which I didn't want done.
17 MS. HALVERSON: Correct.
18 PRESIDING JUDGE: Everybody understood all of
19 the corrections he made, and everybody understands to which
20 exhibits they apply. I wanted to make sure.
21 Your cross.
22 CROSS-EXAMINATION
23 BY MR. GOOCH:
24 Q Sir, will you please get out SFO-62A, page 1 of
25 3 pages, the same being weighted federal income tax

1 If you look at page 700 as it was filed, again,
2 you've got the 124,956 cost of service. Now you have an
3 excess of revenues of 19,544,000 -- sorry. The revenue
4 number is the one that stayed the same, not the cost.
5 And if you look at the four that you just did,
6 the excess of revenues over cost of service paid by the
7 interstate shippers is $34,941,000.
8 Now, my question to you is, do you think that
9 the interstate shippers should pay anything at all toward
10 the income taxes associated with the excess revenues?
11 A I don't believe there is an income tax allowance
12 associated with excess revenues, however those are defined.
13 Q If, as you may think, the shippers did pay
14 income taxes on their share of $69 million taxable income,
15 then that included the excess revenues; right?
16 A I don't recall saying that shippers pay -- that
17 there were taxes on the 69 million.
18 Q Ah, there we go. There we go. Let's look again
19 at BPX-54. Let's stay in North Line, if you're comfortable
20 with North Line. And let's look at line 14, carrier
21 depreciation expense. Under regulatory methodology, should
22 there be any income tax allowance associated with the
23 recovery of depreciation costs?
24 A That's not my understanding, no.
25 Q Is it your understanding that using Professor

1 Williamson's definition, of using cash distributions, that
2 it is probable that there will be depreciation included in
3 the cash distribution?
4 A I don't think I know enough to say one way or
5 the other about what's in the cash distribution.
6 Q Let's see if we can look together. If someone
7 would please hand him BPX-50, same being FERC Form 6,
8 annual report of oil pipeline companies, December 31, 2003,
9 page 20 of 67.
10 A I'm sorry. What was the page reference?
11 Q 20 of 67 and it goes on to 21 of 67.
12 A Okay.
13 Q If you look on page 21, line 76, you'll see
14 distributions to general and limited partners of $80
15 million.
16 A I see that.
17 Q Now we go through the statement of cash flows
18 and we see what cash is available, and I ask you to look at
19 line 4, depreciation. It shows cash available of
20 $43,999,318.
21 If there is depreciation in the cash
22 distribution and depreciation charged independently, would
23 you consider that to be a double-dip against the shippers?
24 A I don't understand your question.
25 Q Paying for depreciation --

PRESIDING JUDGE: We're going to take our afternoon recess now.

(Recess.)

PRESIDING JUDGE: Back on the record.

Ms. Halverson, you raised an issue while we were off the record with regard to SFO Exhibits 115 through 118?

MS. HALVERSON: Correct, your Honor.

PRESIDING JUDGE: I'll note that those exhibits were identified on May 2.

MS. HALVERSON: Yes, they were.

PRESIDING JUDGE: Go ahead.

DIRECT EXAMINATION

BY MS. HALVERSON:

Q Mr. Ganz, were Exhibit Numbers SFO-115, SFO-116, SFO-117 and SFO-118 prepared by you or under your supervision?

A Yes, they were.

Q You had designated some corrections to these earlier in the proceeding. With those corrections, if I asked you today -- are these your exhibits?

A Yes, they are.

MS. HALVERSON: Your Honor, sorry.

PRESIDING JUDGE: Go ahead, Mr. Gooch. You may continue.

CROSS-EXAMINATION (Continued)

1 BY MR. GOOCH:
2 Q Doubting my own recollection, with Ms. Myers's
3 help, refer to page 661 of the transcript. The Judge is
4 interrogating Professor Williamson.
5 PRESIDING JUDGE: You're going to have to speak
6 up, sir.
7 BY MR. GOOCH:
8 Q Page 661 of the transcript, the Presiding Judge,
9 "That was a long way around, Professor. You're saying the
10 answer to Mr. Gooch's question is yes?
11 "THE WITNESS: Well, it's not quite that simple.
12 "PRESIDING JUDGE: What you said was that if
13 depreciation generates cash and the cash flows through to
14 the MLP, then it's available for distribution. That's
15 really what you said."
16 I'm stopping there. It's the end of the Judge's
17 statement?
18 PRESIDING JUDGE: And Professor Williamson
19 agreed with me.
20 MR. GOOCH: Yes, sir, he did.
21 PRESIDING JUDGE: Go ahead.
22 MR. GOOCH: "THE WITNESS: I think that's
23 correct, your Honor." There's always the question.
24 BY MR. GOOCH:
25 Q Do you agree with that, Mr. Ganz?

A If you don't mind, could I take a look at the statement?

Q Sure.

A I would agree that depreciation is a noncash expenditure, and it would be a source of cash on a cash flow statement and to the extent that produces cash available for distribution, that this statement appears to be correct.

Q Do I need to show you again the cash flow statement in BPX-50, FERC Form 6 for the year 2003 which showed the depreciation being in the cash flow statement?

A I see it's in the cash flow statement.

Q Focus on that for a minute, we have depreciation now in cash flow. We have cash flow -- the distribution being used to set a rate of return on equity. You put in the cost of service, a separate charge for depreciation and charge dollars for that.

So by my standards, depreciation is being charged to the consumer twice, and I'm giving you the opportunity to say that I'm wrong.

A Well, I disagree with your statement. What is included in the cost of service is a component for book depreciation expense. Beyond that, I don't understand how there's a charging twice.

Q I'll try once more and then drop it. If you use

1 cash distributions to calculate a rate of return on equity
2 and if the cash distribution includes a component for
3 depreciation, it follows that there is depreciation
4 included in the rate of return on equity calculation;
5 right?
6 A I'm not familiar enough with the return on
7 equity calculations to address that.
8 Q Let's move to the next subject. Again, for
9 reference, SFO-62A you relied on SFPP taxable income to
10 make a calculation for a weighted federal income tax
11 allowance; right?
12 A Yes.
13 Q If you look at BPX-54, and using again the North
14 Line as an example, you made no adjustments in the
15 calculation of an income tax allowance for tax depreciation
16 or any other form of deduction, did you?
17 A In my calculation of the income tax allowance?
18 Q Yes.
19 A No, I didn't, nor is it necessary to.
20 Q The second part, I take it, is what I want to
21 talk to you about. First, I want to establish you didn't
22 do it. Second thing is, do you see any inconsistency in
23 recognizing that if you're going to talk about an income
24 tax allowance, you have to talk about taxable income when
25 you make the calculation for the tax rate and then when the

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ATTACHMENT HHH

Docket No. IS08-390
West Line Interstate Rate Base for the Years 1983-Test Period
June 30, 2008

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SFPP, L.P.
West Line Interstate Rate Base
For the Years 1983 through the Test Period
($000's)

Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	Total Carrier Property in Service														
1	Carrier Property in Service	Schedule 1	$36,477	$37,061	$68,972	$69,802	$72,897	$92,986	$149,087	$150,433	$152,016	$153,330	$157,480	$158,633	$159,338
2	Accumulated AFUDC	Statement F1, Line 14	$0	$24	$1,134	$1,206	$1,333	$1,779	$2,799	$2,826	$2,831	$2,854	$2,886	$2,911	$2,932
3	Total Carrier Property in Service	Lines (1 + 2)	$36,477	$37,085	$70,106	$71,008	$74,230	$94,765	$151,886	$153,259	$154,847	$156,184	$160,366	$161,545	$162,271
	Total Accumulated Depreciation														
4	Accumulated Depreciation of Carrier Property	Schedule 1	$16,054	$17,027	$17,370	$18,215	$19,740	$20,916	$18,892	$22,387	$26,033	$29,531	$33,148	$36,933	$40,410
5	Accumulated Amortization of AFUDC	Statement F2, Line 11	$0	$0	$16	$47	$80	$120	$178	$250	$322	$395	$470	$545	$621
6	Total Accumulated Depreciation	Lines (4 + 5)	$16,054	$17,027	$17,386	$18,262	$19,820	$21,036	$19,071	$22,636	$26,355	$29,927	$33,618	$37,479	$41,031
7	Net Carrier Property In Service	Lines (3 - 6)	$20,424	$20,058	$52,720	$52,746	$54,410	$73,729	$132,815	$130,623	$128,492	$126,257	$126,748	$124,066	$121,239
	Working Capital														
8	Oil Inventory	Schedule 6	$24	$17	$21	$13	$12	$13	$12	$4	$3	$3	$3	$3	$5
9	Materials and Supplies	Schedule 6	$178	$161	$234	$231	$216	$302	$449	$429	$381	$345	$330	$324	$329
10	Prepayments	Schedule 6	$252	$226	$405	$327	$290	$395	$631	$914	$759	$751	$811	$648	$862
11	Total Working Capital	Lines (8 + 9 + 10)	$453	$404	$660	$571	$518	$710	$1,093	$1,348	$1,144	$1,100	$1,144	$975	$1,196
12	Accumulated Deferred Income Taxes	Schedule 7	$4,134	$4,522	$6,685	$9,528	$11,978	$13,997	$16,048	$17,528	$18,675	$19,530	$20,183	$20,751	$21,192
13	Original Cost Rate Base	Lines (7 + 11 - 12)	$16,743	$15,940	$46,696	$43,788	$42,949	$60,442	$117,860	$114,443	$110,961	$107,827	$107,709	$104,291	$101,244
14	Net Deferred Return	Statement E2, Line 17	$0	$730	$1,405	$1,699	$2,930	$4,139	$5,725	$9,334	$11,015	$12,535	$13,905	$15,199	$16,350
15	Net Starting Rate Base Write-Up	Statement E4, Line 20	$12,173	$11,581	$10,989	$10,398	$9,806	$9,214	$8,622	$8,030	$7,438	$6,847	$6,255	$5,663	$5,071
16	Net Trended Original Cost Rate Base	Lines (13 + 14 + 15)	$28,916	$28,251	$59,090	$55,885	$55,686	$73,795	$132,207	$131,808	$129,414	$127,209	$127,869	$125,153	$122,665

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SFPP, L.P.
West Line Interstate Rate Base
For the Years 1983 through the Test Period
($000's)

Line No.	Description	Source	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Test Period
	Total Carrier Property in Service														
1	Carrier Property in Service	Schedule 1	$159,320	$160,617	$162,114	$169,702	$171,854	$179,319	$181,358	$184,107	$186,584	$181,870	$185,258	$189,043	$191,420
2	Accumulated AFUDC	Statement F1, Line 14	$2,956	$2,985	$2,919	$3,077	$3,069	$3,253	$3,282	$3,319	$3,345	$3,062	$3,051	$3,052	$3,056
3	Total Carrier Property in Service	Lines (1 + 2)	$162,275	$163,602	$165,033	$172,780	$174,923	$182,572	$184,640	$187,426	$189,928	$184,931	$188,309	$192,095	$194,476
	Total Accumulated Depreciation														
4	Accumulated Depreciation of Carrier Property	Schedule 1	$43,069	$46,762	$50,392	$39,756	$43,398	$43,904	$48,513	$53,288	$58,158	$55,785	$60,657	$65,603	$70,863
5	Accumulated Amortization of AFUDC	Statement F2, Line 11	$698	$774	$850	$927	$1,009	$1,093	$1,180	$1,269	$1,359	$1,447	$1,531	$1,616	$1,702
6	Total Accumulated Depreciation	Lines (4 + 5)	$43,766	$47,536	$51,242	$40,683	$44,407	$44,997	$49,693	$54,557	$59,517	$57,232	$62,188	$67,219	$72,565
7	Net Carrier Property In Service	Lines (3 - 6)	$118,509	$116,066	$113,791	$132,096	$130,516	$137,576	$134,947	$132,869	$130,411	$127,699	$126,120	$124,876	$121,912
	Working Capital														
8	Oil Inventory	Schedule 6	$31	$89	$125	$50	$43	$7	$0	$0	$0	$0	$0	$0	$0
9	Materials and Supplies	Schedule 6	$295	$284	$175	$177	$193	$216	$286	$317	$393	$323	$331	$316	$316
10	Prepayments	Schedule 6	$762	$763	$58	$540	$711	$689	$727	$750	$542	$672	$673	$735	$735
11	Total Working Capital	Lines (8 + 9 + 10)	$1,088	$1,136	$358	$766	$947	$911	$1,013	$1,067	$935	$996	$1,004	$1,051	$1,051
12	Accumulated Deferred Income Taxes	Schedule 7	$21,674	$22,201	$22,669	$23,638	$24,623	$25,144	$26,342	$27,299	$27,452	$26,826	$26,322	$25,868	$25,372
13	Original Cost Rate Base	Lines (7 + 11 - 12)	$97,923	$95,001	$91,480	$109,225	$106,840	$113,342	$109,617	$106,638	$103,895	$101,869	$100,802	$100,059	$97,590
14	Net Deferred Return	Statement E2, Line 17	$17,926	$18,435	$18,840	$19,826	$21,458	$21,804	$22,755	$23,288	$24,700	$26,159	$26,967	$28,802	$30,696
15	Net Starting Rate Base Write-Up	Statement E4, Line 20	$4,479	$3,888	$3,296	$2,704	$2,112	$1,520	$929	$337	$0	$0	$0	$0	$0
16	Net Trended Original Cost Rate Base	Lines (13 + 14 + 15)	$120,328	$117,323	$113,616	$131,755	$130,410	$136,666	$133,301	$130,263	$128,595	$128,028	$127,769	$128,861	$128,286

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