Baseball, Apple Pie And MLPs

By John Harpole

A shudder rolled though the U.S. midstream recently when Richard Kinder, co-founder, CEO and chairman of the board of Kinder Morgan Inc. (KMI), announced the consolidation of four of the Kinder Morgan family of companies into a $44 billion megacorporation. The merger will result in the creation of the largest midstream company in North America and the third-largest energy corporation in the U.S.

Does this corporate restructuring mean that MLPs will become the unwanted Model T of midstream investment vehicles? Aren't MLPs as American as baseball and apple pie?

Those are fair questions when you consider that Kinder has repeatedly been an industry thought leader. He is known by some as the Warren Buffett of energy, and *Fortune* magazine called him the "energy boom's mighty middleman." During his stint at Enron, he was regularly referred to as Doctor Discipline. In fact, it was Kinder Morgan that made midstream MLPs as popular as apple pie.

Change of course

It was when he was bypassed for succession to the helm of Enron by his friend Ken Lay in favor of Jeff Skilling (who is now doing a stint in federal prison in Montgomery, Ala.) that his career path changed forever.

Kinder resigned from Enron in 1996. Enron's problems would surface five years later. His departure from Enron was a financial blessing for him and for countless MLP unitholders everywhere.

Robert Bryce, author of the book "Pipe Dreams: Greed, Ego, and the Death of Enron," estimated Kinder's net worth to be about $30 million in 1996. After the merger announcement, Kinder's KMI shares were valued at $9.6 billion and he stated, "As the largest shareholder of KMI, I certainly would not be doing this transaction if I didn't believe that it promised enormous benefits for all of the KMI shareholders."

Why merge?

Kinder had expressed public frustration that "the market was not recognizing the value" of the Kinder Morgan stock. "I look out there and I see this huge damn footprint across North America and every time we turn around we see more ability to extract value out of it," he told the *Wall Street Journal*.

"This transaction dramatically simplifies the Kinder Morgan story, by transitioning from four separately traded equity securities today to one security going forward and by eliminating the incentive distribution rights and structural subordination of debt." Kinder continued: "In the opportunity-rich environment of today's energy infrastructure sector, we believe this transaction gives us the ability to grow KMI for years."

Kinder Morgan's future is one of growth via acquisitions.

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Kinder's move doesn't signal the early death of the MLP world. Kinder Morgan just outgrew that vehicle the way a growing family would.

Baseball

Speaking of vehicles and families, I regularly drive by the federal prison in Englewood, Colo., where Skilling formerly served time. It's next to one of the baseball fields where my 12-year-old son plays. Organizations can buy advertising space on the outfield wall at the Little League field.

But don't expect to see the Kinder Morgan logo there. On that issue, Richard Kinder is very clear: "We are a midstream asset company: pipe, storage and terminals. It's an unsexy, dirty business." He added, "We don't have sports tickets, we don't have corporate jets and we don't have stadiums named after us."

I understand and admire the modest self-assessment and the corporate restraint. But still, wouldn't it be sweet justice to put up a Kinder Morgan logo just down the street from Jeff Skilling's former prison walls? ■

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