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ENERGY

Is Kinder Morgan Scrimping on its Pipelines? The Market Shrugs

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As we noted yesterday, the largest pipeline operator in the U.S was on the receiving end of some skeptical analyst coverage earler this month, when Hedgeye Risk Management's Kevin Kaiser released a report claiming that **Kinder Morgan** 's**KMI +0.14%** "high-level business strategy is to starve its pipelines and related infrastructure of routine maintenance spending in order to maximize distributable cash flow." The company disputes his analysis.

For a business operating a coast-to-coast network of about 70,000 miles of natural gas pipelines and 10,000 miles of pipes carrying refined energy products, it was a big claim, and one that pushed Kinder Morgan shares down by as much as 8%. The company, which generally doesn't comment on analyst notes, ended up holding a conference call to reject the allegations.

But Mr Kaiser wasn't done, and released a second note on Thurday. And in what could be good sign for Kinder Morgan, the market appears to have yawned in response. Shares of Kinder Morgan Inc. closed up less than a percent at $35.98 on Thursday, but traded as high as $36.20 during the day. The shares were down slightly by Friday afternoon. **Kinder Morgan Energy Partners** was also up less than a percent on Thursday to $80.17 although it dipped as low as $79.54. It also slid slightly on Friday.

In total, KMP and KMI are down roughly half a percent each since Mr. Kaiser's latest note hit the street, underperforming the broader S&P 500, which has remained relatively flat.

In the new note (**you can read it here**) Mr. Kaiser made some adjustments (to Kinder Morgan's favor) to the numbers in his earlier report, but he stood by his arguments. He also put a finer point on how he believes capitalizing maintenance instead of expensing it lead KMP – the company which actually holds the majority of the Kinder Morgan assets – to make larger payments to KMI – the company that includes the general partner that controls KMP.

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The way Kinder Morgan treats maintenance expenses "creates an enormous wealth transfer from KMP to KMI that should not be taking place," Mr. Kaiser said, to the tune of about $200 million per year.

Even though this structure has existed at Kinder Morgan for many years and is known to most analysts, Mr. Kaiser said he still didn’t believe it was proper.

“The fact that this is the way Kinder Morgan has done it for over a decade makes the situation worse, not better,” he wrote. “This policy is materially misleading, and results in KMI taking hundreds of millions of dollars from KMP every year that it should not be.”

Kinder Morgan didn’t respond to a request for comment on the note.