Kinder Morgan MLP OK to Vote on Consolidation

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A Delaware judge on Wednesday ruled that unitholders in one of the country's largest master limited partnerships, Kinder Morgan Energy Partners LP (KMP), could not expect to block a buyout by the partnership's sponsoring corporation, Kinder Morgan Inc. (KMI)

In early August, billionaire Richard Kinder - who owns 23 percent of the shares in KMI - launched a plan to buy up several energy pipeline companies owned by KMI.

Investors in the master limited partnership (MLP), who stand to pay higher taxes on their dividends because of the $44 billion consolidation, hoped to block the action, claiming it could not happen without a supermajority, two-thirds vote of shareholders - Kinder held that only a simple majority would suffice.

November 5, Delaware Chancery Court Judge Travis Laster agreed, saying that unitholders voting rights are not constrained by the consolidation plans.

The next step in the consolidation plan is a November 20 shareholder vote to approve the KMI cash-and-stock buyout of unitholders in the partnerships. Analysts expect the buyout to pass.

Consolidating the pipeline holdings, according to Kinder, will strengthen KMI in an era of renaissance for the U.S. oil industry by generating additional cash KMI plans to use for acquisitions and building additional infrastructure. The cash will come from reduced cost for cash and creating a single stock he can use in future trade.

KMI wants to acquire all of all of Kinder Morgan Energy Partners LP, Kinder Morgan Management LLC and El Paso Pipeline Partners LP. The offer includes $40 billion in shares, $4 billion cash and $27 billion in assumed debt, according to KMI's website.

Industry Ripples

Initially, Kinder's August announcement sent ripples of disbelief among investors in master

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limited partnerships. Kinder had contributed to the popularity of the investment structure with its success. Seen as a safe place to invest, some MLP investors began wondering if profits were as predictable as they had thought.

Their concerns eased a bit when, stocks in many master limited partnerships actually rose. Today, analysts believe that the Kinder Morgan Energy Partners LP restructuring was a logical progression for the company, that it had actually outgrown the partnerships.

For example, reports were that the company's the five-to-six percent annual growth had limited investor interest in the company compared to faster-growth MLPs. Additionally, a majority of dividends from the Kinder Morgan Energy Partners MLP - the flagship of the Kinder Morgan dynasty - were being paid to the parent company, not shareholders. Add to that, the complicated structure constrained the partnership's acquisition process, kept the cost of capital high and complicated capital improvement plans, Kinder said during a CNBC interview last summer following his announcement.

Bringing all the Kinder Morgan MLPs under one flag dispatches those complications and, Kinder predicts, will boost future business activity - and increase dividends.

"I'm kind of like the canary in the coal mine here," he said.

Industry watchdogs believe the Kinder Morgan deal may spark others MLPs to make the same move, feeling that they too would have to make the move to continue growing.

Government worries

In addition to the challenges of structure and growth among MLPs, the U.S. Government is taking a second look at the partnerships. The Internal Revenue Service is concerned about the potential erosion of future tax revenues - and it has temporarily halted the formation of new MLPs since the Kinder Morgan Energy Partners consolidation announcement.

The chief reason to create an MLP is the tax benefit to the corporations that sponsor the MPL - the MLP pays no income taxes - but instead, passes the profits on to shareholders, or investors, who then pay taxes on earnings. To the investor, an MLP offers the opportunity to own a piece of a business that - hopefully - will provide a stable, cash flow in the form of distributions of the partnership's available cash flow.

An IRS spokesperson said the governmental body is concerned that standards for creating a master limited partnership are "too loose."

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