

BN Kinder Morgan's Profit, Distributable Cash Decline (Update)
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(Adds stock price in eighth paragraph.)

By Jordan Burke

July 15 (Bloomberg) -- Kinder Morgan Energy Partners LP, the largest U.S. pipeline partnership by market value, said second-quarter profit fell 11 percent and cash flow for investor payouts also dropped on lower fuel demand and prices.

Net income declined to \$323.8 million, or 33 cents a unit, from \$362.2 million, or 65 cents, a year earlier, Houston-based Kinder Morgan said today in a statement. The results beat by four cents the average of 13 analyst estimates compiled by Bloomberg. Distributable cash flow before certain items, a measure of the partnership's ability to make unit-holder payouts, fell 6.6 percent to \$274.2 million, or 99 cents a unit.

Kinder Morgan reported a 6.4 percent drop in profit before items from the carbon-dioxide business, which produces oil and natural gas liquids and supplies carbon dioxide to oil drillers for injection in wells. That partly offset a 15 percent increase in profit from oil-product pipelines.

"We are very pleased with our overall second-quarter results considering the ongoing recessionary environment and economic headwinds that we anticipated and have been experiencing all year," Chief Executive Officer Richard Kinder said in the statement. "We are better positioned at mid-year than we expected to be just last quarter."

The results included a \$118.8 million non-cash depreciation charge for the company's carbon-dioxide division, an increase of 34 percent from a year earlier. Revenue fell 53 percent to \$1.65 billion.

Carbon-Dioxide Unit

Profit from the carbon-dioxide unit, excluding depreciation, depletion and amortization and certain items, fell to \$202.7 million from \$216.6 million a year earlier because of lower oil prices, the partnership said. Kinder Morgan produces oil in the Permian Basin region in West Texas.

The partnership said it received an average of \$49.47 a barrel for its oil in the quarter, a drop of 6.7 percent from a year earlier. Its price for natural gas liquids, which is unprotected by hedging, dropped 56 percent to \$34.02 a barrel.

The statement was issued after the close of regular trading on the New York Stock Exchange. Kinder Morgan fell 11 cents to \$53.56 in late trading at 4:16 p.m. New York time after closing at \$53.67. The units, which have 10 buy recommendations from analysts and 7 holds, have risen 17 percent this year after a 15 percent drop in 2008.

Kinder Morgan reported an increase in second-quarter oil production from its Sacroc field and said its carbon-dioxide unit "should come in relatively close to its published annual budget of 5 percent growth," with an expected increase in

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 production.

Permian Project

The partnership said it plans to invest \$180 million to expand its Permian Basin operations by installing a carbon-dioxide distribution pipeline and facilities as well as new "floods" in the Katz Field. Flooding injects carbon dioxide into oil fields to increase output. The project, scheduled to begin operations in 2011, may increase Katz field production by 25 million barrels over 15 to 20 years, Kinder Morgan said.

Profit from oil-product pipelines rose to \$157.8 million from \$136.7 million on increased shipments of gasoline and natural-gas liquids, higher tariffs and improved terminal margins, the partnership said. Diesel and jet-fuel shipments dropped, resulting in an overall decline in pipeline shipments of 1.1 percent to 176.1 million barrels.

Gas Pipelines

Gas-pipeline earnings fell 9.9 percent to \$164.6 million, pulled down partly by reduced sales and processing margins at the Texas Interstates group. The partnership is expanding its U.S. gas pipeline network as it works to deliver the fuel to areas with strong demand.

A 450-mile (724-kilometer) section of the partnership's Rockies Express gas pipeline began service in June. The line, which is designed to transport the fuel from the Rocky Mountains to markets in the U.S. East, will start shipments to Clarington, Ohio, in November. The 1,679-mile pipeline project is a joint venture of Kinder Morgan, Sempra Energy and ConocoPhillips.

Kinder Morgan put its 133-mile Louisiana Pipeline into service in June. It's also building the 506-mile Midcontinent Express Pipeline system that will extend from Oklahoma to Alabama. Partial service began in April. The project is a venture with Energy Transfer Partners LP.

As a master limited partnership, Kinder Morgan is exempt from federal income taxes and pays most of its cash flow to investors. Last year it earned 72 percent of its revenue from natural-gas pipelines.

Kinder Morgan declared a second-quarter distribution of \$1.05 per unit, unchanged from the previous quarter and up 6.1 percent from a year earlier. It affirmed its \$4.20 per unit distribution target for the year.

Kinder Morgan sold 5.7 million common units in February and another 6.61 million units in June. The sales brought in combined net proceeds of about \$750 million. The company plans to sell an additional \$250 million of shares later this year.

(Kinder Morgan began a conference call for analysts and investors at 4:30 p.m. New York time, accessible on the partnership's Web site at <http://www.kindermorgan.com/investor>.)

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