Kinder Morgan's Analyst Day, Part 1

So far we're half way through Kinder Morgan's analyst day. It opened with a summary by Rich Kinder who repeated his oft-stated thoughts that the stock price of all four Kinder entities is too low. We agree with him at least in the case of Kinder Morgan Inc (KMI) which we own. We much prefer the position of General Partner over Limited Partner, although so far the presentations haven't been able to draw in too many new buyers of the stock, with KMI currently -3.4%. Everything we've heard is consistent with a solid long term growth story in U.S. energy infrastructure. Kinder Morgan (KM) is involved in numerous ways, and the development of shale resources is causing many new opportunities and incongruous developments that the company is involved in. These include:

1) Increased capability to export coal, since domestic demand is being displaced by natural gas. In spite of the developed world's focus on clean energy, coal use is forecast to exceed crude oil in consumption by 2020, on an energy-equivalent basis.

2) Regulatory uncertainty over the Keystone pipeline as well as the increasing variability of liquids produced is increasing the need for flexible supply systems. Crude by rail has grown enormously, to the benefit of firms like Burlington Northern (owned by Berkshire Hathaway, BRK, another holding of ours). KM is investing in infrastructure to support more movement of crude oil by rail.

3) Distillate is being transported from the Marcellus shale in Pennsylvania to the Canadian tar sands in Alberta, where it is used as a diluent mixed in with the heavy crude produced there to ease its subsequent transportation.

There were many projects aimed at increasing existing pipeline capacity, reversing pipelines and creating additional infrastructure to move product from where it’s produced to refiners and end users.

So far a very interesting session, with no doubt more to come.