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New Narrative, New Opportunities

Executives discuss how midstream operators are positioned in an era of change.

MARK DRUSKOFF, Contributing Editor

No longer the subtext behind the news, energy itself is making headlines. The spotlight of public attention is focused not only on how much energy is available but also where it comes from and how it is delivered.

Midstream players now find themselves front and center in this national discussion. In this roundtable, Midstream Business *asked leading industry players to share their perspective on this tectonic shift and its impact on the midstream space.*

What comes through in their responses is a generally positive outlook on this turn of events and an optimism for what the future holds. From the potential for reduced red tape to the opening up of whole new markets, the sector has much to look forward to.

Mark Druskoff: With the Trump administration's focus on energy independence, how do you see the role of the midstream sector evolving to support domestic energy security while also facilitating exports?

Mike Mayon, managing partner, Energy Spectrum: The change in administration and sentiment towards domestic energy and oil and gas production are positive. We are optimistic that getting projects done and through the permitting processes at the federal level will be a catalyst for more localized projects. For example, permitting the expansion of existing or new LNG projects should be a catalyst for infrastructure activity all the way through to the wellhead. However, just because the president and his administration want more energy production doesn't necessarily mean that producers are going to "drill, baby, drill." Capital discipline and returns are priority No. 1 throughout the industry at this point.

Mike Howard, chairman and CEO, Howard Energy Partners: The negative narrative about our industry hurt capital availability in the past. With this new administration, we have the opportunity to change the narrative, show the public we are going to be around for decades to come and attract new investors.

The midstream industry has the manpower and expertise to facilitate the energy expansion needed in the U.S. With appropriate changes in permit reform, this can happen at a rapid pace that is able to keep up with demand.

Edward Herring, co-founder and managing partner, Tailwater Capital: We already have the most sophisticated gas infrastructure of any country, which has been built up over a long period of time. We've had over 100 years of development in the infrastructure required to very efficiently move hydrocarbons all around the country. So, that's a huge advantage for us.

Yet we still have another 100 years plus of accessible inventory of the gas molecule from an upstream perspective.

From the new administration's perspective, it appears that the concept of streamlining permitting and related activities, certainly on federal lands, will be the order of the day for the next four years. That's positive from a volumetric perspective.

We're very bullish on the role that natural gas has played, and will increasingly play, in the future of not only our energy security, but also reliability as electrification of everything comes into play. So, we're very bullish on gas.

Brad Iles, CEO, Brazos Midstream: Under a new Trump administration, the Permian Basin's midstream sector is expected to expand as regulatory rollbacks and pro-energy policies accelerate infrastructure development. Fast-tracked permitting and reduced regulatory hurdles will likely drive new pipelines, storage facilities and export terminals, strengthening domestic energy security.

Increased crude oil and LNG exports will further position the U.S. as a dominant global energy supplier. Currently, almost 20 Bcf/d of residue gas is produced from oil wells in the Permian and must be processed before it can be transported to the Gulf Coast. Brazos is doing its part to expand its combined processing capacity to over 1 Bcf/d by mid-2026, with plans to ultimately expand our facilities to 1.5 Bcf/d. Overall, the sector will play a crucial role in balancing domestic supply stability with rising global energy demand.

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MIKE HOWARD, chairman and CEO, Howard Energy Partners

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MIKE MAYON, managing partner, Energy Spectrum

"In the next 12-24 months, capital allocation will likely shift toward new pipeline projects, storage expansions and Gulf Coast export terminals. Investors may favor midstream assets with strong cash flow potential, while companies could prioritize high-return projects over ESG-driven investments that have required subsidies in the past to be economically feasible projects."

STEPHEN LUSKEY, executive vice president and chief commercial officer, Brazos Midstream

"Valuations are on the increase. That's exciting for folks like us that own assets. We've been in a massive deflationary period of time for the last 10 years from a multiple perspective, and we think it's bottomed out."

EDWARD HERRING, co-founder and managing partner, Tailwater Capital

"Private equity investment in the Permian Basin is shifting from aggressive growth to a focus on stable cash flow and midstream assets needed to meet domestic energy security. PE firms are likely to target strategic bolt-on acquisitions and infrastructure projects due to steady returns."

WILLIAM BUTLER,
CFO, Brazos Midstream

"Midstream operators must adapt by aligning with major producers' long-term development strategies and optimizing asset utilization in a more consolidated upstream landscape."

BRAD ILES,
CEO, Brazos Midstream

MD: In light of the administration's pro-fossil fuel stance, what do you foresee as the biggest changes for midstream operators over the next two to three years? How do you anticipate capital allocation and investment trends to shift in the midstream sector over the next 12-24 months?
MM: The biggest changes we see primarily relate to accommodating the expected growth in gas demand. Growth in liquefaction volumes along the Gulf Coast, reshoring of industrial businesses and manufacturing, and the AI story and demand for power are all going to influence the midstream business. We believe rig counts and volumes in dry gas basins will increase and that should present opportunities for infrastructure investment.

Stephen Luskey, executive vice president and chief commercial officer, Brazos Midstream: Overall, the sector is poised for growth, with a focus on efficiency, capacity expansion and global market positioning. With a pro-fossil fuel administration, midstream operators in the Permian Basin are hoping for streamlined permitting, fewer regulatory hurdles and accelerated infrastructure development.

In the next 12-24 months, capital allocation will likely shift toward new pipeline projects, storage expansions and Gulf Coast export terminals. Investors may favor midstream assets with strong cash flow potential, while companies could prioritize high-return projects over ESG-driven investments that have required subsidies in the past to be economically feasible projects.

Over the next two to three years, key changes will likely include expanded pipeline and gas processing capacity, increased crude and LNG export infrastructure. This may also include a very large increase in natural gas-fired power generation to meet growing demand from AI data centers and cryptocurrency mining. Many of those projects being announced are located in Texas, near producing basins, which bodes well for midstream companies like Brazos.

MH: Energy demand will drive midstream infrastructure expansion in the next five years. So, we see more infrastructure being built to where there is new demand for power plants and LNG export facilities. We are anticipating that this administration will facilitate this expansion faster by implementing regulatory reform. This would increase confidence in attracting capital to the midstream sector.

EH: The industry will revert back to natural gas as a driving force. In North America, I would highlight really three key components.

The first is liquefying natural gas and exporting it. This is a material change in demand pull that requires infrastructure. But we don't have enough midstream plumbing for that at this moment, which is why we're very constructive on what it takes to get natural gas to LNG trains along the Gulf Coast.

The second is power demand driven by technology. Over the last two years, we've seen an intersection of technology and energy. AI is a massive consumer of energy, and the U.S. is trying to be a leader in artificial intelligence. It is our strong conviction that energy demand is going to be fed by natural gas power generation, so this concept of gas playing a very big and enabling role in technology is something that we haven't seen at this magnitude yet.

The third point is reshoring—bringing manufacturing back, which is a huge focus of this administration. That serves to create more demand pull on things like natural gas. So, those three demand pool areas are creating a lot of tailwinds to the midstream sector.

MD: Recent consolidation in the upstream sector, such as the Exxon Mobil-Pioneer merger, suggests potential shifts in production strategies. How might these mega-mergers affect midstream investment from the perspective of harvesting existing assets and investing in new projects?

BI: Upstream consolidation, like the Exxon Mobil-Pioneer merger, will drive greater efficiency in existing midstream assets while shifting new investment toward long-term, strategic infrastructure. Larger producers will prioritize maximizing current pipelines and processing capacity, renegotiating contracts and reducing fragmentation in midstream partnerships. This puts Brazos at an advantage, given our systems are newly constructed and purpose-built for large-volume shale development.

New midstream investments will focus on scalable, cost-efficient projects, with a growing emphasis on natural gas processing and takeaway, along with LNG export infrastructure. Midstream operators must adapt by aligning with major producers' long-term development strategies and optimizing asset utilization in a more consolidated upstream landscape.

MH: We believe the upstream consolidations make it harder for smaller start-up midstream companies to do business with them. Raising private equity money for midstream may continue to be a challenge because of this. The shift in production strategies could lead to the opportunity for bigger in-basin projects to be announced.

MM: The focus right now for upstream is inventory consolidation and access to incremental inventory. Wherever there is good drilling economics, there will be infrastructure needed. And simply because an upstream [company] gets bigger, doesn't necessarily mean that less infrastructure will be needed. There may be pre-existing relationships with large incumbents for the biggest operators, but opportunities will present themselves with enough hustle and creativity.

Furthermore, as inventory gets consolidated in core basins, it's causing private equity-backed or small- and mid-cap operators to go look for inventory elsewhere. We're hearing a lot more about basins that aren't the Permian than we have over the past handful of years. Operators are looking to unlock the value of what have been secondary basins, despite good economics. This new activity and expansion of a playing field should drive opportunity for infrastructure.

EH: Fifty years ago, the energy value chain—upstream, midstream and downstream—was vertically integrated. Now, it's not. There is part of me that believes that over time, integration, certainly with the supermajors, is going to take root.

You've seen it on the upstream side, right? The supermajors have come back into the U.S. and bought large strategic positions because there's high quality definable inventory, the rule of law is great, there are adjacent demand centers and we've got infrastructure.

Now, you walk down the path on Btu content going places; it's not only gas and oil and natural gas liquids, it's electricity.

It would not surprise me if the supermajors walk into more and more of that business. That's just my opinion and I don't have any knowledge of that. But the concept of more and more integration in the North American energy supply chain is likely to happen.

The idea I'm talking about is on the demand/pull orientation, from big demand centers that are fixed assets where the power generation needs will be high and will consume natural gas. As opposed to picking the right basin and hoping rigs show up.

MD: Where are midstream valuations relative to historical trends? Which direction are they moving and why? What factors would likely have the biggest impact on valuations, and in which direction?

MM: Capital discipline continues to be a primary theme. On the M&A front, it's always asset specific, but we've seen an improvement, especially from the pandemic lows, of buyer interest and willingness to place good values on assets.

But there's still a very disciplined buyer set out there, so what was maybe a 4x-6x market through the pandemic is maybe 6x-7x today. People are getting a bit more offensive in their approach and a general recognition that these assets will continue to get utilized for the next 20+ years. We're optimistic the M&A market will continue to improve as sentiment toward

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traditional energy improves, which will increase capital flows. This has been happening but we are a long way from a fundamental rebalancing.

EH: It's been interesting. The shale revolution saw valuation multiples on public companies go up to mid-teens levels from an EBITA-to-enterprise-value basis. Then they got cut in half on the public side. Some was COVID, but some of that was also just the concept of energy as an out-of-favor sector, and capital retreated. People had to reorient, and we definitely saw a midpoint of 13x-14x go to 6x-7x.

We are seeing, and the only evidence of this is public companies, those valuations creep back up because there's a recognition that energy is not only not going away, but also is pivotal to our world and society. And the U.S. is very advantaged. I think that folks are waking up to that.

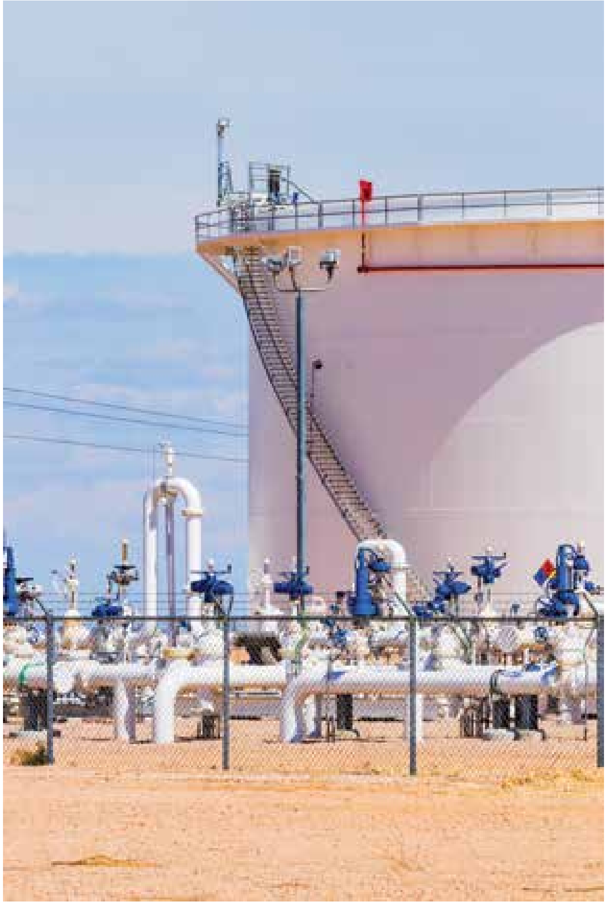
Valuations are on the increase. That's exciting for folks like us that own assets. We've been in a massive deflationary period of time for the last 10 years from a multiple perspective, and we think it's bottomed out.

We think valuations are going to start going back up. We find ourselves in a position where it's exciting to feel confident as an investor—that you're not going to see multiple contraction.

MH: Midstream [operators], specifically G&P, have seen an increase in valuation over the last six to nine months. There are fewer names to invest in due to all the consolidations, and the investment community is starting to recognize the need for more energy due to LNG demand and data centers. As energy demand increases, more infrastructure will be needed and investors are looking to capture that value in this growth. We want to attract new investors into the midstream space and are optimistic it is happening.

William Butler, CFO, Brazos Midstream: Midstream valuations in the Permian Basin are appreciating due to strong investor demand for steady cash flows and high dividends. Investors are increasingly attracted to the public midstream companies, driven by their strong free cash flow generation, recent debt reduction, share buybacks and dividend growth. In certain circumstances, activist investors are attempting influence valuations through potential asset sales or restructuring if they believe the company share price does not reflect the full midstream value due to a drag from other business segments.

Key factors impacting valuations include the strategic desire by the management teams of the large midstream companies to integrate wellhead-to-water midstream systems so that full recognition of the value chain can be achieved. Commodity price fluctuations and regulatory changes (infrastructure and environmental policies) also influence trading multiples. Overall, midstream valuations remain resilient, with a very positive long-term outlook for a privately held company like ours.



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MD: What is your outlook on private equity investment given the previous trends? What is your outlook on M&A?

EH: We think we're in a stable to slightly positive standpoint from a valuation perspective and we're buying a lot of assets. As a firm, we're buying more than we're building right now to take advantage of that.

Our investment aperture is, "How do we solve bottlenecks in basins that are attractive?" We believe as basins mature, counterparties walk forward to the next best basin. So, if you think Permian is Tier 1A, we're going to be moving to Tier 1B, Tier 2 and Tier 3 as we walk down the path. It is our job as investors to be there when infrastructure is needed on the upstream-adjacent stuff. And we plan to be.

We've got a lot of data on a lot of basins because of our non-op fund structure and our midstream focus area. As a firm, we've either connected or invested in over 16,000 well bores since inception.

We've played a lot of different areas, not just Permian. We like the Rockies a lot. We came out of COVID and we bought a very large upstream company on the eastern side of the Rockies in Colorado. We've invested in both Colorado and Wyoming in a material way on the midstream side. We're very constructive on the Powder River Basin.

Haynesville is very advantaged on dry gas and we think East Texas is advantaged on dry gas. We play that very heavily in our upstream funds.

WB: Private equity investment in the Permian Basin is shifting from aggressive growth to a focus on stable cash flow and midstream assets needed to meet domestic energy security. PE firms are likely to target strategic bolt-on acquisitions and infrastructure projects due to steady returns.

In terms of M&A activity, we expect continued upstream consolidation driven by efficiency and scale, especially among larger E&Ps. Midstream M&A will focus on optimizing existing infrastructure, with a focus on scarcity value of uniquely positioned infrastructure assets, such as Brazos Midstream, as consolidation continues to strengthen the massive publicly traded companies.

MH: Private equity will always play a part in infrastructure. We don't believe it will go back to the spending levels of the 2010-2020 era but do believe that private equity will play an important part in midstream investments going forward. With all of the midstream consolidations and recent M&A, there is less available to buy today but we are actively seeking it in areas that are non-core to the bigger players.

MM: We're excited about where the market is at. It's a disciplined market, which means that assets are being valued at reasonable levels on both the buy and the sell side. We think this provides a foundation to buy or build assets, increase cash flow and ultimately monetize the assets. ■