Midstream Energy

Credit quality is on solid ground

January 14, 2025

This report does not constitute a rating action.

What's changed?

Domestic and industrial energy demand is rising. Additionally, LNG export capacity is doubling, and data centers are growing, providing opportunities for gas-focused midstream companies.

More-benign regulation provides a potential tailwind. The Trump administration could create a more-favorable operating environment for midstream companies and oil and gas industry.

Credit trends are positive. Creditworthiness continues to improve across the portfolio as companies focus on strong balance sheets and smaller growth projects.

What are the key assumptions for 2025?

Industry consolidation continues. Companies continue to seek strategic assets and acquire businesses to improve scale or expand geographic footprint.

More natural gas infrastructure is developing. Spending will focus on natural gas and rich gas infrastructure in the Permian, Haynesville, and U.S. Gulf Coast regions.

Financial discipline pays credit dividends. Years of conservative financial policies have improved credit profiles. This could cause ratings among investment-grade companies to diverge further.

What are the key risks around the baseline?

OPEC+ increases supply. If OPEC defends its market share and reintroduces idled capacity, oil prices could weaken.

Renewable fuels and alternative energy could grow faster than expected at the expense of hydrocarbons, despite potential efforts to curb growth by the new U.S. administration.

Opposition to hydrocarbons strengthens. If courts or public opinion succeed further in any fights against hydrocarbon use, the industry could face more headwinds.

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Ratings Trends: Midstream Energy

Chart 1

Ratings distribution

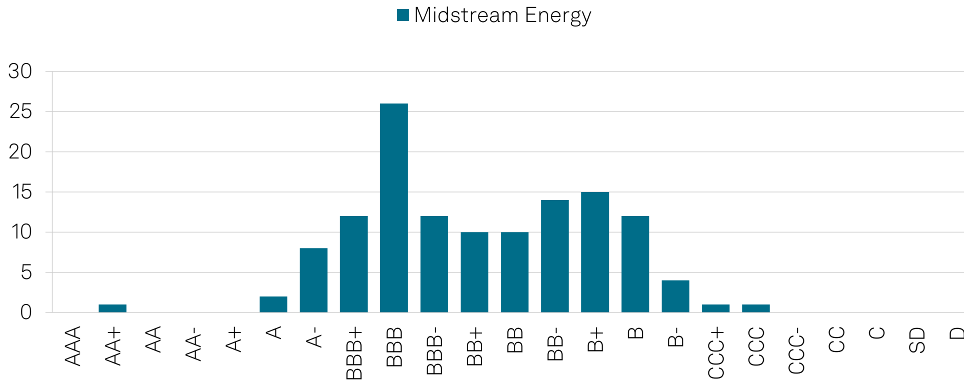


Chart 2

Ratings outlooks

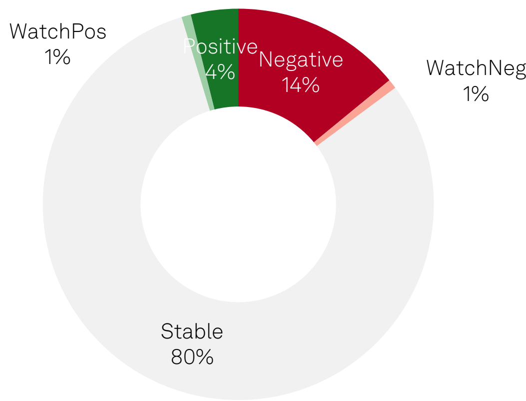
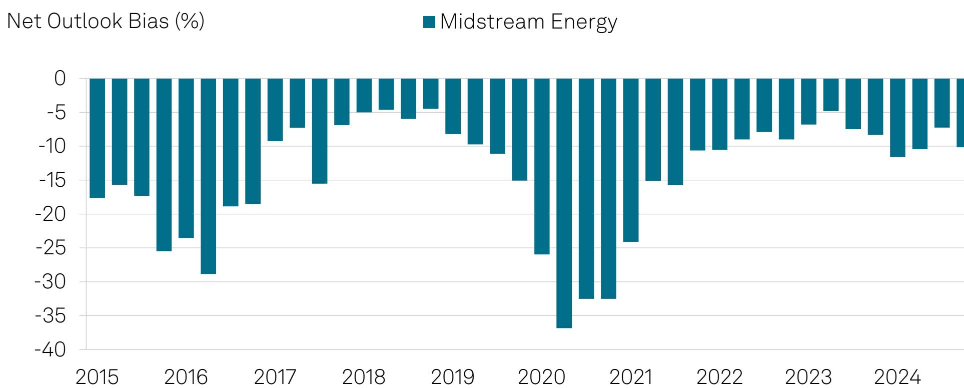


Chart 3

Ratings outlook net bias



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Outlook

Ratings trends and outlook

Amid an energy evolution with fewer opportunities, the midstream energy industry has remained resilient by maintaining financial discipline, funding growth conservatively, and positioning the business to meet future demand. We expect these key credit strengths to persist in 2025. Positive milestones in 2024 include the completion of three major and long-delayed North American infrastructure projects: the Mountain Valley, Coast GasLink, and Trans Mountain pipelines. While completion of these projects will address egress issues in western Canada and the northeast U.S. the industry is unlikely to undertake similar sized projects again. In the last few years, midstream companies have approached projects smarter—by partnering with another strategic or financial party to share risk—which has kept balance sheets and credit quality strong.

Currently about 80% of midstream rating outlooks are stable, 4% are positive, and 14% are negative. Ratings improved for both investment-grade and speculative-grade companies, as highly contracted cash flows, stable prices, and growing demand led to better credit profiles. Ratings and outlooks in the sector were similar to the beginning of 2024, when 80% of ratings were stable, 5% were positive, and 14% were negative.

Main assumptions about 2025 and beyond

1. Industry consolidation could heat up.

Acquisitions will likely accelerate in 2025, with midstream companies using their strong balance sheets and equity currencies to acquire assets that make strategic sense while growing scale. Other factors may also arise, such as financial sponsors seeking exit strategies and valuations that become more attractive to buyers. Smaller speculative-grade companies could be more aggressive to scale up and survive independently or become more attractive to larger peers.

2. Rising demand for natural gas will drive infrastructure development.

Growing demand will require additional pipeline development, particularly along corridors short of egress, such as West Texas, and high demand areas, such as the U.S. Gulf Coast. Demand from data centers is a wild card that will likely provide a tailwind, but actual impact could vary widely. We estimate new data centers could require gas of 3 billion–6 billion cubic feet per day (Bcf/d) by 2030. However, industry estimates are much higher at 10-12 Bcf/d.

3. An unwavering focus on credit provides companies a chance to help the industry adapt to future challenges.

The industry's focus on keeping a strong credit profile is unlikely to change. With fewer organic growth opportunities, companies with strong credit have flexibility for tuck-under acquisitions, while balance sheet room allows for growth projects that smaller, more financially stretched peers must pass up. Stronger, more scalable companies are positioned to take advantage of business that grows out of the energy transition as it becomes economically viable.

Mergers and acquisitions (M&As) will continue in 2025. Activity was robust in 2024 as ONEOK Inc., Energy Transfer L.P. (ET), Kinetik Holdings Inc., and DT Midstream Inc. (DTM) pursued M&A (see table 1). Scale remains important to midstream companies, which will result in ongoing consolidation and growth through acquisitions. Lower interest rates, strong balance sheets, and

limited organic growth opportunities will likely create a ripe environment for M&A in 2025, supporting consolidation, sponsor exits, joint ventures, and strategic rationalizing.

Continued consolidation across the ratings spectrum resulted in better scale and stronger competitive positions as most acquisitions used prudent financial policy. In compression, Kodiak Gas Services LLC acquired CSI Compressco L.P., making it the largest gas compression company in the U.S. Similarly, Archrock Inc. acquired Total Operations and Production Services LLC from Apollo Global Management Inc., improving the company's scale and market position. Kinetik purchased Durango Midstream LLC from Morgan Stanley Equity Partners, and DTM purchased three pipelines from ONEOK. These acquisitions improved scale while reducing leverage, leading to positive outlooks. Energy Transfer's acquisition of WTG Midstream LLC from Diamondback Energy Inc. improved its natural gas and natural gas liquids (NGL) business in the Permian. Sunoco L.P.'s acquisition of NuStar Energy L.P. led us to upgrade Sunoco to 'BB+' due to the increase in scale and diversity of operations and cash flow. We expect similar transactions to continue in 2025, further strengthening industry credit quality.

Table 1

M&A transactions 2023-2025

Issuer	Acquisition	Price (mil. $)	% debt funded	Consolidated EBITDA (mil. $)			Debt/EBITDA (x)		
				2023	2024	2025	2023	2024	2025
DT Midstream Inc.	OKE pipes	1,200	70	885	925-950	1,100-1,150	3.6	3.0-3.25	3.0-3.25
Energy Transfer L.P.	WTG Midstream	3,250	75	11,000	12,150-12,350	12,600-13,000	4.4	4.0-4.25	4.0-4.25
Kinetik Holdings Inc.	Durango Midstream	845	50	840	975-1,000	1,110	4.3	3.5-3.75	3.5-4.0
ONEOK Inc.	Enlink & Medallion*	5,900	100	5,156	6,000-6,200	8,200-8,400	4.2	4.75-5.25	3.75-4.0
Sunoco L.P.	NuStar Energy	7,300	0	1,001	1,750-1,800	1,800-2,000	4.1	4.4-4.6	4.1-4.4

*Excludes the acquisition of GIP's public units, which will be fully funded with equity. Source: S&P Global Ratings.

Sponsors that invested in midstream assets in 2017 and 2018 are facing exit windows and motivated to sell. Global Infrastructure Partners Inc. (GIP) demonstrated this when selling EnLink Midstream LLC and Medallion Midstream LLC to ONEOK. In 2025, this trend will continue to provide an opportunity for smaller issuers to improve scale and for larger strategic companies to increase their interests in joint ventures (JVs).

For large strategic companies that have minority interests in operational pipelines, increased interest or full consolidation could drive more activity in 2025. JVs consisting of both midstream and upstream entities, as well as financial sponsors, were behind many pipeline projects in 2024. Supported by free cash flow, larger issuers have the flexibility to buy minority interests without hurting balance sheets. We saw this in 2024 when Tallgrass purchased the 25% common interest in Rockies Express Pipeline from Phillips 66 Co., making them the 100% owner. MPLX L.P. exercised its right of first offer on BANGL LLC as part of the WTG transaction, increasing its stake in BANGL from 25% to 45%.

Large strategic companies may divest nonstrategic assets that can find better value elsewhere. Such was the case with ONEOK's transaction with DTM. TC Energy sold assets in 2024, including Portland Natural Gas Transmission System to BlackRock. However, it indicated it will not likely pursue further asset sales as part of its strategy for lowering leverage in 2025.

2024's trend of buy-ins of midstream limited partnerships (MLPs) to continue in 2025. Most refining and E&P companies have either fully consolidated their MLPs or spun them out, like HF Sinclair Corp. and Holly Energy Partners L.P. (HEP); EQT Corp. and Equitrans Midstream Corp.; and Phillips and Phillips 66 Partners (PSXP). There are not many left, notably Antero Midstream Partners L.P., MPLX L.P., and Hess Midstream Operations L.P. are still MLPs.

Alternatively, Delek Logistics Partners L.P. remains acquisitive to diversify exposure to parent Delek US Holdings Inc., which could reverse some consolidation in terms of accounting. However, it doesn't necessarily mean we'd change our view from an analytical or ratings perspective.

Midstream energy will focus on building natural gas infrastructure. With associated natural gas production in the Permian basin increasing by about 1.3 to 26.1 Bcf/d in 2025 and the construction of LNG terminals progressing through 2027, we expect demand for additional natural gas takeaway capacity to remain a key focus in 2025. Certain pipeline projects have already achieved final investment decision (FID), and we expect additional announcements from other investment-grade companies, as well as those rated within the ‘BB’ category.

While we do not expect any new, large, greenfield crude oil pipelines to be announced in 2025, midstream companies may consider more NGL pipeline and fractionation capacity in regions such as the Bakken and Permian basins. That said, we expect the industry to focus more on facilitating natural gas and NGL transportation to end markets in 2025, as the majority of growth in those commodities is associated with upstream producers drilling for crude oil in the Permian basin.

The Permian remains a key basin as upstream companies focus on drilling for crude oil there due to its low break-even costs. Midstream companies typically take a prudent approach to new pipeline construction and expansions, requiring long-term contracts from their shippers as they target a minimum high-teens percent unleveraged return on their investment.

The recently announced BlackFin pipeline, owned by Whitewater Midstream, is currently under construction and expected to add up to 3.5 Bcf/d of takeaway capacity by the end of 2025. ET also announced the Hugh Brinson pipeline, which should provide up to 2.2 Bcf/d of capacity, with Phase I in service by the end of 2026. These developments highlight the growing focus on expanding natural gas takeaway infrastructure to accommodate increasing production levels. Newly announced pipelines that have reached FID are projected to add another 7.3 Bcf/d in capacity by 2026 (see table 2).

Table 2

Permian Basin new pipeline projects

Basin/pipeline	Operator	Capacity	Status	In-service date
BlackFin (Colorado County to Jasper County, East Texas)	Whitewater Midstream	3.5 Bcf/d	New pipeline—construction	Q4 2025
Saguaro Connector pipeline and border facility (Permian Basin to the U.S.-Mexico border)	Oneok	2.8 Bcf/d	New pipeline—announced Lateral pipeline—approved	2025
Blackcomb (Permian to Agua Dulce)	Whitewater Midstream Ownership: WPC Joint Venture (70%), Targa Resources (17.5%) and MPLX (12.5%)	2.5 Bcf/d	New pipeline—approved	2026
Gulf Coast Express (GCX) pipeline expansion	Kinder Morgan	Added 570 Mmcf/d to total capacity of 2.57 Bcf/d	Expansion—approved	2026

Hugh Brinson	Energy Transfer	1.5–2.2 Bcf/d	New pipeline—approved	2026
Apex project (Permian Basin to Port Arthur, Texas)	Targa	2 Bcf/d	New pipeline—approved	2026

Bcf/d—Billion cubic feet per day. Mmcf/d—Million cubic feet per day. Source: S&P Global Ratings.

Natural gas production to increase. The U.S. Energy Information Administration (EIA) estimates that natural gas production in Haynesville will likely grow to 15.3 Bcf/d in 2025 from 15 billion Bcf/d in 2024, driven by global LNG demand and the proximity of its midstream infrastructure to LNG facilities along the U.S. Gulf Coast. Between 2025 and 2027, Haynesville will add more than 7 Bcf/d of new capacity. Notable projects include the Louisiana Gateway pipeline, which is currently under construction and should be in service by the end of 2025, and the newly announced New Generation Gas Gathering pipeline, also scheduled to be operational in 2025. These projects highlight the strategic importance of the Haynesville region in meeting rising LNG export demand. Gas prices are a key consideration for drilling activity as it is predominantly a dry gas basin.

In the Bakken region, natural gas takeaway capacity will likely increase modestly with the addition of 300 million cf/d (Mmcf/d) of capacity via TC Energy's Bison Express pipeline (see table 3). The project should be in service by 2026 and we believe will support continued drilling activity in Bakken, given the high gas to oil ratio.

Table 3

Haynesville/Bakken new pipeline projects

Basin/pipeline	Operator	Capacity	Status	In-service date
Louisiana Energy Gateway	Williams	1.8 Bcf/d	New pipeline—construction	2025
New Generation Gas Gathering (gathering system)	Momentum	1.7 Bcf/d, expandable to 2.2 Bcf/d	New pipeline—announced	2025
Bison Xpress	TC Energy	300 Mmcf/d	Expansion—approved	2026
Pelican pipeline	Whitewater Midstream	1.75 Bcf/d	Reached FID	2027

Bcf/d—Billion cubic feet per day. Mmcf/d—Million cubic feet per day. FID—Final investment decision.
Source: S&P Global Ratings.

Two new projects provided critical infrastructure and satisfied much needed transportation for the Canadian energy industry in 2024. The past year saw the long-awaited commissioning of Trans Mountain (TMX) and Coastal Gaslink (CGL) pipelines. TMX's 590,000 barrel per day (bbl/d) expansion almost tripled the crude oil capacity of the existing pipeline to 890,000 bbl/d; we assume the additional capacity will be fully contracted by 2027.

While the cost of these two projects far exceeded expectations and it is too early to predict the impact on the Western Canadian Select-West Texas Intermediate price deferential, the additional capacity provides more optionality for Canadian oil sands producers and likely a higher net-back price. The commercial in-service of CGL, which transports up to 2.1 Bcf/d, is a major step toward Canada entering the global LNG export market through LNG Canada. Although the pipeline is contracted to LNG Canada and Cedar LNG, it could prompt further LNG development on Canada's west coast. Further, despite some reports that the Keystone XL project could be resurrected, we believe those claims are based more on politics than economics.

Canadian mergers and acquisitions have only been modest—except for Enbridge Inc.'s purchase of three U.S. gas distribution utilities—with most of the activity related to specific assets. We expect this to continue in 2025, with companies shedding noncore assets purchased as strategic

buys to complementary assets. We expect financial buyers will continue to be very selective and complete transactions through existing platforms, such as Pembina Pipeline Corp.'s joint venture with KKR, Pembina Gas Infrastructure, which closed several acquisitions in 2024.

While the specter of tariffs from the new U.S. administration is a potential threat, the importance of Canadian oil and gas to the U.S. and level of contractedness are strong mitigants to short-term effects. Canadian crude oil is also important enough to the U.S. refining complex in the Gulf Coast that it could deter the imposition of such tariffs. That said, to the extent that such tariffs emerge, it could somewhat disrupt the Canadian energy industry in the long term.

Credit metrics and financial policy

In 2024, North American midstream credit quality continued improving, with both investment-grade and speculative-grade companies expanding in size, reducing debt, and improving leverage metrics. The year witnessed about 10 upgrades across the midstream portfolio, primarily due to lower leverage and increased scale that enhanced our business risk assessments. Additionally, about eight issuers are currently on a positive outlook, signaling potential upgrades within the next 12-24 months.

Furthermore, a robust demand for natural gas, fueled by LNG export capacity and AI data center demand, will likely support re-contracting efforts and counterparty credit quality for midstream issuers, resulting in stable to moderate margin improvement and new expansion prospects. We foresee this positive credit momentum slowing down as leverage approaches the lower end of midstream companies' targets, prompting them to shift focus to enhancing shareholder returns or pursuing more other growth opportunities or acquisitions.

A noteworthy sector in the speculative-grade midstream space is natural gas compression, featuring Archrock (BB-/Stable/--) and Enerflex Ltd. (BB/Stable/--), alongside peers USA Compression Partners L.P. (B+/Positive/--) and Kodiak Gas Services (BB-/Stable/--), all of which are improving in scale while reducing financial leverage. Looking ahead to 2025, we anticipate that several issuers in the 'BB' and investment-grade categories will focus on expanding their asset base. Rising stars Kinetik Holdings (BB+/Positive/--) and DTM (BB+/Positive/--) recently engaged in M&A or invested in growth projects. We believe these cross-over candidates may pursue additional acquisitions while maintaining or improving leverage, potentially positioning them for an upgrade to investment grade.

The large, integrated midstream players continue to drive down leverage, and in some cases have lowered long-term debt to EBITDA target ranges. Enterprise Products Partners L.P. has the most conservative profile among the large midstream companies with a target leverage of 2.75x-3.25x, and a 'A-' issuer credit rating. However, many large integrated midstream companies are rated 'BBB', some of which have the potential for further positive ratings momentum, given a focus on more conservative financial policies and credit measures.

The Williams Cos. (WMB) is an obvious candidate to achieve a 'BBB+' rating given the current positive outlook. We expect WMB will maintain a strong balance sheet as it completes tuck-under acquisitions. We could upgrade WMB if it maintains S&P Global Ratings-adjusted debt to EBITDA of about 4.0x as it executes its organic growth program, which is focused on securing projects with long-term take or pay contracts.

Other U.S.-based midstream companies that are rated 'BBB' include ET, Kinder Morgan Inc., ONEOK, Targa Resources Corp., and Plains All American L.P. The bar to get to 'BBB+' is different for each of these companies and is dependent on the companies' business mix, size, scale, volume risk, contract structure, and cash flow diversification. We upgraded Plains to 'BBB' in November 2023 when it lowered its target leverage range, but its size, scale, and business mix

limit further upside. ET and ONEOK have very large scale and have been acquisitive recently. For a positive rating action, these companies would need to meet our leverage target and have a long-term financial policy that supports a higher rating. We would also need confidence they will not undertake acquisitions that increase leverage again. Targa would have to boost its scale or sustain even lower leverage to consider a positive rating action.

Negative credit trends have largely been limited to the 'B' category with some exceptions—mainly due to issuers pursuing construction with long lead times, resulting in periods with higher leverage and refinancing concerns. We do not expect demand to drive many negative rating actions in 2025 given our supportive demand outlook for the sector. Declining interest rates should continue to support the refinancing environment for issuers looking to tap the debt markets and address upcoming maturities.

Key risks or opportunities around the baseline

1. OPEC increases production.

While most of midstream companies' cash flows aren't directly exposed to commodity prices, if OPEC and its members increase production to regain market share, it could still indirectly affect cash flow amid lower volumes for crude oil and NGL logistics providers.

2. Renewable use grows faster than we expect.

Faster adoption of renewables could make inroads on demand for hydrocarbons, which would be more of a secular change and hinder the midstream industry. While the Trump Administration has said that it will seek to unwind key parts of the Inflation Reduction Act, it has been successful in creating jobs in states that support the administration.

3. Organized opposition to hydrocarbons strengthens.

Recent court decisions that have reversed approvals of LNG export facilities and related transportation infrastructure remain a risk in 2025, despite greater federal support for the oil and gas industry. More victories from environmental groups could slow momentum for the industry and harm credit quality.

OPEC's potential production increase could hinder cash flow, although the industry is not directly exposed to commodity prices. OPEC delayed its planned output increase of 2.2 million bbls/d by three months until April 2025 and extended the full unwind of production cuts of another 3.56 million bbls/d through the end of 2026. Previously, OPEC planned to phase in almost 500,000 bbls/d each month to the global market in 2025, but it has now reduced the plan to about 190,000 barrels, which will have limited—if any—effect on global prices.

We expect producers focused on oil will remain disciplined and ignore calls for rampant drilling since the current supply seems to be more than enough to satisfy relatively weak demand growth in 2025. We believe that midstream companies focused on crude oil will have a more difficult time growing their base business, which in our view could lead to more consolidation. We expect crude oil prices of $60-$70 per barrel in 2025, with limited interference or influence from OPEC+.

The energy transition remains a long-term risk. However, it will likely only have a marginal effect on credit quality through 2030. Midstream companies focused on natural gas will have a longer runway as a bridge fuel for at least the next decade, particularly given the increased demand from AI technology and the growth of data centers. We expect LNG export capacity to double to about 24 Bcf/d by 2027.

Natural gas demand will likely increase in 2025, with the pause on new permits for LNG export projects lifted. However, the Biden administration's final report could delay the Trump

administration's plans to lift the ban quickly. The final report states that the expanding LNG exports could not only increase greenhouse gas emissions, but also increase natural gas prices for U.S. consumers in the long run. The new administration will likely take up to six months to review and possibly revise the study. These delays could affect financing and contract negotiations for some projects that have yet to reach FID, but they will likely have limited impact on most of our rated issuers that have achieved operations or on shipping merchant cargoes.

The transition risk for crude oil logistics companies may be more pronounced as we approach 2030 and beyond. Electric vehicle (EV) penetration continues to make inroads at a slow pace in North America but is growing faster globally; China's EV sales are forecast to surpass internal combustion engine (ICE) vehicle sales for the first time in 2025 (12 million EVs compared with 11 million ICE cars). This could have a ripple effect for global refiners, as capacity is set to increase. Ultimately, midstream companies that provide transportation and storage services for refining companies could come under pressure.

Litigation and regulation curbing the use of hydrocarbons could intensify. The incoming Trump administration has already signaled plans to roll back stringent environmental regulations and federal policies that it believes is hindering the development of oil and gas production. However, groups opposing the expansion of hydrocarbon use have had recent success in the courts.

In September 2024, the D.C. Court of Appeals vacated the Federal Energy Regulatory Commission's (FERC's) permit authorizations to construct NextDecade Corp.'s Rio Grande LNG, along with associated pipeline infrastructure. The court ordered FERC to reconsider the environmental effects, which could require a new environmental impact statement and public comment period, making the completion of $18 billion project and its commercial operations date uncertain. While the decision has not affected the phase 1 constriction schedule, construction timing for phase 2 could be on hold as the ruling works through the courts. The decision surprised industry observers and could signal a higher risk to future energy infrastructure projects if permits can be vacated after receiving agency approval.

That said, the increasing demand for energy will likely require all sources—conventional and renewable—to meet needs within the U.S. and globally.

The midstream industry is somewhat insulated to these secular, long-term risks overall for the next few years, in our view, due to the pace of change. Companies have strengthened credit quality sufficiently through financial discipline and highly contracted cash flow streams.

Related Research

- Data Centers: More Gas Will Be Needed To Feed U.S. Growth, Oct. 22, 2024
- Industry Credit Outlook Update North America: Midstream Energy, July 18, 2024
- Credit FAQ: Will The TMX Expansion Project Move The Needle On U.S. Refiners' Credit Quality?, April 10, 2024
- Key Credit Drivers For North American Midstream Energy Companies In Q2 2024, March 20, 2024
- Issuer Ranking: North And South American Midstream Energy Companies, Strongest To Weakest, Feb. 15, 2024

Industry Forecasts: Midstream Energy

Chart 4
Debt growth (adjusted)

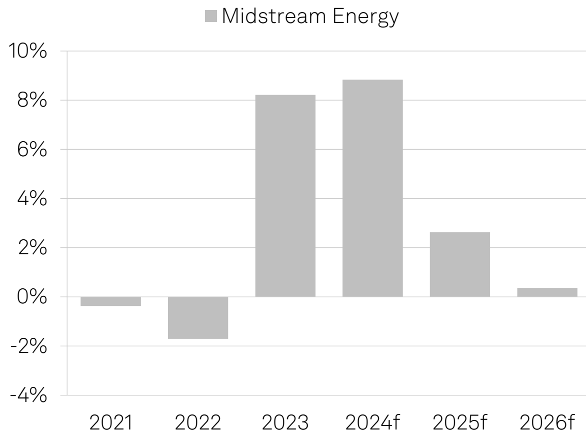


Chart 5
Capex Growth (adjusted)

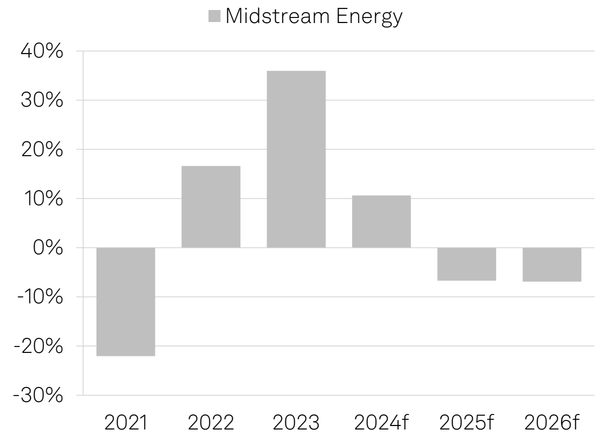


Chart 6
Debt / EBITDA (median, adjusted)

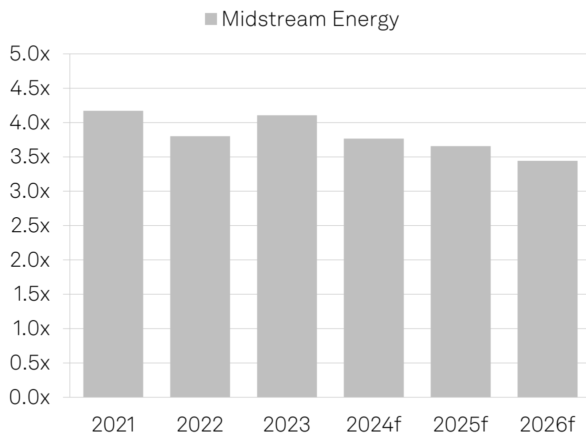
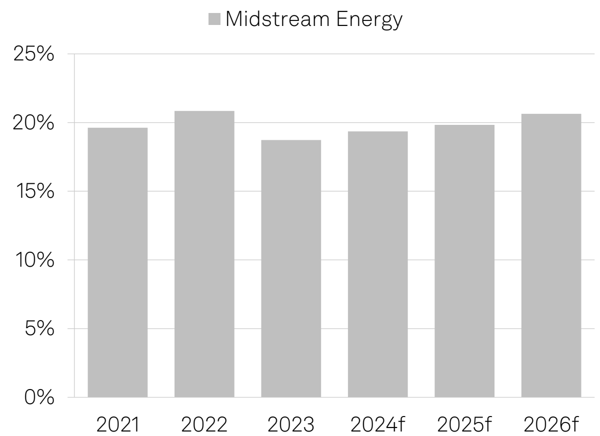


Chart 7
FFO / Debt (median, adjusted)



Source: S&P Global Ratings.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Cash, Debt, And Returns: Midstream Energy

Chart 8

Cash flow and primary uses

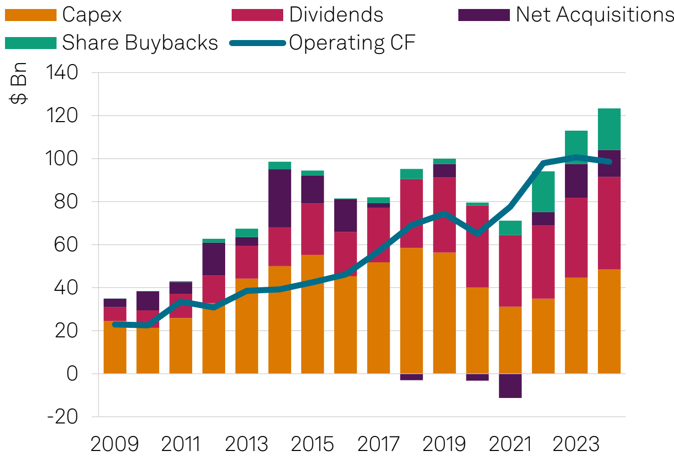


Chart 9

Return on capital employed

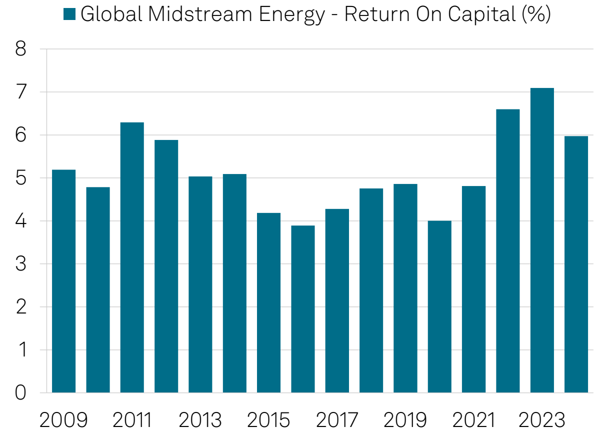


Chart 10

Fixed- versus variable-rate exposure

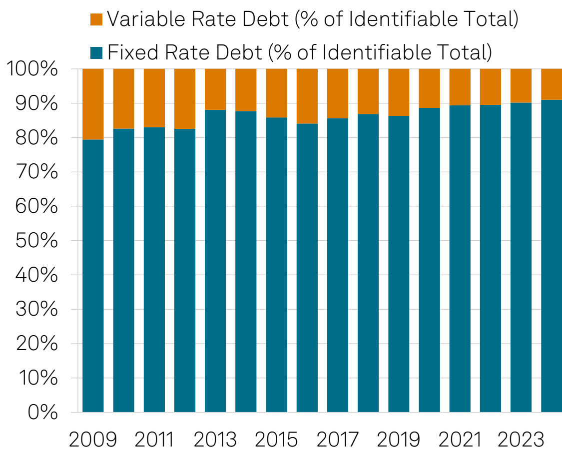


Chart 11

Long-term debt term structure

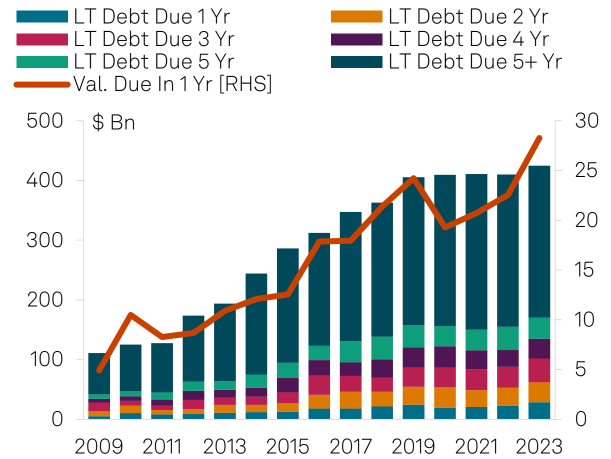


Chart 12

Cash and equivalents / Total assets

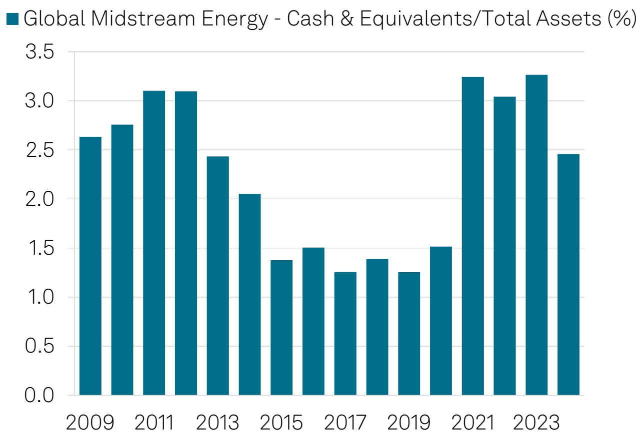
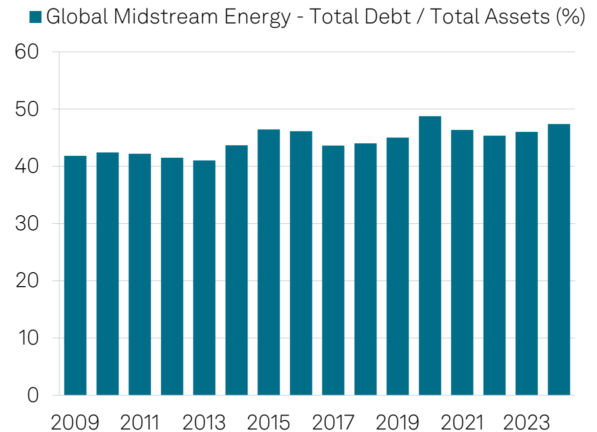


Chart 13

Total debt / Total assets



Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2024) figures use the last 12 months' data.

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