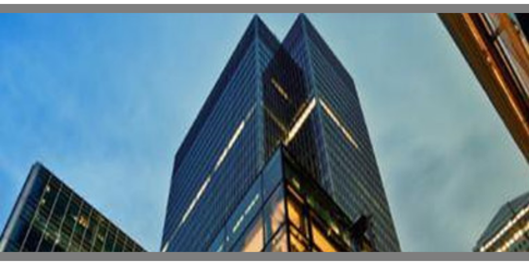
Securitized Products Special Topics

Oil & Gas ABS: Midstream Deals Tap Into Infra and Data Center Buildout



Debut Midstream Securitization Contrasts with Traditional Upstream Deals

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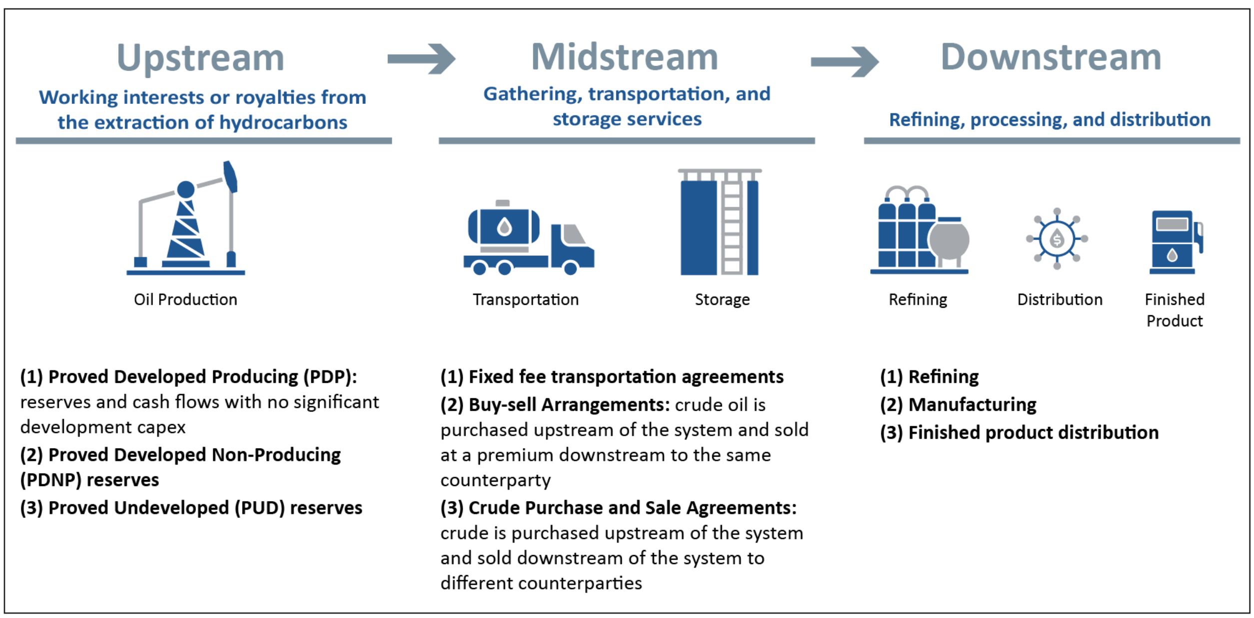
Surging demand for natural gas should facilitate rising issuance volume of oil and gas (O&G) securitization deals. The emergence of midstream ABS transactions, distinct from upstream deals, more closely ties O&G ABS exposures to infrastructure and data center buildouts. As such, midstream securitization offers investors another way to tap into the vast funding needs of the power sector.[1]

The collateral for midstream transactions is contractual cashflows on the gathering, transportation, and storage of oil and gas. Various types of contracts can back the midstream deals. Examples include pipeline tariff revenues, gathering and processing fees, and storage capacity contracts. Midstream ABS is akin to utility revenue rather than commodity exposure. In contrast, traditional upstream securitization hinges on cashflows from oil and gas production, mostly from so-called Proved Developed Producing (PDP) reserves (Figure 1). PDP ABS deals, such as the $530 million Diversified Energy ABS X deal (DEC 2025-1A) and its predecessors, are more sensitive to oil price volatility, and the dynamics of the oil and gas production market.[2]

Figure 1. Upstream and Midstream Securitizations



Source: Deal documents, ratings agencies and Academy Securities

1 "Infrastructure CLO: Concentrated Exposures in Favored Segments," Securitized Products Special Topics, Academy Securities, January 26, 2026
2 PDP ABS transactions typically look to mitigate the majority of commodity price risk through hedges. Still, the hedges may not provide complete protection from price volatility, and do not insulate the transaction from complex oil and gas generation risks

Oryx Securitizes Permian Basin Transmission System

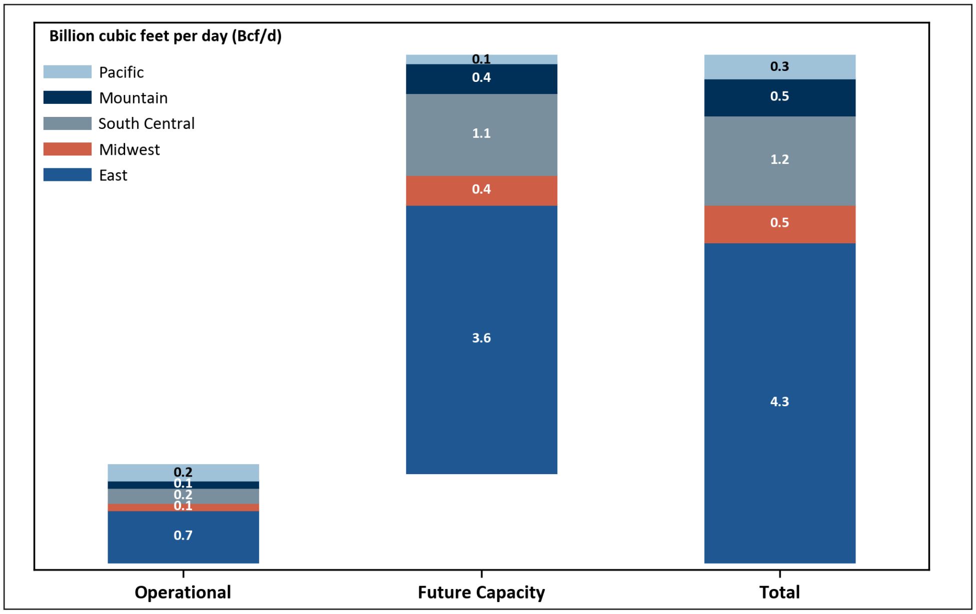
The recently priced $3.15 billion Oryx 2026-1/2, the first publicly issued midstream oil ABS, features some of the characteristics of the midstream sector. Oryx's deal documents and presale can inform investors how to underwrite exposures to midstream operators and contracts, ahead of upcoming deals. The operator behind the Oryx deal owns the largest crude gathering and transportation network in the Permian Basin, transporting ~2.9 million of barrels per day, or about 45% of the volume in the Basin (23% of the U.S. overall production). The Permian Basin, in west Texas and southeastern New Mexico, is the largest oil producing and the third largest gas producing basin in the US. The Oryx collateral has long-dated contracts, with a remaining term of six years, on a weighted average, according to the presale.

Mapping Tailwinds for Midstream Exposures

Several intertwined developments suggest data center and infrastructure investors can find interest in midstream transactions:

Data center power needs are driving significant increase in demand for natural gas. Data center-driven gas demand could catapult to 6.8 billion cubic feet per day (Bcf/d) of gas, from 1.2Bcf/d (~470% growth), based on BloombergNEF data and projections (Figure 2). This potential gas demand from data centers is about 8.4% of domestic gas consumption in 2024. For context, the projected data center demand level is close to the combined residential and commercial gas consumption in Texas. BloombergNEF's projection assumes data centers will generate 85 gigawatts power demand if all the construction pipeline pans out. The data center pipeline could add 69GW of power demand. To be sure, those power and gas demand projections could pick up amid ongoing additions to the data center construction pipeline. Utility regulators and oil & gas market participants strongly echoed the expectations for rapid rise in gas demand driven by data centers, based on conversations we had in recent utility regulation conferences.

Figure 2. Natural Gas Demand Projections

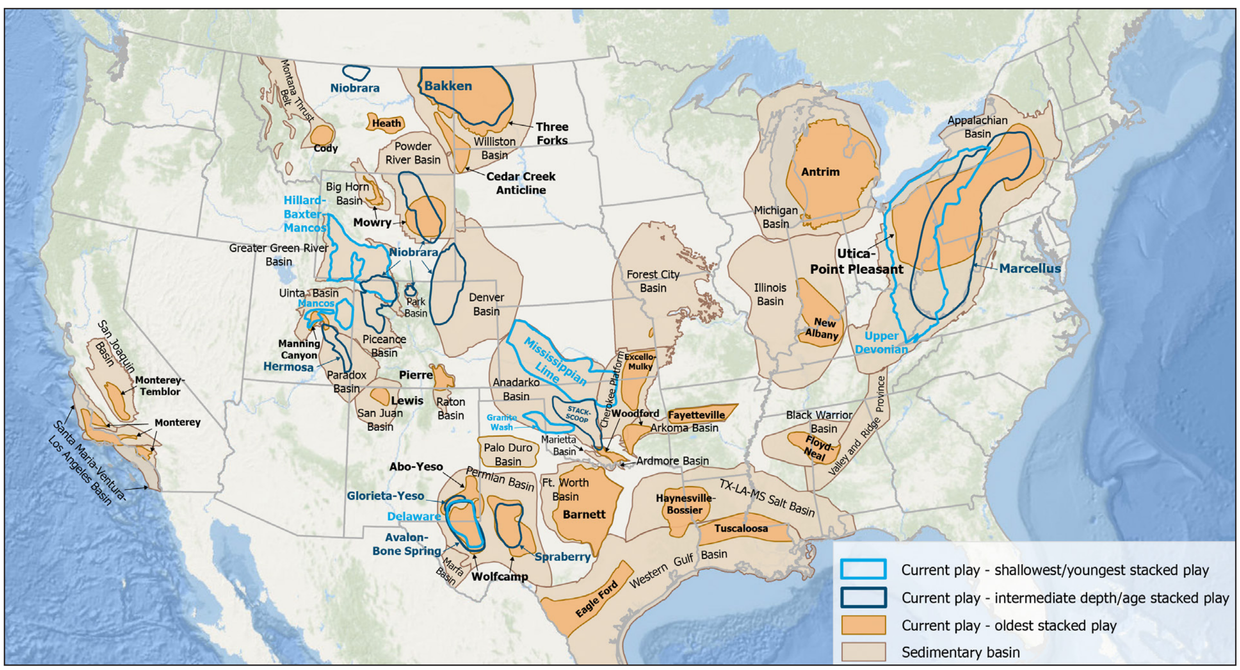


Source: BloombergNEF and Academy Securities

Growing overlap of data center construction sites and oil and gas basins. Data center buildout has been concentrated in regions heavily reliant on gas-fired power, such as the East and South Central regions. Relatedly, developers may now deliberately be targeting sites for large data centers close to oil and gas basins, according to market participants (Figure 3). In particular, the Permian Basin is emerging as a key new data center hub. Microsoft's 2.67GW Project Kilby in the Delaware Basin, one of the Permian's sub-basins, is a key example. Microsoft and Chevron announced this week they signed a 20-year power purchase agreement for a dedicated gas-fired generation facility to the West Texas data center. The Microsoft/Chevron agreement means the data center will use so-called "behind-the-meter" power generation. The data center will not be connected to the grid or involve a local utility. Rather, the goal is to benefit from cheap gas prices in the Permian Basin, according to public statements.

Interestingly, the midstream operator behind the recently priced Oryx 2026-1/2 deal has significant footprint in the Delaware Basin. The system footprint may be difficult to replicate, particularly in South Delaware, where new greenfield or brownfield development may be economically or physically constrained, according to the deal's presale. Aside from data centers in the Permian Basin, another notable example is the energy campus in Homer City, PA, squarely in the Marcellus Shale natural gas basin. The $10 billion Homer project is looking to create 4.4GW natural gas-fueled power plant and hyperscale data centers, according to public statements.

Figure 3. Lower 48 States Shale Plays



Source: US Energy Information Administration (EIA) and Academy Securities

Shortage of pipelines and transmission infrastructure. Midstream operators may benefit from scarcity value, at least until new pipeline infrastructure comes online. For example, in the Permian Basin the existing pipeline infrastructure is struggling to handle gas production in the region, according to statements from market participants. Limited transmission capacity also frequently came up in conversations at the utility conferences we attended. This backdrop can provide midstream operators pricing power and limit customer churn given limited alternatives.

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