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Natural gas demand expectations continue to increase, supporting midstream growth outlook

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In our last blog post, *Midstream Energy to Fuel Growth in AI*, we discussed how the expected increase in power generation driven by artificial intelligence (AI) and data center computing could benefit the midstream sector by increasing natural gas demand. Below, we highlight that those previous expectations already appear conservative, with natural gas demand growth now potentially approaching 25% - 34% by 2030.[1] Further, we discuss how supportive macro trends combined with the sector's continued capital discipline have benefited project returns within the midstream sector; meaning, midstream capital spending today may benefit investors more now than in the past.

AI, liquified natural gas (LNG), and surging power demand: A closer look at the future of natural gas

Within our previous blog post, we provided a third-party estimate of 3.3 bcf/d to 6.1 bcf/d (billion cubic feet per day) of natural gas demand growth from 2024 to 2030 associated with power generation to support data centers.[2] Since that blog post, estimates for such demand growth have been increasing. For example, Bernstein now forecasts data center-linked natural gas demand growth of 12 bcf/d over that same time frame.[3]

Further, such robust estimates are starting to be matched with real world action.

- GE Vernova (NYSE: GEV), one of the largest manufacturers of turbines for gas power plants, recently announced plans to produce over 50% more gas turbines annually by 2026 than it does today.[4]

- Energy Transfer (NYSE: ET) recently announced a 0.44 bcf/d firm natural gas supply agreement to power a ~1.2 GW data center outside of San Marcos, TX beginning in third quarter 2026.[5]

- TC Energy (NYSE: TRP) will be filing an application with the Federal Energy Regulatory Committee (FERC) for approval of the ANR Heartland project, which will provide ~0.45 bcf/d of natural gas to serve data center demand.[6]

- Williams (NYSE: WMB) announced a $1.6 billion behind-the-meter project to provide natural gas and power generation infrastructure to a data center customer.[7]

While it is still too early to predict with any confidence how large data center-linked natural gas demand will ultimately be, it appears clear to us that this volume will be material. Further, this emerging source of demand is in addition to the significant and predictable demand growth underway from the completion of numerous LNG export facilities and continued industrial demand growth.

In total, these trends could lead to 28 - 37 bcf/d of additional demand by 2030, which represents a 25% - 34% increase over that time.[1] While natural gas demand has experienced steady growth historically, rarely have the drivers of demand been as visible as they are today.

We believe the visibility of today's demand growth is significant for the midstream sector. The visibility of demand growth allows midstream companies to plan to meet this demand with greater certainty and foresight. As a result, we believe today's projects can be more efficiently executed and carry fundamentally less risk.

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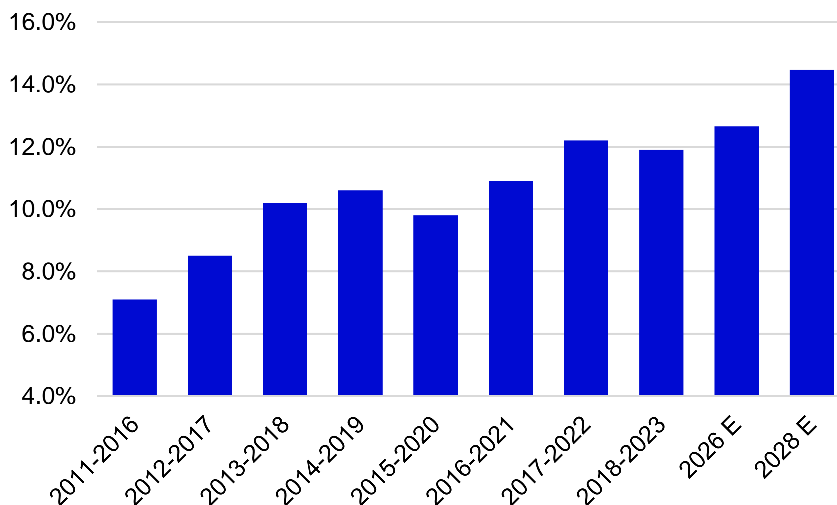
Capital spending smarter

The midstream infrastructure buildout that supported the emergence of the US shale basins over the previous two decades was simply colossal. Many thousands of miles of pipelines, enormous processing, treating, fractionation and storage capacity additions were built. Therefore, recent and future capacity expansions are often able to leverage existing assets in a more efficient manner.

For example, annual capital expenditure (capex) for the 29 largest midstream companies in 2026 is expected to be roughly equal to the amount spent in 2023.[8] However, in 2023 data center driven demand had not yet been recognized and earnings before interest, taxes, depreciation or amortization (EBITDA) for those same 29 companies was 32% lower.

One measure of capital efficiency is known as return on invested capital (ROIC); which is calculated as EBITDA or net operating profit after tax (NOPAT) divided by total capital invested. From 2015 through 2023, average ROIC for the midstream sector rose from 9.8% to 11.9%.[9] This trend is expected to continue with average ROIC expect to rise to 12.7% in 2026 and 14.5% in 2028.[8] This improvement in capital efficiency combined with the sector's ability to largely fund growth projects through internally generated cash flows and without issuing new dilutive equity means investors may benefit more from today's capital investments than in past periods of capital investment.

Average midstream ROIC



Source: Historical ROIC Wells Fargo as of 10/28/24, forward looking estimates from Bloomberg as of 2/28/25. "E" stands for estimates which may not be realized.

Outlook

We believe the midstream sector offers investors an attractive distribution yield and an improving outlook for cash flow and distribution growth. These fundamentals are supported by significant and predictable natural gas volume growth and improving returns on invested capital. By market cap, roughly 75% of the sector is natural gas production focused.[8] Therefore, with natural gas demand potentially growing 25% - 34% by the end of the decade, increasing capital efficiency, and healthy balance sheets, we believe the midstream sector is a compelling asset class with macro driven tailwinds.[1]

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Important information

1. KinderMorgan, Inc, as of 2/28/25, Bernstein as of 1/15/25 and Reuters as of 11/21/24
2. Goldman Sachs, "Generational Growth AI, data center and the coming US power demand surge" 4/28/24
3. Bernstein, The Long View: A US gas supercycle is coming…we upgrade gassy E&Ps, 01/15/25
4. GE Vernova 4Q'24 Earnings Call, 1/22/25
5. Energy Transfer press release, 2/10/25
6. TC Energy 4Q24 Earnings Call, 2/14/25
7. Williams Companies, Inc. 8-K, 3/3/25
8. Bloomberg as of 2/28/25
9. Wells Fargo Show Me the Money: 2023 – 2024 Edition, 10/28/24

The Alerian MLP Index is a capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities.
An investment cannot be made into an index. Past performance does not guarantee future results.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions, there can be no assurance that actual results will not differ materially from expectations.

Most MLPs operate in the energy sector and are subject to the risks generally applicable to companies in that sector, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. MLPs are also subject the risk that regulatory or legislative changes could eliminate the tax benefits enjoyed by MLPs which could have a negative impact on the after-tax income available for distribution by the MLPs and/or the value of the portfolio's investments. Although the characteristics of MLPs closely resemble a traditional limited partnership, a major difference is that MLPs may trade on a public exchange or in the over-the-counter market. Although this provides a certain amount of liquidity, MLP interests may be less liquid and subject to more abrupt or erratic price movements than conventional publicly traded securities. The risks of investing in an MLP are similar to those of investing in a partnership and include more flexible governance structures, which could result in less protection for investors than investments in a corporation. MLPs are generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns.

Energy infrastructure MLPs are subject to a variety of industry specific risk factors that may adversely affect their business or operations, including those due to commodity production, volumes, commodity prices, weather conditions, terrorist attacks, etc. They are also subject to significant federal, state and local government regulation.

The opinions referenced above are those of the author as of March 24, 2025. These comments should not be construed as recommendations, but as an illustration of broader themes. The opinions are based on current market conditions and are subject to change. They may differ from these of other Invesco investment professionals.

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