

Asset-Backed Securities Financing in the Energy Sector: What Upstream and Midstream Companies Should Know

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Asset-backed securities (ABS) structures are reemerging as an important financing tool across the energy sector, particularly for upstream and midstream companies with stable, predictable cash flows. As borrowing bases tighten, traditional bank lending becomes more constrained, and private credit continues to expand, companies are increasingly exploring securitization structures as an alternative source of capital.

While securitization structures have long been used in the energy industry — particularly for royalty interests and pipeline assets — recent market activity suggests renewed interest in ABS transactions backed by producing assets, mineral interests, midstream infrastructure revenues, and long-term contracted cash flows.

ABS Structures in Energy Transactions

In a typical energy ABS transaction, a company transfers certain revenue-generating assets or cash flow streams into a special purpose vehicle (SPV), which then issues securities backed by those cash flows. Investors are repaid from the revenue generated by the underlying assets, and the structure is typically designed to be bankruptcy-remote from the operating company.

Because the financing is tied to specific assets and cash flows rather than the company's overall balance sheet, ABS structures can sometimes provide lower-cost, long-term, nonrecourse financing compared to traditional corporate debt.

Upstream Applications

In the upstream sector, ABS structures are often backed by producing assets or revenue streams with relatively predictable cash flows. These may include royalty interests, mineral interests, proved developed producing (PDP) reserves, production payment structures, hedged production revenues, and water infrastructure revenues. These structures can allow companies to monetize producing assets without selling the underlying properties, while still retaining operational control and upside exposure.

ABS financing may also be used in connection with acquisitions, refinancing reserve-based lending facilities, or returning capital to investors.

Midstream Applications

Midstream assets are often particularly well-suited for securitization structures because they are supported by contracted or tariff-based revenue streams. ABS transactions in the midstream sector may be backed by pipeline tariff revenues, gathering system revenues, storage terminal fees, processing plant revenues, liquefied natural gas (LNG) infrastructure fees, and long-term take-or-pay or minimum volume commitment contracts.

Because these assets often generate stable, long-term cash flows, they may be attractive to securitization investors seeking infrastructure-like investment profiles.

Key Structuring Considerations

Energy ABS transactions involve a number of structuring and legal considerations, including true sale and bankruptcy-remoteness issues, security interests and collateral packages, contract assignment and consent requirements, hedging arrangements, intercreditor issues with existing lenders, regulatory considerations (including potential Federal Energy Regulatory Commission (FERC) jurisdiction for certain midstream assets), environmental liabilities associated with pledged assets, securities law disclosure requirements, and tax structuring considerations.

Given the complexity of these transactions and the variety of assets and contracts involved, early coordination among legal, financial, and technical advisors is often important when evaluating whether a securitization structure is appropriate.

Market Outlook

Market participants expect ABS structures to continue gaining traction in the energy sector, particularly as private credit funds, infrastructure investors, and insurance companies continue to seek long-duration assets with predictable cash flows. Securitization structures may become increasingly common for mature upstream producing assets, mineral and royalty portfolios, midstream infrastructure systems, and other energy assets supported by long-term contracted revenues.

As capital markets continue to evolve, ABS structures may become an increasingly important complement to reserve-based lending, project finance, and traditional corporate debt for energy companies seeking flexible financing solutions.

For More Information

As the use of ABS financing continues to expand across both upstream and midstream energy assets, companies evaluating these structures will benefit from advisors who understand the technical, commercial, and legal nuances of securitizing producing assets and contracted midstream revenues. Troutman Pepper Locke has experience structuring ABS transactions in the upstream space and, given our extensive track record in the midstream sector — where contracted and tariff-based cash flows are often particularly well-suited to securitization — we are well positioned to assist clients as this market evolves.

For more information about how ABS structures might fit within your capital strategy, please contact **Henry Benton** or **Bill Swanstrom** or any member of our oil and gas practice.

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