

Center Coast Brookfield Midstream Focus Fund Q2 2025 Podcast Transcript **Recorded on July 23, 2025**

Joe Herman (Joe): Hello everyone, and welcome to episode two of the Brookfield Public Securities Group's Energy Infrastructure Podcast. I'm Joe Herman, portfolio manager on the energy Infrastructure strategies here at Brookfield.

Last time we did this, we talked about oil volatility and its impact on the sector, but today we're really excited to talk about one of the stronger fundamental tailwinds in infrastructure, and that's power demand growth. I'm here with my co-portfolio manager on the energy infrastructure team, Boran Buturovic, and we're also really fortunate to have Juan Carlos (or JC) Barajas, a director on our infrastructure team, to discuss how this trend is impacting both the utility and energy infrastructure sectors today.

For the format this go-round, I'll moderate some Q&A between JC and Boran. So JC, I'll go ahead and kick things off with you. Can you maybe frame the step change we're seeing in power markets today, the amount of infrastructure we think we'll need to meet demand expectations, and how this compares to decades prior and then maybe even versus estimates as recently as 12 months ago?

Juan Carlos Barajas (JC):

Absolutely, and thank you so much for having me. This is exciting times for the utility sector. U.S. electric consumption has been relatively flat for the past 20 years as economic growth has been offset by continued energy efficiency innovations and a reduction in manufacturing activity within the U.S. However, this has already begun to change, and expected to further accelerate in the coming years driven by the reshoring revolution we're seeing and the continued AI data center build out, along with the continued electrification of the economy.

There are many forecasts on what the next 10, 20 years will look like in terms of load growth in the U.S. alone, with some forecasts calling for U.S. energy consumption to increase 50% plus by 2035. The last time we saw this type of growth over a 10-year period was in the late 1970s according to the EIA. So that kind of gives you some context of how unprecedented this growth is, in kind of the recent history.

This step change in forecasted power demand growth is translating into increased CapEx (capital expenditure) opportunities for utilities and power producers across the country generally. Projected utility capital expenditures for 2025 are forecasted to reach over 212 billion. That's a 22% increase over the amount spent in 2024. And then looking even further forward by 2028, the utility space is expected to increase CapEx to about 230 billion in 2026... In 2028, sorry. A 33% increase over 2024. We believe those forecast CapEx numbers have the potential to increase even further as utilities continue to refine and update their load growth projections, which is a process in and of itself.

Diving a bit deeper into those numbers and give some color on the process, utilities across the country are actively looking to build new generation transmission and distribution within their territories to accommodate the growth that they see going forward. This has historically, and for the most part still continued, to be done through a long-term integrated resource planning process, which has filed every three to five years. However, this load growth has happened so fast that many utilities are having to make exceptions to that process in order to stay relevant.

Each state has a unique process in permitting new large-scale utility projects, but the majority share common themes. It takes time, and has been done in conjunction with the IRP process.

Utilities are now having to go to their respective commissions to make the case for why this load growth is good for the system and why new generation is needed. Commission and utilities are by nature, slow-moving entities. So this permitting and approval process takes time.

In addition, utilities and system operators are having to decide how that new load growth should be serviced going forward. And generally speaking, there has been a preference for new base load generation, given the demand profile of the new load coming onto the system. So basically just matching like-for-like. This has led utilities to have a bias towards building new gas fired generation, given it is cleaner than coal, cheaper than new large-scale nuclear, and is able to run at relatively high capacity factors. So I'll end it with that and dive a bit deeper later on.

Joe: Okay. So it's probably fair to say that the step change could be a once in a generation, and there's very much a power pun intended in their occurrence. So Boran, I'll ask you the same question I asked JC, the massive growth that the utility sector saying, how does it translate to what's going on? I mean, JC mentioned that gas fired generation is kind of the bias right now. So how does what is happening on the utility side translate to what's going on in traditional hydrocarbon based energy infrastructure side, and how does that compare to prior investment cycles?

Boran Buturovic (Boran): Yeah, JC touched on it, at the end there. The simple answer is that the growth that he just discussed on the power side is translating to growth for natural gas demand, and it's really staggering how quickly it's happening, in my view. The Rocky Mountain Institute, which tracks the utility integrated resource plans or IRPs, now estimates the gas generation capacity will grow by 40% by 2035 from current levels.

As recently as 2022, the same utilities were planning on only adding 12% to gas generation capacity in that timeframe. So the medium term need has gone up threefold in just about three years. Throughout this, natural gas has had a bit of a renaissance in the public image, and it's not just due to the absolute levels of demand growth we're seeing, but also due to some of the factors that JSC discussed. The grid reliability and uptime are emerging as key concerns for both the utilities and their traditional customers, but also for the hyperscalers who want their data center investments to run continuously.

Gas has emerged as a critical piece of that puzzle due to its abundance in the U.S., its dispatchable characteristics, and as JC mentioned, the fact that its emissions profile is substantially better than that of other hydrocarbons, particularly coal.

The gas pipeline transmission grid that is currently in place is also a critical feature. It stands at over two and a half million miles of gas pipes in the U.S., which is a big number, and for perspective, it's roughly equivalent to the 2.8 million miles of paved roads that exist in the country.

So if you can imagine every nook and cranny of the country, if you can get a car there, you can probably get a molecule there. But now we've got a bit of work to do to alleviate the oncoming congestion.

So now obviously we've seen the need to expand these arteries and build out certain connections to areas that are experiencing this growth in power demand. One key difference in this build cycle from the last few build cycles is that this is truly a demand pull cycle. Since the US started exploiting shale in earnest around 2010, the majority of pipeline expansions that we have previously seen have been underwritten by producers who are trying to get their gas to market. Now, in a place like the Permian Basin in Texas, where gas is essentially viewed as a byproduct of oil production, these expansions have been extremely competitive and the producers have been fairly price sensitive. And I think today we're seeing a little bit more emphasis on reliability, management execution and speed to market from the hyperscalers and the utilities. And so we have seen project returns actually come in better in this demand pull environment than in prior build cycles.

And of course, I have to mention that this is happening at the same time as the US continues to build and commercialize new LNG facilities. So on this call, we're focusing on the domestic angle of power demand, but this need for gas, it's truly a global need, it's a global theme and we see the US producers getting their share of the global market as well.

Joe: Thanks, Boran. Something you hit on at the very end, project returns coming in a little better, and obviously we've been talking about the scope and scale of this build out, so I think being part of a broader infrastructure team, the next question is particularly interesting and might have different answers given the subsectors. But just curious how each subsector is expected to fund the build out and what are the returns like and what do y'all think that means for value creation for the public companies that we invest in? Boran, I'll go ahead and start with you.

Boran: Sure. As our listeners know by now, the pain of the midstream space and investors experienced in the prior decade forced them to right size their dividends and their balance sheets and to sever their link to the equity capital markets on which they were so reliant 10 years ago. Since COVID, virtually all capital and dividends have been funded with internally generated cash flow, and in a lot of cases, there has been spare cash left over for buybacks and further debt reduction.

I would say today most of the companies at the forefront of the natural gas transmission build out are seeing CapEx backlogs grow and in a couple of instances we have companies that are slightly outspending free cash flow. But we're not seeing equity issuances, nor do we anticipate the need for them because not only are these companies in a position with balance sheet capacity, but because project returns are so attractive over the medium term time horizon that these companies can still actually leverage organically.

So for example, on its Q2 earnings call recently, Kinder Morgan highlighted that of its \$7.6 billion backlog that is predominantly weighted towards gas transmission expansions. They expect returns to be at a 5.6 times EBITDA multiple on average. Now, these are very well contracted projects, 20-year timeframes on average, and so these are very attractive returns and Kinder is still funding that backlog predominantly with free cash flow.

And so as they do that, they can both generate significant value for equity holders while at the same time potentially deleveraging the balance sheet, which currently stands at about four times EBITDA as the projects and the associated cash flows come online over time.

Joe: Interesting. JC, how about the utility sector?

JC: The utility sector is in a different spot, different business model. The utility business is a very capital intensive business with large CapEx outlays upfront necessary to build large scale electric projects to satisfy the ongoing power needs of the economy. The utilities are compensated by earning a regulated return on their invested capital, which is earned throughout a long term horizon.

This regulated return construct coupled with inflation pass-through measures have motivated investors to view utilities as relatively low risk and therefore have placed a low cost of equity capital on the sector. At a high level, we believe the spread between the cost of capital and the allowed returns remain healthy and offer a potential compelling value creation opportunity for the sector as a whole.

The combination of high CapEx burdens and the stable regulated return on that investment gives utilities ample access to tap debt and equity capital markets on an ongoing basis to fund CapEx programs. Every utility is different, but at a high level, utilities fund incremental CapEx with a 50:50 debt to equity ratio. Within that 50% equity bucket, there is cash flow generated by the utility business and new equity issued to the markets.

Given that it takes time between a utility spending on CapEx and actually beginning to earn a return on that investment, that is referred to as regulatory lag in the industry. The incremental CapEx dollars is being funded mostly with new equity issued to the markets. Now, we have seen several examples of utilities tap in the equity markets already this year with most offerings being done at a two to 3% discount to the day prior. We think this is pretty indicative of the ongoing demand for utilities in the marketplace today.

Joe: Thanks, JC. I guess it's timely. We're recording this in mid to late July. We just passed the One Big Beautiful Bill. Is there anything either of you would note related to that bill or recent federal level activity and the relevance to the path forward for our sector as this infrastructure build out takes place?

JC: I can take that one first. This bill has dominated the conversation in the utility space the entire summer, given how impactful it is for utilities with large renewable development programs. As we look back on the saga between the House, the Senates, and President Trump, things have not changed that drastically from where we started with the IRA. Yes, the timelines for generating investment and production tax credits have compressed, but only slightly.

Another key item in the IRA was the ability for utilities to transfer these credits to a third party directly without having to undertake complex tax equity structures. The ability to employ this said measure called transferability remained untouched despite some efforts to repeal it, and other aspects actually got better, such as the nuclear production tax credits, which are becoming a big deal in this country.

All in all, the One Big Beautiful Bill is a slight negative to its predecessor, the Inflation Reduction Act, but more importantly, it provides clarity for the space going forward. As we all know, the public markets are pretty poor at pricing and uncertainty. Therefore, having this bill now passed provides a clear framework for companies to operate under, which is a clear positive as a whole.

And then to expand a bit further, the renewable development space had become very competitive during the low interest rate environments as developers were able to borrow very cheaply and the

cost of equipment components were dropping dramatically. Since COVID, the opposite has been true. Capital is much more expensive and inflation has driven equipment costs up more than 25%. This, in a weird way, has been a positive for the well-capitalized and large developers i.e., utilities in our opinion.

We believe the implementation of the One Big Beautiful Bill will have similar effects as it will require developers to have a diversified supply chain, purchasing power, and access to capital. In summary, not a lot has changed fundamentally for the publicly traded universe. If anything, a stricter and more compressed timeline will be beneficial for many of our holdings relative to other developers.

Joe: Boran, anything on the regulatory or legislative front as it relates to the bill that you'd point out for midstream or energy infrastructure?

Boran: Yeah. The bill did not specifically impact the midstream space in a material way. Certainly not a target of the bill. Some of our companies will be able to benefit from certain tax provisions, which may allow them to defer federal income tax payments for a couple of years, especially as they undergo this build cycle.

However, I would point out that there have been other changes in the regulatory arena which could prove beneficial. I think the most obvious example is the lifting of the LNG permit moratorium, which has spurred strong LNG commercialization and development activity in 2025. I'd say in addition, the FERC, the main regulatory body for interstate gas transmission pipelines has also made modest changes to accelerate permitting timelines and reduce regulatory burdens, and we hope that could end up accelerating some of the projects that have been announced in the last couple of years.

Also, this year, the Supreme Court had a ruling that effectively limited the scope of challenges that could be brought against pipelines and other assets as they relate to NEPA, the National Environmental Policy Act of 1970. This has the potential to help reduce the number of nuisance lawsuits that developers have been facing in recent years in trying to develop projects.

I'll also mention that in the current environment, there is speculation that some formerly abandoned projects in the Northeast, which faced significant state level regulatory challenges several years ago, may be resurrected. I think it remains to be seen whether or not this happens. And these could be one-off examples, but if they are successfully redeveloped, it could be another data point that speaks to the shift in perception regarding natural gas.

Joe: Are there any other potential roadblocks or concerns either of you see that investors should be aware of that could dent, derail, or slow the expected growth that we see coming?

JC: Yeah. For utilities, the large build out of generation, transmission, and distribution on the horizon has stirred up concerns around bill affordability for residential and small commercial customers. We believe that, if executed properly, this could be a win-win for all stakeholders. Existing customers could end up with lower rates, politicians can end up with a larger tax base, and the local economy could end up with higher growth. However, it will require good strategy and execution, proper regulation, and continued oversight.

From a direct affordability perspective, having a large customer base and system demand allows the utility to spread out fixed cost over a larger base. So for example, whether a utility is serving 1000 customers or a million customers, it will still only have one management team, one regulatory team, one legal team, etc, and that cost can now be shared over a larger pool of customers.

Also, with a larger generation base, you're able to deploy the fleet in a more efficient manner. A good operator will be able to better match system peaks and troughs with the optimal generation fleet, allowing for a lower cost per megawatt hour.

Attracting new load into the territory comes with higher employment throughout the construction and the operation of the facility, and more property taxes which leads to higher growth for the local economy. This should all be very appealing to the regulatory bodies and politicians. However, there are scenarios in which this can backfire and result in cross-subsidization amongst customer classes.

For this very reason, we are very focused on making sure that the utilities have the appropriate tariff mechanisms in place to ring-fence existing customers. We have seen utilities across the country take different approaches to establishing a framework for large loads, such as data centers coming onto the system. However, they all have very common themes, minimum contract terms, early cancellation penalties, upfront payment of large-scale capital expenditures, minimum bill commitments, etc. We have identified utilities with better customer protections and believe in the long-term, they will be able to offer better service to customers, attain better regulatory treatment, and ultimately better shareholder returns.

Also, we would be remiss not to mention another DeepSeek moment such as the one earlier this year. Just to set the stage, A new large-language model, i.e. LLM, was unveiled earlier this year, which claimed to have been developed at a fraction of the cost of its parents models and required far less power to produce better results. However, after peeling back the onion a bit, it seemed like DeepSeek just leveraged other LLMs, and some of their other claims were also a bit dubious. However, the risk remains of chips becoming much more power efficient and therefore the power demand narrative underwhelming current expectations.

Models are still being trained today to provide better use cases for AI going forward. Once those models are well established, we can move an earnest into the inference stage of AI where users like you and I can interact with said models. The inference aspect of AI is much more energy intensive than training, and therefore any model that accelerates us towards that stage might actually end up increasing power demand even further going forward.

Also, DeepSeek uncovered a long-held paradox called the Jevons paradox. Essentially, when a resource becomes cheaper or more efficient to use due to technological advancements, it often becomes more attractive to utilize, leading to higher overall consumption despite the initial efficiency gains. DeepSeek left an impression on the market and it's something constantly on people's minds, and definitely a risk that we are keeping in our minds when making these decisions.

Joe: It's really interesting. Some good points there. Thanks, JC. Boran, what about energy infrastructure?

Boran: Yeah, I spent some time talking about the regulatory relief that we've seen this year, but the reality is execution remains a risk. On the gas transmission and LNG front, we now have several

players that are building large-scale expansions at the same time, and so they will presumably be competing for materials and labor, and they will have to navigate a variety of geographies and terrains to bring these projects into service.

On top of that, some companies have stated that the rapidly evolving policy landscape, particularly as it relates to steel tariffs, is making commercialization a little harder due to fluctuating estimates on input costs. And lawsuits do remain a risk even if diminished, as we found over the years that opposition lobbies are well-motivated and well-funded. So we're certainly keeping a close eye on these things and trying to apply the lessons we've learned as we evaluate the risk profile associated with any given build-out.

Joe: Thanks, Boran. Okay, guys, I'm going to switch gears a little bit and ask y'all what you think about the interplay between private and public markets as we engage in this build-out. Again, I think these answers could be different given the opportunity set size and the number of entrenched players in each sector. But JC, maybe I'll start with you.

JC: Yeah, it's definitely an interesting question, given recent and ongoing deals in the marketplace today. In recent years, we have seen the private guys play in the space by buying a stake in certain operating assets within a utility. This approach provides access to a discrete set of assets and exposure to a certain regulatory body. More recently, however, we have seen private equity more interested in corporate M&A, which provides control, exposure to the operating leverage, and the growth going forward.

Utility corporate M&A is quite cumbersome given the regulatory scrutiny involved in getting a deal done, considering that commissions and state interveners have historically shunned private equity ownership of entire utility companies. So the select few private equity firms who have a stake in operating assets and/or entire control of a regulated utility can deploy capital at book value and benefit from the regulated return construct in full. Whereas in the public market, the marginal investor must pay more than one-times book value. We believe that the liquidity and optionality offered by the public markets more than offsets this. Also in the private markets, you don't have the ability to access some of the largest and more diversified regulated utilities, and this will most likely remain that way in our view. The renewed power demand narrative is talked about as a countrywide developments, but it is a lot more nuanced than that. We have already begun to identify clear relative winners and losers, which is mostly driven by the regulation within each state, geographical attributes of certain service jurisdictions, track record of management teams, balance sheet strength, creative solutions, etc. It is for these reasons that we believe an investors should view this investment opportunity from a public-private combination perspective as each investment opportunity has unique characteristics that complement each other quite nicely.

Last week, we saw the perfect example of this. During the Pennsylvania Energy and Innovation Summits, PPL Corporation owner of three regulated utilities and headquartered in Pennsylvania, formed a joint venture with a private equity firm to build own and operate new gas-fired combined cycle generation stations to power data centers under long-term energy services agreements. This is a great example of the public-private partnership where both firms bring unique competitive advantages to the process to create a win-win solution. We believe a similar approach is possible for individual investors in the space through a public-private allocation in said space.

Joe: Yeah, the news flow that came out of that Pennsylvania Summit was kind of fast and furious and definitely super interesting, and what encouraged investors to look into that a little bit more to see what all was announced. Boran, what about energy?

Boran: It's interesting in energy, Joe, obviously this is happening quickly and there's a lot of capital out there trying to provide solutions, and that's on both the public and private side. But in interstate gas transmission in particular, the incumbent advantage is pretty large. And most of the existing transmission assets in the US are in public hands. We also have certain areas of the country where one or maybe two pipelines have substantial leverage over the demand center in that geography. For example, Williams' Transco Pipeline is pretty much the only game in town in Virginia and the Carolinas where a lot of the power demand growth has come from today, and this has enabled Williams to commercialize some very attractive expansion terms of that pipeline in our opinion.

In addition to an advantage from existing asset footprints. These companies also have substantial know-how when it comes to both operating these assets and dealing with the various regulatory bodies.

So it makes it really hard for new entrants to come into the space and build interstate gas pipelines. We have not yet gotten to a point where the gas transporters need outside capital to finance any given project because of the corporate finance position we discussed earlier. Now, that could change if this theme keeps accelerating, but we're certainly not there yet. So where we sit today, there are a couple of larger transmission systems that do reside in private hands, and one of those in particular has been active, but most of the opportunity for gas transmission has been with the public companies who we believe have built a pretty nice moat around their businesses.

Joe: Great. I think we've covered a lot and we're coming up on 30 minutes. Is there anything I didn't ask that you guys think is important for investors to know about what's going on utilities or energy infrastructure as it relates to the growth opportunity set that we've been discussing today and is in front of us?

Boran: Yeah. I think from the midstream perspective, really the drivers of the space we've been discussing the last few years, which are the free cash flow, the growth of that free cash flow and conservative corporate finance models, those remain intact. I think what we're talking about here is really additive to the potential growth, which is great, and it's not stressing the free cash flow profiles or the balance sheets. So really overall, the story hasn't changed. We're just now in the process of getting more visibility into some of the potential growth tailwinds as a result of increasing power demand.

Joe: JC?

JC: Yeah, I guess just in summary, while the utilities sector retains its hallmark downside protection, a new narrative is emerging as structural demand from industrial growth and AI applications boost the potential for earnings growth going forward. So to leave with a fun fact, data centers in the US consumed approximately 200 terawatt-hours of electricity in 2024, roughly what it takes to power Thailand for an entire year. AI specific servers are estimated to have consumed between 53 and 76 terawatt-hours, but by 2028, MIT researchers estimate AI specific servers will consume between 165 and 326 terawatt-hours. That is more than all data center demand currently online today and enough to power about a quarter of US homes. So over the next decade, US utilities are poised to

offer a compelling combination of defensiveness and now meaningful earnings upside as the long-term power demand story unfolds in earnest. We believe utilities are the main enablers of some of the shared policy initiatives by Republicans and Democrats, mainly the reshoring of vital industries and manufacturing, and also the race for AI superiority. We believe power, availability, reliability, and affordability are some of the main bottlenecks for these initiatives to succeed, all of which fall within the utility business model. These are certainly exciting times ahead for the industry, and really looking forward to see what it brings.

Joe: Awesome, Boran, thanks as always. JC, thank you for being our special guest today. I think everything we've discussed has been super informative and engaging. Hopefully everybody listening agrees. If you have any more follow-up questions or want to talk about anything that we discussed on this podcast, feel free to reach out to your Brookfield Oaktree Wealth Solutions salesperson, and we'd be really happy to chat with you. So thanks again.

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