



National Fuel

Part 2: Midstream Valuation

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Midstream Business Comparison: National Fuel Gas (NFG), Atmos Energy (ATO), and UGI Corporation (UGI)

Introduction

The Midstream segment plays a crucial role in the natural gas value chain. As a continuation of our earlier analysis in Part 1, we've decided to carry forward the same two comparable companies namely Atmos Energy (ATO) and UGI Corporation (UGI) to evaluate National Fuel Gas Company's Midstream operations. Since both firms provided valuable contrasts in the E&P section, they remain relevant here for the pipeline and gathering segment as well. Their respective approaches, one being a regulated utility-focused operator and the other a hybrid midstream player, help create a well-rounded basis for comparison. Therefore, This report dives deep into the pipeline and gathering operations, what NFG collectively calls its Midstream business and compares it with similar operations at ATO and UGI. While each company brings its own flavor to this segment, the goal is to highlight their respective business structures, future growth potential, geographic strengths and constraints, risk profiles, tariff and regulatory frameworks, and long-term expansion strategies.

1. National Fuel Gas Company (NFG): Pipeline & Gathering Business

Business Structure

NFG operates its Midstream business under two key segments: Gathering and Pipeline & Storage. The gathering operations are primarily tied to NFG's upstream production in the Marcellus Shale and include over 2,800 miles of gathering pipelines. These assets transport raw gas from wellheads to processing plants or mainlines. The Pipeline & Storage segment, on the other hand, facilitates interstate transmission and storage, serving both NFG's own utility segment and third-party customers.

Integration Advantage

What sets NFG apart is its vertical integration across E&P, Midstream, and Utility segments. This structure allows it to capture value across the entire natural gas lifecycle—reducing dependence on third parties, maintaining tighter cost controls, and creating internal synergies.

Future Growth

NFG's Midstream growth is tightly linked to its E&P operations. As production grows in the Marcellus, especially from Seneca Resources (NFG's upstream subsidiary), so does the need for robust gathering and pipeline infrastructure. The company is actively investing in compressor stations, gathering expansions, and potential interconnects to improve delivery capabilities. In addition, the growing demand for natural gas storage solutions—especially seasonal—adds a long-term growth lever.

Risk Profile

- **Regulatory Risk:** Being FERC-regulated for its interstate pipelines, NFG is subject to rate reviews, environmental assessments, and potential opposition from landowners and local regulators.
- **Volume Risk:** Since a significant portion of throughput comes from its own E&P arm, any production decline impacts gathering volumes.
- **Environmental & ESG Risk:** Methane leakage, pipeline safety, and opposition to new builds could slow expansion or increase compliance costs.

Geographical Impact

NFG's midstream operations are concentrated in Appalachia, especially Pennsylvania. While this provides proximity to the Marcellus Shale—the most prolific gas basin in the U.S.—it also exposes NFG to local regulatory bottlenecks, limited infrastructure corridors, and weather-related operating constraints.

Tariff Structure

The company earns revenue through regulated tariffs on its interstate pipelines and negotiated or regulated gathering fees. These tariffs are generally stable, providing predictable income. However, FERC decisions on rate cases can materially impact profitability over long cycles.

Expansion Plans

NFG plans to expand its gathering footprint in Pennsylvania and add compression capacity to increase throughput. Additionally, there's ongoing interest in interconnecting with larger regional transmission systems to serve both internal utility customers and external demand centers in the Northeast.

2. Atmos Energy Corporation (ATO): Pipeline & Storage Segment

Business Structure

Unlike NFG, Atmos does not operate gathering lines nor produce gas. Its Midstream operations are limited to its Pipeline and Storage segment, which supports the company's large distribution business. This segment consists of approximately 5,700 miles of regulated intrastate transmission pipelines, mainly in Texas, along with several underground storage facilities.

Core Model

ATO's midstream model is low-risk and customer-centric. It does not rely on market-based gas prices or upstream volumes. Instead, its pipelines move gas purchased under long-term contracts from third-party producers to Atmos' own distribution network and other local gas utilities. The result is a reliable, fee-based revenue stream that's largely insulated from commodity volatility.

Future Growth

Growth in this segment will primarily be driven by population increases in the Southern U.S., infrastructure modernization programs, and pipeline safety initiatives. Unlike NFG or UGI, Atmos is not focused on aggressive expansion but rather on enhancing reliability and throughput of its existing systems.

Risk Profile

- **Commodity Risk:** Minimal, since it doesn't produce gas and passes on gas costs to customers.
- **Regulatory Risk:** Atmos operates mostly within Texas and state-regulated jurisdictions, which generally allow for more flexible and timely rate adjustments.
- **Operational Risk:** Aging infrastructure, increasing demand, and system integrity concerns remain ongoing challenges.

Geographical Impact

Atmos benefits from operating in rapidly growing states such as Texas, where population growth and energy demand are rising. However, its lack of presence in the Marcellus or other major supply basins means it's dependent on purchased gas from producers, with little control over upstream disruptions.

Tariff Structure

Atmos earns regulated returns approved by the Texas Railroad Commission and other state utility boards. These tariffs support its infrastructure investments and recovery of capital expenditures. Rate mechanisms like GRIP (Gas Reliability Infrastructure Program) ensure relatively fast cost recovery.

Expansion Plans

Atmos is not expanding geographically but is investing heavily in replacing and modernizing pipelines to comply with safety standards. The company's plan includes upgrading key intrastate pipelines, expanding storage capacity for weather-event readiness, and reinforcing systems to meet peak demand.

3. UGI Corporation (UGI): Midstream & Marketing Segment

Business Structure

UGI's Midstream business is a blend of natural gas pipelines, LNG storage, and a growing energy marketing division. While it does not produce gas at the same scale as NFG, UGI owns and operates several strategic pipelines in the Marcellus region, including the Auburn Gathering System, Union Dale Pipeline, and stakes in projects like the PennEast Pipeline (now suspended). These assets serve both internal utility demand and external customers.

Hybrid Approach

UGI's midstream operations are designed to support both internal distribution needs and commercial sales. This dual model provides revenue diversity and flexibility but also increases complexity and regulatory exposure.

Future Growth

UGI is expanding its LNG storage and delivery capabilities, particularly as interest in cleaner, storable fuels grows. While the failure of the PennEast project due to regulatory hurdles was a setback, the company remains focused on selective pipeline expansion, upgrading capacity, and exploring renewable natural gas (RNG) integration.

Risk Profile

- **Project Risk:** Delays and legal issues related to multi-state pipelines remain a concern, as seen in PennEast.
- **Regulatory Risk:** UGI operates in FERC and state-jurisdiction environments, facing multiple layers of compliance.
- **Capital Risk:** Midstream projects are capital intensive and carry long payback periods.
- **Demand Risk:** Fluctuations in industrial demand or fuel switching trends could reduce throughput.

Geographical Impact

UGI operates primarily in the Northeast and Mid-Atlantic—regions with high energy demand but also strong environmental opposition and complex permitting landscapes. This creates both opportunity and constraint. Access to high-demand areas is a strength; however, expansion is tougher than in the South or Midwest.

Tariff Structure

UGI's pipelines generate revenue from negotiated or cost-of-service tariffs. The company also benefits from internal demand via its regulated utility business. Rate adjustments can be challenging, particularly when involving cross-state transmission projects.

Expansion Plans

Beyond traditional pipelines, UGI is investing in renewable infrastructure like RNG and LNG. The company aims to diversify its midstream footprint by integrating cleaner fuels, increasing storage reliability, and pursuing smaller-scale regional pipeline expansions.

Valuation of National Fuel Gas Company's Midstream (Pipeline & Gathering) Business

To get a fair and defensible valuation for NFG's Midstream segment, it makes sense to compare it with two solid comps—UGI Corporation and Atmos Energy. Both companies operate large-scale natural gas infrastructure with slightly different models, but together, they give us a clear benchmark. UGI is more similar to NFG because of its upstream-linked pipeline operations and presence in the Marcellus region. Atmos is a bit more conservative, with zero upstream involvement and a pure utility and pipeline business.

Starting with UGI, their Midstream and Marketing segment contributes around \$350–400 million in EBITDA, though this includes some energy marketing exposure, which tends to lower margins. UGI generally trades at an EV/EBITDA multiple of 10.5x to 11x. Atmos Energy, with a much larger but entirely regulated midstream business (mostly in Texas), trades at a higher multiple—13x to 14x—but that includes its full utility segment.

In terms of structure, NFG’s Midstream business is split into Gathering and Pipeline & Storage. These two segments together bring in about \$400 million in revenue, with an estimated EBITDA in the \$280–300 million range—higher on a margin basis than both UGI and Atmos.

Comparables:-

Company	Segment EBITDA	EV/EBITDA Multiple	Comments
UGI	\$350–400M	10.5x – 11.0x	Marcellus-focused, mix of third-party and utility
Atmos	~\$350M	13.0x – 14.0x	Fully regulated, Texas intrastate pipelines
NFG (Est.)	\$280–300M	10.0x – 11.0x	Vertically integrated, high-margin system

Applying that range to the estimated EBITDA:

Case	EBITDA (Est.)	Multiple	Enterprise Value
Low Case	\$280M	10.0x	\$2.80 billion
Base Case	\$290M	10.5x	\$3.05 billion
High Case	\$300M	11.0x	\$3.30 billion

This doesn't include the storage value that NFG holds—about 29 Bcf of underground capacity. Using a modest \$1.25 to \$1.50 per Mcf valuation, the storage asset alone is worth \$36 to \$44 million. We'll use \$40 million in our midpoint estimate.

Also, NFG is quietly growing its gathering footprint. With ongoing investments in compression, throughput capacity, and interconnects, there's a path to grow EBITDA by 3–5% annually. Even a modest terminal value addition from that growth contributes around \$200–250 million using conservative DCF assumptions.

Final Estimated Valuation Range

\$3.2 billion to \$3.5 billion

That's a tight, justifiable range with real-world grounding.

Conclusion: NFG's Midstream Position and Comparative Insight

Each company in this analysis has taken a different approach to the midstream space:

- NFG has built a well-integrated structure that leverages its upstream output and focuses on cost efficiency through in-house transportation and storage. The company's concentrated geography in the Marcellus gives it an edge in cost and control, but also raises regulatory and environmental risks. Its expansion plan revolves around modest, tactical infrastructure enhancements that align with internal E&P growth.
 - ATO, by contrast, runs a simplified, risk-averse model. It acts as a transporter and storage provider for purchased gas. Its strength lies in stable income, safety-oriented upgrades, and low exposure to external risk factors. However, the absence of any upstream or gathering infrastructure limits its vertical leverage.
 - UGI sits somewhere in between. It has an interesting blend of internal and external midstream clients, and while its geographical reach offers high-margin opportunities, the regulatory landscape has been a hurdle. UGI is also positioning itself for future growth through renewable integration.
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