



## Brookfield's Bet on Natural Gas Storage Could Pay Off in the Long Term

### Description

**Brookfield Infrastructure Partners** ([TSX: BIP.UN](#))([NYSE: BIP](#)) announced this week that it was buying Lodi Gas Storage from **Buckeye Partners** (NYSE: BPL) for U.S.\$105 million. Lodi, which is an underground natural gas storage facility in California, never quite fit in with Buckeye Partners' petroleum-products-focused asset base. However, it does fit in at Brookfield, which has been saying for more than a year that it wanted to keep buying cheap natural gas storage assets.

### The lowdown on Lodi

Buckeye Partners originally bought Lodi Gas Storage in 2008 for a whopping U.S.\$442.4 million. The facility has 30 billion cubic feet of working gas storage, which is enough gas to meet the energy needs of more than 300,000 American homes for one year. Located in Northern California, the facility serves the San Francisco Bay area as it provides gas to **PG&E's** ([NYSE: PCG](#)) system.

Despite that strategic location, Buckeye Partners has had trouble making money on the facility because the company bought it near the top of the natural gas market when the spreads earned on natural gas storage were high. Those spreads have since tightened, which is why Buckeye Partners is now selling at a big loss. Because the asset isn't a strategic fit within its petroleum-based business, it needed to just get it off its books.

### Brookfield sees value where others fear to tread

Brookfield Infrastructure Partners, however, sees the same reduction in spreads as a reason to *buy* gas storage assets. The company believes it can buy gas storage assets at a big discount and hold them for the long term. In buying cheap, it can generate meaningful cash flow for its investors in the near term and then cash in when spreads widen again in the future.

Gas storage, however, isn't the only area of value Brookfield sees in natural gas. Its parent company, **Brookfield Asset Management** (TSX: BAM.A)([NYSE: BAM](#)), has [quietly been investing in natural gas](#) through its private equity fund. The fund is a sponsor of Ember Resources, which has been scooping up coalbed methane assets at fire sale prices across Canada. Because it is buying these assets so cheaply, it can profit even though gas prices are low. Furthermore, when gas prices do rise, Brookfield

can really cash in on its deep value investments.

### Investor takeaway

The “buy low” strategy that Brookfield Infrastructure Partners is taking with natural gas storage is a long-term bet on the belief that eventually the market will improve. However, even if the market doesn’t improve, Brookfield Infrastructure Partners is acquiring these storage assets at such a massive discount that it can profit even though the storage spreads are tight. It’s a strategy [Brookfield has used in the past to create tremendous value for investors](#), and one that will likely keep working.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:BN (Brookfield Corporation)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:BN (Brookfield)

### Category

1. Investing

### Date

2025/08/05

### Date Created

2014/07/30

### Author

mdilallo

default watermark

default watermark