AS SEEN IN JULY/AUGUST 2017 MIDSTREAM Business

The CFO's Dilemma

Midstream's financial management must steer through crosscurrents to assure future growth.

By Paul Hart

Capital may never have been cheaper or easier to find. That's the good news for midstream executives focused on growth prospects for an expanding and changing energy sector.

But wait a minute: Oil prices—sagging under $50 once again—still hover on the low end of the scale and brimming storage threatens to pitch those prices over the cliff again. Also, lower volumes threaten fee-based revenue streams in plays where drilling has dropped.

What to do?

Midstream Business invited four CFOs to share their thoughts on one important question that their organizations—and others—face right now: **How does a midstream operator manage enterprise risks in this environment?**

Here are their observations.

Deliberate Growth

Barely two years old, Brazos Midstream Holdings LLC is a new player that landed at the right place at the right time: the Permian's booming Delaware Basin. CFO William Butler has guided the financial side of the startup, which has a gas plant in operation handling 60 million cubic feet per day (MMcf/d). Work is underway on a 200 MMcf/d plant scheduled to go onstream in 2018.

Brazos also operates two crude oil terminals and nearly 200 miles of gathering lines. It's a story of rapid but careful growth as the

"Overall, we have been very deliberate in how we do things. We have not taken much speculative risk and are fortunate to be in an active region where larger, public producers continue to dedicate drilling capital with strong well economics–even in a lower commodity environment."

– **William Butler**, *CFO, Brazos Midstream Holdings LLC*

Fort Worth, Texas-based firm joins other midstream players in the Delaware to respond to the basin's quickening pace.

For a startup business, access to capital is paramount, and it's always better to have too much liquidity than not enough. Having the right partnerships is also very important.

Brazos has been very deliberate with the partners we've chosen—beginning with the founders. Our executives each bring different experiences to the table—from E&P to midstream business development to project management—which is beneficial when we are looking at potential growth opportunities. Our complementary backgrounds help direct us to agreement on the right types of future projects.

That goes also for our private-equity backer, Old Ironsides Energy. They have access to a large pool of capital and have been an extraordinarily supportive partner. They have given us the freedom to be independent in the projects that we identify and how we execute our strategy. We also have a growing revolving credit facility with a group of strong, hand-picked commercial banks.

We view our producer customers as partners. We have spent a lot of time with each producer to earn their business and negotiate long-term dedications. That meant that, in order to deliver the fixed processing recoveries we promised our customers, we had to expand our system in phases, but with the confidence that we had the contracts to support each expansion.

We now have a large, growing customer base in the basin and communicate regularly regarding development plans so that we continue to distinguish ourselves in a very competitive landscape.

When we formed Brazos in 2015, we didn't think we were necessarily early in the southern Delaware Basin—but, in the last two years, a lot has changed in the region. We did our homework up front on the geology, well economics, incumbent midstream infrastructure and surrounding producers. At the time, this was an area with a lot less well control in the horizontal Wolfcamp and commodity prices were far weaker than even today.

So we started small intentionally. We were targeting greenfield opportunities where we could really control the spending on a project and we didn't want to feel compelled to immediately deploy a lot of upfront capital without the underlying contractual commitments. We had to be confident there was enough volume and lack of existing infrastructure to justify the capital need and where the well economics were going to hold up, even in a "lower for longer" commodity environment. This area turned out to be the epicenter, as it were, of the southern Delaware Basin.

Lowering risks

Recently, you've seen a lot of public companies purchase private producers in the Permian. This has created challenges for midstream companies in the region, including production delays as the larger, public companies reset their drilling schedules. We believe that's a long-term positive for us because now those assets are in the hands of producers who have better access to capital. With these changes, we see lower risk across our asset base, which is why we announced a second gas processing plant, bringing our total operated processing capacity to 260 MMcf/d by early 2018.

Going forward, a key risk we face is to stay ahead of our producers' volume trajectories, so planning for construction of our third processing plant is already underway.

Overall, we have been very deliberate in how we do things. We have not taken much speculative risk and are fortunate to be in an active region where larger, public producers continue to dedicate drilling capital with strong well economics even in a lower commodity environment. We have formed the right partnerships since Day One and have ample liquidity to continue to expand our platform going forward. ■

Paul Hart *can be reached at* ***pdhart@hartenergy.com*** *or* ***713-260-6427****.*

© HART ENERGY | 1616 S. VOSS, STE. 1000, HOUSTON, TX 77057 USA | +1 713 260 6400 | FAX +1 713 840 8585