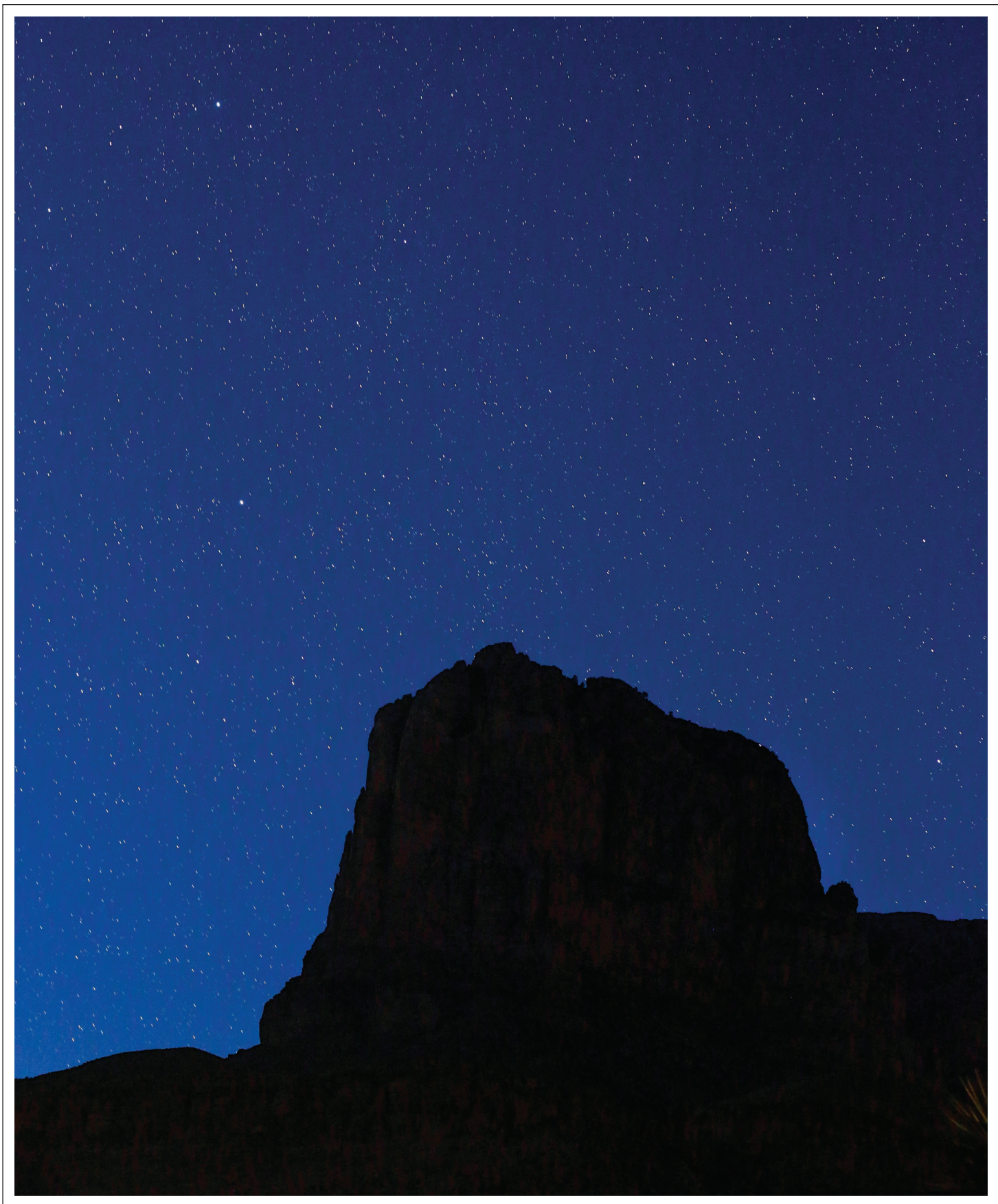


Oil and Gas Investor

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The number of Delaware Basin drilling locations seems as numerous as the West Texas stars.

DELAWARE BASIN BUYERS CLUB

A multibillion-dollar flurry of consolidation swept across the remote Delaware Basin last year, putting much of the acreage in the hands of longer-term developers. Now, on the cusp of full-out development, how do buyers plan to take it to the next level?

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INSIDE

Brazos Midstream's Robert Hollander inspects a row of compressor units at the Miller Compression Station servicing Delaware Basin producers near Barstow, Texas.



Brazos Midstream accelerated its buildout plans in the Delaware Basin as privates en masse sold to publics with bigger drilling plans, said CEO Brad Iles (top) and chief commercial officer Stephen Luskey (above).

The dirt and the sky reflect off the NGL surge tank at Brazos Midstream's Comanche Natural Gas Processing Plant southeast of Pecos, Texas.

ACCELERATING THE MID

A major oil or gas development such as what is being experienced in the Delaware Basin upstream sector now is typically followed by a midstream response to keep up with flows. And while the Delaware is criss-crossed with existing long-haul crude lines that are likely adequate to handle volumes for several years, the gas gathering and processing capacity and shorter crude gathering lines are another story.

Enter Brazos Midstream.

Backed by an equity commitment from Old Ironsides Energy LLC and a substantial debt facility, Fort Worth, Texas-based Brazos started in 2015 and has since built a 35-mile crude gathering system, 150 miles of natural gas pipelines, a 60-MMcf/d cryogenic natural gas processing plant and two crude terminals in the southern Delaware near the Reeves, Ward and Pecos counties convergence. Another 200-MMcf/d processing plant is under construction to be online first-quarter 2018.

"We see a lot of running room in southern Delaware," said Brazos CEO Brad Iles. "Compared to other plays, the Delaware has a tremendous number of proven and prospective target zones. We like that aspect; the Delaware should be productive for a long time."

Brazos started at \$60 oil which soon fell to \$28, so the company prepared for a slower development pace in a "lower for longer" crude oil price environment. Despite having a front row seat for the rapid improvement in Delaware well performance, the increased A&D activity in the second half of 2016 still caught the team by surprise.

"No crystal ball could have predicted that," said Stephen Luskey, chief commercial officer. "I'm not sure we envisioned how quickly many of the private equity-backed producers would divest their acreage positions."

Including a number that were dedicated to Brazos. "We assumed these private producers would be on a slower development pace, but when someone comes in and pays \$500 million or \$2 billion for a package of acreage, they accelerate the rig cadence."

As privates fell to publics like dominoes with capex to bear, Brazos accelerated its cadence as well. The 60-MMcf/d plant that was expected to be online by the middle of 2018 was commissioned and online by the end of 2016. The 200-MMcf/d plant now under construction and due online this year was originally envisioned for 2019 or 2020.

"It certainly accelerated our capital plans and buildout, but that's all positive for our business."

Brazos' business plan is to follow oil well development with associated gas as upside. Brazos has built a centralized gathering header in which it interconnects with the various transportation pipes moving oil to Crane, Wink and Midland tank farms. "Our system is built to push barrels in a variety of different directions to multiple outlets depending on what the market desires. It gives our producers the opportunity to take advantage of the further compressing downstream transportation rates," said Iles.

Gas takeaway, on the other hand, is less built out in the region, providing the company an opportunity to be a greenfield leader, and to hook in with producers that might have pre-existing commitments for oil.

"Fortunately, the southern Delaware produces a high rate of associated gas and needs additional infrastructure," he said. "We've built top notch, robust gathering systems in anticipation of the 2-mile horizontal development using multi-well pads. We span the southern extent of the Delaware Basin and can hook up customers on the gas side as well as oil."

2017 is shaping up to be a transformational year for Brazos. "We believe our customers are going to begin bringing large pads onto our system that test downspacing theories," said Iles. "We like where this basin is in terms of development."

Luskey added, "What we're seeing from our customers is truly staggering. The Delaware just keeps getting better and better."

