

Midstream investment in Delaware continues

Brazos Midstream acquires Callon's natural gas gathering system in Southern Delaware Basin

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Brazos Midstream Holdings LLC has just announced the acquisition of a natural gas gathering system from Callon Petroleum Company that serves the Southern Delaware Basin.

Midstream investment is rising alongside Permian Basin oil and gas production, particularly in the Delaware Basin.

Growth challenges midstream companies such as Brazos Midstream Holdings LLC to stay a step ahead and add infrastructure, said Brad Iles, chief executive officer.

"Our customers have robust plans," he observed.

His company has just announced the acquisition of a natural gas gathering system from Callon Petroleum Company that serves the Southern Delaware Basin.

"We were afforded the opportunity to acquire a gas gathering system tied to third-party processors," Iles said in a phone interview from his Fort Worth office.

He said the system, which is close to Brazos' existing system, will be tied into Brazos' system, allowing for a seamless operation, from purchasing Callon's production at the wellhead through the processing system.

As part of the acquisition, Brazos signed a long-term, fee-based agreement with Callon for gas gathering and processing services for acreage under development in Ward and Pecos counties.

"We think a lot of the Callon team and we're excited about the transaction and their development plans," Iles said. He said handing over the natural gas gathering assets to Brazos should free up Callon to execute their development plans.

Including the Callon dedication, Brazos' midstream infrastructure is anchored by long-term acreage dedications covering approximately 240,000 acres.

"Up until this point, a lot of these operators had been testing the Wolfcamp and Bone Spring and getting comfortable with their completions," Iles said. "Now we're seeing them move to full-scale development into the fourth quarter and into 2018."

He said the Delaware is poised to hit its full stride in coming years.

That means "we have to be thoughtful as we build our system and anticipate growth and scale our infrastructure as needed," he said.

Brazos had earlier announced a second natural gas processing plant, the Comanche II, expected to be completed in January. It would the company 260 million cubic feet per day of processing capacity. But growth in the Delaware Basin has already prompted the company to accelerate plans for its third plant, Comanche III, that will begin construction early next year and come online in 2019. Natural gas is a byproduct of oil production, and as operators see more success in the Delaware, Iles predicts more

drilling rigs will move into the region, boosting volumes and demand for processing plants.

"To plan this while still constructing the second plant speaks to how we think volumes will grow," Iles said.

He said his company likes that particular area.

"We like the operating region because it's more of an oil window. The well economics are driven by oil prices" and should be more resilient, he said.

"That further speaks to not just the development level but the commitment of the operators," he said.

Brazos is focused on the execution of its current plan, he said.

"Our customers are relying on us to deliver on our expansion plans," he said.

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