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Permian Operators Find Attractive ROIs With Diverse Playbooks

By Danny Boyd

With the world waiting to see if there could be a break in the gridlocked Middle East, one American constant is providing relief for nations striving to keep the engines humming and the lights on: the Permian Basin. U.S. crude exports averaged an unprecedented 5 million barrels of oil a day for the first four weeks of May, with the Port of Corpus Christi and Port Houston busy loading foreign tankers diverted from the Middle East for the security of U.S. docks.

Global demand for U.S. crude to power international transportation and industry is higher than ever as domestic producers pump out 13.7 million bbl/d. The Permian contributes more than half of that, with an output around 7 million bbl/d, according to the U.S. Energy Information Administration.

Producers showed strong interest in the basin during a federal lease sale on May 20, quadrupling the previous record for lease sale revenue generation by submitting more than $4 billion in winning bids. They also set a record for the highest per-acre bid, pushing it to a whopping $357,129.

The industry's eagerness for acreage in West Texas and Southeast New Mexico is a testament to operators' confidence they can continue to achieve attractive returns there.

The companies writing the next chapter in the Permian Basin's storied history range from public players such as SM Energy Company, which merged with Civitas Resources, to private equity-backed conventional entrepreneur New Height Energy. Discovery Operating and The Eastland Oil Company are among established family-backed businesses that remain mainstays in America's premier basin.

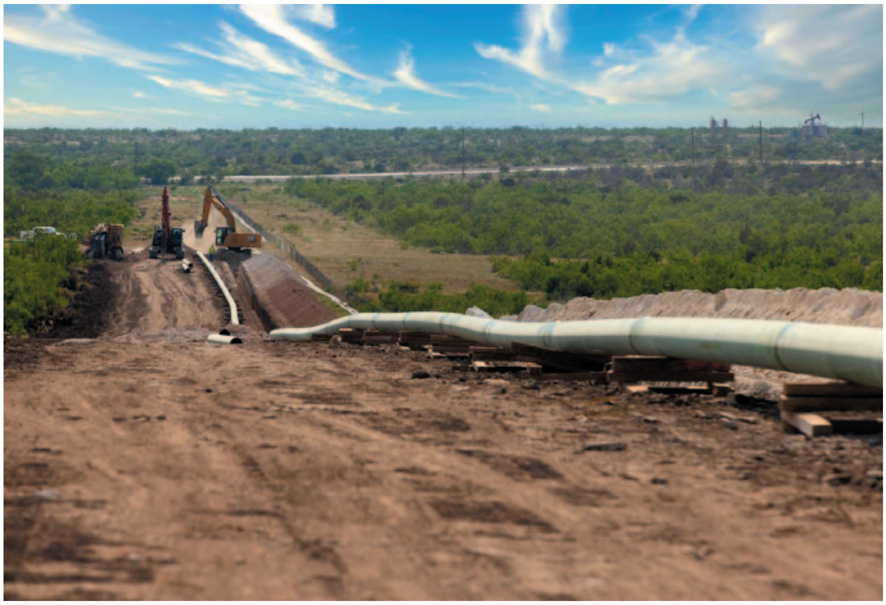
Meanwhile, midstream firms such as Brazos Midstream is hard at work building processing plants and pipelines to bring associated gas to market.

Midstream Momentum

Across the Permian, midstream players are working to meet growing demand for gathering and processing. In the Midland Basin, Brazos Midstream is expanding aggressively as long-term dedications grow to more than 500,000 acres, says CEO Brad Iles.

In addition to providing offloading services for multiple midstream peers, the Fort Worth-based company supports operators with wellhead gathering, compression, treating, processing, nitrogen treating, and natural gas liquid and residue gas marketing services. Iles says demand for these services is growing for several reasons.

"First, existing wells across the basin are experiencing higher gas-to-oil ratios, resulting in increased natural gas volumes over time," he begins. "Second, producers are targeting deeper, gassier zones across the basin, driven by continued technological advancements and lower drilling costs."



In the Midland Basin, Brazos Midstream is building more than 70 miles of large diameter, high-pressure gas gathering pipelines to address constraints in parts of Reagan, Glasscock, Midland and Upton counties. The company says its pipeline expansions and improvements will maximize flow assurance, reduce fuel and line loss and ultimately improve producer net backs.

In recent years, some Midland Basin producers have experienced gathering and processing constraints, with curtailments at times forcing them to reduce oil production or temporarily flare associated gas, Iles points out. He says Brazos is designing and expanding its system and connecting to more takeaway to help alleviate those constraints.

Combined Permian operations for the basin's largest private midstream player include 1,435 miles of gathering for gas, liquids and crude oil. By year-end, expansion will push total Permian processing capacity to 1.3 billion cubic feet of gas a day, including more than 800 MMcf/d in the eastern sub-basin.

In Martin County, operations got underway earlier this year at Sundance II, a 300 MMcf/d cryogenic gas processing plant. Startup followed completion in 2024 of the 200 MMcf/d Sundance I.

By year-end, the company expects to finish work in Glasscock County on Cassidy I, a 300 MMcf/d plant.

Cassidy I will be powered by the grid. Access to reliable power will continue to be a challenge in the Midland Basin through the later part of the decade, driven partly by increasing demand from data centers and hyperscalers, Iles says. But Brazos secured direct access to grid power before the increased activity and continues to plan ahead to ensure it has enough power to meet forecasted needs.

Also in the Midland Basin, the company is building more than 70 miles of large diameter, high-pressure gas gathering pipelines with 20-inch and 24-inch segments in order to boost capacity in constrained areas of Reagan, Glasscock, Midland and Upton counties.

All the improvements and additions will maximize flow assurance, reduce fuel and line loss and ultimately improve producer net backs, Iles says.

Brazos has access to pipelines that serve the Agua Dulce and Katy hubs through the Whistler and Matterhorn pipelines. The company continues to evaluate connections to various residue pipelines with similar and alternative delivery points so producers have optionality and redundancy for flow assurance, he says. ❒