

Oil and Gas Investor



Meet Nick Thomas

Nick Thomas describes the strategy behind start-up Meritage Midstream Services.

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September 1, 2010

Word Count: 809

Growing up in oil-patch towns like Rangely, Colorado; Bakersfield, California; and Beaumont, Texas, Nick Thomas was at home in the energy industry early on. Engineering was in his genes: both his father and grandfather worked for Chevron, his dad as a roughneck and, later, a mechanical engineer, and his grandfather as a drilling engineer.

Thomas graduated from Texas A&M University with a degree in chemical engineering and was at work on a master's when he decided to focus on business.

Today, as executive vice president of business development for Meritage Midstream Services, Golden, Colorado, he oversees commercial activity for the midstream start-up from grass-roots projects to acquisitions.

Funded by Flatrock Energy Advisors' EnCap Flatrock Midstream LLC and TPH Partners, Meritage's first project is a 48-mile gathering system in the Eagle Ford shale. Out of college Thomas joined Monsanto Chemical Co. at its Chocolate Bayou, Texas, plant, first in technical services and then as a production engineer. Several years later, family concerns and a yen for Colorado's outdoor lifestyle prompted a move to Denver.

He joined Western Gas Resources Inc. (since acquired by Anadarko Petroleum Corp.) in business development. Two years later, during the industry downcycle of the late 1990s, he joined trading firm Aquila Energy as an originator, helping clients from producers to utilities manage risk. But in the midst of one of Aquila's best years, the Enron debacle cast a long shadow and Aquila's owner, UtilitCorp, closed it down.

Thomas returned to the midstream space, focusing on Rockies assets for Cantera Resources Inc. In 2007, Metalmark Capital, the controlling shareholder, sold the company off at the market's peak.

Around the same time, one of Thomas' long-time acquaintances, and sometime competitor, Steve Huckaby, was winding down with another midstream entity, Momentum Energy Group Inc. Thomas joined Huckaby to help launch Arista Midstream Services LLC.

During the company's first deal, the capital markets went into lockdown as the broader markets began to unravel. Huckaby, now Meritage president, Thomas and the team went to the bigger investment houses in an effort to recapitalize. Despite those dark days, Meritage emerged with financing and a fresh start in late 2008. Thomas described the start-up's strategy in an interview with *Oil and Gas Investor*.

Investor: This recent downturn was the supreme test.

Thomas: The learning during that time was unbelievable. We got to witness capital market behavior first-hand in the face of unprecedented economic times and how that affected the space we work in.

Investor: The Eagle Ford shale is the home of your first project. What's your strategy in the shales?

Thomas: We have a vision of significant growth, primarily in the shales. The infrastructure that is and will be required as these shale plays develop will be substantial, and with that there is a lot of focus from both public and private midstream companies.

We see a niche for customer service. Our primary focus has been on grass-roots development within the various shale plays—our first project in the Eagle Ford is a grass-roots effort and we have another focus area where we soon expect to secure our second grass-roots project.

We are working to diversify our exposure to different sets of drilling economics. Our initial project is in the dry-gas window of the Eagle Ford, and we're looking for exposure to areas driven more by oil or wet-gas economics, whether in the Eagle Ford or other shales.

Investor: How will current economic and regulatory issues shape your strategy?

Thomas: There are a number of concerns given the current economic and regulatory landscapes. With the spill in the Gulf, there may be yet another layer of regulation headed our way. The debate over fracking, and how it will affect development of the shales, is another concern. These factors, coupled with the economy and its pace of recovery, all create the age-old multivariable puzzle that will drive the supply-and-demand balance for commodities and thus, pricing.

All the more reason to diversify our asset base, not only to different basins with different drilling economics, but also to acquisitions that would put us into existing assets with cash flow. When natural gas prices are low, for example as they are today, opportunities present themselves. We're seeing more of this with E&Ps partnering with financial houses and the large institutional investors to develop the shale plays.

Investor: Is deal flow good right now as a result?

Thomas: Yes, it is; we are extremely busy and are staffing up to support the work load.

Investor: Any lessons learned from the ups and downs you've been through?

Thomas: Be open-minded. I can think of a hundred different situations where had I not been open to doing something differently, I would have missed out on opportunities—like leaving the chemical business, which was comfortable for me being a chemical engineer, to try my hand in oil and gas.