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Meritage Midstream Services LLC has moved quickly in the region, and is nearing completion of its plant in Laredo, Texas. The plant is part of the Eagle Ford Escondido Gathering System.

Facing page: Savvy midstream operators are positioning themselves for the race to provide midstream services.

Eagle Ford Contenders

When it comes to the Eagle Ford shale play, producers favor flexible midstream competitors with first-mover instincts and quick connections. The fast-paced world of unconventional plays demands a midstream presence that can keep up and stay limber.

By Meredith Freeman

Like many legends, the Eagle Ford Cretaceous play had humble beginnings. It is named after the old community of Eagle Ford, now a neighborhood in West Dallas, Texas, where outcrops of the formation were first observed. Its hydrocarbon content is varied, and depending on depth, ranges from dry to rich gas and oil deposits in a relatively friendly regulatory environment.

Today, the energy industry is flocking to the rich-gas and high-Btu areas of the Eagle Ford. For most midstream companies, operating in a play like the Eagle Ford shale is no small feat. And like a trained athlete, a successful enterprise depends on discipline and focus. In this capital-intensive industry, the ability to offer competitive prices and enhanced market access defines successful midstream companies such as Copano Energy LLC, Meritage Midstream Services LLC, Velocity Midstream Partners LLC and Enterprise Products Partners LP.

Jim Wade, senior vice president of Houston-based Copano, and president and chief operating officer of Copano's Texas business unit, likes the Eagle Ford play for a number of reasons.

"The land issues and construction costs in the Eagle Ford are comparatively better than in the Barnett shale play in Texas," he says. "Also, the regulatory environment is conducive to energy development, and is more friendly here than in the Marcellus shale play or the Rockies."

Wade adds that the play has good producing characteristics, including lean-gas hydrogen dioxide content in the southern section of the play. Midstream companies are focused on finding the best options and prices to take production to market. The rich shale has players looking at wet-gas and dry-gas logistics.

Many producers are focusing on the wet-gas trend

because it offers the lowest break-even price. Yet, there are strategic options for the dry-gas areas as well.

Says Steven Huckaby, president and chief operating officer of Golden, Colorado-based Meritage Midstream Services LLC, “Dual dry-gas and wet-gas gathering ensures that gas is delivered to the highest-value market. Dry gas needs cost-effective treating and transportation to Btu-based markets, and wet gas needs delivery to the highest netback processing using the least amounts of fuel.”

project off in March and we got it up and running by the first of September,” says Huckaby.

First-mover instincts

In addition to ensuring both wet- and dry-gas options for producers, Copano’s Wade knows that access to multiple markets is a priority for Eagle Ford producers. Copano’s Eagle Ford systems have access to multiple residue markets, thanks to its connections with Ten-

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He explains that dry gas should not have to undergo processing and fuel payments for unneeded service, because it does not need treating. Wet gas is more of a challenge, because it requires processing to separate the natural gas liquids (NGLs). So, how does one go about ensuring that each commodity gets to the best-value market?

“We looked at the gas competition as a blend, and we looked at the available market center downstream of Webb County,” says Huckaby. “We wanted to target those two types of gas and market them to bring the most value. Obviously, you don’t want dry gas having to stand processing fuel costs and the lower netbacks of percentage of proceeds-type contracts. You want it devoted to the dry-gas markets, which are fundable, Btu-based markets. By the same token, you want to keep wet gas out of the dry-gas markets, and keep that nice upgrade when that gas is produced.”

Primarily working in Webb County, the company currently operates in the dry-gas trend in the Eagle Ford shale. However, it has two important gathering systems slated for the near future that will extend the company’s reach into the wet-gas trend. Meritage’s latest project entails gathering Swift Energy Co.’s burgeoning production into its system.

“As a result, we need to increase capacity. So we are paving an extension to the Southeast to connect to Kinder Morgan Inc.’s system down there,” he says.

Although there is a significant amount of infrastructure to handle these midstream needs, more pipelines, processing facilities, compressor stations and fractionation will be needed as the play continues to develop, he says. And this infrastructure may be needed sooner than expected.

“It’s remarkable in that we were assigned to kick a

nessee, Texas Eastern, Houston and Kinder Morgan pipelines and the Houston Ship Channel.

“The flexibility of Copano and Kinder Morgan infrastructure, coupled with the current and future capabilities of the Houston Central Plant and the processing and fractionation facilities, positions the two companies to handle a significant proportion of the Eagle Ford shale rich-gas element. In the end, it’s all about available capacity, readily expandable infrastructure and access to multiple markets,” says Wade.

While flexibility and economic solutions are vital to producers, how does one establish that base of infrastructure? Being the first one out of the gate is always key to winning the midstream race, explains Wade.

“In Dewitt-Karnes County, in that eastern portion of the Eagle Ford play, Copano began to provide hydraulic capacity along these lines well before much drilling was under way, and without any firm commitments at the time.”

Despite the risk, the lack of firm commitments didn’t stop Copano from jumping on the opportunity. Copano approved the beginning of construction for the Dewitt-Karnes 24-inch header system in the heart of the condensate-rich area. The header was interconnected with the existing and new conduits for liquefied natural gas (LNG) to Kinder’s 30-inch pipeline.

“It was these first-mover tactics in this section of the play that allowed Copano to move early to provide integrated midstream solutions for the significantly growing activities of multiple producers in this area,” he says.

Flexibility scores

Tulsa-based Velocity Midstream, which primarily trans-

ports oil and condensate, has a different approach. The company aggregates crude and condensate from multiple producers via gathering systems ultimately creating the economics of a “hub.”

Production can then be moved easily via trucks, railways and new pipelines. According to Rick Wilkerson, president and managing partner, this approach includes a system tailored to an individual producing area rather than the entire play. With lower initial cost and risk, alternative solutions to infield trucking can be implemented earlier in the field development.

Recently, Velocity signed a condensate-gathering contract with Houston-based Rosetta Resources Inc., and plans to expand in phases by spending \$150 million in 2011. During the initial phase of the Rosetta project, operational in January 2011, Velocity will provide common delivery gathering points and discharge trunk lines to move production to its 23-acre storage and truck terminal facility just south of Catarina, Texas, which sits at the major intersection of Highway 83 and Highway 133.

From there, the product will initially be trucked from the newly constructed state-of-the-art truck loading terminal to end markets (during phase I) and then ultimately shipped on transmission lines (phase II) in late 2011 and early 2012. Velocity’s phase II hub at Gardendale, Texas, is expected to be completed in June 2011 providing additional outlets including access to the rail terminal. This aggregation of oil and condensate at a single location will make new pipeline economics attractive earlier in the play.

“It’s a system that works early and evolves as the play is developed especially when considering how expensive infrastructure is to build, and how risky it is to build without firm commitments,” says Wilkerson. “Although it might not be a perfect system, because trucking costs during phase I still negatively affect netback pricing, it does have a value proposition for the producer. We have found this method to be

Spring blooms on Cholla cactus provide a vivid splash of color in East Texas, home of the Eagle Ford shale play.



the most efficient, reliable and cost-effective design to get product moving early in the development phase.”

When trucking becomes unsustainable, Velocity will move to using railways. In mid-2011 and early 2012, the company plans to build its own transport pipelines and interconnect with new transmission lines as it receives firm commitments.

“We are a first-mover in the oil and condensate business out here. We want to be able to offer very competitive rates by having the economies of scale associated with having this type of infrastructure in the west Eagle Ford,” says Wilkerson.

The phased approach allows Velocity to move forward with producers today without the constraints or delays that typically plague new pipeline construction, such as “volume commitment battles” that can hold up project execution.

“Because it’s such a tailored transportation service, it has visible benefits to producers looking for a unique solution or who are in an especially inaccessible area. The pricing benefit doesn’t hurt either.”

Wilkerson believes in offering this type of flexible,



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—Steven Huckaby, president and chief operating officer, Meritage Midstream Services LLC

phased approach, because, initially, there is not enough condensate production to run a pipeline all the way to the primary markets.

Aggregation and creating market optionality are the keys, he says. "As we all know, a pipeline to nowhere is worthless, so we try to build our systems where we end up with market options for the producer. In this case it's rail, truck and pipeline. We think that's the best system available right now and we will continue to improve the markets accessed via our gathering systems and pipelines. We plan to invest an additional \$150 million in this area implementing this strategy."

Continuity counts

Meanwhile, keeping pace with production is a tricky business. A midstream company must provide market choices and flow assurance with a comprehensive system

ers and other installations in Pasadena and Deer Park, Baytown and along the Houston Ship Channel via the Seaway Pipeline. The new crude-oil-storage facility and related infrastructure are scheduled to begin service in mid-2012.

"This project links our recently announced 140-mile crude oil pipeline with the Houston-area refining complex that demands more than two million barrels per day," says Teague. "By offering access to refineries and the storage and trading hub at Cushing, Oklahoma, Enterprise gives Eagle Ford producers flexible options for their production."

And it has more expansion at hand. Enterprise plans to build 300 miles of new gas pipe in the Eagle Ford, including a 30- or 36-inch gathering system and a 600-million-cubic-foot-per-day cryogenic gas-processing facility with an associated 127-mile NGL pipeline.

"We will tie production in and carry it to an existing

"Velocity Midstream Partners LLC targets a smaller group of operators for service and moves products via trucks, railways and other means."

—Rick Wilkerson, president and managing partner



that operates throughout the entire value chain.

Houston-based Enterprise Products Partners, the largest publicly traded energy partnership in the U.S., focuses on wellhead-to-market service.

Jim Teague, executive vice president and chief commercial officer, points out, "We've said it before: we don't just build assets, we like to build a system. We think this practice is beneficial to producers because, with our fully connected system, we can ensure that production will flow. It allows choices on markets to get maximum value."

Enterprise owns about 6,500 miles of gas-gathering and transportation pipelines, seven cryogenic processing plants with at least 1.5 billion cubic feet of capacity, 15,000 miles of NGL pipelines, and two fractionators connected to Mont Belvieu.

The company plans to build a crude-oil facility to link Eagle Ford production to Houston-area refineries. The company acquired a 150-acre tract in an industrial area of southeast Houston for its new Enterprise Crude Houston terminal. Crude will be delivered to the facility through the partnership's Rancho Pipeline, laid about three miles northwest of the new terminal, and two 24-inch-diameter pipelines Enterprise plans to construct.

Also, the terminal will provide access to Texas City refin-

pipe out in Freeport, Texas, and then tie that in to existing pipe we own to take advantage of Mont Belvieu," says Teague. "More importantly, we will have about 368 interconnects with the Houston ship channel, Texas City, San Antonio, Austin, Corpus Christi and Beaumont."

Team connections

When it comes to midstream marriages of the mind, a friendly handshake makes all the difference. The partnership between Copano and Kinder Morgan has been a hugely successful asset to both companies, sparking the creation of the Eagle Ford Gathering LLC joint venture.

Together Copano and Kinder entered the Eagle Ford condensate window, which had limited gathering and processing infrastructure. The initial joint-venture pipeline is expected to be in service before the end of 2011, and will comprise between 85 and 100 miles of 30-inch and 24-inch pipeline. The line will begin in Kinder's compression station in Ball County and stretch across Mullin, LeSalle, Dewitt and Webb counties.

Most midstream executives agree that, for the fast-paced Eagle Ford and changing market dynamics of the industry, managements must be flexible, fast, consistent and have a team-player mindset to succeed and thrive in the play. ■