

The MIDSTREAM PARADIGM Is Shifting

By Gas Processing
Management Inc.

Over the past decade, the producer world has generally mistrusted midstreamers.

Midstreamers started to appear in Canada during the 1990s, buying up producers' underutilized gas facilities and building new gas infrastructure to fill those facilities. At first this seemed like a good deal for producers: cash for their unutilized facilities and fixed processing fees for their gas.

Then the midstream bubble burst when the price of gas shot past \$10/mcf; gas reserves were exploited and produced as fast as possible, resulting in rapid declines from new pools.

Meanwhile, operating costs started to skyrocket as utility rates and labour costs rose and production throughputs in most existing facilities declined.

Most midstreamer answers to these pressures were to revise their rate structures so they could charge producers for all operating costs and to minimize their cash outlays by including everything they could as operating costs.

As a result, producers became wary of midstreamers, and tried to avoid using midstreamer facilities whenever possible. This stance was made possible because most gas producers were flush with cash and entirely able to fund new gas facilities on their own.

Oh, how times have changed.

When producers started to accumulate large unconventional gas resources, the netbacks on gas were still forecast to be high enough to allow development, even when this development included large capital expenditures on both drilling and

completions, and on the infrastructure required to gather and process the gas.

Some of the larger producers recognized early on that the infrastructure required to handle the unconventional gas production would be an ideal investment for midstreamers' long-life reserves and relatively stable production.

In addition, since drainage of reserves was not an issue, producers really had no advantage by having "control" of their infrastructure. These same producers started to plan how they could sell their infrastructure after it was developed and recover some of their capital to fund ongoing development of their unconventional gas resources.

The tumble of gas prices has now forced many of these producers to look for investors to buy their facilities, maybe earlier than they had originally planned. Many recent deals have been made for investors to fund the initial development of the unconventional gas infrastructure. These investors have been a mix of existing midstreamers, utilities looking to diversify by investing in the midstream business and large investors looking for relatively safe, long-term investments such as those in the midstream business.

Generally, the larger producers making midstream deals have been pleased with the results. Many are now looking to expand their successes by selling other infrastructure that they own and operate. These producers have definitely overcome their mistrust of midstreamers, and now view the midstreamers as a valuable part of the gas business.

The acceptance of midstreamers by big producers has also caused some other producers to reappraise their views of midstreamers. Many gas producers are now working with midstreamers to fund expansions of their existing facilities to

handle new gas production, or to increase the NGL recovery in their facilities.

With the low gas prices, we've seen a greater number of producers evaluate their gas processing facilities with a view to selling them to a midstreamer. We have also seen midstreamers planning to modify their operated facilities to increase the NGL recoveries and then promoting this additional service to cash-poor gas producers.

The general acceptance of midstreamers has even spread to producers, some of whom are now offering to fund the facilities required to handle new joint production, and charge their partners a fee for service. This is often driven by economic necessity, since some partners in joint wells may not be able to fund their share of the facilities.

We now have producers acting as midstreamers.

Economic reality seems to have given midstreamers another chance to show their worth to producers. However, producers have still not seen a lot of facilities operated by midstreamers.

We know that the large deals, which have been made with midstreamers for developing and operating unconventional gas infrastructure, have tightened the terms that define the fees and cost allocation. The bidders were also promoting their customer service.

Will the midstreamers live up to their claims of customer service in their operations? Only time will tell.

We hope they do, and that all midstreamers use this period of general acceptance by the industry to establish their good customer service.

Otherwise, the producer-midstream paradigm will reappear.



Calgary-headquartered Gas Processing Management Inc. has six principals, all professional engineers with more than 25 years' experience. They are (from left): **DAVE ESAU, JOHN KINGSBURY, BILL ARMSTRONG, IB MOLLER, BOB CHILD AND BART VAN SCHAAYK.**