

Nothing But Water

H₂O Midstream is tapping its industry expertise to provide producers one-stop water management services.

By Brandy Fidler

Water has played a vast role in the oil and gas industry, predominantly in North American unconventional production. As producers continue to produce, the need for long-term, efficient water management services has become more apparent.

When midstream veterans Jim Summers and Darrell Bull concluded that produced water was going to be an issue for the industry going forward as resource plays—particularly out in West Texas—continue producing more water than they do oil or gas, they saw an opportunity on their hands.

That opportunity turned into startup company H₂O Midstream LLC, a Houston-based private equity-backed oil and gas midstream company focused exclusively on water, launched in April last year.

The aim of the company is to improve the efficiency, reliability and safety of water operations while

lowering costs across the entire value chain for producers, traditional midstream companies and oilfield service providers.

Seeing an opportunity

“I think independently we all saw the impact water was having within the market, saw the opportunity as midstream people, having that background, and really putting two and two together,” Summers, CEO of H₂O Midstream, told *Midstream Business*.

Summers’ background extends 25 years in the energy industry, having held senior leadership positions at integrated oil and gas majors Conoco and BP, as well as privately held startups. His most recent stints were COO at Energy Water Solutions, and sector leader for both water and midstream at ERM.

That’s where Summers began to really understand the effect water was having in unconventional shale development, he said, adding that he also began

to notice that there were many parallels between produced water, how it was transported, stored and treated.

Bull, the chief commercial officer and executive vice president of business development for H₂O Midstream, has similar experience and most recently served as the vice president of business development at Crestwood Midstream LP, where he was a leader in gathering and processing for the Delaware, Marcellus/Utica and Niobrara Basins.

Both engineering graduates of the University of Oklahoma, Summers and Bull kept in touch throughout their careers. That eventually lead to reconnecting around water, Bull explained, and having the idea of putting together a company that focused on taking their learnings and expertise of the midstream industry and “applying it to water, both in terms of managing the produced water that comes back from the well as well as the water that’s consumed from hydraulic fracturing.

'A big deal'

"We really believe you've got to look at some of the events and things that have changed that make water such a big deal, and certainly in Texas the drought that really didn't ease up until a couple of years ago. But if you look at the development in the oil patch now, with the horizontal shale plays, the average well used to take 30,000 barrels [bbl] to complete and now it's 600,000 bbl. So you see a 20-fold increase with these 10,000-foot laterals," said Stephen McNair, executive vice president and chief development officer for H₂O Midstream, who joined the firm in December.

McNair's experience includes various leadership positions throughout his 31-year oil and gas career, primarily in midstream operations, engineering, construction and commercial roles. He most recently served as the president of Pioneer Water Management LLC, where he led the development, design and construction of a pipeline and storage system supporting Pioneer's extensive water management business. McNair was tasked with serving all Pioneer's water requirements in the Midland Basin, including supply, transportation, storage, reuse and disposal of up to 2 million barrels of water per day (MMbbl/d).

McNair said he learned the water business from a little different angle

with Pioneer Natural Resources—the supply side.

"My initial mission was to build a supply network to distribute high volumes of water across about an 800,000-acre position for Pioneer, and these are the high volumes that these fracks need in a short time frame. You start throwing in reuse, recycling and what-do-you-do with produced water—you start looking at the subsurface side of things, and limitations, efficiencies and cost. We see those same opportunities with this burgeoning water business that's in front of us, that's

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going to really ramp up, especially in the Permian. More and more water is needed to develop these fields, and more and more water is produced. It's all about capital efficiency, saving operating expenses, letting the producers do what they do best—let them use their capital for the drillbit. And companies like us, we can offer water services, cheaper and more capital-efficient."

Backing fundamentals

In June 2016, H₂O Midstream announced that it secured an initial funding commitment of \$100 million from Houston-

Profile

based EIV Capital LLC, a private equity firm that specializes in providing growth equity to the midstream sector, and its institutional partners.

According to Summers, it wasn't an easy process to raise \$100 million, but received very good reception and positive feedback during the funding process. "It does take time, but I feel like from my perspective, the timing was good," he said.

"When we met with private equity, they understood this new commodity market around water, so we were actually received well. The challenge that they had was finding the right manage-

and what was unfolding. We found that many private equity groups saw the same vision," Summers said.

Team 93

"As far as what we wanted to do, the first step in looking in a midstream solution, research showed there were 92 private equity-backed startup companies out there in the traditional midstream space. And we agreed we didn't want to be team 93," Bull added.

H₂O Midstream courted about 20 private equity firms, narrowing it down to about half a dozen. The company managed to get a lot of traction and at the

H₂O data

According to statistics, the Permian moves about 11 to 12 MMbbl/d and only 20% to 30% comes from horizontal wells, Summers noted. "As an industry, we're kind of at the tip of the iceberg on horizontal production, so that 11 to 12 million has a chance to go up multiples," he added.

Summers further explained that nationwide, there's about 6 times more water that's produced than there is crude oil. "That's just on the produced water side and then you have a whole other market on the sourcing side to help get water to market to do hydraulic fracturing," he noted.

According to the Railroad Commission of Texas, the largest volume of water used in the oil and gas industry is in enhanced recovery, followed by drilling and completion of oil and gas wells.

"From the producers' standpoint, 10% to 30% of the upfront cost of drilling and completing a well is associated with water, and I think that's increasing as producers use more water per lateral and drill longer laterals. After the well is drilled, over 50% of the ongoing operating expense is associated with water. So in addition to the scale, just how much water there is to deal with, it's a critical cost issue in a market where cost efficiency is critically important. So we think both of those factors are important," Summers said.

Environmental stewardship

According to H₂O Midstream, the environmental, health and safety side of the company is one of its top priorities.

"If you look at the evolution of the oil and gas industry over the last 50 years—in the midstream sector in particular—they've gotten very good at operating assets safely, protecting the environment and regulatory compliance," Summers said.

"What we're seeing in water, because it is an emerging market, is a very fragmented industry. We think that bringing the same dedication to safety, environmental stewardship, and compliance into that market is a differentiator for us," he continued.



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ment team, and the right approach to capitalize on the opportunity."

The process began with Summers and Bull fleshing out a business plan in the summer of 2015, a process that was "both challenging, but surprisingly smooth," they said.

"I think what's interesting for us, at least for me thinking back on it, was going from purely an idea and two guys in a garage to a fully funded \$100 million-backed company in about six-month time frame. When we went to the private equity market to raise money, we hit a chord with them. What we described was the vision we had

end of the day, big firms were courting the company in return, according to Bull.

"I feel that we actually were in a pretty good position relative to our peer group in traditional midstream. I would not have wanted to go raise \$100 million with falling oil prices when I'm number 93 on the midstream side," Summers said.

The company looks at this investment as its first tranche of capital, with hopes of doubling or tripling in the near future.

"We think this is not just a \$100 million but a \$500 million to a billion-dollar investment at the end of the day over the course of the next five years," McNair said.

H₂O Midstream has developed best practices for water based on decades of industry experience.

Key elements of the company's best practices include:

- Comprehensive pipeline maintenance programs, including pressure and integrity testing, corrosion protection, leak detection, regular pipeline maintenance and pigging;
- Ongoing outreach and education for landowners and other local stakeholders; and
- Compliance with all state and federal requirements and industry standards.

"We're taking the background that we have at large oil and gas companies with best-in-class safety programs and implementing that into the way we manage water assets. That's something beyond just the deal structure that we offer and that really goes to the confidence and trust the producers have in us," he continued.

A premier future

In the next five years, H₂O Midstream sees itself as the premier midstream water company in North America, according to Summers.

"I think to some extent, we are defining and leading a new market. When you think about premier, it's about being the preferred company that a major upstream oil and gas operator would want to partner with," he said.

Becoming industry leaders in the health and safety area and environmental stewardship is also on the horizon. Summers said they would be seen as, and recognized as, the best in class. Next up would be "achieving size and scale," added Summers, with the goal of going from "a startup to a sizable midstream player in the market."

The company is currently focused on acquiring, building and operating water midstream assets, including gathering systems and transmission pipelines, as well as treatment, storage and disposal facilities. At the time of this article, the company said it's meeting with potential customers and very close on a few deals.

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— **Stephen McNair**, *executive vice president and chief development officer.*



situation where you have an emerging market here. In the '80s we saw natural gas emerge, we saw power deregulate, we've seen multiple commodity markets over the last 100 years emerge. We think that's happening in water, and we absolutely believe we have the opportunity to step in and lead the industry and do it in a way that's been proven elsewhere and really take those best practices and apply them," Summers said.

"So when we talk about being the premier company or leading company, we're really not just giving lip service to that, we are truly passionate about it and think there's an opportunity to change how water is viewed for the good of the whole industry." ■

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H₂O Midstream LLC

Organized: 2016

Headquarters: Houston

Profile: H₂O Midstream is a private equity-backed oil and gas midstream company focused exclusively on water. H₂O views water as a commodity rather than a waste and partners with producers, traditional midstream companies and oilfield service providers to improve the efficiency, reliability and safety of water operations while lowering costs across the entire value chain.

Areas of interest:

- Permian Basin
- Marcellus-Utica
- Oklahoma/Scoop and Stack

Executive team:

- Jim Summers, CEO
- Darrell Bull, executive vice president and chief commercial officer
- Stephen McNair, executive vice president and chief development officer
- David Ishmael, executive vice president, engineering and operations
- Gauri Potdar, vice president of strategy and analytics

Website: www.h2omidstream.com

Source: H₂O Midstream LLC