

INTERACTIVE

The Interview: New Play, New Player

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Paul Hart Editor-In-Chief, Midstream Business Hart Energy **Tuesday, May 1, 2018 - 7:00am**

They say the best place to find new oil and gas reserves is where hydrocarbons already have been found. That's certainly the case with southeastern Oklahoma's Arkoma Basin. The town of Seminole, Okla., was a classic boomtown in the 1920s as the surrounding Seminole Field burst onto the energy scene. There's a reason why the local newspaper is the Seminole Producer. After years of slumber, the area is coming alive again as a new, unconventional shale play. Producers tapping that play are served by a new midstream operator—Valiant Midstream—that, although scarcely a year old, has big growth plans for the region.



MIDSTREAM You began your midstream career at Copano and Kinder Morgan. How did that experience impact your plans for Valiant?

WEBSTER At Copano, I was part of the Midcontinent division, which was formerly a small private startup known as Scissortail Energy that grew into an expansive gas gathering and processing platform in eastern and central Oklahoma. The Copano/Scissortail all-hands-on-deck approach really set a foundation for me in terms of what it takes in terms of culture to execute in a high growth midstream company. My tenure left me with this strong desire to be part of smaller, private companies. I liked the speed, the efficiencies that a small company with strong leadership brought to the table.

(Brandon Webster, pictured right, is president, CEO and a founding partner of Valiant Midstream LLC)

I had a front-row seat to observe Copano's leaders execute an incredible growth story in the Eagle Ford—watching it transition into a major Eagle Ford player in just over a couple of years.

At the same time, I had the opportunity to lead our Midcontinent growth in both the Mississippi Lime and Arkoma that resulted in a significant number of new contracts and capital projects still paying dividends today. This period, 2011-2013, really just kind of set a strong standard and belief in my mind of what a responsive, nimble and not risk-averse midstream company can accomplish.

Copano's 2013 acquisition by Kinder Morgan was truly a blessing in disguise for me. At Kinder I was very fortunate to work for some great people who, whether they know it or not, were very influential on my career and the development of my own leadership strategy. Further, the principles instilled into the company's culture by Mr. Kinder regarding how to protect value by constantly monitoring and tracking the financial and operational metrics of a business will forever stick with me.

Always knowing where you stand allows you to make informed decisions in real time and gives you the opportunity to get out in front of problems rather than waiting to learn about them at the end of the quarter.

MIDSTREAM You are active in several trade organizations, including a couple in Oklahoma where Valiant operates. In your opinion, what can midstream executives gain through such professional relationships?

WEBSTER Right now, I am most active as a board member for the National Gas and Energy Association of Oklahoma, which brings together a large group of Oklahoma's upstream, midstream and downstream leaders as well as supports industry education through student outreach and contributions to local universities. Also, I'm a member and strong supporter of the Oklahoma Independent Producers Association (OIPA).

I try to remain fairly active, when running a business and being a father and husband allow me to. I think what I have found in these organizations is that not only are they great resources to stay in touch with other folks in the industry, they help you understand what the industry landscape, especially here in the Midcontinent, looks like from a variety of perspectives. They give you a great opportunity to get broad exposure to lots of different people who may wind up being somebody you will do business with at some point in the future.

When I first entered the business as a young guy who knew virtually nobody in the industry, I joined a number of organizations where I met a large number of the contacts in my network. Today, I have two of them working with me here at Valiant.

The OIPA, specifically, is a great political advocate for Oklahoma's oil and gas producers. I would encourage everyone in our business, to be aware of the national and local political issues that may have potential impact on our business and the OIPA does a fine job of that here in Oklahoma. I like being fully in tune with the areas in which we operate, and the political climate is a big component of that.

MIDSTREAM Your first big project is in southeastern Oklahoma's Arkoma-Stack play. Can you tell us about it?

WEBSTER Yes. Interestingly enough, during my days at Copano and then subsequently Kinder Morgan, we had assets that we operated—gathering and treating assets—across the Arkoma, including parts of the particular area of the

Arkoma Stack that is being redefined today. I have had a lot of opportunity to work the Arkoma dating back to 2008. During my tenure we secured some large contracts down there, built a lot of pipe and compression, connected more than 100 wells and added nearly 200 million cubic feet per day (MMcf/d) of new gas supply. While it's changed a bit, I feel like I know the Arkoma very well.

Fast-forward to Valiant and the area's re-emergence, which began forming over the past 12-18 months led by private-equity-backed producers, each with track records of discovering significant oil and gas resources in the Midcontinent. These producers were independently operating off an overarching thesis that a rich gas fairway spanning through the central and western portions of the basin would lead to the Midcontinent's next big play. This thesis, while varied by producer, was supported by strong economics generated by past Woodford wells.

The result to date has been the Arkoma Basin being one of the nation's most-leased basins in 2017—with 2018 off to a strong start, looking more active than last year. The leasing frenzy has been paired with significant acquisition activity as producers began to block up specific core positions.

Our team tracked this leasing and acquisition activity early on and began communicating with the producers behind it. After those discussions, our thought was this might be a place that, due to some familiarity, we could really have some strong interest in as a company.

Getting into the development of this project, we really liked the idea that our team knows the Woodford specifically, and further, that the Arkoma has been a prolific producer for the past 100 years.

The Woodford has been highly productive for the past decade, plus utilizing horizontal drilling, and now it is just starting to show us what enhanced completion techniques—putting up to 2,000 pounds per foot of frack sand and fluid downhole—have done to really unlock the potential of the reservoir. Early on, these enhanced completions and low D&C [drilling and completion] costs really made for some nice, rich gas wells that should only continue to improve.

Combine this with the potential Stack play opportunities presented by the Mayes and Caney formations and our outlook as a midstream provider looks very promising.

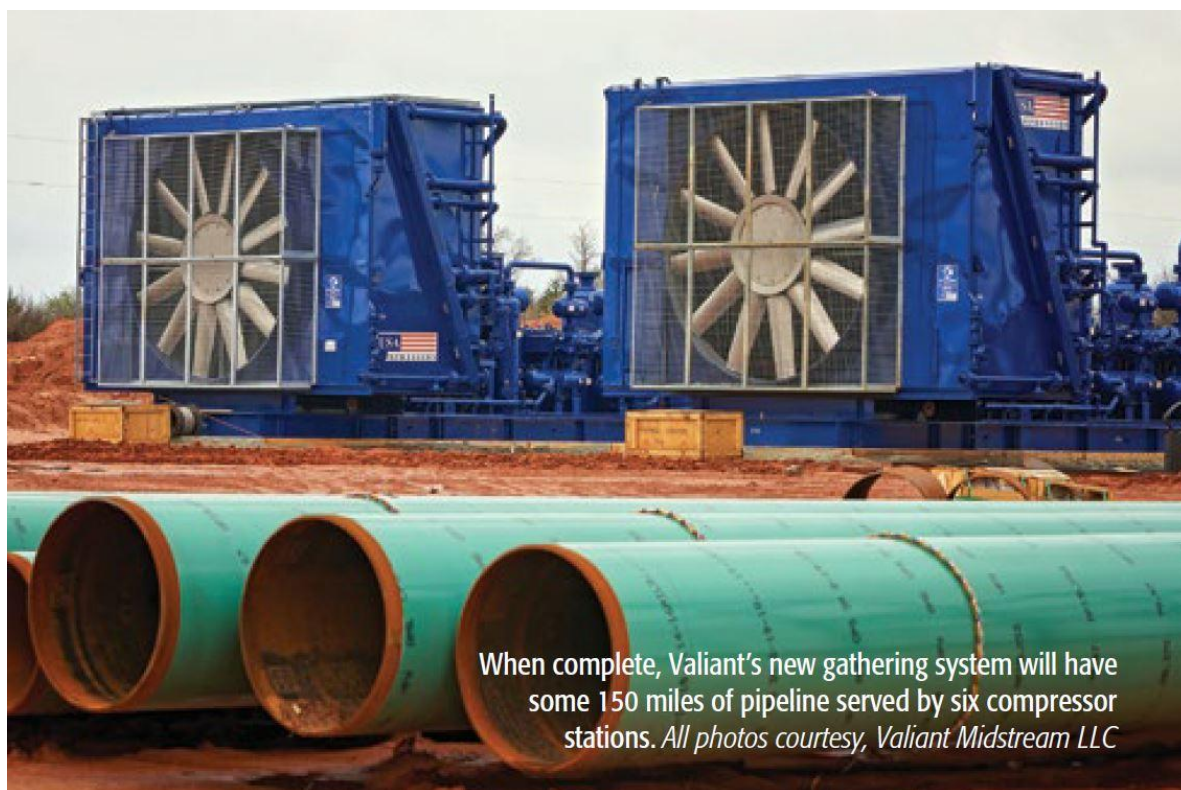
Valiant has publicly announced two deals to date and we are working on several other deals in the area. We signed long-term contracts with both Corterra Energy and Canyon Creek Energy out of Tulsa [Okla.]. We are laying somewhere near 150 miles of initial pipeline on the system. There are six initial compressor stations strategically laid out and we are installing a 200 million cubic feet per day (MMcf/d) cryogenic gas processing plant and a condensate stabilizer.

MIDSTREAM Has the Arkoma been overlooked by upstream operators seeking activity in the better-known Scoop and Stack plays?

WEBSTER I'm not certain that it has been overlooked as much as, if you watch the Stack specifically, there were a few spots within the Stack where some of the majors or large independents divested acreage over time. Now, a number of majors and large independents have seen the value that has been unlocked and have been buying in. I think this is just part of the new way of doing things, with private-equity dollars moving toward exploration and public company dollars looking for proven reserves and repeatable results.

In the Arkoma Stack, we view it a bit similarly. There were some large independents and public E&Ps in the area that divested of their acreage out there. Then these private operators, some of which we have teamed up with, came into the area and put some ingenuity, backed by science, to work and have begun to revitalize the basin.

They just looked at the rock in a different way from a stimulation and completion standpoint and found ways to maximize returns and potentially shift the geographic location of where wells had previously been drilled to an area that our gathering system spans, which we believe is the most liquids-rich portion of the basin.



MIDSTREAM From a midstream perspective, why the Arkoma rather than the better-known Scoop and Stack plays?

WEBSTER When we looked at the Arkoma Stack, we found significant need for gathering, processing, NGL and residue gas infrastructure in order to meet the demands of the growth the basins' producers are forecasting. We always look for need in a basin rather than seeking to invest in areas already densely populated with midstream infrastructure.

In the portions of Hughes, Coal and Atoka counties [Okla.] where the core of our system lies, we found a lack of modern processing infrastructure and some aging and undersized pipeline assets. We felt like this presented ample opportunity to secure sizeable commitments from a number of producers. When looking to mitigate risk, being able to secure commitments from multiple producers was part of our core strategy.

Our team likes the Scoop and the Stack and hopes to be players in both, given the right opportunities. But at the moment, the Arkoma Stack gives us a great deal of enthusiasm as we could be a first mover in terms of significant pipeline investment and processing in service timing.

MIDSTREAM What is the schedule for your system startup?

WEBSTER We started gathering gas, effective in late March, just a few short weeks after signing contracts with Corterra and Canyon Creek. In the interim, we will be taking the gas to legacy processing plants in the area while our new our processing plant is being constructed.

Right now, we're on schedule to have our 200 MMcf/d plant up and running by November. With a little luck and Mother Nature cooperating, there's a chance we'll beat that schedule. This time line will make the new Stanberry plant—named after Coal County native Pfc Jerry W. Stanberry who was killed in action in the Vietnam War—the first operational new plant in the basin.

Speed is critical, which is why we've invested heavily in having in-house engineering expertise to manage progress day in and day out.

MIDSTREAM With all the NGL production expected out of the basin, what is Valiant's plan to handle takeaway?

WEBSTER Our initial analysis of the Arkoma revealed need for increased NGL transportation to Mt. Belvieu [Texas]. Not only were we looking at total takeaway capacity, but also T&F [transportation and fractionation] costs, given how sensitive rich-gas basin production economics are to T&F rates.

After a number of months of analysis and discussion, Valiant decided to anchor Targa Resources' Grand Prix North NGL pipeline expansion into Oklahoma. With an aggressive in-service date of third-quarter 2018, and creation of an additional 200,000 barrels per day of NGL capacity from Oklahoma to Mt. Belvieu, Targa was able to meet our timing needs and provide a long-term plan to accommodate NGL production for our initial plant and all subsequent trains installed at our plant site.

We believe this solution plays well with our strategy to think creatively, provide forward-thinking solutions and deliver a result that keeps gas flowing and netbacks up.

MIDSTREAM What's next? Do you look to enlarge your footprint in the Arkoma or are you looking to move elsewhere in the Midcontinent, or beyond?

WEBSTER We intend to continue to invest in the Arkoma. We believe that this is an opportunity that is just getting started and we think we can go put more capital to work there and provide more solutions for producers in the area.

We see residue capacity as the next challenge for the area and we think there could be a need to go spend \$100 million-plus on a residue gas pipeline out of this area. We intend to play some part in that when the time is right. For now, our plant is strategically located to maximize utilization of the basin's existing residue infrastructure.

We are looking at some projects in other basins currently and think that Valiant very much could be a multi-basin player. It's all part of the business plan at this time, nothing is out of the realm or scope of possibility.

MIDSTREAM Tailwater Capital is your private equity partner. What role has it played in the company's startup and management?

WEBSTER Chad Cagle and Zach Gray, my two partners, and I had discussions with numerous private-equity companies in the spring of 2017. We met Tailwater and things just clicked. We had great, instant chemistry with those guys and quickly reached an agreement and formed Valiant in July 2017.

Since then, it has been active engagement with them almost every single day. They are highly communicative with us but give us the latitude to grow and operate our business our way. They are very responsive and share the same vision of getting things executed quickly for producers, making sure that our business isn't lagging in any way because of Tailwater. We needed private equity that moves as fast as we do and Tailwater has exceeded our expectations and more from Day One.

For them, nimble is an understatement as we've thrown some curveballs at them and received solutions in return, not roadblocks. They have been right there with us with every step through this process and, to their credit, they deeply understand the midstream business, which is something I know was highly appealing to our team.

MIDSTREAM Do you have any plans to do an IPO in the near future?

WEBSTER Never say never, right? We just don't know.

The Arkoma Stack's growth and capital requirements may dictate that, but our focus right now is simply executing our growth strategy. You know, there have been some interesting IPOs and SPACs [special purpose acquisition companies] with a midstream component launched over the last year or so, but we just don't know what the appetite for an IPO will look like in the future.

We see plenty of investment opportunity in the Arkoma Stack and that means further investment dollars will be required from either public or private markets. We believe the returns will be there to attract those dollars when the time comes.

MIDSTREAM What is Valiant's niche? If I were an Arkoma producer, why should I choose you over another midstream service provider?

WEBSTER I think everything initially starts with relationships, which are upheld by integrity and performance. We stand by who and what we are at all times. Our corporate tagline is: "Innovation. Energy. Results."

Daily, we aspire to innovate rather than deliver the status quo. Our team is full of energy and passion for this industry and we believe that fuels our execution and responsiveness. We realize all effort is wasted without results, therefore details cannot be overlooked, as those details are what drive on-time projects and operational runtime.

With that said, our niche that has made us successful in this basin to date has been being a netback-focused midstream team. We do that with every single gathering and processing agreement and otherwise.

We start with asking the question, what are the economics for this basin? That helps you identify the trigger points for what the producer's challenges are in order to make an acceptable rate of return on their business, then we work midstream in from

there. It either makes sense or it doesn't, that's how we have approached the Arkoma Stack—finding out what our producers need to achieve the rates of return that will keep them actively running rigs and increasing production in the area.

This approach has made for great alignment with our upstream customers resulting in a combined commitment of nearly 2 million acres to an AMI [area of mutual interest].

MIDSTREAM What's the biggest challenge for a midstream startup in today's business climate?

WEBSTER It has been said before but it all boils down to people, identifying the right players to come in and be a part of not only the management team, but then become integral pieces of the staff that compliment that management team. It takes a special type of individual to come and fit into a private-equity business model, where you're wearing a lot of hats and doing things that you haven't typically done on a daily basis inside a large MLP in the midstream sector, or spending time in a large upstream company like many of our key people here at Valiant have.

We are continually identifying people who are willing to roll up their sleeves, represent and execute our core values, and do things all the way from digging through the details of key contracts down to figuring out whose turn it is to buy the coffee for the office—which is a high priority in my book.

Those are all parts of things that, within this entrepreneurial environment, you have to pick up and do. We have felt extremely blessed here in Oklahoma City, and in Tulsa, where our secondary office is. There has just been an immense talent base of high-caliber energy professionals who are looking for opportunities that allow them to continue to live in Oklahoma.

We have been able to pick up some very talented people who come in the door and make an immediate impact. I know we feel fortunate, because that was probably our biggest worry and challenge transitioning into an operating company: How were we going to find the right people to help make this business model a success and deliver the solutions and results we expect?

MIDSTREAM The Midcontinent faces gas-on-gas competition from the Permian, Marcellus and other booming plays. What is the region's advantage over this competition?

WEBSTER It all starts with access to pipelines and flow assurance to economic markets. Each basin you mentioned has its own challenges facing it in terms of having the capacity to get gas where it needs to go.

I think that Oklahoma has great access to the markets that have high potential for future demand increases. That said, the continuing expansion of the gas pipeline infrastructure that can pull gas out of Oklahoma and, specifically, send it into either the Texas market or the Perryville [La.] Hub is critical. We like South and West Texas where we get access to not only Mexican market hubs and westbound pipelines, but also the ability to move gas onto the water via LNG terminals.

Perryville has outstanding connectivity that can offer strong liquidity, and Oklahoma gas can be very competitive with Marcellus gas at this market center, with lower transportation costs to get the gas to Perryville.

Otherwise, we think that we can continue to thrive here in Oklahoma with continued development of new intrastate gas markets—in which power plant gas conversions will play a big part.

Valiant Midstream LLC

Organized: 2017

Headquarters: Oklahoma City with branch office in Tulsa, Okla.

Leadership:

- Brandon Webster, president, CEO and founding partner
- Chad Cagle, COO and founding partner
- Zach Gray, CFO and founding partner
- Cody Blosch, vice president of business development
- Davis Puryear, vice president of finance and accounting
- Casey Reininger, director of processing and treating
- Jonathan Faughtenberry, director of gathering and compression operations
- Jeff Delancy, controller

Equity provider: Tailwater Capital

Key assets:

- Gathering and processing system serving Arkoma Stack producers in Atoka, Coal, Hughes, Pittsburg, Pontotoc and Seminole counties, Okla.
- First phase of ~ 150-mile gathering system of 12- to 24-inch pipe and six compressor stations entered partial service in late March.
- 200 million cubic feet per day cryogenic gas processing plant in Coal County, scheduled to enter service Nov. 1.

Website: valiantmidstream.com

Source: Valiant Midstream



Paul Hart

Paul Hart serves as editor-in-chief of *Midstream Business* magazine. He brings 30 years' experience in all phases of the worldwide oil and gas industry – upstream, midstream and downstream – to the publication. See full bio