Waha's Where It's At

If Permian gas production is growing, that means the region's central gas pipeline hub—Waha—will only grow in importance. So it's logical for a midstream operator that wants to establish a major presence in the Permian to be there.

It's the same concept that brought dozens of energy companies to the Houston Ship Channel or the nearby Mont Belvieu NGL hub.

Yorktown Energy Partners LLC-backed Vaquero Midstream LLC has quietly built a 400 million cubic feet per day (MMcf/d) processing facility and over 100 miles of a 24- to 30-inch rich-gas gathering system across the southern Delaware Basin. Its main plant is very close to the Waha Hub—less than five miles away.

Gary Conway, Vaquero's principal, president and CEO, told *Midstream Business*, "[We] intentionally located our plant and tailgate, Caymus I, providing direct access to Waha with the thought to give producers on our system options to increase their profits through market best-price optionality. Our current producers are benefiting from the Vaquero connections header already."

With direct access to at least 12 markets to which Waha connects, producers on Vaquero's system can capitalize on their location to get "on market" and achieve the best netback and maximize their own profitability, he emphasized. Vaquero is not obligated to any downstream pipeline, so the producer can choose the best market without any backhaul fees.

In addition, Vaquero is adding another 200-MMcf/d processing plant, Caymus II, to accommodate growth from its producers scheduled to be in service in first-quarter 2018 and is adding another NGL connection. Its system spans Pecos, Loving and Reeves counties, Texas, with upcoming expansion in adjoining Culberson County.

"Being right at Waha itself provides enough compression to get into any of these marketplaces," Conway said. "Vaquero is the only privately backed processing plant out here that's connected to as many gas residue pipes as it is, and we're working on our third NGL connect with Targa, so we'll have Lone Star, Chaparral and the new Targa line from an NGL perspective. We're really trying to create the best competition for residue gas and NGL pricing for our producers.

"That's what our position was when we established our plant near Waha. We wanted to create a marketplace for NGL and natural gas products from the residue side, after processing, to give the basin producers as much flexibility to get their products out of basin to the highest priced market," he added. "That's not trying to be too utopic and solve every problem; that's just simply the best way to alleviate constraints: Go to a place that has the most outlets. That seems to make a lot of sense to me."

Vaquero's Gary Conway pauses at a Waha Hub meter run. *Source: Vaquero Midstream LLC*

Additionally, the multiple markets ensure producers' gas will always have a place to flow and always have an outlet and gives them flow assurance, he emphasized.

The advantage for any producer is to be "on a header where they can get pricing, the best pricing possible, and the most optionality and flexibility possible," he said. And it pays off when he hears his customers' comments that "I didn't know I was going to get another 8 cents or 10 cents [per MMBtu]. That goes directly to their company bottom line netback.

"While the Vaquero cryogenic plant has some tweaks, which allow us to achieve better recoveries through operations, most producers would see that it may not appear to be that different than anybody else's—a processing plant is a processing plant. I think the real difference in us is our operations experience and connectivity on how many markets you can get at Waha and how many markets we can get you to on an NGL perspective. The benefit it actually has is on the producer's netback, not just now but in the future. And we believe the Waha pricing will be the best market to be in," he added.

Waha's connections will only get better as growing gas production makes new infrastructure possible, according to Vaquero's strategy.

"There are at least three main projects that are moving gas east into the Katy Hub [Texas] that will take volumes away. And I think people are starting to make an issue about Mexico via Roadrunner and Comanche Trail. Trans-Pecos has not really taken as much gas, because its downstream infrastructure in-country has not come along as fast as they needed it to be, so they're not taking those big draws that I think everyone associated with it. It doesn't mean they won't, it just means it didn't come when they thought it was going to come," Conway said.

There are more market outlets that need to be made, he said. "I think we're [the midstream industry] going to end up fixing the problem. It's still an infrastructure concern, to date, because the pipe doesn't physically exist yet, but there are enough projects that are sitting out there today that are gaining some traction." ■

—Leslie Haines and Paul Hart contributed to this article.