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Blackstone bets \$500 million on growing full-cycle water management trend

Equity will help start-up company Waterfield Midstream pursue growth opportunities

By [Mella McEwen](#), MRT.com/Midland Reporter-Telegram Updated 12:18 pm CST, Monday, February 11, 2019



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Startup Waterfield Midstream has a 15-year contract with Guidon Energy to construct a new system to handle Guidon's water gathering and disposal needs on its 40,000-acre position in Martin County.

Water management is a growing service in the Permian Basin, and Blackstone is betting \$500 million that growth will continue.

Blackstone Energy Partners LP, part of Blackstone, has committed \$500 million in equity to form Waterfield Midstream, a full-cycle provider of water management services -- from gathering, treatment and recycling to disposal. The \$500 million equity commitment will help Waterfield pursue growth through greenfield infrastructure development and acquisitions.

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Waterfield co-chief executive officers Scott Mitchell and Mark Cahill told the Reporter-Telegram in a phone interview that their subsurface expertise is what

sets the company apart.

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"We all have upstream backgrounds. We know what operators face, we know how complicated it is, we know how complicated the subsurface is," said Mitchell, who has a master's degree in geology and worked as a geologist for Anadarko Petroleum before joining Cahill in starting Anadarko and Western Gas' Permian Basin commercial water infrastructure platform.

"It used to be (water management) was trucking water to saltwater disposal wells. Then the next generation was to pipe water to SWDs to get trucks off the road and enjoy the economic benefits of pipelines," said Cahill, an engineer who got his start at Chevron. "I think we're entering the next phase, where you'll see subsurface expertise. It's not just pipes and facilities but knowing where you're putting the water and how you're putting the water,"

The men said that is why they pay close attention to the research linking water disposal and induced seismicity, such as that done by the Center for Integrated Seismicity Research at the University of Texas at Austin's Bureau of Economic Geology and is staying on top of academic research.

"We're mapping the subsurface, the stresses, the fracture orientations to quantify seismic risk with the best tools available," said Mitchell.

Cahill said they don't just have subsurface expertise. They have the ability to offer that full cycle of water services -- especially recycling and reusing of produced water to not only reduce the use of fresh water but reduce the amount of water that is being disposed.

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The two said the idea for starting up Waterfield came from their talks with other operators during the process of commercializing Anadarko and Western Gas' water infrastructure platform.

"The eye-opener for us was when we were talking to other producers and we were talking about our focus on the subsurface, and no one else was looking at the subsurface," Mitchell said. "That gave them comfort things would be done right. It dawned on us that this is how it will be done."

He said producers have been reluctant to grant water management to other companies "because it's so critical and it has to be done right. They know the subsurface, so they're reluctant to hand it off to someone without that expertise."

Already, Waterfield has a 15-year contract with Guidon Energy to construct a new system to

handle Guidon's water gathering and disposal needs across its 40,000-acre position in Martin County. That system, which will target deeper disposal zones, is expected to come online by mid-year. Waterfield also has an agreement with EagleClaw Midstream to operate EagleClaw's Reeves County water assets -- 58 miles of gathering lines and 390,000 barrels per day of permitted water disposal capacity.

Those contracts have met the company's goal of "planting our flag, getting a platform in the Midland Basin and the Delaware Basin," said Cahill.

They are seeking similar contracts with other operators and building infrastructure.

"We are actively pursuing building new systems, drilling new wells, adding pipelines," said Mitchell. "We're also pursuing acquisitions. Our area of interest is the entirety of the Permian Basin. We have these two systems, but there are other areas we want into, like New Mexico. There are opportunities in New Mexico."

Cahill said those acquisitions include acquiring assets -- "We're talking to producers about monetizing their water infrastructure" -- or acquiring other midstream companies.

"We feel we have a lot we can offer, whether it's greenfield development or acquisitions. It's all on the table," said Mitchell.

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